EU SFT Regulation: Key elements and timeline

SFTR implementation


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┌─────────────────┐             ┌─────────────────┐             ┌─────────────────────┐                               ┌──────────────┐
│ ESMA final draft│ Commission  │ RTS/ITS         │ EP & Council│ RTS/ITS officially  │ Transition period             │              │
│ RTS/ITS         │────────────▶│ adopted by the  │────●───────▶│ adopted and         │──────────────────────────────▶│  Reporting   │
│ 31 March 2017   │   review    │ Commission      │scrutiny     │ published in the OJ │ (phased implementation)       │  go-live     │
│                 │             │ 13 Dec 2018     │(3 months)   │ – entry into force  │                               │              │
└─────────────────┘             └─────────────────┘             │ 20 days thereafter  │                               └──────────────┘
                                                                │ April 2019          │
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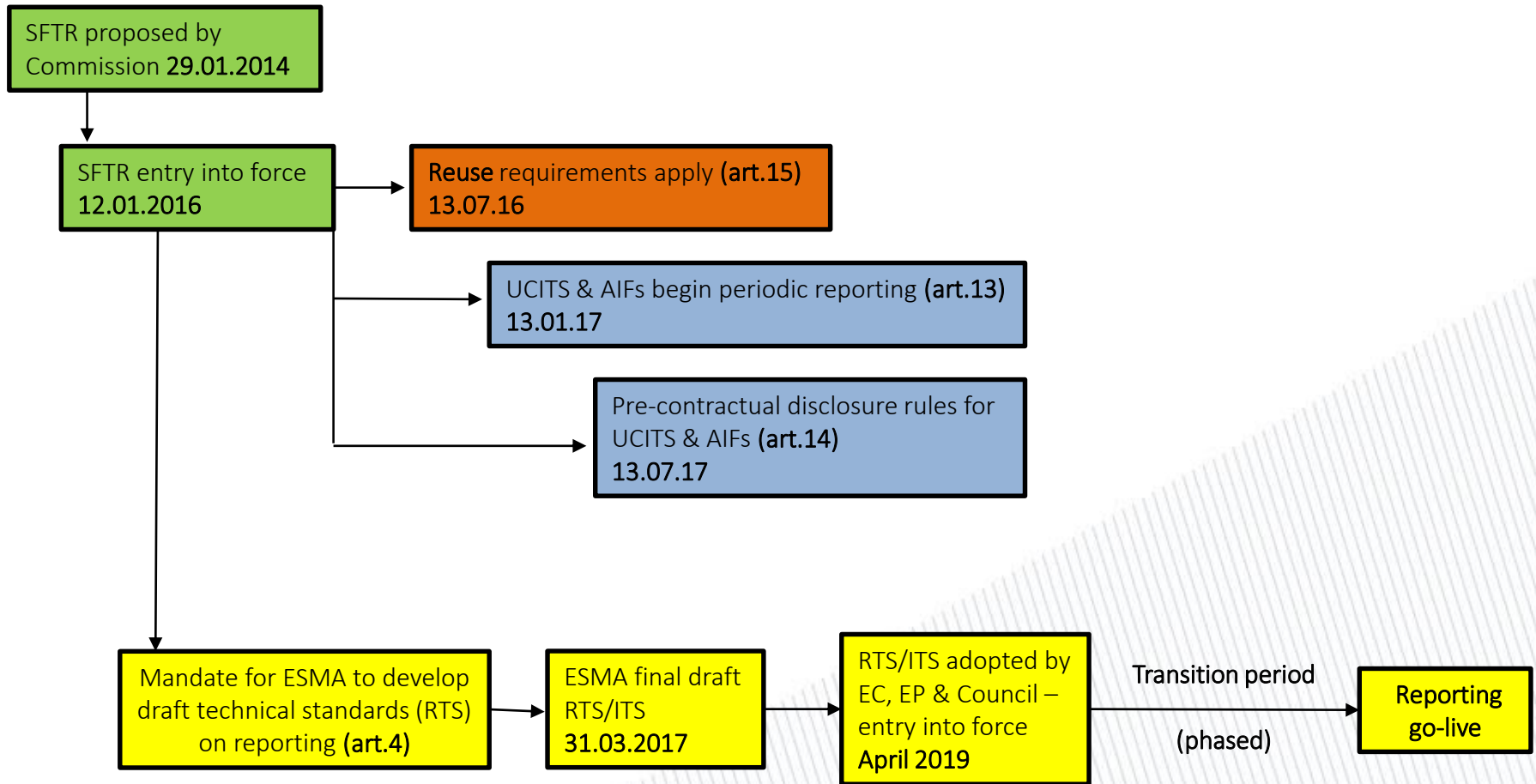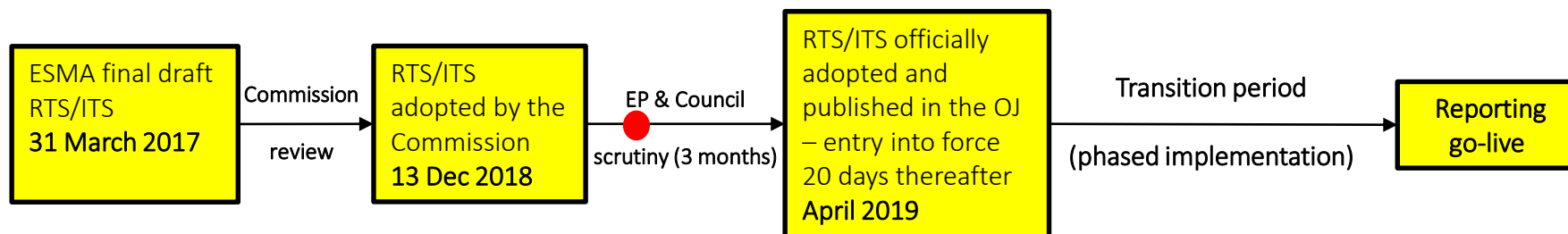
- Phased transition period until application of the requirements specified by SFTR – **expected reporting go-live dates**:

  - **April 2020** (12 months after entry into force): Banks and investment firms
  - **July 2020** (15 months …): CCPs & CSDs
  - **October 2020** (18 months …): Buy-side
  - **January 2021** (21 months …): Non-Financial Counterparties (NFCs)

- **ESMA** has a key role to play in the implementation process:

  - Draft RTS & ITS submitted to the Commission in March 2017 ("Level 2")
  - Additional "Level 3" implementation guidance forthcoming, including Q&As, detailed Guidelines & validation rules
  - Public consultation on draft Guidelines expected once the RTS/ITS have been finalized

ICMA ERCC approach to SFTR

- SFTR reporting is a **key priority** for the ICMA ERCC
  - Extensive reporting requirements as a major operational challenge for SFT markets
  - Double-sided reporting and reconciliation requirements necessitate cross-industry collaboration & agreement

- **ERCC SFTR Task Force** established in 2015, initially to respond to ESMA's consultations on SFTR technical standards
  - 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 nearly 100 firms represented
  - Working closely with other trade associations, in particular ISLA, as well as regulators, in particular ESMA

SFTR Task Force – key deliverables

▪ **SFTR Annex to the [ERCC Guide to Best Practice in the European Repo Market](#)**

- ERCC Guide offers a useful and well-established framework

- Draft Annex being developed with the TF - already over 50 issues covered (Q&A format)

- Aim is to share/validate any recommendations with ESMA

▪ **Field-by-field analysis & ESMA validation logic**

- ERCC commented on a first set of ESMA draft validation rules in Oct 2017

- Focus sessions with TF members to go through the reporting tables, field-by-field and validate field contents and validation logic (further feedback submitted in Dec 2018)

▪ **SFTR template reports**

- Dummy transaction reports for a variety of trade scenarios (25 scenarios covered)

- Covers new transactions, but also subsequent lifecycle reports (substitution, early termination etc.)

- Number of required fields ranging between 45 – 60 per trade scenario (new trade)

SFTR Task Force – sample reports: overview table

	type	term	start	repo rate	term.opt.	venue	any special parties	event(s)	collateral	post-trade infrastructure	market name
1.1	SBSC	fixed	immediate	fixed	no	OTC		new	specific	ICSD	
2.1	REPO	fixed	immediate	fixed	No	OTC		new	specific	CSD direct participant	traditional OTC
2.2	REPO	fixed	immediate	fixed	No	OTC	branch	new	specific	custodian	
2.3	REPO	fixed	immediate	fixed	No	RFQ	small NFC	new	specific	custodian	
2.4	REPO	fixed	immediate	fixed	no	voice-broker		new	specific	ICSD	traditional brokered
2.5	REPO	fixed	immediate	fixed	no	OTC	agent	new	specific	custodian	agency
2.6	REPO	fixed	immediate	fixed	no	RFQ	agent	New	specific	custodian	
2.7	REPO	fixed	immediate	floating	no	OTC		New	specific	ICSD	OTC floating-rate
2.8	REPO	fixed	forward	fixed	no	OTC		New	specific	ICSD	forward
2.9	REPO	open	immediate	re-ratable	no	OTC		new+rerating	specific	ICSD	OTC open
2.10	REPO	open	immediate	re-ratable	no	OTC		New	basket ISIN only	triparty agent	traditional tri-party
2.11	REPO	fixed	immediate	fixed	no	OTC	agent	new but collateral unknown on T	basket ISIN only	triparty agent	
2.12	REPO	open	immediate	re-ratable	no	OTC		new	basket ISIN only	DBV	
2.13	REPO	fixed	immediate	fixed	no	ATS		new	specific	ICSD	bilateral electronic
2.14	REPO	fixed	immediate	fixed	no	ATS		new	specific	CCP	anonymous electronic
2.15	REPO	fixed	immediate	fixed	no	ATS	clearing member	new	specific	CCP	anonymous electronic
2.16	REPO	fixed	immediate	fixed	no	OTC		new (from prior repo)	specific	CCP post-trade	
2.17	REPO	fixed	immediate	fixed	no	ATS		new (no prior repo)	basket ISIN only	CCP+triparty agent	GC financing
3.1	REPO	fixed	immediate	fixed	no	OTC		new+substitution	specific	ICSD	
3.2	REPO	fixed	immediate	fixed	no	OTC		new+early termination	specific	ICSD	
3.3	REPO	fixed	immediate	fixed	no	OTC		variation margin	specific	ICSD	
4.1	REPO	open	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.2	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.3	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+advance+termination	specific	ICSD	
4.4	REPO	fixed	immediate	re-ratable	extendible	OTC		new+extension (one-off & into new extendible)	specific	ICSD	

Note: highlighted cells indicate addition of new features to sample.