EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

22 May 2019

Market consultation on a potential Eurosystem initiative regarding a European mechanism for the issuance and initial distribution of debt securities in the European Union

DISCLAIMER: *In line with its mandate, the Eurosystem will consider the feedback it receives in this consultation, with a view to determining any follow-up actions leading to a potential Eurosystem initiative in this area. In doing so, the Eurosystem will take into account all relevant legal, regulatory and statutory considerations*.

Responding to the market consultation

The European Central Bank (ECB) invites market participants to provide views on all matters described in this consultation and in particular on the specific questions at the end of each section. Comments are most helpful if they:

- are short and precise;
- contain a clear rationale and evidence, if possible;
- highlight the role/position of your institution in the debt issuance landscape; and
- describe any alternative that should be considered in the assessment.

Please indicate in which role(s) your institution expresses views in this consultation:

- issuer
- investor
- CSD
- custodian
- agent (issuing or paying)
- dealer
- **other (please specify): industry association**

All comments received by **09 July 2019** will be considered**.**
Please provide your feedback by email to EDDI.Initiative@ecb.europa.eu.

Publication of responses

When sending your responses to the ECB, please fill in the box below as applicable:

		YES	NO
For institutions	***We agree with the publication of any related personal data included in the comments on the internet. We declare that we have obtained consent for the publication of such personal data from the involved persons.***	X	
For individuals	***I agree with the publication of my personal data included in the comments on the internet.***		

Next steps

The Eurosystem will consider the feedback it receives in this consultation, with a view to determining follow-up actions leading to a potential Eurosystem initiative regarding a European mechanism for the issuance and initial distribution of debt securities in the EU, in line with its mandate.

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1. Introduction

In a truly integrated financial market, the issuance, trading, clearing and settlement of a financial instrument should neither be affected by the location of the instrument itself, nor by the location of the counterparties involved in a transaction in the instrument. This is a fundamental characteristic of a single financial market.

While several developments have taken place in the European Union (EU) in the area of financial market infrastructures regarding securities settlement, e.g. the CSD Regulation[1] and TARGET2-Securities (T2S)[2], there has not been similar progress at the issuance level towards fostering harmonisation and integration in Europe. At the current stage, there is no pan-European, neutral[3] and harmonised channel for the issuance and initial distribution of debt securities that covers the EU as a single "domestic" market. Instead, unlike the situation in other currency areas, issuers with a European perspective have to use a multiplicity of channels and procedures, either domestic or international, which are neither harmonised nor covering the EU and its investors as a single market.

The Eurosystem is therefore exploring the possibility to support a harmonised issuance and distribution of euro debt instruments in the EU. In order to analyse the underlying issue itself, as well as the potential business case for such a service, this Eurosystem market consultation invites responses from a wide audience of stakeholders, including issuers and investors.

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1 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

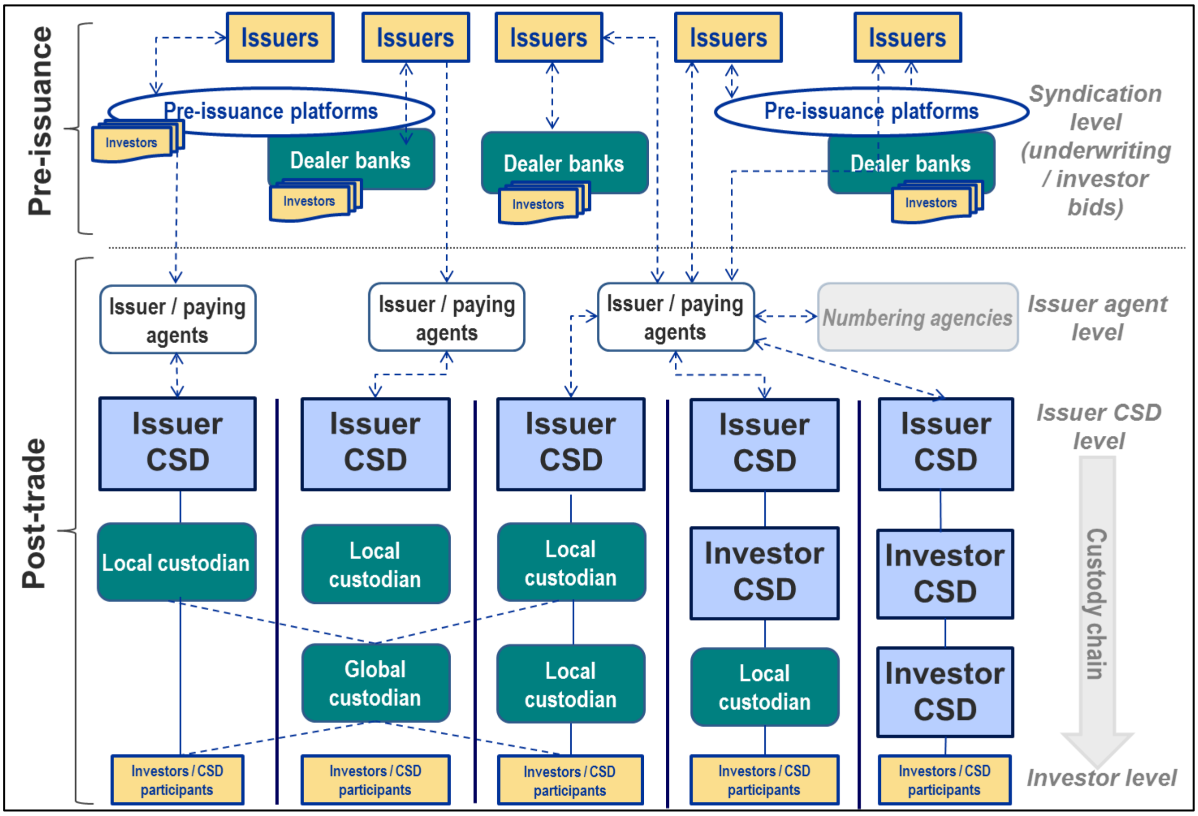
2 https://www.ecb.europa.eu/paym/target/t2s/html/index.en.html.

3 In this document, "neutrality" means that the desired market structure is such that it does not put the location of issuance (i.e. of the issuer CSD and its direct participants) in a privileged position over other intermediaries and end-users that wish to access the securities.

2. Current debt securities distribution ecosystem

The issuance process for debt securities in Europe consists of two main sequential phases: pre-issuance and post-trade[4]. The following paragraphs provide a high-level stylised description of these phases.

Chart 1: Schematic overview of the securities distribution ecosystem



Pre-issuance includes the preparation of issuance, choosing the modalities of the price discovery process (syndication, auctioning or private placement) and reaching agreement between the issuer and investors (mostly via dealer banks and the collection of bids) on the economic terms of the securities. In the pre-issuance phase, dealer banks and agents play a key role. They provide advice and market intelligence to issuers, underwrite the securities issuance, communicate with investors and collect their orders and take responsibility for certain elements of regulatory compliance (prospectuses, know-your-customer requirements, etc.).

To support the pre-issuance activities, issuers either rely on proprietary tools provided by the dealer banks or they can use the technical facilities of a pre-issuance platform provided by a third party. Investors, i.e. capital providers, on the other hand rely mostly on the dealer bank service for interacting with the issuers.

Post-trade processes take place after the pre-issuance phase and include the actual issuance of the debt security in central securities depositories (CSDs) and its delivery to investors via custodians and other intermediaries through multiple distribution channels. In the post-trade domain, issuers are usually represented by agent banks, which manage securities and cash accounts, arrange the issuance procedure and ensure collection and distribution of cash proceeds (e.g. interest payments) to the

[4] A more detailed description of the securities distribution landscape and the roles of different actors can be found in Annex 3 (pp. 21-41) of the report by the European Post Trade Forum (a group of experts set up by the European Commission in 2016).

investors during the lifespan of a security. Investors, i.e. individuals or legal entities holding the final investor balances, rely on a number of different channels or models for holding such balances. This can happen via global or local custodians or CSDs, or a combination thereof.

Question 1:

- **Please provide your views on the description of the European ecosystem for the issuance of debt instruments, in particular as regards whether you deem other actors, elements or processes relevant to complete the picture.**

The International Capital Market Services Association (ICMSA) is a London-based self-regulating organization representing international financial and non-financial institutions active in the provision of services to the International Capital Market. Our membership includes universal banks, registrars, stock exchanges, law firms, International Central Securities Depositories (ICSDs) and other service providers specialised in specific product segments such as the processing of tax reclaims. The primary purpose of the association is to foster the highest standards in the practice and management of international capital market services, thereby facilitating the efficient functioning of the market.

In its day-to-day activities, the ICMSA provides issuer, agency, and trustee and associated services for Eurobonds in the International Securities Market which has outstanding issuance levels exceeding Euro (EUR) 10 Trillion.

The ICMSA welcomes the opportunity to provide input into this consultation, based on views from market practitioners with longstanding experience in the issuance and distribution of international debt securities. We hope the feedback from our association will help identify if and where action is required in order to further improve the European financial market infrastructure landscape.

Based on our experience, Chart 1 and the accompanying paragraphs should be revisited to reflect the following:

- Numbering agencies do not exclusively interact with issuer/paying agents but may also have direct communication flows with issuers/dealers and (I)CSDs. In some instances, this numbering agency function is performed directly by the (I)CSDs;
- The current description of pre-issuance activities relates to functions undertaken by syndicate banks or dealers, but not to the function of issuer and/or paying agents. The Issuing and Paying agent plays a significant role in the pre-issuance phase in the creation of the legal representation of the securities and controlling the primary market settlement for delivery versus payment of cash proceeds;
- Regarding post-trade activities, the diagram does not reflect the option for issuers to issue their debt securities simultaneously in multiple (I)CSDs. Today, a large proportion of international debt securities is actually issued and distributed through both ICSDs simultaneously, acting jointly as issuer-CSDs;
- The current diagram creates the perception that debt instruments are issued in vertical silos with limited possibilities for cross-border distribution, whereas the reality is that pan-European (and global) distribution is already enabled by the existence of multiple (I)CSD links and international custody services providers;
- The number of options in terms of custody chains are numerous. Investors and global custodians are also likely to have direct access to the issuer-CSD, although these options are not currently reflected.

At this stage, it is of paramount importance to highlight that a direct access to the issuer-CSD is not necessarily the (only) relevant factor for investors to decide which access channel to use to hold and settle their debt securities. Indeed, investors will usually consider a number of other factors, including risk profile, efficiency and value-added services that intermediaries will be able to offer in order to protect their assets and maximise their return on investment. Depending on the profile and level of sophistication of investors, issuer- or investor- CSDs may simply not be an option from an investor standpoint. Given the existing issuance models (both ICSD and domestic) and considering the multiple choices available to both issuers and investors, we believe the Euro area benefits from a balanced, competitive and well-functioning ecosystem. Whilst optionality and increased competition are positive for the entire market, especially for investors, without harmonisation of market rules and practices optionality may even increase fragmentation. Harmonisation of domestic practices in the area of corporate actions and withholding tax (as an example) should be considered as a priority. Fragmentation and lack of homogenous rules within the Euro area can in fact reduce issuers and investors' ability to access the capital markets.

Likewise, it is crucial to understand that issuance and primary market distribution of debt instruments cannot and should not be considered in isolation of secondary market models and associated constraints. Given the particularity of bond trading, efficient secondary market infrastructures are pivotal for an orderly functioning of the international debt securities market. We observe that there remains a number of constraints and barriers to an efficient secondary market in Europe, as highlighted by experts from the European Post-Trade Forum (EPTF) in their report published in May 2017. As a result of these barriers, investors' choice in terms of access channel to debt securities markets is reduced, which has a direct bearing on channels that will be used to support debt issuance and distribution.

3. Issue at stake

From the perspective of a European or third-country entity interested in issuing debt in euro within a truly European market, the aforementioned securities distribution ecosystem might present a number of challenges. First, although large issuers can already reach a wide range of European and international investors[5], there is **no pan-European issuance mechanism**, and in particular one operating in central bank money[6], offering issuers the possibility to efficiently reach all European investors on an equal basis, and thereby fostering a single and deep European capital market. Second, in the existing, largely national, securities distribution channels, the location of issuance might put local actors in a preferential position compared with other investors and market actors in Europe. In today's practices, an issuer might choose primarily its own domestic market and CSD or rely on the services of an international CSD which serves its primarily international participants by settling in commercial bank money.

As shown in Chart 1, there are a variety of channels available in the market today to facilitate investor access. However, these solutions are neither neutral, nor pan-European by construction, i.e. they are based on a hierarchical model and they maintain a privilege for the initial issuance location and its participants. The position of the investors within the holding chain, including their location, may have an influence on the efficiency of and the costs associated with access to a given security. As a consequence, there may be an impact on the level playing field and hence on the equal access to European debt securities by investors. Thus, the number of intermediaries and the cost of holding the assets are determined by the location of the investor vis-à-vis the initial issuance location. Compared with other

[5] In relative terms, larger issues are normally more easily accessible to a wider set of investors, while smaller issues are much less accessible.

[6] See the ECB glossary: https://www.ecb.europa.eu/home/glossary/html/glossc.en.html. *Central bank money: Liabilities of a central bank, in the form of either banknotes or bank deposits held at a central bank, which can be used for settlement purposes.*

currency areas, e.g. the US, Japan or China where truly domestic issuance distribution channels exist, there seems to be a structural gap in the EU.

In the area of pre-issuance, European issuers and investors currently face a multiplicity of non-interoperable issuance platforms and proprietary procedures with a very low level of automation and digitalisation. This is due to the lack of **standardisation and harmonisation** between the different private initiatives, as well as the low level of automation of existing private initiatives. This lack of efficiency is recognised in an article in the third quarter 2018 Quarterly Report of the International Capital Market Association (ICMA),[7] which states the current challenges and opportunities, from the perspectives of the investors, issuers and syndicates. In addition, the report: (i) calls for the development of standards and further harmonisation in the primary bond markets' pre-issuance processes; and (ii) states that "*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*".

The European Post Trade Forum (EPTF) also notes in its report that: "*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".*[8] The existing ecosystem results in considerable heterogeneity and complexity for market actors, including the end-investors. Some issuers have even argued that it entails inefficient and costly procedures that result in less favourable conditions for issuers which wish to reach a pan-European investor base.[9] The EPTF report recognises that this heterogeneity is the result of different national legal regimes in the EU in the area of securities and other financial law, which are outside the remit of the Eurosystem, but is also due to other barriers, including operational and technical standards, market conventions, etc. Furthermore, the current environment of structural fragmentation may not be conducive to a deep and liquid single European market for debt instruments.

Question 2a: • **Do you think that there is a structural issue in the current debt issuance and distribution in the EU, seen from the perspective of a single capital market? If so, what is your view regarding the underlying causes of this structural issue?**
From the ICMSA's remit in both pre-issuance and post trade perspectives, we do not see nor have we experienced a particular structural issue for international debt issuance and distribution. Every day, many EU and non-EU issuers come to market and leverage the existing (I)CSD issuance channels to reach their investors across Europe and beyond. The choice of the issuance platform is, as per our experience, dictated by many factors, including the targeted investor base, the choice of governing law, the currency of issuance, and the diversity of service providers available to act in various capacities throughout the lifecycle of the security. We do not agree with the claim that there is "no pan-European issuance mechanism" since these mechanisms are being used every single day by issuers to issue their debt, including through central bank money issuance platforms. Likewise, we do not share the views that current models are sub-

7 See Kallsen, G., "Electronification in primary bond markets" (available at https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Regulatory-Policy-Newsletter/Previous-versions/), pp. 26-27.

8 https://ec.europa.eu/info/sites/info/files/170515-eptf-report-annex-3_en.pdf.

9 "*A single system to distribute sovereign bonds would offer investors – especially international investors – more transparency and ease access for them.*" Speech by the ESM Managing Director on 26 November 2018 (https://www.esm.europa.eu/speeches-and-presentations/future-economic-and-monetary-union-and-role-esm-speech-klaus-regling).

optimal from an efficiency or investor-reach standpoint. As highlighted in our response to Question 1, there are many factors – other than the direct access dimension - that will come into play when investors decide which channel they want to use to safekeep and settle debt instruments. We have no evidence that the current CSD infrastructure landscape and investor access models have an actual impact on the issuers' funding cost levels. To the contrary, we are aware of examples that demonstrate that the choice of CSD channel is actually neutral from an issuer funding cost perspective.

We observe that the choice of CSD issuance channel will also be driven by the nature and level of sophistication of the issuer. It is a fact that small and mid-size enterprises (SMEs) will naturally first tap their national investor base, most likely by leveraging their national CSD infrastructure as post-trade gateway. At the other end of the issuer spectrum, large, established corporates will have global borrowing needs that often require investor and currency diversification. Such issuers will leverage (combinations of) CSD issuance channels across the globe (ICSDs, DTCC, JASDEQ, etc…) to respond to their own and their investors' needs. We therefore observe that there are very few debt issuers which will be attracted solely by a pan-European distribution *stricto sensu*, as most large issuers look for diversification across all large investor pools (Americas, Asia-Pacific, and Europe & Middle-East).

The fact that Europe is home to many CSDs, which are all possible debt issuance channels, should not necessarily be seen as a weakness. Indeed, national CSDs are by definition much closer to their domestic market and the needs of their domestic issuers & investors, which are heavily influenced by national legal and fiscal frameworks. So long as Europe remains fragmented from a legal and fiscal standpoint, the expertise from national CSDs and intermediaries such as custodians will remain a central element to both the issuance models and the supporting custody channels. We also note that other large fixed income markets such as China or the US operate multiple national CSDs, depending on the instrument type and/or other criteria such as the trading place. In this instance, what matters is efficient interoperability in order to allow seamless primary and secondary market activity. We however do regard the absence of a pan-European fiscal, securities and corporate law framework as a barrier to more efficient, integrated debt capital markets in Europe.

We also take comfort that the European post-trade infrastructure is being further strengthened with the implementation of the CSD Regulation (CSDR), which strives to create an integrated market for securities settlement with no distinction between national and cross-border securities transactions, aimed to allow for the proper functioning of the internal market. In particular, CSDR fosters choice for the issuers, as they can now choose the issuer CSD that offers the most appropriate services to meet their needs and those of the investors. CSDR thereby clearly promotes increased competition amongst CSDs, which is in line with the European Single Market objectives.

Question 2b:

- **Do you face problems or see problems for issuers when reaching out to a pan-European or international investor base? If so, please specify.**

As previously commented, the ICMSA has not experienced nor see any problems for issuers to reach their targeted investor base in Europe and beyond. Every day, many EU and non-EU issuers make use of European (I)CSD issuance platforms to ensure efficient issuance and distribution, both in central and commercial bank money. Issuance via the ICSDs continues to be one of the most widely used distribution channels for new international debt instruments, with monthly average volumes in the region of EUR 500 billion equivalent since the start of 2019.

Weekly publications from 'Global Capital' also demonstrate to what extent current issuance mechanisms allow issuers to reach their investor base and secure efficient funding levels, without particular focus on the underlying issuer-CSD infrastructure.

Question 2c:

- **What are the main considerations for issuers and/or their agents/dealers when choosing a place of issuance and a service provider?**

As highlighted previously, issuers and their dealer/agents will take a number of factors into consideration when deciding about which service providers & post-trade infrastructures to be used for their debt issuance and distribution:

- Targeted investor base: domestic versus international/global, listing versus private placement and holding restrictions
- Issuer Jurisdiction
- Issuance governing law: domestic or foreign law and insolvency regimes
- Fiscal regimes (as applicable)
- Currency: domestic or foreign
- Tenor: short-term vs long maturity
- Risk management: comfort with infrastructure risk profile & resilience
- Legal certainty: comfort with stability of post-trade legal framework, compatibility with issuer home jurisdiction
- Instrument features: holding restrictions, taxation, corporate events, level of complexity of the assets to be issued
- Services: value-added services and operational efficiency
- Costs: economies of scale, competitiveness, secondary market performance
- Withholding tax considerations and costs for the potential investors

Issuer agents would typically consider the issuers' preference and decide to support a specific market place based on the ease of access and the associated costs to operate through the CSD infrastructure of that specific market and linked to this, many major issuer agents have developed the ability to support issuances within a number of major marketplaces.

Question 2d:

- **What is your view on the statement that there is a need to improve competition and level playing field conditions regarding the access of banks, investors and CSDs to debt securities?**

We do regard competition as a key component of a successful marketplace, to ensure service quality, performance and innovation to the benefit of market participants and ultimately to issuers and investors. The issuance and distribution of debt securities makes no exception to this rule, but we would like to highlight that banks, investors and CSDs all play a different and specific role in the context of a debt issuance.

We observe that there are high levels of competition at each and every layer of the debt issuance value chain, from agent banks as service providers to issuers and investors, to infrastructures such as stock exchanges and (I)CSDs. The highly competitive landscape between service providers (in both the pre and post trade areas) drive further value for issuers and their investors alike. We particularly welcome the enhanced competitive landscape created between CSDs, following the successful implementation of T2S and CSDR, which now provide issuers with the freedom to choose their post-trade issuance channel and allow interoperability on a pan-European basis. We do not necessarily see an area where competition is missing in the current landscape and therefore see no need for additional intervention from public authorities which we feel will in fact increase fragmentation. We however wish to refer to the remaining barriers to more efficient post-trade markets, as identified by the EPTF report, which should be embraced and addressed by European authorities in the context of the Capital Markets Union.

The Treaty of the European Union provides for "an open market economy with free competition". With the ECB proposal for its own issuing and post trade platform, competition may stagnate if both private and public sector entities compete in the area of provisioning services, thereby reducing "neutrality."

Question 2e:

- **Would the improvement in the neutrality, harmonisation and pan-European reach support and develop further the issuance of debt in euro?**

We are uncertain how neutrality could actually support and develop issuance of debt in euro. We observe that issuers are more interested in reliable, efficient and innovative service providers and infrastructures than by their potential neutrality. By definition, market infrastructures and agent banks as service providers are neutral towards their users, as ensuring a level-playing field and equal treatment to their members is at the heart of their mission. We are strong supporters of a competitive marketplace where providers can differentiate themselves through value-added services and innovation, which ultimately benefits issuers and investors by converging towards cost efficiency.

We consider that pan-European reach is already a reality as both EU and non-EU issuers do achieve it every day. We do not see how adding a new post-trade issuance channel would actually increase issuance of debt in euro. Currency choice for funding is normally driven by other factors than the (non) availability of post-trade infrastructure and therefore we feel that more analysis needs to be done to determine if the ECB EDDI proposal is the right solution and would achieve the right objectives.

As an international association of service providers active in cross-border transactions, harmonisation is a key priority and the subject of many work efforts at industry level. ICMSA has demonstrated over the years its ability to progress harmonisation at European level, notably via the frequent publication of its own guidelines and involvement into the set-up of the International Securities Market Advisory Group (ISMAG) Practice Book in 2012. This guide remains to date the reference for operational standards in the international debt issuance process. Any opportunity for further harmonisation of market practices across Europe should be embraced, and the ICMSA would be keen to contribute to any work that is being initiated on the back of this consultation.

4. Possible actions to address the issue at stake

In order to address the above structural challenges, different actions could be considered.

4.1 Harmonisation

It is widely acknowledged that harmonisation is an enabler of, if not a prerequisite for, market integration. Despite the remaining gaps, post-trade harmonisation has progressed substantially in the last decade, also thanks to the close collaboration between private entities and public authorities. In addition to the regulatory harmonisation (e.g. MiFID II, EMIR and the CSD Regulation),[10] it is widely acknowledged that the single most influential initiative has been the T2S[11] harmonisation agenda which is mostly attributable to the successful catalyst role of the Eurosystem in this area. The T2S harmonisation agenda focused on areas of core relevance for T2S (e.g. related to messages, accounts or corporate actions), but did not address any areas of pre-issuance.[12]

As reflected in the previous section, in the area of pre-issuance, the harmonisation efforts have not progressed equally despite efforts made by primary market practitioners. As targeted harmonisation areas, market actors usually refer, among other things, to those standards and market conventions relating to a standardised order book, the consistent usage of terminology in term sheets, rounding conventions, the corporate action information flow, timelines and processes, etc. Pursuing further the pre-issuance harmonisation agenda, in a coordinated and structured way, across the EU could tackle many of these topics.

Question 3a: • **Do you think that there is a need for further harmonisation and standardisation in the area of debt securities issuance?**
Harmonisation and standardisation play a key role for a well-functioning debt securities market. Such harmonisation needs to be achieved bringing together all actors in the value chain of the debt securities issuance from start to finish; including private and public-sector issuers, financial intermediaries, asset managers, investors, infrastructure providers, central banks, law firms and others. Given international markets, any harmonization efforts need to take account of the international perspective and should not only focus on a particular domestic or regional market. Harmonization work is often hindered by the absence of pan-European fiscal, securities, insolvency and corporate laws. Whilst regulation has assisted in the harmonisation of some aspects of securities laws, due to national member states interpretation, there are still significant differences in substance and timing of national implementation of EU regulations. Associations like the ICMSA are committed to promoting and developing internationally accepted standards of best practice through the development of appropriate, broadly accepted guidelines, rules,

[10] These EU laws mostly focused on aligning definitions, licensing regimes and prudential requirements and resolving conflicts in national laws in these fields, but did not cover pre-issuance procedures or all post-trade procedures.

[11] *T2S, One year of full operation*, December 2018 https://www.ecb.europa.eu/paym/intro/publications/pdf/ecb.targetsecspecial181219.en.pdf?91d587b5a441bbd11d3cc501138c0c79

[12] *9th T2S Harmonisation Progress Report,* October 2018 https://www.ecb.europa.eu/paym/intro/publications/pdf/ecb.targetsechpr181017.en.pdf?ae3a947ea50e4f19775c4c31d89d05f0

recommendations and standard documentation, aimed at maintaining and enhancing the framework of cross-border issuance, trading and investing in debt securities.

One particular area where the ICMSA sees room for further harmonisation is in the area of withholding tax practices. Streamlining and aligning withholding tax procedures across Europe would greatly facilitate securities structuring and operational processing through the issuance and custody chain, with obvious economic benefits for both issuers and investors.

Other areas where standardization in the pre-trade would be needed include:

- Term Sheets
- KYC
- Terminology and classification of debt instruments
- Legal interpretation of whether or not the PRIIPs regulation 1286/2014 applies to certain corporate bonds
- There are still differences in the types of securities each of the domestic CSDs can support. For example, some payments can be managed by a domestic CSD whilst not by others
- Standardisation is needed to guarantee investor protections across markets

Question 3b:

- **Should the work on harmonisation/standardisation cover the full transaction chain, i.e. from pre-issuance to post-trade?**

See response to question 3a

Question 3c:

What are your views regarding the pre-issuance harmonisation items/topics? Which processes should be looked at?

As discussed above in 3a, one particular area where the ICMSA sees room for further harmonisation is in the area of withholding tax practices. Streamlining and aligning withholding tax procedures across Europe would greatly facilitate operational processing through the issuance and custody chain, with obvious economic benefits for both issuers and investors alike.

Question 3d:

- **What would you consider the best way forward, for example in terms of methodology and governance, for fostering harmonisation in this area?**

In the referenced ICMA article “Electronification in the primary bond markets”, the author Gabriel Callsen has indicated that legal and regulatory requirements are key blocking factors to increased efficiency and further market innovations. The different legal frameworks in the 28 EU member states should be harmonised at the level of securities, fiscal and insolvency laws prior to establishing a new distribution platform that would, in our views, further fragment the current issuance processes.

Question 3e:

- **Is there a need to reinforce and/or support with EU regulation any harmonisation efforts in the area of pre-issuance?**

As discussed above in 3d, the key structural issue originates from separate and distinct legal jurisdictions. Whilst regulation has assisted in the harmonisation of some aspects of securities laws,

there are still significant differences in substance and timing of national implementation of EU regulations.
Question 3f: • **Do you see any other efforts that could help resolve the current market fragmentation?**
See response to question 3a

4.2 Provision of a European market infrastructure service

In addition to harmonisation, the perceived lack of neutrality and pan-European reach could potentially be addressed by the establishment of a European market infrastructure service, which would be offered on a level playing field basis.

The objective of such a service would be to enable euro debt issuers to access the whole EU market as if it was a single domestic market, both in terms of a single issuance process and a streamlined, commoditised service layer. The service could be based on a multilateral governance arrangement, encompassing all interested stakeholders, e.g. issuers, banks, CSDs and potentially investors.

The provision of such a service does not need to be an alternative to the harmonisation work considered above. On the contrary, the delivery of a European service and the work on the pre-issuance harmonisation agenda could reinforce and support each other.

Question 4a: • **Do you think that the establishment of a European market infrastructure service could potentially address the lack of neutrality and pan-European reach in the current debt securities market? If not, what other solution would you propose?**
See response to question 2e The ICMSA does not consider that neutrality is needed to have efficient debt capital markets in Europe. We are strong supporters of a competitive marketplace where providers can differentiate themselves through value-added services and innovation, which ultimately benefits issuers and investors by converging towards efficiency. We consider that pan-European reach is already a reality as both EU and non-EU issuers do achieve it every day. We therefore seek to understand better how adding a new post-trade issuance channel would actually increase issuance of debt in euro and therefore determine that more analysis is needed before conclusions re distribution platforms are reached. Currency choice for funding is normally driven by other factors than the (non) availability of post-trade infrastructure. Based on the limited information made available via this consultation, we regard the potential set-up of a new post-trade market infrastructure as an additional operational channel to be supported, adding costs and fragmentation without any obvious benefit to issuers, intermediaries & investors.
Question 4b:

• **Do you think that this service, as described above, exists today in the EU? If not, should it be offered by a private entity or a public entity, and why?**
See response to question 2e Unfortunately, the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a proper, in-depth comparison with incumbent service providers. We are strong supporters of a competitive marketplace where providers can differentiate themselves through value-added services and innovation, which ultimately benefits issuers and investors by converging towards efficiency. We are of the view that such value-added services and competition around them should be left to private sector actors, with appropriate regulations and oversight from public authorities.
Question 4c: • **Is there a need to combine both approaches, i.e. a Europe-wide harmonisation initiative and the provision of a European market infrastructure service, and why?**
From the ICMSA's remit in the pre-issuance and post-trade perspective, we do not see the need for a new market infrastructure service and thus call on further work around T2S and CSDR to strengthen and further harmonise the existing infrastructure landscape. Associations like the ICMSA are committed to promote and develop internationally accepted standards of best practice through the development of appropriate, broadly accepted guidelines, rules, recommendations and standard documentation, aimed at maintaining and enhancing the framework of cross-border issuing, trading and investing in debt securities. We are therefore supportive of any Europe-wide harmonisation initiative that would facilitate the operational processing of debt issuance and distribution across the multiple (I)CSD channels.
Question 4d: • **Do you see a need for the Eurosystem to support those actions? If so, how?**
The European Central Bank (ECB) has played and continues to play a very important role in the steering and coordination of harmonisation in the post-trade industry, as highlighted by important achievements under the T2S and ECMS initiative. We very much value this important contribution and would encourage indeed the ECB to help driving the next harmonisation efforts around operational standards for debt issuance that would be deemed necessary following this consultation. The ICMSA stands ready to join and actively contribute to this work.

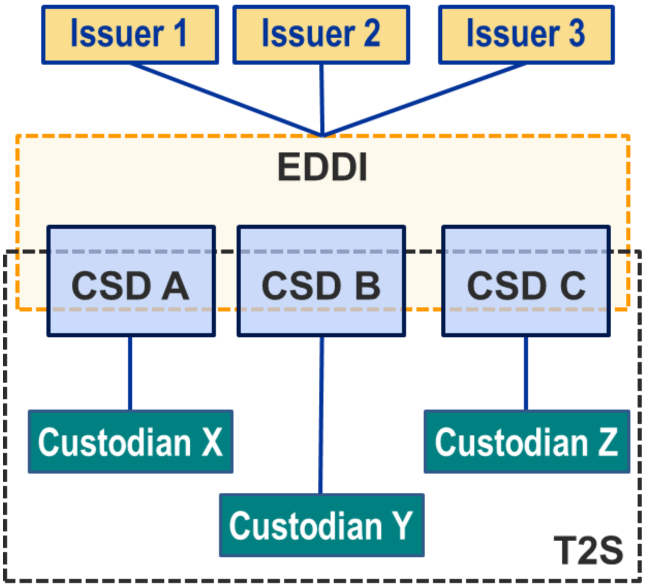
5. EDDI: high-level description of the scope

If the Eurosystem were to take a role in establishing a European service for the issuance and initial distribution of debt securities in the EU, the initiative would need to cover both ends of the transaction chain. Connecting the pre-issuance and the post-trade domains would foster a seamless standardised link between the two.

In addition, by covering both ends of the transaction chain, and based on the ECB's catalyst role, this service, with the working title "European Distribution of Debt Instruments (EDDI)", could potentially strengthen the momentum towards the establishment of a European debt instrument technical standard.[13]

As shown in Chart 2, EDDI could be envisaged as a centralised service interlinking issuer and CSDs to facilitate the pre-issuance and initial distribution of debt securities in the EU.

Chart 2: A high-level model of EDDI



EDDI would have two business components and would be based on a modular approach, i.e. leaving full freedom to its users as to which (if any) they want to use (see Charts 3 and 4).

The pre-issuance component would be a technical toolkit available for issuers (or their issuer agents and/or dealer banks upon authorisation) offering them functionalities which support the definition and communication of an upcoming debt issue, the creation of the order book, the collection of orders from investors and the allocation of the debt instrument issuance to these orders.[14]

The post-trade component would receive the final allocation from the pre-issuance component (and potentially from private pre-issuance tools). On that basis it would facilitate the creation and the centralised

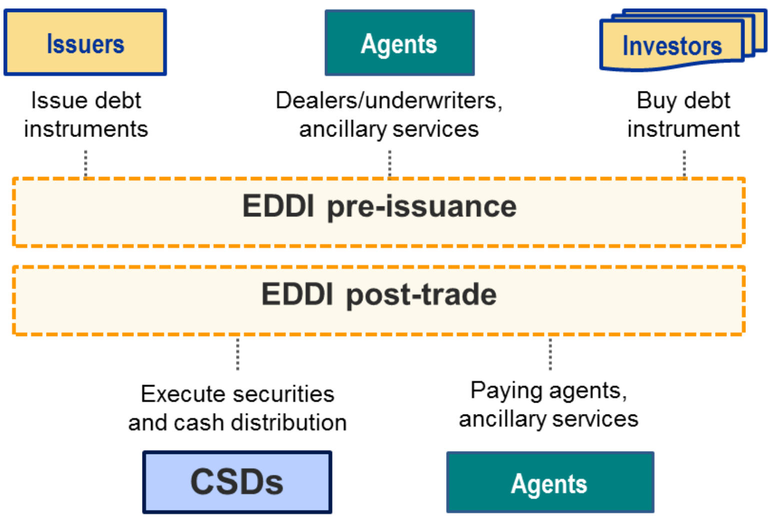
[13] The establishment of a European debt instrument technical standard could cover certain technical and operational rules and procedures and business conventions which could facilitate a harmonised and standardised issuance of debt in euro central bank money.

[14] Although the primary focus of EDDI is high-quality euro debt securities issued by issuers with a European funding perspective, the EDDI pre-issuance model would be able to handle any currency denominations.

distribution of the EDDI-issued debt instruments via the EDDI-participating CSDs. The issuance and initial distribution function could be provided by EDDI only in close collaboration with the CSDs connected to EDDI. This function would also include the notary service (i.e. ensuring the integrity of the global amount issued) and support the relevant corporate actions (e.g. information flows, interest payments) throughout the life cycle of the securities. The EDDI post-trade component would rely on T2S in order to provide the necessary real-time realignment between CSDs in order to enable secondary market cross-CSD transactions across the EU. EDDI's objective is not to replace existing commercial arrangements, but rather to support the participants in the pre-issuance and initial distribution end-to-end process with standardised interactions and information flows.

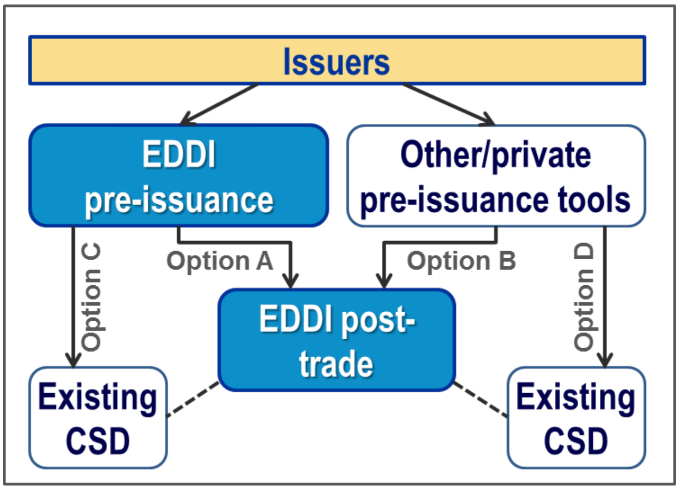
To achieve a high degree of synergies with existing market infrastructures, EDDI could be developed within the framework of the existing TARGET Services. This implies, inter alia, that EDDI would rely, via the EDDI-participating CSDs, on the state-of-the-art T2S settlement functionalities, e.g. real-time central bank money settlement or the central liquidity management functionalities (auto-collateralisation) commonly shared, or under development, across the TARGET Services.

Chart 3: Overview of the roles performed in EDDI pre-issuance and post-trade



EDDI would follow a modular approach, thus allowing users of the service to voluntarily adapt their usage of EDDI to best suit their issuance models and business needs. In practical terms, this translates into four possibilities available to the relevant stakeholders: (a) full use of both EDDI components, i.e. pre-issuance and post-trade; (b) use of only the post-trade EDDI component; (c) use of only the EDDI pre-issuance component; or (d) not using the EDDI service at all.

Chart 4: EDDI as an optional end-to-end service for the securities market



Question 5a: • **What is your view regarding the inclusion of the pre-issuance and post-trade functions in a potential EDDI initiative?**
From the ICMSA's remit in the pre-issuance and post-trade perspective, we do not see nor have we experienced a particular structural issue for international debt issuance and distribution. Every day, many EU and non-EU issuers come to market and leverage the existing (I)CSD issuance channels to reach their investors across Europe and beyond. The choice of the issuance platform is actually dictated by many factors, including the targeted investor base, the choice of governing law, and the currency of issuance. As the current level of information provided regarding the service EDDI will provide and its underlying technical and operational features is not sufficient to allow a proper, in-depth impact assessment (including benefits and costs); the ICMSA does not currently see a need for the inclusion of new functions into a potential EDDI service. In addition to the above, we view the development of trading platforms is probably something best covered by the private sector.
Question 5b: • **What is your view regarding the concept of the optional and voluntary usage of the two EDDI components for all relevant EDDI stakeholders/users?**
From the ICMSA's remit in the pre-issuance and post-trade perspective, we do not see nor have we experienced any particular structural issue for international debt issuance and distributions. Every day, many EU and non-EU issuers come to market and leverage the existing (I)CSD issuance channels to reach their investors across Europe and beyond. The choice of the issuance platform is actually dictated by many factors, including the targeted investor base, the choice of governing law, and the currency of issuance. As the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a proper, in-depth impact assessment (including benefits and costs); the ICMSA does not currently see a need for the inclusion of new functions into a potential EDDI service. Based on the limited information made available via this consultation, we regard the potential set-up of a new post-trade market infrastructure as an additional operational channel to be supported, adding costs and fragmentation without any obvious benefit to issuers, intermediaries & investors.

From a conceptual standpoint, we will always favour a voluntary adoption scheme versus mandatory usage. This fosters competition between service providers and steers innovation & cost efficiency, to the benefit of end users. A voluntary adoption scheme is even more needed in situations where both private sector and public authorities compete in the provision of a particular service.

Question 5c:

- **What do you think are the relevant debt issuers that could benefit from, or would be interested in, issuing via EDDI and why?**

Unfortunately, the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a response from the ICMSA on this question.

Question 5d:

- **Should access to EDDI be restricted to certain classes of issuers? If so, why?**

Any new market infrastructure should ensure a level-playing field and equal treatment for all its users, so access rules must be made transparent and should objectively allow all debt issuers to make use of the new solution if they wish to, in line with the intended service scope.

Question 5e:

- **How would the benefits of EDDI change if access to EDDI were restricted to certain classes of issuers, e.g. public or supranational, sub-sovereign and agency (SSA) issuers?**

Unfortunately, the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a proper, in-depth impact assessment, including benefits and costs. Restricting access to certain categories of debt issuers may further weaken the business case as there would inevitably be less volumes/users to cover both the development and the running costs of this additional infrastructure.

This being said, any new market infrastructure should ensure a level-playing field and equal treatment for all its users, so access rules must be made transparent and should objectively allow all debt issuers to make use of the new solution if they wish to, in line with the intended service scope.

Question 5f:

- **Should access to EDDI be restricted to certain CSDs?**

Any new market infrastructure should ensure a level-playing field and equal treatment for all its users, so access rules must be made transparent and should objectively allow all CSDs to make use of the new solution if they wish to, in line with the intended service scope.

Question 5g:

- **In your view, which criteria should an EDDI service meet in order to be attractive for your institution?**

Whilst the ICMSA is not an institution, should there be a role (and defined need) for a future, new European market infrastructure service, it would require the following to be attractive to our members:

These conditions include:

- The new service should provide additional possibilities to market participants and should not lead to any prohibition on the use by market participants of any existing services
- There should be full flexibility and full optionality in the use of the service
- The new service should have appropriate functionalities so as to minimise the cost and complexity of access

- The new service should not require users of the service to take business risk (i.e. users should not suffer a loss if the service fails to meet its targets of attracting business)
- There should no cross-subsidisation between services
- It should provide both issuers and issuer agents with easy access. In particular, for issuer agents performing the role of Issuing and Paying Agents
- Cost recovery: Issuers and investors should fairly share the costs of both the technical development and operational maintenance of EDDI based on their usage. Issuer Agents should not be asked to contribute to the development costs of EDDI.

Further question to be answered :

For investors participating directly, which law applies to their direct participant(s)? Would the domestic law protection afforded to investors be lost with the implementation of EDDI?

6. EDDI's potential impact on the market

As presented above, EDDI could be a central European service covering the pre-issuance and initial distribution process, to be offered by the Eurosystem to the market. Since this would be a totally new service, currently not available in the market, it would have some influence on how the different stakeholders are currently organised.

- **Market-wide interaction would be facilitated**. With the EDDI service, the Eurosystem would provide issuers and the relevant market actors (e.g. issuer agents, investors, CSDs) with a central, standardised and neutral platform in order to facilitate their interaction. Apart from the immediate standardisation gains due to a single centralised system, such interaction could facilitate, in the medium to long run, the definition and endorsement of and compliance with harmonisation standards, in particular in the area of pre-issuance. The EDDI harmonisation agenda, and in particular the potential establishment of a European debt instrument technical standard, would be expected to have a positive impact also when the issuance and distribution are processed outside EDDI.[15]

- **Disintermediation is not an objective of EDDI.** Existing intermediaries, including issuer agents, dealer banks and custodians, would be able to use any combination of the two EDDI components and their own proprietary procedures depending on the issuer's choice of pre-issuance and post-trade solutions. Existing or new private pre-issuance platforms could link up with the EDDI post-trade component (subject to establishing technical access to EDDI's standardised interface). At the same time, the EDDI pre-issuance component could be used to support post-trade services outside EDDI (i.e. by feeding into a single issuer CSD outside EDDI).

- **EDDI could influence the business models of CSDs**. As mentioned above, the EDDI issuance and initial distribution service could only be delivered in close collaboration with the CSDs. For the securities issued via EDDI, the business model of the EDDI-participating CSDs would no longer be determined by their ranking in the custody chain, i.e. whether they act as "issuer" or "investor" CSD for a specific security. Instead, the differentiation between the CSDs would be based on the service and prices they would offered to the market participants. As a consequence, these CSDs will, for securities issued via EDDI, forgo the exclusivity over the primary deposit which has so far been established by the location of issuance. On the other hand, any EDDI-participating CSDs would be in a position to benefit from access to new securities issued via EDDI, which would be made equally available to all EDDI-participating CSDs on a level playing field, i.e. with no location exclusivity attached to the issuance and distribution process.

- **Issuers would have full choice in deciding how they want to use the EDDI service**. EDDI would offer eligible issuers a choice that they do not have today, namely the possibility to issue European securities without having to select a specific location of issuance. Combined with an EDDI-related

[15] This could be achieved via a long-term conversion of certain national conventions towards the EDDI European debt instrument technical standard.

harmonisation agenda, EDDI could increase, for both European and international institutions, the efficiency and attractiveness of the issuance of debt denominated in euro. As a consequence, EDDI could potentially increase the liquidity of the assets issued through its service, and thus provide benefits for issuers with highly rated debt instruments in achieving a truly pan-European reach when collecting funds. However, as EDDI would be an optional service offered to debt issuers with a European perspective and would not be able to cover all issuers and securities, some issuers would continue using the existing issuance and distribution channels and some securities would continue to be issued outside EDDI. Such choices would reflect their specific fund-raising interests and/or their wider market strategies, as well as the scope of EDDI. As shown in Chart 4, EDDI would be based on a modular approach providing its users with optionality regarding the usage of its service components. In any case, issuers of all sizes, also outside EDDI, should in principle benefit from the positive externalities of the EDDI harmonisation agenda.

- **Investors could benefit from a standardised communication channel.** Compared with a multiplicity of non-automated communication channels and interfaces, institutional investors could benefit from a single communication channel for all instruments issued through EDDI in their interactions with issuers and their agents in the context of EDDI. As mentioned above, EDDI's objective is not to replace existing commercial arrangements, but rather to support the participants in the pre-issuance and initial distribution end-to-end process with standardised interactions and information flows. Investors could optimise their interactions within the custody chain. On the custody side, investors/custodians would be able to choose their CSDs on the basis of the level of the service and its cost. There would no longer be a need to connect to a multiplicity of European issuer CSDs for the securities issued in EDDI. This could offer investors/custodians the opportunity to streamline and optimise the custody of their holdings.

Question 6a: • **What are your views on the expected impact of EDDI on the market in general and on your institution in particular?**
Unfortunately, the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a proper, in-depth impact assessment, including benefits and costs for the different types of market participants and infrastructure providers.
Question 6b: • **Which other elements do you consider relevant regarding the potential impact of EDDI, beyond what is described above?**
Unfortunately, the current level of information provided regarding the service and its underlying technical and operational features is not sufficient to allow a proper, in-depth impact assessment, including benefits and costs for the different types of market participants and infrastructure providers. It can be determined that the impacts could be far-reaching and particularly involve the following factors:

- Additional issuance channel to manage for all issuers, investors and intermediaries,
- Additional costs (development & investment) to be borne by the Issuers and investors
- Additional risks and operational complexity
- Increased fragmentation & friction costs between infrastructures
- Competition between public authorities and private sector