SFT transparency in a global context

- Increased regulatory focus on SFTs as part of the FSB’s “shadow banking” agenda
  - Increasing transparency in SFT markets as one of the key objectives
- FSB’s Final *Standards and Processes for Global Securities Financing Data Collection and Aggregation* published in November 2015 – complemented by detailed *reporting guidelines* (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: *Report on Re-hypothecation and collateral re-use* published alongside guidance note on *Non-cash Collateral Re-Use: Measure and Metrics* 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 *Communication on Shadow Banking* (Sep 2013)
SFTR: Key elements and timeline

SFTR proposed by Commission **29 Jan 2014**

SFTR entry into force **12 Jan 2016**

Reuse requirements apply (art.15) **13 July 2016**

UCITS & AIFs begin periodic reporting (art.13) **13 Jan 2017**

Pre-contractual disclosure rules for UCITS & AIFs (art.14) **13 July 2017**

Mandate for ESMA to develop draft technical standards (RTS/ITS) on reporting (art.4)

ESMA draft RTS/ITS submitted to EC **31 March 2017**


Transition period

Banks & investment firms **11 April 2020**

UCITS, AIFs & pension funds **11 Oct 2020**

CCPs & CSDs **11 July 2020**

NFCs **11 Jan 2021**

Phased SFTR reporting go-live
SFTR reporting - scope

- **STFs defined to include...**
  - Repo & reverse repo, Buy/sell-backs, securities lending (and borrowing), commodities lending (and borrowing), margin lending
  - But **not** 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: key elements

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 draft Reporting Guidelines 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

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SFTR reporting: key elements

SFTR reporting vs other initiatives vs current market practice

Number of reporting fields required

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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)
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

\[
\text{collateral}_{ij}^{\text{reused}} = \left( \frac{\text{collateral}_{ij}^{\text{received,eligible for reuse}}}{\text{collateral}_{ij}^{\text{received,eligible for reuse}} + \text{assets}_{ij}^{\text{own}}} \right) \times \left( \text{collateral}_{ij}^{\text{posted}} \right)
\]

- **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

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**Notes:**
- Highlighted cells indicate addition of new features to sample.
- Margin report — proprietary cleared repo between a clearing member & a CCP — series
- Margin report — bilaterally-negotiated repo being cleared post trade for one of the counterparties by a CCP clearing member
- Re-use report using FSB/RTS estimated re-use formula
- Triparty
- CCP
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)

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