

Outcome - Ad-hoc meeting with former DIMCG participants to take stock of developments relevant to DIMCG recommendations

28 March 2023

1. Welcoming remarks, agenda, and background presentation on the DIMCG recommendations

The former Chairperson of the DIMCG welcomed the participants and introduced the agenda of the meeting. He recalled that the [Debt Issuance Market Contact Group \(DIMCG\)](#) was established by the ECB in 2020 as a temporary forum for interaction between the Eurosystem and industry-wide market professionals involved in euro area primary debt markets. The DIMCG prepared [a report](#) for the Governing Council of the ECB which was published in December 2021. At the time of the publication of the DIMCG report it was agreed to organise a 'follow-up' meeting. The aim of today's meeting is to take stock of developments in the harmonisation areas identified in the DIMCG report and to inform the ECB's Governing Council accordingly.

The ECB briefly presented the recommendations made by the DIMCG under the 'Pillar 2' of its work.

2. Know-your-customer / customer due diligence procedures

The representatives of the European Commission presented the developments relevant to the harmonisation of customer due diligence (CDD) requirements in the context of the Commission's recent legislative proposals on anti-money laundering and counter-terrorist financing (AML / CTF). Based on the Commission's report of 2019 on the functioning of the EU's AML / CTF framework, the Commission adopted a comprehensive action plan to overhaul the framework which resulted in a legislative package which was submitted to the EU lawmakers in 2021. One of the key objectives is to achieve a single AML rulebook in the EU by harmonising requirements applicable to the private sector and to the extent possible, national mechanisms. A new EU authority (AML Authority, AMLA) will have direct supervisory powers over a pool of financial sector entities. AMLA will also have indirect supervisory powers over the entire financial sector and coordinate national non-financial supervisors. It will coordinate/support the work of national Financial Intelligence Units (FIUs). AMLA will aim to develop common templates and tools and promote the single rulebook across EU jurisdictions. AMLA will further detail and specify common rules for remote customer identification, and provide guidance in relation to reliance and outsourcing. The financial service providers will continue being responsible for any activity carried out under an outsourcing agreement. Finally, rules in relation to third countries will become more granular to match the specific risks posed by the country in question.

3. Data exchange and data models in debt issuance and investor identification

The representatives of the International Capital Market Association (ICMA) presented ICMA's Bond Data Taxonomy (BDT) and the Common Domain Model (CDM) initiatives, both of which aim at promoting straight-through-processing (STP) and reducing the risk of fragmentation.

BDT is a common, standardised language for key bond information with the initial focus on key economic terms, dates, and other plain vanilla bond term sheet information (over 90 fields). The BDT builds on XML technology and leverages existing ISO standards (e.g. ISO 20022) as well as the broader CDM initiative for financial markets.

The CDM is a standardised, machine readable and machine executable process and data model for how financial products are traded and managed across the transaction lifecycle. The CDM has been worked on by the three major international financial market associations (ICMA, ISDA and ISLA) to cover a wide array of financial markets and services. The CDM is built on, and is compatible with, leading standards and protocols relevant in financial services such as ISO20022 or FIX. The ownership (governance, maintenance) of the CDM has been transferred to the Fintech Open Source Foundation (FINOS).

Participants shared the view that the BDT and CDM initiatives would be in line with the DIMCG recommendations regarding harmonisation of term sheet data and the use of common data models in primary debt markets and would have the potential to promote higher efficiency in the debt issuance ecosystem by facilitating interoperability and automation (straight-through-processing) and could lay a common foundation for leveraging new technologies, such as DLT. It was noted that the BDT and the CDM and further automation could also contribute to higher settlement efficiency.

Implementation of the BDT and the CDM by market participants is voluntary. However, meeting participants shared the view that market interest in these initiatives is high, especially among vendors and fintech service providers. The general market interest in DLT is also a factor which makes these initiatives particularly relevant for market players.

With regards to investor identification, it was noted that the BDT could in principle be used to capture investor-related information once consensus had been established. However, to achieve a common scheme, further industry discussions will be necessary, in particular in light of the on-going related initiatives regarding withholding tax procedures and shareholder identification.

4. Term sheets and market conventions

The ECB presented the [AMI-SeCo's Single Collateral Management Rulebook for Europe \(SCoRE\)](#) initiative as well as the results of a stock-take on market convergence on some of the key market conventions among sovereign / high credit quality EUR issuers in Europe.

With regards to the compliance with SCoRE standards, it was recalled that the compliance deadline for CSDs and Tri-party collateral management service providers is April 2024 which coincides with the planned go-live of the Eurosystem's Collateral Management System (ECMS). Overall, although significant progress towards compliance has been made, there is still a lot to be done in the remaining 12 months. It was noted that widespread compliance with the SCoRE standards is also expected to have, indirectly via higher interoperability across CSDs, a positive effect on settlement efficiency.

With regards to conventions, it was confirmed that, in particular from a Capital Markets Union perspective, a higher level of convergence would be desirable for EUR issuances (e.g. to attract foreign investors), while it is important to recognise that Europe is also a global hub for overseas issuance in other global currencies, such as the USD or the JPY.

5. Documentation and global notes

The ECB provided a status update on the relevant requirements in EU Member States and other relevant jurisdictions for the use of global notes and on the remaining challenges hampering the issuance of dematerialised debt instruments. ICMSA provided an update on the initiative to arrange the creation, authentication and storage of global notes by electronic means, the first phase of which is scheduled to be implemented in Q2 2023. It was discussed that further momentum for dematerialisation / digitalisation of the global note creation process would come if investors began to make it a more prominent issue or there was a real cost benefit to the issuer. Currently, due to the immobilisation of global notes, investors would not notice any difference, unless there was a delay in the closing. Nevertheless, the creation and

authentication of global notes resulted in widely documented difficulties during the Covid pandemic restrictions, and such difficulties could be alleviated in the future by applying digitalisation / electrification. Issuers are currently more interested in full automation throughout the value chain, which explains the high market interest in the potential use of DLT.

6. ISIN allocation

The representative of the Association of National Numbering Agencies (ANNA) presented the outcome and takeaways of a survey among national numbering agencies (NNAs) in the 27 EU Member States that contained relevant harmonisation questions in the areas of the ISIN allocation process that was discussed by the DIMCG. The outcome of the survey revealed that most EU NNAs provide an automated / electronic ISIN request process to issuers or to their agents. NNAs' average response time is usually less than 24 hours. All NNAs perform due diligence checks before they issue an ISIN. In a few countries in Europe, national legislation also provides rules on ISIN allocation. Roughly three quarters of EU NNAs provide a pre-reservation service for ISINs to frequent issuers. Based on the survey outcomes in certain areas ANNA will consider potential further harmonisation initiatives (ISIN pre-reservation, use of common templates for ISIN requests). ICMA's BDT could possibly help in harmonising the set of information required and recorded in the ISIN allocation process. It was emphasized that even if NNAs are quick in allocating the ISIN, the bottleneck is often the dissemination of the ISIN among the stakeholders of the issuance process (e.g. investors).

7. Update on the EU Issuance Service (EIS)

The representatives of the European Commission presented the Commission's diversified funding strategy which also covers the NextGenerationEU programme and the key parameters of the EU Issuance Service (EIS) which will serve as the post-trade arrangement ensuring the settlement of EU debt instruments in central bank money based on a level playing field access. The diversified funding strategy and the unified funding approach relying on a single EU-Bonds label aim to contribute to deeper, more liquid secondary markets in EU debt securities. The EIS (planned to go-live in H2 2023) relies on NBB-SSS as issuer CSD with the issuance settling in the Eurosystem's Target2-Securities (T2S) service via investor CSDs. The EIS relies on, and complies with, all relevant corporate event standards included in SCoRE to facilitate full interoperability of post-trade processing between the CSDs.

8. New technology initiatives on debt issuance

ICMA provided an update on the use of DLT in primary markets for debt securities, recalling recent transactions and providing an overview of recent regulatory developments relevant for the use of DLT. Based on market feedback on recent transactions and discussions in various ICMA fora, DLT has the potential to enhance transparency and auditability, increase efficiency and ultimately funding costs, by reducing the need for reconciliation and removing intermediaries in the bond issuance process. However, from an operational perspective, remaining challenges are the integration of DLT networks with legacy systems, the legal and regulatory fragmentation in relation to the treatment of digital securities registered by CSDs and private or public blockchains and the lack of CBDC to support settlement of digital assets. ICMA representatives noted that most current market transactions still fall rather in the experimentation or trial categories and the use of DLT in mainstream funding transactions has not materialised yet. This is also due to the relatively high entry costs for investors and lack of full interoperability with the existing infrastructure. It was also noted that there is an array of questions regarding the application of current regulation that has not yet been answered fully in the DLT domain (e.g., KYC / CDD, governance). ICMA representatives also highlighted that pre-trading is an area where there have been limited DLT experiments so far, yet the potential in applying DLT in this area could be even bigger than in post-trade. It was highlighted that a potential bifurcation of 'legacy' and DLT infrastructures will require even greater attention to interoperability and harmonisation in EU securities markets.

9. AOB and closing remarks

Participants discussed the market impetus and potential additional topics relevant to the DIMCG harmonisation agenda as well as its links to other harmonisation areas.

Participants shared the view that (pre-)trade harmonisation initiatives and post-trade harmonisation activities could be aligned as much as possible with a view to increasing end-to-end efficiency. Coordinated implementation of harmonisation proposals and coordination of harmonisation initiatives would be key for making further and good progress and for ensuring consistency.

The ECB mentioned that the Eurosystem's Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) was recently expanded to strengthen the representation of issuers. The AMI-SeCo's renewed substructures would also seek to pay closer attention to interdependent harmonisation initiatives.

The Chair thanked all participants for the fruitful meeting.