

ICMA response to the FCA consultation on amended validation rules and XML schemas for UK SFTR (September 2023)

General comment

- 1 Throughout the document there are references to abbreviations that diverge from the codes defined in SFTR (e.g., SL for SLEB and ML for MGLD) and some inaccurate terms (e.g., Market Value for Collateral Market Value). For clarity, it would be preferable to use the codes defined in SFTR and correct field names.

Changes tab

- 2 The provision of the Changes spreadsheet is a very welcome innovation. It would also be helpful if changes to the validation rules could continue to be highlighted in red in the rules themselves.
- 3 Change 31 is missing.
- 4 Changes 46 and 47 are duplicates.

Document Overview tab

Worksheet --- Cpty Transactions Auth.052

- 5 The following rules from the General Information page of ESMA's new Validation Rules should be included, as they are a considerable assistance to reporting and will reduce reporting issues:

3. Report with action type "CORR" can contain only loan data (1.11-1.18, 2.1-2.73, 2.97-2.99) or only collateral data (1.1 1.3, 1.7, 1.8, 1.10, 1.11, 1.14, 1.18, 2.1, 2.3, 2.4, 2.9 2.11, 2.73 2.96, 2.98) or both loan and collateral data, and should not be rejected as long as all requirements, as specified in the validation rules for the applicable fields, are fulfilled.

Note that there is a reference to this rule in the Conditional validation rule for field 2.75 (Type of Collateral Component).

- 6 **Optional** --- suggested wording: "Format and content validations are applied only when the field is populated."
- 7 **"Repo trade"** should be "repurchase transaction".

Cpty Transaction tab

- 8 It would be helpful to have the Validation Rules divided into counterparty, loan and collateral fields.

- 9 The asymmetry between the rules in field 2.75 (Type of Collateral Component) and 2.96 (Collateral Basket Identifier) should be removed.
- 10 **Change 3** --- The references to the exclusion of codes for precious metals and accounting units starting with X in fields 2.34, 2.39, 2.48, 2.50, 2.70, 2.77, 2.85-86 are helpful, with the possible exception of XDR (Special Drawing Rights).
- 11 **Change 4** --- 1.04 **Nature of reporting counterparty**. Under the UK SFTR, non-financial counterparties (NFCs) are exempt from reporting; however, challenge arises as financial counterparties cannot accurately identify whether their counterparties are NFCs, resulting in reconciliation failures at TRs.
- 12 **Change 7** --- 1.05 **Sector**. There is an extra word ('Reports') or missing text in the Conditional Validations column.
- 13 **Change 9** --- 1.06 **Additional Sector Classification**. The old and new rules conflicted with the description in the Conditional Validations field, which restricts identification as a REIT to AIFDs and now defunct non-financial categories K and L.
- 14 1.14 **Triparty Agent**. Please clarify if the LEI of CREST needs to be populated here when field 2.19 (DBV Indicator) is TRUE.
- 15 **Change 44** --- 2.02 **RTN**. It would also be helpful to note that this field should not be the same as 2.01 (UTI).
- 16 2.09 **Master Agreement Type**. This field needs updating in respect of the list of master agreements. Some are defunct and others are missing. For example, CNBR has been replaced by a NAFMII agreement. DEMA does not exist. There are also agreements in Mexico, Philippines, etc.
- 17 2.10 **Other Master Agreement Type**. Add "CCP_Rulebook" and "Undocumented" as standard codes to reduce mismatching.
- 18 2.11 **Master Agreement Version**. Clarify this field by expressly defining it as the year of the first publication by the responsible body of a new master agreement or new version. Some parties are reporting the dates of amendments.
- 19 2.12 **Execution Timestamp**. This field needs clarification. The Validation Rules say "date and time when the SFTR was executed" but the RTS says "conclusion" (ie booking).
- 20 **Change 15** --- 2.18 **GC Indicator**. Suggested changes for the Conditional Validation column: Action Type should be SLEB (not SL); and if 2.75 = SECU, 2.72 must be FALSE.
- 21 **Change 14** --- 2.20 **Method Used to Provide Collateral**. Suggested changes for the Conditional Validation column: Action Type should be SLEB; and if 2.75 = SECU, 2.72 must be FALSE.
- 22 2.24 **Day Count Convention**. The list of codes was created for derivatives and are mostly capital market conventions, which are not used in repo. Only about two of the listed conventions apply to repo (A004 and A005). The list needs revising to include more relevant

conventions. This would also reduce the use of free text, which is problematic. For free text, guidance on formatting is needed.

- 23 **Change 16** --- 2.25 **Floating Rate**. The list of codes is out of date and was created for derivatives, so includes capital market indexes not used in the repo market. The list needs revising to include more relevant rates. This would also reduce the use of free text, which is problematic. For free text, guidance on formatting is needed. In addition, change 16 refers to the adoption of ESTR, SONA and SOFR as codes but this has not been reflected in the draft validation rules. Other recognised indices, including TONA, should be included. See [ICMA SFTR Recommendations](#), Annex III.
- 24 **Change 17** --- 2.50 **Price Currency** and 2.86 **Price Currency**. There is a conflict in the schema in that it does not allow price currency to be specified if 2.49 or 2.86 is a yield. It would be simplest for reporting parties to allow price currency to be specified in all cases.
- 25 **Change 18** --- 2.73 **Collateralisation of Net Exposure**. In the Conditional Validation column, why has the rule become conditional on field 2.98 (Action Type) = NEWT/MODI/CORR and not also COLU?
- 26 **Change 24** --- 2.75 **Type of Collateral Component**. In the Conditional Validation column, one of the rules is still conditional on field 2.98 (Action Type) = COLU/CORR/POSC, whereas ESMA has removed CORR and POSC. The FCA states that they are supportive of the ESMA change and will be adopting the same but this is not yet reflected in the document.
- 27 **Change 19** --- 2.85 **Currency of collateral nominal amount**. The additional rule (2.85 is conditional on 2.83) conflicts with the XML schema. 2.83 also includes 'quantity', that is, a number of shares or units, for the schema does not allow currency to be specified.
- 28 **2.87 Price Per Unit**. The new rule to leave this field blank if 2.75 (Type of collateral component) = COMM in the case of SLEB contradicts the rule that this field shall be populated if 2.75 = COMM. The first rule needs to be more clearly expressed as a special case to the second. And the code for securities lending should be SLEB.
- 29 **Change 46/47** --- 2.88 **Collateral Market Value**. The new rule to leave this field blank if 2.75 (Type of collateral component) = COMM contradicts other rules for this field. And the code for securities lending should be SLEB. In addition, it is unclear why the use of negative values should be limited to COLU reports of net collateralized repo. This differentiation requires additional logic and does not seem to provide any useful information.
- 30 **Change 26** --- 2.89 **Haircut or Margin**. This field would benefit from further clarification. It should be made clear that the field does not refer to initial margin (as opposed to haircut). In addition, clear guidance on how to report haircuts/margins is needed for margin lending.
- 31 **2.96 Collateral Basket Identifier**. It needs to be stressed in the validation rules that this field applies only where the allocation of collateral is delayed for a triparty repo.

Margins tab

- 32 The references to exclude currency codes starting with X in fields 3.09, 3.11, 3.13, 3.15, 3.17 and 3.19 are helpful.

Reuse tab

33 The references to exclude currency codes starting with X in fields 4.14 and 4.17 are helpful.

34 4.13 **Reinvested Cash Amount**. In the Conditional Validation column, there is a duplication that refers to field 2.6.

Comments for further consideration

It may not be possible to address the following points in the context of the current review of the validation rules. However, we would encourage the FCA to consider these points as part of any future wider review of UK SFTR.

- 35 Action Type **POSC** should be deleted or disabled as the conditions for reporting positions cannot be met (it requires repos to be netted and then novated, whereas they are novated and then netted). This also means field 2.99 **Level** is redundant.
- 36 There is no good reason to differentiate **REPO and SBSC**. They are both types of repo and differ substantially in only one operational aspect. REPO and SBSC should be merged.
- 37 1.15 **Broker** and 1.18 **Agent Lender**. These two fields overlap for repo. Managers lending cash and reporting on behalf of clients report themselves as Agent Lenders because they do not consider themselves Brokers. Other managers prefer to be reported as Brokers because of a formal view of the role of Agent Lenders. Thus, the activity of similar agents is split between two fields. Originally, Agent Lender did not apply to repo but the definition in the validation rules has never been updated. It has been inferred from ESMA's Guidelines that Brokers are broker/dealers acting as an agent in the reported transaction. A recent EMIR Q&A seems to confirm this concept. However, defining a Broker as an agent excludes voice-brokers, who are arrangers, not agents. It would help if field 1.15 was relabelled and clearly defined as "Agents and Arrangers" and if repo was excluded from field 1.18 (which would return to being exclusively for SLEB). See also comments in para.38.
- 38 1.17 **CSD Participant or Indirect Participant**. This field should be decommissioned. It reports whether a Reporting Counterparty uses a custodian to settle or is a direct participant in an (I)CSD. In the latter case, the Reporting Counterparty's LEI is reported. It would make more sense to report the LEI of the (I)CSD. But the usefulness of this field is doubtful and it should be decommissioned.
- 39 2.07 **CCP**. CCPs reported in this field should expressly exclude CSDs which guarantee settlement but do not fulfil CPMI-IOSCO standards for CCPs (e.g., CSDC in China).
- 40 2.08 **Trading Venue**. This field includes voice-brokers operating within OTFs. Other voice-brokers are reported as Brokers. All voice-brokers should be reported as Brokers (preferably with a new label 'Agents and Arrangers'). In addition, while the definition of the XOFF category is misleading, it appears to be intended for OTC trades registered on a Trading Venue post-trade. Post-trade registration on a TV provides no reliable information. It does not change the fact that negotiation was OTC. The main motive for post-trade registration is to access a CCP. That information is available from other reporting (the cancellation of prior repos).
- 41 2.17 **Earliest Call-Back Date**. This field should be relabelled to "Earliest Option Date" given that it covers extension options.
- 42 2.18 **GC Indicator**. This field should be decommissioned. It has been watered down because it was impractical to fulfil the original aim of identifying specials. It therefore serves no useful purpose and merely increases reporting issues.
- 43 2.19 **DBV Indicator**. DBV is a tri-party repo system. It therefore duplicates field 1.14 (Tri-party Agent). It should therefore be decommissioned. An interim proposal has been made in para.9.

- 44 **2.20 Method Used to Provide Collateral.** This field should always be TTCA for REPO as well as for SBSC. ‘Repos’ based on pledging of collateral are disguised secured loans, which do not fall under the remit of SFTR. If regulators want to monitor secured loans, they should add a fifth product to SFTR.
- 45 **2.30 Floating Rate Reset Frequency - time period** and **2.31 Floating Rate Reset Frequency – multiplier.** This feature was created for constant maturity bonds and derivatives and is not applicable to repo.
- 46 **2.35 Adjusted Rate.** ESMA agreed that reporting the result of regular refixing of published indexes provided no value and was therefore an unnecessary burden. But the field was then repurposed to report pre-agreed changes in fixed rates (i.e., step-up/down structures). However, these can be reported as MODIs. This field should therefore be decommissioned.
- 47 **2.36 Rate Date.** This field is redundant given that the Adjusted Rate is redundant.
- 48 **2.73 Collateralisation of Net Exposure.** ESMA changed the guidance on this field to require that it be reported as TRUE where any payments and/or deliveries under a legal agreement are netted (e.g., variation margin) undermining the usefulness of the field. It should be used to distinguish net collateralisation of portfolios of repos by a single pool of collateral from transactions that are individually collateralised. The guidance should be reversed.
- 49 **2.74 Value Date of Collateral.** This field should be decommissioned. It is dysfunctional and unnecessary. The field was originally intended to describe prepayment of SLEB collateral but has been extended to repo. As a purchase transaction, repo does not feature prepayment of collateral. However, the field also does not work for SLEB in identifying prepayment.
- 50 **2.83 Collateral Quantity or Nominal Amount.** The reporting of units should be prohibited. They should be required to be converted into nominal amounts. This would eliminate a source of reporting confusion.
- 51 **2.89 Haircut or Margin.** This field is unnecessary given that it can be implied from fields 2.37 and 2.88 and is a major source of reporting errors, in part, because of the title and poor definition, which encourages confusion between haircuts and initial margins. See also paragraph 28.
- 52 **2.90 Collateral Quality.** This field should be decommissioned. A challenging field given that counterparties can legitimately differ in their credit assessments and internal ratings are commercially sensitive. As it is pointless having firms report publicly-available credit ratings, regulators should apply their own credit assessment.
- 53 **2.91 Maturity Date of the Security.** This field is unnecessary and should be decommissioned. The data can be derived from the ISIN of the collateral and is therefore just a source of potential reporting errors.
- 54 **2.92 Jurisdiction of the Issuer.** This field is unnecessary and should be decommissioned. Regulators can derive this from the ISIN via GLEIF and it is therefore just a source of potential reporting errors.

- 55 **2.93 LEI of Issuer.** This field is unnecessary and should be decommissioned. Regulators can derive this from the ISIN via ANNA and it is therefore just a source of potential reporting errors. In addition, there is a redundant sentence in the Conditional Validation rule.
- 56 **2.94 Collateral Type.** The FSB has yet to complete the definition of this taxonomy. If the field is to be useful, this work needs to be completed.
- 57 **2.95 Availability for Collateral Reuse.** Unnecessary for true repo (see para.40) and MGLD. This depends entirely on the type of SFT and, in the case of SLEB on the legal agreement. True repo is always title transfer and therefore always provides reusable collateral.
- 58 **2.99 Level.** See para.34.