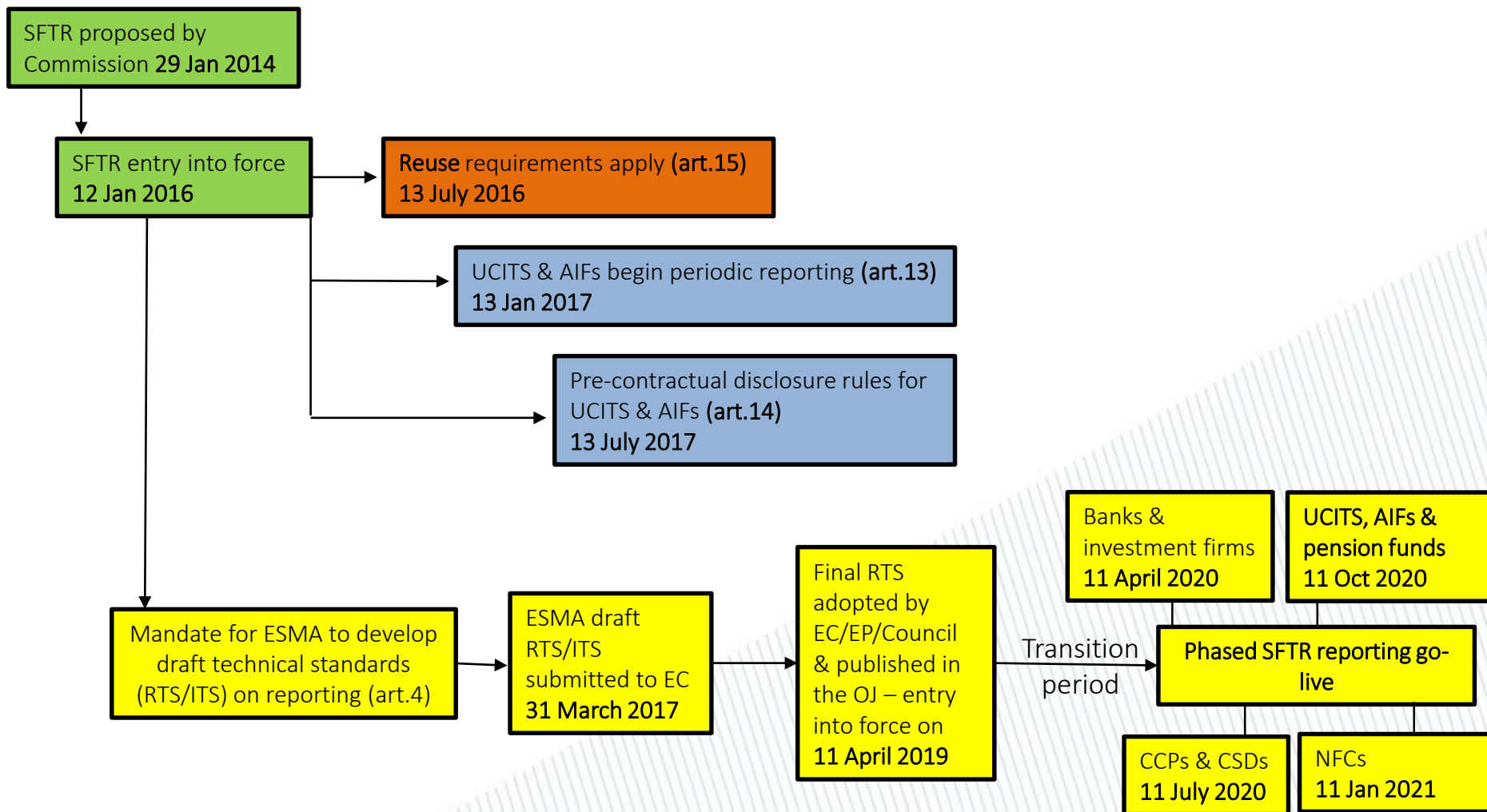


SFT transparency in a global context

- 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 [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 reporting - scope

▪ SFTRs 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 – 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

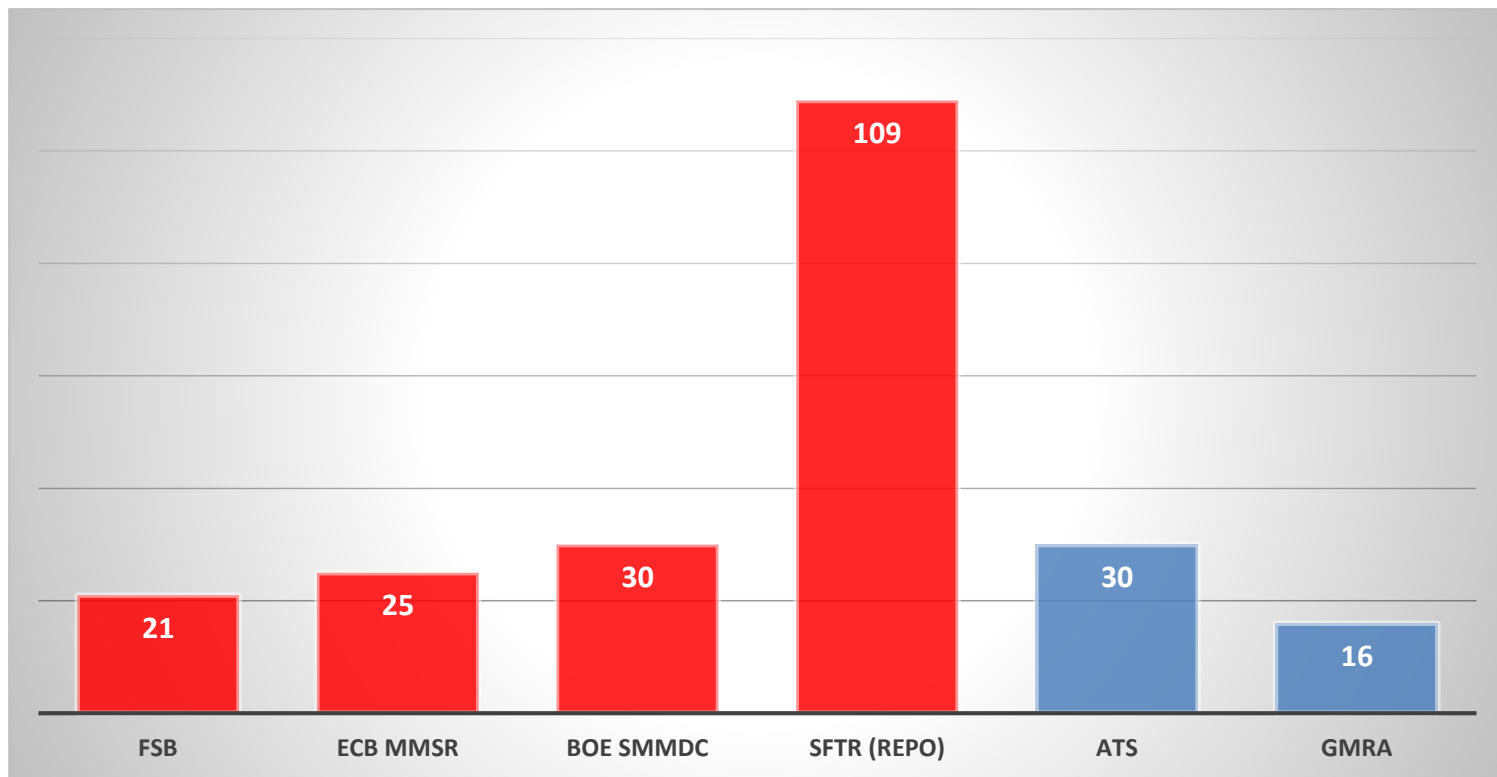
- ESMA [draft Reporting Guidelines](#) and **consolidated validation rules** published in July 2019 for public consultation - final versions expected in late Q4 2019
- **Q&As** to follow in 2020 onwards

SFTR reporting – 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					
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

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

■ 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.

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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