Impact of Recent Regulatory Changes & Other Structural Issues

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Recent Decisions on the Regulatory (“Basel III”) Treatment of Assets

» A broad deep and detailed intervention: two specific areas:
  • Risk weight treatments – evolving and remain under review
  • Liquidity coverage ratio: allowing all ‘investment grade’ securities to count

» Changes from Basel => changes in behaviour => (potentially) changes in market liquidity
The Progressive Introduction of Harmonised CACs in Euro Area Government Bonds

» Background
  » ICMA promulgated standard CAC language in 2004 and strongly supports this euro-area initiative

» Current status – Mills Group report

» Key themes:
  » Market practice is evolving
  » Enhanced transparency of the terms of sovereign bonds

» A beneficial change but not a ‘silver bullet’
Labels

» General points and context

» Covered bond labels:
  • CBIC initiative: The CBIC transparency template was used when designing the ECBC transparency template;
  • Covered bond label: https://www.coveredbondlabel.com/

» Prime Collateralised Securities (PCS): http://pcsmarket.org
  • The PCS Label can be awarded to issuance meeting the strict criteria set by PCS; the PCS Label criteria:
    » seek to embody the PCS mission;
    » focus on quality, transparency, simplicity and liquidity;
    » are not a credit rating; nor are they a recommendation to buy, sell or hold any securities;
    » are designed to assist investors and market participants in understanding aspects of the labelled securities
Setting Standards – Primary Markets

» ICMA member committees and related working groups
  • Issuers (FIIF, PSIF and CIF)
  • Intermediaries (PMPC and LDC – pretty much all lead-managers of vanilla Eurobond issuance)
  • Investors (AMIC and CBIC)
  • Consensus decisions by and for the market – complementary, not alternative, to regulation

» ICMA’s Primary Market Handbook
  • Good market practice since 1985 (IPMA) for intra-syndicate functioning: recommendations to lead-managers (not rules), guidance and model forms
  • Periodically updated in response to specific market need (PMPC/LDC advice to ICMA executive) – not exhaustive
  • Currently being generally reviewed and re-organised

» Regulatory changes
  • Focus on fostering effective laws and regulations and addressing gaps (in cooperation with other associations)
  • Prospectus Directive review – Continuing market uncertainty around application by regulators (with changes to Handbook model forms on hold)
  • PRIPs (‘KID’ key investor document concept), Market Abuse Regulation (Pre-sounding and stabilisation) and MiFID L1 (suitability/appropriateness/intervention) and L2 (underwriting)
ICMA’s Secondary Market Rules and Recommendations
  • Written by the market, for the market
  • Reviewed regularly by SMPC

Potential impact of forthcoming regulatory changes:
  • MiFID/CSDR
    – Third countries
    – Market structure
      » OTFs
      » Transparency
  • Potential impact on the dealer model

Risks to liquidity and efficiency
Further information on ICMA and its work

Website
www.icmagroup.org

Quarterly Report