



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Background and objective of the DIMCG

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1<sup>st</sup> DIMCG meeting  
23 September 2020



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European Central Bank

# Overview

## 1 Why did the Eurosystem look into the issuance process?

2 The creation of the DIMCG

3 The three areas of work of the DIMCG

3.1 What is the issue / opportunity

3.2 Harmonisation agenda

3.3 Existing initiatives

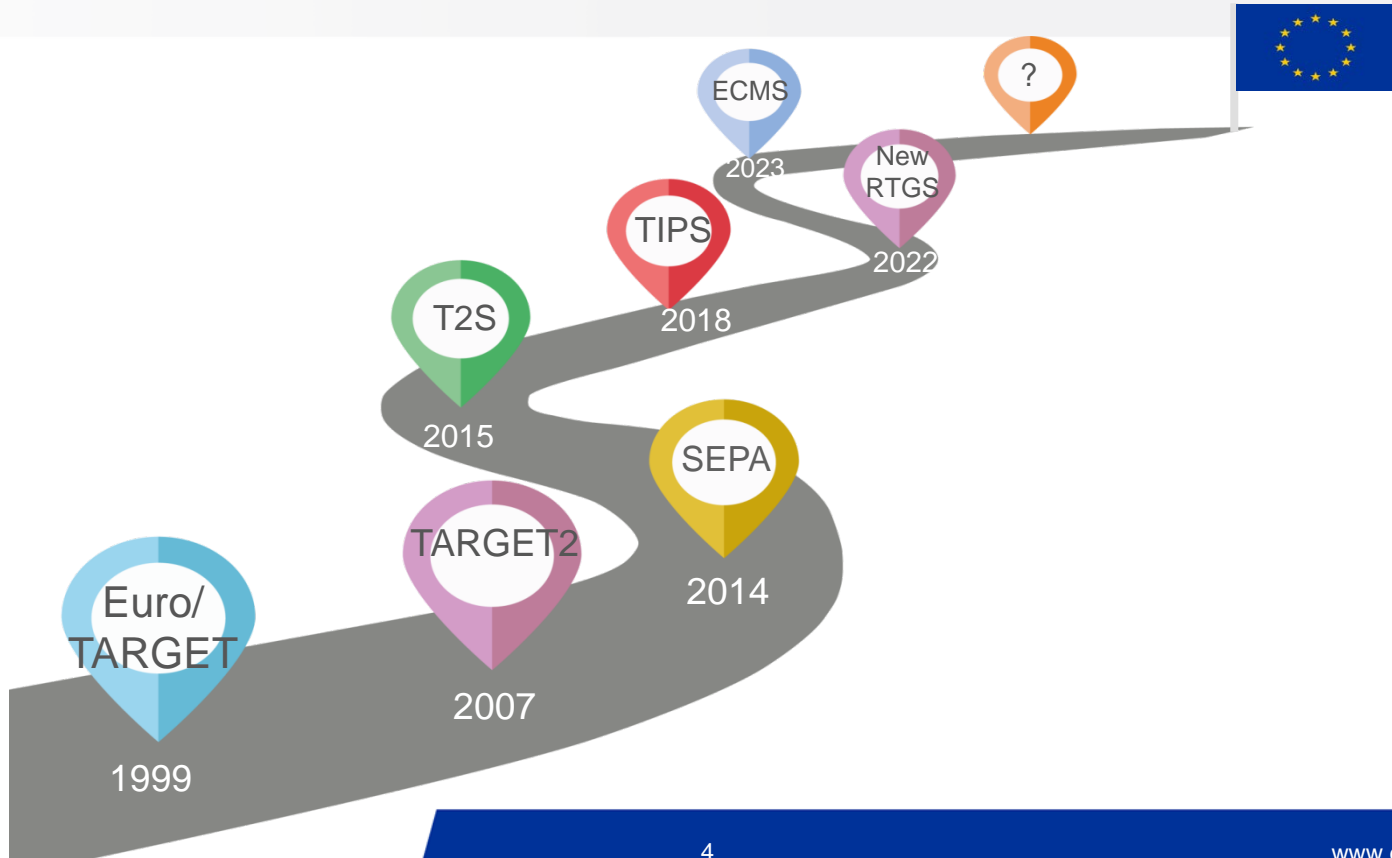
# Why do we engage in FMI related initiatives?

- Monetary Policy - transmission of monetary policy
- Smooth operation of payment systems
- Financial Stability - private risk sharing across EU

But also support for wider economic policies of the EU:

- Capital Markets Union (CMU)
- International Role of the Euro (IRE)

# A true domestic European market



# Vision for the European market

ECB-UNRESTRICTED



**Single liquidity pool**  
in central bank  
money



**Higher efficiency**  
throughout the value chain  
and at European level

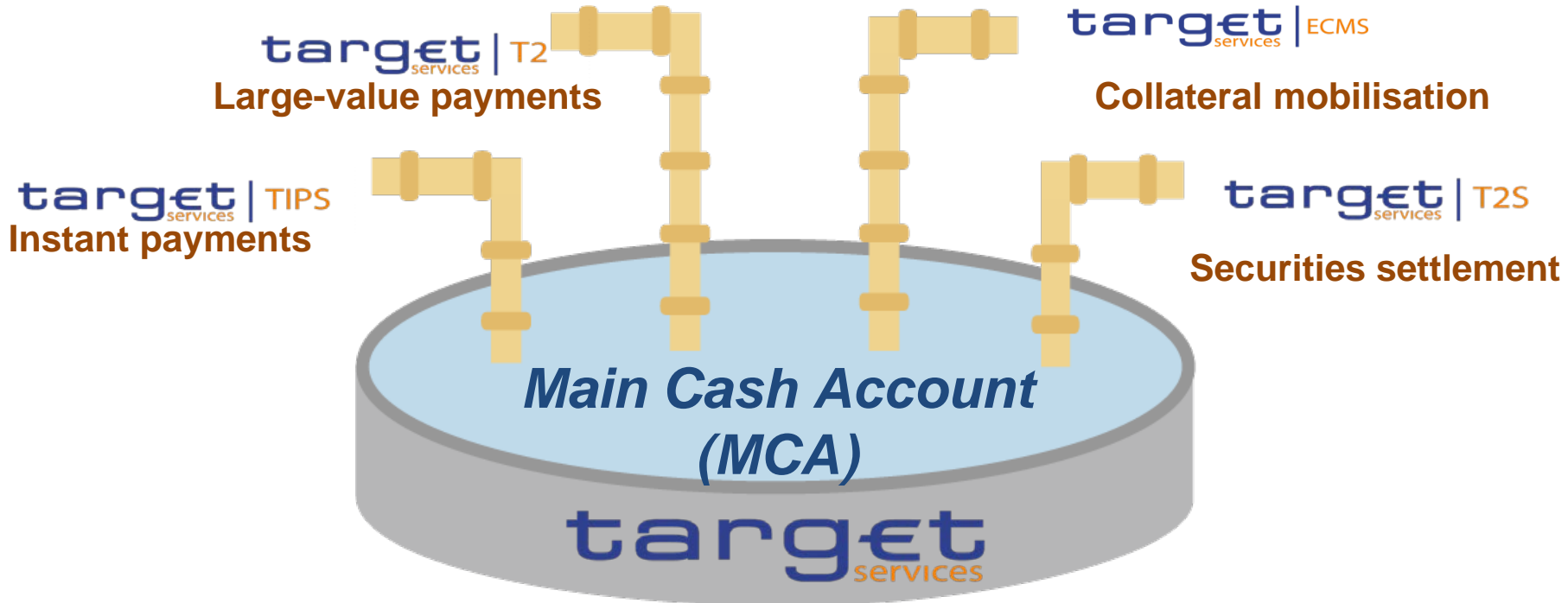


Risks and costs should be  
**independent of the**  
**location** of counterparties

**target**  
services

**More resilient** (buffer from private risk sharing) and **Neutral** (level playing field regardless of the location)

# A single EUR liquidity pool in central bank money



# The TARGET Services

target  
services

in **Central Bank money (CeBM)**

target  
services

T2

Payments settlement

target  
services

TIPS

Instant payments

target  
services

T2S

Securities settlement

target  
services

ECMS

Collateral management *Jun-Nov 2023*

# Why did we start looking into issuance?

- **Home bias** potentially related to initial location of issuance
- **Lack of single process in the EU** (unlike other currency areas) – multiplicity of channels and standards
- Potentially **leverage on the existing TARGET Services** in order to foster further the development towards of a single European “domestic” market.



# Indicators of home bias

- Financial Integration Report: bonds issued by a euro area issuer are **one and half times more likely to be held by domestic** than by other euro area investors<sup>1</sup>
- Primary issuance: only about 5% of debt securities eligible as Eurosystem collateral are **issued with a non-domestic CSD**<sup>2</sup>
- T2S settlement statistics: only around 1% of transactions settled in T2S are taking place between **counterparties of different CSDs**<sup>3</sup>

1: ECB, May 2019

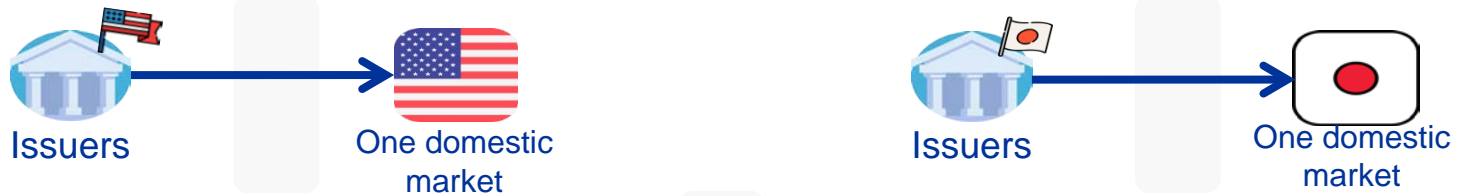
2: Information based on the Eurosystem eligible collateral database.

In addition, about 20% are issued with the ICSDs which can also be considered as non-domestic

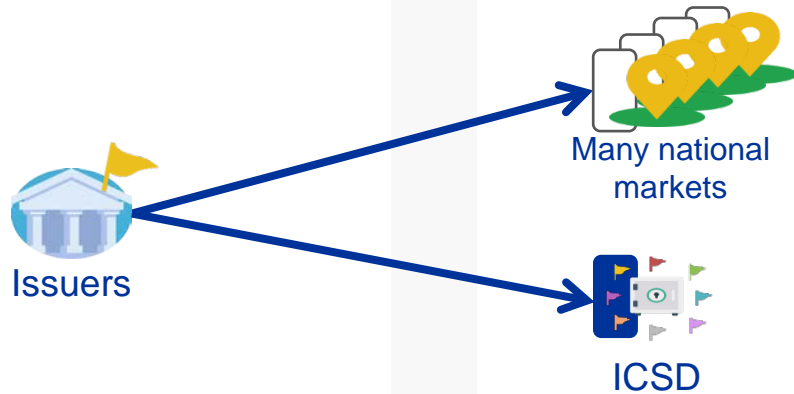
3: T2S Annual Report, 2018

# Debt issuance - current status in currency areas

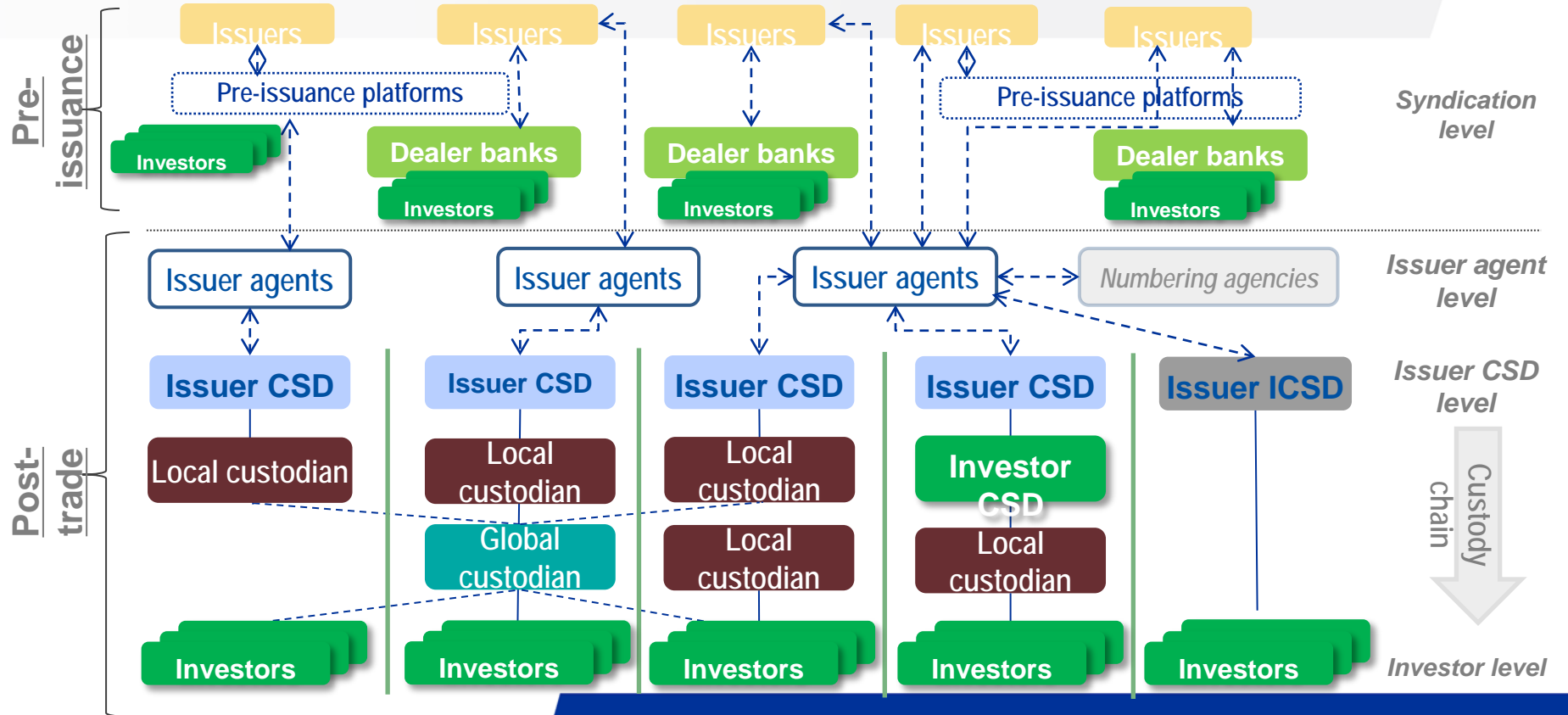
## In US or Japan



## In the EU



# Current landscape



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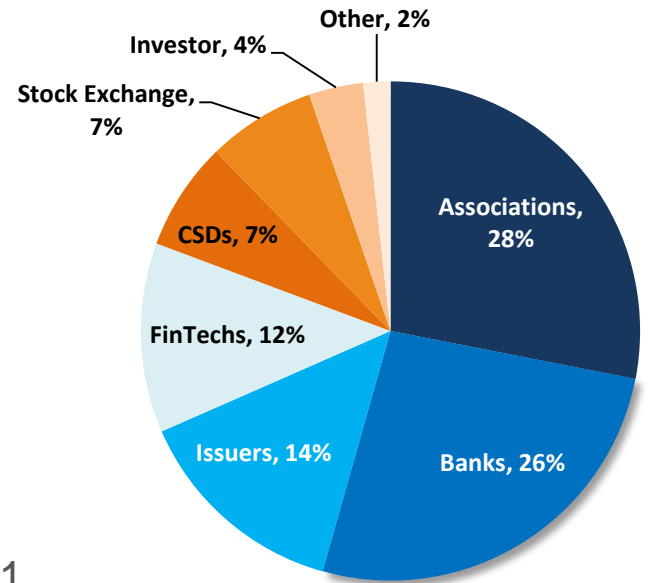
**3.3** Existing initiatives

# ECB Market consultation

- May 2019 in order to gather feedback from relevant stakeholders on European debt issuance and initial distribution
- The consultation was composed of 25 questions on: *debt issuance ecosystem, issue at stake, possible actions/solutions, tentative and high level description of a centralised system and its potential impact on the market*

# ECB Market Consultation

- **57 responses** were considered in the analysis
- **6 international associations:** ICMA, ICMSA, ECSDA, FESE, AFME, EBF
- **10 national associations/market groups**  
**Austria**, Belgium(2), Finland, France, Germany(2), Italy, Netherlands, Portugal
- **8 issuers** IFIs, Development banks, Sovereigns
- **15 banks** (6 Dealer banks, 1 paying agent, 2 custodians, 6 multi-function roles)
- 4 CSDs, 4 stock exchanges, 7 FinTechs, 2 investors and 1 other



# Outcome overview

1. **Mixed response from the market**, with no clear majority either in supporting strongly or disagreeing outright with the key messages of the consultation note
2. The majority of the respondents would welcome further information from the Eurosystem regarding certain aspects of the initiative. Only then they could conduct an impact analysis on their side.
3. The majority also agrees that further work in the **area of harmonisation and standardisation** in the full transaction chain covering the pre-issuance and the post trade is required.

# Decision to establish the DIMCG

- The Eurosystem decided at the beginning of 2020 to set up the Debt Issuance Market Group (DIMCG) to follow-up on the outcome of the market consultation with the aim to further investigate, together with the market, the topic of debt issuance in the EU
- Terms of References (ToRs): the **objective** of the DIMCG is to identify issues that preclude further improvements in efficiency and integration and how any potential harmonisation activities could be supported by private or public initiatives in the area of debt issuance and initial distribution services

**What DIMCG work plan in order to meet the objective?**



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# Work structure of the DIMCG

The DIMCG could consider structuring its work along the following **three main workstreams or pillars**:

1. What is the **issue** in debt issuance/initial distribution in EU? What is the **opportunity** for supporting a more integrated EUR debt market?
2. What is the **harmonisation gap** in the issuance to initial distribution, i.e. the full transaction chain? How to define the **harmonisation agenda** and what could be the appropriate **governance** to drive this agenda in and across the EU?
3. What are the **existing services or on-going initiatives**, which could address all of the above?

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# What are the relevant references?

- “Detailed analysis of the European Post Trade Landscape report” by the European Commission’s European Post Trade Forum (EPTF), May 2017

*“the actual issuance and holding procedures, as well as the type of services offered by different entities in the issuance process to issuers, **vary considerably from country to country, depending on issuer preference, market practice and regulation**”*

- “Identifying market and regulatory obstacles to the development of private placement of debt in the EU” by the European Commission, December 2017

*“**further promotion of standardisation should be encouraged by the EU and member states.** In particular, the further use of standardised documentation should be promoted and the development of standardised processes should be supported.”*

- “Electronification in primary bond markets” article in the ICMA 3rd quarterly report, 2018

*“a scalable infrastructure utility, based on **open source standards allowing for connectivity** to multiple technology providers across asset classes is strongly preferred to a monopolistic, commercial infrastructure.”*

# Other market report Indicators/proposals

- “A review of MiFID II and MiFIR” by the Dutch Authority on financial markets (AFM), August 2020  
*“The AFM is of the opinion that the MiFID II goals of transparent fixed income markets can best be realized by **stimulating a standardization of issuance practices and by reducing complexities for eligible instruments and issuers**. This requires a concerted effort between market participants, issuers and the regulatory community.”*  
*“The AFM sees room to further **commence a discussion on primary market fundamentals** with market stakeholders, including but not limited to: A broader assessment of the role of primary dealers and a **deeper review of existing mechanics around issuance, underwriting, distribution and liquidity provision...**”*

# Pillar 1: What is the issue / opportunity

## Tentative elements/questions to be addressed

- i. Is there an issue or even better an opportunity to do better in the EU?
- ii. Does the location of counterparties affect the costs and risks involved in a debt issuance transaction?
- iii. Investor reach, risks and costs, and level playing field in the EU – covering all layers of the transaction chain? Need for a 360° perspective from all relevant roles even within same organisation.
- iv. Multiplicity of non-interoperable solutions and related data flows especially between issuance and post trade? Need for harmonisation/standardisation and more STP processing? Lack of automated, largely outdated and manual procedures?
- v. How important is European governance, including data access, in the current geopolitical context?
- vi. **How to quantify and provide concrete evidence? Data sources via DIMCG?**

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# Pillar 2: Harmonisation

## WHY to harmonise?

- Harmonisation for the sake of harmonisation or for addressing some fundamental issues – related to Pillar 1?
- Supportive of financial integration – many actors in the EU market but one smooth process across national markets
- Impact on risks and costs?
- Level playing field and increased competition?



# Pillar 2: Harmonisation

## WHAT to harmonise?

- i. Final term sheet (e.g. terminology and rounding conventions)
- ii. Book building process, standardised order book (syndication)
- iii. Truly European ISIN prefix to designate EU rather than a national market practice/channel
- iv. Investor identification (LEI) and European/global taxonomy – also green taxonomy
- v. Data formats and messaging standards
- vi. Issuance cycle (T+5 vs T+0)

Wider EU policy:

- i. Withholding Tax Procedures (see CMU Code of Conduct initiative)
- ii. National Law issues?

# Pillar 2: Harmonisation

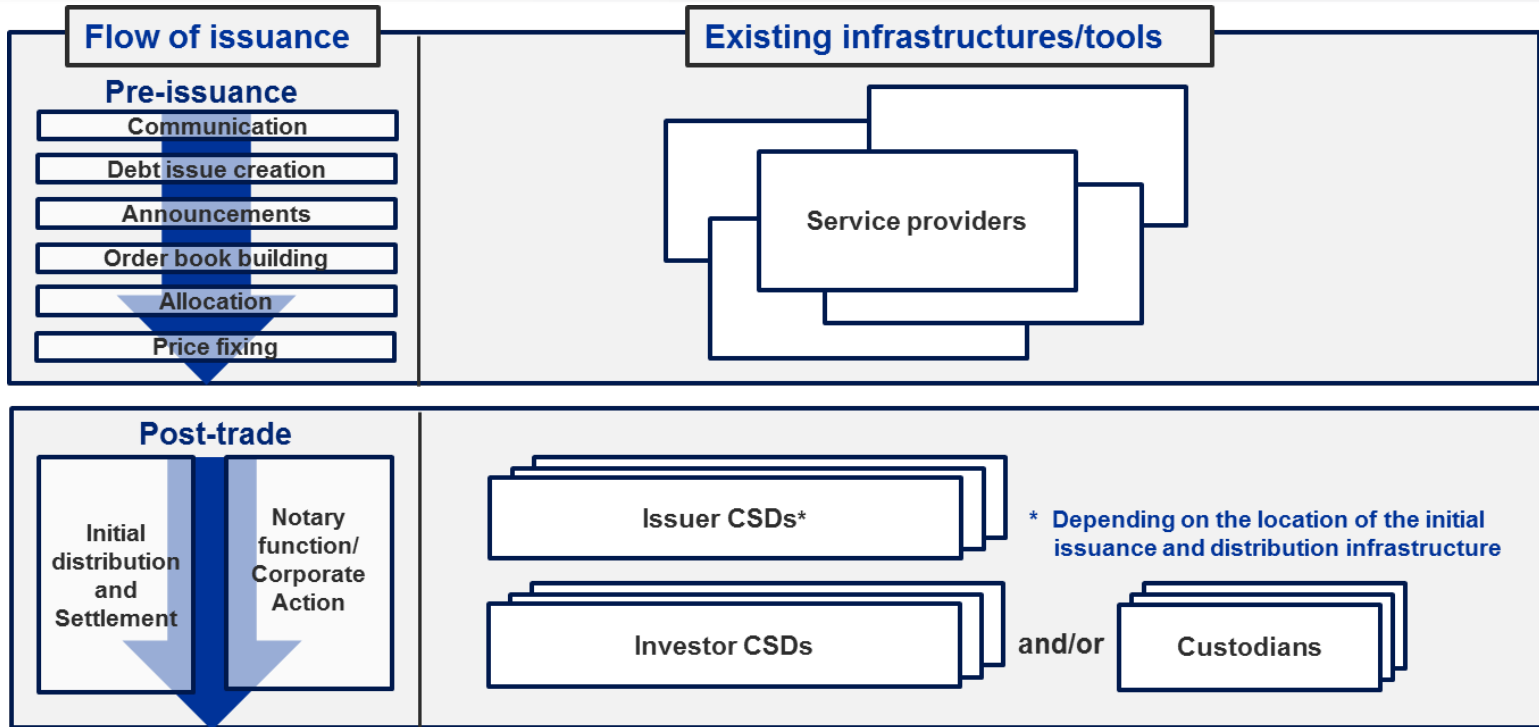
## HOW to harmonise?

- What governance arrangement could foster harmonisation across EU Member States?  
Is there a truly European governance arrangement?
- EU authorities, public sector and private actors interaction?
- Voluntary vs binding standards - How effective is harmonisation without a connected deliverable/project output?
- Lessons learned from examples of Eurosystem harmonisation methodologies/arrangements on securities and collateral (T2S, SCORE)

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# Process and infrastructures



# Pillar 3: Ongoing initiatives

## What criteria could DIMCG use to assess relevance of private solutions for EU capital market?

- Pan European reach upon issuance and initial distribution?
- Covering the full transaction chain, from pre-issuance to post-trade?
- Level playing field access to all actors, independently of their location?
- Fostering harmonisation and standardisation across EU actors and markets?
- Certainty on European governance and data management?

# Way forward

DIMCG members are invited to:

- **discuss further** regarding the pillars/workstreams
- agree on the **relevance and description**
- Launch the **work-programme for the next 12 months**

# Thank you for the attention

[www.ecb.europa.eu/paym](http://www.ecb.europa.eu/paym)

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and payments**

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