ICMA RESPONSE TO THE FINANCIAL STABILITY BOARD'S CONSULTATION DOCUMENT ON MAIN ELEMENTS OF THE PROPOSED FRAMEWORK FOR POST-IMPLEMENTATION EVALUATION OF THE EFFECTS OF THE G20 FINANCIAL REGULATORY REFORMS

INTRODUCTION

1 The International Capital Market Association (ICMA) represents issuers, lead managers, dealers, asset managers, investors and market infrastructure providers in the international capital markets. ICMA has over 500 members. They are based across Europe and globally. ICMA has set standards of good market practice in the international fixed income market for almost 50 years.

2 Given that it strongly supports the performance of post-implementation evaluation of the effects of the financial regulatory reforms, including in the context of the programme of such reforms promoted by the G20, ICMA welcomes the FSB's consultation document on main elements of the *Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*. Measures to ensure that such evaluation work can be meaningfully performed are therefore appreciated by ICMA; and, the FSB's efforts to develop the proposed framework are seen as a positive step in this regard.

3 Noting that the comment period allowed by the FSB in relation to this consultation is a mere 30 days, which leaves very little time for the process of gathering and agreeing views from across ICMA's broad base of members, ICMA has decided that it should at this stage focus its response on one specific element of the consultation. In reaching this decision ICMA has not simply ignored the rest of the consultation paper, but has rather concluded that it does not have substantive points to raise in response to the other specific questions that have been posed. Others will no doubt have detailed points to raise in response to these other questions on the framework, but ICMA's overall view is that the FSB's proposals make sense.

PRIORITISATION OF TOPICS

4 The FSB's twelfth and final question is "Do you have comments or suggestions on which individual reforms or interacting set(s) of reforms should be initially considered for evaluation as a matter of priority?"; and it is in respect of this specific element of the consultation that the ICMA has decided to comment further.

5 There are two topics which ICMA wishes to highlight as priorities for further evaluation work.

(i) Corporate bond and repo market liquidity

6 On 20 January 2016, ICMA submitted its response to the European Commission's Call for Evidence on the cumulative impact of regulation. The response focused principally on the issue of market liquidity within the context of rules affecting the ability of the economy to finance itself and grow. It drew on much of the work and research ICMA has undertaken previously related to both European corporate bond secondary market liquidity and collateral and repo market liquidity, and which highlights the real economy impacts of reduced market liquidity on both investors and capital raisers.

7 At that time, ICMA expressed the hope that this 'call for evidence' would be the first step in a continual process of consultation with market stakeholders to support the ongoing refinement and improvement of the European regulatory process, and to ensure the successful attainment of intended outcomes, while promoting resilient and well-functioning European capital markets.

8 More recently, on 10 March 2017, ICMA responded to the European Commission consultation on its Capital Markets Union Mid-Term Review. This response covered a range of points, including on pages 6 - 10 'Reviewing corporate bond and repo markets'. This again drew on much of the work and research ICMA has undertaken, updating this to cover more recent such work – including its short, February 2017, paper *Closed for Business: a Post-Mortem of the European Repo Market Over the 2016 Year-end*. This particular paper reviews the extreme volatility and market dislocation experienced in the euro repo market over the 2016 year-end, which were unprecedented in the post-euro era, and, in ICMA's view, provides clear evidence of the need for more to be done to rectify the concerns ICMA continues to highlight regarding corporate bond and repo market liquidity. The April 2017 edition of ICMA's Quarterly Report includes a feature article (on pages 15 - 18) in relation to this repo market report, followed by a one page feature (on page 19) which outlines why it is that the pressure on repo markets is squeezing pensioners – clearly illustrating the end-investor impact of these concerns.

(ii) Systemic risk as applied to asset managers

9 On 21 September 2016, ICMA's Asset Management and Investors Council (AMIC) submitted its response to the FSB's consultation paper on proposed policy recommendations to address structural vulnerabilities for asset management activities. AMIC welcomed the FSB's focus on activities instead of designating individual companies as systemically risky; and AMIC is engaged with the work of IOSCO in further examining the potentially systemic effects of asset management activities, which are limited given the industry's agency business model. However, AMIC cautioned against returning to the designation debate; and encouraged the FSB to consider a wider group of market participants than simply asset managers when assessing risk and formulating policy recommendations. AMIC shared the FSB's view that many tools are available to efficiently manage liquidity risk in asset management. AMIC noted that any efforts by the FSB or IOSCO to harmonise leverage calculation should not impact the existing methods to calculate fund leverage established through European legislation, as the current comprehensive EU regime has been developed jointly by regulators and the industry over several decades and has shown resilience through various market events.

10 More recently, on 24 October 2016, AMIC submitted its response to the European Commission's consultation paper on whether the existing EU macro-prudential framework is functioning optimally. AMIC raised concern about expanding the mandate and powers of the European Systemic Risk Board (ESRB) to non-banking under the current governance framework of the ESRB; and recommended much greater integration of securities markets supervisory expertise in the macro-prudential policy framework. AMIC also suggested that already reported data be better used to understand financial markets from a holistic perspective.

11 Overall, following the crisis the EU has strictly implemented the G20 and FSB decisions regarding the systemic risks related to investment funds. The full achievement of these requested reforms has helpfully set an even more solid and resilient regulatory framework for investment funds. AMIC considers that in light of this and absent market failure – in particular from a systemic risk perspective – there should be a further evaluation, for example under the auspices of IOSCO's work on asset management activities, of the current situation ahead of proceeding with any further work regarding

'structural vulnerabilities' related to asset management. In the meantime, efforts should be made to make better usage of already collected applicable data; and securities regulators in IOSCO should take steps to ensure they have taken on board their members' best practices relating to fund liquidity. AMIC's report on the legislative requirements and market-based tools available to manage liquidity risk in investment funds in Europe, prepared jointly with the European Fund and Asset Management Association (EFAMA) and published on 18 April 2016, highlights best practices and offers some recommendations to further improve the general liquidity management environment.

CONCLUDING COMMENTS

12 ICMA appreciates the valuable contribution made by the FSB's examination of the issues articulated in this consultative document and would like to thank the FSB for its careful consideration of this response. ICMA considers that the two topics which this response highlights, each of which it has worked extensively on as illustrated by the papers to which links have been provided in support of this submission, are priorities for further evaluation in order to ensure that the market impacts of implemented regulatory reforms can be more fully understood. The ICMA remains at your disposal to discuss any of the above points.

ICMA
11 May 2017