

ICMA quarterly report

Assessment of Market Practice
and Regulatory Policy

2 FOREWORD

- 2 The issue of trust

3 QUARTERLY ASSESSMENT

- 3 Saving the euro?
- 13 Recent practical initiatives by ICMA

14 REGULATORY RESPONSE TO THE CRISIS

- 14 G20 financial regulatory reforms
- 15 European financial regulatory reforms
- 16 Macro-prudential regulation
- 18 OTC (derivatives) regulatory developments

20 SHORT-TERM MARKETS

- 20 European repo market
- 22 ECP market
- 23 LIBOR and other benchmarks
- 26 ECB eligible collateral
- 27 Second Basel III liquidity monitoring exercise

28 PRIMARY MARKETS

- 28 Prospectus Directive regime
- 30 PD review: history and outlook
- 32 Packaged Retail Investment Products
- 33 French pre-sounding rules
- 34 MAD review
- 35 Facing up to FATCA
- 37 Liability management: exit consents
- 38 Own funds
- 38 Asset encumbrance
- 38 Crisis management
- 39 How the capital markets can save lives

40 SECONDARY MARKETS

- 40 MiFID II and MiFIR
- 42 CSD Regulation
- 44 CSDR: market concerns

45 ASSET MANAGEMENT

- 45 UCITS VI
- 46 Recallability of repo and reverse repo arrangements

- 46 Margin requirements for non-centrally-cleared derivatives
- 47 Solvency II reporting requirements
- 48 AIFMD: delegations
- 49 Shadow banking
- 49 ICMA Private Wealth Management Charter of Quality

50 MARKET INFRASTRUCTURE

- 50 Regulatory reforms
- 52 Market infrastructure developments

54 ICMA EVENTS AND COURSES

57 GLOSSARY

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How the capital markets can save lives: the IFFIm/GAVI model

Personal view by René Karsenti

The current crisis has cast a shadow over government aid for global health and development. This is unfortunate and avoidable. Capital markets can play a key role in maintaining this important work.

I can attest to this. As a financial markets executive who has worked in development, I know the public sector is not the only choice to support global aid. There is also a new, highly efficient alternative: offering investors socially responsible investment (SRI) or impact investing opportunities that make financial sense and offer tangible social benefits.

These alternatives have brought billions of dollars toward socially beneficial projects, largely unaffected by public sector budget deficits. In fact, it is because budgets are under such strain that there has been intense scrutiny on what works – and what does not – in global development.

Since the beginning of the year I have had the privilege of chairing the Board of a supranational institution issuing such investment products: The International Finance Facility for Immunisation (IFFIm). IFFIm plays an intermediating role in the capital markets between investors interested in SRI, or impact investing, and the GAVI Alliance, a partnership with several public and private sector partners, such as UNICEF, the World Health Organization and the Bill & Melinda Gates Foundation. GAVI's mission is to save children's lives and protect people's health by increasing access to immunisation in the poorest countries.

IFFIm does this by utilising long-term government pledges to issue bonds. Through this intermediating role, IFFIm has secured US\$6.3 billion in pledges from nine governments to be paid over 23 years. This, in turn, has helped raise US\$3.7 billion on the capital markets for GAVI at a cost competitive with donors' funding costs.

The World Bank acts as IFFIm's treasury manager and has been key to its success in the capital markets. Over the past six years, IFFIm has issued some 25 bonds in a range of currencies and maturities for a variety of investors, ranging from institutions to private individuals. These issues have ranged from a benchmark in US dollars to plain vanilla bonds in British pounds sterling and Australian dollars. Most often, IFFIm has raised funds in the Japanese uridashi market, where private investors have purchased the equivalent of about US\$2 billion in IFFIm bonds sold by distributors throughout Japan.

IFFIm's financial strength is based on the legally binding payment obligations of its donors and its conservative financial policies as implemented by the World Bank. Disbursements for GAVI programmes from IFFIm are limited by both a prudent gearing ratio and also an annual maximum disbursement capacity. IFFIm mitigates market risks through a minimum liquidity policy equal to its cumulative contracted debt service payments for the following 12 months, and conservative asset-liability and liquidity management.

IFFIm has enabled GAVI to nearly double its spending on immunisation programmes, saving an estimated US\$21 billion in health costs. It is an example of an effective use of the capital markets for a worthy cause, as GAVI has helped vaccinate more than 325 million children and helped save more than 5.5 million lives since its creation in 2000. And, with IFFIm's support, GAVI will assist countries to immunise another quarter billion children by 2015.

IFFIm is not the only public-private initiative at the cutting edge. The newest innovative finance product is the GAVI Matching Fund, a three-way philanthropic programme in which donors match contributions from corporations,

foundations and other organisations, as well as from customers, members, employees and business partners.

The British Government and the Gates Foundation have pledged about US\$130 million to it. This must be matched by the end of 2015. To date, seven private companies and foundations have helped raise US\$52.4 million through the GAVI Matching Fund, including three connected to the financial industry: an investment bank (J.P. Morgan), plus foundations for a retail bank ("la Caixa" Foundation) and a hedge fund (Children's Investment Fund Foundation). The other partners are Anglo American, ARK Foundation, Comic Relief and LDS Charities.

These companies and foundations – like IFFIm – are successfully enhancing the model of how global development is achieved. They are proof that innovative finance tools like IFFIm can impact a whole range of challenges during difficult times. And they provide a proven way for ICMA members to use their skills to make a positive difference in the world.

For further information, contact GAVI through <http://www.gavialliance.org> and IFFIm through <http://www.iffim.org>.

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