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

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

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

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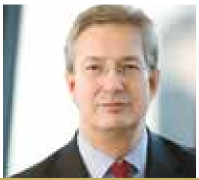

by **Martin Scheck**

As we look forward to 2021, let me share a few year-end observations on 2020 – in almost every way the most extraordinary year we have encountered.

The COVID-19 pandemic has affected the lives of billions of people, led to successive widespread lockdowns in many countries, and destroyed economic growth. Its full effects are only now becoming apparent across the social and financial spectrum. But one aspect is already clear – the important role played by capital markets in intermediating capital to rebuild shattered economies and in mitigating the socio-economic impact of the pandemic.

Against this backdrop how has ICMA fared and where have we focused our efforts to help our members most?

I am pleased to say that we were well prepared and have been fully operational throughout the period. We prioritised staff safety at all times, moving to a remote working model for all our offices very early. We also took the well-timed decision to move all our activities into the virtual world on the basis that the pandemic was likely to endure, cancelling all physical in-person conferences, roundtables, workshops, meetings, and education courses. We used this as an opportunity to retool our offering and communications and, by taking advantage of new digital communication platforms, we redoubled our outreach to members and other stakeholders. As part of this we launched our COVID-19 hub in March, centralising information on the global capital market responses to the pandemic, covering monetary policy and regulatory responses, market practice, market data and commentary, and sustainable finance. This hub continues to be updated daily.

The pandemic also necessitated an immediate adjustment to our market practice and regulatory agenda to accommodate the new market priorities. Market functioning became the overriding theme, and we were able to contribute through our work with members, facilitating information flow, keeping our rules, recommendations and guidelines up to date, and making our Euro Commercial Paper documentation available to the market as a whole in the context of supporting official sector asset purchase programmes. There was also intensive interaction with regulators and supervisors, including central banks, particularly in the context of ensuring that the deadlines for the implementation of new regulation and for consultation papers were adjusted. This was much needed given the focus of market participants had shifted to operational resilience and simply keeping the markets open.

All our committees and councils continued to function, usually attracting higher participation virtually than had been the case with physical meetings. We replaced conferences with targeted webinars, virtual panels, and with a hugely successful series of podcasts. So far these have been downloaded over 50,000 times. We also retooled our education offering, replacing in-person classes with online and live-streamed courses. An unforeseen benefit of the virtual way of working is that we are able to organise events very quickly given that travel time and travel budgets are no longer a factor. In fact, the virtual format has enabled ICMA to become more agile and quicker to respond to member suggestions all over the world, which has been particularly helpful for our members in Asia-Pacific, Africa, and the Gulf.

Another positive impact has been that whilst stepping up our services to members we are able to run at a more modest cost, largely due to lower travel and conference costs. Despite being a not-for-profit organisation, this matters since we would like to defer any future membership fee increase for as long as possible and this good result "buys more time".

One might suppose that in a year like this our membership numbers would dip – but that has certainly not been our experience. When markets are tough the value of ICMA comes even more to the fore and we have seen membership continue to grow to above 600 institutions, the largest number for two decades. The early responses from our December 2020 member satisfaction survey are encouraging and underline the relevance of our activities.

Let's focus on a few of the highlights of the year.

Our involvement in the complex LIBOR transition process has become increasingly intense during the year, with the focus shifting from adoption of the new risk-free rates to the difficult problems of dealing with legacy bond issues which continue to reference LIBOR. The coordination of the process across the various different major jurisdictions remains a challenge with a key US deadline recently having been extended. We will continue to help our members navigate this complex situation during 2021.

Repo and collateral remain a priority area for ICMA and the importance of the repo market in the capital markets framework was well reflected during the crisis, where, despite some issues over balance sheet capacity and collateral valuation, the repo market operated rather well. A major task this year has been to help our members implement the EU's SFTR. ICMA led the industry response to this, intervening to ensure the deadline was moved back from the original April 2020 date, and making sure that the industry was fully prepared for the implementation phases in July and October 2020. This has been a good example of ICMA convening the industry and working constructively with the authorities and other associations to ensure the smooth implementation of a very major piece of legislation with implications far beyond the EU.

Our primary market practice, comprising issuer forums, syndicate manager groupings in Europe and Asia, and the associated legal and documentation committees, was fully active during the year. Since the central bank measures at the start of the pandemic, the primary markets have been wide open and extraordinarily active with record new issuance. We continue to focus on the robustness of processes in this sector, with substantial updates to our Primary Market Handbook. The commercial paper markets have also become more of a focus since the outset of the pandemic, both from a documentation and market practice perspective. We will increase our focus on this segment in 2021.

Secondary markets were significantly challenged during the depths of the crisis, reinforcing our ongoing message that the ability of market makers to hold inventory is a central plank of secondary liquidity. In that context we were pleased to see that the timeframe for the mandatory buy-in regime under CSDR – which we have been actively discussing since Level 1 legislation was introduced in 2014 – was postponed until 2022, and that settlement discipline is included in the recent consultation on the CSDR. This provides a further and perhaps final opportunity for us to provide constructive and evidence-based suggestions to the European Commission as to how settlement discipline can be improved without the significant damage to secondary liquidity which would result from the implementation of the mandatory buy-in regime as currently planned. A further major topic this year, very much supported by our buy- and sell-side members, has been the creation of a consolidated tape for bonds. We submitted a comprehensive study on this to the European Commission in the spring outlining the rationale and setting out structural suggestions. Despite a series of constructive discussions, we are disappointed to see that the creation of a bond consolidated tape is not currently on the EU's agenda for 2021 – but we will continue to ask for the timetable to be accelerated. This all comes on top of the significant ongoing work on MiFID II/R which will continue to be a theme in 2021. It is clear that this legislation needs further work since it has not – yet – delivered the outcomes for which it was designed.

We believe that capital markets are most effective when they can inter-operate efficiently across borders. Accordingly, a cross-cutting objective at ICMA is to minimise unnecessary market fragmentation. Of course, Brexit has been a major topic in this context. Our focus has remained on the potential cliff-edge risks in the debt capital markets which could lead to market discontinuity and disruption, whilst acknowledging that the major financial stability risks have been addressed. We can see that the financial markets do not figure prominently in the agreement reached on 24 December 2020, despite their importance both to the EU and the UK.

Of course, integrated capital markets are about much more than the Brexit situation, and our work with the Chinese authorities to support the opening up of the vast Chinese domestic bond market to international issuance and investment, as well as our capacity-building work in many African countries to help them develop functioning repo markets based on the international standard of our GMRA, fall under this heading.

We observe three "mega themes" driving the shape of the capital markets of the future. These are the growth of the Asian capital markets, the FinTech/digitisation agenda and of course sustainability. Our activities in each continued to expand in 2020 and we are set for further growth in 2021.

Our team in Hong Kong has continued to build relationships with the private and public sector in Asia-Pacific – membership and engagement with regulators across this diverse region continues to develop actively. Concretely, our Asian primary market and regional committees function well, and we have published research on repo and secondary markets and produced several regionally focused events on sustainability. Our focus remains on the cross-border nature of the securities markets and within our core areas of primary, secondary, repo/collateral and sustainability, our international expertise is much in demand. The internationalisation of the Chinese bond market remains a critical focus, but I would also point to our work in ASEAN and with the JSDA in Japan as highlights for ICMA in the region – largely focused on green, social and sustainable bond markets.

The increased agility in meeting member needs in a virtual format is most evident in this region and we are ending the year with stronger member and official sector engagement than at the beginning. As a result of virtual communication, the number of webinars, virtual conferences, conference calls and podcasts targeted specifically to our Asian membership is at a high.

The FinTech agenda spans all sectors in which we are engaged and in each we have now created a directory of FinTech solutions. This is a unique resource. Given the fast-growing number of new solutions, we keep the directories up to date on a regular basis. We have increased our official sector engagement in the relevant FinTech outreach groups, including the ECB's new Debt Issuance Market Contact Group. Overall, our work is guided by ICMA's FinTech Advisory Committee comprising internal ICMA staff and ICMA member representative – a current focus is on data standardisation and harmonisation with a view to facilitating STP. A further exciting project on which we are making progress and expect to take further in 2021 is augmenting the "Common Domain Model" with repo and cash securities.

Finally, a comment on the fantastic year for ICMA's sustainability practice. It is clear that the pandemic has been an accelerant for the green, social and sustainable bond markets – the social bond market in particular has been catalysed by the need to apply funding to mitigate the socio-economic impacts of the crisis, and the green bond market is a key pillar in the funding programmes put in place to regenerate economic growth as part of a "sustainable recovery". Most bonds follow the ICMA Green and Social Bond Principles. But it has also been a year of innovation and we were pleased to launch, with the Green and Social Bond Principles, the "Sustainability-Linked Bond Principles" in June 2020 – it is great to see this market segment taking off. The focus of sustainability-linked bonds on an entity meeting defined and ambitious sustainability performance targets fits well with the growing theme of transition finance. On 9 December, we capped the output of the year with the publication of the Climate Transition Finance Handbook. This document provides context and guidance to issuers as to what the markets will view as a credible transition strategy.

Our work on sustainability is truly global. For example, we have this year held conferences in the US and Asia and are engaged in regulatory interaction in multiple jurisdictions including China and southeast Asia. Specifically, in Europe, we were pleased to be chosen as one of the few capital market representatives on the EU's new Platform on Sustainable Finance. For ICMA, sustainability is a cross-cutting theme and an agenda item for all our committees and councils.

For the time being the pandemic has largely precluded physical networking. But despite all the virtual tools, face to face physical interaction is important for a number of our committees. This includes our regional committees which have always combined the social and business aspect to create ICMA "communities" in the various regions, as well as our two outreach groups, the ICMA Women's Network and the ICMA Future Leaders. We are very much hoping that in 2021 we will be able to augment the current virtual meetings with "in person" events.

The same goes for our flagship AGM and Conference which in 2020 was commuted to a "written AGM". We will keep our members informed in good time on the 2021 arrangements, but we certainly will not return in 2021 to the normal AGM and Conference – so we are exploring alternatives.

As we end 2020, I hope that you have found membership of ICMA has provided insights and real value to your business activities. Looking ahead, I believe we are in a strong position to deal with whatever 2021 brings. Hopefully, a return to a more normal way of working, although we fully expect that, whatever the circumstances, we will adopt a more balanced approach to physical and virtual interaction in the future than in the past, retaining the positive aspects of the current situation and blending these with the "in person" possibilities from former years.

It remains to thank all my colleagues for their dedication and for "going the extra mile" in this extraordinary year, and to thank the ICMA Board members for their guidance and commitment alongside their day jobs. A particular thank you to our members and partners for their support.

I look forward with optimism to working with you in 2021.

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The global transition from LIBOR to risk-free rates

by **Paul Richards**

Summary

The transition from LIBOR to risk-free rates is a global initiative. As part of ICMA's campaign to raise market awareness of the need to prepare, particularly in the international bond market, this Quarterly Assessment considers: the background; the global transition in new transactions; the global transition in legacy transactions; tough legacy legislation; plans for the orderly wind-down of tough legacy contracts referencing LIBOR; FSB recommendations to the authorities globally; and global preparations needed by firms.

The global transition: background

1 The international financial markets need to be ready by the end of 2021 for the cessation of LIBOR on or after that date. In July 2017, the FCA's Chief Executive said that the FCA would no longer intend to persuade or compel banks to submit contributions for LIBOR after the end of 2021. The LIBOR role of the FCA is an international rather than just a UK role: partly because the FCA is the regulator of the administrator of all five main LIBOR currencies internationally; and partly because a large number of financial contracts have been written under English law referencing LIBOR, not just in sterling, but in US dollars and other currencies.

2 As LIBOR has for many years been embedded in the international financial system, the transition away from LIBOR is a global initiative. The authorities globally consider that the transition away from LIBOR is an essential task and a priority for the G20. They want financial markets to transition away from LIBOR to near risk-free rates by the end of 2021. In the five main LIBOR currencies, there are established successor risk-free rates: SOFR for US dollars; €STR for euro; SONIA for sterling; SARON for Swiss francs; and TONA for Japanese yen. To take account of local market conditions, some of these risk-free rates are secured and some are unsecured. But they all have an important feature in common. They are all overnight rates, as these rates are the most robust, measured by the volume of actual transactions. Forward-looking term rates based on the successor risk-free rates are also being developed in some currencies, though not in Swiss francs.

3 The changeover from LIBOR to risk-free rates is being coordinated globally by the Financial Stability Board Official Sector Steering Group (FSB OSSG), which is chaired jointly by Andrew Bailey, Governor of the Bank of England, and John Williams, President of the Federal Reserve Bank of New York. At national level, the transition to risk-free rates is being overseen by Risk-Free Rate Working Groups (RFRWGs) involving the authorities and the market working together.[1] Raising market awareness of the transition is a top priority for the authorities.

4 In July 2020, the FSB OSSG issued a statement on the impact of COVID-19 on global benchmark reform:[2]

- In the statement, the FSB recognised that some aspects of firms' transition plans are likely to be temporarily disrupted or delayed, while others can continue. But the FSB "maintains its view that financial and non-financial sector firms across all jurisdictions should continue their efforts in making wider use of risk-free rates in order to reduce reliance on IBORs where appropriate and in

1. For ICMA's contribution to the transition to risk-free rates, see the Box at the end of this assessment.

2. FSB *Statement on the Impact of COVID-19 on Global Benchmark Reform*, July 2020.

particular to remove remaining dependencies on LIBOR by the end of 2021."

- The FSB said that LIBOR transition "remains an essential task that will strengthen the global financial system. COVID-19 has highlighted that the underlying markets LIBOR seeks to measure are no longer sufficiently active. Moreover, these markets are not the main markets that banks rely upon for funding. The increase in the most widely used LIBOR rates in March put upward pressure on the financing cost of those paying LIBOR-based rates. For those borrowers, this offset in large part the reductions in interest rates in those jurisdictions where central banks have lowered policy rates."
- The FSB added: "Relevant national working groups are coordinating changes to intermediate milestones in their benchmark transition programmes, where appropriate, to ensure global coordination. Financial and other firms should continue to ensure that their transition programmes enable them to transition to LIBOR alternatives before end-2021."

Global transition to risk-free rates in new transactions

5 The starting point for the transition is for market participants to use risk-free rates – or another alternative rate – instead of LIBOR in new financial transactions. Substantial progress has been made in using risk-free rates in wholesale markets internationally, including in the sterling and US dollar bond market and the derivatives market. Progress is now being made also in the loan market, where alternatives to LIBOR other than risk-free rates are being used in some cases, particularly for retail transactions. In the sterling floating rate bond market, new issuance has been referencing SONIA compounded in arrears for some time and new issuance referencing LIBOR has all but ceased.[3]

6 The market conventions being used for new transactions referencing risk-free rates compounded in arrears are broadly similar internationally, though there are marginal differences between products and within the same product. For example, both the observation "lag" method and the observation "shift" method for determining the interest rate for a risk-free rate compounded in arrears are being used in cash markets. The lag method calculates interest according to the number and weighting of days in the interest period, while the shift method calculates interest according to the number and weighting of days in the observation period. Both the Federal Reserve Bank of New York (since March) and the Bank of England (since August) have been publishing daily compounded indices, for SOFR and SONIA respectively. These indices are compatible with the use of the observation shift.

Global transition to risk-free rates in legacy transactions

7 Despite good progress in the transition to risk-free rates in new transactions, there is a stock of outstanding legacy transactions, many of which mature beyond the end of 2021, still referencing LIBOR. The authorities have encouraged the market to reduce the legacy stock to an irreducible core through active transition from LIBOR to risk-free rates before the end of 2021 or to introduce fallbacks from LIBOR to risk-free rates, where this is practicable.[4] As risk-free rates are economically not the same as LIBOR, a credit adjustment spread needs to be added. In the case of fallbacks, the cash markets have adopted the same method of calculating the credit adjustment spread as the derivatives market: the historical median over a five-year look-back period.

8 In the derivatives market, a multilateral protocol has been launched by ISDA to incorporate fallbacks from LIBOR to a compounded risk-free rate in the relevant currency plus a fixed credit adjustment spread. These fallbacks will be triggered when LIBOR ceases or on pre-cessation, when LIBOR is judged by the FCA no longer to be representative of its underlying market. The FSB has welcomed the release of ISDA's updated documentation and strongly encouraged all market participants to consider adhering as soon as possible to the ISDA Protocol as a means to mitigate risks in legacy contracts.[5]

9 But a multilateral protocol is not feasible in the bond market. In the UK, active transition from LIBOR to risk-free rates in the bond market needs to be carried out bond by bond.[6] Most legacy LIBOR bonds were issued before July 2017 and, when LIBOR ceases, will fall back to a fixed rate for the remaining life of the bond.[7] Some bond contracts are too difficult to transition, as consent thresholds are high:

3. Around £95 billion of bonds referencing compounded SONIA were issued before the end of 2020 in at least 208 transactions.

4. "This remains the only way for parties to have full certainty and control over transition timing and contractual terms when LIBOR ceases or is no longer presentative.": FSB, *Reforming Major Interest Rate Benchmarks,* 20 November 2020.

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

6. In the sterling bond market, 37 consent solicitations from LIBOR were successfully completed in 2020, nearly all to compounded SONIA using a market rate agreed by bilateral negotiation.

7. These are sometimes referred to as Type 1 fallbacks. Type 2 fallbacks provide for an independent advisor to select a successor rate (plus a fixed credit adjustment spread) on permanent cessation. Type 3 fallbacks are Type 2s with a pre-cessation trigger. See *Fallbacks for LIBOR Floating Rate Notes,* Catherine Wade, ICMA, July 2019.

often 75% under English law and 100% under New York law. There are also too many to transition by the end of 2021 at the current rate, though potential ways of speeding up the transition process are being examined.[8]

Tough legacy legislation

10 As a result, there will be an irreducible core of "tough legacy" contracts referencing LIBOR in the bond market outstanding at the end of 2021.[9] The UK authorities are proposing to legislate for tough legacy contracts. In response to the FCA's international role as the regulator of the administrator of LIBOR, UK legislation was introduced on 21 October to ensure an orderly wind-down of LIBOR. The legislation will grant the FCA new powers to direct the administrator of LIBOR to change the method of calculating LIBOR from a panel of banks to a different method ("synthetic LIBOR"), when LIBOR is judged to be no longer representative of its underlying market, on or after the end of 2021. At that point ("pre-cessation"), the FCA will have the power to prohibit the use of LIBOR by supervised entities in new transactions, but to continue to permit its use in certain legacy transactions.

11 On 18 November, the FCA set out for consultation[10] its potential approach to the use of certain of its proposed new powers under UK legislation to ensure an orderly wind-down of LIBOR. At the conclusion of its consultations, the FCA will set out its approach in the form of public statements of policy. On the same date, ICE Benchmark Administration (IBA) – the administrator of LIBOR – announced that it would consult on its intention that the euro, sterling, Swiss franc and Japanese yen LIBOR panels would, subject to confirmation following the IBA's consultation, cease at the end of 2021. On 30 November, the IBA also announced that it would consult on its intention to cease US dollar LIBOR: one week and two month US dollar LIBOR settings would cease at the end of 2021, and the US dollar panel would cease at the end of June 2023.[11] This accompanied a statement by the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency in the US, and the FCA in the UK. (See the Box on page 10.)

12 The proposals for US dollar LIBOR are intended to give a clear message to the market that LIBOR should not be used for new transactions after the end of 2021. They also establish a potential mechanism that can help support the roll-off of a substantial portion of LIBOR-linked legacy contracts. That will help to focus on the remaining legacy exposures that will extend past the mid-2023 date, and especially the tough legacy contracts that after mid-2023 will not have an effective means of transitioning away from LIBOR at its end. The Chairman of the ARRC has said that "the ARRC's proposed legislative solution for these contracts is an essential part of a smooth transition."[12]

13 Whereas the legislation in the UK will give the FCA extra powers to change the method of calculating LIBOR for certain legacy transactions, draft legislative proposals by the ARRC in the US use contractual overrides in order to transition contracts from LIBOR to risk-free rates plus a credit adjustment spread. These different approaches may achieve the same result, though that is not yet clear. In the EU, the Benchmarks Regulation is also expected to be amended to include provisions catering for an orderly wind-down of benchmarks such as LIBOR. Unlike LIBOR, EURIBOR will continue for the time being, though EONIA is being replaced by €STR and more robust fallbacks are being built into new EURIBOR contracts.

14 The introduction of legislation in the UK to increase the FCA's powers to ensure an orderly wind-down of legacy LIBOR contracts is welcome. But there are a number of practical questions which remain to be clarified about how best to make the proposal work, particularly in the bond market:

- It is not yet clear whether synthetic LIBOR will apply to all legacy sterling LIBOR bonds outstanding if and when it is introduced in place of panel-bank LIBOR, or only to some of them. If it does not apply to all legacy bonds outstanding, there will be practical – and may be legal – issues to be considered. Under the UK legislation, this decision will fall to the FCA.
- It needs to be clear whether the market will accept the changed method of calculating synthetic LIBOR, which is currently expected to consist of a term RFR (rather than a compounded RFR) plus a fixed credit adjustment spread, so that synthetic LIBOR can appear on the same screen page as the panel-bank LIBOR it will replace, and so that current bond documentation does not need to change. The

8. Under English law, there are estimated to be over 500 legacy sterling LIBOR bonds maturing beyond the end of 2021, and around 750 taking account of securitisations which have a number of different tranches; and there are estimated to be around 3,400 legacy US dollar LIBOR bonds under English law.

9. The FSB describes tough legacy contracts as "contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended.": FSB, *Reforming Major Interest Rate Benchmarks,* 20 November 2020.

10. The deadline for responses is 18 January 2021.

11. IBA, 18 and 30 November 2020. The IBA published its consultation, relating to all five LIBOR currencies, on 4 December.

12. Tom Wipf, Chairman of Institutional Securities, Morgan Stanley, Chairman of the ARRC and ISDA Board member: ISDA transcript of webinar: *The Path Forward for LIBOR,* 4 December 2020.

Plans for the orderly wind-down of tough legacy contracts referencing LIBOR

The FCA stated on 18 November: "Under the proposed policy, we would not envisage using our powers where critical benchmarks (such as LIBOR currency-tenor settings) are little used, where the contracts referencing the benchmark can practicably be amended by contractual counterparties without our intervention, or where using the powers would not be necessary to protect consumers or market integrity. Nor would we envisage using the powers where appropriate inputs, as described in the proposed policy, are not available.

If we adopt and apply our proposed policy to the LIBOR settings, there would be, however, a case for using the proposed new powers to require a change to the LIBOR methodology where: LIBOR currency-tenor settings are widely used in outstanding contracts and/or instruments that cannot practicably be transitioned away from the benchmark rate by actions or agreements by or between contract counterparties themselves (often known as "tough legacy" contracts); and using the powers would contribute to protecting consumers or preserving market integrity.

Using the powers would be feasible under our proposed policy if the preferred inputs to a new methodology of the types we have proposed are available to the LIBOR administrator.

Euro and Swiss francs

On the basis of the policy proposed and currently available evidence, it appears unlikely that the conditions and inputs for use of our powers to require continued publication of euro and Swiss franc LIBOR will exist at the time these panels are proposed to cease.

Sterling

Conversely, forward-looking SONIA term rates are available and tough legacy contracts exist in significant amounts in the sterling market. So, at least the most heavily used sterling currency-tenor settings would seem likely to meet these conditions when publication of sterling LIBOR on the basis of a representative panel is proposed to cease.

Japanese yen

In relation to yen LIBOR, we will continue to assess whether it might be necessary and feasible to use the proposed powers in the case of more heavily used yen settings as transition progresses."

US dollars

On 30 November, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency stated that they "encourage banks to cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable and in any event by 31 December 2021, in order to facilitate an orderly – and safe and sound – LIBOR transition."[13]

They also said that "extending the publication of certain US dollar LIBOR tenors until 30 June 2023 would allow most legacy US dollar LIBOR contracts to mature before LIBOR experiences disruptions. Failure to prepare for disruptions to US dollar LIBOR, including operating with insufficiently robust fallback language, could undermine financial stability and banks' safety and soundness."[14]

On 30 November, the FCA stated: "We welcome and support the extension by panel banks and IBA, together with the proposal to consult on a clear end date to the US dollar LIBOR panel, following discussions with the US dollar LIBOR panel banks. This will incentivise swift transition, while allowing time to address a significant proportion of the legacy contracts that reference US dollar LIBOR."

The FCA added: "We also welcome the supervisory guidance in relation to limiting new use of US dollar LIBOR after end-2021 from the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. We will coordinate with the US authorities, and relevant authorities in other jurisdictions, to consider whether and, if so, how most appropriately to limit new use of US dollar LIBOR, consistent with our objectives of protecting consumers and market integrity."

The FCA noted: "We will continue to consider evidence and views on whether it would be both necessary and feasible for us to use any proposed new powers under the Financial Services Bill to support any "tough legacy" contracts in the case of more heavily used US dollar LIBOR settings as transition progresses."[15]

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13. 2021 related to market-making for legacy (pre-2022) instruments and hedging or reducing client or bank exposures, but the message overall is that people should not expect much new activity in US dollar LIBOR after 2021.": ISDA transcript of webinar: *The Path Forward for LIBOR,* 4 December 2020.

14. Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency: *Statement on LIBOR Transition,* 30 November 2020.

15. FCA, 18 and 30 November 2020.

FCA is expected to consult the market before making a decision.

- Legislation in the UK provides that synthetic LIBOR for legacy transactions can continue for up to 10 years, but with annual reviews by the FCA. This is because the authorities' objective is to wind down legacy contracts rather than allowing them to continue indefinitely. In the bond market, some legacy bonds have a maturity longer than 10 years.
- The market implications of the different dates for the cessation of panel-bank LIBOR in US dollars and other LIBOR currencies need to be considered. If at the end of 2021 sterling LIBOR is declared unrepresentative of its underlying market, the method for computing sterling LIBOR for legacy transactions is expected to change, but in the period between the end of 2021 and the end of June 2023 the method for computing LIBOR for legacy US dollar transactions is expected to continue to be representative and not expected to change.[16] The FCA has stated: "The proposed extension to US dollar does not change the proposed end date for other currencies. We do not see a need to continue the sterling panel beyond end-2021, and we do not think the US dollar extension means the same is appropriate for sterling."[17]
- The interaction between the proposed UK, US and EU legislative solutions for "tough legacy" contracts is still uncertain. International alignment between the different legislative solutions is important for the international bond market. It is desirable, for example, that the rate for legacy dollar bonds issued under English law and the rate for legacy dollar bonds issued under New York law should be the same.

FSB recommendations to the authorities globally

15 The FSB and the BCBS have issued a report[18] setting out a number of recommendations to the authorities globally under three heads: identification of transition risks and challenges; facilitation of LIBOR transition; and coordination.

- *Identification of transition risks and challenges:* Authorities and standard-setting bodies should issue public statements to promote awareness and engage with trade associations and other authorities to undertake regular surveys of LIBOR exposure and to request updates from financial institutions.
- *Facilitation of LIBOR transition:* Authorities should establish a formal transition strategy supported by adequate resources and industry dialogue. Supervisory authorities should consider increasing the intensity of supervisory actions when the preparatory work of individual banks is unsatisfactory.
- *Coordination:* Authorities should promote industry-wide coordination, maintain dialogue on the adoption of fallback language, consider identifying legislative solutions where necessary, and exchange information on best practices and challenges.

Global preparations needed by firms

16 On 16 October, the FSB also published a global transition roadmap[19] for the transition away from LIBOR, and the FSB noted that individual regulators may require firms to move faster in some instances. The key steps in the timetable include the following:

Preparations needed already

- Firms should already at a minimum have Identified and assessed all existing LIBOR exposures, including an understanding on which LIBOR settings they have a continuing reliance after end-2021, by currency and maturity; and the fallback arrangements which those contracts currently have in place.
- They should have identified other dependencies on LIBOR outside of its use in financial contracts: for example, use in financial modelling, discounting and performance metrics, accounting practices, infrastructure, or non-financial contracts (eg in late payment clauses).
- They should have agreed a project plan, including specific timelines and resources to address or remove any LIBOR reliance identified, so that they can transition in advance of the end of 2021, including instituting clear governance arrangements.
- They should have understood recommended best practices by the industry or regulators in relevant jurisdictions, including timelines for intermediate steps in the transition ahead of end-2021, and built these into their plans.
- They should have assessed the changes that may be needed to supporting systems and processes in order to enable use of alternative reference rates in new and existing contracts,

16. Edwin Schooling Latter, Director, Markets and Wholesale Policy, FCA: "The FCA would not be welcoming and supporting this proposed extension unless we were confident that representativeness thresholds could be maintained in terms of the number of panel banks.": ISDA transcript of webinar: *The Path Forward for LIBOR,* 4 December 2020.

17. Edwin Schooling Latter, Director, Markets and Wholesale Policy, FCA: ISDA transcript of webinar: *The Path Forward for LIBOR,* 4 December 2020.

18. FSB and BCBS: *Supervisory Issues Associated with Benchmark Transition: Report to the G20,* 9 July 2020.

19. FSB: *Global Transition Roadmap for LIBOR,* 16 October 2020.

including through fallbacks. These may include, for example, treasury management systems and accounting processes. Those who currently provide clients with this infrastructure should have developed alternative solutions or offerings to ensure continuity of provision.

- Those who currently provide clients with products that reference LIBOR should have begun to implement a plan for communicating with end-users of LIBOR referencing products maturing beyond end-2021 to ensure they are aware of the transition and the steps being taken to support moving those products to alternative rates.
- By the effective date of the ISDA Fallbacks Protocol, firms should adhere to the ISDA Protocol, subject to individual firms' usual governance procedures and negotiations with counterparties as necessary. Adherence to the protocol is strongly encouraged and, where the protocol is not used, other appropriate arrangements will need to be considered to mitigate risks.
- Providers of cleared and exchange-traded products linked to LIBOR should also ensure that they incorporate equivalent fallback provisions as appropriate.
- By the end of 2020, lenders should at a minimum be in a position to offer non-LIBOR linked loan products to their customers. This could be done either by giving borrowers a choice in terms of the reference rate underlying their loans, or through working with borrowers to include language for conversion by end-2021 for any new, or refinanced, LIBOR referencing loans, for example if systems are not currently ready.

Preparations needed by mid-2021

- On the basis of a full assessment of their stock of legacy contracts, firms should have determined which of these legacy contracts can be amended in advance of end-2021, and they should have established formalised plans to do so in cases where counterparties agree.
- Where LIBOR-linked exposure extends beyond end-2021, firms should make contact with the other parties to discuss how existing contracts may be affected and what steps firms may need to take to prepare for use of alternative rates.
- Firms should have implemented the necessary system and process changes to enable transition to robust alternative rates.
- Firms should aim to use robust alternative reference rates to LIBOR in new contracts wherever possible.
- Firms should take steps to execute formalised plans, where realistic, to convert legacy LIBOR-linked contracts to alternative reference rates in advance of end-2021.

Preparations needed by end-2021

- Firms should be prepared for LIBOR to cease.
- All new business should either be conducted in alternative rates or be capable of switching at limited notice.
- For any legacy contracts for which it has not been possible to make these amendments, the implications of cessation or lack of representativeness should have been considered and discussed between the parties, and steps taken to prepare for this outcome as needed. The scope and impact of any steps taken by authorities to support tough legacy contracts, if available, should have been clearly understood and taken into account.
- All business-critical systems and processes should either be conducted without reliance on LIBOR or be capable of being changed to run on this basis at limited notice.

ICMA's contribution to the global transition to risk-free rates

ICMA is continuing to contribute to the global transition from LIBOR and the other IBORs to risk-free rates in a number of complementary ways:

ICMA is participating in the Sterling Working Group on Risk-Free Rates and chairing the Bond Market Sub-Group. ICMA is also participating in the Euro Risk-Free Rate Working Group (as an observer) and the Swiss National Working Group; and ICMA is in regular contact with the FRN Group Chair on the Alternative Reference Rates Committee in the US and with national working groups in Asia.

ICMA has set up a risk-free rate webpage on the ICMA website with hyperlinks to official publications and speeches globally, as well as to ICMA's own work and joint work with other trade associations.

ICMA has published regular updates on the transition to risk-free rates in the ICMA Quarterly Report.

ICMA has held regular calls to brief members on progress in the transition to risk-free rates.

And ICMA has moderated official sector panels on the transition to risk-free rates for each of the last three years. The 2020 official sector panel was held in virtual form and recorded for members. The panel included senior representatives from the UK FCA, the Federal Reserve Bank of New York, the European Central Bank, the Swiss National Bank and the European Investment Bank.

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The post-Brexit agreement and international capital markets

by **Paul Richards**

ICMA published an assessment on *Post-Brexit: the Way Ahead in International Capital Markets* in the ICMA Quarterly Report for the Fourth Quarter. This contribution provides an update at the end of the post-Brexit transition period on 31 December 2020:

The EU-UK Trade and Cooperation Agreement (TCA)

The TCA was agreed in principle on 24 December 2020 and ratified by the European Council and UK Parliament ahead of the 31 December deadline.[1] Financial services are not covered in any detail in the TCA. The main provisions relating to financial services include clauses under which the parties: (i) can adopt or maintain measures for prudential reasons; (ii) make their best endeavours to ensure that internationally agreed standards of regulation and supervision are implemented; and (iii) provide access to their payment and clearing systems. Post-Brexit EU-UK financial services are negotiated largely *outside* the TCA (eg through regulatory equivalence). The main advantage of the Agreement is that it should improve the climate for future EU-UK relations, including in financial services.

Passporting rights

At the end of the post-Brexit transition period on 31 December 2020, passporting rights ceased. The Single European Market became two separate markets. Under the Temporary Permissions Regime, the UK is providing EEA firms and funds previously using a passport the opportunity to continue to operate in the UK for a maximum period of three years while they seek authorisation from the UK PRA/FCA. There is no equivalent to the UK Temporary Permissions Regime at EU level, though there is a patchwork of arrangements at national level in the EU.

Regulatory equivalence

On 9 November, the British Government announced a package of equivalence decisions under which EU and EEA firms are equivalent for the purposes of regulation in the UK, together with guidance on the UK's approach to equivalence in future. The European Commission has not so far followed a similar approach for the purposes of UK firms' access to the EU market.[2] As at the end of the post-Brexit transition period, the grant by the Commission of access for UK firms to the EU was strictly limited. The grant of equivalence for UK CCPs was an exception, on the grounds that it was necessary to avoid cliff-edge risks to financial stability at the end of the transition period, though the grant is limited to 18 months. (See the Box.) It remains to be seen whether the climate of cooperation from the TCA will give rise to more equivalence decisions by the Commission in future: for example, equivalence for investment firms is not due to be reviewed until mid-2021 at the earliest.

Regulatory divergence

During the post-Brexit transition period, EU regulation continued to apply in the UK, and was "onshored" by the end of the transition period. From the end of the transition period, UK financial services regulation is expected to begin to diverge from EU regulation, initially at least in a limited way. Whether the European Commission is willing to grant regulatory equivalence in future may turn on whether the Commission considers that it is sufficient for the UK and the EU to have the objective of achieving the same regulatory outcomes (eg in the case of international standards), or whether it considers that the same regulatory outcomes can be achieved only if the rules are the same.

Financial stability risks

Now that passporting rights have ceased following the end of the transition period, and where regulatory equivalence has not been provided, there are a number of outstanding cliff-edge risks affecting international capital markets. (See the Box.) Despite the risks of market volatility and disruption, both the EU and UK authorities consider that the risks to financial stability are less than they were. Given that the EU and UK have reached a TCA, there should also be scope for regulatory and supervisory cooperation to continue in future. Under the TCA, both parties are committed to establish by March 2021 an MOU framework covering exchanges of views on regulation and equivalence.

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1. The TCA is also subject to ratification by the European Parliament early in 2021.

2. When the TCA was agreed, the Commission announced that it would not make any further equivalence decisions "at this point in time".

Post-Brexit cliff-edge risks in international capital markets and steps to avoid them[3]

Investment services: The EU has stated that in the short to medium term it will not assess the equivalence of the UK's regulatory and supervisory regime to its own for the purposes of MiFIR Article 47, which covers investment services. This would have allowed for material cross-border access to investment services, reducing the residual risk of disruption.

Cleared OTC derivative contracts: The UK Government has legislated to ensure that UK businesses can continue to use clearing services provided by EU-based clearing houses. The EU has adopted a decision to provide equivalence to the future UK legal and supervisory framework for central counterparties (CCPs) until end-June 2022, and UK CCPs have been recognised by ESMA. This will allow UK CCPs to continue servicing EU clearing members after the end of the transition period. The Bank of England and ESMA have put in place a new cooperation agreement to support this activity.

Non-cleared OTC derivative contracts: The UK Government has legislated to ensure that EU banks can continue to perform lifecycle events on their non-cleared derivative contracts with UK businesses after the end of the transition period. The European Commission has not reciprocated in the case of UK-based banks' contracts with EU businesses. Some EU Member States have permanent national regimes which could enable lifecycle events on certain contracts to be performed.

Banking services: The UK Government has legislated to ensure that UK households and businesses can continue to be served by EU-based banks after the end of the transition period. The EU authorities have not taken similar action. As a result, major UK-based banks are transferring their EU clients to subsidiaries in the EU so that they can continue providing services to them. All material subsidiaries are now authorised, fully operational and trading.

Asset management: Cooperation agreements between the FCA, ESMA and EU NCAs have been agreed and apply from the end of the transition period. This enables EU asset managers to delegate the management of their assets to the UK. The UK Government has legislated for EU asset management firms to continue operating and marketing in the UK. And to operate in the EU, the largest UK asset managers have completed their establishment of EU authorised management companies.

Insurance contracts: EIOPA has published recommendations to national authorities supporting recognition or facilitation of UK insurance companies' continued servicing of EU contracts at the end of the transition period.

Personal data: The UK Government has legislated to allow the free flow of personal data from the UK to the EU after the transition period. If the EU does not deem the UK's data regime adequate, companies can add standard contractual clauses into contracts in order to comply with the EU's personal data transfer rules. UK firms are generally well advanced in implementing these clauses.[4]

Access to euro payments systems: UK firms will need to maintain access to TARGET2 to make high-value euro payments. UK banks intend to access TARGET2 through their EU branches or subsidiaries or correspondent relationships with other banks. The European Payments Council has confirmed that the UK will retain SEPA access after the end of the transition period subject to its continued compliance with the established participation criteria.

Ability of EEA firms to trade on UK trading venues: The EU's Trading Obligations require EU investment firms to trade EU-listed or traded shares and some classes of OTC derivatives on EU trading venues or venues in jurisdictions deemed equivalent by the EU. The UK will also have analogous trading obligations from the end of the transition period. The EU and UK could deem each other's regulatory frameworks as equivalent for the purposes of relevant regulations, thereby mitigating risks of disruption.

Prudential requirements: UK regulators have confirmed that they will delay the application of some requirements for 15 months to end-March 2022. EU regulations will subject EU banks' and insurance companies' UK exposures to stricter capital and liquidity requirements.

Credit rating agencies: The FCA and ESMA have confirmed that their cooperation agreement will apply from the end of the transition period.

Settlement finality: Some but not all EEA countries have implemented national legislation intended to provide settlement finality protection in the event of insolvency of local firms using financial market infrastructure in non-EU countries.

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3. Source: Bank of England Financial Stability Report, 11 December 2020.

4. Under the TCA, there is a time-limited "bridging mechanism" of six months pending the Commission's decision on adequacy.

The European commercial paper market reimagined

by **Andy Hill**

Introduction

On 4 November 2020, ICMA hosted an online workshop focused on the European commercial paper market: *The European Commercial Paper Market Reimagined.* The objectives of the workshop were: (i) to look back on how the European commercial paper market performed during the peak of the COVID-19 crisis; and (ii) to identify possible initiatives, whether market-based or regulatory, that could help develop the market. Participants included commercial paper issuers, investors (in particular money market funds), dealers and relevant infrastructures.

Background

For many years, ICMA has supported an ECP Committee. Consisting of dealer banks, this has mostly been a passive committee structure, with no regular meetings or calls, and largely limited to information distribution. Most industry engagement with respect to ECP has been on the documentation side related to primary issuance (through the ICMA ECP Documentation Working Group, a sub-group of ICMA's Legal and Documentation Committee).

The market turbulence of March and April 2020, with the related "dash for cash" and the freezing of short-term markets, put the commercial paper (CP) market very much in the spotlight, as highly-rated corporates struggled to secure short-term funding beyond very short tenures, while access to secondary market liquidity, particularly for bank financial paper, was effectively closed to money market funds (MMFs) and other investors in CP. Major central banks quickly stepped in to restore confidence and unfreeze short-term markets, extending their purchase programmes to include certain CP, some more successfully than others. And while MMFs and corporates rode the storm with few casualties, this nonetheless raised important questions about the structure, liquidity and resilience of short-term markets.[1]

The European commercial paper market reimagined

In Q4 2020, ICMA began the process of bringing together stakeholders from across the CP ecosystem in order to look more closely at how the European CP market performed during the COVID-19 related market turbulence and the lessons learned from this experience. This is intended to provide the basis from which to explore potential initiatives, both regulatory and market-led, aimed at advancing the structural development of the market, with the objective of improving efficiency, liquidity and resilience.

The 4 November workshop was the first step in that process. Given ICMA's broad and diverse membership, including issuers (both corporate and financial), dealer banks, investors (including MMFs), and market infrastructures, it is well placed to pull together all the elements, and participants, that make up the European CP ecosystem.

A number of potential proposals or initiatives for further consideration came out of the workshop:

- More favourable capital/liquidity treatment of CP for banks to support secondary market liquidity.
- The development of a repo market for CP.
- Supporting the ongoing development of trading platforms and digitalisation.
- Improved market transparency and data availability.

1. Notably, these concerns are highlighted in the FSB's November 2020 *Holistic Review of the March Market Turmoil* (a summary of the impacts on MMFs can be found on pages 119-20), as well as in IOSCO's November 2020 *Thematic Note on Money Market Funds during the March-April Episode.*

"ICMA is exploring the possibility of expanding its existing ECP Committee structure to encompass all relevant stakeholders."

- Reviewing the linkages between liquidity buffers in MMFs with gates and fees.
- Possibly harmonised regulatory guidance on the use of MMF liquidity buffers.
- The eligibility of MMF units as collateral.
- More formalised engagement with the relevant regulators and policy makers around these issues and general market developments.

Next steps

Following the workshop, ICMA held a follow-up call on 9 December 2020 for participants to reflect on the conclusions of the workshop and to discuss priorities and next steps. There was consensus that a formalised workstream focused on supporting European CP market development, consisting of all the relevant constituents, would be of great benefit to the market. Accordingly, ICMA is exploring the possibility of expanding its existing ECP Committee structure to encompass all relevant stakeholders to form a representative body of the wider CP ecosystem, including issuers, dealers, investors and infrastructures. Meanwhile, a parallel workstream under ICMA's Asset Management and Investors Council (AMIC) would focus more specifically on issues related to MMFs.

Members interested in participating in ICMA's work related either to the European CP market or MMFs should contact Andy Hill or Arthur Carabia.

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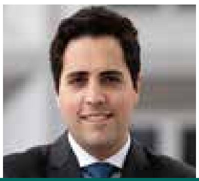
The new Capital Markets Union Action Plan



By **Daniel Mendes**

Introduction

The Capital Markets Union (CMU) project was launched more than six years ago to establish a true single market for capital across EU Member States and underwent a mid-term review in June 2017.

On 24 September 2020, the European Commission (EC) announced a new CMU Action Plan. ICMA published its preliminary thoughts on the new CMU Action Plan on 1 October.

The new Action Plan

The new CMU Action Plan is driven by three key objectives: (i) to support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies; (ii) to make the EU an even safer place for individuals to save and invest long-term; and (iii) to integrate national capital markets into a genuine single market.

At first glance, these objectives are expected to be achieved through 16 actions, clustered into three categories: Small and Medium-Sized Enterprises (SMEs); Retail; and Single Market. In fact, a careful inspection of the Annex to the CMU Action Plan reveals that many of these initiatives are likely to unfold into around 20 concrete actions, many of which relate to developing EU equity markets, particularly for SME funding. (Please refer to the Box on anticipated CMU deliverables and deadlines below for a summary of these initiatives.)

These initiatives were inspired by the EC's High-Level Forum (HLF) *Final Report*. Where the HLF recommendations made their way into the new Action Plan, the EC adopted broader language than the HLF Final Report, allowing policy makers more flexibility when designing concrete legislative and non-legislative measures. A small number of HLF recommendations, however, were not incorporated into the new Action Plan. These include HLF's recommendation 7 on crypto/digital assets and recommendation 10 on cloud services.

Perhaps inconsistently with its first objective ("support a green, digital, inclusive and resilient economic recovery"), the new CMU Action Plan does not set out measures in relation to Sustainable Finance or Digital Finance. Instead, policy makers have opted to promote both as standalone policy areas. According to the new CMU Action Plan, "the strategies on CMU, sustainable finance, digital finance and SMEs are all mutually reinforcing. They are a joined-up package of measures". The EC therefore published a *Digital Finance Package* alongside the CMU Action Plan and is expected to unveil a *Renewed Sustainable Finance Strategy* in due course.

Finally, the new CMU Action Plan outlines three actions that, while mentioned by the HLF in its *Final Report*, had not been put forward in the form of recommendations. These are: directing SMEs to alternative providers of funding (Action 5); consolidated tape for equity and equity-like instruments (Action 14); and investment protection and facilitation (Action 15).

The way forward

The full extent of the CMU is yet to be seen. This is because many of the actions proposed by the EC are not yet tangible; many consist of rounds of feasibility assessments that will, eventually, lead to legislative proposals. These will, in turn, be subject to amendments and political compromises. For instance, the EC will consider whether sectoral legislation should be amended to include requirements on financial education of consumers by Q1 2022.

Furthermore, with many of these assessments planned to unwind into concrete measures only in the years to come, it is possible that the relevance of some of the drivers underlining this project will eventually dissipate.

Indeed, while recovery from COVID-19 is a real concern at present, it may be overshadowed by other issues in the near future. In fact, even recent events have shown that politically sensitive issues may be prioritised by co-legislators as opposed to COVID-19 concerns. For instance, a controversy around position limits for commodity derivatives associated with proposed amendments to MiFID II under the *EU Capital Markets Recovery Package* has resulted in the European Parliament's Committee on Economic and Monetary Affairs (ECON) rejecting a proposal to commence trilogues between the co-legislators[1], notwithstanding the urgency of this file.

While the outcome of the new CMU Action Plan may not entirely reflect its original objectives in the long-run, policy makers and co-legislators will want to ensure that, ultimately, any measures do not unintentionally have a negative impact upon the international bond market. This is because of the fundamental role that the international bond market plays in funding the EU's larger businesses[2].

This is particularly the case if the EU wants to achieve a truly competitive position globally. Indeed, a study from the European Capital Markets Institute based on BIS and IMF data has found that the European debt securities market is about half the size of that in the US.

Two initiatives are key from the perspective of ICMA's secondary market members. First, this community considers that, in pursuing deep and liquid markets as part of Action 4, co-legislators should reconsider the mandatory CSDR buy-in provisions[3] and assess the impacts of regulatory capital on fixed income market makers, including related hedging and financing activity. Second, developments associated with Action 14 would help support confidence and efficiency in the European bond market if they are to consider a consolidated tape for bonds, not only for equity instruments[4].

"The full extent of the CMU is yet to be seen. Many of the actions proposed by the EC are not yet tangible".

Also, ICMA's Asset Management and Investors Council (AMIC) considers it to be essential that, consistent with the anticipated review of Solvency II under Action 4, the impact and potential procyclical effects of capital charges for downgraded bonds are assessed in light of portfolio adjustments that can be undertaken by institutional investors ahead of a credit rating downgrade.

Finally, from a repo and collateral perspective, policy makers should tackle remaining barriers to the cross-border flow of collateral if they wish to achieve a non-fragmented post-trade environment in Europe[5].

We invite our members and observers to follow our dedicated CMU webpage for updates on ICMA's work in this area.

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1. This decision was overruled in a European Parliament plenary session in November 2020.

2. For further information, please see the article *The role of the Eurobond markets in pan-European capital markets,* published as part of *ICMA's Quarterly Report for the Fourth Quarter 2020.*

3. Please refer to ICMA's 2019 CSDR mandatory buy-in market impact study for further information.

4. For further information, please refer to ICMA's report to the EC of April 2020.

5. ICMA's European Repo and Collateral Council (ERCC) contributed to the findings of the 2017 Report by the European Post-Trade Forum (EPTF), established by the EC.

Anticipated CMU deliverables and deadlines

- Legislative proposal establishing the European Single Access Point (Q3 2021)
- Assessment and potential simplification of the listing rules for public markets (Q4 2021)
- Review of the European Long-Term Investment Fund Regulation (Q3 2021)
- Assessment of Solvency II and potential amendments (Q3 2021)
- Appropriate prudential treatment of long-term SME equity investments by banks to feed into the Basel III implementation through the review of CRR/CRD (Q1 2021)
- Feasibility assessment on the existing bank referral schemes (Q4 2021)
- Review of the EU securitisation framework for both STS and non-STS securitisation (Q4 2021)
- Feasibility assessment for a dedicated EU financial competence framework (Q2 2021)
- Assessment and a potential amendment to sectoral legislation (MiFID II, IDD, PEPP, UCITS, PRIIPs) setting out requirements on financial education of consumers (Q1 2022)
- Assessment and potential amendments to the applicable rules in the area of inducements and disclosure associated to MiFID II (Q4 2021) and IDD (Q1 2023)
- Legislative proposal amending MiFID II to reduce information requirements for a subset of retail investors (Q4 2021/Q1 2022)
- Call for advice on national tracking systems and pension dashboards (Q4 2021) as well as an external study on auto-enrolment practices in occupation pension schemes (Q3 2020)
- Legislative proposal to alleviate the tax burden in cross-border investment (Q4 2022)
- Legislative or non-legislative measures for harmonisation in targeted areas of insolvency (Q2 2020)
- Assessment (Q1 2021) and potential legislative proposal (Q4 2021) to allow the EBA to regularly update the Commission on the effectiveness of loan enforcement in Member States
- Assessment and legislative proposal to facilitate shareholder engagement (Q4 2021/Q3 2023)
- Review of the Central Securities Depositories Regulation (Q4 2021)
- Legislative proposals establishing a consolidated tape (Q4 2021)
- Legislative proposals to increase investor protection and increased enforcement (Q2 2021)
- Potential measures for stronger supervisory coordination or direct supervision by the European Supervisory Authorities (Q4 2021).

Source: Annex to the new CMU Action Plan

The AIFMD review and initial lessons from the COVID-19 crisis


By **Arthur Carabia** and **Irene Rey**

Introduction

The European Commission (EC) published on 22 October 2020 its long-awaited consultation on a proposed review of the Alternative Investment Fund Managers Directive (AIFMD).

Introduced in 2013, AIFMD is one of the two pillars of the EU fund regulatory framework. It has established a common set of rules for all funds which are not UCITS (ie retail funds investing in liquid assets). These include rules regarding authorisation, capital requirements, conduct of business standards, remuneration, valuation of assets, delegation, depositories, transparency and marketing (eg EU passport).

ICMA's Asset Management and Investors Council (AMIC) is carefully reviewing all options considered by the EC, as any key amendment could impact fund managers across continents given the global nature of the industry and the international use of EU labels. While the EU label for AIFs is not yet very popular in Asia (only a handful of them are managed from Asia and sold there), fund managers in Asia should also keep an eye on this development, as it may have significant implications for UCITS funds (particularly popular in Singapore, Hong Kong and Taiwan) and the existing delegation model, which is the cornerstone of the asset management industry.

This article is largely built on AMIC comments on ESMA's letter recommending the amendment of AIFMD which will inspire AMIC's response to the actual EC consultation. Anticipating the EC consultation, ESMA issued on 19 August 2020 a letter including recommendations for changes in 19 areas, including harmonising the AIFMD and UCITS regimes; delegation and substance; liquidity reporting and management tools; leverage; the AIFMD reporting regime and data use; and the harmonisation of supervision of cross-border entities.

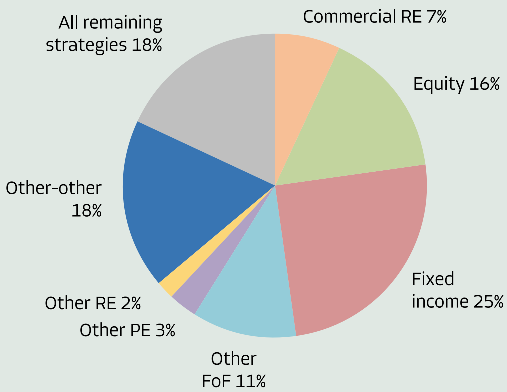
Most of the points raised by ESMA have been taken on board in one form or another by the EC consultation which contains 102 questions split across several priorities, including financial stability (leverage/liquidity reporting), international relations (delegation and National Private Placement Regime), sustainability and ESG investing, investor protection (passport, depository regime, transparency and conflicts of interest, valuation rules).

Whether the options considered will be kept by the EC in its legal proposal to be issued in Q3 2021 remains to be seen. AMIC will certainly continue to argue in favour of legislative stability or moderate changes based on recent findings of the recent COVID-19 crisis.

AIFs at a glance

With €6.6 trillion in AUM, alternative investment funds (AIFs) accounted in 2020 for almost 40% of the EU fund industry. They are mainly sold to professional investors (84%) and cover a wide range of types of funds – including hedge funds, real estate, private equity, funds of funds, and infrastructure funds, among others :

AIF strategy by NAV
Five dominant investment strategies



Note: Investment strategy of AIFs managed and/or marketed by authorised EU AIFMs and sub-threshold managers registered only in national jurisdictions, end of 2018, in % of NAV. FoF=Fund of funds, PE= Private equity funds, RE=Real estate. Data for 25 EEA countries. Sources: AIFMD database, National Competent Authorities, ESMA.

Financial stability: fund liquidity and leverage reporting

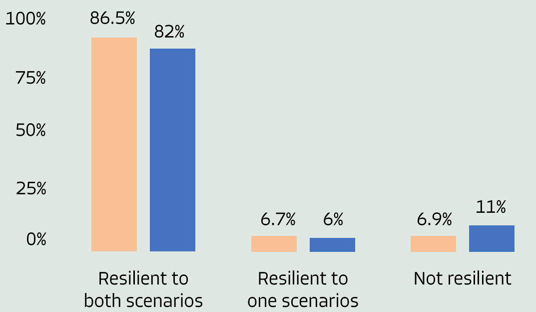
Fund liquidity

The EC is considering whether to enhance liquidity reporting obligations for AIFs. But these are already extensive and include detailed information on portfolio liquidity profiles, frequency of investor redemption or investor liquidity profiles (see page 8 of the AMIC paper).

We also note that, in the context of the COVID-19 market downturn in March/April 2020, NCAs across the EU, in coordination with ESMA, asked fund managers to continuously notify any significant redemption (>10% daily, > 30% weekly) in order to closely monitor fund liquidity issues across UCITS and AIFs. This shows that fund liquidity reporting can be swiftly upgraded at any moment by ESMA in coordination with NCAs and that changes at Level 1 are not necessary. It must also be noted that, with ESMA's Liquidity Stress Testing (LST) guidelines which have applied to both UCITS and AIFs since September 2020, NCAs may at their discretion control the ability of the fund to meet redemption requests in normal and stressed conditions.

Building on the data collected during this period, ESMA has issued a report on liquidity risk in investment funds focusing on 541 corporate debt funds (€2.07 trillion NAV) and 92 real estate assets (€294 billion NAV) between 17 February and 31 March 2020. Despite the extreme level of stress experienced during the period studied, ESMA found that, out of the 174 AIFs studied (with €1.3 trillion of AUM), none used substantial leverage nor had to suspend redemption. ESMA and NCAs also ran two stress simulations (weekly redemption equivalent to 22-27% of NAV) on these AIFs investing in corporate bonds in June 2020 and 82% of them passed both tests (see graph below). It must be noted that this is an extreme scenario (corporate bond AIFs registered net inflows in February-March 2020). This does not take into account the potential use of Liquidity Management Tools (LMTs), which are useful to absorb redemption shocks (eg gates, swing pricing, anti-dilution levies).

AIFs: Resilience



Note: Resilience of AIFs. RCR below one for potentially not resilent funds.
Sources: NCAs, ESMA.

When it comes to the availability of LMTs, we welcome the fact that the recent crisis has contributed to accelerating the adoption of LMT tools in EU jurisdictions where they were not yet available (eg Germany). Now that LMT tools are available in most Member States and in the main AIFs' domicile centres (France, Germany, Luxembourg, Ireland, the Netherlands: 80% of EU AIFs and more than 90% of total AUM of EU AIFs), the need to amend the Level 1 on that basis (as suggested by ESMA) is not critical any more. The obligation to notify the use of LMTs considered by the EC is already included within LST guidelines, which require fund managers to report to supervisors risks and actions taken to address liquidity issues.

Overall, recent enhancements at EU and national levels, and the live stress test which our members experienced, confirm that the recent framework is fit for purpose from a liquidity perspective and does not need to be amended.

Leverage

The EC is considering whether leverage calculation methods need to be adapted. We note that AIFMD already requires AIFs to report to NCAs both gross leverage and net leverage and is in line with IOSCO recommendations. However, we agree with ESMA that some funds may look significantly leveraged under the gross methodology due to the use of derivatives (eg a liability-driven investment fund). We are therefore sympathetic to adjusting, under the gross leverage methodology, the notional amount of interest rate derivatives via Level 2 or 3 measures. We note, however, that ESMA was already able to take this into account, as it estimated in its 2020 statistical report that on average AIFs have an adjusted leverage (ie excluding interest rate derivatives) that was not substantially used (ie only 1.63 times the NAV).

Harmonisation of UCITS and AIFMD

The EC is contemplating the idea of having a single rulebook for investment funds, with the aim of harmonising the UCITS Directive and the AIFMD even though they have different objectives. (UCITS funds target retail investors and invest in liquid securities, whereas AIFs are mainly sold to professional investors, and therefore can invest in less liquid securities and use significant leverage).

AMIC is opposed to a general approach seeking to harmonise UCITS and AIFM Directives. UCITS and AIFs were intentionally created as distinct labels/vehicles, but we note that the EC is at this stage focusing on a limited amount of (albeit important) topics: liquidity reporting requirements, leverage calculation methodologies, delegation rules.

When it comes to liquidity requirements, we note that, for many years, some major domicile centres have already asked UCITS to comply with AIF reporting requirements (eg portfolio liquidity profiles) and that ESMA's action to bridge these different approaches via its 2020 convergence exercise between NCAs has already prompted asset managers to respond to granular questionnaires sent by EU NCAs in coordination with ESMA. As

NCAs are already empowered to request this information as they work together with ESMA on this, we question whether a change in the Level 1 text is really necessary.

Regarding leverage calculation, we believe it would be disproportionate for UCITS to become subject to similar requirements as AIFs. This is because the UCITS Directive includes specific and strict limits on leverage. UCITS may borrow up to a limit of 10% of their net assets, and only on a temporary basis, for example for liquidity management purposes. Therefore, in UCITS, leverage cannot be created through borrowing. Furthermore, exposures related to derivatives and SFTs cannot exceed the total net value of the portfolio.

When it comes to delegation rules, existing UCITS are already clear. ESMA also issued far-reaching Legal Opinions covering delegation in 2017, which apply to both UCITS and AIFMD. They are more granular than AIFMD provisions on delegation, and have prompted a number of changes in key fund jurisdictions (see below).

"Re-writing AIFMD would be a distraction at a time when we should devote energy to the economic recovery, sustainability and CMU."

International relations (delegation and NPPR) or the need to avoid fragmentation

Delegation

The delegation allowed under the UCITS Directive and AIFMD enables asset managers to set up a fund in the EU and carry out portfolio management or risk management activities from other jurisdictions. However, the EC is exploring possible options to change the current rules in order to prevent the creation of letter-box entities in the EU and ensure appropriate risk management by specifying quantitative criteria and a list of core or critical functions that should always be performed internally.

Here, we believe that the risks of loopholes, regulatory arbitrage and lack of substance are already being properly tackled by existing rules and the emphasis should instead be on the enforcement of these rules.

Existing UCITS and AIFMD provisions on delegation are already crystal clear in this respect: "The management company shall not delegate its functions to the extent that it becomes a letter-box entity". In addition, in 2017, the European Securities and Markets Authority (ESMA) already issued far-reaching Legal Opinions covering delegation, which apply to both UCITS and AIFMD.

For instance, management companies are now required to have at least two senior managers, and additional scrutiny is applied to management companies with less than three full-time employees for the investment function and/or monitoring of delegates.

With respect to delegation of portfolio management functions to non-EU entities, compliance with EU rules is achieved because (i) the EU delegating entity remains responsible for the operation of the fund and all activities related thereto and (ii) the entity receiving the delegation is required to comply with the appropriate EU legislation by NCAs (eg paragraphs 491 and 492 CSSF 18/698).

ICMA sees this delegation model as trustworthy because it is underpinned by MOUs giving EU national supervisors the right to ensure proper monitoring of delegated activities. ESMA has recently reaffirmed this by adopting an MOU with the UK Financial Conduct Authority (FCA) on behalf of EU NCAs in the context of Brexit.

Curbing delegation beyond what is currently authorised would not be in the interest of EU investors, since it would leave them with narrower diversification and investment options. This would also put asset managers with a European footprint at a disadvantage vis-à-vis overseas competitors, because of increased costs and the inability to leverage internal and external expertise globally.

NPPR

The EC is also considering, on the basis of a level playing field, whether it needs to review the National Private Placement Regimes (NPPR), the main route used by non-EU AIFs to reach EU investors, as it could create an uneven playing field between EU and non-EU AIFMs. Non-EU AIFs distributed in Europe accounted for €1.7 trillion of AUM via the NPPR at the end of 2018, with American domiciled AIFs contributing largely to the tally. EU based and non-EU based AMIC members are both keen to preserve NPPR.

Sustainability and ESG investing

In this section, the EC is considering whether to make the quantitative assessment of sustainability risks (ie potential impact on portfolio return) mandatory, going beyond what is required under the newly adopted SFDR. As forward-looking assessement of sustainability risks is still in its infancy and complex from a methodological perspective, and given that audited and reliable data provided by issuers on financial materiality are still lacking, we would argue that, until the NFRD review is completed, the assessment of sustainability risks from a risk management perspective should be required at least on a qualitative basis and not always on a quantitative basis. The EC is also considering whether the consideration of sustainability factors (ie the fund's ESG footprint) should become mandatory in the investment decision process. As many asset managers already apply firm-wide exclusions or ESG integration, we believe this should still be left at the discretion of asset managers and their clients.

Conclusion

AMIC appreciates the need to review on a regular basis the legislative frameworks to make sure that they are fit for purpose. But in the case of AIFMD and the UCITS Directive this has been an ongoing process and finetuning of these texts via Level 2, 3 and 4 measures has not stopped since the Level 1 was adopted and is currently continuing.

This consistent reviewing has contributed to the development of a robust framework for investment funds, which inspires other regulators around the globe and has proved to be fit for purpose during the unprecedented market downturn we experienced in March/April 2020.

In the context of the sudden shift to remote work and massive stress felt across all asset classes, AIFs and UCITS have shown that they are operationally resilient and have sound fund liquidity management processes in place. In addition, EU funds were not the source of any occurrence of systemic risk.

Re-writing AIFMD and UCITS is not only unnecessary, it would also be a major distraction for policy makers, supervisors and asset managers at a time when collective energy should be devoted to the post-COVID 19 recovery, the Sustainable Finance Action Plan and Capital Markets Union.

We therefore call on the EC to focus on vehicles which, with changes, could foster growth in

European capital markets (eg the ELTIF ongoing review consultation) rather than those which have been successful in ensuring EU's competitiveness and attractiveness. We strongly believe that most of the concerns raised in ESMA's letter can be dealt with by ESMA and NCAs making use of their existing and recently reinforced powers (ie Guidelines, Q&As, Common Supervisory Action) or via targeted Level 2 measures.

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Building the financial architecture to drive climate transition

By **Adam Matthews**

Climate transition is at an inflection point with key decisions to be taken this decade if we are to achieve the goals of the Paris Agreement. To do so in "hard-to-abate" sectors such as cement and steel, we will need transition finance to unlock technologies and drive the necessary change. However, for investors to provide this finance requires both an understanding and a transition architecture which can give independent confidence that company goals, targets and plans are credible and aligned. A closer alignment between shareholder and bondholder engagement is part of the solution.

Global equity engagement has become organised and focused through Climate Action 100+ (CA100+) on the 161 most carbon-intensive companies across key sectors such as steel, cement, aviation, power, oil and gas amongst others. Whilst engagement obviously needs to go far broader, the understanding of the transition will be shaped by this focused effort. Fundamentally, this engagement is also based upon a legitimate belief that such carbon-intensive companies can have a path to align with the Goals of Paris.

As a result of CA100+ engagement, we are seeing an increasing number of companies making net zero commitments and starting to convert these long-term goals into short- and medium-term targets. Whilst it is important to note that not all net zero commitments are equal in ambition and interpretation of the emissions covered, they nonetheless do show companies are starting to respond. It is hardly surprising given that the asks of CA100+ are supported by over 500 investors with over $50 trillion in assets under management.

Engagement is evolving through five important steps that are as relevant to bondholders as they are to shareholders. The first step is securing companywide commitments to being Net Zero (which shows a company is committed to the goal set by society represented in the Paris Agreement). The second step is converting that goal into short- and medium-term targets. The complexity arises as we see engagement taking the third step where investors need to understand company transition plans that demonstrate how they will deliver step one and two – detailing which technologies are needed, the feasibility of the technology to be applied within that company, how the company will use its capital expenditure and what transition finance needs they may have. Once we have that understanding, we then need engagement on step four which is to identify the actions required through a company value chain or within a sector that they do not necessarily control but can influence. This will also have a public policy dimension to ensure there is the enabling policy environment to support a company transition. Here collaboration and innovative partnerships will be needed to drive the change based upon a common understanding of the ecosystem of actors involved between company, investor, bondholder and policy maker.

The last, fifth step, will only come as a result of the commitments and understanding of the first four and that is where common purpose should particularly be found between bondholders and shareholders to create an accountability framework and transition architecture that can release transition finance to enable the company to achieve its objectives.

Fortunately, for all the steps above, tools like the Transition Pathway Initiative (TPI) are continuing to evolve to provide an independent and academically robust analysis. Such analysis will be key to our ability to invest in line with the goals of the Paris Agreement and in support of companies delivering against their commitments. Unquestionably, TPI will need to be scaled further but it does provide the basis to build the accountability framework and transition architecture as we work through the complexities of steps three and four.

For companies to finance and deliver transitions successfully, the parallel and separate approaches by bond and equity investors should now converge. A coordinated approach to engagement and financing is critical, and bondholders are essential participants in funding the transition. That is why the recent work of ICMA in publishing the Climate Transition Finance Handbook is so important in laying the foundational understanding to support bondholders playing the role that is needed of them by society and by these "hard-to-abate" companies.

As I said at the start, this is a key transition decade. All the major decisions will be taken within this timeframe if we are to achieve the goals of Paris. There is much to be gained to align approaches to shareholder and bondholder engagement in key "hard-to-abate" sectors to build a joint understanding and architecture so that we may all play our part in supporting companies to evolve and ultimately succeed in this multi-decadal transition.

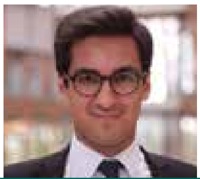
Adam Matthews is Co-Chair of the Transition Pathway Initiative (TPI). He is also Co-Director of the Investment Team (Ethics & Engagement), Church of England Pensions Board

FinTech and sustainable bond markets

By **Gabriel Callsen, Valérie Guillaumin, Simone Utermarck, Rowan Varrall** and **Ozgur Altun**







Introduction

ESG-based investing is a key trend which is expected to accelerate further and transform bond markets fundamentally in the coming years. FinTech cuts across the entire value chain of bond markets. However, most existing solutions are generally agnostic to the use of proceeds of a bond or issuers' commitments to sustainability. A key consideration for ICMA and its members is therefore how to leverage FinTech to further sustainability in the international debt capital markets.

As a result of discussions with ICMA members comprising issuers, investors, banks and data providers across Europe, Asia and North America, this article seeks to outline the opportunities and challenges encountered by market stakeholders and reflect on potential solutions to harness the potential of FinTech in sustainable bond markets.

The article is divided into the following sections: (i) literature review of selected publications on FinTech and sustainable finance; (ii) a high-level overview of the Green, Social and Sustainability-Linked Bond Principles; (iii) selected key regulatory developments; and (iv) perspectives from market participants and data providers.

(i) Literature review: FinTech and sustainable finance

According to the G20 Sustainable Finance Study Group, access to large amounts of data at high speed and low cost is the foundation of increasing opportunities for investments in sustainable assets.[1] Use cases identified by the International Platform on Sustainable Finance (IPSF)[2] include enhancement of environmental risk management and investment screening; enablement of real-time tracking and verification of sustainable investment outcomes; increased credibility of green finance products; increased traceability of supply chains; and greater access to sustainable investment opportunities.

Technologies used to achieve these opportunities facilitate the gathering, processing, analysis, or distribution of data. Large quantities of data from various sources and at increasing volumes (ie Big Data) enhance both ESG and Sustainable Development Goal (SDG) analytics and reporting capabilities using Artificial Intelligence (AI) algorithms, including Natural Language Processing (NLP) and Machine Learning (ML).[3] Internet of Things (IoT) remote-sensing capabilities and satellite technology provide new, real-time data feeds, which can improve tracking and verification of sustainable projects.[4] Distributed ledger technology (DLT) is considered a key technology in fostering the growth of

1. G20 Sustainable Finance Study Group, 2020. *Sustainable Finance Synthesis Report.*

2. International Platform on Sustainable Finance (IPSF), 2020. *IPSF Annual Report.*

3. Antoncic, M., Bekaert, G., Rothenberg, R. and Noguer, M 2020. *Sustainable Investment - Exploring the Linkage between Alpha, ESG, and SDG's.*

4. IPSF, 2020. See note above.

sustainable bond markets, for example, to develop green bond issuance architectures and tracking platforms where immutable data is shared between multiple parties.[5]

(ii) Overview of the Green, Social and Sustainability-Linked Bond Principles

The Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines are the globally recognised *de facto* market standards for green, social and sustainability bonds, which are all use-of-proceeds instruments.[6] These Principles consist of four core components: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) reporting (including allocation and impact reporting).

In June 2020, new principles were released in response to the emergence of sustainability-linked bonds (SLBs): The Sustainability-Linked Bond Principles (SLBP). These are voluntary guidelines for SLBs defined as forward-looking performance-based bond instruments where the issuer is committing to future improvements in sustainability outcomes within a predefined timeline. The financial and/or structural characteristics of SLBs can vary depending on whether the issuer achieves those predefined Sustainability Performance Targets. Within these parameters, the use of funds for SLBs are intended for general purposes rather than for underlying sustainable projects as in the case of existing green, social and sustainability bonds. The SLBP have five core components: (i) selection of key performance indicators; (ii) calibration of sustainability performance targets; (iii) bond characteristics; (iv) reporting; and (v) verification.

(iii) Regulatory initiatives

Sustainability is a priority for policy makers and regulators alike, which is reflected in the increasing number and diversity of regulatory initiatives worldwide. In Europe, the EU Action Plan has resulted in three regulatory initiatives: the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR), and the Low-Carbon Benchmark Regulation. The Non-Financial Reporting Directive (NFRD) and proposed EU Green Bond Standard (based on the GBP) are currently under review for a possible revision and potential legislative actions respectively. The EU Taxonomy is a cornerstone of EU policies on sustainable finance, aiming to provide further clarity on what is green and being referenced in regulations such as SFDR and others and the proposed EU GBS. In 2021, the newly established Platform on Sustainable Finance is due to complete the technical screening criteria for all environmental objectives and work on the social component of the taxonomy, all of which will create even more demand for transparent and standardised data.

In Asia, regulatory initiatives include China's Green Industry Guidance Catalogue, the ASEAN Green and Social Bond Standards, as well as Japan Green Bond Guidelines, amongst others. Further information including background on other supranational initiatives can be found in ICMA's sustainable finance compendium.

(iv) Perspectives from market stakeholders

Issuers' perspectives

One of the key challenges for issuers is data management for impact reporting of use-of-proceeds bonds. Typically, large, heterogeneous datasets are available for a range of projects, but the process of selecting, normalising and aggregating data for impact reporting purposes is labour and cost-intensive and not all formats are machine-readable. Providing impact data through third-party impact databases poses another challenge. While impact databases seek to aggregate data from different issuers and improve comparability, it is important to understand the underlying methodology and specific context which risks being omitted from broader impact categories or individual indicators.

FinTech solutions could create significant efficiencies, for example, by processing large data sets and matching an issuer's data to relevant taxonomies. Further expected benefits include better oversight of projects and analytical tools for disclosure purposes. However, cost is an important factor. On the one hand, building technology applications in-house requires appropriate resources, which are limited. On the other hand, analytics solutions can lead to a reduction in funding costs as they can help an issuer establish the fair value of a sustainable instrument and determine the appropriate issuance size according to investor demand.

Banks' perspectives

From an underwriter's and intermediary's perspective, taxonomy alignment of lending and underwriting activity poses operational challenges, which is compounded by the diversity of taxonomies, for example, differences between the EU Taxonomy and taxonomies created by Asian

5. For example, a green bond issuance architecture using smart contracts and digital tokens based on the ERC-20 token standard. Malamas, V., Dasaklis, T., Arakelian, V. and Chondrokoukis, G. 2020. *A Block-Chain Framework for Increased Trust in Green Bonds Issuance.*

6. Green bonds are any type of bond where the proceeds will be exclusively applied to (re)finance eligible green projects with environmental benefits. Similarly, social bonds are instruments that re(finance) projects with positive social impacts. Those that finance both green and social projects are sustainability bonds. All together, these instruments are referred to as "use-of-proceeds bonds" and constitute one of the most fundamental components of sustainable finance.

jurisdictions. Furthermore, banks rely on issuers to provide data. Unlike for corporate actions, there are no specific communication channels to disseminate impact reports, which are generally made available on the issuer's website in unstructured form. Traceability of issuers' commitments remains difficult since impact reports are only published on an annual basis. In emerging markets, a further challenge consists in the lack of awareness amongst some, less frequent issuers of the requirements for issuing sustainable bonds and associated commitments.

FinTech has the potential to improve demand discovery, ie assess investors' interest in sustainable bonds, facilitate exchange and alignment of data with investors' needs, but also help automate the assessment of ESG factors in banks' balance sheets for prudential regulatory requirements. Harmonisation of sustainability reporting and international accounting standards, and broader disclosure requirements (eg financial and non-financial disclosures) would be welcome. Tools for automated gap analysis between requirements for conventional bonds and sustainable bonds could facilitate access for less frequent issuers.

Investors' perspectives

Currently, investors navigate large numbers of reports which, paired with a lack of standardisation and lack of transparency on the methodology used, makes comparisons difficult, if not impossible. Mining and aggregating data from impact reports for individual securities and tracking different KPIs at issuer level for the growing segment of sustainability-linked bonds (SLBs) requires substantial resources, which can be a barrier for smaller investors. Analytics solutions are commonly used to source and aggregate data from various sources, including issuers' or credit rating agencies' websites.

FinTech could be used to develop common platforms for oversight, facilitate comparability and provide dynamic insights into ESG performance. However, key obstacles include inconsistent reporting of impact data and ESG data more broadly, and the lack of standardisation of KPIs, which limits scalability of FinTech solutions, let alone advanced applications such as AI/ML or DLT.

Data provider perspectives

Collecting, normalising and aggregating data from multiple sources is day-to-day business for data providers. However, usability depends on the quality of sustainable bond data. Pre-issuance, ESG metrics are used inconsistently which creates challenges in terms of interpreting, quantifying and comparing ESG commitments, despite adherence to voluntary guidelines.

Post-issuance, there is a significant lag until impact reports or KPIs are published by issuers, which makes it challenging to anticipate coupon step-ups or step-downs, for example. Verification remains difficult due to a mismatch between ESG frameworks validity (eg one year) and a security's maturity (eg 10 years). Regular, and more frequent, ESG reporting is therefore paramount to harness data analytics or build an index based on sustainable securities, which would create greater transparency in the market. ICMA's Impact Reporting Working Group is focused on developing guidelines for impact reporting database providers that collect and present data from sustainable bonds.

Conclusion

It is evident that usability of ESG data, whether at security level or issuer level, is a pre-requisite to enable FinTech applications in sustainable bond markets. Inconsistent reporting, lack of standardisation of KPIs and accessibility adversely impact ESG data quality. However, addressing the ESG data challenges extends beyond bond markets. Alignment of taxonomies, as well as consistent reporting and accounting standards for ESG and non-ESG data are considered equally important.

Notwithstanding these challenges, issuers perceive a number of opportunities for FinTech, for example, to automate taxonomy alignment or reduce funding costs. For banks, opportunities include enhanced "demand discovery" in sustainable bonds or improved exchange and alignment of data with investors' needs. From investors' perspective, FinTech could be used to develop common platforms for oversight, facilitate comparability and provide dynamic insights into ESG performance. For data providers, regular, and more frequent ESG reporting is paramount to harness analytics and create greater transparency.

A striking commonality between FinTech and sustainability is the need for common standards and harmonisation, which ICMA will continue to promote through its GBP workstreams, ICMA's FinTech Advisory Committee and engagement with market stakeholders and regulators alike to enable synergies between FinTech and sustainable bond markets.

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Digital bonds and the fixed income lifecycle

By **Rehan Ahmed**

In August 2020, SGX, Temasek and HSBC ran a successful pilot of a digitalised S$400 million bond issuance by Olam International on a fixed income digital asset issuance platform ("the Platform"). The pilot focused on automation of post trade and asset servicing processes, with operational efficiencies such as identifier creation, settlement cycle compression, streamlining issuance flows and payments automation.

Although there are several examples of asset digitalisation and/or use of DLT in the Asia bond markets (onshore China, Philippines, Thailand), none has focussed on syndicated public corporate bond issues. Validation of advantages that asset digitalisation, tokenisation and DLT can bring must be tried at scale to truly determine applicability to traditional capital markets.

Parallel bond structure

The use of new technological applications and the need to compare issuance processes on the Platform versus current market practices required running the entire issuance process in its current form and comparing it to the Platform experience. This parallel approach ensured ecosystem comfort and minimal friction with current processes, allowing the team to validate efficiencies.

The bond was structured as a public deal clearing through the Central Depository Pte. Ltd (CDP), Singapore's central securities depository (CSD). The issuance process followed a standard mandate, book building and syndication process, following which issuance details were submitted to CDP through current means (paper, email, physical) and settlement instructions manually created by arranger banks and investors. On issue date, the arranger pays net bond proceeds to the issuer following which CDP triggers movement of securities from issuer to arranger bank to investor custodians (with cash movement from investors to B&D bank). Confirmation of custody and listing approval are done separately.

Current pain points include long ISIN generation lead time, the lack of real-time deal information for participants such as paying agents and law firms, physical paper trails, as well as challenges in reconciliation and generating settlement instructions.

Platform infrastructure

The Platform is a fully integrated infrastructure that connects ecosystem participants such as issuers, arrangers, investors, lawyers, settlement and custodian banks. Key components include:

- *a web-based interface* for bond issuance and asset servicing processes; profiles for arrangers, investors, legal counsel and issuers;
- *smart contracts* to model rights and obligations of the bond such as ownership, payments due and managing transfer of securities and proceeds;
- *a ledger application* running on cloud-based infrastructure for record keeping.

Digital bond issuance process

Arranger banks enter security information via the Platform, which is used for digital bond creation (acting as a digital term sheet); thereafter the CSD returns the ISIN for usage within the allocation process; the arranger continues the deal pricing process with bond attributes finalised at launch (size, price, coupon) and communicated to investors via the Platform. Settlement obligations are auto-generated (given availability of allocations). Issuance flows are triggered via the smart contracts (no manual entry or intervention required by issuer, arranger or investor) with HSBC's on-chain payments solution the first cash solution used for settlement on the Platform.

Digital bond and proceeds are transferred instantaneously between accounts belonging to the issuer, underwriter and investor custodian without any operational risk; the transaction results in an ownership record on the underlying ledger, replacing the entire issuance flow with a single transaction.

Asset servicing

A typical coupon payment process involves payment notification generation (e-mail, pdf) followed by coupon amount reconciliation, after which the issuer transfers payment to a paying agent that forwards it to the CSD. The digital bond can automate coupon or redemption payments via auto-generation of notifications and amounts, with the possibility for the issuer to automate the payments to the CSD.

Summary of key efficiencies

- *Early security/ISIN creation* due to early receipt of deal information by CSD. This also allows for creation of the security in downstream systems.
- *Auto-generation of settlement instructions:* The Platform's auto-generation of settlement instructions reduces the operational burden; this does, however, require a shift to messaging generation by centralised market infrastructure such as CSDs to arranger and investor custodians.
- *Settlement time reduction:* New issue settlement is currently T+5 due to processes such as custody approval, deal documentation, settlement instruction generation and investor sub-allocations. Lead times for approval and completion of post-trade processes were significantly reduced, thereby enabling settlement by T+2.
- *Elimination of operational risk* as a result of collapsing the issuance flows into a single atomic transaction.
- *Independence from batch-driven settlement cycles:* The bond's settlement had no dependency on the CSD's batch settlement cycle given the settlement was triggered upon completion of conditions precedent.
- *Asset servicing automation:* As described in "asset servicing", such automation allows paying agents and trustees to focus on higher value-added activities for issuers and clients.

Considerations for a future issuance-to-settlement digital infrastructure

Regulation: SGX continues to work with its legal and regulatory partners on an appropriate framework for bonds. Within Asia, both Philippines and Thailand have implemented electronic securities, while Germany has a draft Electronic Securities Act (a legal framework for issuance of paperless bearer bonds) in place.

Modelling languages & DLT: For the digital issuance process, the focus was on capturing the business logic of the bond lifecycle in smart contracts with DAML (digital assets modelling language) as the ledger-independent modelling language. For cost efficiency purposes, the bond was recorded on a conventional database rather than a distributed ledger. As DLT and its cost structures continue to evolve, this approach allowed all involved stakeholders to extract the highest value while preparing to integrate a DLT solution.

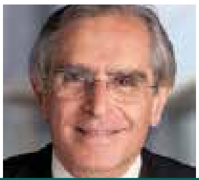
Payment systems evolution: The Platform used HSBC's on-chain payments solution and intends to add new settlement bank/payment networks to enhance liquidity options. Key catalysts here would be a major central bank digital currency or commercialisation of new payment networks. Successful trials such as Banque de France's recent issuance (settled through sovereign digital currency) serve as strong precedents.

Key conclusions and next steps

The digital issuance process validated several downstream efficiencies, but the prospect for upstream efficiencies during the bond issuance process remains high, especially for new issue data, order taking, system integration and inclusion of other participants such as paying agents and legal counsel. Looking ahead, SGX intends to work with third-party platform partners to build an appropriate infrastructure.

Rehan Ahmed is Head of Fixed Income Products & Digital Assets, SGX

Humanitarian funding post-2020 and the role of capital markets



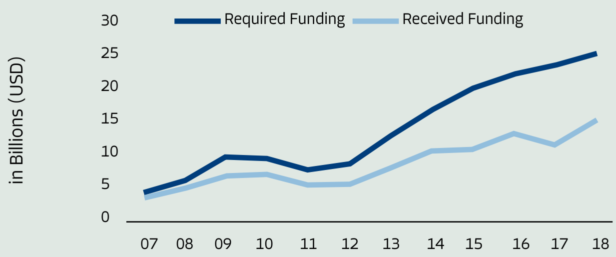

By **Cyrus Ardalan** and **Simon Meldrum**

Demands on humanitarian financing are large and growing, being accentuated by the immense pressure placed by the COVID-19 pandemic. There is great urgency to develop new financial solutions to respond to current and future crises.

Across the globe, the need for humanitarian assistance is rapidly growing. The World Economic Forum provides this sobering and astonishing estimate: five times more funding is needed today compared to a decade ago, and requirements will continue to double to $50 billion per year by 2030[1].

But, even as traditional funding from governments, private donors and public appeals is increasing to address multiple ongoing crises, a wide gap remains between what is *funded* and what is *needed*. In 2018 only 58.5% of requested funding needs were covered[2]. And economic shocks from COVID-19 have further strained public and private budgets, jeopardising humanitarian funding.

Humanitarian Funding Trends



Source: OCHA / Global Humanitarian Overview 2018

In the face of these shifting economic realities, the humanitarian sector must seek to diversify funding by exploring broader sources of financing and capital to address the world's increasing needs. Such diversity requires supplementing donor grant-making through employing a wider range of financial tools and more sophisticated – and potentially transformative – financing models.

We believe that private finance and capital markets can play a vital role in supporting the humanitarian response today— and making sure the world is better prepared for both known and unforeseen needs in the future.

What is Innovative Humanitarian Finance?

Over the last ten years, there has been huge growth in focus and interest in investing in activities addressing environmental, social and governance (ESG) challenges and Sustainable Development Goals (SDGs), including Green and Social Bonds. This has been reflected in the enormous growth in this asset class, which has almost doubled over four years and more than tripled over eight years to $40.5 trillion in 2020[2], meaning that of the roughly $100 trillion in assets under management around 40% have explicit ESG mandates.

Collectively these approaches can unlock private capital and leverage public funding to mobilise new sources of investment for public goods and social, humanitarian or Sustainable Development Goals (SDGs).

In this context, Innovative Finance refers to a range of strategies to make effective use of, and/or generate, financial resources to achieve international development or humanitarian goals. Yet, there is no agreed definition of Innovative Finance[3], which "has come to mean many things to many people"; so it is more meaningful to use the term "Innovative Humanitarian Finance (IHF)".

1. https://www.weforum.org/agenda/2018/01/humanitarian-crises-cost-private-sector-blended-finance/

2. Estimate at June 2020

3. https://www.un.org/esa/ffd/topics/innovative-finance.html

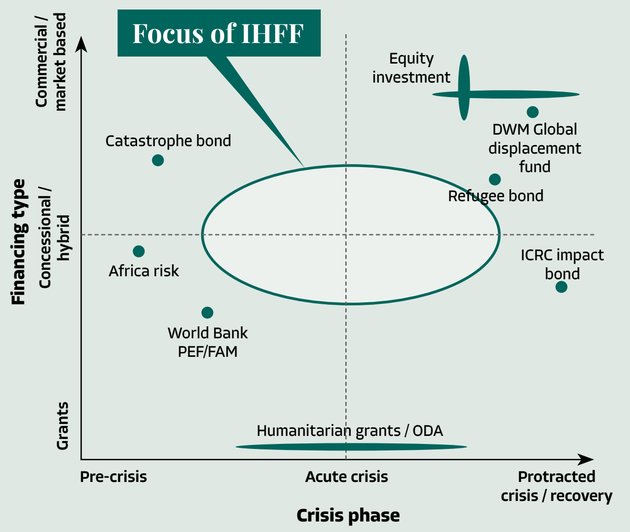
Innovative humanitarian finance instruments

Financing is achieved through a broad range of instruments with varying *risk-return* characteristics. The additional consideration of their *impact* characteristics that ESG instruments have created will drive the greater mobilisation and allocation of financial resources towards positively impactful areas, including the humanitarian response.

Currently humanitarian funding instruments consist of grants from foundations and governments with some blended financing, or a few impact bonds but with very little market-based funding. By creating financing structures that allocate *risk* and *impact* to those best positioned to analyse and manage them, the availability of capital in the humanitarian sector could be dramatically increased. Innovative financing techniques can play a vital role in enabling greater humanitarian assistance.

Towards greater financial resources for humanitarian challenges

Most humanitarian challenges are global by nature and require a large-scale response. But there are almost no humanitarian financing mechanisms of sufficient scale to address these challenges. Impact investing and innovative solutions are typically not structured with scale or public markets in mind.



Source: ODI New financing partnerships for humanitarian impact[4]

IFFIm: a pioneering humanitarian finance instrument

IFFIm, the International Finance Facility for Immunisation, is the largest and most successful innovation in humanitarian finance. IFFIm has raised almost $7 billion in global capital markets to fund Gavi, the Vaccine Alliance and its core programs in vaccines and health system strengthening since its first Vaccine Bond issuance in 2006. The IFFIm model provides a unique bridging tool for meeting immediate financing needs from longer term sources of financing. It can be applied to variety of different purposes.

As Gavi's source for flexible funding, IFFIm helps the Alliance create equal access to new and underused vaccines for children living in the world's poorest countries. Since 2000, Gavi has immunised more than 822 million children and prevented more than 14 million deaths, helping to reduce child mortality by half in 73 developing countries across Africa and Asia.

Impact bonds: an innovative financing tool that lacks scale

Impact bonds (IBs) are payment-by-result (PbR) or outcomes-based contracts, with the inclusion of third-party investors. Impact bonds use private funding from investors to cover the upfront capital required to set up and deliver social, humanitarian or development activity with measurable outcomes. The investor is then repaid by a public or a philanthropic organisation if the outcomes are achieved.[5]

In the ten years since impact bonds first launched, just over $421 million in investment has been raised from 194 impact bonds, contracted in 33 countries across six sectors. However, with just 17 issued in a handful of low-income countries or fragile or conflict-affected contexts, they have not proven to be a viable funding solution for large-scale humanitarian issues.

Impact bonds by numbers: 195 impact bonds in 33 countries

$420.77 million
Total upfront capital

$3.16 million
Average upfront capital

11,640 beneficiaries
Average BUT half serve 500 or fewer

51 months
Average contract duration

Source: Brookings Institution Global Impact Bond Database

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4. https://www.odi.org/publications/11266-new-financing-partnerships-humanitarian-impact

5. Oxford University Go Labs https://golab.bsg.ox.ac.uk/the-basics/impact-bonds/

Insurance-type structures

Instruments such as catastrophe bonds (or insurance-linked securities), Caribbean Catastrophe Risk Insurance Facility (CCRIF)[6] and World Bank's Pandemic Emergency Financing Facility[7] are models that could be refined, improved and developed further to support the provision of emergency and humanitarian assistance. The IFFIm structure could also be adapted to provide similar results.

Building on development finance and blended finance

A/B loans, securitisation and first loss tranches suggest further tools that could be utilised to provide greater financial resources for various humanitarian challenges. Combining these instruments with blended finance models and development finance techniques suggest potential innovations in humanitarian financing.

Aligning ESG trends with these tools suggests that new possibilities and alternatives will emerge. These innovative financing tools could serve the greater good at the large scale required, by harnessing capital markets to fund humanitarian assistance or emergencies such as natural disasters or climate-related adaption.

Innovative Humanitarian Financing Forum

The Innovative Humanitarian Financing Forum (IHFF) was founded in March 2020 to bring together representatives of public and private institutions in business, banking, charities and humanitarian organisations to explore how novel financial tools and instruments could expand resources for urgent humanitarian needs, from health emergencies and education to sanitation, hygiene and climate change.

IHFF forms part of a developing ecosystem that is exploring and developing private finance for public goods. Another initiative with the common aim of developing and utilising a markets-based approach to humanitarian and resilience financing is the Humanitarian and Resilience Investing Initiative (HRI). Co-Chaired by WEF, World Bank Group, ICRC, Credit Suisse and the Netherlands, the HRI brings together key humanitarian and development actors and representatives from the investor and corporate communities.

The IHFF complements and supports HRI's broad scope and long-time ambitions by acting as a forum and community of practice, bringing together industry experts and representatives in a cross-sector platform. This forum and HRI will be working in a cohesive and aligned relationship going forward.

How to get involved

If you are interested in learning more, attending or participating in future IHF forums, please contact:

Carlo Piot (cpiot-external-consultant@iffim.org) or Thalia Chin (ThaliaChin@redcross.org.uk)

Cyrus Ardalan is Chair of IFFIm's Board of Directors and Non-Executive Director and Chairman of Citigroup Global Markets Ltd. He is a former Chair of ICMA.

Simon Meldrum is Innovative Finance Specialist at Red Cross, and serves on the Finance and Funding Programming Board of the World Humanitarian Forum.

Cyrus Ardalan and Simon Meldrum are founders and Co-Chairs of the Innovative Humanitarian Financing Forum.

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6. https://www.ccrif.org/

7. https://www.worldbank.org/en/topic/pandemics/brief/pandemic-emergency-financing-facility

Summary of practical initiatives by ICMA

Primary markets

1 *Primary Market Handbook and post-Brexit:* ICMA circulated and published for members and Handbook subscribers on 17 December 2020 updated standard language reflecting the end of the post-Brexit transition period.

2 *MiFID II/R and investor protection*: ICMA followed co-legislator discussions on the Capital Markets Recovery Package in respect of MiFID II/R product governance. ICMA also responded to a UK FCA consultation on minibond restrictions.

3 *Prospectuses:* ICMA responded to the UK call for evidence on the UK Listing Review on 18 December. ICMA primary market members are also considering questions relating to ESG-related disclosure in prospectuses and market practice related to prospectuses for green, social and sustainability bonds. In addition, ICMA is tracking developments related to the proposed amendments to the Prospectus Regulation as part of the EU's Capital Markets Recovery Package.

4 *Bank recovery and resolution:* ICMA published a note on the implications of the end of the post-Brexit transition period for contractual recognition of bail-in in respect of underwriters' liabilities arising under new bond issue and ECP documentation. Together with AFME, ICMA published clauses for contractual recognition of EU and UK bail-in of "other liabilities". ICMA also circulated to primary market members a summary of the consensus of the ICMA Legal & Documentation Committee on the implications of Article 71a of the BRRD for new bond issue and ECP programme documentation and updated the ICMA Agreement Among Managers version 1 and version 2 to include relevant recognition of bail-in clauses for the end of the post-Brexit transition period.

5 *Book updates:* Following Primary Market Handbook publication of a basis for book updates in the European context, ICMA published an Asian equivalent on 17 December.

6 *New issue processes:* ICMA is intending to respond to a Hong Kong Securities and Futures Commission consultation on its potential code on bookbuilding and placing. ICMA has also been working to help underwriters to transition to a new method for recording allocation justifications in the context of MiFID II/R.

7 *Post-trade:* ICMA is working on the primary market implications of various emerging post-trade initiatives, including: the ECB AMI-SeCo Collateral Management Harmonisation Task Force consultation on corporate action harmonisation; ECB Debt Issuance Market Contact Group (DIMCG) deliberations; and reforms to the ICSD syndicated closing process following CSDR implementation.

8 *Primary Market Forum:* ICMA's Primary Market Forum took place virtually on 13 October. Speakers from Europe and Asia Pacific addressed issues such as sustainable finance; the actual and expected impact of COVID-19; key issues leading up to, and following, the end of the post-Brexit transition period; whether the market is ready for a smooth transition away from LIBOR towards risk-free rates; and other regulatory and market practice developments and dynamics affecting the global capital markets.

9 *Primary markets technology directory:* ICMA's directory covers existing and emerging technology solutions in primary markets and was initially launched in December 2018. It is regularly reviewed and the latest update was published at the beginning of October 2020. The aim is to help inform ICMA members and thereby create greater transparency. The directory is available on ICMA's website.

Secondary markets

10 *MiFID II/R responses to ESMA:* ICMA's MiFID II/R Working Group has responded to two ESMA consultations: *Obligations to Report Transactions and Reference Data;* and *Functioning of Organised Trading Facilities (OTFs).* The latter covered a much wider scope than OTFs, including the potential forced authorisation of software and technology providers as trading venues: eg information networks.

11 *CSDR mandatory buy-ins:* ICMA has written to the European Commission and ESMA outlining industry concerns relating to timely implementation of the CSDR mandatory buy-in provisions. The letter highlights the ongoing lack of regulatory clarification required by the industry to facilitate successful implementation, as well as asking the authorities to review the design and application of the buy-in framework in the light of recent market events. The Commission's CSDR review may provide an opportunity to make changes to the CSDR mandatory buy-in provisions ahead of implementation in February 2022.

12 *CSDR cash compensation:* A briefing note outlining the deficiencies identified in the CSDR provisions for cash compensation in the case of bond markets, as well as highlighting some of the potential market solutions under discussion, including the significant challenges associated with these, has been produced in conjunction with the ICMA dedicated CSDR Cash Compensation Workstream, part of ICMA's CSDR Settlement Discipline Working Group.

13 *CSDR buy-in agents*: ICMA has prepared a briefing note outlining the implementation challenges stemming from the CSDR requirement to appoint a buy-in agent at the start of the buy-in process. The concern is that there will not be an adequately developed market structure to support the buy-in process following go-live.

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

15 *Consolidated tape for EU bond markets:* ICMA has published a report into considerations surrounding the establishment of an EU consolidated tape for bond markets. This report was prepared in response to a request from DG FISMA in the European Commission for a bespoke study assessing the feasibility of implementing a consolidated tape for EU post-trade raw bond data.

16 *Transparency and liquidity in the European bond markets*: ICMA has finalised a discussion paper that explores the interaction between bond market transparency and liquidity, which builds on recent work undertaken by the SMPC and the MIFID II/R Working Group.

17 *ICMA Secondary Markets Newsletter:* ICMA has launched a new Secondary Markets Newsletter which provides a quick summary of ICMA's current initiatives and workstreams, pertinent news and regulatory updates affecting the secondary bond markets. It is published on a bi-monthly basis.

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

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

20 *The internationalisation of the China corporate bond market:* ICMA is drafting a report that looks at the growth and development of China's onshore and offshore corporate bond markets.

Repo and collateral markets

21 *ERCC Guide to Best Practice:* On 24 September, ICMA published an updated version of the European Repo and Collateral Council (ERCC) *Guide to Best Practice in the European Repo Market*. The Guide had last been updated in December 2018.

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

23 *Updated version of ICMA's SFTR recommendations:* On 29 October, ICMA's ERCC published the fifth edition of the ICMA *Recommendations for Reporting under SFTR*. This detailed ICMA guide has been developed by the ERCC's SFTR Task Force to help members interpret the regulatory reporting framework specified by ESMA and to set out detailed complementary best practice recommendations which provide additional clarity and address ambiguities in the official guidance.

24 *SFTR buy-side reporting go-live and follow-up:* On 12 October, the buy side successfully started reporting under SFTR. ICMA continues to maintain a log of the key reporting issues encountered by firms which has been shared with ESMA and some NCAs.

25 *SFTR public data:* All trade repositories (TRs) authorised under SFTR are required to publish, on a weekly basis, summary statistics from the previous reporting week. ICMA collects this data from the TRs, consolidates it and publishes the information in an aggregated and tabulated form on the ICMA website. The SFTR public data complements existing ICMA publications on repo, such as the semi-annual European repo survey.

26 *ESMA consultation on MiFIR transaction reporting:* As part of the broader ICMA response, the ERCC submitted some repo-specific comments, in particular requesting ESMA to remove all SFTs from the scope of MiFIR transaction reporting. SFTs with EU central banks are currently reportable under MiFIR as they are exempt from SFTR.

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

28 *Intraday liquidity:* The ERCC Operations Group is actively looking at the challenges around intraday liquidity management and is working on concrete recommendations and best practices to address these. The work is closely coordinated with the relevant ECB market infrastructure groups, including the CMH-TF.

29 *CDM for repos and bonds:* ICMA is cooperating with ISDA and Regnosys to extend the development of the Common Domain Model (CDM) to include repo and, by extension, outright bond transactions. ICMA is putting in place an appropriate governance structure to manage this project in light of its complexity and involvement of various stakeholders. Background information, including supporting materials from workshops and a link to a webinar can be found on ICMA's website.

30 *FinTech mapping directory for repo and cash bonds:* ICMA has conducted a review of the directory, which currently lists over 160 solutions across 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation and allocation, and reconciliations, but also ancillary areas such as static data and SSI, workflow and communication and KYC onboarding. The latest version of the directory was published in July and is available on ICMA's website.

31 *Repo trading technology directory:* In light of increasing electronification of repo markets, ICMA has conducted a mapping exercise of electronic trading platforms. In its latest revision, the scope has been extended to include all technology solutions for repo trading such as order management systems. The directory is intended to help market participants understand what execution venues and other technology solutions are available for repo trading, product scope, as well as differences in trading protocols, clearing and collateral configurations. The directory is available on ICMA's website.

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

33 *The European commercial paper market reimagined*: On 4 November, ICMA held a cross-industry workshop focused on how the European commercial paper market performed during the COVID-19 crisis and what regulatory and market initiatives could improve market efficiency, liquidity, and resilience. Future workshops are planned, with the intention of formulating concrete recommendations and potential engagement with regulators.

34 *ESG and repo & collateral*: ICMA is exploring the potential for ESG considerations from the perspective of the repo and collateral markets. An ERCC discussion paper is projected for early 2021.

35 *ERCC Newsletter:* In November, ICMA launched a new monthly Repo and Collateral Newsletter with updates on the key initiatives and workstreams undertaken by the ERCC as well as other relevant repo market developments.

36 *ERCC virtual AGM:* On 7 October, the ERCC held its Annual General Meeting. The virtual (live-streamed) event was supported by Equilend, and covered a broad range of relevant topics, including the latest repo market trends, important regulatory developments and relevant legal updates.

Sustainable finance

37 *European Commission's Platform on Sustainable Finance:* On 1 October 2020, ICMA was selected by the European Commission to be one of the 50 members of the Platform on Sustainable Finance. As background, on 18 June 2020, the European Commission had launched a call for applications for its newly established Platform on Sustainable Finance that will take over from the preceding TEG, where ICMA has been an active member. The Platform will be an advisory body composed of members from the private and public sector. Its main mandate will be to assist the EC in the further development of the EU Taxonomy. ICMA is represented on the Platform by Nicholas Pfaff and Simone Utermarck.

38 *EU GBS consultation*: ICMA worked on the EC consultation on the EU Green Bond Standard (deadline 2 October 2020). The response was submitted primarily on behalf of the GBP SBP Executive Committee, but it also included input from the SFC channelling comments from ICMA's other key constituencies. ICMA's response focused especially on the need for flexibility regarding alignment with the EU Taxonomy, in particular with the "do no significant harm" principle and/or minimum safeguards. It also underlined the grandfathering issues arising from the periodic review of the Taxonomy's technical criteria.

39 *Consultation on the two delegated Acts on the technical criteria for environmental objectives climate change mitigation and climate change adaptation (deadline 18 December 2020)*: ICMA has responded to this consultation mainly on behalf of the GBP Executive Committee with input from the Sustainable Finance Committee (SFC). Our response concentrates on usability for issuers for criteria that are most relevant to the green bond market such as those for energy efficiency for buildings, as well as "do no significant harm" challenges relating to climate change adaptation.

Asset management

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

41 *AMIC Sustainable Finance Working Group:* On 23 October, the AMIC held a virtual panel discussion on *Sustainable Finance: Taking Stock of Regulatory Developments, Market Trends and Investors' Needs.*

42 *AMIC response to ESMA consultation on Article 8 of the Taxonomy Regulation:* The AMIC Sustainable Finance Working Group submitted on 4 December its response to the ESMA consultation on the implementation of Article 8 of the Taxonomy Regulation, which requires large, listed companies in the scope of the NFRD (including listed asset managers) to report on the extent to which their activities are sustainable.

43 *AMIC response to the Commission consultation on an EU Ecolabel:* The AMIC Sustainable Finance Working Group submitted on 11 December its response to the European Commission consultation on an optional EU Ecolabel for financial products. This is mostly relevant for retail investment funds.

44 *AMIC Risk Management Working Group paper on AIFMD:* the AMIC issued a paper ahead of the AIFMD review consultation and in reaction to an ESMA letter published in August. The AMIC paper argued that the current framework has proven to be fit for purpose in the light of the COVID-19 crisis. The AMIC is now preparing responses to the consultations on the AIFMD review and the ELTIF Regulation review.

FinTech in capital markets

45 *FinTech Advisory Committee (FinAC):* ICMA's FinAC held its fifth and sixth meetings on 28 September and 19 November respectively, bringing together front office, middle/back office, legal and technology expertise across ICMA's core areas. On the agenda were trends and new initiatives from a legal perspective, reporting in capital markets, as well as an outlook on the future of capital markets, notably the Utility Settlement Coin (USC) and Central Bank Digital Currencies (CBDC), and digital debt securities in the context of the German draft law for the issuance of electronic securities. The future composition of the FinAC was also discussed to ensure engagement is consistent across ICMA constituencies and the committee has the right level of expertise.

46 *ECB FinTech Task Force:* ICMA, through the ERCC Ops Group, continues to be represented on the ECB's FinTech Task Force, a sub-group of the AMI-Pay and AMI-SeCo. ICMA contributes, for example, to the mapping exercise of DLT solutions, as well as the report on tokenisation of securities in a DLT environment.

47 *Bank of England Data Collection Review Wholesale Working Group:* ICMA participated in the Bank of England's Data Collection Review Wholesale Working Group. The purpose is to contribute to the transformation plan for data collection from the UK financial sector over a 5-10 year horizon. The third and last meeting was held on 22 October to select use cases for the transformation plan, which is due to be published by the Bank of England in early 2021.

48 *IOSCO FinTech Network*: ICMA continues to participate in the IOSCO FinTech Network. The latest call was held on 24 November and included an update on the network's Steering Group call, notably members' experiences during the COVID-19 pandemic, future projects in relation to stablecoins and decentralised finance, and members' updates, eg on the work of the Global Financial Innovation Network (GFIN) led by the FCA.

49 *ICMA virtual FinTech Forum:* ICMA held its FinTech Forum virtually on 26 November. The event featured a keynote by the ECB on a digital euro, opportunities and challenges, as well as a panel discussion on bond markets against the backdrop of COVID-19: standardisation, innovation and tokenisation. Over 260 delegates attended the event.

50 *ICMA virtual roundtable on FinTech and sustainable bond markets:* ICMA held an invitation-only roundtable on 2 December. The event brought together a group of selected market stakeholders representative of ICMA's broad membership, including issuers, investors, underwriters, and data providers. The objective was to gain perspectives on how technology can be leveraged to further sustainability in bond markets, explore key trends and drivers, but also challenges and opportunities, and to publish the findings in the ICMA Quarterly Report (see the Features section).

51 *ICMA virtual roundtable on data standards in primary markets:* ICMA held an invitation-only roundtable on 7 December, bringing together relevant vendor firms, representatives from ICMA's primary market constituencies as well as ICMA's Market Infrastructure Advisory Group (MIAG). The purpose of the roundtable was to identify obstacles to STP and gaps in terms of data standards, explore the need for harmonization, and discuss to what extent ICMA templates can be leveraged.

52 *DLT regulatory directory:* ICMA has updated its DLT regulatory directory with several new regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory was initially published in December 2019 and seeks to provide a non-exhaustive overview of DLT regulatory guidance, legislative initiatives, as well as related strategy papers and publications in selected jurisdictions across Europe, North America, and Asia-Pacific.

53 *Joint trade association letter:* ICMA, along with ISDA and other trade associations have jointly submitted a letter to policy makers asserting their commitment to defining and promoting the development of a digital future for financial markets. The letter sets out a series of principles and objectives across three core areas – standardization, digitization and distribution – in order to increase efficiencies, reduce complexity and lower costs.

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

Transition to risk-free rates

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

56 *Tough legacy proposals:* ICMA has engaged with various official sector contacts and members in relation to the "tough legacy" proposals put forward by authorities in the US, the EU and the UK.

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

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

59 *Joint trade association publication on BMR third country regime:* ICMA joined a joint trade association publication supporting the extension of the third country benchmark regime under the BMR until the end of 2025.

Capital Markets Union

60 ICMA published its *Preliminary Thoughts on the new Capital Markets Union Action Plan* on 1 October. The response addressed, among other things, aspects from primary and secondary markets, repo, sustainable finance and FinTech.

61 ICMA's Regulatory Policy Committee held a meeting with Markus Ferber, Member of the European Parliament and rapporteur for the MiFID II/R "quick fix" file. The meeting took place on a trial basis and should pave the way for further meetings with MEPs and other relevant authorities.

Other meetings with central banks and regulators

62 *European Commission/ICMA Regulatory Policy Committee:* Tilman Lueder, DG FISMA, joined the virtual meeting on 15 December for a discussion with members.

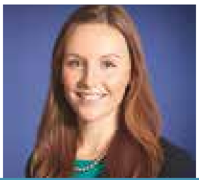
63 *German Ministry of Finance/ICMA Secondary Market Practices Committee:* A representative of the German Ministry of Finance joined a virtual meeting on 15 September.

64 *ECB/ICMA:* ICMA, together with Board members and chairs of its committees, held a meeting with senior ECB officials on financial stability and monetary operations on 10 November.

65 *Other official groups in Europe:* ICMA continues to be represented, through Martin Scheck, on the ECB Bond Market Contact Group and on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Platform on Sustainable Finance; through Lee Goss on the ECB Debt Issuance Market Contact Group (DIMCG); through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Committee; and through Gabriel Callsen on the ECB AMI-Pay AMI-SeCo Joint Task Force on Innovation and FinTech (FinTech-TF).

66 *ASEAN Capital Market Forum (ACMF) /ICMA:* ICMA co-organised an event with ACMF on 21 October on regulatory initiatives to promote sustainable finance in ASEAN. Speakers included representatives from Monetary Authority of Singapore, Securities Commission Malaysia, Securities and Exchange Commission Philippines, Securities Commission Vietnam, and Asian Development Bank.

Primary Markets


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

The ICMA Corporate and Financial Institution Issuer Fora in 2020

2020 was a very different year all round for all our committees, not least for the ICMA Corporate Issuer Forum (CIF) and the Financial Institution Issuer Forum (FIIF). More accustomed to physical meetings in the ICMA Boardroom, the CIF and the FIIF nonetheless moved seamlessly to online platforms. With technology enabling greater outreach, membership and participation of both the CIF and the FIIF increased in 2020 with new issuers onboarding, and re-engagement of others for whom foreign travel may have been a hindrance.

The year started for both the CIF and the FIIF with an in-depth discussion on sustainability disclosure – a theme which will continue for many issuers over the foreseeable future. With different requirements emerging for ESG-related disclosures, and disclosures being defined in a way that might not fit all contexts, different levels of disclosures for regulators and for the market might result. There is also considered to be a poor understanding of linkage between purpose and liability in terms of where the disclosures are made – prospectuses, annual reports, website disclosures and those falling outside of any of these sources attract different level of liabilities and risks, which those designing the disclosure are not taking into account. The CIF were able to express these concerns in their responses to the EC consultations on the Renewed Sustainable Finance Strategy, and the Non-Financial Reporting Directive.

On the policy side for the FIIF, given the perceived global threat that climate change poses to financial stability, central banks have outlined various policy responses that they would like to occur at Basel level: integration of climate scenarios into stress tests, mandatory TCFD-aligned disclosure, green supporting factors or brown penalizing factors, systematic disclosure for banks, and all in alignment with punchy targets, such as UK decarbonisation by 2050.

The ICMA Sustainable Finance team have kept pace with the myriad fast-moving developments in 2020, from policy inputs to the development of the Sustainability-Linked Bond Task Force (SLB Task Force) and Climate Transition Finance Task Force, which led to some significant outputs later in the year: the Sustainability-Linked Bond Principles, and the Climate Transition Finance Guidelines, respectively. Sustainability-Linked Bonds are to be accepted by the ECB as collateral from January 2021, but notwithstanding this progress, both the CIF and the FIIF explored some of the other challenges remaining for issuers, such as the regulatory impact and hedging issues of certain coupon structural aspects (step-up/step-down) and any potential benefits to incentivise more demand from the buy side. These issues and others are expected to be addressed in a workshop in early 2021, drawing upon the experience of Sustainability-Linked Bond issuers (including Novartis, who also recorded a podcast on the subject) and the SLB Task Force. More generally, with sustainability now fully embedding itself in the work of ICMA, it will likely feature on the agenda of all CIF and FIIF meetings in the future.

There were some technical resolution and recovery issues addressed within the FIIF in 2020. The Bank of England has been engaging with UK banks as part of the Resolvability Assessment Framework (RAF) process regarding how banks would actually go about implementing a bail-in, the position of holders of Tier 2 bonds which are issued out of a subsidiary and the mechanism a bank would use to write down internal MREL, which is particularly problematic for a bank group with subsidiaries in different countries.

A lot of progress was made on the transition to risk-free rates in 2020, and with ICMA being heavily involved in the Sterling, Euro and Swiss Franc Risk-Free Rate Working Groups, we were able to keep CIF and FIIF members apprised appropriately. Many of the FIIF members have been quick to adopt SONIA (the risk-free rate alternative to GBP LIBOR) for new bond transactions, while assessing their legacy stock and derivatives in conjunction with regulatory implications in terms of capital rules and the Securitisation Regulation. The CIF members' focus has been more on their range of legacy stock, not just in the form of bonds, but also in loans, commercial contracts and inter-company financings, and alignment of associated derivatives.

Of course, regulatory and market responses to COVID-19 were a key focus for the CIF and the FIIF in 2020, including COVID-19 disclosures and risk factors, effects on "no material adverse change" and "no significant change" statements, auditor considerations, virtual signings and other challenges associated with transaction execution. Members of the FIIF also shared observations about their working practices during the COVID-19 lockdown, from systems, operations and compliance to the challenges of galvanising teams working in remote conditions.

All in all, a busy year for the issuer fora with plenty more activity expected in 2021.

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Primary market documentation: post-Brexit updates

On 17 December 2020, ICMA circulated and published for members and ICMA Primary Market Handbook subscribers suggested updated versions of various aspects of its standard primary market documentation, namely:

- selling restrictions (EEA and UK) for programmes;
- product governance and PRIIPs Regulation language and legends (including public offer legend) for programmes;
- UK retail cascade language;
- stabilisation materials; and
- a note on Article 29(2) of the Benchmarks Regulation (EEA and UK).

Also, on 13 November, ICMA published:

- a note on Article 55 of the BRRD and EU and UK underwriter liabilities in new bond issues and ECP dealer liabilities post-Brexit transition period; and
- updated AFME/ICMA recognition of EU and UK bail-in clauses for "other liabilities".

ICMA is very grateful to the teams at Allen & Overy, Clifford Chance and Linklaters for their assistance in preparing and reviewing the updated documentation, and to members of its primary market committees and working groups for their input.

General approach

Rather than try to amend ICMA's standard language for the EEA regulatory regime so that it covered both the EEA regulatory regime and the new post-Brexit transition period UK regulatory regime, the documents noted above envisage that: (a) the existing ICMA EEA standard language would be left broadly unchanged, subject to the removal of any references to the UK that were added to cater for the post-Brexit transition period; and (b) additional language will be included in deal documentation to reflect the UK regulatory versions of the relevant legislation. This avoids the need to try to merge two distinct legal regimes into one set of language, which could result in complicated drafting changes that may require unpicking in the future if the EEA and UK regulatory regimes diverge.

Post-Brexit drawdowns under programmes updated pre-Brexit

It is understood that market participants may feel it is possible to proceed with one or more drawdowns under a base prospectus after the end of the Brexit transition period without supplementing or updating it for regulatory-related changes. Subject to differing views from NCAs, market participants may conclude, especially in the context of wholesale base prospectuses, that a supplement is not required (or even that the supplement route is not appropriate) given the technical nature of such changes (eg updating for legislative and regulatory references) and, in the case of selling restrictions, the existence of a typical "general" selling restriction. Market participants may also feel comfortable including similar contractual updates within the subscription agreement/dealer confirmation for a trade. Market participants would of course need to consider the supplement question on a case-by-case basis and may conclude in some instances that changes to a base prospectus are material in relation to a particular issuer and that a supplement is therefore required.

Status of the documents and next steps

As with all ICMA suggested language, members should consider how the suggested updated language fits with the specific document in which it will be used and make appropriate adjustments where necessary. In particular, different firms may take slightly different approaches to the precise wording used in retail cascade legends.

Once market practice in relation to the use of this language has bedded down (and any further regulatory developments that may unfold during the course of next year become clear), ICMA plans to review the language and then include it in the ICMA Primary Market Handbook. In the meantime, the documents are available to ICMA members and Handbook subscribers on the Other ICMA primary market documentation webpage.

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ICMA Primary Market Handbook updates

On 17 December 2020, ICMA published an amended Appendix A1 *Agreement Among Managers (Versions 1 and 2)* in the ICMA Primary Market Handbook. This was to update the contractual recognition of bail-in powers for the end of the post-Brexit transition period.

At the same time, ICMA published amended item 5.13A and new item 5.13B under the *Book disclosure* heading in Chapter 5 of the Handbook. The amendment to item 5.13A was to clarify that: (i) item 5.13A anticipated for use in a Europe context (as different approaches might be appropriate in some regional market segments with differing local conditions/dynamics); (ii) item 5.13A relates to the specified bookrunner orders to the extent that there are any and that they are material in aggregate; and (iii) the orders referenced in 5.13A(f) are those of third-party investors. The insertion of item 5.13B was to provide a public basis for book status disclosure similar to item 5.13A but anticipated for use in an Asia context – with the difference being that the inclusion of bookrunner internal treasury/balance sheet management orders is on a segregated (rather than an unsegregated) basis.

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The CMRP: MiFID II/R product governance

Further to coverage in the 2020 Fourth Quarter edition of this Quarterly Report (on pages 37-38), the European Council, Parliament and Commission reached a consensus in Capital Markets Recovery Package (CMRP) trilogue on amendments to MiFID, including to the scope of the product governance regime. The Council published a *Confirmation of the Final Compromise Text* on 15 December 2020.

The trilogue process reconciled the Council's 19 October common position and the Parliament's 25 November amendments, as well as the Commission's initial 27 July proposal. The amendments to the scope of MiFID's product governance regime are set out in Article 1(2)(b) (inserting a new make-whole clause definition into MiFID Article 4(1)) and in Article 1(3) (inserting a new Article 16a into MiFID), and also commented in Recital 4. (Article 2a also provides for a review of product governance by 31 July 2021.)

These amendments exclude from the scope of the product governance regime (technically the exclusion is from the requirements of MiFID Articles 16(3)#2-#5 and 24(2)) both:

- bonds (not just "corporate" bonds) with no other embedded derivative than a make-whole clause (as defined); and
- financial instruments marketed or distributed exclusively to eligible counterparties.

The exclusion is narrower than some of ICMA's previous exclusion suggestions:

- instruments that would be non-complex but for the inclusion of terms that do not adversely affect the expected return (see the 2020 Fourth Quarter edition of this Quarterly Report on page 37) or even all bonds (see the 2020 Third Quarter edition of this Quarterly Report on page 37);
- professional investors, including under the existing technical categories such as denominations of €100,000 or more, etc (see the 2020 Third Quarter edition of this Quarterly Report on page 38).

The exclusion is nonetheless significant (as well as being wider than the Commission's original proposal to exclude just corporate bonds having a make-whole clause), though industry will still need to digest the final drafting in terms of working out the full implications. In any case, however, the exclusion's impact as an alleviation will be limited in the absence of the scope of the PRIIPs regime being similarly narrowed.

The Parliament and the Council will now be called upon to adopt the amendments formally without further discussion, possibly in February 2021 (after the usual legal-linguistic revision of the text). EU Member States would be required to implement the relevant amendments into national law (MiFID being a Directive and not a Regulation) within nine months from their entry into force (on the 20th day following *Official Journal* publication).

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FCA retail protection: speculative illiquid securities

In December 2020, the UK FCA published Policy Statement PS20/15 *High-Risk Investments: Marketing Speculative Illiquid Securities (including Speculative Mini-Bonds) to Retail Investors*, including its finalised rules in this respect (FCA 2020/74: *Conduct of Business (Speculative Illiquid Securities) Instrument 2020*).

This followed ICMA's 1 October 2020 response to the FCA's preceding consultation reported in the 2020 Fourth Quarter edition of this Quarterly Report (on page 38).

In the Policy Statement, the FCA addressed the scope issues that ICMA raised relating to the initially proposed rules:

(a) distinguishing the "syndicated/flow bond markets" and clarifying the meaning of "not regularly traded" – FCA kept the rule drafting unchanged, noting (i) the existence of any market makers as a consideration in the determination of whether a bond is regularly traded; and (ii) the potential for specific waivers where appropriate;

(b) ensuring consistency in relation to securities "expected to be admitted" to trading – FCA amended the rule drafting to address this issue;

(c) exempting charity/municipal passthrough funding – FCA kept the rule drafting unchanged, noting (i) such cases may still involve high risk and (ii) the potential for specific waivers where appropriate;

(d) clarifying incidental/provisional cash "carry" as unaffected – FCA amended the rule drafting to address this issue; and

(e) avoiding exchange rate risk – FCA kept the rule drafting broadly unchanged, noting the high value exemption threshold is defined as £100,000 in sterling (or its equivalent) even though this differs from the Prospectus Regulation's €100,000 threshold in euro.

Distinctly, ICMA did not respond to the FCA's September 2020 call for input, *The Consumer Investments Market*, given the many other calls on industry during the fourth quarter of 2020.

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The ICSDs' new syndicated closing process

In November 2020 and after initial informal discussions with ICMA, the two international central securities depositories (Euroclear and Clearstream) published a paper, *Revision of the Delivery Versus Payment (DVP) Syndicated New Issues process within the ICSDs – Market Proposal*.

In essence, the new process presented in the paper moves closing of a bond issue from being a manual process upstream from the ICSDs (the issuer's issuing & paying agent releasing a global bond to the ICSDs' common depository in exchange for an ICSD commitment to pay the issuer based on the credit of the underwriting syndicate) to being a digital one within the ICSDs' books: the issuer's issuing & paying agent delivers the global bond to the ICSDs' common depository for creation in a "commissionaire account" (with the issuer as ultimate third party beneficiary); closing occurs on a DVP "all or nothing" basis between that account and the underwriting syndicate (who in turn settle with ICSD accounts for the initial investors), with the resulting cash proceeds in the commissionaire account being remitted to the issuer's order. Under both the new and existing processes the underwriting syndicate is responsible to the issuer for timely payment.

The ICSDs' published paper is intended primarily to gather any relevant feedback (ideally by mid-January) from ICSD participant underwriters, who will primarily be affected by the change. They are notably anticipated to face an increased administrative burden (taking on the role of instructing payments to the issuer's order which is currently undertaken by the common depository), but also a reduced collateral burden (relating just to any investor shortfall rather than to the entirety of the new issue).

In light of any material feedback gathered by the ICSDs, ICMA intends to suggest consequential amendments for new issue documentation in sufficient time ahead of the ICSDs bringing the new process into effect (currently expected to be this summer). It is expected, in the case of debt issuance programmes, that such consequential amendments can be implemented through drawdown documentation and will not need the programmes themselves to be amended.

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FMSB allocation sharing: transparency draft

In December 2020, the FICC Market Standards Board (FMSB) published a transparency draft, *Standard for the Sharing of Investor Allocation Information in the Fixed Income Primary Markets*.

The draft standard states that, in the European new issuance context (but excluding sovereign, supranational and agency transactions), allocations may be shared with designated persons having a valid reason for receiving such information. Trading desks are notably the focus in this respect, in terms of creating a secondary market and/ or hedging risk arising from the issuance. Such sharing is however provided to be subject to blanket or transaction-specific opt-outs by issuers and investors.

ICMA will consider submitting comments to the FMSB on the draft standard by the specified deadline of 16 March.

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ICMA response to the UK Listings Review

On 18 December 2020, ICMA responded to the UK Listings Review call for evidence.

The UK Listings Review was launched on 19 November 2020 and is being led by Lord Hill. Although the focus is primarily on UK equity markets, it appears that the review of prospectus-related aspects will consider the rules for both debt and equity markets. ICMA's response related to the UK prospectus and related regulatory regimes as they apply to debt capital markets.

The response highlighted that market participants are familiar with the EEA and onshored UK Prospectus Regulation regimes, and this familiarity means that ICMA members tend not to face significant barriers from a prospectus regulation perspective when they seek to access wholesale debt capital markets. It seems likely that many issuers of wholesale vanilla bonds will wish to continue to access funding on a pan-European basis (ie in both the EU and the UK) going forward. It is therefore important that any changes that are made to the UK prospectus regime are made in such a way that preserves the smooth functioning of the pan-European wholesale market for new bond issues.

While the current regime broadly works in practice for new issues of "wholesale" vanilla bonds, there are some areas that could be improved without damaging the smooth functioning of that market. These include:

- facilitating the use of periodic disclosures for the purposes of new issue disclosure through incorporation by reference of "future" financial information;
- allowing supplements to be used to include additional, or amend existing, securities note information in a base prospectus;
- allowing issuers to prepare a supplement to include additional information, voluntarily, which is not "significant" within Article 23 of the UK Prospectus Regulation;
- refining the Article 6 test to ensure that prospectuses only contain the information bond investors need; and
- removing the need for a prospectus for secondary market non-exempt offers.

The response also discussed the concept of developing a suitable regulatory framework for a UK retail bond market, which would require a holistic consideration of the different regulatory regimes in order to ensure that UK retail investors are appropriately protected whilst not imposing regulatory burdens upon issuers that make it unattractive or commercially unviable for them to offer their securities to UK retail investors.

Finally, the response also outlined a number of additional, technical, points that the UK authorities may wish to consider in the context of the UK Prospectus Regulation regime, including:

- the alignment of the availability of UK prospectus and transparency "wholesale" disclosure regimes;
- the alignment of UK Prospectus Regulation and UK Listing Rules exemptions (in particular for bonds issued by charities and social housing associations);
- streamlining of sources of prospectus-related rules and guidance in the UK regulatory framework; and
- ensuring the UK's "equivalence regime" for prospectuses works effectively.

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EEA Prospectus Regulation developments

Capital Markets Recovery Package

As reported in the last edition of this Quarterly Report, the European Commission proposed a package of changes to various aspects of EEA capital markets regulation on 24 July 2020 as part of a "Capital Markets Recovery Package" in the wake of the COVID-19 pandemic. Proposed amendments to the EEA Prospectus Regulation formed one part of that package.

On 11 December, the European Parliament and the Council reached a provisional agreement on the proposed amendments to the Prospectus Regulation, which was welcomed by the European Commission and later endorsed by the Council on 16 December.

As reported in the last edition of this Quarterly Report, the central pillar of the changes is the introduction of a new EU Recovery Prospectus, which is designed to facilitate certain secondary equity issues. The EU Recovery Prospectus will not be available for issuance of debt securities. Certain other targeted amendments will also be made to the EEA Prospectus Regulation, including: (i) changes to the obligations on financial intermediaries to inform investors of certain information related to prospectus supplements and the associated period for withdrawal rights; and (ii) an increase in the threshold for the exemption from the obligation to publish a prospectus for offers of non-equity securities issued in a continued or repeated manner by a credit institution. These proposals are not expected to have a significant impact for ICMA members operating in the wholesale debt space.

One aspect that is likely to be of interest to ICMA members is the inclusion of a new recital related to ESG disclosure. While this will have no immediate, operative effect, the recital states that information on ESG matters by companies has become increasingly relevant for investors and the Commission should, in the context of its next review of the EEA Prospectus Regulation (which is due by 21 July 2022), assess whether it is appropriate to integrate sustainability-related information in the EEA Prospectus Regulation. Issues relating to current market practice for ESG disclosure in prospectuses is a live topic of discussion among ICMA primary market members.

The political agreement also included an amendment to the EEA Transparency Directive (that did not form part of the European Commission's original package) providing Member States with the option to postpone, by one year, the requirement for listed companies to prepare annual financial reports in the European Single Electronic Format for financial years beginning on or after 1 January 2020.

The Parliament and the Council will now be called upon to adopt the amendments formally without further discussion, possibly in February 2021, after the usual legal-linguistic revision of the text.

Machine readable data requirements

Also as reported in the last edition of this Quarterly Report, ICMA understands that NCAs began to introduce new data requirements for issuers on 30 November pursuant to the provisions of Commission Delegated Regulation (EU) 2019/979 that oblige NCAs to provide certain prospectus-related data to ESMA in XML format.

It is understood that different NCAs are taking different approaches to the form in which they require the relevant data to be submitted to them, meaning that the precise impact of this change for issuers and their advisors depends on the approach of the relevant NCA.

The rationale for this change seems to be to allow ESMA to update its Prospectus Register and gather increased data on the Prospectus Regulation-related activity, which could inform EU authorities' work on a further review of the EEA Prospectus Regulation in due course.

From a market perspective, it will be interesting to see whether any improvements to the ESMA Prospectus Register could help to address some of the concerns that have been raised previously by ICMA's buy-side members that finding published prospectuses online is not as straightforward as it could be. For further information on this issue, see the article on page 40-41 of the Q3 2020 edition of the ICMA Quarterly Report.

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Secondary Markets


by **Andy Hill and Elizabeth Callaghan**

ECB's Pandemic Emergency Purchase Programme

In December 2020, the ECB published its fourth bi-monthly breakdown of holdings under its Pandemic Emergency Purchase Programme (PEPP), covering the period from October through November 2020.

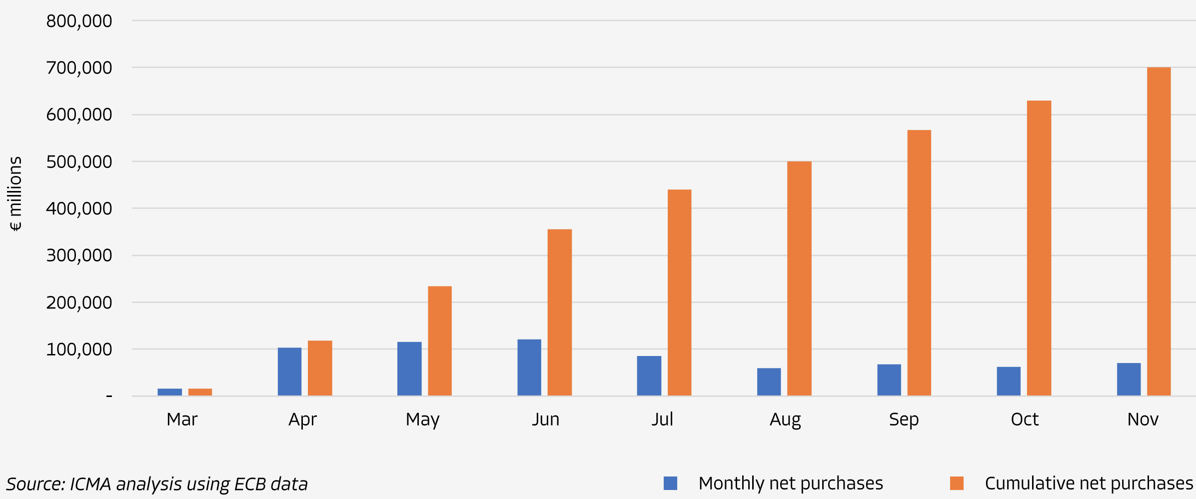
The data shows that the ECB made net purchases of €132.8 billion (book value) of bonds under the PEPP, taking the total-to-date to €700 billion, which is 52% of the total €1,350 billion of purchases targeted under the Programme. This is slightly up on the previous two months (€126.8 billion) but remains at a slower pace than that set between March and July.

Breakdown of cumulative net purchases

Purchases remain heavily skewed toward public sector bonds, with net purchases in the October-November period almost exclusively made up of public sector bonds (€140.2 billion). Net purchases of corporate bonds were marginal (€0.3 billion), while net purchases of commercial paper were negative (-€7.7 billion). In the October-November period there were no purchases of covered bonds. There have yet to be any purchases of asset-backed securities under the PEPP.

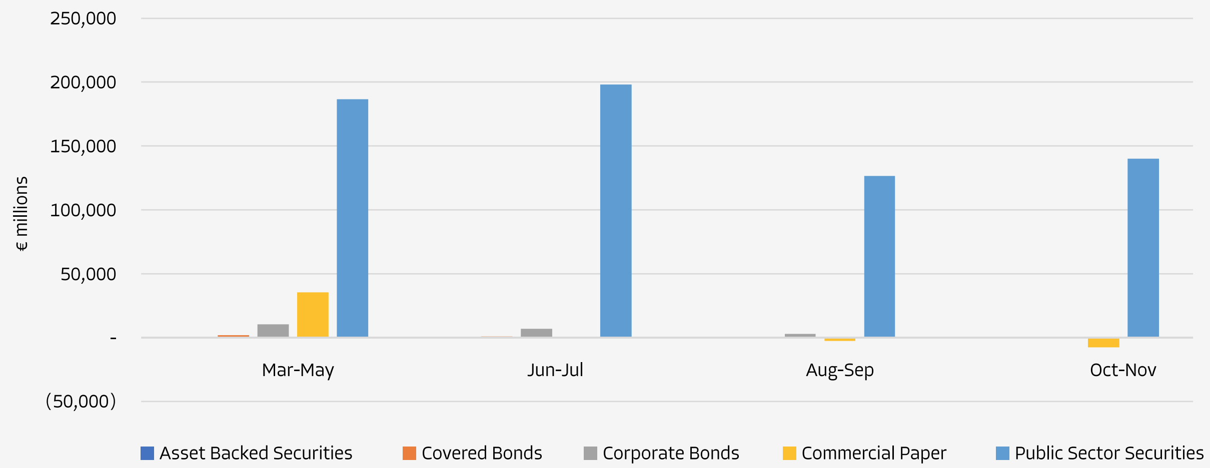
As of the end of November 2020, 93% of total net purchases are in public sector bonds, with 3% in corporate bonds, and 4% in commercial paper.

PEPP Net Monthly Purchases
Total: €700bn



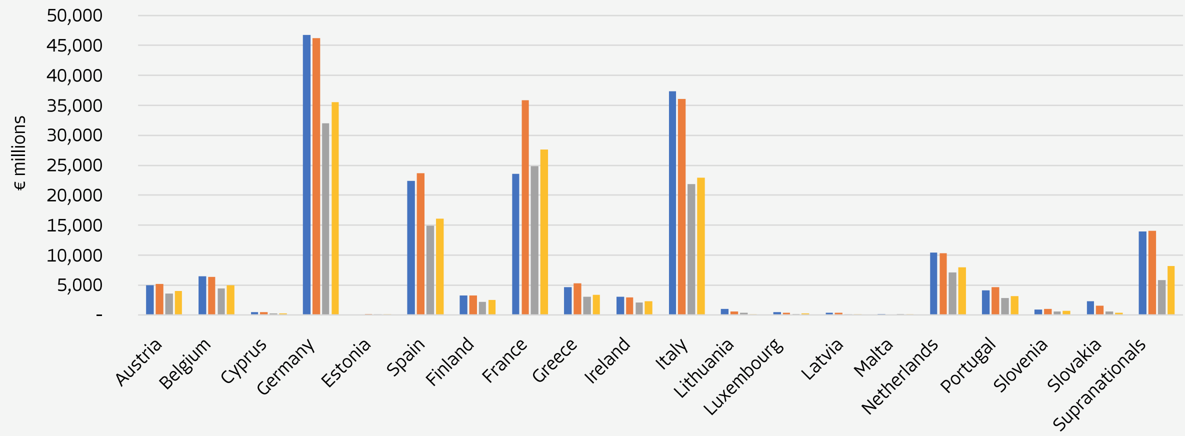
Source: ICMA analysis using ECB data

PEPP Bimonthly Net Purchases by Asset Type
Total: €700bn



Source: ICMA analysis using ECB data

PEPP Public Sector Bimonthly Net Purchases
Total cumulative net purchases: €651.8bn



Source: ICMA analysis using ECB data

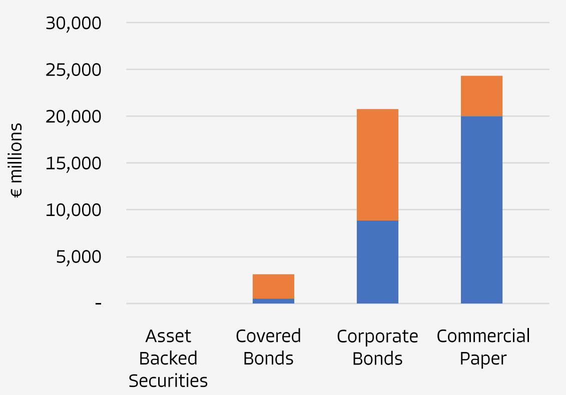
PEPP public bond purchases

Purchases of public sector bonds were €140.2 billion for the period, compared with €126.8 billion for August-September, €198.2 billion for June-July, and €186.6 billion for March-May, taking total cumulative net purchases to €651.8 billion. Purchases remained heavily concentrated in bonds issued by Germany (€35.6 billion), France (€27.6 billion) and Italy (€22.9 billion).

PEPP private sector purchases

Purchases of private sector securities were net negative in the period October-November, with only an addition of €0.3 billion corporate bonds, a net roll-off of -€7.7 billion of commercial paper, no purchases of covered bonds (and still not a single purchase of asset-backed securities). As at the end of November 2020, private sector securities form just 7% of total PEPP holdings.

PEPP Private Sector Holdings (end of November 2020) Total: €48.2bn



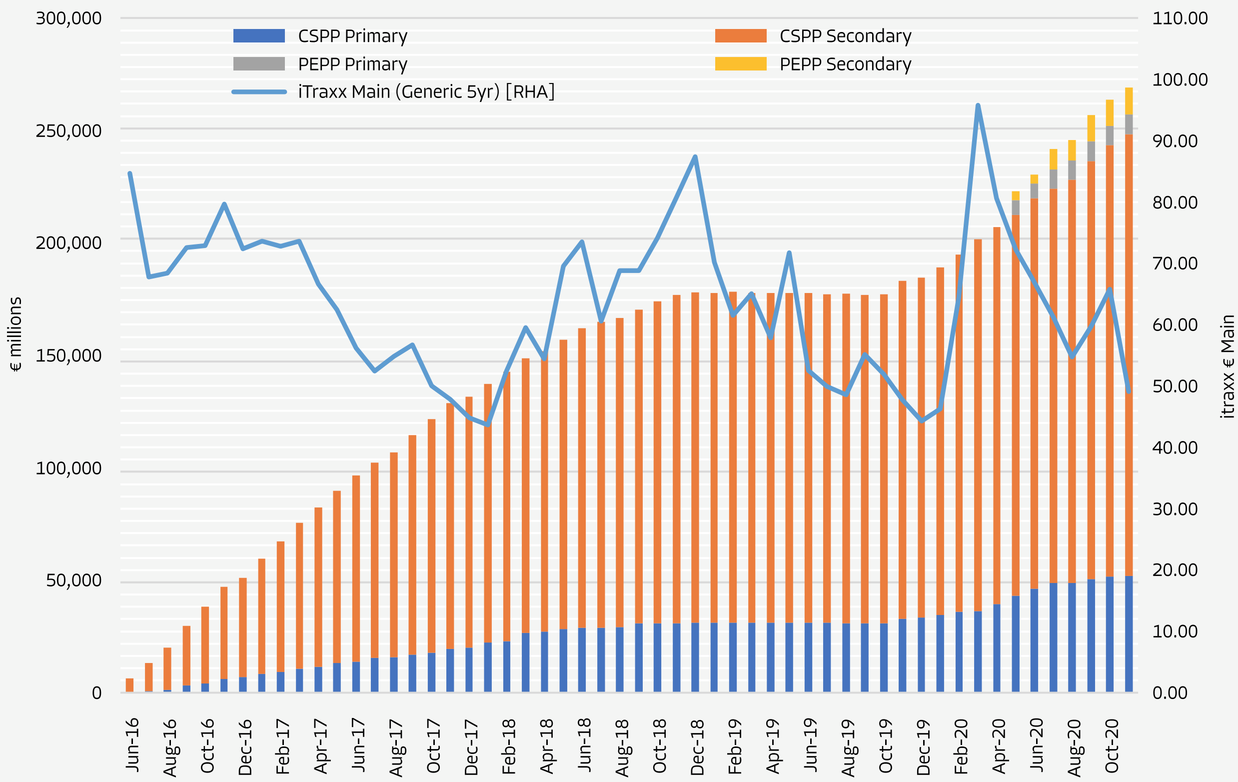
Source: ICMA analysis using ECB data

Corporate Sector Purchase Programme

Purchases under the Corporate Sector Purchase Programme (CSPP) have continued at their regular pace of around €6 billion per month[1] (€7 billion in October and €5 billion in November). This takes total net cumulative purchases under the CSPP to €248.3 billion (of which €51.8 billion, or 21%, are primary market purchases, and €196.5 billion, or 79%, are secondary). Including the €20.8 billion purchases of corporate bonds under the PEPP, this takes the total net cumulative purchases of corporate bonds to €269.1 billion.

Based on Bloomberg data, ICMA estimates a universe of CSPP eligible bonds at the end of November with a nominal value of €1,069 billion. This suggests that 25% of eligible bonds are being held under the purchase programmes. Based on the 70% upper limit for purchases of individual ISINs, this implies an available pool of around €560 billion for further purchases.

CSPP & PEPP Cumlative Corporate Bond Purchases and iTraxx Main



Source: ICMA analysis using ECB and Bloomberg data

1. CSPP purchases have totalled €46 billion from April-November, an average of €5.9 billion per month

More analysis of the recent ECB PEPP data can be found in ICMA's 9 December 2020 briefing note.

Historical updates and related resources can be found on ICMA's Central Bank Corporate Purchases webpage.

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CSDR mandatory buy-ins: a problem for Europe's bond markets

The background

For many years, ICMA has led the industry in voicing concerns about the Settlement Discipline (SD) provisions in the EU's CSD Regulation, specifically the mandatory buy-in regime. Whereas CSDR is post-trade regulation that deals with the prudential, organisational and business standards of central securities depositories, the mandatory buy-in regime is market regulation that imposes a regulatory requirement on trading parties to initiate a buy-in process against their counterparties in the event of a settlement fail.[2] This requirement is not limited to EU regulated investment firms, and is intended to apply to any entity that settles transactions on an EU (I)CSD, regardless of its geographical location or regulatory jurisdiction. The CSDR Settlement Discipline provisions are due to come into force on 1 February 2022.[3]

ICMA and the wider industry have long pointed to the potentially harmful impacts of a mandatory buy-in regime on European bond market liquidity, given that it creates a powerful disincentive for market makers to show offers in securities they do not hold in inventory, as well as significantly increasing the risk of lending securities.[4] Aside from calling into question the rationale of a mandatory buy-in regime, there are deep concerns about the design of the CSDR buy-in mechanism, which deviates significantly from established buy-in frameworks (such as that provided by the ICMA Secondary Market Rules & Recommendations, widely used in the non-cleared bond markets), both structurally and economically.

The CSDR review

In December 2020, the European Commission launched a review of CSDR with a targeted public consultation paper. Importantly from ICMA's perspective, the consultation includes a section on the SD provisions. ICMA views this as an opportunity to effect meaningful change to the mandatory buy-in provisions before the regime is due to come into force. The focus of ICMA's response will be from the perspective of the international bond and repo markets and will be led by its relevant market constituencies[5] with an emphasis on maintaining market efficiency, liquidity and stability.

Consistent with its official position, ICMA will look to support the implementation and refinement of other settlement discipline measures, in particular the framework for cash penalties for settlement fails, but will press the importance of not imposing a mandatory buy-in requirement on the EU bond markets before first undertaking an extensive and robust impact assessment. Far better would be to mandate that EU investment firms have in place contractual buy-in provisions with their counterparties, which would be discretionary, would conform to a set of standard principles, and would allow for markets to develop their own contractual frameworks that are best suited to the underlying market or security type (noting that bond markets and SFTs already have such contractual remedies).

While ICMA will argue that a regulatory framework for buy-ins is sub-optimal, it will also suggest that if this requirement is to remain in the Regulation it should be significantly modified in order to mitigate any potential damage to market functioning.

Should the CSDR mandatory buy-in regime go ahead, whether in its current form or subsequently revised, ICMA will support implementation in the international bond and SFT markets by updating both its Buy-in Rules and the GMRA, providing both a contractual framework and best practice for market participants. However, given the timing of the review, the likely legislative schedule for any revisions to the Regulation, and the current "go live" date of February 2022, it is not quite clear how the industry is going to be prepared in time for implementation, or what exactly the industry should be preparing to implement: something that ICMA also intends to highlight in its response, as well as raise bilaterally with its contacts at ESMA and the European Commission.

ICMA encourages concerned members, in particular buy-side and sell-side traders, to contribute to ICMA's response through participation in its dedicated CSDR-SD Working Group. The deadline for responses to the CSDR review is 2 February 2021.

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2. In the case of bonds, the requirement applies after the settlement of a transaction has failed for seven business days.

3. The SD provisions were originally due to come into force in September 2020.

4. While most SFTs are thought to be out of scope of the buy-in requirement (although the exact scope has not been clarified), lenders of securities will run the risk of being bought-in against any linked transaction in the event that the settlement of the return of their securities fails.

5. The Secondary Market Practices Committee (SMPC), the European Repo and Collateral Committee (ERCC), and the Asset Management and Investors Council (AMIC)

ICMA secondary market deliverables and engagement: 2020 review

2020 was an extraordinary year for the international secondary bond markets, not only in terms of the COVID-19 related market turbulence and ensuing central bank interventions, but also the disruption to how market practitioners operate on a day-to-day basis. Against that backdrop, ICMA's secondary market output and engagement has remained extensive and relevant.

ICMA would like to thank the Co-chairs of the Secondary Market Practices Committee (SMPC) for their stewardship and guidance over the past twelve months, as well as to all the members who have participated in and contributed to the SMPC along with its various related working groups and task forces, including the MiFID II/R Working Group, the Electronic Trading Council, and the CSDR-SD Working Group. Through these fora and workstreams ICMA brings together traders and market structure experts from both the sell side and buy side, as well as relevant market infrastructures, to support the common goal of efficient, liquid, and resilient international secondary bond markets.

Below is a summary of ICMA's main secondary market deliverables and regulatory engagement in 2020.

ICMA secondary markets structure (2020)

Secondary Market Practices Committee (SMPC) (Executive Committee for ICMA's secondary market work) *Co-chairs: David Camara (Goldman Sachs), Yann Couellan (BNP Paribas AM).*

- **MiFID II/R Working Group (MWG)**
  – Various MWG Task Forces & Workstreams (eg) Consolidated Tape TF; MiFID II/R Data Workstream)
- **CSDR-SD Working Group**
  – Various Workstreams (eg Cash Compensation Workstream)
- **Electronic Trading Council (ETC)**
  – ETC Steering Committee
  – Various Task Forces (eg Axe Distribution TF)

ICMA FinTech (cross-cutting workstreams and initiatives).

Reports, papers and events

Q1

- Time to act: ICMA's third study into the state and evolution of the European investment grade corporate bond secondary market

Q2

- COVID-19 and the European investment grade corporate bond secondary market
- EU consolidated tape for bond markets: final report for the European Commission

Q3

- Transparency and Liquidity in the European bond markets
- Bond market transparency directory
- Extension of transparency directory

Ongoing

- Monthly Secondary Market Newsletter
- Updates of COVID-19 market data and commentary
- ICMA bond market liquidity library

Events

- ICMA Secondary Market Forum: secondary bond markets in the wake of the pandemic
- Annual Bwf/ICMA capital markets conference: MiFID II/R: the "quick fix" and beyond

In progress

- The internationalisation of the China corporate bond market
- The Asia corporate bond market [joint study with the Hong Kong Monetary Authority]

MiFID II/R

Q1

- ICMA response to ESMA's consultation paper on the MiFIR report on systematic internalisers in non-equity instruments

Q2

- ICMA response to European Commission MiFID II/R review consultation paper
- ICMA response to ESMA's consultation paper on MiFID II/ MiFIR review report on the transparency regime for non-equity and the trading obligations for derivatives

Q4

- ICMA response to ESMA's MiFIR review report on the obligations to report transactions and reference data

- ICMA response to ESMA's consultation paper on MiFID II/MiFIR review on the functioning of Organised Trading Facilities (OTF)

In progress

- ESMA consultation paper guidelines on the MiFID II/ MiFIR obligations on market data

CSDR-SD

Q1

- Submission to ESMA of industry proposals for: (i) a pass-on mechanism between failing transactions with the same intended settlement date; and (ii) a pass-on mechanism between failing transactions that may have different intended settlement dates

Q2

- ICMA briefing note on cash compensation and bond markets
- Proposed revisions to the ICMA buy-in rules (for consultation)

Q3

- ICMA response to ESMA survey on topics for the CSDR review

In progress

- European Commission CSDR review targeted consultation

Electronic Trading Council

Q4

- Axe distribution best practice standards (overview)
- Electronic trading platform mapping (update)

In progress

- Axe Distribution Best Practice Standards (detail)

Regulatory engagement

Q1

- Co-signed cross-industry letter to the European Commission expressing concerns about CSDR mandatory buy-ins
- Joint buy-side letter with the IA to the European Commission expressing concerns about CSDR mandatory buy-ins
- Joint meeting (with EFAMA) with DG FISMA to discuss concerns about CSDR mandatory buy-ins
- Meeting with FCA to discuss CSDR-SD
- Joint meeting (with AFME) with ESMA to present and discuss CSDR mandatory buy-in pass-on proposal
- European Commission workshop on Consolidated Tape
- Joint trade association letter to the European Commission and ESMA requesting extension of MIFID consultations
- SMPC meeting: joined by AFM to provide input into MiFID II/R review

Q2

- ICMA letter to the European Commission and ESMA outlining concerns about CSDR mandatory buy-ins in light of COVID-19 crisis
- Call with DG FISMA to discuss impact of COVID-19 on secondary bond markets
- Call with IOSCO Secretariat to discuss ICMA report on COVID-19 and the European IG corporate bond secondary market
- Call with ECB, including discussion of impact of COVID-19 on secondary bond markets
- SMPC meeting: joined by ECB to discuss corporate bond purchases under the CSPP and PEPP

Q3

- Workshop with the FCA on bond trading and preparations for post-Brexit
- Call with HM Treasury and FCA to discuss possible UK Settlement Discipline regime
- Call with AFM to discuss MiFID II/R review
- SMPC meeting: joined by German Ministry of Finance to discuss priorities of Council Presidency with respect to bond markets

Q4

- Workshop with FCA on bond market transparency post-Brexit

ICMA is also an active member of the ECB Bond Market Contact Group, the ESMA Securities and Markets Stakeholders Group, and the IOSCO Affiliate Members Consultative Committee, where it actively represents the interests of ICMA's secondary market constituencies.

Any members who are interested in participating in ICMA's various Secondary Market workstreams and initiatives should contact Andy Hill, Secretary to the SMPC, or Liz Callaghan, Secretary to the MWG and ETC.

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F Electronic trading platform directory: updated version

ICMA has updated its mapping of electronic trading platforms (ETPs) available for cash bonds. The directory now includes 49 technology solutions, up from 41 in the November 2019 publication.

The latest review brings an increased coverage to order and execution management systems (OMS/EMS), with 11 solutions now listed to assist with the aggregation of records, quotes and trade orders. Clarity on the regulatory status of trading/execution venues is particularly important in the context of the potential impact of Brexit on market fragmentation. The mapping includes the regulatory status of each provider where relevant, highlighting for example MTF or OTF status in the EEA or UK, or RMO status in Singapore. The directory also features coverage of MIC and LEI codes of providers where relevant. The new "at a glance" overview page shows the breakdown of solutions into trading venues, OMS/EMS, and bulletin boards, alongside another breakdown of eligible participants (dealers, institutional investors, retail investors, or other).

Bond market structure and liquidity are at the heart of ICMA's work, and that is why in 2015 ICMA took the initiative to map the landscape of bond market ETPs, originally focused on the European bond markets, outlining their capabilities, target markets and value proposition. This centralised database of venues, solutions, and protocols would be provided as a unique and freely available resource to market participants and stakeholders.

As this landscape continues to evolve, ICMA has undertaken to update this directory on a regular basis, expanding its scope both in terms of regions and solutions. The 2018 review, for example, included OTFs in light of new MiFID II/R regulatory classifications, while more recently the expansion of order and execution management systems (OMS & EMS) reflects the increasing importance of systems designed to improve trading workflows both internally and externally. The revised ETP directory is available on ICMA's website.

The directory does not constitute an exhaustive list of providers in the market. Relevant providers that are not yet covered by the directory and wish to join are very welcome to do so.

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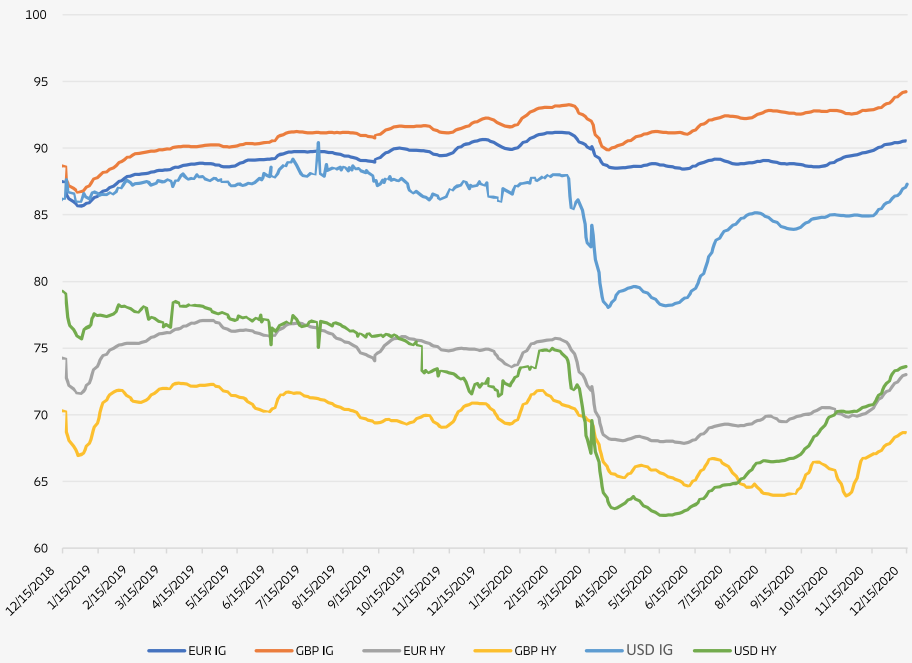
Corporate Bond Market Liquidity Indicators™

Tracker indicates continued recovery of credit market liquidity, notably for HY

ICE Liquidity Indicators™



Source: ICE Data Services

Commentary

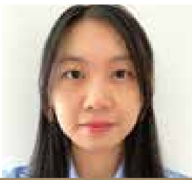
Credit market liquidity further improved throughout the last quarter of 2020, in particular for HY. While IG liquidity has continued its upward trajectory and exceeded pre-pandemic levels towards the end of Q4, EUR, GBP and USD HY have recovered markedly and reached similar liquidity levels last observed at the beginning of 2019, albeit below levels of early 2020.

As highlighted in the previous Quarterly Report, central bank intervention across the globe clearly appears to have had a stabilising effect on corporate bank market liquidity, notably the ECB's Pandemic Emergency Purchase Programme (PEPP), the Fed's unlimited US Treasury and agency MBS bond-buying scheme, and the Bank of England's rate cut and purchases of UK Government and non-financial corporate bonds, amongst a range of other, targeted support measures (which can be found in the Monetary Policy section of ICMA's dedicated COVID-19 information hub). However, the gap between IG and HY market liquidity widened significantly from Q2. This movement was possibly fuelled by negative market sentiment, doubts on the economic recovery and the long-term impact of the COVID-19 pandemic on the real economy. Despite the resurgence of COVID-19, the re-introduction of restrictions, as well as political uncertainty linked to the US Presidential Election and the outcome of Brexit negotiations, corporate bond market liquidity improved across the spectrum. This could plausibly be attributed to the roll-out of vaccines against COVID-19, improved market sentiment, and continued fiscal and monetary stimulus. That said, it remains to be seen to what extent re-instated lockdowns across Europe and beyond and the official departure of the UK from the EU will adversely impact credit market liquidity.

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

Repo and Collateral Markets





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

SFTR implementation

Buy-side go-live and ICMA's evolving best practices

On 12 October, the third phase of SFTR went live with the reporting start for investment funds, pension funds and (re-)insurance undertakings. As for the initial go-live in July, feedback has again been positive. Acceptance rates reported by trade repositories (TRs) remain well over 95% and pairing and matching continue to gradually improve, although still subject to challenges. The ERCC's SFTR Task Force remains central to the industry's implementation effort and continues to track outstanding reporting issues. The group has put together a list of over 50 reporting problems encountered by members, which has been shared with ESMA and national authorities. The fourth and final phase of SFTR reporting is due to go live on 11 January as non-financial counterparties start reporting in the EU, although they are exempt from reporting obligations in the UK.

"The fourth and final phase of SFTR reporting is due to go live on 11 January as non-financial counterparties start reporting in the EU".

On 29 October, ICMA released the fifth edition of its detailed *SFTR Recommendations*. Compared to the previous version, the new edition of the guide includes further updates to address reporting issues encountered by members in the first months of reporting, and it also covers a number of specific buy-side questions and important lessons learnt since the buy-side reporting go-live. The ICMA recommendations are complemented by a number of additional best practice documents, including the ICMA SFTR sample reports, which are all available on the SFTR webpage. And ICMA also continues to publish, on a weekly basis, consolidated SFTR data released by the TRs. Figures and charts from the first six months of reporting are available on a dedicated SFTR public data page.

First set of ESMA Q&As released

On 5 November, ESMA released the first batch of SFTR Q&As to provide additional guidance on the implementation of the rules. The first version of the Q&As covers 13 questions across five different topics, including the reporting of settlement fails, which has been a contentious issue since the publication of the ESMA Guidelines back in January. ICMA has reviewed the latest guidance with members and incorporated it into the ICMA *SFTR Recommendations*.

ESMA is in the process of reviewing other important guidance documents, including the SFTR validation rules and the XML schemas, and asked ICMA for comments. Based on member feedback, ICMA has put together a list of outstanding issues identified in relation to both documents which still need to be addressed. The feedback has been shared with both ESMA and the FCA.

SFTR and post-Brexit

Since the end of the post-Brexit transition period, SFTR reporting has been split into an EU and a UK version. Regulators on both sides of the Channel prepared for this day. On 10 November, ESMA published a number of Brexit-related statements, including a statement on Issues affecting EMIR and SFTR reporting following the end of the UK transition period on 31 December 2020, assessing the implications across the different aspects of SFTR. On the UK side, the FCA prepared the applicable guidance for UK SFTR, including a UK version of the SFTR technical standards and also of the validation rules. The documents generally replicate the EU approach but include a number of smaller modifications to reflect their UK-specific scope. On 26 November, the FCA also released a statement on UK SFTR which explains in more detail what TRs and their UK clients should do to ensure compliance with UK SFTR from 1 January 2021. More information is available on the FCA's SFTR webpage. The implications for reporting firms have of course also been an important focus for ICMA's SFTR Task Force over the past months. The ICMA recommendations include a detailed breakdown of the post-Brexit reporting obligations under SFTR and MiFIR for UK, EU and non-EU counterparties. They are included in the latest edition of the ICMA SFTR recommendations (section 1.16). ICMA also published a checklist for non-European firms to help them assess whether they are subject to SFTR reporting requirements in either the EU or the UK.

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MiFIR reporting and SFTs

On 20 November 2020, ICMA submitted a response to ESMA's consultation on MiFIR transaction reporting and reference data which forms part of the ongoing review of MiFID II/R. The ICMA European Repo and Collateral Council (ERCC) contributed to the broader ICMA response, focusing specifically on the reporting of SFTs with EU central banks. These are exempted from SFTR reporting but have in turn been included in the scope of MiFIR reporting. This inconsistency has been a long-standing concern for the industry as it raises numerous practical problems and does not produce meaningful information for regulators. In its response, ICMA therefore strongly recommends ESMA to reconsider the current approach and to exclude all SFTs from the scope of MiFIR transaction reporting (see question 29 of the response for details).

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S Repo and sustainability

The sustainable finance market has grown and advanced in recent years as policy makers, regulators and market participants shifted their attention to incorporate the ESG considerations into their policy decisions, regulatory frameworks and investment activities. ICMA has been leading numerous initiatives in this area through its support of the Green and Social Bond Principles and with its Sustainable Finance Committee.

As the primary and secondary markets for sustainable assets expand, the ICMA's European Repo and Collateral Council (ERCC), as the principal representative body of the European repo and collateral market, not only recognises the growing importance of this market, but also embraces its responsibility in promoting the development of the sustainable repo and collateral market as part of ICMA's broader commitment to the transition to a sustainable global economy: enabling short-term financing and investment opportunities for green and social bonds, and ensuring the fluidity of "responsible collateral" through the financial system.

The ERCC is currently developing a research paper to help frame future workstreams: exploring potential ESG dimensions in the repo and collateral world. It will look at the existing opportunities and challenges and, in particular, areas where ICMA could establish specific workstreams to guide and steer. The paper is aimed to be published early in 2021 and the ERCC will use this as a basis for future discussion among its members.

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ICMA's new Repo and Collateral Newsletter

On 6 November 2020, ICMA launched a new Repo and Collateral Newsletter which will be sent out on a monthly basis, providing updates on the key initiatives and workstreams undertaken by ICMA's European Repo and Collateral Council (ERCC) as well as other relevant repo market developments. The first two editions of the newsletter are available on the ICMA website, along with a link to subscribe to the distribution list.

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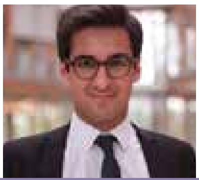
Sustainable Finance

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



Summary

In the context of very active and innovative issuance in the market in the fourth quarter of 2020, the GBP SBP released important new guidance on Climate Transition Finance on 9 December which applies to both "use of proceeds" and sustainability-linked bonds. ICMA is also now participating in the European Commission's Platform on Sustainable Finance with a focus on usability of the EU Taxonomy and its potential expansion into the social space. We are responding in parallel to numerous Commission consultations on sustainability topics related to the implementation of the EU Taxonomy and on new regulatory disclosure requirements, and continue to participate in regulatory dialogue across Asia. Separately, new sustainability initiatives are under way at ICMA relating to repo and FinTech. We are also promoting the development of the sustainable bond market with virtual events in the fourth quarter aimed at the US and Japan; and have released a new online education initiative on sustainable bond products.

> *"2020 was a breakthrough growth year for social bonds and sustainability bonds with, especially, increased debt raising by supranationals and public authorities to address the negative socio-economic impact of the COVID-19 pandemic".*

Sustainable bond market capitalising on ICMA Guidance

2020 market overview

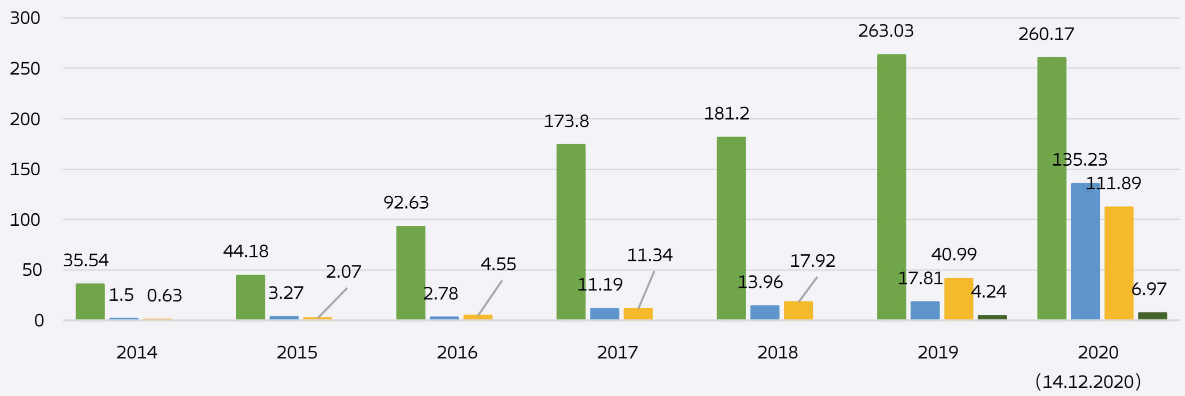
Adversely affected at the initial phase of the COVID-19 pandemic, green bond issuance has recovered to USD260 billion in 2020 which is in line with 2019 volumes. Several sovereigns (eg Germany, Sweden and Egypt) joined the market in 2020 and contributed to this outcome. The European Commission and the UK Government are expected to issue their inaugural green bonds in 2021 bringing further scale to the green bond market.

2020 was a breakthrough growth year for social bonds and sustainability bonds with, especially, increased debt raising by supranationals and public authorities to address the negative socio-economic impact of the COVID-19 pandemic with use of proceeds focused on health-related projects and unemployment mitigation. The issuance volume for social bonds expanded over eight-fold (versus 2019) to USD135.23 billion as of 14 December 2020.

Outstanding sustainability-linked bonds (SLBs) reached over USD10 billion in 2020 following the release of the Sustainability-Linked Bond Principles in June. We expect the interest in this product (especially by corporates) to continue growing over the course of 2021. As a reminder, the European Central Bank announced that SLBs with coupons linked to environmental objectives of the EU Taxonomy and/or UN SDGs are eligible as collateral and for the asset purchase programmes as of 1 January 2021.

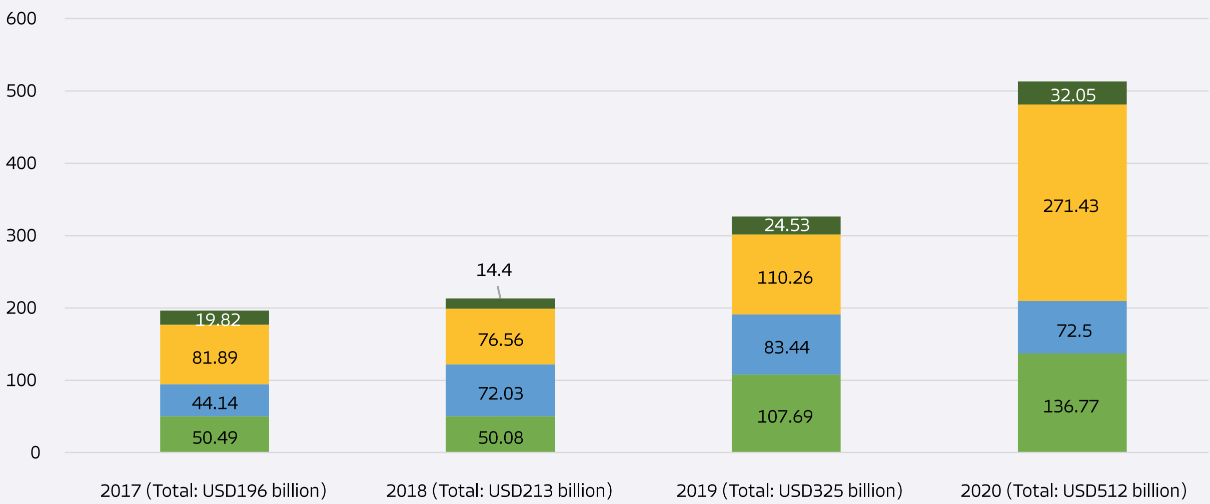
In terms of sectoral volumes, there has been 150% growth in SSA issuance with nearly half annual issuance coming from supranationals (over USD131 billion) mainly in the form of social and sustainability bonds. The corporate sector has also seen a remarkable growth of 27% over the 2019 total with, for example, technology and automotive sectors companies actively joining the green bond market.

Figure 1: Evolution of Sustainable Bond Issuance Volumes (in USD billion)



Source: ICMA based on Environmental Finance database

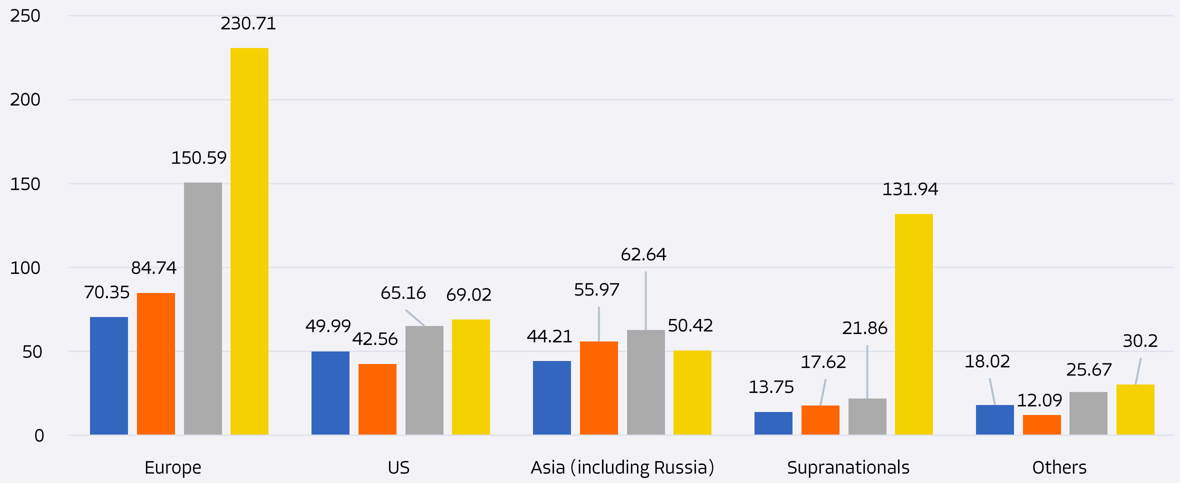
Figure 2: Sectorial Sustainable Bond Issuance 2017-2020 (in USD billion)



Source: ICMA based on Environmental Finance database

Regionally, Europe continues to lead with issuance of USD230 billion of sustainable bonds while issuances from US and Asia have remained aligned with the volumes in 2019.

Figure 3: Regional Sustainable Bond Issuance 2017-2020 (in USD billion)



Source: ICMA based on Environmental Finance database

Sustainable bonds in Q4 2020

Sustainable bond issuance in Q4 2020 exceeded USD150 billion as of 14 December 2020 (versus USD95 billion in Q4 2019). The largest segment of this total was social bonds with USD69 billion while green bonds and sustainability bonds amounted to USD55 billion and USD23 billion respectively.

The EU announced in October 2020 a programme of up to EUR100 billion of EU SURE bonds (structured as social bonds aligned with the SBP) to provide Member States with loans for measures against unemployment stemming from the pandemic. The EU subsequently issued between October and December several landmark transactions of EUR17 billion (10 billion 10-year and 7 billion 20-year), EUR14 billion (5-year and 30-year) and a EUR8.5 billion (15-year) respectively. The Republic of Chile (CLP1.6 trillion; 8-year and 13-year) and Credit Agricole (EUR1 billion; 7-year) also issued their inaugural social bonds in Q4 2020.

"The EU announced in October 2020 a programme of up to EUR100 billion of EU SURE bonds (structured as social bonds aligned with the SBP)."

On the green and sustainability bond front, in October, Volvo issued its inaugural green bond (EUR500 million 7-year) with use of proceeds focusing on clean transportation while National Bank of Greece (EUR500 million 6-year) issued its inaugural focusing on renewable energy. Adidas raised EUR500 million with its 8-year inaugural sustainability bond focusing on the purchase of recycled materials for sustainably sourced products, renewable energy and energy-efficient buildings among others.

Q4 2020 also saw more corporates joining the sustainable bonds market with SLBs. Most notably, the SLB product is proving itself as being well-suited for transition themed transactions with companies from a diverse range of business sectors using it to materialise and communicate their decarbonisation strategies. Recent SLBs are summarised in the table on the following page.

Figure 4: SLB Issuances over Q4 2020

Issuer (business sector)	Issuance info / date	Sustainability Performance Targets (SPTs)	Penalty Clause
Chanel (Fashion)	EUR600 million (6-y and 11-y) / Oct. 2020	Decreasing Chanel's own (Scope 1 and 2) emissions by 50% by 2030, decreasing the supply chain emissions (scope 3) by 10% by 2030, and shifting to 100% RE for own operations by 2025.	Redemption payment to increase by 50bp for the 2026 and 75bp for the 2031 tranche.
Enel (Energy)	GBP500 million 7-y / Oct. 2020	To achieve at least 60% renewable installed capacity (of the total installed capacity) by the end of 2022.	Step-up at 25bp
Hulic (Real Estate)	JPY10 billion 10-y / Oct. 2020	• Achievement of RE100 by 2025 • Completion of a fire-resistant wooden commercial facility	Step-up at 10bp
LafargeHolcim (Building materials)	EUR850 million 11-y / Nov. 2020	Scope 1 CO2 intensity reduction by 17.5% from a 2018 baseline by the end of 2030.	Step-up at 75bp
NRG (Energy)	USD900 million 7-y / Nov. 2020	Reduction of absolute GHG emissions in its US operations by 50% by the end of 2025 from the 2014 baseline.	Step-up at 25bp
Schneider Electric (Energy management)	EUR650 million 6-y Nov. 2020 (*convertible debt*)	Reaching an overall score of 9/10 based on the following targets by the end of 2025: • Deliver 800 megatonnes of saved and avoided CO2 emissions to customers; • Gender diversity (50% women hiring, 40% women among front-line managers and 30% in leadership teams) • Training 1 million underprivileged people in energy management	Payment of 0.50% of each bond's nominal value (Premium Payment Account).

Source: ICMA based on issuer information

Sustainability-Linked Bonds eligible for ECB Asset Purchase and Collateral Programmes from 1 January 2021

In September, the European Central Bank (ECB) announced that it will accept Sustainability-Linked Bonds with environmental targets for its asset purchase and collateral programmes as from 1 January 2021. The ECB specifies that to be eligible the coupons of the SLBs must be linked to Sustainable Performance Targets (SPTs) that refer to "one or more of the environmental objectives set out in the EU Taxonomy Regulation and/or to one or more of the United Nations sustainable development goals relating to climate change or environmental degradation". The ECB also released a set of frequently asked questions (FAQ) with additional information on eligibility criteria and technical issues.

ECB eligibility had been identified by market participants as a key obstacle for many deals under consideration and issuance is now likely to accelerate. ICMA has reached out to the ECB and to the Eurosystem (contacts with the Banque de France and the Bundesbank) to propose an adaptation of our future SLB market information template to provide in a standardised manner the data requirements for ECB eligibility. The template will be added to the existing green/social/sustainability bond market templates available online and will contain information specific to SLBs such as KPIs and SPTs.

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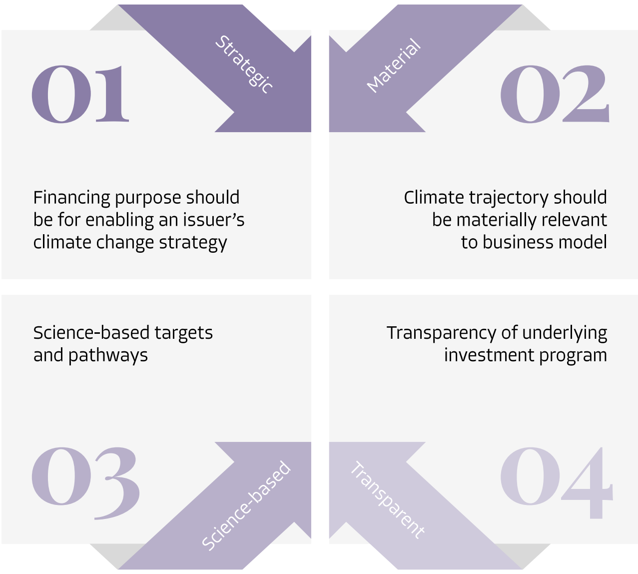
Release of the Climate Transition Finance Handbook

Following the work and outreach of the Climate Transition Finance Working Group (including more than 80 market participants) under the auspices of the Green and Social Bond Principles Executive Committee and with the support of ICMA, the Climate Transition Finance Handbook was released on 9 December 2020.

At a high level, the Handbook aims to underpin the credibility of an issuer's strategy to address climate change and to meet the global objectives enshrined within the Paris Agreement on Climate Change. The Handbook's objective is to clarify the issuer-level disclosures which are recommended to credibly position the issuance of Use of Proceeds or Sustainability-Linked debt instruments to finance the transition. Issuers should align with the Handbook's guidelines on a best-efforts basis, disclosing how they are progressing against each of its four recommended elements illustrated and detailed below.



(1) *Issuer's climate transition strategy and governance:* the financing purpose should be for enabling an issuer's climate change strategy. A "transition" label applied to a debt financing instrument should serve to communicate the implementation of an issuer's corporate strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement.

(2) *Business model environmental materiality:* the planned climate transition trajectory should be relevant to the environmentally-material parts of the issuer's business model, taking into account potential future scenarios which may impact on current determinations concerning materiality.

(3) *Climate transition strategy to be "science-based" including targets and pathways*: an issuer's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should be quantitatively measurable; be aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist; be publicly disclosed; or be supported by independent assurance or verification.

(4) *Implementation transparency:* market communication in connection with the offer of a financing instrument which has the aim of funding the issuer's climate transition strategy should also provide transparency, to the extent practicable, of the underlying investment programme including capital and operational expenditure.

The recommendations in the Handbook are based on existing climate change disclosure frameworks developed by relevant industry groups, regulatory bodies and the scientific community regarding climate change mitigation and adaptation. They emphasise that issuers should demonstrate that their transitions are science-based and will lead to fulfilling the Paris Agreement goal of limiting global warming. Science-based targets are critical milestones for organisations in their transition pathway and their objective to significantly contribute to reduce emissions, not just by arbitrary percentages, but consistent with a world in which 1.5C is achieved.

This Handbook highlights the importance of an issuer's overall climate transition strategy, which will contain multiple levers, to achieve an issuer's overall decarbonisation trajectory. These levers can include capex, opex (including R&D), M&A, decommissioning and governance. It is the net result from the sum of each of these levers that will drive an issuer's overall outcome.

The Handbook is also sector agnostic. Any issuer, including those in greenhouse gas intensive sectors, seeking to come to market with a transition-themed instrument is encouraged to reference a strategy integrating the Handbook's recommendations. The Handbook specifies that relevant disclosures can be included in the issuer's annual report, framework document, or investor presentation, as long as they are publicly accessible to investors. Concurrently, the recommended independent review, assurance and verifications can be included as either a Second Party Opinion or provided in the context of an issuer's ESG reporting.

The Handbook is not a new set of product principles for "transition bonds". It provides complementary guidance for issuers seeking to utilise either Use of Proceeds Bonds or Sustainability-Linked Bonds for transition-themed transactions based on a clear and robust climate transition strategy. Issuers wishing to label financing instruments with a climate "transition label", may consider referencing this guidance in connection with the issuance as the Climate Transition Finance Handbook 2020 and using the CTF logo. The Handbook's recommendations are not product specific and can apply more widely than to the sustainable bond markets. A borrower could for example refer to them to also frame transition-themed loans, and issuers could also arguably refer to the Handbook for all types of securities when communicating a transition strategy.

The launch of the Handbook

The Handbook was released on 9 December 2020 accompanied by a major online event with the participation of nearly 700 delegates representing a global audience. Following introductory remarks by Martin Scheck, ICMA Chief Executive and Denise Odaro, Chair of the GBP & SBP Executive Committee, Head, GBP & SBP Executive Committee, and Head, Investor Relations, International Finance Corporation (IFC), the coordinators of the Climate Transition Finance Working Group (Farnam Bidgoli, Head of Sustainable Bonds, EMEA, HSBC Bank; Paul O'Connor, Executive Director, Head of EMEA ESG Debt Capital Markets, J.P. Morgan; Yo Takatsuki, Head of ESG Research and Active Ownership, AXA IM; and Robert White, Executive Director, Green & Sustainable Financing, Natixis NY) presented the key elements of the Handbook.

The event also featured a moderated discussion with investors (Johannes Böhm, ESG analyst, Union Investment; Adam Matthews, Co-Chair, Transition Pathway Initiative and Co-Director Investment Team, Ethics & Engagement, Church of England Pensions Board) and issuers (Susana Meseguer, Director of Finance, Repsol; Sergio Molisani, Finance, Insurance & Tax Director, SNAM). The discussion covered the future role of the Climate Transition Finance Handbook in supporting issuers at various points in their transition journey, and also emphasised the vital importance of transparency in helping investors understand a company's sustainable strategy.

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S Regulatory responses and dialogue

Platform on Sustainable Finance

After a call for applications in June 2020, ICMA was selected on 1 October 2020 as a member of the EU Platform on Sustainable Finance following a process which attracted more than 500 applications from qualified parties. The Platform will continue the work of the Technical Expert Group (TEG) and consists of 50 selected members from a wide range of sectors plus directly appointed representatives from seven public entities: the European Environment Agency, the European Investment Bank, the European Investment Fund, the three European Supervisory Agencies and the European Agency for Fundamental Rights. The group of experts which make up this new advisory body will have four main tasks:

1. Advise the Commission on the technical screening criteria for the EU Taxonomy, including on the usability of the criteria.
2. Advise the Commission on the review of the Taxonomy Regulation and on covering other sustainability objectives, including social objectives and activities that significantly harm the environment.
3. Monitor and report on capital flows towards sustainable investments.
4. Advise the Commission on sustainable finance policy more broadly.

The Platform is divided into sub-groups dealing with these tasks. It will reach out to a wide range of stakeholders through both public consultations and targeted outreach. ICMA participates specifically in two sub-groups:

- *The Data and Usability Sub-Group,* which is tasked to advise (i) on data quality, availability, and market preparedness for the disclosure obligations under the Taxonomy Regulation and notably under Article 8; (ii) on the possible role of sustainability accounting and reporting standards in supporting the application of the technical screening criteria (non-financial and reporting standards); (iii) the Commission on the usability of the criteria and to advise on the evaluation and development of sustainable finance policy issues. Deliverables include targeted recommendations feeding into the EC's July 2022 report based on the first experiences with the roll-out of the taxonomy and providing insights to the European Financial Reporting Advisory Group (EFRAG) on the role of the taxonomy. The sub-group is also responding to the Commission consultation on the Taxonomy Regulation delegated act in Q4 2020.
- *The Social Sub-Group,* which is mandated to explore extending the taxonomy to social objectives as well as advise the European Commission on the functioning of the minimum (social) safeguards. The final deliverables of this sub-group consist of a report due in Q2 2021 on the extension of the Regulation's requirements to cover social objectives and, to the extent appropriate, other sustainability objectives; and a report due in Q4 2021 on the functioning and the need for extension of the minimum (social) safeguards under Article 18 of the Regulation.

The Platform holds regular plenary meetings, the last of which took place on 16 December 2020 and will typically be meeting on a monthly basis in 2021.

Regulatory responses

Consultation on the two delegated Acts on the technical criteria for environmental objectives, climate change mitigation and climate change adaptation (deadline 18 December 2020): ICMA has responded to this consultation mainly on behalf of the GBP Executive Committee with input from the Sustainable Finance Committee (SFC). Our answers concentrate on usability for issuers for criteria that are most relevant to the green bond market such as those for energy efficiency for buildings, as well as "do no significant harm" (DNSH) challenges relating to climate change adaptation.

ESMA public consultation on Article 8 of the Taxonomy Regulation (deadline 4 December 2020): Article 8 of the Taxonomy Regulation requires companies in the scope of the Non-Financial Reporting Directive (NFRD) to disclose their level of taxonomy alignment (turnover, capex, opex) in their non-financial statement. This consultation only focused on non-financial issuers and asset managers. ICMA's response was led by the AMIC which focused among others on an approach based on eligible investments (for investment funds with sustainability claims), the inclusion of all green bonds in eligible investments, the optional use of proxies for non-listed companies and the possibility to account for an activity in several taxonomy objectives.

EU GBS consultation: ICMA submitted its response to the EC consultation on the EU Green Bond Standard with the deadline of 2 October 2020. The response was submitted primarily on behalf of the GBP SBP ExCom, but it also included input from the SFC channelling comments from ICMA's other key constituencies. ICMA's response focused especially on the need for flexibility regarding alignment with the EU Taxonomy, in particular with the "do no significant harm" principle and/or minimum safeguards. It also underlined the grandfathering issues arising from the periodic review of the taxonomy's technical criteria.

Initiatives in Asia

ICMA is Co-chair of the Green Bond Working Group under the Hong Kong Green Finance Association and involved in ongoing discussions with authorities on policies shaping in relation to the green finance development in China and Hong Kong. The Green Bond Working Group released *Navigating Climate Transition Finance* in November. The paper aims to provide a framework for climate transition finance in the context of market development with insights and views from China and Hong Kong, which is also relevant to Asia and globally. This document references the work proceeding in parallel at the time within the Green and Social Bond Principles that led to the release in December of the Climate Transition Finance Handbook featured above. ICMA also coordinated with Bank of China to produce a Chinese translation of the influential Sustainable Finance High Level Definitions as well as the new Sustainability-Linked Bond Principles.

In southeast Asia, we continue to work closely with the ASEAN Capital Markets Forum (ACMF) and national securities regulators on the development of sustainable finance markets following the publication of ASEAN green and social bond standards that are based on and aligned with the Green and Social Bond Principles. In particular, ICMA and ACMF brought together a distinguished panel of senior regulators from southeast Asia for a virtual event on ASEAN green, social and sustainability bond markets, with a focus on the Roadmap for ASEAN Sustainable Capital Markets.

We have consulted with national regulators in Singapore, India and Indonesia on potential national taxonomies. The EU Taxonomy Regulation and disclosure requirements are also being watched closely and will likely be influential, perhaps mostly outside of China which already has a well-developed taxonomy. We have advised the Thai securities regulator on proposed regulations to recognize and promote Sustainability-Linked Bonds.

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S Other developments

FinTech and sustainable bond markets

FinTech cuts across the entire value chain of bond markets. However, most existing solutions are generally agnostic to the use of proceeds of a bond or issuers' commitments to sustainability. A key consideration for ICMA and its members is therefore how to leverage FinTech to further sustainability in the international debt capital markets.

As a result of discussions with ICMA members comprising issuers, investors, banks and data providers across Europe, Asia and North America, ICMA has published an article seeking to outline the opportunities and challenges encountered by market stakeholders and reflecting on potential solutions to harness the potential of FinTech in sustainable bond markets. (See full article in the Features section.)

Repo and sustainability

As the primary and secondary markets for sustainable assets expand, ICMA's European Repo and Collateral Council (ERCC) is currently developing a research paper to help frame future workstreams, exploring potential ESG dimensions as well as opportunities and challenges in repo and collateral markets. (See full article in Repo and Collateral section.)

International market outreach and promotion

We continue actively to engage in market outreach and promotion internationally. On 14 October, we organised ICMA's first US focused sustainable finance event. Originally planned as a physical event, this online webinar focused on how US issuers are playing an important role in the sustainable bond market with corporates including major tech firms now being active players. A panel debated how US investors and corporate issuers are taking up the ESG opportunity in their market. Other conference themes included: the role of the market in financing the response to the pandemic and the need to "build back better", the potential of new sustainability-linked bonds in financing the transition to a decarbonised economy, and prospects for a breakthrough year for sovereign issuers in the sustainable bond markets.

On 13 November, the now established annual ICMA and JSDA event took place in a hybrid format and addressed recent developments in bond markets contributing to sustainable development globally and in Japan, as well as how the pandemic has changed the market. It aimed to look at whether or not the "increase in social and sustainability bond issuance, driven by COVID-19, will continue in the long term and how bond markets support global sustainable economic recovery".

Online education

With the active support of the Sustainable Finance Team, an online self-study course has been developed. It aims to provide targeted training in the fundamentals of sustainable bond products and the application of the Green and Social Bond Principles. Online courses start at the beginning of each month with registration open throughout the year.

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Asset Management

 

by **Arthur Carabia and Irene Rey**

AMIC report on activities in Q4 2020

AMIC Sustainable Finance Working Group

16 October 2020, the ICMA Asset Management and Investors Council (AMIC) submitted its response to the ESAs' survey on templates for environmental and/or social financial products under SFDR.

On 23 October, AMIC held a virtual panel discussion on *Sustainable Finance: Taking Stock of Regulatory Developments, Market Trends and Investors' Needs.*

On 4 December, AMIC submitted its response to ESMA's public consultation on Article 8 of the Taxonomy Regulation which requires companies in the scope of NFRD (ie large listed companies) to disclose their level of taxonomy alignment (turnover, capex, opex) in their non-financial statement. This consultation focuses on non-financial issuers and asset managers as EBA and EIOPA are looking at banks, insurers and pension funds in separate consultations. Regarding asset managers, ICMA's response recommends a look-through approach focusing on investment funds with sustainability claims, the consideration of all green bonds (including the ones aligned with the Green Bond Principles) and other relevant assets which can be assessed against the taxonomy, and the optional use of proxies for non-listed issuers.

On 11 December, AMIC published its response to the third EC consultation on the EU Ecolabel for financial products. While AMIC continues to support the idea of an EU sustainable label for retail investment funds, it also warns that, at best, only a residual portion of the greenest of sustainable funds will be able to meet the proposed requirements. Based on studies conducted by the EC itself and members of the UNPRI, AMIC therefore recommends to recalibrate the green thresholds, strictly align the EU Ecolabel on the EU taxonomy framework, and review requirements for bond funds as they are not in line with current market practices and need to include more broadly bonds aligned with the Green Bond Principles.

AMIC Risk Management Working Group

On 12 October, the AMIC Risk Management Working Group issued a paper ahead of the AIFMD review consultation and in reaction to an ESMA letter published in August. This is discussed at length in a dedicated feature article in this ICMA Quarterly Report.

AMIC podcasts

ICMA has continued to stream a series of fortnightly podcasts in which Robert Parker, Chair of AMIC, has reviewed market events in the context of the COVID-19 pandemic, with a specific focus on central bank policy measures, economic data and the impact on investors.

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Money market funds

Short-term markets are an important funding source for a wide range of issuers and have been identified as a key area of vigilance after the financial crisis leading notably – on the vehicle side – to the adoption of the Money Market Fund (MMF) Regulation in the EU.

The apparent lack of liquidity in commercial paper markets during the March market turmoil (as noted in a feature article in this ICMA Quarterly Report) has prompted the FSB and IOSCO to question again whether the structure of these markets limits their capacity to absorb demand or supply shocks. This led these two official institutions to make proposals to enhance MMF resilience and the underlying short-term funding markets for the G20 summit on 30 and 31 October.

IOSCO has already issued a diagnostic report on MMFs during the March market turmoil. The key findings of this report can be summarised as follows:

- The non-public debt MMFs are the ones which suffered from outflows (versus inflows for public debt MMFs). In the US, outflows were equivalent to 11% of NAV preceding the Fed's intervention. In the EU, outflows were equivalent to 25% of NAV for US denominated LVNAV (limited use of weekly buffer) and 15% of NAV for EUR denominated VNAV (some use of daily and weekly buffer versus selling assets). In most cases, the weekly buffers were either preserved (to avoid a triggering of suspension or a forced conversion in VNAV) or used in a limited way to meet redemption requests.
- Outflows were driven by a combination of cash needs, "flight-to-safety" behaviour and (potentially) regulatory constraints, but varied considerably by MMF type, structure and currency.
- Despite significant outflows, the FSB notes that all non-government MMFs honoured redemptions and none were forced to apply liquidity management tools such as fees, gates or suspensions. In the EU, there was no conversion from LVNAV to VNAV.
- However, central bank interventions in money markets – some of them targeted specifically at MMFs – as well as regulatory relief measures introduced by securities and prudential regulators were instrumental in easing financial strains and ensuring that this redemption shock was managed in as orderly a way as possible.

IOSCO intends to propose draft policy options by June 2021. This is an opportunity for industry participants to consider whether prudential rules for market makers and the EU Money Market Regulation may have had procyclical effects.

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FinTech in International Capital Markets


by **Gabriel Callsen and Rowan Varrall**

ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee (FinAC) held its fifth and sixth meetings on 28 September and 19 November 2020 respectively. Building on previous discussions on primary, secondary, repo and collateral markets and the Common Domain Model (CDM), the meeting in September aimed to identify trends and new initiatives from a legal perspective and take stock of reporting regimes in debt capital markets, including reporting formats and standards, with a view to identifying challenges and potential solutions.

From a legal technology perspective, the initial aim was to reduce internal inefficiencies before addressing broader market challenges faced such as repapering exercises arising from post-Brexit or the transition to risk-free rates. This trend is reflected in increased investments by law firms in technology providers. User-friendliness has improved over the years and for many applications coding skills are no longer required. In bond markets, one example of legal technology applications is automated generation of bond documentation. To enable wider adoption, standards are critical but the cost-benefit of transitioning from legacy to new systems is an equally important factor.

Financial institutions that are active in multiple jurisdictions across the world are subject to a wide range of reporting obligations. Cost of regulatory compliance is significant. A key issue is that large elements of reporting requirements are bespoke to individual regulators and the scope of reportable attributes is significantly greater than for trade settlement. For example, under MiFID II/R transaction reporting requirements, firms have to report the passport number of traders. For CFTC reporting, more than 600 data points may be reportable for rates products, including identification of US persons. Industry collaboration is important. However, the scale and complexity of reporting requirements pose a significant challenge.

On the agenda in the November meeting was an outlook on capital markets of the future, notably digital cash in the form of the Utility Settlement Coin (USC) or Central Bank Digital Currencies (CBDC), as well as digital securities in the context of the German draft law for the issuance of electronic securities and beyond.

The Utility Settlement Coin (USC) project is considered to be a building block for the financial market payments infrastructure of the future. Key drivers behind USC are asset tokenisation and greater efficiency in wholesale financial markets from a post-trade perspective. CBDC initiatives tend to focus on retail payments, while USC is designed to represent wholesale digital cash, backed by fiat cash and cash equivalents, carrying identical credit characteristics to central bank money. Expected benefits include risk reduction, transparency and market harmonisation. Implementation of first use cases is expected in 2021.

The technical feasibility of tokenising debt securities has been demonstrated in recent years. In Germany, the Government introduced a new draft law in August 2020 enabling the electronic issuance of debt securities (*elektronisches Wertpapiergesetz*) as part of its blockchain strategy. Generally, it is expected that going forward securities will be represented in hybrid forms ie both on DLT networks as digital assets and in conventional systems. Bridging these two systems is critical from a business perspective. Benefits of tokenisation include instant settlement, for example in conjunction with USC, which would eliminate settlement risk, free up regulatory capital and reduce transaction costs. However, a challenge to adoption is not technology but rather the commercial incentives.

Following discussions on strategic priorities and the required level of expertise within the committee, the FinAC will reconvene in its new composition in the first quarter of 2021. As usual, further background on the FinAC and its mission statement are available on ICMA's dedicated FinTech webpage. An overview of new FinTech applications in bond markets, most of which are based on DLT, can be found here.

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F FinTech regulatory developments

ESMA: final report on its guidelines on outsourcing to cloud service providers (CSPs)

On 18 December 2020, ESMA published the final report on its *Guidelines on Outsourcing to Cloud Service Providers* (CSPs). The Guidelines are intended to help firms identify, address and monitor the risks arising from cloud outsourcing arrangements. They provide guidance to firms on: the risk assessment and due diligence that they should undertake on their CSPs; the governance, organisational and control frameworks that they should put in place to monitor the performance of their CSPs and how to exit their cloud outsourcing arrangements without undue disruption to their business; the contractual elements that their cloud outsourcing agreement should include; and the information to be notified to competent authorities. In addition, the Guidelines provide guidance to competent authorities on the supervision of cloud outsourcing arrangements, with a view to fostering a convergent approach in the EU.

BIS: SupTech and other innovations challenging the status quo of regulatory reporting

On 16 December 2020, the Bank for International Settlements' Financial Stability Institute (FSI) published its report, *From Data Reporting to Data-Sharing: How far can SupTech and Other Innovations Challenge the Status Quo of Regulatory Reporting?*. The paper covers regulatory reporting initiatives at 10 financial authorities that are implementing or have implemented SupTech innovations. Most authorities are standardising data needed to populate reports and/or requiring more granular data; half are modernising the means of data transmission; and a few are improving reporting formats or actively accessing data from financial institutions. These innovations are enhancing the quality of regulatory data and setting the basis for achieving the ultimate objective of moving towards the concept of "data-sharing" (ie on-demand monitoring of financial institutions). Although authorities' implementation of their regulatory reporting initiatives face a number of challenges and hence a widespread shift to regulatory data-sharing may take time, the trend towards more granular reporting is very likely to continue.

BIS, Swiss National Bank and SIX: successful wholesale CBDC experiment

On 3 December 2020, the Bank for International Settlements' Innovation Hub (BISIH) Swiss Centre, the Swiss National Bank (SNB) and the financial infrastructure operator SIX announced the successful completion of a joint proof-of-concept experiment "Project Helvetia" that integrates tokenised digital assets and central bank money. Project Helvetia explored the technological and legal feasibility of transferring digital assets through (i) issuing a wholesale CBDC onto a distributed digital asset platform; and (ii) linking the digital asset platform to the existing wholesale payment system. A wholesale CBDC has potential advantages when settling digital assets. Yet it would raise major policy and governance hurdles. Linking existing systems to new DLT platforms would avoid many of these problems but would forgo the potential benefits of full integration. Project Helvetia explored a wholesale CBDC, restricted to banks and other financial institutions.

"A wholesale CBDC has potential advantages when settling digital assets. Yet it would raise major policy and governance hurdles."

BIS: working paper on stablecoins: potential, risks and regulation

On 24 November 2020, the BIS published its working paper on *Stablecoins: Risks, Potential and Regulation*. Both the emergence of distributed ledger technology (DLT) and rapid advances in traditional centralised systems are moving the technological horizon of money and payments. These trends are embodied in private "stablecoins": cryptocurrencies with values tied to fiat currencies or other assets. The paper looks at market developments, how they might be monitored, the potential role of stablecoins and what this implies for their regulation.

IMF: working paper on legal aspects of Central Bank Digital Currency

On 20 November 2020, the IMF published its working paper on *Legal Aspects of Central Bank Digital Currency: Central Bank and Monetary Law Considerations.* The paper analyses the legal foundations of CBDC under central bank and monetary law. Absent strong legal foundations, the issuance of CBDC poses legal, financial, and reputational risks for central banks. While the appropriate design of the legal framework will up to a degree depend on the design features of the CBDC, some general conclusions can be made. First, most central bank laws do not currently authorize the issuance of CBDC to the public. Second, from a monetary law perspective, it is not evident that "currency" status can be attributed to CBDC. While the central bank law issue can be solved through rather straightforward law reform, the monetary law issue poses fundamental legal policy challenges.

ECB: working paper on central bank digital currency in an open economy

On 19 November 2020, the ECB published its working paper on *Central Bank Digital Currency in an Open Economy*. The paper examines the open-economy implications of the introduction of a central bank digital currency (CBDC). The paper (i) adds a CBDC to the menu of monetary assets available in a standard two-country DSGE model with financial frictions and consider a broad set of alternative technical features in CBDC design; (ii) analyses the international transmission of standard monetary policy and technology shocks in the presence and absence of a CDBC and the implications for optimal monetary policy and welfare; and (iii) notes that the presence of a CBDC amplifies the international spill overs of shocks to a significant extent, thereby increasing international linkages; but (iv) the magnitude of these effects depends crucially on CBDC design and can be significantly dampened if the CBDC possesses specific technical features. The paper also shows that domestic issuance of a CBDC increases asymmetries in the international monetary system by reducing monetary policy autonomy in foreign economies.

FSB: discussion paper on regulatory and supervisory issues relating to outsourcing and third-party relationships

On 9 November 2020, the FSB published a discussion paper for public consultation on *Regulatory and Supervisory Issues Relating to Outsourcing and Third-Party Relationships.* Financial institutions have relied on outsourcing and other third-party relationships for decades. However, in recent years, the extent and nature of interactions with a broad and diverse ecosystem of third parties has evolved, particularly in the area of technology. The financial sector's recent response to COVID-19 highlights the benefits as well as the challenges of managing the risks of financial institutions' interactions with third parties. The pandemic may have also accelerated the trend towards greater reliance on certain third-party technologies. There is a common concern about the possibility of systemic risk arising from concentration in the provision of some outsourced and third-party services to financial institutions. The deadline for responses was 8 January 2021.

BIS: working paper on regulatory sandbox effects on FinTech funding

On 9 November 2020, the BIS published its working paper, *Inside the Regulatory Sandbox: Effects on FinTech Funding*. Policy makers around the world are adopting regulatory sandboxes as a tool for spurring innovation in the financial sector while keeping alert to emerging risks. Using unique data for the UK, the paper provides first evidence on the effectiveness of the world's first sandbox in improving FinTechs' access to finance. Firms entering the sandbox see a significant increase of 15% in capital raised post-entry, relative to firms that did not enter; and their probability of raising capital increases by 50%. The results suggest that the sandbox facilitates access to capital through two channels: reduced asymmetric information and reduced regulatory costs or uncertainty. The results are similar when exploiting the staggered introduction of the sandbox and compare firms in earlier to those in later sandbox cohorts, and when comparing participating firms to a matched set of comparable firms that never enter the sandbox.

World Bank and CCAF: impact of COVID-19 on FinTech regulation and supervision

On 29 October 2020, the World Bank, in collaboration with Cambridge Centre for Alternative Finance (CCAF), published its *Global COVID-19 FinTech Regulatory Rapid Assessment Study*. Between June and August 2020, the joint World Bank and CCAF research team surveyed 118 central banks and other financial regulatory authorities from 114 jurisdictions. 66% of surveyed regulators are from emerging market and developing economies. This represents one of the largest empirical studies to date on the impact of COVID-19 regarding the regulation and supervision of FinTech, as well as related regulatory innovation initiatives. The study finds that regulators are responding to the challenges of COVID-19 and increasing digitalisation of financial services by taking both sector-wide and, to a lesser extent, FinTech-specific regulatory measures, as well as accelerating the pace of regulatory innovation initiatives.

IMF: staff paper on macro-financial implications of digital money across borders

On 19 October 2020, the IMF published its staff paper, *Digital Money Across Borders: Macro-Financial Implications*. Rapid ongoing progress with digital technologies has increased the prospects for adoption of new forms of digital money for both domestic and international transactions. These include CBDCs and the so-called global stable coins (GSCs) proposed by large technological companies or platforms. The paper explores the complex interactions between the incentives to adopt and use CBDCs and GSCs across borders and discusses the potential macro-financial effects.

"Firms entering the [FCA] sandbox see a significant increase of 15% in capital raised post-entry, relative to firms that did not enter; and their probability of raising capital increases by 50%."

FSB: recommendations for regulation, supervision and oversight of "global stablecoin" arrangements

On 13 October 2020, the FSB published its final report and high-level recommendations on *Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements*. The paper sets out ten high-level recommendations that seek to promote coordinated and effective regulation, supervision and oversight of GSC arrangements to address the financial stability risks posed by GSCs, both at the domestic and international level, while supporting responsible innovation and providing sufficient flexibility for jurisdictions to implement domestic approaches. The recommendations call for regulation, supervision and oversight that is proportionate to the risks, and stress the value of flexible, efficient, inclusive, and multi-sectoral cross-border cooperation, coordination, and information-sharing arrangements among authorities that take into account the evolving nature of GSC arrangements and the risks they may pose over time.

ECB: report and consultation on a digital euro

On 12 October 2020, the ECB launched a consultation following publication of its *Report on a Digital Euro*. The report examines the issuance of a central bank digital currency (CBDC) – the digital euro – from the perspective of the Eurosystem. Such a digital euro would be a central bank liability offered in digital form for use by citizens and businesses for their retail payments. It would complement the current offering of cash and wholesale central bank deposits. To ensure that meaningful answers are obtained to the open questions raised in the report, towards mid-2021 the Eurosystem will decide whether to launch a digital euro project, which would start with an investigation phase. Consultation questions can be found here. The deadline for responses is 12 January 2021.

BIS: central banks and BIS publish central bank digital currency (CBDC) report laying out key requirements

On 9 October 2020, a group of seven central banks together with the Bank for International Settlements (BIS) published *Central Bank Digital Currencies: Foundational Principles and Core Features* to identify foundational principles necessary for any publicly available CBDCs to help central banks meet their public policy objectives. The report was compiled by the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, the Sveriges Riksbank, the Swiss National Bank and the BIS, and highlights three key principles for a CBDC: (i) coexistence with cash and other types of money in a flexible and innovative payment system, (ii) any introduction should support wider policy objectives and do no harm to monetary and financial stability, and (iii) features should promote innovation and efficiency. The group of central banks will continue to work together on CBDCs, without prejudging any decision on whether to introduce CBDCs in their jurisdictions.

FSB: report on the use of supervisory (SupTech) and regulatory (RegTech) technology

On 9 October 2020, the FSB published its report on *The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions: Market Developments and Financial Stability Implications*. The report finds that technology and innovation are transforming the global financial landscape, presenting opportunities, risks and challenges for regulated institutions and authorities alike. The opportunities offered by SupTech and RegTech have been created by the substantial increase in availability and granularity of data, and new infrastructure such as cloud computing and application programming interfaces. These allow large data sets to be collected, stored and analysed more efficiently. Authorities and regulated institutions have both turned to these technologies to help them manage the increased regulatory requirements that were put in place after the 2008 financial crisis.

EU Parliament: provisional adoption of resolution with recommendations on crypto-assets

On 8 October 2020, the EU Parliament provisionally adopted a resolution with recommendations to the Commission on *Digital Finance: Emerging Risks in Crypto-Assets – Regulatory and Supervisory Challenges in the Area of Financial Services, Institutions and Markets.* The resolution welcomed the adoption by the Commission of the Digital Finance Package including two legislative proposals on crypto-assets and operational resilience; considered that the Commission proposal on crypto-assets, as well as on operational and cyber resilience, are timely, useful and necessary due to recent developments in Union and global markets and represent a crucial step towards bringing legal clarity and

"The opportunities offered by SupTech and RegTech have been created by the substantial increase in availability and granularity of data, and new infrastructure such as cloud computing and application programming interfaces."

developing a new regulatory regime; but noted that the Commission did not properly address the problems related to money laundering, terrorism financing and criminal activity associated with crypto-assets and requested the Commission take urgent actions in these areas.

EU Parliament: report on regulatory sandboxes and innovation hubs for FinTech

On 29 September 2020, the EU Parliament published its report on *Regulatory Sandboxes and Innovation Hubs for FinTech: Impact on Innovation, Financial Stability and Supervisory Convergence*. The study aims to provide an overview of the level of dissemination and the key features of innovation facilitators, mainly focusing on the models adopted in the EU and the EFTA countries. The objective is to identify certain key elements of the design and operational parameters of innovation facilitators, which impact on the potential benefits and risks linked to their operation. Looking ahead, the study discusses certain proposals for strengthened coordination at EU level to mitigate the risk of diverging supervisory practices and market fragmentation and to contribute to the formulation of an EU-wide policy response to FinTech.

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CDM for repo and bonds

ICMA is cooperating with ISDA and Regnosys to extend the development of the Common Domain Model (CDM) to include repo and, by extension, outright bond transactions. ICMA has put in place a Steering Committee to manage this project in light of its complexity and involvement of various stakeholders. Background information, including supporting materials from workshops, a webinar and a presentation at the ERCC AGM in October 2020 can be found on ICMA's dedicated CDM webpage. Member firms who would like to contribute to this cross-industry initiative are welcome to get in touch.

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ICMA FinTech Forum 2020

ICMA held its virtual FinTech Forum on 26 November 2020, which was attended by over 260 participants. The event featured a keynote speech by the ECB on a *Digital Euro* (slides available here) and a panel discussion on digitisation in bond markets against the backdrop of COVID-19: standardisation, innovation, and tokenisation. The video recording of the Forum is available in our Media Library.

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ICMA FinTech Newsletter

The December FinTech Newsletter introduced ICMA's new FinTech regulatory roadmap, a compilation of key regulatory, legislative and innovation initiatives relevant to debt capital markets broken down at a global, EU and national level. At a global level, the expected timelines for IOSCO publications, FSB guidelines, and ISO blockchain standard due dates, among others, are included. Most listed EU initiatives are sourced from the European Commission's Digital Finance Package and Data Strategy for Europe. At a national level, such initiatives included are the UK's FinTech Sandbox launch, Switzerland's expected Bill on distributed electronic registers and Germany's electronic securities draft regulation. The latest edition of the FinTech Newsletter is available here.

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

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A F The Philippines: mobile app for retail investors

The use of mobile applications ("apps") has been one form of technology used to promote financial inclusion and unlock capital from retail investors. The Philippines Bureau of the Treasury (BTr), in partnership with the Union Bank of the Philippines (UnionBank) and the Philippine Digital Asset Exchange (PDAX), launched a mobile app for small investors to buy Retail Treasury Bonds (RTBs) with their smartphones.[1]

BTr RTB-24 PROGRESSO Bond *at a glance*

ISIN: PIID0525H130
Issuer: Republic of the Philippines through the Bureau of Treasury
Issue Date: 12 August 2020
Maturity date: 12 August 2025
Issue and redemption price: At par (100%)
Target size: ₱30 billion [€513.9 million]
Total issue size: ₱516.3 billion [€8.84 billion]
Issuance via app: ₱48 million [€0.82 million]
Coupon: 2.625% fixed annual rate, paid quarterly
Min. Investment: ₱5,000 [€86]

The 24th RTB tranche (RTB-24) with a five-year tenor, also known as Progresso bonds, was made available through the new mobile app "Bonds.PH". Participants were also able to invest via the BTr website or in person at participating banks. The proceeds of RTB-24 will be used to support sectors most affected by COVID-19, in addition to infrastructure project construction and national debt-refinancing.

The mobile app aims to provide greater ease of access to low-risk investment products to a broad retail audience. Once downloaded from an app store, the user signs up with an e-mail address and verifies the account with a Filipino ID and selfie photo. Once verified, funds are added via bank transfer using Instapay or Pesonet, or via a mobile wallet such as GCash (3% fee) or Paymaya (₱5.00 fee). The user then selects and purchases a bond. Quarterly interest payments and principal upon maturity are received through the investor's Bonds.PH account. The app itself utilises a DLT-based registry to record transactions, in parallel with the BTr's NROSS centralised electronic registry and settlements system.

Primary market: The RTB-24 public offer period to Filipino retail investors was open from 16 July to 7 August 2020, with minimum denominations of ₱5,000 and integral multiples thereof. RTBs may also be available for exchanges with the option to re-invest in newer tranche offerings, as was the case with RTB-24 and RTB-23. BTr raised a total of ₱516.3 billion (€8.84 billion), consisting of ₱488.5 billion (€8.37 billion) in new subscriptions and ₱27.8 billion (€476.19 million) from the bond exchange programme. Out of the new subscriptions, ₱48 million (€0.82 million) was raised directly through the Bonds.PH app. Around 80% of transactions through Bonds.PH were for below ₱10,000 (€171). Overall, the issuance was oversubscribed by more than 17 times the planned minimum subscription.

Secondary market: RTBs may be bought and sold at prevailing market rates through RTB Selling Agents, noting Bonds.PH currently only supports primary market placements.

Benefits and challenges: Obvious barriers to Bonds.PH use include smartphone ownership and a form of ID for KYC verification. However, smartphone usage in the Philippines in 2019 was over 74% and growing[2] while Bangko Sentral ng Pilipinas (BSP) has committed to facilitating access to national IDs to further financial inclusion.[3] The interest rate offers a small premium over domestic time deposits, though relatively in line with inflation expectations at the time of this Quarterly Report publication. Several methods of adding funds are available at no or low fees, although a 3% fee for the GCash wallet would effectively offset any interest payments. A tax rate of 20% would also apply to interest income.

At a broader level, the Philippine Government's RTB programme aims to promote financial inclusion and encourage savings and investment by Filipinos. The app provides an additional channel for BTr to reach a wide investor base while also providing an efficient platform for Filipinos to invest at low risk from anywhere. Following the RTB-24 bond issuance, the app was also available to retail investors in the second public offering of Premyo bonds (PB-2) up to 11 December 2020. Bonds.PH is expected to remain as a channel to invest in RTBs in the future.

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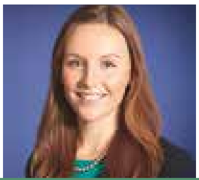
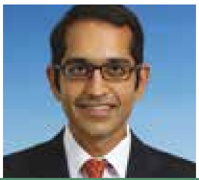
1. Bureau of the Treasury press release 13 August 2020, Bonds.PH app yields P48-M in RTB investments.
2. Statista, July 2020: Number of smartphone users in the Philippines from 2015 to 2019 with a forecast until 2025
3. BSP, October 2020: *BSP Digital Payments Transformation Roadmap 2020-2023.*

Transition to Risk-Free Rates

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

Successor rates for LIBOR bond fallbacks

Bond documentation[1] typically contains fallbacks which are intended to operate in the event that a particular benchmark or interest rate is no longer available. There are generally three broad categories of fallbacks:

(i) "Type 1" fallbacks, which effectively mean that bonds become fixed rate instruments in the event of a permanent cessation of LIBOR, because the rate in effect for the last preceding interest period is used for every interest period for the remaining life of the bond;

(ii) "Type 2" fallbacks, which, *on the permanent cessation of the relevant reference rate*, typically envisage the issuer appointing an independent adviser to select (or to advise the issuer in the selection of) an alternative rate and adjustment spread to be applied to such rate, in each case, on the basis of (a) any recommendations made by relevant nominating bodies or (b) if no such recommendations have been made, customary market practice; and

(iii) "Type 3" fallbacks which operate in a similar way to the Type 2 fallbacks, but *on the announcement of "non-representativeness" of the relevant original benchmark by the supervisor of the administrator of the benchmark*.

In the sterling market, Type 1 fallbacks are common in the majority of legacy LIBOR bonds, with Type 2 fallbacks tending to feature in bond documentation drafted after the FCA Chief Executive's speech on the future of LIBOR in July 2017 and Type 3 fallbacks typically featuring in bond documentation from 2019.

There has thus far been no recommendation of a successor rate by a relevant nominating body for the purposes of these fallbacks, although the credit adjustment spread methodology for use with SONIA-based rates was the subject of a recommendation by the Sterling Risk-Free Rate Working Group (the RFRWG) in September 2020.

To recommend a successor rate for bonds containing the Type 2 and Type 3 fallbacks would be to direct the determination of the successor rate in those bonds. If there were no recommended successor rate, the fallback would be to an alternative rate, which would typically be the rate which is *customarily applied for the purposes of determining rates of interest*. The issuer or independent adviser would have to make this determination, which could potentially expose them to litigation risk in the event that the rate they determine is challenged.

In the sterling market, the RFRWG's preferred risk-free rate for GBP LIBOR is SONIA. But as SONIA is an overnight rate, it needs to be constructed for use in bonds in different ways: either compounded in arrears, or as a component of a term rate.

- *SONIA compounded in arrears:* Interest on bonds is typically payable periodically. But as SONIA is an overnight rate which is published the following day, that daily SONIA rate must be aggregated in some way over the relevant period to determine the interest amount for the period. In the SONIA-referencing bond market, the convention has been to aggregate the daily SONIA rates on a compounded basis.
- *Term SONIA:* LIBOR is a forward-looking or "term" rate, where the LIBOR-linked term interest rate payable is known at the start of the relevant interest period. Term rates for SONIA are currently under development by three administrators (FTSE Russell, ICE Benchmark Administration and Refinitiv).

1. Including FRNs, securitisations, covered bonds, capital securities and structured products.

There are a number of issues to consider when deciding which rate should be recommended as the successor rate. SONIA compounded in arrears is the rate which has been used in all the SONIA-linked bonds issued in the sterling market[2]. As for the term SONIA rate, a paper on *Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives* concluded that, although "bond issuance, including securitisation, was initially seen as a potential use case for a [term SONIA reference rate] … this market had demonstrably adopted overnight SONIA, compounded in arrears for all new GBP issuance over the last year".

SONIA compounded in arrears aligns with the conventions already used in the SONIA swap market, and with the fallback rate for derivatives included in the ISDA Fallbacks Protocol and ISDA Fallbacks Supplement. Consistency between the existing SONIA-linked bond market, the derivatives and loan markets is considered desirable and should give rise to fewer instances in which instruments used to hedge cash products need to be amended or excluded from the ISDA Fallbacks Protocol.

The choice of successor rate carries economic, operational and contractual implications. For instance, with SONIA compounded in arrears, as the interest rate and amount are not known at the start of the interest period, this may have implications for cash flow planning and may require additional operational practical steps. Changes may be required to certain elements of contracts that are designed to work with LIBOR, although this generally would not require recourse to bondholders.

Global consistency of approach for fallbacks across different IBORs is important, particularly for issuers who issue in different currencies and use different reference rates. In this respect, it is worth noting that, in the case of USD LIBOR legacy bonds, the first step in the ARRC's waterfall of fallbacks is to a term SOFR rate; this could create inconsistency if the successor rate to GBP LIBOR is SONIA, compounded in arrears. And in the UK, the basis for any change in methodology of LIBOR (which may be directed by the FCA pursuant to the proposed legislative solution for tough legacy transactions) may differ to that of SONIA, compounded in arrears.

Nevertheless, from the authorities' point of view, one of the Working Group's 2020-2021 Top Level Priorities, as set out in the September 2020 updated Working Group Roadmap, has been to: "*Take steps throughout 2020 to promote and enable widespread use of SONIA compounded in arrears*". According to the Roadmap, a statement on successor rates is a Q1 2021 deliverable, as to which a full market consultation on the successor rate is expected.

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2. As at the date of this Quarterly Report, at least 208 SONIA-linked bonds have been issued using SONIA compounded in arrears. Source: Bloomberg.

A Legacy LIBOR bonds in the Asia-Pacific region

As reported elsewhere in this Quarterly Report, the authorities have consistently stated that the best way to minimise the risks associated with the transition from LIBOR to risk-free rates is to not issue new bonds linked to LIBOR (or other local benchmarks directly linked to LIBOR), and actively to transition any bonds that already link to LIBOR and will mature after the end of 2021[3]. However, new issuance linked to LIBOR has continued in the Asia-Pacific region.

Bloomberg has undertaken a preliminary analysis of the Asia-Pacific market to determine the scope of floating rate notes (FRNs) issued by Asian issuers linked to LIBOR which will mature after the end of 2021. This analysis estimates that, as of 4 November 2020, there was an outstanding volume of USD253 billion equivalent of such FRNs, across 882 issuances[4]. Some highlights include:

- The majority (80%) of this outstanding volume has been issued by financial institutions, including banks and insurers. The remainder (20%) has been issued by non-financial corporates across various sectors.
- By country[5], Japan accounts for the largest share of issuance by volume (65%). There is also significant issuance from China (20%), Australia (8%), and South Korea (3%). In terms of number of issuances, Japan accounts for 47% of issuances, and China accounts for 18% of issuances.
- In terms of currency, Japanese yen and US dollar together make up almost all of the total outstanding volume of LIBOR issuance, with each accounting for almost 50%. However, US dollar FRNs account for 70% of the total number of issuances, with Japanese yen accounting for approximately 27% of issuances.
- Japanese law accounts for the largest share (45%) of LIBOR issuance across currencies, consistent with the general trend of country and currency of issuance. English law accounts for 27% of volume across all currencies, and New York law accounts for 17%.[6]
- With respect to US dollar FRNs only, the majority of these (53% of volume and 67% of issuances) are issued under English law, with the rest under New York law, Hong Kong law, or others. Most of the Japanese yen FRNs are issued under Japanese law, with a small proportion under English law or private transactions.
- By maturity, while about 33% of the issuance maturing after 2021 will mature in 2022 or 2023, 30% will mature after 2028 and about a quarter is perpetual.

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3. "[*Active transition*] remains the only way for parties to have full certainty and control over transition timing and contractual terms when LIBOR ceases or is no longer presentative.": FSB, *Reforming Major Interest Rate Benchmarks,* 20 November 2020.

4. Excluding government, municipal and SSA issuance. Also excluding securitisations.

5. Defined as country of risk with respect to the ultimate debt obligor.

6. Governing law information for 8% of Libor-linked FRNs maturing after 2021 is currently unavailable.

ICMA Capital Market Research

ICMA ETC Paper: Axe Distribution Best Practice Standards
Published: 3 November 2020
Author: Elizabeth Callaghan, ICMA

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

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

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

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

ICMA ERCC Market Report: The European Repo Market and the COVID-19 crisis
Published: 21 April 2020
Author: Andy Hill, ICMA

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

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

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

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

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

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

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

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

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

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

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

ICMA Media Library

Through the new ICMA Media Library you can access recordings of our 2020 events and also listen to our popular ICMA podcast series. You will also find the ICMA podcast on all major podcast providers (iTunes, Spotify, Podbean, Deezer, Google Podcast, Amazon Music, TuneIn as well as on the Chinese platform Ximalaya) - search 'ICMA Podcast'.

We feature current issues and themes relating to capital markets, including sustainable finance, the transition to risk-free rates, repo & collateral and the effect of COVID-19 on markets. We also have 'in conversation' pieces with influential industry figures and look at some broader themes relating to career development and inclusion.

Diary

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Coming in 2021 – The full events schedule for 2021 is still under development but we anticipate that we will run all our events in virtual format for the foreseeable future.

Register now for these virtual events early in the New Year

21 JANUARY 2021	**AMIC: Lessons from the COVID 19 crisis from a fund liquidity perspective:** A panel of asset managers and market regulators will look at how investment funds performed from a liquidity perspective during the COVID-19 crisis and discuss the key findings of ESMA's report assessing the resilience of corporate debt and real estate investment funds during February and March 2020.
27 JANUARY 2021	**ICMA Future Leaders Switzerland: Professional life in and after the COVID-19 world:** Professionals from different areas of the industry will join for a Q&A discussion on what will be the temporary versus permanent organisational shifts post-COVID, considering the opportunities and downsides that this will bring. Emphasis will be on practical advice for building a career in the 'new normal'.
28 JANUARY 2021	**Climate transition finance:** This virtual event, tailored for Asia-Pacific issuers and market participants, will present the new Climate Transition Finance Handbook and discuss practical applications and implications for the region.
3 FEBRUARY 2021	**ICMA France & Monaco Region: The Paris agreement 5 years on : how financial markets are taking on climate transition:** This event, presented from a French perspective, will discuss sustainable finance initiatives being undertaken by regulatory authorities, including the EU Green Bond Standard and the EU Taxonomy Regulation alongside recent developments such as the guidelines from the Green & Social Bond Principles for the sustainability-linked bond market and climate transition finance.
11 FEBRUARY 2021	**ICMA & Frontclear Africa webinar series: Accelerating Uganda's repo market development:** Speakers will discuss the rapid progress of Uganda's repo market over the last few years, including its legal & regulatory framework relative to GMRA enforceability, and the efforts by the Bank of Uganda to develop this market.
30 MARCH 2021	**ICMA European Repo and Collateral Council (ERCC) Annual General Meeting:** A mix of ICMA experts and market practitioners will discuss the latest repo market trends, the increasing role of technology, as well as relevant regulatory initiatives that are impacting repo and collateral markets, including CSDR and SFTR. Participants will also receive updates from the ERCC's various workstreams, in particular the latest legal work in relation to the GMRA and the ERCC's best practice initiatives.

ICMA Education

ICMA Education will continue to offer digital training in 2021 with a host of new courses and new trainers to add to our existing portfolio, supporting our members and the wider industry by providing industry benchmark-setting capital markets training.

We will also continue to offer our popular online self-study courses and livestreamed programmes covering the debt capital markets, fixed income trading & strategies, financial markets operations, repo & collateral markets and sustainable finance in a format that suits you as well as launching new courses on the influences of fintech in the primary markets, credit derivatives, fixed income options and assessing the credit risk of corporate bonds.

Check ICMA Education for the full schedule of courses in 2021

Or register now to start one of the self-study courses below in February.

Financial Markets Foundation Qualification (FMFQ)
Introduction to Primary Markets Qualification (IPMQ)
Introduction to Bond Markets Qualification (IBMQ)
Securities Operations Foundation Qualification (SOFQ)
Introduction to Green, Social and Sustainability (GSS) Bonds

ICMA Scholarship Programme

As part of our mission to raise standards and support inclusion in financial markets, ICMA has launched a scholarship programme for individuals from countries in Sub-Saharan Africa who are unable to pursue a financial qualification due to their economic circumstances.

The scholarships provide an opportunity to study for one of the ICMA Diplomas:

- ICMA Diploma in Debt Capital Markets
- ICMA Diploma Securities & Derivatives
- ICMA Diploma in Financial Market Operations

Each diploma pathway includes taking the prescribed foundation and advanced level courses along with two specialist courses and/or ICMA workshops. This executive education programme is delivered in partnership with the ICMA Centre, Henley Business School, University of Reading. The diplomas are internationally recognised qualifications taught by experienced market professionals which can kick-start a career in financial markets.

The scholarships will be available to young people who are interested in a career in finance from the following countries in Sub-Saharan Africa: Ghana, Kenya, Uganda, Zambia, Rwanda, Tanzania, Zimbabwe, Nigeria and South Africa.

All the courses which make up the diplomas can be studied online over 12 months as a mix of self- study and virtual classroom programmes, and they include online exams. The ICMA scholarship will fully cover the course and examination fees for the relevant Diploma.

A good level of education (but not necessarily a University degree), interest in financial markets and proficiency in English are necessary application criteria. Candidates may be in full-time education, working in finance already or looking to move into it.

More information

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial Intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBIC	ICMA Covered Bond Investor Council
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDS	Credit default swap
CFTC	US Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CICF	Collateral Initiatives Coordination Forum
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CNAV	Constant net asset value
CoCo	Contingent convertible
COP21	Paris Climate Conference
COREPER	Committee of Permanent Representatives (in the EU)
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
D-SIBs	Domestic systemically important banks
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
ECPC	ICMA Euro Commercial Paper Committee
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investment
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FATCA	US Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ITS	Implementing Technical Standards
KfW	Kreditanstalt fűr Wiederaufbau
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
MMCG	ECB Money Market Contact Group
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OAM	Officially Appointed Mechanism
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
ORB	London Stock Exchange Order book for Retail Bonds
OTC	Over-the-counter
OTF	Organised Trading Facility
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSEs	Public Sector Entities
PSI	Private Sector Involvement
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPT	Sustainable Performance Target
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
UKLA	UK Listing Authority
VNAV	Variable net asset value

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