



EUROPEAN CENTRAL BANK

EUROSYSTEM

Harmonisation areas in debt issuance

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Introduction

- In its meeting on 16 December 2020 the DIMCG discussed a first, tentative list of areas in pre-issuance (pre-trade and trade) which could be subject of harmonisation work under Pillar 2 of its work programme
- The aim of this discussion is to see which areas and specific aspects of debt issuance could be potential targets for harmonisation work (and what should not be in the scope of harmonisation)
- The aim of this presentation is to cover the areas that the DIMCG did not discuss in its last meeting and agree on a potential way forward on these

To recall there are three 'sources' of input to the discussion on harmonisation

- I. Existing industry standards / practices
- II. Past feedback from stakeholders (2019 ECB market consultation and preceding DIMCG discussions)
- III. Findings in DIMCG pillar 1 work (based on survey) – expected by Q1 2021 and focused on initial case study (European debt issuance)

Overview of potential areas for harmonisation (identified so far)

Potential areas for harmonisation

- 1 Investor identification / KYC
- 2 Term sheet
- 3 Business day, day count and rounding conventions
- 4 Documentation
- 5 Data exchange / datamodels
- 6 Timeline / settlement cycle – T+5 / T+2
- 7 Book building / order book management

Data exchange / datamodels

- Issue statement:

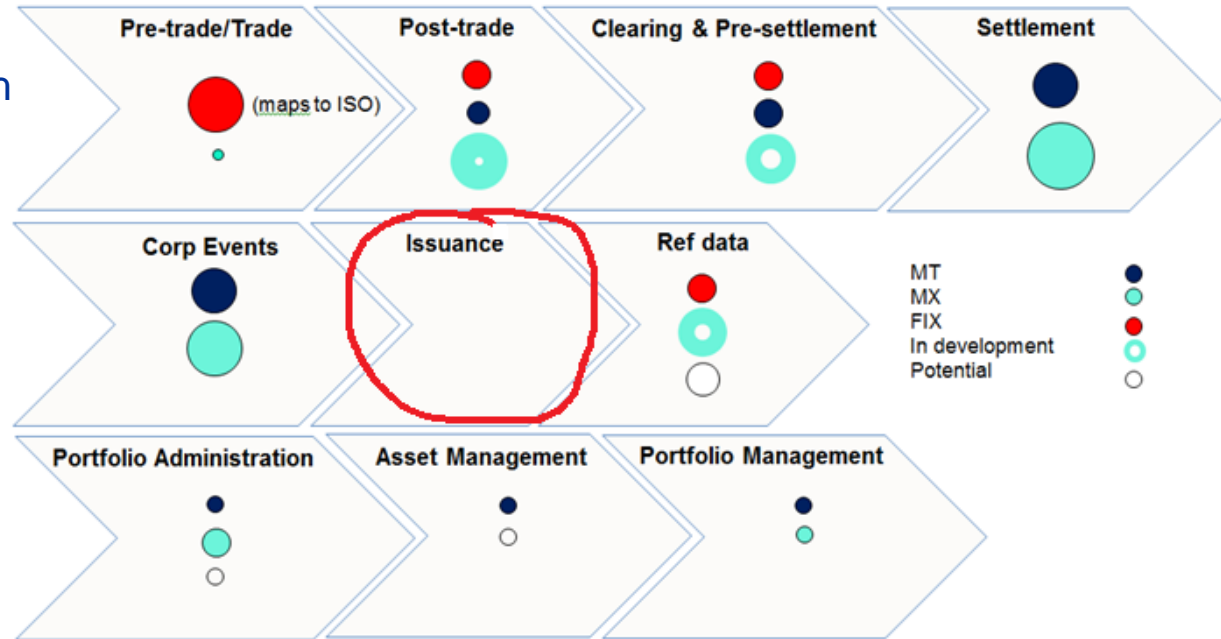
Streamlined and efficient data processing and STP in data exchange between the parties across the full issuance transaction chain require harmonised datamodels / single data exchange protocol

- Assumptions:

- Today, where not all parties to the transaction use the same IT platform, data exchange in the issuance process takes place between parties in proprietary ways and dataformats implying manual data import / export and additional manual work
- The existing inefficiencies impose limits on what issuers or dealers can do during the issuance process with data (hampering data analysis, simulations, real-time view, etc.)
- Due to lack of common and widely accepted datamodel / data exchange protocol third-party vendor applications are often not compatible with each other

Data exchange / datamodels

- Issuance seems an area which has been lagging behind others in financial messaging standardisation
- What are the reasons for this?



Source: Standards Messaging Landscape, SWIFT (2013)

Data exchange / datamodels

	Function	Cash Equities & Fixed Income	Forex ⁽²⁾	Listed Derivatives	OTC Derivatives ⁽²⁾	Funds
Issuer	Pre-investment decision		N/A		N/A	
Front Office	Pre-Trade					
	Trade					
Middle Office	Post-Trade	▲ ●	▲ ●	▲ ●		
	Clearing / Pre-Settlement			▲ ●		
Back Office	Asset Servicing	● ◆	N/A			● ◆
	Collateral Management	▲ ●	N/A	▲ ●	■ ●	N/A
	Settlement					
	Pricing / Risk / Reporting	■ ●	■ ●	■ ●	■ ●	■ ●
Investor Supervision	Regulatory Reporting	▲ ●	▲ ●	▲ ●		
Issuer Supervision	Regulatory Reporting		N/A		N/A	

▲	FIX	●	ISO (1)
■	FpML	◆	XBRL

(1) Represents ISO 20022, ISO 15022 and MT messages
 (2) See OTC Derivatives breakout for details:
 - Syndicated Loans, Privately Negotiated FX, and OTC Equity, Interest Rate, Credit, and Commodity Derivatives
 - FpML payload may be used in combination with FIX business processes in dealer to buy side communication

- The **Financial Information eXchange (FIX)** protocol seems to be the best potential candidate to provide a building ground for creating and adopting a standard data exchange protocol for issuance (pre-trade and trade phase)
- Relevant work in the FIX community focused on IPOs / equity issuance
- Several key players have recently mentioned debt issuance as the next area to target with adoption of FIX

Source: Investment Roadmap, Standards Coordination Group (2010)

Data exchange / datamodels

- Commitment by each relevant standards organization (FIX, FpML, SWIFT, XBRL, ISITC and FISD) to the ISO 20022 business model to ensure interoperability
- The respective business processes from all standards / protocols will be incorporated within the ISO 20022 business model for ISO 20022 XML based messages to be created to support the business processes

FIX PROTOCOL
INDUSTRY-DRIVEN MESSAGING STANDARD™

FpML
Financial products Markup Language

ISITC

SIIA / FISD
.net

SWIFT

XBRL
eXtensible Business Reporting Language

ISO 20022 data library and messaging

Data exchange / datamodels

Questions for discussion:

If there are issues with data exchange between parties in the issuance process are they related to lack of standardisation / harmonisation and a lack of common protocols?

If so, why hasn't FIX protocol based messaging been implemented (widely) in the industry?

Are there third-party tools / issuance platforms that rely on FIX or other global messaging protocols?

Timeline / settlement cycle – T+5 / T+2

- Issue statement:

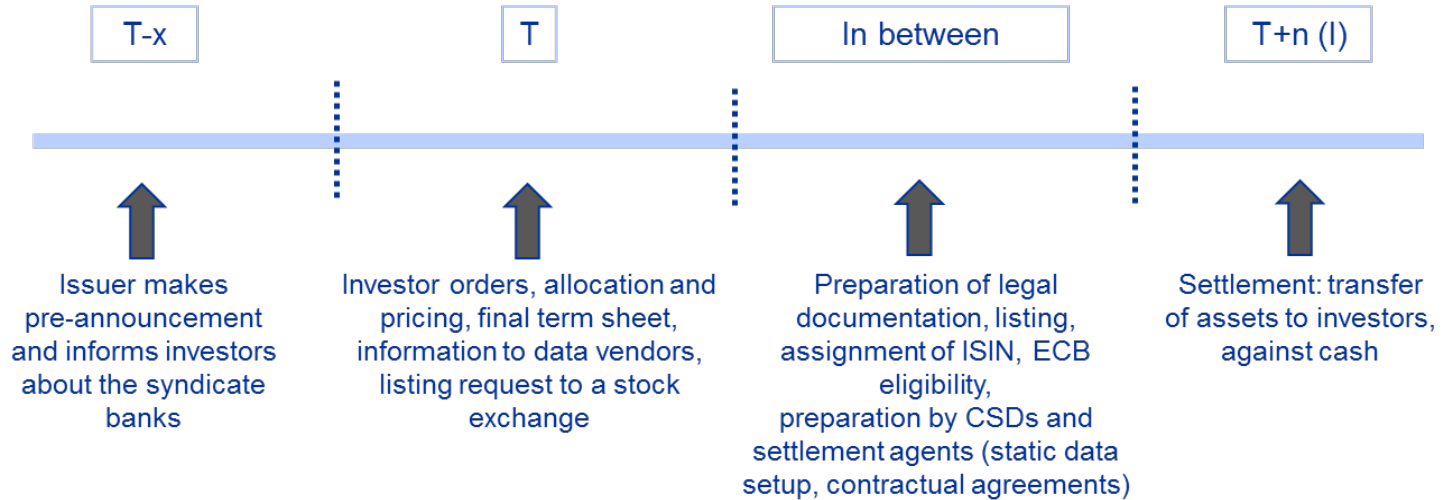
The typical issuance settlement cycle (T+5) for syndication is considered too long by stakeholders and it is at odds with the EU standard secondary market settlement cycle, T+2

- Assumptions:

- Several factors may require currently 5 business days between pricing / final allocation and settlement in issuance:
 - Preparing / signing / distributing final documentation
 - Collecting / building up liquidity at / by dealers
 - Preparing the settlement process by agents

Timeline / settlement cycle – T+5 / T+2

- Assumptions (continued):



Timeline / settlement cycle – T+5 / T+2

- The current settlement cycle seems to be product of challenges in several areas (some already covered):
 - **Creation / distribution of final issuance documentation** – link to potential harmonisation / standardisation and streamlining of process of creating / signing and distributing legal and operational documents
 - **Collecting liquidity** – pre-funding by buyers before settlement date should not be a requirement in highly efficient financial markets – is it a question of internal processes at stakeholders (e.g. investors / dealers) or is it a question of market infrastructure?
 - **Preparing for settlement** – Issuer agent / LM to arrange settlement details with allottees and allottees with custodians of all investors, prepare settlement instructions to CSDs and correspondent banks - with efficient / STP procedures would not require 5 business days (e.g. ISMAG market practice gives 2 business days for these steps)

Timeline / settlement cycle – T+5 / T+2

Questions for discussion:

Is T+5 settlement an issue today? What would be the benefits of a shorter settlement cycle? Who would benefit?

Is this a topic for harmonisation?

Is the settlement cycle also an issue in case of auctions?

Which areas would need improvement in order to allow faster settlement?

Documentation? Liquidity provision? Settlement preparation / interaction with the (I)CSD? Other?

Potential other areas?

Other broad areas mentioned in the public consultation include:

- Withholding tax procedures (WHT)
 - a lot of on-going initiatives most recently by the European Commission with its new CMU Action Plan
 - **This seems to be a post-trade topic, do WHT procedures affect the process of issuance?**
- Legal harmonisation
 - very broad area
 - No progress so far on a EU Securities Law initiative
 - **Is there a specific relevance for the pre-trade and trade phase of debt issuance?**
- **Others?**

Thank you for the attention

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