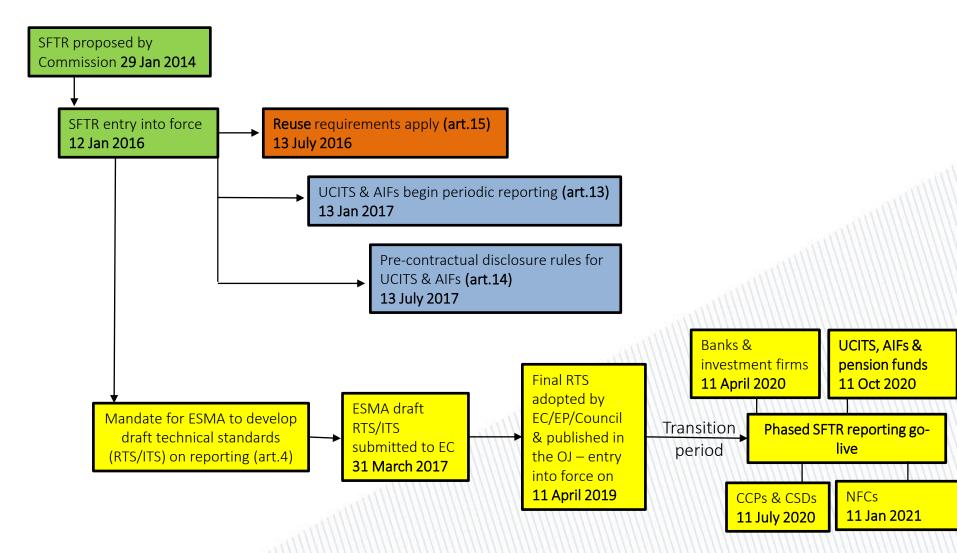
SFT transparency in a global context

- Increased regulatory focus on SFTs as part of the FSB's "shadow banking" agenda
 - FSB Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos (Aug 2013)
 - Increasing transparency in SFT markets as one of the key objectives
- FSB's Final <u>Standards and Processes for Global Securities Financing Data Collection and Aggregation</u> published in November 2015 complemented by detailed <u>reporting guidelines</u> (March 2018)
 - Minimum list of data fields monthly collection mostly position level data
 - Global aggregation of data initially planned to start by end 2018
 - Separately, detailed guidance issued on the collection of data on collateral reuse: <u>Report on Re-hypothecation and collateral re-use</u> published alongside guidance note on <u>Non-cash Collateral Re-Use: Measure and Metrics</u> in January 2017 global aggregation to start in January 2020
- Complemented by ongoing CPMI-IOSCO work to develop and implement globally harmonized single identifiers, including LEIs, UTIs etc.
- In Europe, regulatory action on SFTs initiated by the European Commission <u>Communication on</u> <u>Shadow Banking</u> (Sep 2013)

SFTR: Key elements and timeline



SFTR reporting - scope

STFs defined to include...

- Repo & reverse repo, Buy/sell-backs, securities lending (and borrowing), commodities lending (and borrowing), margin lending
- But <u>not</u> derivatives as defined under EMIR (including synthetic repo)

SFTR reporting requirements apply to...

- EU-based financial or non-financial counterparties to SFTs incl. all branches (EU and non-EU)
- Third country firms, where SFT "concluded in the course of the operations" of an EU branch
- Certain public bodies are excluded: central banks, DMOs, BIS
- SFTs with EU central banks are exempt from SFTR reporting but captured under MiFIR
- The reporting obligation may be delegated to a third party
 - Delegation is mandatory in case of small NFCs (to the financial counterparty) & AIFs/UCITS (to the management company)

SFTR reporting – key requirements

- Level 1: SFTR article 4 requires...
 - Both counterparties to **report the details of any SFTs concluded**, as well as any modification or termination thereof, to a trade repository [authorized under SFTR]
 - Reporting **no later than on the working day following the conclusion** (or modification) of the transaction (T+1) except where collateral allocation not available
 - Backloading of trades concluded prior to and still open on the go-live date
 - Minimum list of reporting fields to be captured
 - Mandate to ESMA to develop further details of the reporting regime, including content and format in level 2 technical standards (RTS & ITS)

SFTR reporting – implementation details

- Level 2: Final RTS/ITS further specify...
 - Standard reporting format based on ISO20022 & broadly aligned with EMIR reporting regime
 - Over 100 proposed reporting fields only for repo
 - Intra- and inter-TR **reconciliation** required on the majority of fields with very limited tolerance (implemented in four stages)
 - Daily collateral updates with daily revaluations required
 - Variation margining to be reported on an end-of-day basis (CCP & bilateral)
 - Collateral re-use to be reported at ISIN level ("approximate measure" applied where assets are not distinguishable) and on S+1

Level 3: additional ESMA implementation guidance

- ESMA <u>draft Reporting Guidelines</u> and consolidated validation rules published in July 2019 for public consultation - final versions expected in late Q4 2019
- Q&As to follow in 2020 onwards

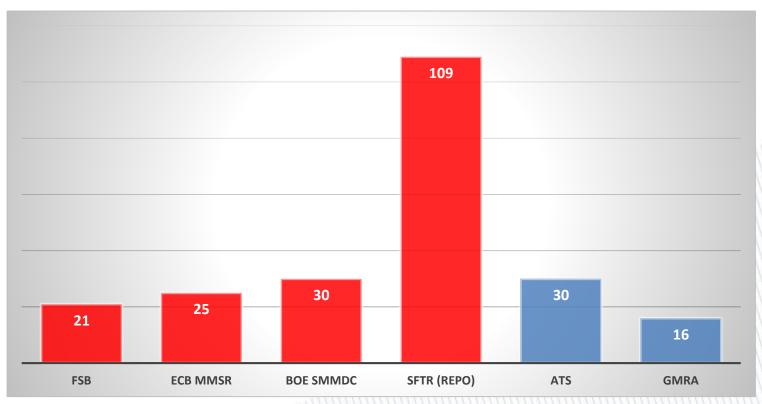
SFTR reporting: key elements

SFTR reporting – overview of reporting fields

| | repurchase transactions | buy/sell- backs | Securities lending | Margin lending | total |
|--------------|----------------------------|--------------------|-----------------------|-------------------|-------|
| counterparty | 18 | 17 | 18 | 12 | 18 |
| loan | 63 | 42 | 77 | 37 | 99 |
| collateral | 03 | | | | |
| margin | 20 | 20 | 20 | 20 | 20 |
| re-use | 11 | 11 | 15 | 14 | 18 |
| total | 109 | 90 | 120 | 83 | 155 |

SFTR reporting vs other initiatives vs current market practice

Number of reporting fields required



SFTR is a key priority for ICMA

- Extensive reporting rules are a major operational challenge for the Repo market
 - Double-sided reporting and reconciliation requirements necessitate cross-industry collaboration & agreement

In 2015, ICMA ERCC established its dedicated SFTR Task Force

- Main objective of the group is to facilitate implementation by providing common interpretations, definitions and market best practices
- Group is open to a broad range of market participants, including sell-side, buy-side, market infrastructures and service providers (TRs & vendors) in total over
 120 firms represented
- Working closely with regulators, in particular ESMA, and other trade associations, including ISLA

Industry best practices: The ERCC's draft SFTR Guide

- Builds up on the ERCC's well-established Guide to Best Practice in the European Repo Market (pictured), which sets out detailed standards for the orderly trading and settlement of repo
- Dedicated SFTR Guide being developed by the SFTR TF, providing agreed interpretations and best practice recommendations for SFTR reporting
- Q&A format over 70 issues covered so far, and growing...
- Still internal draft but will be published as soon as the ESMA Guidelines are finalised (Dec or Jan 2020)



A Guide to Best Practice in the European Repo Market

ICMA European Repo and Collateral Council

December 2017



Click on the picture to download

Some issues that we are looking at...

UTI generation and distribution:

- ESMA decision tree for UTI generation is helpful, but questions remain...
- ERCC draft best practices on UTI generation and distribution to help interpret the waterfall
- Further guidance on UTI format?

Variation margining:

- Separate margin report defined by ESMA but only applicable to CCP-cleared trades
- For bilateral trades: Initial margin/haircut reported as part of the trade report, but no express provision for variation margining
- Recommendation to report as collateral update but needs to be on a portfolio/net exposure basis

Reporting of settlement fails:

- Question of actual versus contractual reporting
- Fails do not change repo contractual terms and should not impact reporting
- Also applies to other settlement related events (shaping, technical netting, partial settlement etc.)

Some issues that we are looking at...

Reporting of collateral reuse

- Daily reporting at ISIN level but only on S+1
- Reuse estimate to be calculated based on the FSB's "approximate measure"
- Limited to collateral received & posted through SFTs (i.e. excluding derivatives collateral)
- ESMA Guidelines specify that ESCB collateral not included

$$collateral_{ij}^{reused} \ = \left(\frac{collateral_{ij}^{received,eligible_for_reuse}}{collateral_{ij}^{received,eligible_for_reuse} + assets_{ij}^{own}}\right) \times \left(collateral_{ij}^{posted}\right)$$

Reporting repos with EU central banks

- SFTs concluded with ESCB members exempted from SFTR reporting (art.4(3))...
- But in turn explicitly brought into scope of MiFIR reporting (as of SFTR go-live)
- Practical challenges given that MiFIR framework not designed with SFTs in mind
- Different approaches are being considered by SFTR Task Force to be discussed with ESMA

SFTR Task Force – other key deliverables

SFTR sample reports

- Dummy transaction reports for a variety of trade scenarios (over 30 scenarios covered)
- Covers new transactions, but also subsequent lifecycle reports (substitution, early termination etc.)

Reporting of repo lifecycle events

- Comprehensive list of all possible repo lifecycle events & suggested reporting approach
- Submitted to ESMA as part of our response to the consultation on draft Guidelines

Overview of reporting fields

- Based on ESMA's draft validation rules, but incorporating additional elements (reconciliation requirements etc)
- Maps each reporting field to the relevant section in the SFTR Guide, including recommendations

Master Regulatory Reporting Agreement (MRRA)

- Cross association group (ICMA, ISLA, ISDA, FIA, AFME) developing a Master Regulatory Reporting Agreement (MRRA) to document voluntary delegating and mandatory reporting arrangements between parties subject to SFTR (and EMIR).
- Publication by end 2019.

SFTR Task Force – sample reports

| | 3 | | | | | | | | | | | |
|-----|--|----------|-------|-----------|------------|------------|--------------|---------------------|---|------------------|--|--------------------------------------|
| | Α | В | С | D | E | F | G | H | 1 | J | K | L |
| 1 | | type | term | start | repo rate | term.opt. | venue | any special parties | event(s) | collateral | post-trade infrastructure | market name |
| 2 | 1.1 | SBSC | fixed | immediate | fixed | no | OTC | | new documented | specific | ICSD | |
| 3 | 1.2 | SBSC | fixed | immediate | fixed | no | OTC | | new undocumented | specific | ICSD | |
| 4 | 2.1 | REPO | fixed | immediate | fixed | no | OTC | | new | specific | CSD direct participant | traditional OTC |
| 5 | 2.2 | REPO | fixed | immediate | fixed | no | OTC | branch | new | specific | custodian | |
| 6 | 2.3 | REPO | fixed | immediate | fixed | no | RFQ | small NFC | new | specific | custodian | |
| 7 | 2.4 | REPO | fixed | immediate | fixed | no | voice-broker | | new | specific | ICSD | traditional brokered |
| 8 | 2.5A | REPO | fixed | immediate | fixed | no | OTC | agent | new | specific | custodian | agency reported by agent |
| 9 | 2.5B | REPO | fixed | immediate | fixed | no | OTC | agent | new | specific | custodian | agency reported by principal |
| 10 | 2.6A | REPO | fixed | immediate | fixed | no | RFQ | agent | new | specific | custodian | agency reported by agent |
| 11 | 2.6B | REPO | fixed | immediate | fixed | no | RFQ | agent | new | specific | custodian | agency reported by principal |
| 12 | 2.7 | REPO | fixed | immediate | floating | no | ОТС | | new | specific | ICSD | OTC floating-rate |
| 13 | 2.8 | REPO | fixed | forward | fixed | no | ОТС | | new | specific | ICSD | forward |
| 14 | 2.9A | REPO | open | immediate | re-ratable | no | ОТС | | new+rerating | specific | ICSD | OTC open |
| 15 | 2.9B | REPO | open | immediate | floating | no | ОТС | | new | specific | ICSD | OTC open |
| 16 | 2.10 | REPO | open | immediate | re-ratable | no | ОТС | | new | basket ISIN only | triparty agent | traditional tri-party |
| 17 | 2.11 | REPO | open | immediate | fixed | no | ОТС | agent | new but collateral unknown on T | basket ISIN only | triparty agent | |
| 18 | 2.12 | REPO | fixed | immediate | re-ratable | no | ОТС | | new | basket ISIN only | DBV | |
| 19 | 2.13 | REPO | fixed | immediate | fixed | no | ATS | | new | ATS GC facility | ICSD | bilateral electronic GC |
| 20 | 2.14 | REPO | fixed | immediate | fixed | no | ATS | clearing member | new | specific | CCP | anonymous electronic |
| 21 | 2.15 | REPO | fixed | immediate | fixed | no | ОТС | clearing member | new (from prior repo) | specific | CCP post-trade | |
| 22 | 2.16 | REPO | fixed | immediate | fixed | no | ОТС | clearing member | new (from prior repo) | basket ISIN only | CCP+DBV net collateralisation | GC financing (£GC/TDBV) |
| 23 | 2.17 | REPO | fixed | immediate | fixed | no | ATS | clearing member | new (no prior repo) | basket ISIN only | CCP+triparty agent net collateralisation | automatic GC financing (LCH euroGC+) |
| 24 | 2.18 | REPO | fixed | immediate | fixed | no | ATS | clearing member | new (no prior repo) | basket ISIN only | CCP+triparty agent net collateralisation | automatic GC financing (EGCP) |
| 25 | 3.1 | REPO | fixed | immediate | fixed | no | ОТС | | new+substitution | specific | ICSD | |
| 26 | 3.2 | REPO | fixed | immediate | fixed | no | ОТС | | new+early termination | specific | ICSD | |
| 27 | 3.3 | REPO | fixed | immediate | fixed | no | ATS | | variation margin | specific | ICSD | |
| 28 | 4.1 | REPO | open | immediate | re-ratable | evergreen | ОТС | | new+termination | specific | ICSD | |
| 29 | 4.2 | REPO | fixed | immediate | re-ratable | evergreen | ОТС | | new+termination | specific | ICSD | |
| 30 | 4.3 | REPO | fixed | immediate | re-ratable | evergreen | ОТС | | new+advance+termination | specific | ICSD | |
| 31 | 4.4 | REPO | fixed | immediate | re-ratable | extendible | ОТС | | new+extension (one-off & into new extendible) | specific | ICSD | |
| 32 | 5.1 | REPO | fixed | immediate | fixed | no | OTC | central bank | new MiFIR reporting | specific | CSD direct participant | |
| 33 | 5.2 | REPO | open | immediate | fixed | no | ОТС | central bank | new MiFIR reporting including life-cycle events | specific | CSD direct participant | |
| 34 | 5.3 | REPO | fixed | immediate | fixed | no | ОТС | central bank | new MiFIR reporting multiple securities | specific | CSD direct participant | |
| 35 | | REPO | fixed | immediate | fixed | no | ОТС | central bank | new MiFIR reporting equity-linked securities | specific | CSD direct participant | |
| 36 | 6.1 | | | | | | | | | | | |
| 37 | 6.2 | | | | | | | | | | | |
| 38 | | | | | | | | | | | | |
| 39 | Note: highlighted cells indicate addition of new features to sample. | | | | | | | | | | | |
| 40 | | triparty | | | | | | | | | | |
| /11 | | CCD | | | | | | | | | | |

Further information

Links:

- ICMA European Repo and Collateral Council
- Further details on the ERCC work in relation to SFTR
- ICMA 1-day SFTR workshops (next edition on 17 December)

Contact details:

Alexander Westphal, Director, Market Practice and Regulatory Policy;
 Secretary ICMA ERCC

Email: <u>alexander.westphal@icmagroup.org</u>