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**ECB BOND MARKET CONTACT GROUP:  
FRAMEWORK FOR STANDARDS OF GOOD MARKET PRACTICE  
IN DEBT CAPITAL MARKETS IN EUROPE**

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## Introduction

- This slide deck sets out the standards of good market practice applicable to the European debt capital markets, and contrasts them with similar standards in the US
- ICMA's codes of good market practice in debt capital markets in the EU are consistent with EU legislation (e.g. the Prospectus Directive, the Market Abuse Directive, MiFID II, CSD Regulation etc.)
  - Self regulatory standards are a valuable adjunct to “black letter regulation” and legislation, filling in the gaps, interpreting and providing practical guidance to market participants, which can be flexibly adapted as markets evolve
- EU DMOs already collaborate in various ways, but there remains significant divergence of practices in EU government bond markets, including amongst those of the Eurozone
- A discussion will follow on whether these self-regulated practices are deemed to be sufficient, also in view of the applicable regulations and past and expected developments in market activity and market functioning, in order to preserve the correct functioning of euro area fixed income markets



## Syndicated Debt Issuance: ICMA Primary Market Handbook

- Covers new issuance in the syndicated international bond market
- Covers syndicated issuance by SSAs as well as corporate and bank issuers, but not auctioned issuance (e.g. by sovereigns)
- Covers “Eurobond” issues in all convertible currencies, but not USD domestic or global issues
- Represents the industry consensus on good market practice for new issue processes by ICMA member lead managers
- Consensus on good market practice on: transaction announcements; bookbuilding and launch; allocation and allotment; pricing; confirmation to managers; stabilisation; issue documentation and signing; closing and settlement
- Not legally binding, but takes the form of recommendations and guidance
- Operates on the basis of peer pressure



## Primary dealerships: EU Government Bond Markets

- Each primary dealer signs an agreement contract with each DMO which defines rights and obligations of the primary dealer vis-à-vis the DMO
- Primary dealer obligations
  - Active participation to auctions in a competitive and transparent manner
  - Promoting liquidity and transparency to contribute to the efficiency of the secondary market (greater liquidity – minimized bid-offer spreads)
  - Quotation on electronic markets – comparative ranking – in a manner that supports market liquidity
  - Advisory services and research activity to contribute to the management of the public debt
  - Organizational structure (admin, accounting & risk control) to ensure a robust control environment
- Primary dealers rights
  - Non-competitive bids before and after the auction
  - Privileged access to information (borrowing needs, new issues, new financial instruments....)
  - Privileged access to syndications
- Auctions procedures (see table next slide)
  - Relative consensus on good market practice on: regular meetings of PDs/DMOs ahead of auctions, announcements, auctions bidding , competitive and non-competitive bids, settlement



Selected Auction procedure:

	Auction	System	Cut-off time (London time)	Min Bid Increment	Min Price Increment	Min Bid per Bond	Specific	Bid Limit	Settlement date
Austria	Multi price	Own	10:00	1 000 000	0.01	1 000 000	Must bid issue size divided by the number of participants - Retention for market operations	Issue <€1bn issue size, Issue >€1bn 30% of issue size	T+2
Belgium	Multi price	Bloomberg	11:00	1 000 000		10 000 000			T+2
Finland	Single price	Bloomberg	11:00			1 000 000			T+2
France	Multi price	Own	09:50	1 000 000	0.01	1 000 000		For the first two auctions for each bid, OAT €0.6bn & Linker €0.3bn	T+2
Germany	Multi price	Own	10:30	1 000 000	0.01 (Bund OBL) 0.005 (Schatz)	1 000 000	Possibility of bidding at average price - Retention for secondary mkt activity		T+2
Ireland	Single price	Bloomberg	10:00	100 000	0.01	1 000 000	Must bid 10% of issue size	Issue size	T+2
Portugal	Single price Mixed (bid above ave. price served at ave. Bids below at bid price)	Bloomberg	10:30	1 000 000		1 000 000	Max 5 bids	Issue size	T+2
Spain		Own	09:30	1000	0.01	1 000	3% Bid at prices not less than marginal price less 5 cents for 3y; 10 cents for 5y; 15 cents for 10y and 30 cents for >10y bonds		T+3
Italy	Single price	Own	10:00	100 000	0.01	500 000	Must bid 4% of issue size - Max 5 bids	Issue size	T+2



## Secondary Markets – General Considerations: ICMA Secondary Market Rules and Recommendations

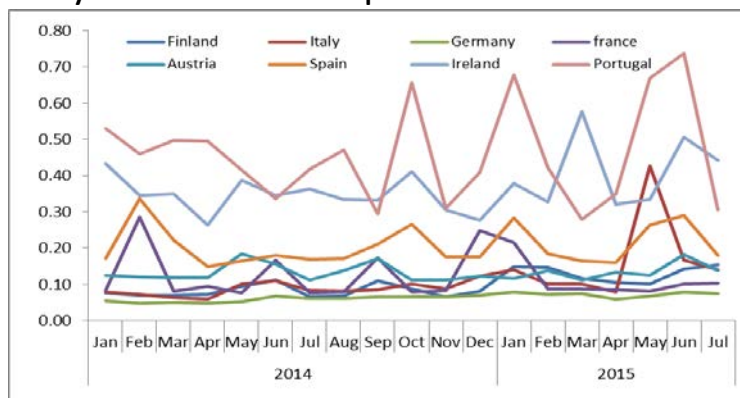
- Cover secondary market trades in the OTC cash bond market in international securities (defined) – where a transaction is subject to the rules of an exchange, its rules shall apply
- Apply automatically to relevant bond trading contracts entered into between ICMA member firms unless the parties agree otherwise
- To the extent they apply to a contract, the ICMA Rules (but not the Recommendations) are contractually binding
- Provisions cover notably: terms for the correct settlement of bond trades; “good delivery”; how accrued interest is calculated; “buy-in” and “sell-out” procedures; a standard method of maturity yield calculation based on annual compounding
- ICMA provides conciliation and arbitration proceedings (rarely used)



## Secondary Markets – Additional Considerations: Trading Obligations re EU Government Debt

- Secondary market and distributional capacity
  - Trading & market-making activity
    - Obligation of quotation on electronic markets (time, bid-offer spreads, quantities)
    - Evaluation relative to top peers

10y MTS bid-offer spreads



- Transaction reporting to DMOs
  - Monthly European harmonized reports (trade by trade reporting: ISIN, size, counterparty type, geographical area of residence & trading system)

## UK Fair and Effective Markets Review: Creating a new FICC Market Standards Board

- On 10 June 2015, the UK Fair and Effective Markets Review (FEMR) published its final report
  - This sets out 21 recommendations to help restore trust in the wholesale Fixed Income, Currency and Commodity (FICC) markets
- Recommendations to firms to improve the quality, clarity and understanding of FICC trading practices include creating a new FICC Market Standards Board (FMSB)
  - First FMSB Chair to be Elizabeth Corley (CEO, Allianz)
  - FMSB will involve participation from a broad cross-section of global and domestic firms and end-users at the most senior levels, and involving regular dialogue with the authorities, to:
    - Scan the horizon and report on emerging risks where market standards could be strengthened, ensuring a timely response to new trends and threats;
    - Address areas of uncertainty in specific trading practices, by producing guidelines, practical case studies and other materials depending on the regulatory status of each market;
    - Promote adherence to standards, including by sharing and promoting good practices on control and governance structures around FICC business lines; and
    - Contribute to international convergence of standards





## Comparison With Good Market Practice in the US

- The US Treasury Market Practices Group (TMPG) comprises a broad group of market professionals and is endorsed by the Fed
- TMPG covers: Best Practices for Treasury, Agency Debt and Agency Mortgage-Backed Securities Markets
- The TMPG provides best practice guidance which is intended as “operational guideposts rather than binding rules or regulatory guidance”
- Guidance is at a relatively high level, and divided into four parts:
  - Promoting liquidity and transparency;
  - Maintaining a robust control environment;
  - Managing large positions with care;
  - Promoting efficient market clearing



## Comparison With Good Market Practice in the US (continued)

- There is more granular guidance in four appendices, covering:
  - Agency MBS margining (which refers to SIFMA's Master Securities Forward Transaction Agreement);
  - Fails charge practices (including examples of the calculation to use);
  - Timely trade confirmations in the triparty repo market; and
  - Securities delivery closing times (jointly issued with SIFMA), with recommendations on the last time in the day that a Fedwire security can be delivered, and states SIFMA's delivery guidelines for who can deliver to whom and when
- One best practices guidance in the US versus several in the Eurozone at each country's level



## Points for discussion

1. Are these self-regulated practices seen by the BMCG as being sufficient?
  - some initial thoughts to promote this discussion are:
    - i. Are there steps which could be taken to improve market practices around auctions?
      - No more guaranteed fill by primary dealers to final investors (as already implemented by some primary dealers)
      - Address overbidding generated by client's discount by penalising such practices
    - ii. Would more harmonisation in Eurozone DMOs' evaluation of their primary dealers help to foster better market practice?
    - iii. Can a start be made on defining a single best practice guide for the Eurozone?
      - Competitive and transparent participation at auction
      - Promoting liquidity and market efficiency
      - Ensuring a robust clearing and control environment
    - iv. Similar to the US TMPG, should there be a Eurozone-debt Market Practices Group (EMPG)?
      - Comprising a broad group of market professionals
      - Endorsed by the DMOs representative



## Points for discussion (continued)

2. In order to preserve the correct functioning of euro area fixed income markets, separately considering the cases of both primary and secondary markets:
  - i. Are these self-regulated practices sufficiently adhered to by market participants?
  - ii. Are these self-regulated practices sufficiently capable of being enforced?
  
3. Is there more for the BMCG to do to improve the current situation in this context?  
e.g. Should the BMCG help to lead the establishment of a market code of conduct, reflective of the sort of development that is already underway in the context of the FX market?
  - for background on work in the FX market see documents on the website of the ECB's [Foreign Exchange Contact Group](#) (FXCG)

