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# SFTR Securities Financing Transaction Regulation

## Background

The purpose of SFTR is to provide greater transparency on cross-asset class lending, borrowing, repurchase agreements and sale/buy-back agreements among counterparties in the EU.
SFTR will require market participants to report all SFTs to an approved Trade Repository.

## Product scope

The SFTs in scope include repos, margin lending transactions, sell-buy back and buy-sell back transactions, stock and commodity loans.
All life cycle events for such transactions could be affected: amendments; corrections; life cycle events and collateral valuations and re-use on a daily basis.

## Who will be affected?

The obligation to report Securities Financing Transactions applies all counterparties and their subsidiaries that are based in the European Union.

- Investment firms
- Credit institutions
- CCPs and CSDs
- Insurance and reinsurance companies, institutions for occupational retirement provision / OGAW / AIF
- Non-financial counterparties

## Key requirements

- Transaction Reporting

The SFTR reporting obligations apply to any counterparty to an SFT that is established in the EU (including their branches, wherever they are located) or any counterparty established outside the EU transacting SFTs through an EU branch.

Counterparties have to report details of the 'conclusion, modification and termination' of any SFT to a registered trade repository on a T+1 basis, and similar to EMIR, SFTR reporting will be dual-sided. This means that the 'collateral giver' and 'collateral taker' will be required to separately report their version of the transaction.

All life cycle events for such transactions could be affected. According to the draft RTS, 111 data fields are to be reported for repurchase agreements, 93 for sell/buy-backs or buy/sell-back transactions, 129 for securities- or commodities lending and 62 data fields for margin lending.

- Reuse Disclosure Obligations

SFTR introduces a number of obligations relating to SFTs and certain “reuse arrangements,” which are described below:

- a requirement to keep a record of SFTs for five years following termination
- applies not only to a wide range of repurchase and securities lending transactions, but also to a wide range of collateral arrangements, where reuse or re-hypothecation of collateral comprising financial instruments (e.g., bonds and equities) is permitted
- the daily reporting to an authorized trade repository (on settlement date plus one) of the re-use of collateral received through SFTs. There is a special collateral re-use report type for this purpose.

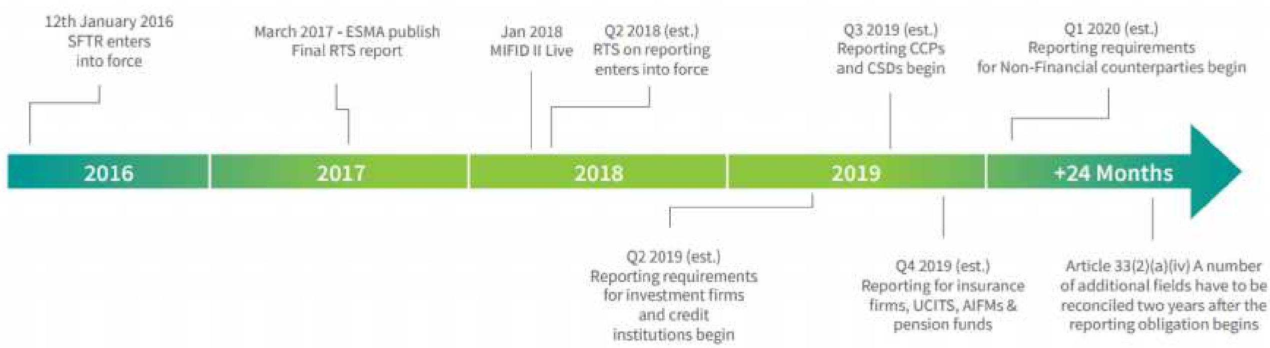
Under the SFTR, the term “reuse” is defined by reference to a party that receives collateral in the form of financial instruments under a collateral arrangement (the receiving counterparty) and the counterparty that provides the collateral (the providing counterparty).

The following receiving counterparties are subject to the requirement:

- any receiving counterparty engaging in reuse that is established in the EU (including its branches, whether the branches are located inside or outside of the EU);
- and any non-EU receiving counterparty engaging in reuse where either: the receiving counterparty is acting through an EU branch;
- or the reuse arrangement relates to financial instruments from a providing counterparty that is established in the EU, or acting through a branch in the EU.

## Expected time frame for financial institutions

From the date of entry into force of the RTS, credit institutions and investment firms will be granted 12 months to comply with the reporting requirements. Insurance companies, UCITS (Undertakings for Collective Investment in Transferable Securities Directives) and AIFs (Alternative Investment Funds) are given more time for implementation.



## Possible synergies with other regulations

**EMIR:** The reporting process of SFTR is similar to that of EMIR reporting. In order to be able to use existing reporting infrastructures, the definition of data fields and formats is based on the existing EMIR reporting.
Did you know that there is a 30% overlap between EMIR and SFTR?

**MIFID II**: Transactions reported under SFTR may not be reported again under MiFID II. Exceptions are transactions with counterparties not subject to reporting requirements under SFTR, which must be taken into account under MiFID II. Therefore, both regulations cannot be considered separately when implementing SFTR. This could lead to adjustments for the existing MiFID II reporting.

## Additional ESMA implementation guidance

ESMA is currently working on so-called Level 3 implementation guidance, which will go beyond the technical standards. This includes FAQs, but also more detailed Reporting Guidelines, to provide detailed guidance to users of SFTs on how to report different types of SFT and the various life-cycle events.

A draft of the Guidelines is currently expected to be published in April 2019, which will be followed by a two-month public consultation period, and the publication of a final version in October 2019.

## Challenges

Implementing SFTR from a technology perspective will require significant effort, so firms need to start preparing for this now as transaction reporting is here to stay.

With over 150 data fields included, much of this data new to trading desks and operations teams, it is crucial for firms impacted by SFTR to improve and gain control over the quality of their data ahead of the implementation date.

SFTR promises to bring changes and challenges to the SFT trading market. To ensure preparedness and compliance, firms should begin reviewing business and operational practices now ahead of the likely Q1 2019 finalization of requirements. Resolving data sourcing and reconciliation challenges will be particularly important in successfully meeting SFTR obligations.

## How can I-Fihn help you?

Based on years of experiences in the implementation of regulatory requirements and several complex reporting projects, I-Fihn has developed an analysis methodology that enables us to establish new requirements and optimizations efficiently. In addition, we support you in the integration with the operative business.

According to our experience in implementation of regulatory obligations, following topics and responsibilities will be affected:

- Topics :

In order to meet successfully the SFTR obligation, it will be particularly important to resolve the data sourcing and reconciliation challenges.
With a gap analysis, completeness and quality of internal data has to be determined.
Data quality and scope provided by external parties (e.g. data vendors and counterparties e.g. Tri-parties) has to be assessed with experts.

Finally, a strategy and implementation plan has to be adapted for complex reporting processes (e.g. reporting obligation for collateral lifecycle events).

- Responsibilities:

• Front Office (e.g. trade)
• Middle Office (e.g. reconciliation)
• Settlement
• Back Office (e.g. TX Reporting)
• Compliance / Legal (e.g. contract management)

If you have any questions regarding this I-Fihn Memo or you would like to reach us, please contact I-Fihn Business Unit Clearing & Post Trade Activities: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