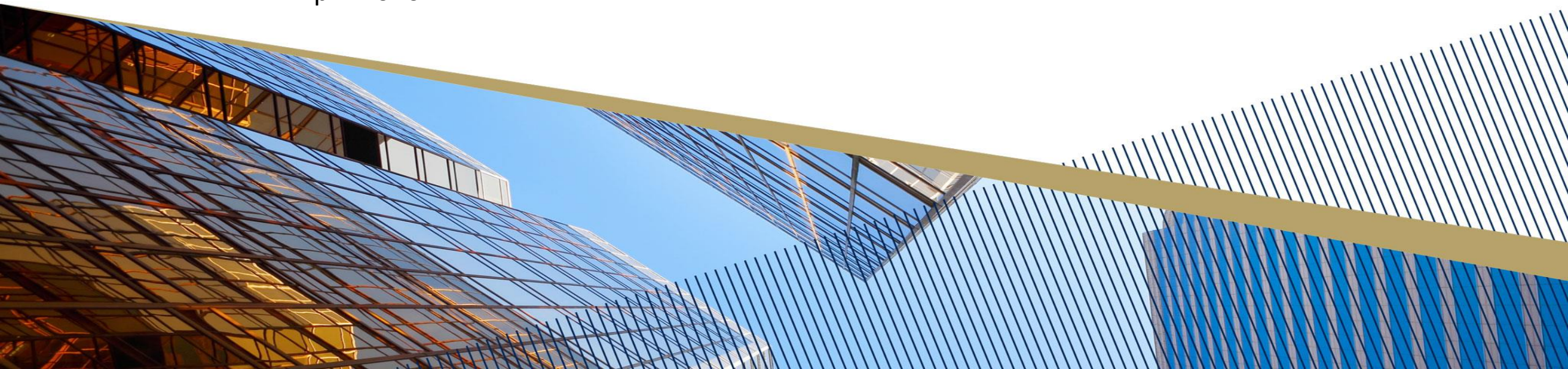


## Webinar

# FinTech developments in the debt capital markets and potential implications for Asia-Pacific

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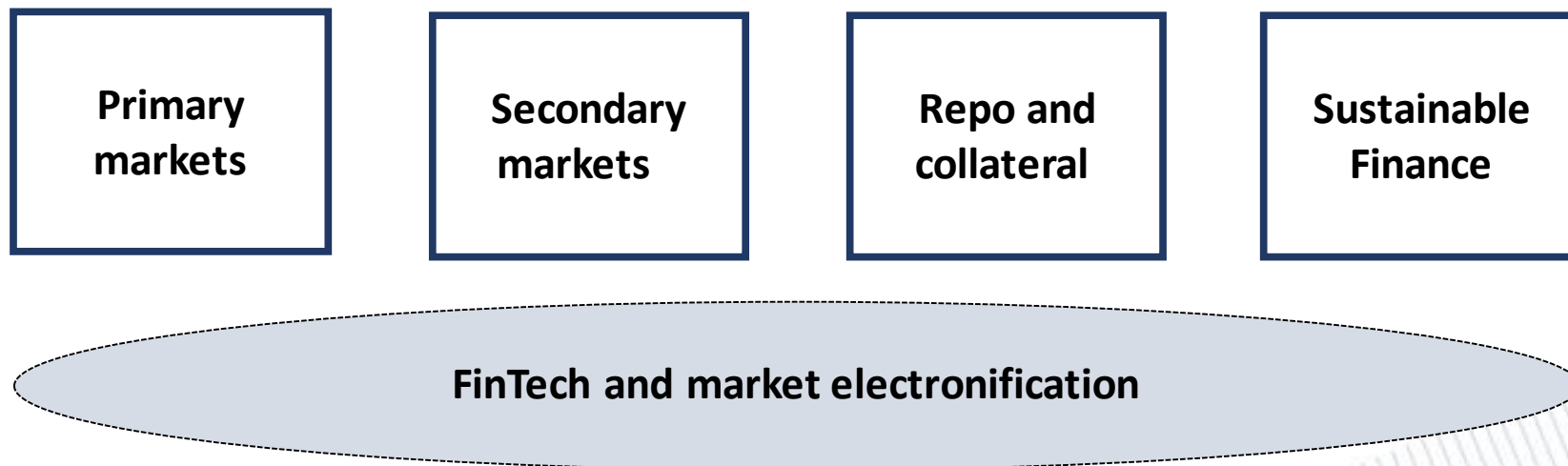
## Agenda

- 1) Overview of ICMA's work on FinTech and market electronification
- 2) Technology trends in primary, secondary, repo and collateral markets
- 3) Digital standards – Extending the ISDA Common Domain Model to repos and bonds
- 4) Distributed ledger technology (DLT) in bond markets
- 5) Regulatory approaches to FinTech and innovation in capital markets
- 6) Q&As



## ICMA's work on FinTech and market electronification

- ICMA's work in fixed income is focused on:



Dedicated committees and working groups:

- ICMA FinTech Advisory Committee (FinAC)
- Electronic Trading Council (ETC)
- CDM Working Group

## ICMA's work on FinTech and market electronification (cont.)

### Key drivers of electronification in cross-border capital markets

Key drivers	Primary markets	Secondary markets	Repo and collateral markets
<b>Efficiency and STP</b>	Emerging technology solutions	Electronic trading	Electronic trading & FinTech solutions for repo operations
<b>Liquidity sourcing</b>	-	Platforms & Information networks	Emerging RFQ platforms (D2C)
<b>Regulatory compliance</b>	MiFID II/R - Record keeping	MiFID II/R - Reporting	SFTR - Reporting
<b>Data management</b>	Predictive analytics	MiFID II/R - Transparency data; TCA	Reconciliation

Source: ICMA, [Market electronification and FinTech](#) (October 2017)

## Technology trends in primary, secondary, repo and collateral markets (cont.)

### ■ Primary markets:

- Number of solutions listed in ICMA Primary markets technology mapping directory grew from 20 to over 30 between Dec-18 to Sep-19.
- Increased digitisation of legal and operational processes (roadshows, origination, book building, syndication, private placements i.a.) across a range of debt instruments.
- Regional solutions – few global offerings.
- Use of AI and DLT in early stages.

### ■ Secondary markets:

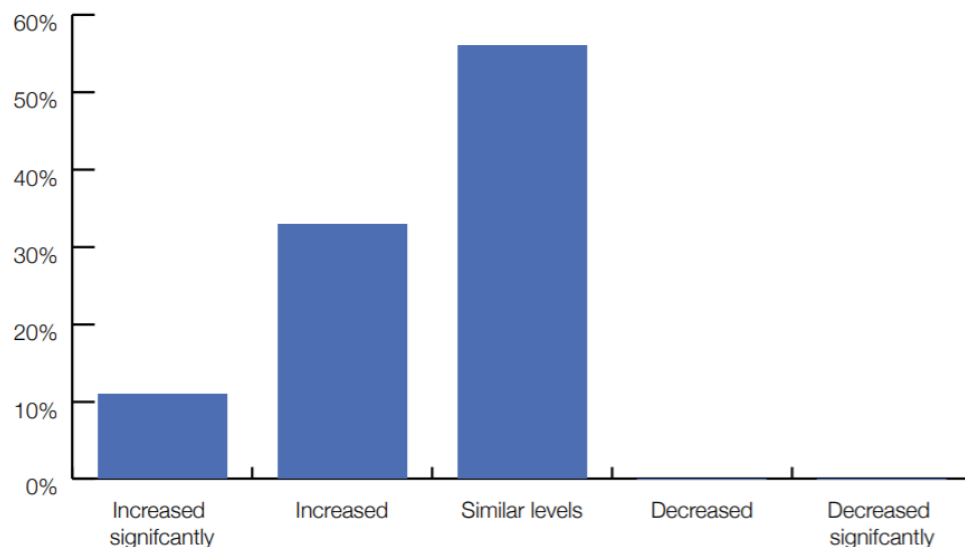
- The Electronic Trading Platform (ETP) directory was initially launched in Oct-15.
- It references a total of 43 electronic execution venues, Order Management Systems (OMS), and information networks, for bonds since its latest review in Nov-19.
- Relative saturation of competition in an increasingly difficult market for new entrant platform providers.



## Technology trends in primary, secondary, repo and collateral markets (cont.)

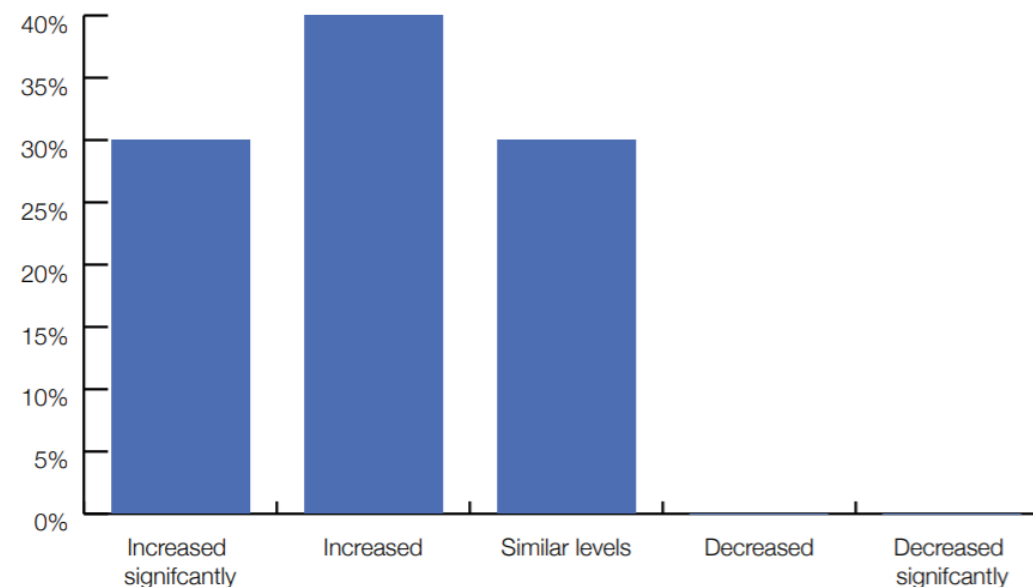
- Selected findings from [Time to Act: ICMA's 3rd study on the state of the European investment grade corporate bond secondary market](#) (Mar-20)

Survey Q: [buy-side] use of rules-based, fully automated electronic execution ("auto-execution"), compared with 3 years ago?  
Use of auto-execution



p. 27-28

Survey Q: [sell-side] use of auto-quoting technology compared with 3 years ago?  
Trends in auto-quoting



## Technology trends in primary, secondary, repo and collateral markets (cont.)

### ▪ Secondary markets (cont.):

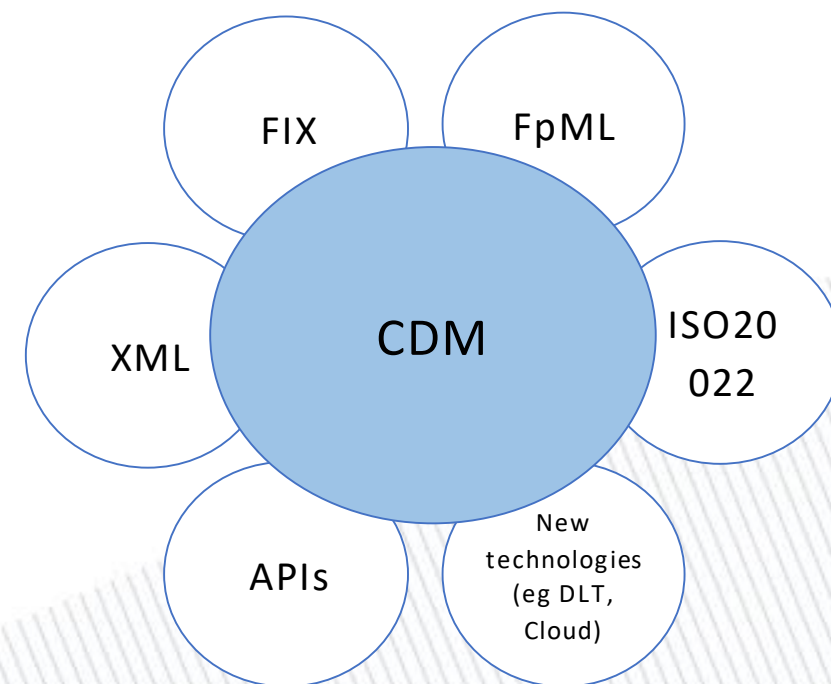
- Continued increase in electronic trading and diversification of trading protocols to source liquidity (RFQ-to-All, All-to-All) in smaller sizes and IG bonds on the more liquid spectrum.
- Direct connectivity (or 'direct access trading') appears to be gaining more traction.

### ▪ Repo and collateral markets:

- FinTech mapping directory for repo and cash bond operations initially published in Nov-17. References over 100 solutions for collateral management, exposure agreement, intraday liquidity monitoring, amongst other categories.
- High level of process automation in middle and back office.
- Repo trading technology directory launched in Apr-20 – covering 13 electronic repo trading platforms.
- Trend towards electronification driven in particular by EU regulation on Securities Financing Transactions (SFTR) and greater demand for STP.

## Digital standards – Extending the ISDA CDM to repos and bonds

- The CDM is essentially a model for trade processing that is machine readable and executable.
- Initially developed by ISDA for derivatives to ensure consistency in the way lifecycle events are represented in different systems internally and across the market.
- Key benefits include:
  - 1) Enhanced interoperability & STP between market infrastructures and market participants.
  - 2) Greater internal efficiencies for firms' various processes and IT applications.
  - 3) Consistency of regulatory reporting and better regulatory oversight; and
  - 4) A common foundation for developing innovative solutions.
- The CDM can be considered an interface with existing standards and enabler of solutions.





## Digital standards – Extending the ISDA CDM to repos and bonds (cont.)

### Selected commonalities & gaps between derivatives and repos in the CDM

CDM lifecycle components & terminology	Derivatives	Repo	Gaps
Cash Transfer event Security Transfer event	Interest payment	Cash leg and Securities leg (DvP)	Securities-related cashflows (eg coupon payments)
Exercise event Cancellable provision	Swaption Call option in a swap	Termination of an open repo	Different processes and underlying logic (eg notice periods, exercise date)
n/a	n/a	Collateral substitution	Specific to repo
ISDA documentation	Eg Master agreement, CSAs	GMRA	GMRA product definitions and terminology

- See further background and workshop materials on ICMA's [CDM webpage](#).
- ICMA Member firms who are willing to commit time and resources for the development of the CDM for repo are welcome to get in touch!

## Distributed ledger technology (DLT) in bond markets

- Continuous increase in proofs of concepts, tests and live transactions in debt capital markets in the last few years.
- Selected examples in Asia-Pacific include:
  - World Bank bond-i issuance (08/18), secondary market transactions (05/19), and tap (08/19)
  - Monetary Authority of Singapore (MAS), Singapore Exchange (SGX) et al. – Project Ubin (since 11/16)
  - Bursa Malaysia securities lending PoC (11/19)
  - Thai SEC Master Blueprint – Corporate bond pilot projects (11/19)
  - Japan Exchange Group (JPX ) and Japan Securities Depository Center: post-trade information sharing pilot (03/20)
- DLT in capital markets – towards more centralization?
- See further details on [New FinTech applications in bond markets](#) webpage

## Distributed ledger technology (DLT) in bond markets (cont.)

- ICMA DLT Regulatory Directory launched in Dec-19.
- Objective: Provide a non-exhaustive overview of recent DLT regulatory guidance, legislative initiatives, as well as related strategy papers and publications in selected jurisdictions across Europe, North America, and Asia-Pacific.
- Scope: Capital markets, however, relevant guidance and developments related to crypto-assets have been considered insofar as they relate to the underlying technology.
- Key areas addressed can be split into (i) legal status, (ii) interoperability & standardised protocols, and (iii) security/resilience & corporate governance.
  - Selected examples: France: Legislative measures to enable recording and transfer of ownership of securities based on DLT (Decree No. 2018-1226, Dec-18, amongst others)
  - Australia: Evaluating distributed ledger technology - Information Sheet 219 (INFO 219), ASIC, issued Mar-17, last updated May-19
  - China: Cyberspace Administration of China (CAC) released regulations on the Management of Blockchain Information Services, taking effect Feb-19
  - ISO: First Blockchain/DLT standards ISO/TR 23455:2019 published in Sep-19.



## Regulatory approaches to FinTech and innovation in capital markets

- Regulatory sandboxes – implications for capital markets
- UK: FCA Regulatory Sandbox (May-2016): Approx. 140 solutions overall, with lower but increasing number of capital markets applications based on DLT for bonds, loans equities. Majority of solutions appear to be retail-focused.
- Hong Kong: HKMA Fintech Supervisory Sandbox (launched in Sep-16). Pilot trials of 126 fintech initiatives executed (until end of Mar-20). Focus on RegTech (nearly 50%), API services, DLT, amongst others.
- Singapore: MAS FinTech regulatory sandbox (set up in Jun-16) and sandbox express (Aug-19). Initial focus on robo-advice, wealth management, Forex/money transfers/remittances, Insurtech, and more recently bond markets.
- Global Financial Innovation Network (GFIN), launched in Jan-19, comprising 50 organisation, for cross-border testing. Appears to be on hold.

Source: ICMA, [\*Regulatory approaches to Fintech and innovation in capital markets\*](#) (September 2018), recent research.

## Further information

- ICMA FinTech landing page, including mapping directories, research and other resources:

<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/fintech/>

- ICMA contacts:

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## Any questions?

If you are joining using Zoom:

- You can use the "Q&A" button to send your questions to us.

If you are dialing in:

- Please email your questions directly to Wing Wong at [wing.wong@icmagroup.org](mailto:wing.wong@icmagroup.org)

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