Response Form to the Consultation Paper

Draft Guidelines on calculation of positions in SFTs by Trade Repositories
Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by 15 September 2020.

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input – Consultations’.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

1. Insert your responses to the questions in the Consultation Paper in the present response form.

2. Please do not remove tags of the type <ESMA_QUESTION_CP_SFPO_1>. Your response to each question has to be framed by the two tags corresponding to the question.

3. If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.

4. When you have drafted your response, name your response form according to the following convention: ESMA_SFPO_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA_SFPO_ABCD_RESPONSEFORM.

5. Upload the form containing your responses, in Word format, to ESMA’s website (www.esma.europa.eu under the heading “Your input – Open Consultations” →
“Consultation on Guidelines on calculation of positions in SFTs by Trade Repositories”.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading Legal Notice.

Who should read this paper

All interested stakeholders are invited to respond to this consultation paper. In particular, responses are sought from trade repositories (TRs), trade associations and the entities specified in Article 12(2) of Regulation (EU) 2015/2365 (SFTR).
General information about respondent

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Introduction

Please make your introductory comments below, if any

<ESMA_COMMENT_SFPO_1>

Background: The ICMA ERCC SFTR Task Force

ICMA’s European Repo and Collateral Council (ERCC) created a dedicated SFTR Task Force in 2017 to lead and coordinate the industry’s implementation effort in relation to repos (repurchase transactions and buy/sell-backs). The group includes more than 650 representatives from well over 150 ICMA member and other firms covering the whole spectrum of the market, including buy-side, sell-side and market infrastructures (including trading venues, CCPs and tri-party agents), but also Trade Repositories (TRs) and other service-providers that are offering solutions to help reporting firms comply with SFTR.

General comments

- **Timeline:** The timetable for implementation is very tight and does not take into account uncertainty over the lead times required to finalize guidance or all the tasks required to establish this reporting procedure. The start date for TR reporting on positions is defined to be 13 July 2021 but the final report may not be published until March 2021. It would be imprudent for TRs to build reporting systems before they have the final report, particularly given the lack of a precise methodology and consequently the many questions raised by this CP. Moreover, ESMA proposes the use of standard ISO20022 XML messages, but we are not aware that the necessary XML schemas already exist. Suitable schemas have to be developed and approved by the relevant ISO governance bodies, which is a lengthy process and should be built into the overall implementation timeline. It is also necessary to take into account the continuing impact of Covid-19 and the risk of further disruption. Given that the purpose of these reports is to alert NCAs to emerging systemic risks, it would be unwise to risk a repeat of the problems currently affecting weekly public data, particularly as some of these problems would appear to arise from the aggregation of SFTR data. The CP acknowledges that the processing and analysis of the data would be challenging for many authorities. It would be no less challenging for the TRs. In our view, a more appropriate approach would be to allow TRs at least 6 months following the entry into force of the relevant Guidelines or the applicable XML schemas, whichever is later, to implement the requirements before reporting starts.
• **Specificity of the guidance:** We note that the draft Guidelines still seem to be at a relatively early stage of development. As the CP acknowledges, the descriptions and requirements are defined at a high level only. Too much detail is left to TRs to develop. In our view, ensuring a consistent and harmonised approach across TRs for the aggregation of reports is critical and this requires specific and detailed functional requirements defined by ESMA, e.g. regarding applicable aggregation algorithms or methodologies for identification of outliers. We believe from experience to date that such fundamental specifications should not be left to the TRs to agree between themselves if consistent and harmonised reports are to be produced. In order to get to this level of specificity, it would be appropriate to follow a two-staged approach with a second, follow-up consultation on a more developed set of draft requirements.

• **A more targeted approach:** The CP does not start by setting out the aggregated data seen as essential for monitoring systemic risk. As such the proposed reporting template lacks coherence and seems more of a disparate wish list. In our view, ESMA’s approach should be more targeted and based on a detailed analysis of the precise metrics that are really needed from a systemic risk perspective. In large parts, the data requirements seem unnecessarily broad and extensive. This not only creates disproportionate costs for TRs (which will ultimately have to be borne by reporting firms) but also risks making it more difficult for authorities, in particular those in smaller markets, to quickly analyse the data and focus on the relevant metrics. A good starting point would be to seek feedback from other stakeholders that have an interest and extensive experience in the development of systemically significant metrics. In particular, we would encourage ESMA to consult the ESRB and the ECB, who we understand are already working on the aggregation of SFTR data for the FSB on behalf of a number of EU Member States as well as the analytics for these parties. It would be critical to ensure full consistency and avoid duplication between the different workstreams. Finally, we would also welcome a closer alignment with the relevant FSB requirements, which have been developed with a specific focus on systemic risk. Indeed, given that the FSB template to monitor systemic risk is the product of international consensus and expertise, we would urge that the position reports to NCAs should follow the FSB template as closely as possible. Ideally, that one template should be used for both named position and sectoral reporting.

• **The need for an FSB report:** If all the EU Member States that have an obligation to report to the FSB have delegated the production of their reports to the ECB, is it necessary for the TRs to have to do the same?

• **The role of the TRs:** It is our understanding that, under SFTR, the TRs are supposed to play a limited role in processing the data, in order to avoid the problems experienced with EMIR. In particular, we understand that TRs are not supposed to augment or enrich the data reported by firms. However, in some parts, the CP proposes that the TR do just that, e.g. cross-referencing between loan and re-use data.

• Among the general questions raised by the CP are how to cope with the current problem of not being able to match positive and negative collateral fields between TRs, how to adjust for mismatched reports and how to combine net collateral with transaction-level collateral when comparing with loan value.

<ESMACOMMENT_SFP0_1>
Questions

Q1: Do you agree with the proposed approach to implementation? Please elaborate on the reasons for your response.

• As explained above, the position reports to NCAs should follow the FSB template as closely as possible. Ideally, that one template should be used for both named position and sectoral reporting. No case has been made for a different reporting template on the grounds of providing a superior snapshot of systemic risk.

• As asked above, if all the EU Member States that have an obligation to report to the FSB have delegated the production of their reports to the ECB, is it necessary for the TRs to have to do the same?

Q2: Do you foresee any additional option, that would represent SFT exposures more accurately? Please detail the reasons for your response.

While we do not disagree with the representation in table 1, it is important to keep in mind that the exposure to a repo pre-settlement is different from exposure post-settlement in that the replacement costs arising from default are in the opposite directions. Prior to settlement, the risk to the seller is that the buyer defaults before buying, which would expose the seller to the risk that the repo has to be replaced at a lower collateral price, higher repo rate, shorter term and deeper haircut. Post-settlement, the risk to the seller is that the buyer defaults before selling back the collateral. Without variation margining and sufficient haircut, the seller would be exposed to the risk that the collateral has to be replaced at a higher price. A fully accurate view of risk would therefore need to differentiate pre- and post-settlement exposures. Given the concern expressed that "the large volumes of data that ESMA expects to be reported will make it challenging for many authorities to swiftly process and analyse the data", which may prevent “authorities from being able to swiftly assess systemic risks to financial stability and quickly react in a crisis event” (p.11), it is suggested position reports be compiled using post-settlement data. In addition, given that collateral and margin data is based on settlement date measurement, it would be more consistent to use settlement data. A delay of a day or two relative to transaction date data is not material for the build-up of systemic risk, even at individual institutions.

On a closely related note, although not explicitly addressed in the draft Guidelines, we would like to reiterate our concerns with the recent ESMA guidance to report failed settlement of repo repurchase legs as an extension of the maturity of transactions which will misrepresent contractual exposures. Following settlement failure at maturity, a repo does not continue to generate interest for the failing buyer. The economics of that repo therefore change. The seller is no longer exposed to the market risk on the cash and the cost of carry of the position. It is in effect returned to their pre-repo position as owner of the collateral. While the seller has a potential replacement cost while the fail continues, this is covered by margining and the ability to close-out net in a default. Representing this replacement cost by reporting a contractual change in the form of an extension of the maturity of a repo distorts the picture of the contractual exposure. Failed settlement would best be monitored separately under CSDR.

Q3: Is there any additional aspect that needs to be clarified with regards to the timeline for provision of position data? Please detail the reasons for your response.

There is some confusion over the date for which aggregation calculations should be made. Para.23 and Table 1 specify that TRs use the most recent trade state data, which means the calculation will be made on T+2 for loans on T. But para.26 quotes RTS Article 5(4) in requiring calculations to use data submitted the day before, which, given that loan reports can be made on T or T+1, means calculations on T+1 would include loans made and submitted on T but not loans made on T and submitted on T+1. Presumably, para.26 is to be followed given that it is based on the RTS. There is additional confusion over references in Table 4 to “value dates” and in para.25 to “intended settlement date”. And the reference in para.23 to Event Date is inconsistent with references to trade state given that back-dated
reports with historic Event Dates do not affect the trade state. It is essential that there is absolute clarity on what trades are reported on which day.

ESMA states in Table 2 that the deadlines for parties to report to TRs are in terms of local time rather than UTC. The industry understanding so far has been that all times in SFTR should be expressed in UTC in order to avoid the problem of time zone differences between reporting parties. There would be an inconsistency if counterparty reporting deadlines are in local time and TR deadlines in UTC. Moreover, TRs would struggle to apply local deadlines in the case of branches given that country data fields for branches are optional. We also note that Table 2 only gives a timetable for loan aggregation, not for collateral aggregation.

In addition, can ESMA please clarify for what value date FX rates should be sourced, i.e. date of quote or date of application? Table 2 implies rates are quotes on T-2 for calculation on T+2.

**Q4:** How should we consider the inclusion of SFTs in positions, when due to timezone difference, an SFT cannot be included in a position calculation for Event date T and it is reported on T+1? Please detail the reasons for your response.

**Q5:** Do you agree with the proposed approach for calculating positions and excluding SFTs which are missing one of the required metrics and dimensions? Alternatively, could you consider any of the proposed alternatives or propose some additional ways to calculate the SFT positions? Please detail the reasons for your response.

**Q6:** Do you agree with the establishment of a process for identification of outliers by the TRs? Please detail the reasons for your response.

Yes, a standard process defined by ESMA will be critical to ensure consistency across TRs. But this process needs to be far more specific than the current draft guidance. ESMA should provide a precise and practical definition of what TRs should consider an ‘outlier’. For the definition, it will be important to ensure that “extraordinary” really means “extraordinary”, particularly given that SFTs can be very varied in their structure, size and term. A separate report just for outliers seems an unnecessary duplication.
These could be highlighted in a relatively straightforward way in the standard report. But the problem should be quantified before requiring reporting.

**Q7:** Do you consider that this process should be further standardised across TRs? If so, what specific aspects and statistics should be considered? Please detail the reasons for your response.

Yes, as explained in our response to Q6.

**Q8:** What additional aspects should be clarified with regards to the availability of algorithms for ESMA? Please detail the reasons for your response.

It is our view that ESMA should provide the algorithms to the TRs in order to ensure consistency and precision. The loose consultation arrangements between TRs are not suitable for developing algorithms. If, however, the TRs are to be required to develop algorithms, the precise specifications should be provided by ESMA.

**Q9:** Do you agree with the proposal to align the record-keeping of position calculations under SFTR with EMIR? What other aspects should be considered? Please detail the reasons for your response.

Given that back-dated corrections do not change the Trade State Report unless a current Event Date is used and that the data for calculations is selected on the basis of Event Dates, re-runs as proposed by ESMA in Guideline 6, would be pointless and impractical.

**Q10:** Do you agree with the proposed approach to compute weighted-average prices and volumes? Do you agree with the proposed list of fields in Table 2 for the computations? Please detail the reasons for your response.

We believe haircuts at the level of aggregation proposed in section 6.1 would be meaningless and potentially misleading, given that haircuts can vary widely between individual transactions, the diversity of collateral and the wide range of factors that determine them. For example, in a crisis, haircuts for high-quality bonds may narrow and those for low-quality collateral widen, so the aggregate would not be helpful.

With regards to Table 3, we see no value for systemic monitoring in aggregating:

1. volume metrics for field 2.38 in overview --- this adds little to field 2.37, particularly while interest rates are so low;
2. separating repurchase transactions and buy/sell-backs for field 2.37 in the loan report does not add any systemic perspective --- the two types of repo pose identical risks, except in the rare case where a buy/sell-back is undocumented.

In addition, we also have some general comments regarding paragraph 41-55:

1. In para.43 ESMA states that “the position reports should avoid any double-counting”, but it is not explained how this can be achieved, for instance when aggregating transactions where some are net collateralized. The problem will be made worse by breaks in reporting of transactions with a double reporting requirement.
2. ESMA state in para.49 that, “Similarly, one portfolio of securities can be used to collateralise a margin loan and a repo (the rates and haircuts or margins that apply are calculated at portfolio level)”. This is wrong for true (title transfer). As sale and repurchases, specific collateral has to be allocated to a repo or portfolio of repos and cannot be shared. Even the secured loans (“pledge repo”) that ESMA has included in its definition of repo would not share collateral with margin loans, given the collateral for margin lending is held by prime brokers. Also with regard to para.49, we cannot see any difficulty here given the linking mechanisms, although clarity may have been compromised by the decision to apply 2.73 = TRUE to most repos collateralised at transaction level.

3. With regard to para.50, given the concern expressed by ESMA about the challenges of processing large volumes of data, we question the rationale for separating repurchase transactions from buy/sell-backs. They are both species of repo and differ only in respect of the mechanism for handling income payments on collateral and inasmuch as buy/sell-backs have a small and diminishing proportion of undocumented transactions. Where buy/sell-backs are documented, as the vast majority are, they are legally and economically identical. For analytical purposes, particularly at systemic level, repurchase transactions and buy/sell-backs would always be added together into a single repo category. The FSB sees no need for a distinction to be drawn. We also note that a repo rate is to be implied for buy/sell-backs for the purpose of price metrics, which is recognition of their similarity.

4. With regard to para.51, does a linking mechanism not already exist in the form of counterparty LEIs and Master Agreement Type (MAT)? In a default, the MAT would be a definitive link.

5. With regard to para.52, given the concern expressed by ESMA about the challenges of processing large volumes of data, we would question the need to analyse margins by portfolio code, given that these impact margin calculations for different clearing facilities and do not affect the collateralisation of a party’s overall exposure to a CCP and otherwise.

6. Para.55 proposes that exposures should be calculated on the basis of Counterparty Side so that authorities can “calculate net SFT exposures using their preferred netting set”. But netting sets are not decided by the authorities but are based on master agreements. It is also unclear how collateral can be applied to one side of a transaction given that net collateral and most variation margin would be against net exposures of a portfolio of typically opposite transactions (eg if I have borrowed 10 and lent 4, and given net collateral of 6, which loan does this apply to?). And even in the case of trade-based collateral, we would note that the counterparty side field does not apply to COLU messages which would seem to further complicate the calculation.

Q11: Do you agree with including in the report the original currency of the SFTs as well as its EUR equivalent monetary values? Do you consider that a different approach to bucketing should be considered? Please detail the reasons for your response.

We note that there are several currency fields. It needs to be clear which field determines the “original currency”.

Q12: Do you consider that the key characteristics of SFTs are covered by the proposed list of dimensions in Table 3? If not, please indicate which other data fields should be considered and how those should be considered? Alternatively, do you consider that some dimensions could be excluded as they would not contribute to the better understanding of the outstanding exposures between SFTs? Please detail the reasons for your response?

With regards to Table 4:
- Table 4 proposes the calculation of five aggregate re-use positions based on loan and/or collateral data fields. But this would require the TRs to classify re-use reports by ISIN in terms of collateral fields 2.86, 2.90, 2.91, 2.92 and 2.94. As these fields are not part of the reuse report this would require TRs to enrich reuse data with the required reference data for the securities.
This would be complex to implement and seems to be in direct contradiction to the general mandate given to TRs which prevents them from doing any data enrichment or augmentation.

- We do not see what will be revealed by having loan and collateral reports for agent lender, cleared SFT, trading venue, master agreement type, maturity date, GCI and open term. Aggregating both loans and collateral seems an unnecessary burden to calculate for little analytical value except at the level of master agreement, given that this is the level at which default risk is realised.
- Field 2.85 would be more meaningful than 2.86.
- As argued earlier, aggregation by field 2.97 adds little value.
- We also note that the proposed aggregation on the basis of field 2.73 would be meaningless given that this field is no longer used to distinguish the level of underlying collateralisation but also includes transactions collateralized at a trade level but margining against net exposure. There seems to be little value added in aggregating SFTs that are a mix of transactions that only collateralise the net exposure of initial collateral, transactions that only apply variation margin against the net exposure of initial collateral and transactions that do both. Moreover, even if field 2.73 was limited to initial collateral, it is also unclear what systemic importance attaches to net exposure collateralisation. Parties can have a mix of exposures collateralised at transaction level and net level. What is important is collateralisation at master agreement level, as this alone is relevant to a default.

<ESMA_QUESTION_SFPO_12>

Q13: Specifically in the case of the collateralisation on net exposure basis, do you think that the TRs should create separate positions for those SFTs without considering the counterparty side? Please detail the reasons for your response?

<ESMA_QUESTION_SFPO_13>

Yes, trade-based and net exposure collateralised SFTs should be separate. We would also remark that net exposure collateral is “net” and cannot be decomposed. There is no possibility to determine counterparty side.

<ESMA_QUESTION_SFPO_13>

Q14: Do you agree with the proposed bucketing? Should ESMA consider an alternative approach? Please detail the reasons for your response.

<ESMA_QUESTION_SFPO_14>

The selection of countries in section 6.3.1 seems sub-optimal. It may make more sense to aggregate Eurozone and other EU countries. The non-EU EEA countries are relatively minor markets. The set of other advanced third countries is not meaningful. We suggest sets of:
- other European (including RU, UA, TK, IS);
- other advanced markets (AU, CA, HK, SG, NZ) --- but not CN or TW because their SFT markets do not follow international practice in terms of the legal and market structure (e.g. in the case of China, what are called repos are in fact secured loans traded in a unique and almost entirely domestic marketplace) and are not integrated into global markets (systemic risks in these markets would therefore not feed directly into international repo markets);
- other Asian (including CN/TW).

<ESMA_QUESTION_SFPO_14>

Q15: Do you agree with the proposed inclusion of triparty agents and agent lenders in the position reports? Please detail the reasons for your response.

<ESMA_QUESTION_SFPO_15>

With regards to section 6.3.2, when aggregating tri-party repos, DBV should be included because it is in fact a tri-party system (as Euroclear UKI will confirm).

<ESMA_QUESTION_SFPO_15>
Q16: Do you agree with the proposed list of benchmarks and tenors? Are there other key interest rate benchmarks that should be included? Please detail the reasons for your response.

While this naturally limits the scope for aggregations, we note that only interest rates can be included that are specifically listed in the ITS with a code. Otherwise, reporting of this field will be free-form text, which could compromise the integrity of the data. In particular, we note that €STR/ESTR is not currently included in the relevant list.

Q17: Do you agree with the proposed grouping of SFT positions based on the trading venue field? Please detail the reasons for your response.

We see little value in a venue analysis given that Trading Venue is such a heterogeneous category (including both automatic and automated platforms as well as some but not all voice-brokers). However, if position data is being provided to reduce special queries to the TRs, it is probably worth including, in which case, the proposed categories seem sensible.

Q18: Do you agree with the proposed bucketing regarding maturity dates? What additional aspects should be considered when calculating the term of the SFTs and the residual maturity of the securities used to collateralise that SFT? Please detail the reasons for your response.

- It would be more usual in a market maturity analysis to be inclusive of the end-period of each range, eg “more than one day and up to and including one week. And this is how the FSB defines maturity buckets.
- “Overnight” needs to be relabelled as “one day” to include tom/next and spot/next transactions.
- It would be burdensome to adjust overnight volumes for weekends and there seems no reason for doing so as they are contractually equivalent to other one-day transactions.
- Little would be lost in having a single category from two days to one month.
- There is little value, given the small volumes, in having 3-6 and 6-12 month categories.
- Guideline 20 appears to be the Modified Following Business Day convention, which is standard in most money markets. As such, it is the appropriate rule but the convention should be explicitly named.
- There is no mention of forward transactions, which are a significant part of the European market.

Q19: Do you agree with the inclusion of all values on reconciliation status or additional grouping should be performed? Please detail the reasons for your response.

We support this proposal and we note that this would be useful information to be included in the public data. The level of detail provided in relation to reconciliation and pairing data currently differs across TRs and there is some confusion over the precise requirements of the RTS.

Q20: Do you agree with the use of ISO 20022 XML messages for the FSB positions? Please provide the reasoning for your answer.

Yes but what is the schema to be used? Has this been produced? If not, when is it expected to be ready and fit for operational use? As mentioned in the general comments, the process to produce and approve the relevant schema would have to be reflected in the overall implementation timeline.
Q21: Do you agree that the FSB reports should be calculated for all authorities (i.e. also NCAs/NCBs that are not mandated to report the FSB) for risk monitoring purposes? Please elaborate on the relevant cost aspects. Please detail the reasons for your response.

In our view, it would seem pragmatic to send a single report to the FSB covering the whole EU or at least the whole of the eurozone, including those member states that are not mandated to report to the FSB. EU-wide reporting to the FSB would seem to have been one of the rationales for SFTR. If individual reports are required, a size threshold could be applied, given the purpose of reporting to the FSB is to identify systemic risks.

It would be helpful if this data could also be published to the market. Given its highly aggregated nature, this should not cause any sensitivity over confidentiality.

Q22: Do you agree with usage of the ECB conversion rates? Are you aware any other public data source providing conversion rates for further currencies?

The USD rate could be provided by the NCBs or the FED.

Q23: Which public and non-public sources of the LEI to sector mapping could be used to classify entities not reporting under SFTR? Please elaborate further on the proposed source.

It should be the responsibility of ESMA to generate the relevant mapping in order to ensure consistency among TRs.

Q24: What additional aspects related to the aggregations for FSB reporting should be clarified? Please detail the reasons for your response.

No comment for now.

Q25: Do you understand and agree with the proposed mapping for repo and reverse repo of the FSB reporting guidelines? If not please detail further.

No comment for now.

Q26: Do you understand and agree to the securities lending mapping of the FSB reporting guidelines? If not please detail further.

Our comments are limited to repo.

Q27: Do you understand and agree to the margin lending mapping of the FSB reporting guidelines? If not please detail further.
Our comments are limited to repo.

<ESMA_QUESTION_SFPO_27>