



Professional Repo Market and Collateral Management Course Securities Financing Transactions Regulation (SFTR)

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purpose of SFTR

- SFTR fulfils EU/UK members' commitments to the Financial Stability Board (FSB) to help improve transparency of global SFT markets
- SFTR is primarily intended to allow regulatory monitoring of:
 - **systemic risk:**
 - use of SFTs to generate system leverage
 - build-up of concentrations of risk in the largest counterparties & most-used types of collateral
 - interconnectedness between banks & 'shadow banks'
 - pro-cyclicality of leverage
 - any **regulatory arbitrage** from banking to 'shadow banking' as a result of tighter banking regulation
- granularity of required data seems to be intended for:
 - **research** by the authorities into the SFT markets
 - **market surveillance**
- SFTR parallels EMIR, which includes reporting requirements to allow monitoring of systemic risk in derivatives
- SFTR and EMIR differ from MiFID/MiFIR II, which includes reporting requirements to allow monitoring of market abuse
- but there are key differences between SFTR and EMIR
- UK continuing --- for the moment --- to follow EU SFTR except for reporting obligation on non-financial entities & (perhaps) policy on reporting by foreign branches in UK

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ICMA SFTR resources

- ICMA Recommendations for Reporting under SFTR
- Quick Guide mapping ICMA recommendations to SFTR data fields
- sample SFTR repo reports
- Life-Cycle Matrix mapping of events to SFTR report types
- summary of Q&As
- log of outstanding reporting issues

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what must be reported

- counterparty, loan and collateral data for new SFTs
 - repurchase transactions
 - buy/sell-backs
 - securities & commodities lending & borrowing
 - margin lending
- subsequent life-cycle events --- modifications, corrections, terminations, cancellations due to errors
- any daily changes in amount and value of collateral
- any daily changes in outstanding balances of CCP margins
- any daily changes in outstanding balances of re-used collateral
- life-cycle events mean contractual changes --- many parties mistake operational processes for contractual changes

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what must be reported

definitions of repo in SFTR are rubbish

- **repurchase transaction** (Article 3(9))
 - **documented** ✓
 - collateralisation by **transfer/sale** of securities, commodities or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a recognised exchange which holds the rights to the securities or commodities
 - repurchase on a **future date specified by seller** ✗
 - **substitution** possible ✓
- **buy/sell-back** (Article 3(8))
 - **undocumented** ✗
 - collateralisation by **sale** of securities, commodities or guaranteed rights relating to title to securities or commodities ✗
 - repurchase on a **specified future date** --- no open buy/sell-backs ✓
 - **substitution** not possible ✓

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what must be reported

- **excludes**
 - **synthetic repos** (but disclosure required of use of TRS to clients by fund managers)
 - EU SFTR --- SFTs with members of the ESCB --- but these must be reported under EU MiFIR
 - UK SFTR --- SFTs with BoE and members of the ESCB --- but these must be reported under UK MiFIR
 - local **debt management offices**
 - **agents**
 - UK SFTR excludes **non-financial entities**
- **includes**
 - **false repos** --- secured loans called repos
 - **retail repo**
 - **foreign branches** in EU/UK --- but ESMA allows opt-out if trade is "booked" with parent
 - **overseas branches** of EU/UK entities
- **delegation of reporting**
 - EU SFTR --- managers must report for UCITS & AIFs; EU financials must report for small EU non-financials
 - UK SFTR --- managers must report for UCITS & AIFs
 - parties can voluntarily delegate operations to counterparties or third-parties but not responsibility

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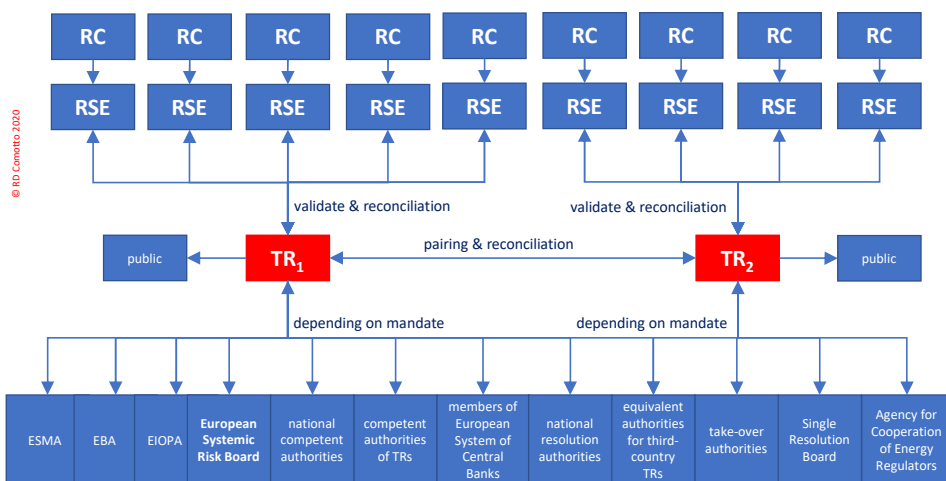
when to report

- reports must be complete, accurate and timely
- deadlines for reporting are:
 - **T+1** for new transactions
 - **S+1** for collateral, CCP margin and re-use reports

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how to report



RC = Reporting Counterparty
 RSE = Report Submitting Entities
 TR = trade repository

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how to report

trade repositories

- **validate** reports
 - correct message format & size
 - authenticity & authorization of Report Submitting Entity
 - correct message syntax (ISO 20022 XML schema)
 - logical checks
 - completeness --- all required fields filled in, correct data format
- collect & store data
- **reconcile** some data fields
- feedback validation, reconciliation & valid data reported back to reporting parties, authorities
- calculation positions for authorities
- publish some public data

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what to report

data fields

- 113 for repurchase transactions
- 90 for buy/sell-backs
- for repos --- up to 58 may have to be matched with little/no tolerance

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what to report

identifying transactions, counterparties, other entities and collateral

- each repo must have a **Unique Transaction Identifier (UTI)** --- who generates?
- all entities involved in a transaction and collateral issuer must have an **LEI** (11x)
- trading venues (under MiFID) must have a segment **Market Identifier Code (MIC)**
- securities must have an **ISIN**

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what to report

reporting counterparties must classify themselves into:

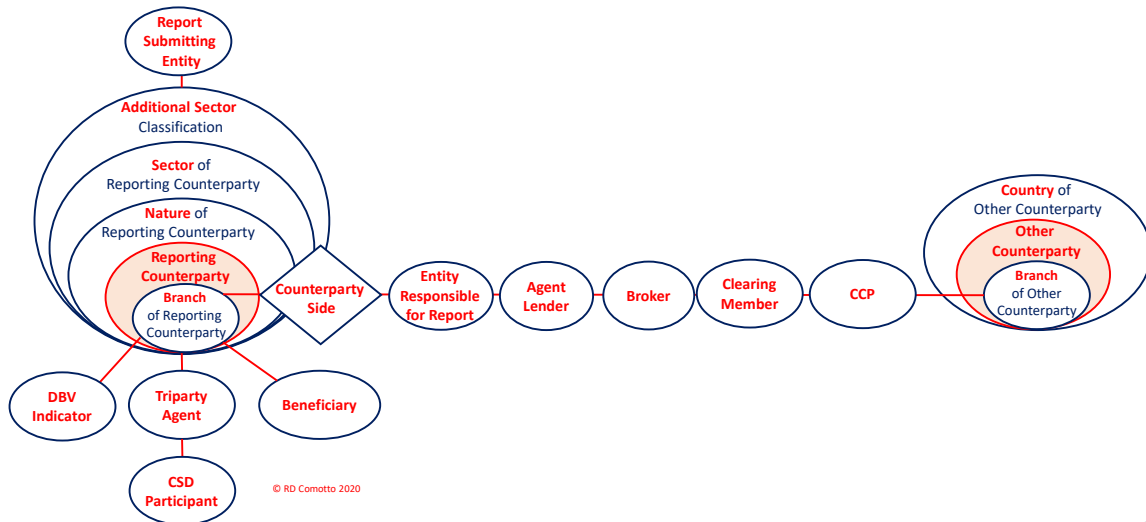
- financial v non-financial
- non-financials --- economic sectors
- UCITS, AIFs & some non-financials must identify whether they are also ETFs, money market mutual funds, REITs

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what to report

counterparties and other entities to be reported



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what to report

classifying collateral

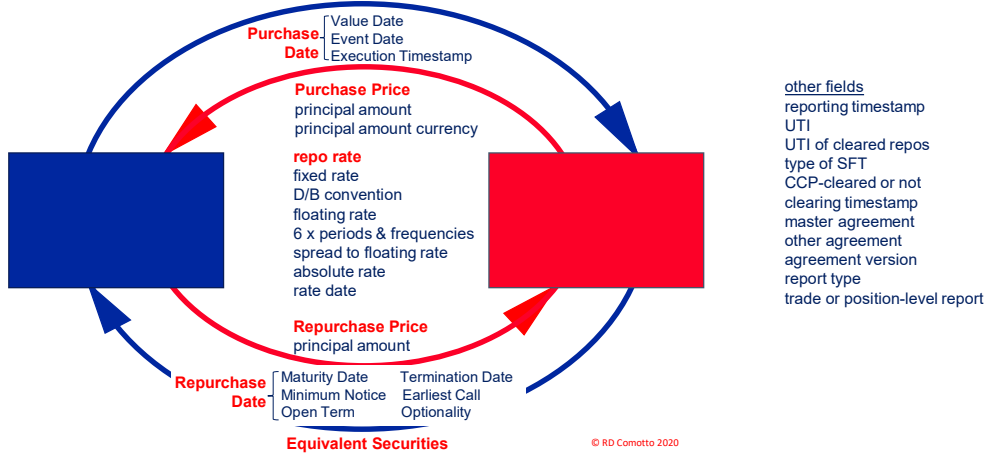
- type of collateral
- collateralization method
- availability of collateral for re-use
- trade-level or net exposure collateralization
- loan value date for pre-paid net collateral
- portfolio code of CCP-cleared collateral
- GC or specific
- security (ISIN)
- issuer (LEI)
- jurisdiction of issuer
- CFI code
- FSB taxonomy
- collateral quality
- currency of collateral
- price of collateral
- currency of price
- nominal amount of collateral
- collateral market value
- haircut

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what to report

loan data to be reported



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what to report

repo example

transaction type	repurchase transaction
seller	HSBC Bank Plc
buyer	Credit Suisse Securities (Europe) Ltd
transaction date	20-Apr-20
execution timestamp	10:55:30
execution venue	OTC
purchase date	21-Apr-20
repurchase date	28-Apr-20
collateral	1.5% BOBL 15-May-2023
nominal value	10,000,000.00
market value	10,214,263.93
purchase price	10,183,192.61
currency	EUR
repo rate	-0.610%
repurchase price	10,181,987.15
settlement agent/venue	Clearstream Bank Frankfurt

LEI	MP6I5ZYBUE3UXPYFY54
LEI	DL6FFRRLF74S01HE2M14

ISIN	DE0001102317
issuer LEI	529900AQBND3S6YJLY83

clean price	100.741
haircut	0.50%

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what to report

repo example --- counterparty data

1	Reporting timestamp	2020-04-21T12:10:11Z	M
2	Report submitting entity	MP6ISZY2BEU3UXPYFY54	M
3	Reporting counterparty	MP6ISZY2BEU3UXPYFY54	M
4	Nature of the reporting counterparty	F	M
5	Sector of the reporting counterparty	CDTI	M
6	Additional sector classification		C
7	Branch of the reporting counterparty		O
8	Branch of the other counterparty		O
9	Counterparty side	GIVE	M
10	Entity responsible for the report	MP6ISZY2BEU3UXPYFY54	M
11	Other counterparty	DL6FFRRL74S01HE2M14	M
12	Country of the other counterparty	GB	M
13	Beneficiary		O
14	Tri-party agent identifier		O
15	Broker		O
16	Clearing member		O
17	CSD participant or indirect participant	MP6ISZY2BEU3UXPYFY54	O
18	Agent lender		O

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what to report

repo example --- loan data

1	Unique Transaction Identifier (UTI)	E02MP6ISZY2BEU3UXPYFY54DM23L45DME01234	M
2	Report tracking number		C
3	Event date	2020-04-20	M
4	Type of SFT	REPO	M
5	Cleared	FALSE	M
6	Clearing timestamp		C
7	CCP		C
8	Trading venue	XXXX	M
9	Master agreement type	GMRA	M
10	Other master agreement type		C
11	Master agreement version	2011	C
12	Execution timestamp	2020-04-20T10:55:30Z	M
13	Value date (Start date)	2020-04-21	M
14	Maturity date (End date)	2020-04-28	C
15	Termination date	not applicable to new transactions	-
16	Minimum notice period		C
17	Earliest call-back date		O
18	General collateral indicator	SPEC	M
19	DBV indicator	FALSE	M
20	Method used to provide collateral	TTCA	M
21	Open term	FALSE	M
22	Termination optionality (EGRN/ETSB)	NOAP	M
23	Fixed rate	-0.61000000%	C
24	Day count convention	A004	C
25	Floating rate		C
26	Floating rate reference period - time period		C
27	Floating rate reference period - multiplier		C
28	Floating rate payment frequency - time period		C
29	Floating rate payment frequency - multiplier		C
30	Floating rate reset frequency - time period		C
31	Floating rate reset frequency - multiplier		C
32	Spread		C
35	Adjusted (floating) rate		O
36	(floating) Rate date		M
37	Principal amount on value date	10,163,192.61	C
38	Principal amount on maturity date	10,161,987.15	C
39	Principal amount currency	EUR	M

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what to report

repo example --- collateral data

73	Collateralisation of the exposure (net exposure)	TRUE			M
74	Value date of the collateral	not applicable to new transactions			-
75	Type of collateral component	SECU			C
76	Cash collateral amount				C
77	Cash collateral currency				C
78	Identification of a security used as collateral	DE0001102317			C
79	Classification of a security used as collateral	DBFTFB			C
83	Collateral quantity or nominal amount	-10,000,000.00			C
85	Currency of collateral nominal amount	EUR			O
86	Price currency				O
87	Price per unit	102.14263934			C
88	Collateral market value	10,214,263.93			C
89	Haircut or margin	0.5000000000			C
90	Collateral quality	INVG			C
91	Maturity of the security	2023-05-15			C
92	Jurisdiction of the issuer	DE			C
93	Issuer of collateral	529900AQBND3S6YJLY83			C
94	Collateral type	GOVS			C
95	Availability for collateral re-use	TRUE			C
96	Collateral basket identifier				C
97	Portfolio code				C
98	Action type	NEWT			M
99	Level	TCTN			M

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what to report

re-use of collateral

- report per **ISIN** per **LEI**
- two methods of calculation of re-use :
 - **actual re-use** --- where assets received as collateral are distinguishable from same assets received as **own assets**
 - **estimated re-use** --- where re-used collateral cannot be linked to specific SFTs because all holdings of the same security are kept in the same omnibus account regardless of whether securities are purchased outright or as collateral

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what to report

re-use of collateral --- actual

- collateral received & posted under all collateral arrangements (not just through SFTs & including ISDA credit support annexes for derivatives)
- including re-use in **outright sales**
- excluding collateral from/to **exempt central banks**

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what to report

re-use of collateral --- estimated

- FSB estimated re-use formula

$$\text{collateral}^{\text{reused}} = \left(\frac{\text{collateral}^{\text{received eligible for reuse}}}{\text{collateral}^{\text{received eligible for reuse}} + \text{assets}^{\text{own}}} \right) \text{collateral}^{\text{posted}}$$

- excluding collateral from/to **exempt central banks**

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what to report

re-use of collateral --- estimated

- example
 - I buy 10 of security X outright (own assets)
 - I reverse in 5 of security X but not from an exempt central bank (collateral received eligible for reuse)
 - I repo out 6 of security X

$$\text{collateral}^{\text{reused}} = \left(\frac{\text{collateral}^{\text{received eligible for reuse}}}{\text{collateral}^{\text{received eligible for reuse}} + \text{assets}^{\text{own}}} \right) \text{collateral}^{\text{posted}}$$

$$\left(\frac{5}{5+10} \right) 6 = 2$$

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