



EUROPEAN CENTRAL BANK

EUROSYSTEM

Governance of harmonisation work on debt issuance

workshop outcome

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Introduction

- As agreed in the 16 May DIMCG meeting a workshop was held on 2 June to cover in a dedicated session the topic of governance of any potential future work on harmonisation in the area of debt issuance
- The aim was to elaborate on the potential parameters and aspects of governance with a view to the messages to be passed in the DIMCG report
- The section of the first draft of the DIMCG report on governance of harmonisation was drafted taking into account the workshop outcome


Objectives and role of harmonisation

- Harmonisation helps aligning diverging practices which helps stakeholders in achieving a higher level of efficiency
- It promotes interoperability between stakeholders' own systems and procedures and increases competition by reducing barriers and lock-in effects resulting from fragmentation across market segments as well as across national markets – competition in the market instead of for the market
- Decreases costs of operation especially for those operating in several markets at the same time
- If done well (technology-neutrality) it also promotes technological innovation by allowing new technologies to diffuse faster into actual market practice
- By creating market standards it can prevent / pre-empt fragmentation potentially brought to the market by new entrants

Harmonisation areas in debt issuance

The DIMCG has identified / discussed 7 (partly overlapping) areas where harmonisation could improve the efficiency and the integration of the primary market for European debt instruments

- Investor identification / classification
- Know-your-customer procedures
- Book building
- Data exchange
- Term sheets / final terms and market conventions
- Settlement cycles
- Documents



In addition, the DIMCG discussed the concept of a potential label to be used in pan-European issuance by packaging / combining standards in these and other area

Harmonisation work – governance principles

- Following up on the findings by the DIMCG on harmonisation requires digging further down in technical details and on the exact intended scope of standardisation
- Successful harmonisation work requires a clear and pre-agreed conceptual framework / methodology on how the scope, modalities, deadlines and other key parameters are determined and requires also compliance monitoring / feedback (see Eurosystem experience)
 - based on a strong ‘political’ commitment by stakeholders to devote resources to such work
 - based on the already accepted / existing market practices standards in the industry
 - involving (directly or indirectly) all stakeholders
 - relying to the greatest extent possible on the expertise of market professionals
 - subject to an endorsement by the whole community

Potential governance arrangements for future work on debt issuance harmonisation

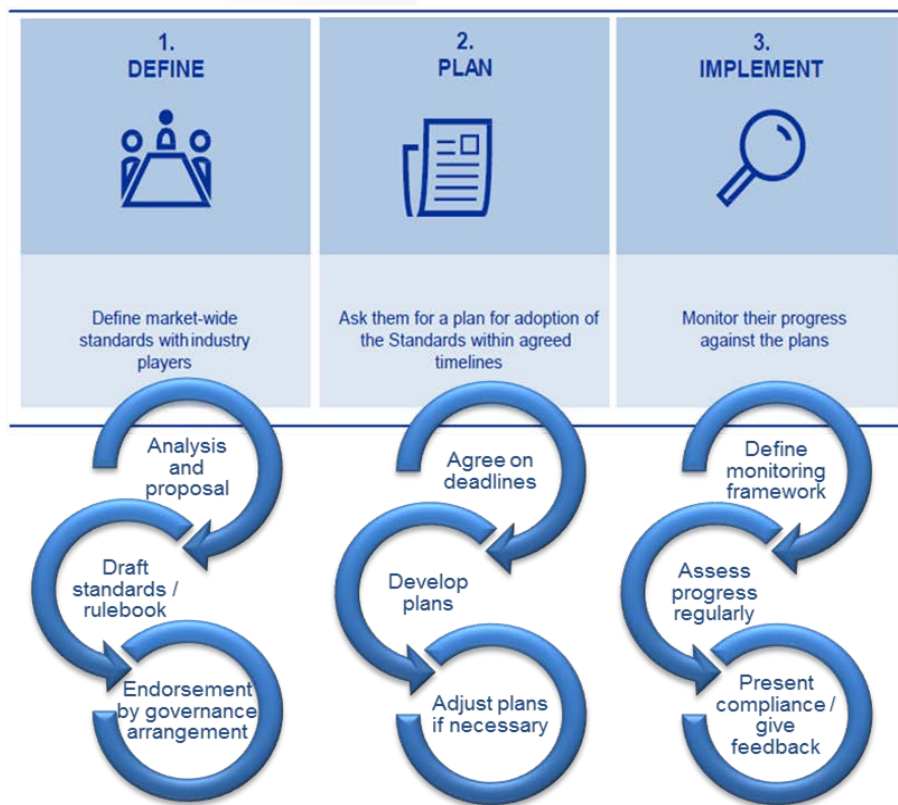
When designing a governance framework / arrangements for harmonisation work in debt issuance the following broad questions / parameters need to be considered:

- Who are the stakeholders to debt issuance harmonisation that should be involved – (*issuers, investors, banks (in different roles), third-party platform providers, CSDs, stock exchanges, public authorities, etc.?*)
- Solely industry-driven or also public sector involvement (i.e. not only public entities as issuers but European authorities)
- To what extent to rely on, or interact with, existing fora and mechanisms – important to build on key achievements by industry associations and other fora
- All-encompassing single framework vs different initiatives / governance per harmonisation area
- Commitment to harmonisation: voluntary (open standards) vs binding standards

Lessons learnt / takeaways from Eurosystem experience

- Harmonisation requires **a lot** of efforts and resources from all stakeholders (trading off short-term costs for longer-term gains)
- It is worth doing only if strong ‘political’ commitment exists by all key players to trade short term efforts and costs for long-term gains
- Market-led harmonisation is most successful if there is a vehicle (*an infrastructure project, new business requirements by a central actor, regulation / threat of regulation, etc.*) which provides incentives for all stakeholders (including national authorities) to engage
- Harmonisation has to be based on very detailed and common understanding of today’s processes and the issues identified with them and should not be done for its own sake
- Compliance needs to be monitored and made transparent and public (e.g. via regular reports)

Process followed in Eurosystem harmonisation activities



Outcome of workshop discussion

- Many workshop participants argued for a continued involvement of public authorities in future governance arrangements of harmonisation work (e.g. Eurosystem) due to natural coordination role and neutrality – *future Eurosystem involvement can be only determined / decided by ECB GovC*
- A lot of moving parts / ongoing developments that may affect future harmonisation work (EC issuance programme, CMU and Digital Finance agendas, technological innovation and changing EU and national regulation)
- Full consensus on also relying on already existing work and on involving all stakeholders in particular ensuring a good representation by investors / buy side
- A vicious circle / dilemma identified on full clarity of the scope of harmonisation needed before finding right governance but right governance already needed to agree on precise scope
- The need to find the right balance between harmonisation and innovation (harmonisation to support innovation and not to stifle it) – facilitate innovation at European or global level rather than national ones