

FINXIS LLC

SFTR Overview



SFTR Background

Regulation

SFTR is an extension and continuation of the measures to strengthen the regulation of the so-called "Shadow banking", the European Parliament published Regulation 2365/2015 (Regulation (EU) on 23 December 2015 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) 648/2012 - Securities Financing Transactions Regulation, hereinafter also the SFTR Regulation).

Objective

The principal objective of SFTR, similar to other regulations, is to increase the transparency of the securities financing markets, broadly covering transaction reporting, investor transparency and collateral reuse.

SFTR Scope

Entities Covered

Article 2(1) which define the regulation scope states that the regulation applies to:

- Counterparties to an SFT that is established in the EU including branches irrespective to where they are located
- Counterparties established in a third country if the SFT is carried out with a branch established in the EU
- UCITS management companies established under Directive 2009/65/EC
- Alternative Investment Fund Managers established under Directive 2011/61/EC
- Counterparties engaged in re-use where the counterparty meets any of the above criteria

Article 3(4) and 3(5) further clarifies definition of counterparties:

- Counterparty refers to both financial counterparties(FC) and non-financial counterparties
- Counterparty refers to natural persons, legal persons, branches

SFTR Product Coverage

Products covered by SFTR:

- Repurchase Agreements
- Security Lending Agreements
- Buy-Sell/Sell-Buy Back Agreements
- Collateral Transactions
- Liquidity and Collateral Swaps

Product not covered and should not be reported:

- Retail client lending governed by consumer credit legislation
- Private banking loans and Lombard loans not related to securities financing
- Syndicated lending and other corporate lending for commercial purposes
- Overdraft facilities of custodians and CCP daylight lending facilities
- Fails-curing intraday credit / overdraft
- Central bank auto-collateralization
- Give-ups and take-ups in the execution and clearing chain
- Commodities transactions entered into for operational and/or industrial purposes
- Transactions involving emission allowances

SFTR Reporting Categories

SFTR reporting covers four major data categories:

- Counterparty Data
- Loan and Collateral Data
- Margin Data
- Re-use, Cash Reinvestment and Funding Sources Data

Enhanced Data Reporting Requirements

SFTR reporting defines 155 fields covering reports for counterparty, margin and re-use. Collateral data and counterparty data required further details to be reported:

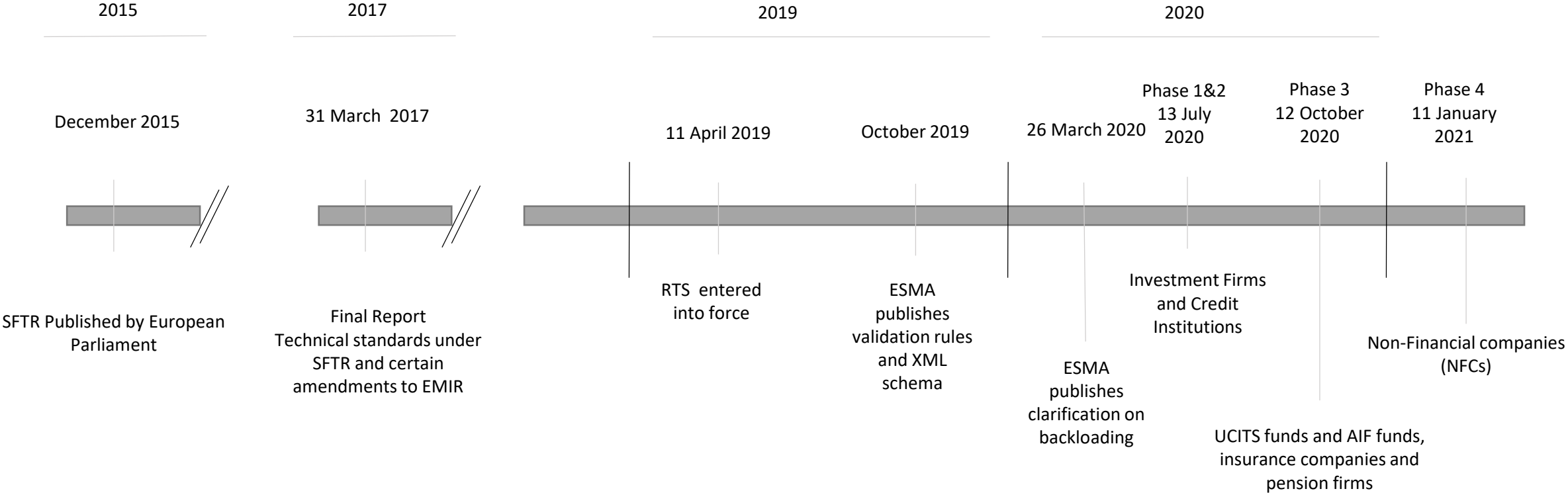
Security Data

- Security Identifier
- Classification
- Maturity
- Jurisdiction
- LEI of issuer
- Collateral Type
- Security Quality

Counterparty Data

- LEI of Counterparty
- Nature of the reporting counterparty
- Sector of the reporting counterparty
- Additional Sector Classification
- Branch of the reporting counterparty
- Branch of the other counterparty
- Country of the other country of the other counterparty

Timeline



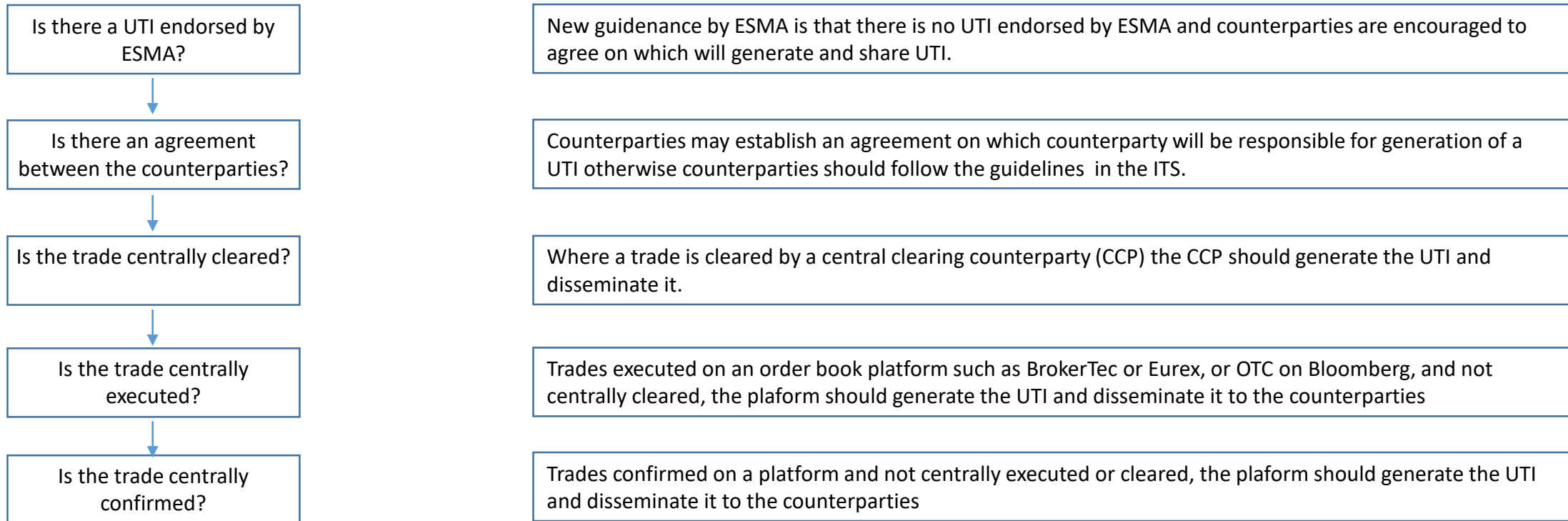
Entity Reporting By EU and Non-EU Entities and Branches

Counterparty B

	EU Reporting Entity	Non-EU Reporting Entity	Non-EU Branch of EU entity	EU Branch of non-EU entity	Non-EU Branch of non-EU entity
Counterparty A	EU reporting entity	Reportable by both unless same LEI across counterparties	Counterparty A	Both Counterparties Report	Counterparty A
	Non-EU Reporting Entity	Counterparty B	Not reportable	Counterparty B	Not reportable
	Non-EU Branch of EU entity	Both Counterparties Report	Counterparty A	Both Counterparties Report	Counterparty A
	EU Branch of non-EU entity	Both Counterparties Report	Counterparty A	Both Counterparties Report	Counterparty A
	Non-EU Branch of non-EU entity	Counterparty B	Not reportable	Counterparty B	Not reportable

Reference: https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-82_2017_sftr_final_report_and_cba.pdf

UTI Generation for Reporting



The remaining conditions are:

- 1) FCs transacting with NFCs, it is the FC that will generate the UTI
- 2) In Security Lending transactions, the collateral provider generates the UTI
- 3) Finally if non of the previous conditions are met, the collateral taker shall generate the UTI.

Reference: https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-82_2017_sftr_final_report_and_cba.pdf

LEIs

- Article 4 of the Regulation, Reporting obligation and safeguarding in respect of SFTs, specifics that reports must include LEIs for submitters, counterparties and other entities such as clearing banks and agents
- The challenge for EU firms will be to get non-EU issuers to create LEIs for securities that previously did not need to have one
- Acknowledging the challenge, ESMA has deployed the requirement for LEIs where one is not available will be delayed until April 2021

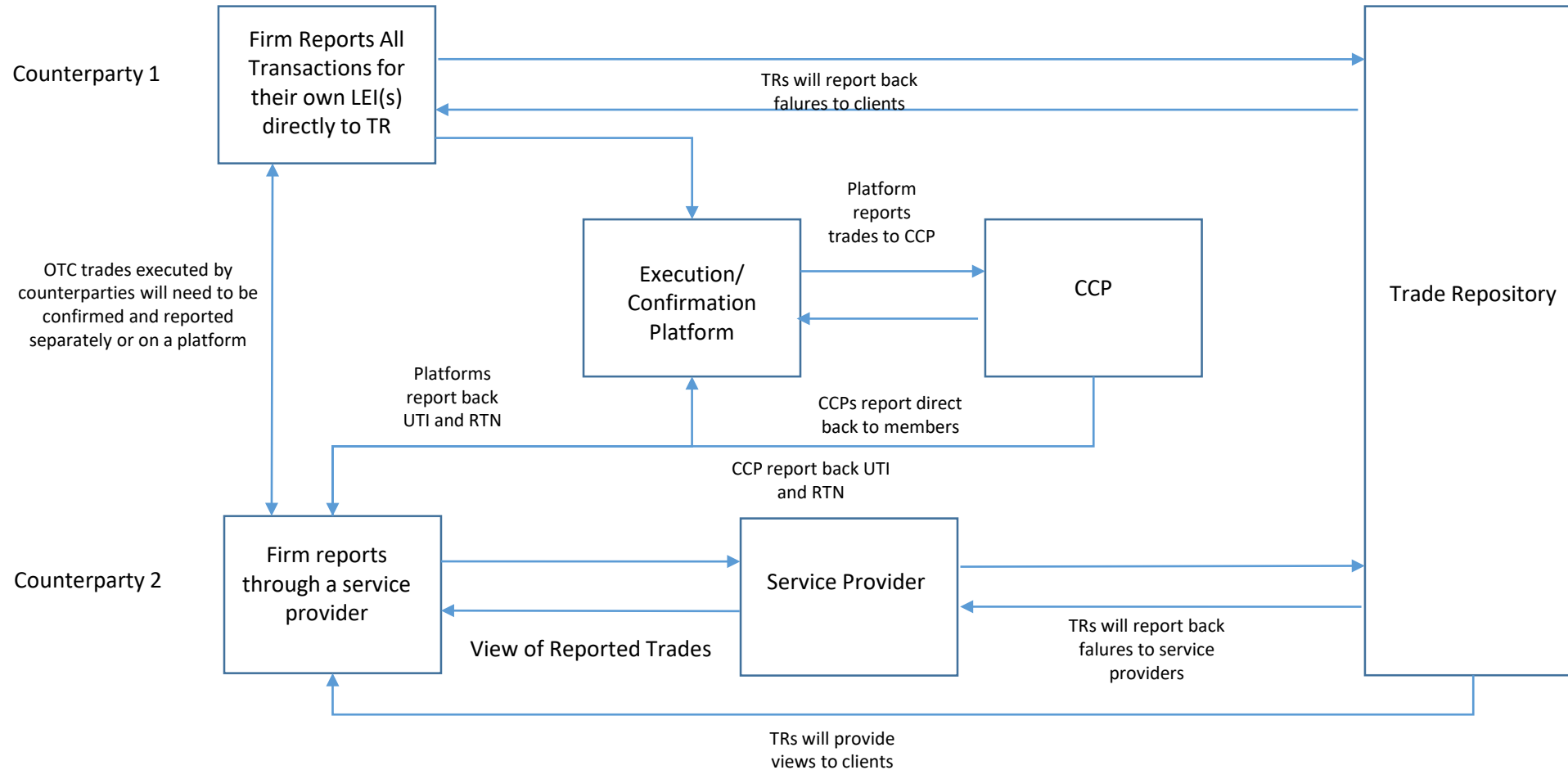
Delegated Reporting

- EMIR reporting and now SFTR reporting allows for a counterparty to delegate reporting to another firm offering delegated reporting services which may be the broker or bank acting as their counterparty
- A firm offering delegated reporting services will need to have a delegated reporting agreement in place to limit their liability and indemnify the reporting firm
- Many of the tier 1 international banks will be offering delegated reporting for their clients to maintain the trading relationship
- While firms can delegate reporting they cannot delegate responsibility
- Firms delegating reporting must perform adequate due diligence and maintain control of the process indicating the firms will still need to monitor and reconcile the reports submitted by the delegated reporting service
- Even if a firm uses a delegated reporting service, it's unlikely the service could produce a re-use report with the data being generated and submitted by the firm itself

AIFMs and UCITS

- Prospectus of UCITS and AIFMs must contain pre-contractual statements period updates on the use of STFs and total return swaps:
 - Description on how SFTs and TRS are used
 - Share of the AUM used for STFs
 - Re-use criteria
 - Safekeeping details
 - Lendable securities
 - ROI on SFTs and TRS
- Transaction Reporting Considerations:
 - An AIFM must ensure each transaction that is allocated to an AIF is reported and matched with the transaction submitted by its principal counterparty or prime broker
 - Margin loans from prime brokers will have to be reported at the fund level
 - When reporting re-use the AIFM will need to identify the share of each security in each covered fund that was re-used and the share that is available for re-use
 - Cash collateral that is re-invested will need to be identified by fund and separately reported
 - Reports submitted by the AIFM will need to match data including collateral valuation generated by each of the prime brokers and/or custodians where AIF is a covered counterparty

Reporting models for SFTs executed on execution platform



Resources

- REGULATION (EU) 2015/2365 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R2365&from=EN>
- COMMISSION DELEGATED REGULATION (EU) 2019/356 of 13 December 2018. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0356&from=EN>
- ESMA statement on implementation of the LEI requirements under the SFTR reporting regime. https://www.esma.europa.eu/sites/default/files/library/esma74-362-388_lei_statement_sftr.pdf
- Final report Guidelines on reporting under Articles 4 and 12 SFTR. https://www.esma.europa.eu/sites/default/files/library/esma70-151-2703_final_report_-_guidelines_on_reporting_under_sftr.pdf
- Final Report Technical standards under SFTR and certain amendments to EMIR. https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-82_2017_sftr_final_report_and_cba.pdf
- ICMA ERCC SFTR Task Force Update February 2019. <https://www.icmagroup.org/Emails/ICMA-events/2019/02/sftr-task-force-update.html>
- PUBLIC STATEMENT - Actions to mitigate the impact of COVID-19. https://www.esma.europa.eu/sites/default/files/library/esma80-191-995_public_statement.pdf
- ICMA Recommendations for reporting under SFTR. <https://www.icmagroup.org/assets/documents/Regulatory/Repo/SFTR/ICMA-recommendations-for-reporting-under-SFTR-240220.pdf>
- ICMA Sample SFTR Reports. <https://www.icmagroup.org/assets/documents/Regulatory/Repo/SFTR/ICMA-SFTR-sample-reports-public-240220.xlsx>
- ICMA Overview of repo lifecycle event reporting. <https://www.icmagroup.org/assets/documents/Regulatory/Repo/SFTR/ICMA-SFTR-repo-lifecycle-events-public-240220.xlsx>
- ESMA Clarifies SFTR Reporting. <https://www.esma.europa.eu/press-news/esma-news/esma-clarifies-sftr-reporting>

About FINXIS

FINXIS LLC is boutique consulting firm providing management consulting, research, analytics and product development expertise to banks, Fintech companies and financial services firms. FINXIS practice areas include regulatory reporting, investment analytics and CRM solutions. FINXIS partners with service providers and a network of industry experts in capital markets, cloud services, artificial intelligence and digital transformation to deliver solutions that enable businesses to succeed through advanced technology solutions.

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