

# UNAVISTA

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SFTR FAQ:

INSIGHTS FROM 10 EXPERTS



**London**  
Stock Exchange Group

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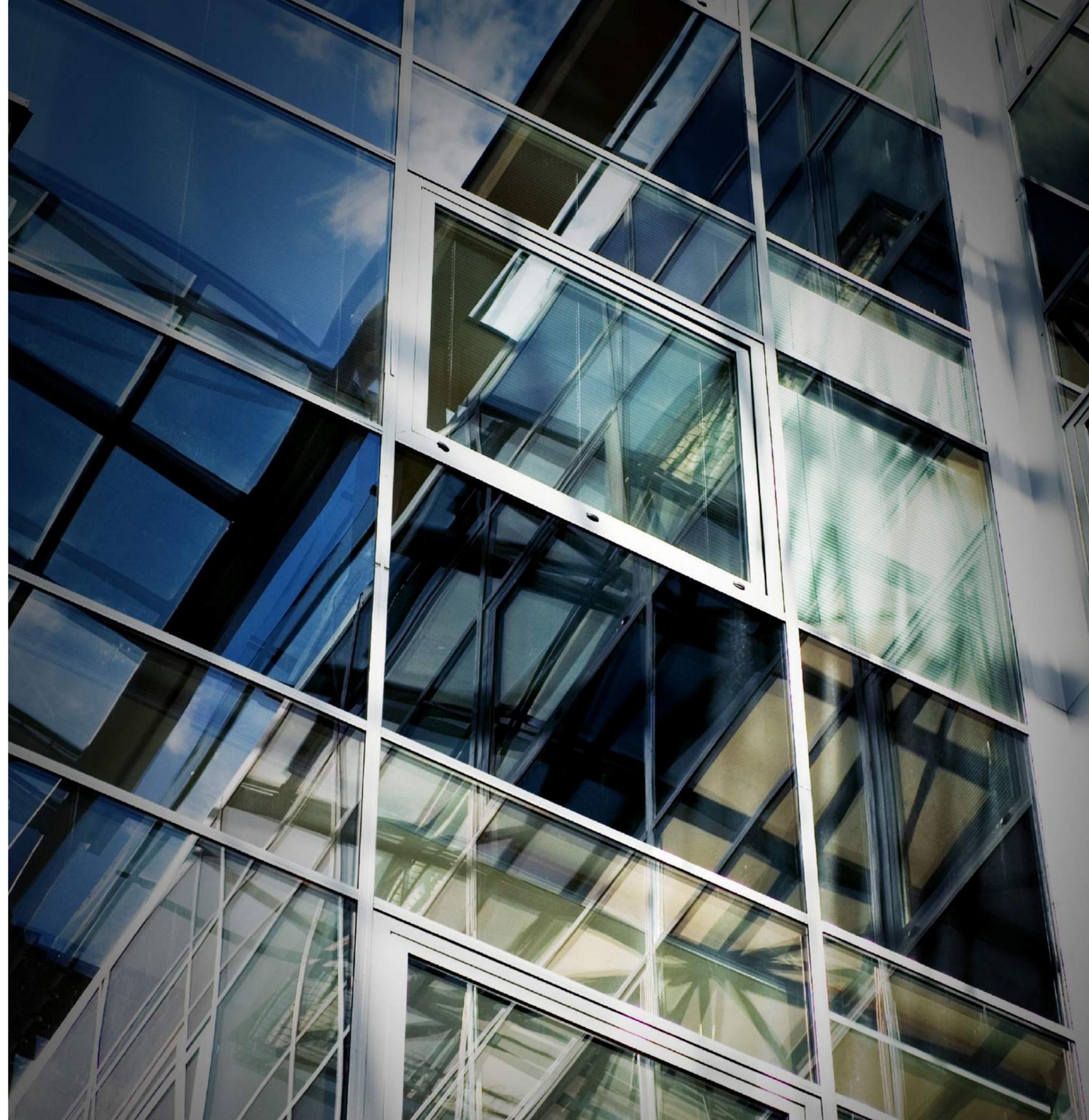
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## With participation from the following

### UnaVista Partners:

Bovill  
Charles River Development  
Citihub Consulting  
D-Fine  
Excelian  
Finastra  
Gordon Dadds Financial Markets  
IHS Markit  
K&E Consulting  
Map Fintech



# INTRODUCTION

The Securities Financing Transactions Regulation (SFTR) is designed to increase the transparency of securities financing transactions markets, which are not covered through other regulations. Firms engaging in securities financing transactions will be required to report their activities to an approved trade repository with the caveat that transactions with members of the European System of Central Banks (ESCB) are exempt from the obligation to report under SFTR.

Whilst many investment firms would have experienced transaction reporting under EMIR and MiFIR, securities financing transactions have never before been caught under any reporting obligation. Therefore, the number of complexities affecting firms is vast, and ranges from sourcing data from vendors, to obtaining a correctly generated UTI. Other key issues for firms include the types of reporting modules which will be made available by the Trade Repositories (TRs), data management and enrichment, and obtaining correct LEIs.

SFTR is clearly utilising ESMA's experience of EMIR and MiFIR by pulling elements of both regimes into this new reporting obligation. As with EMIR, the reporting obligation will be to TRs which will be supervised by ESMA and governed by published requirements including the obligation to reconcile both sides of a transaction between the pool of TRs.

A key challenge pertinent to SFTR is the requirement for firms to report to the TRs in the XML format stipulated by the regulation. Like MiFIR, the consistency of applied rules and reporting framework, has led to the regulator developing an ISO20022 XML schema for reporting. UnaVista have developed specifications to explain the XML mapping and assist firms in understanding not only the field requirements but the additional requirements that are embedded in the XML. Many firms are currently seeking experienced providers to guide them through the reporting framework. As such, there will be significant reliance on solutions like UnaVista's Rules Engine which has helped firms normalise data from multiple sources and a variety of formats for previous regulations including EMIR and MiFIR.

Like EMIR and MiFIR, SFTR requires the use of Legal Entity Identifiers (LEIs) when identifying the parties to the transaction. There is also the ability to report using branch level LEIs when the standard is approved, increasing the number of required LEIs. Managing this increased number of LEIs could prove challenging for some firms. However, using UnaVista's LEI Data Management Tool, firms will be able to collate the data required for LEI generation and submit it to our Local Operating Unit (LOU) assisting with the obligation to provide these identifiers.

There is also a genuine concern from firms around providing so many data fields, many of which are required for the reconciliation process. UnaVista has several software & data partners who can connect to the UnaVista system to assist clients with the provision of this data. Additionally, we can use our own data sources to assist in enriching and validating the transactions sent to our TR. To underpin this, UnaVista's Consulting Partners can assist firms in creating the processes and procedures to support this data gathering process. The SFTR reporting framework is very complex and could be quite onerous therefore, UnaVista would strongly urge firms that have a reporting obligation to start analysing the requirements now rather than waiting. UnaVista is currently working with firms to start their SFTR projects in readiness of reporting and is happy to assist firms throughout their journey, from the data gathering stage right through to implementation.

## About Us

UnaVista is an approved Trade Repository (TR) for EMIR and Approved Reporting Mechanism (ARM) for MiFIR and will apply to be a TR for SFTR when the window is opened by ESMA in 2019.

We have built a partner community consisting of Independent Software Vendors and Consulting Firms to assist clients with fulfilling reporting obligations across these regulations. With SFTR being the next major regulation, firms are starting to address the key aspects of the regulation that still require clarity. To help firms, UnaVista has collaborated with our partner community to help demystify some of these key challenges.

This SFTR FAQ document has received contribution from subject matter experts from our partners; **Bovill, Charles River Development, Citihub Consulting, D-Fine, Excelian, Finastra, Gordon Dadds Financial Markets, IHS Markit, K&E Consulting and MAP Fintech**. UnaVista partners have shared their opinions on these key issues by answering some of the most frequently asked questions on SFTR.

**Find out more about SFTR transaction reporting by speaking to UnaVista's expert team.**

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# EXTRATERRITORIAL IMPLICATIONS OF SFTR

Aside from LEIs are there any other significant extraterritorial implications of SFTR that firms and clients outside the EU should be concerned about?



Non-EU counterparties to securities financing transactions should in addition to the extraterritoriality issues raised by the LEI requirement, also consider the significant extraterritorial impacts arising from the broad scope of the SFTR collateral re-use requirements.

The SFTR restricts the instances in which counterparties are permitted to reuse financial instruments received as collateral, requiring the collateral provider to have made aware of the risks and given their prior consent to the re-use and requiring the instruments received to be transferred to an account of the collateral receiver.

These conditions on the re-use of collateral apply to any 'undertaking' established in the EU or in a third country that receives collateral with a right of reuse. The requirements thus apply to counterparties established in the EU even if they are acting through a branch outside the EU, and they apply to non-EU counterparties if they are receiving collateral from counterparties established in the EU or if they are acting through a branch in the EU. For example, the re-use restrictions apply to an EU bank even when it is acting via its Singapore branch and they apply to non-EU entities when receiving collateral from the EU or acting via an EU branch. So in-scope would be a stock loan between a Japanese pension fund and the Frankfurt branch of a Swiss bank.

The SFTR thus imposes its significant requirements on a potentially very wide group of counterparties outside of the EU. Aside from compliance with the substantive restriction on re-use, the challenges for such counterparties include their ongoing determination of whether they are in-scope given the need to carefully monitor potentially complex collateral arrangements for the location of the providing and receiving undertakings.

## Contributor profile

Christian Krohn is a regulatory change expert with 20+ years international experience with infrastructures, regulators and banks in rule development and implementation. Focusing mainly on the sell-side and on infrastructure providers, Christian helps Bovill's clients to understand and comply with range of market regulations, including MiFID2, EMIR, CSDR, SFTR and EBR.



### Bovill

Bovill is a specialist financial services regulatory consultancy, established in 1999 and headquartered in London. We also have offices in Singapore, Hong Kong and Chicago. Our sole activity is the provision of high-quality, technically-focused advice and consultancy services on all aspects of financial services regulation. We aim to develop effective solutions to the complex problems of our clients, and do not offer commoditised advice or services. Bovill has experts spanning all aspects of financial regulation in the UK, EU, Asia and the Americas.

# DATA ENRICHMENT AND INTEROPERABILITY

How will vendors manage data enrichment with accurate books and records at the client? How will they agree priorities when interoperating?



Given the very manual nature of workflows used for security financing transactions in general and security lending transaction and given the level of detail being required to be reported under SFTR many firms will struggle to obtain the data points needed for reporting. Service providers are offering data enrichment services to help clients navigate the reportable data points. It is unclear if the regulation expects the trades and data to be reconciled between counterparties before reporting to a TR. Another aspect key to trade matching between TRs is generation and transmission of UTI details between counterparties. Given these complications we expect various solution models to evolve, some that will try to consolidate the data gathering at the point of trade while some will seek to enrich the data after the fact, just before reporting, while some will be akin to assisted reporting seen during MiFID II where TRs offer the additional enrichment services to their clients.

## Contributor profile

Vidya Guraju, Product Manager, CFA, Charles River Development, A State Street Company. Vidya is responsible for managing and enhancing Charles River's Fixed Income Trading functionality, and prioritizes the product enhancement roadmap by tracking industry developments and gathering feedback from clients. Prior to joining Charles River, Vidya was Director of Product Management at SunGard and Director of Professional Services at Cortera.

# DELEGATED REPORTING

Is there a view that the buy-side will look to delegate reporting like EMIR?



The decision to keep the reporting in house versus delegation will depend on various factors like, type of the firm, size of the firm, number of SFTs traded, and firm's view towards data security. Non-financial firms and smaller buy-side are most likely to delegate while the larger buy-side firms will range from taking on full reporting responsibility to subscribing to assisted reporting. Risk concerns will play an important role considering the sensitive information that is required to be transmitted in a delegation scenario. It is important to note that like MiFID II even in a delegated model each counterparty continues to be responsible for accurate reporting of their version of the trade.



## Charles River

Charles River Development, a State Street Company, enables sound and efficient investing across all asset classes. Investment firms in more than 40 countries use Charles River IMS to manage more than US\$25 Trillion in assets in the institutional investment, wealth management and hedge fund industries. Our Software as a Service-based solution (SaaS) is designed to automate and simplify investment management on a single platform – from portfolio management and risk analytics through trading and post-trade settlement, with integrated compliance and managed data throughout. Headquartered in Burlington, Massachusetts, we support clients globally with more than 750 employees in 11 regional offices.

# LEIS FOR SFTR

Considering the issues with getting LEIs for MiFID II, how do you propose to obtain LEI for issuers, that don't have an obligation under SFTR.



**The need to send a transaction report with a LEI under MiFID II, lead to LEIs being a key component to multiple MiFID II workstreams for Citihub clients including;**

- the development of technical solutions to capture and provide LEIs to front office algorithmic trading platforms;
- agreeing how LEIs were to be used through the trading plant;
- determining how best to encode LEIs into a compressed format required by trading venues.

In the run up to MiFID II go-live there was a great deal of contention around the use of LEIs – does a no LEI trade really mean saying no to clients?

The LEI approach adopted by Citihub clients ranged from outright denial of the need to have LEIs on technology to whole workstreams dedicated to determining and adding LEI to clients.

As we consider LEI and the need to have the identifier for issuers and counterparts to be identified by LEI, we must consider all the lessons that MiFID II has taught us.

- create a separate defined workstream, within it create sub-workstreams to;
  - perform analysis to understand the impact of LEI front to back across the whole organisation. Under MiFID II, no LEI, no trade was a binary issue for transaction reporting, but had shades of grey for trading desks for example.
  - determine how your own internal flows work to understand if internal business need to be carved out into their own entity and associated new LEI.
- work with your client structures to determine how they interact with you.
- perform client outreach to get your clients a LEI once you and they understand which entity interacts with yours.
- start early.

## Contributor profile

Bob Mudhar is a senior trading systems technologist with more than 20 years' experience in blue chip investment banking institutions. His career has spanned a variety of business facing technology roles, helping to support, enhance and migrate systems on behalf of trading desk heads, IT managers, operations, legal and compliance teams.



### Citihub Consulting

Citihub Consulting has worked extensively with leading financial institutions to scope and implement regulatory change – both business side regulatory change programmes and infrastructure regulatory compliance programmes. We have developed a consistent approach to the translation of regulatory requirements and the scoping/implementation of large change programmes. A key area of focus for us is the alignment of requirements from multiple regulators and the simplification of technology and business process and controls.

# SIMILARITIES WITH EMIR AND MIFIR

What similarities does SFTR have with MiFIR and EMIR?



**All three reporting regimes mandate transaction-based reporting. Thus, the general reporting setup for SFTR looks very similar to MiFIR and EMIR:**

- Double-sided reporting: both counterparties need to report
- Event logic: transactions need to be reported upon inception of a trade, and most of the following lifecycle events are also subject to reporting
- Reporting can be delegated

Moreover, SFTR utilizes industry standards, which are also used in other reporting regimes: these include ISO 20022 messages as well as Legal Entity Identifiers.

The main differences between SFTR and MiFIR/EMIR stem from the fact that SFTR is concerned with a new asset class: SFTs such as repos and securities lending. SFTs exhibit unique characteristics such as frequently changing collateral allocations, which have motivated ESMA to mandate a much more granular reporting of collaterals, compared to other reporting regimes. Market participants will have to consider these differences when planning their SFTR setup.

As transaction-based reporting of SFTs is a new requirement, SFT trading systems were not required to serve as source systems for reporting systems. Thus, new interfaces will have to be built and data quality will need to be examined. Additionally, there are also process topics such as UTI assignment and exchange, which will have to be integrated into the trading process.

Looking at the future reporting process, market participants will also have to leverage their know-how concerning transfer of messages, working with trade repositories, analyzing reporting data, performing corrections and finally, management reporting. Here, knowledge transfer from existing reporting regimes seems possible.

One possible solution for clients confronting a multitude of reporting regimes is to establish a single reporting system, which services all transaction-based reporting regimes. In this setup, each source system delivers only a single file per day to the reporting system. The latter then processes the data, identifies new transactions as well as lifecycle events and generates the reporting data. Although this adds considerable complexity to the interfaces between source systems and reporting system, the benefit lies in a smaller number of interfaces, which have to be maintained and updated over time.

## Contributor profile

Ryan Warne is a director of d-fine Ltd. He has been with the company for 8 years working on a range of topics for regulators, investment banks and asset managers. Focus areas include regulatory reporting, risk management (particularly counterparty credit risk and market risk) and front office systems, such as FIS Front Arena.



### D-Fine

D-fine is a leading European consultancy in capital markets, risk management and finance. With over 800 highly trained specialists, we assist our clients with strategy, process and technology consulting. In the field of capital markets, we have a successful track record serving the industry with our expertise which includes, but is not limited to, the initiation and development of appropriate trading and operations infrastructure in parallel to the establishment of robust risk management processes. Through our proficiency in regulation, business and technology, our clients receive support in the adaptation of their existing systems and processes to comply with changing market conditions and regulatory requirements, particularly MiFID II/MiFIR, EMIR and SFTR.

# IMPROVING TRANSPARENCY FOR SFTR

How will SFTR lead to transparency? Will the regulators share their findings on the data they receive from the market?



SFTR gives firms an ideal opportunity to consolidate and improve their approach to data management. SFTs are not covered by regulations and SFTR will ensure they are reported to an approved EU trade repository.

One major challenge facing firms is data extraction, largely due to the volume mandated by SFTR. Firms are expected to report daily and will include all lifecycle events including collateral valuations and legal entity collateral re-use statistics. Firms will therefore have to improve their data management to meet SFTR. This could lead to improved business intelligence, however, meaning firms can better understand and manage their securities financing activities.

New data combinations can be derived from the fields that have been added by the regulator, such as LEIs, UTIs, collateral, settlement, agreement, instrument and business type. Firms can proactively use these data sets to recoup some of the implementation costs of SFTR, rather than just meeting the compliance requirements.

For example, they can be used to create reporting dashboards that demonstrate valuable correlation and concentration risks that were previously obscured. Such insights can be identified across securities financing activities to inform risk intelligence and improve risk management.

With the deadline for the SFTR directive looming, firms need to ensure they have a sustainable plan for addressing its requirements. By looking beyond simply pulling data from disparate sources together into a single report; astute organisations will be those that take the opportunity to build insight driven data management. Institutions are undoubtedly overloaded with regulatory requirements, but as the landscape evolves firms will be able to better use and understand their data to generate business intelligence.

In the wake of MiFIR, regulatory fluidity and uncertainty should be expected. This is no excuse for inactivity, however. Firms must start planning now to ensure regulatory compliance with SFTR.

## Contributor profile

Geoff Hutton is an EMEA Regulatory Specialist at Excelian. He has worked for over 20 years' delivering finance and regulatory change with roles at the world's biggest banks. He is a Chartered Management Accountant and a Member of the Chartered Institute for Securities & Investment.



### Excelian

Excelian is the financial services division of Luxoft (NYSE:LXFT), a global IT service provider. Excelian delivers an end-to-end service, from consulting to technology services, complemented by a range of proprietary solutions. Through a unique global delivery model, its dedicated teams of highly qualified and specialist personnel bring a deep domain experience and deliver measurable business outcomes.

# SETTLEMENT VS LEGAL EXECUTION

Doesn't the industry mindset need to move away from its obsession with settlement and start thinking about legal execution?



The implementation of SFTR will place much more emphasis on the entire lifecycle of Securities Financing Transactions (SFT's), where historically the entire focus was to ensure settlement of the security being transferred or the collateral moving in the opposite direction; thus, the answer is yes, the current mindset which is fully focused on settlement, must change.

The entire purpose of SFT is movement / transfer of value, thus the act of settlement is still crucial, but the ownership of the "value" is passed at the point of legal execution and this activity will require much more focus as it begins to attract far greater regulatory scrutiny.

The entire construction of the deal will have to be reviewed because so much more data is required to meet the reporting obligations and those data points are defined in the legal execution framework.

The reporting obligation imposed on SFT transactions requires matching reports, this will lead to mis-matching and where there are mis-matches this is likely to lead to trade fails' or delays. In the event of a trade fails' and subsequent compensation claim, the legal execution process and the details agreed will be crucial in that instance.

In conjunction with full lifecycle reporting the requirement to match reports will force the focus of attention to expand beyond the settlement cycle and drive this change in behaviour.

This wider perspective will also bring valuation and lifecycle events into sharp focus; both items will trigger reporting events, further reducing the single point of focus on settlement and concentrating on the overall activity within the legal framework.

The overall mindset for SFT's must be on the entire transaction to meet the SFTR obligations. There is already a lot of activity within existing venues to respond to these requirements and a good likelihood that regional market utilities will evolve over time to facilitate an efficient and transparent process to support this crucial activity, whilst helping to keep participant overheads at a reasonable level.

In the short term, Institutions need to ensure they have a clear view of their front-to-back SFT trade flow, the counterparties with whom they interact and where all the data elements required to meet their obligations are going to be sourced and stored. The entire workflow will need focus not just delivery versus payment.

## Contributor profile

Ian Scott has 35 years' experience in Tier 1 Financial Institutions. As the Solutions Team Lead for Post-Trade Processing at Finastra, Ian uses his knowledge of trade flow to identify system improvements to handle market innovation and works directly with clients to understand their challenges and shape technology solutions.



### Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the merger of Misys and D+H, we provide the broadest portfolio of financial services software in the world today-spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location-from global financial institutions, to community banks and credit unions.

# CULTURAL AND BEHAVIORAL CHANGE FROM SFTR

Would you agree with the position that reporting regulation is not really about data and transparency but about driving cultural and behavioural change?



Like many things in life and regulation, it's not that simple.

Reporting regulation is certainly about data and transparency, these are, in theory, simple and pragmatic levers that Regulators have used to push for greater market standardisation and fair treatment of customers through the removal of dark pools. This ongoing pursuit of improved data integrity and transparency has proven difficult for many market participants to achieve. However, despite the hardship, by insisting on strong sophisticated data governance and driving transformation around data, this pursuit, in and of itself, generates internal transparency around systems and controls, shining a light, quite often for the first time, on data deficiencies and remediation or investigation needs.

If organisations can maintain (as they are required to by regulation) this data centric focus, over time and with support from key internal stakeholders, the entire data environments uplifts and enriches, enabling market participants to deliver higher levels of confidence to regulators that their reporting and therefore organisational data quality, is complete and accurate. With this enhanced data, regulators in turn can then generate higher quality insights around market sensitivities and behaviours (whether good or bad). This will enable regulators to successfully engage with and challenge market participants and identify any risk management concerns or cases of wrong doing.

As this culture of data excellence takes root, all actors within the trading ecosystem are forced to confront the increasing probability that if they do not trade within policy or demonstrate misconduct through either malfeasance or negligence, or cause harm to consumers through their actions, that they will be identified, and appropriate action will be taken by the firm and/or regulator. And as we know nothing changes behaviour like a real and demonstrable threat to the wallet or personal liberty.

Deep cultural and behavioural change is therefore the desired product of the transparency regime, in the same way that forward motion is the desired end product of the automobile. One must not forget however, that predictable and reliable forward motion in the automobile is all about the chassis, suspension, and motor. Similarly, high quality data and the resultant high quality and insightful transparency ensure that the trading ecosystem is triggered and on notice that poor conduct will be consistently detected and acted on, driving conduct/ behaviour in the desired direction. Of course, it not all about the 'stick' – solid data will equally make transparent those firms who follow the rules, whose actors display the right behaviours and provides an objective basis for compensation and/ or client confidence and ongoing business.

## Contributor profile

Brett Aubin is a Partner in GD Financial Markets LLP, and an experienced leader of consulting businesses with significant time spent in the industry working for investment banks and market utilities. In the transaction reporting domain, Brett has led advisory, ghost s-166 and remediation programmes for large investment banking clients. Brett also specialises in identifying, structuring and executing complex managed service opportunities, utilising multi-disciplinary vendors and innovative pricing.



GD FINANCIAL MARKETS

### Gordon Dadds Financial Markets

GD Financial Markets provides practical business consultancy with a specialism in regulation, risk management and control frameworks; transaction reporting operating models and risk assessments; managed services such as GDPR risk assessment and management; and contract c-suite manpower.

We work synergistically with our clients to ensure measurable results and are happy to share delivery risk with clients, thereby practically demonstrating our commitment to a successful outcome.

# THE COMPLEXITY OF SFTR

Given that many core issues for firms in SFTR e.g. UTI gen, sharing data, capturing execution time have been solved once for EMIR, why is the industry so concerned?



Article 4 of the Securities Financing Transaction Regulation (SFTR) presents a smorgasbord of issues, old and new, for market participants to work through. Two indications of complexity are the 1,000-word regulation generating many hundreds of pages of technical standards, which we hear may be joined by a further 300-page annex. The second being the large and increasing number of workshops held by industry bodies, trade repositories, vendors and consultants. SFTR and EMIR share the same parentage and the older sibling provides useful lessons both good and bad. Many market participants are mindful for instance of EMIR's still low matching and pairing rates which are due in part to the UTI sharing process and lack of normalisation.

To give some insight into the current debate, we should mention two examples that illustrate a unique point about the SFT market and the impact to architecture. The first, not seen under EMIR, being Agency Lending Disclosure (ALD) which facilitates the distribution of counterparty data on S+1. This practice was adopted from the U.S. by the EU community as a stopgap many years ago. Under SFTR the disclosure process will need to move to T+1 disclosure to support borrowers reporting obligation. This change may require some new development, but at the same time facilitate more timely capital calculations.

The second example, which focuses on the architectural impact, is the change required to booking models. Using the example of a partial close-out, where one party generates a delta to reduce the outstanding repo/loan and the other generates a full close and smaller re-open. This highlights how both trading and settlement applications will need to be aligned across the market. The best way to do this is via market consensus using the big stick of regulation.

There are many other examples, like corporate action booking procedures that effect timestamp, the interoperability of platforms, the aggregation of multiple data sources, failed settlements and trade direction. The list of issues has hopefully reached a plateau, considering the work done, but the next round could see some further growth.

## Contributor profile

Mr Fabien Romero is working in Securities Finance Regulatory Reporting at IHS Markit. He has an extensive international experience in Securities Finance. Mr Romero spent ten years at Commerzbank AG London in Securities Finance trading prior to joining the firm in August 2017. He previously worked in Paris and Tokyo for various Securities Finance firms.

# ESMA'S VIEW ON MATCHING RATES

Does ESMA really care about matching rates or do they just want to see the data?



As many will know, the matching rates under EMIR were not ideal and one result of that is a more robust approach to matching and reconciliation under SFTR. For instance, we see the word reconcile appears 95 times in the Regulatory Technical Standards (RTS) alongside phrases like "utmost importance", "as soon as possible" and "improve their reporting". The RTS annex also highlights an understanding of the "specificities of the technology systems" and the desire for "access by authorities to high quality data". All of this clearly points to a desire for SFTR to learn from experience.

At the receiving end of the regulatory reporting process, some national authorities have mentioned the desire to not only see the trade data, but also to see the matching and correction rates in a MIS type report. Understanding this, many in the SFT market are keen that they should not stand out for the wrong reasons. There is also a strong desire to not repeat the EMIR experience and its associated internal and external costs of exception remediation.

A key starting point to reconciliation is the use of Unique Trade Identifier (UTI) which leads to counterpart pairing. This important first step allows trade repositories to at least find the other side, where relevant. However, the market wants more, especially where Agency Lending Disclosure (ALD) is concerned, without which even the counterpart traded with is unknown. Driven by this, vendor solutions are being sought to bridge this gap which are not a significant step forward from the contract compare solutions in the securities lending market which have been in place for many years. In order for the regulators to make full use of this torrent of data, ESMA and all of the TRs will work closely with vendors to ensure that high quality data can actually lead to improved rates of matching.



## IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions

# NON-EEA VERSION OF SFTR

Is there any hint of this regulation to follow in jurisdictions outside of the EU?



One would expect the answer to be a resounding, 'YES'. Along with EMIR, SFTR represents the next phase of recommendations from the Financial Stability Board (FSB) originating from the 2007 financial crisis. Therefore, one could assume that G20 members will be taking similar measures. After all, a global picture is needed to get a true sense of where risks to financial stability are building.

The US has been active in this area via FSOC which sees the value in collecting "High-quality data covering bilateral transactions in securities financing markets." In July this year, the Treasury Department's Office of Financial Research published a notice requesting comment on a proposed rule establishing a data collection covering centrally cleared transactions in the U.S. repo market. This would account for roughly a quarter of all US repo market transactions. The notice stated that data gaps and the absence of mandatory collections are a significant impediment to the ongoing ability to monitor developments in the repo market and potential emerging threats to financial stability.

Whilst the regulatory drive for transparency is primarily instigated by the EU and the US, it would be prudent to assume that Asia will follow suit. Despite presenting a more fragmented regulatory market, regulators and industry associations are discussing the issue. Both the MAS in Singapore and SFC in Hong Kong have sought to implement EMIR-like regulations which serves as an indicator that something akin to SFTR may well be on the roadmap. At the very least, some form of harmonisation would make sense given the potential extra-territorial nature of SFTR.

## Contributor profile

Daniel Evans is a founder of K&E Consultants, a boutique regulatory and compliance consultancy firm. He worked in the City as a banking and corporate lawyer for over 10 years and was Group Head of Legal at a major UK private banking group. Prior to co-founding K&E, he led the Regulatory Reform team for Goldman Sachs' PWM division throughout the EMEA region



### K&E Consulting

K&E is an experienced and dedicated team which seeks to set itself apart from a 'cookie cutter' approach. We offer a range of regulatory, compliance and risk consultancy services to help firms effectively and efficiently meet current or future regulatory requirements. Whether firms are preparing for or implementing change, looking for a complete regulatory or risk baseline exercise, or embarking on remediation projects K&E can help in a practical and cost-effective manner.

# ESMA'S USE OF SFTR DATA

What is the expected usage of the SFTR data by ESMA?"



The Securities Financing Transactions Regulation (SFTR) aims to improve the transparency of the securities financing markets and reduce financial stability risks arising from shadow banking activities.

Transparency is important as it provides the information necessary to develop effective and efficient policy tools to prevent systemic risks. One of the ways that the SFTR aims to improve the transparency of the securities financing markets is by requiring Securities Financial Transactions (SFTs) to be reported to trade repositories. This will allow supervisors to better identify the links between banks and shadow banking entities. Therefore, supervisors will be able to monitor the exposures to and risks associated with SFTs and, if necessary, take better-targeted and timelier actions.

Supervisors and regulators responsible for financial stability and securities markets will have access to the data. These include the European Securities and Markets Authority (ESMA), the European System of Central Banks, the European Systemic Risk Board, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the relevant national authorities.

The reporting of SFTs will be based on the existing reporting framework for derivative contracts established by the European Market Infrastructure Regulation (EMIR) and will work in a similar way i.e. a counterparty to a SFT will have to report the details of this transaction to a trade repository. ESMA will supervise this reporting framework and has developed specific technical standards on reporting procedures, access to data procedures and registration procedures for trade repositories.

Furthermore, ESMA is the supervisory authority for trade repositories in the European Union. To be able to perform its responsibilities and mandates as supervisor of trade repositories, ESMA will have the broadest level of access to trade repositories data reported in the European Union. This will enable ESMA to pay attention to any systemic risk posed by financial market participants, the failure of which may impair the operation of the financial system or of the real economy.

## Contributor profile

Alexandros Constantinou has extensive experience in advising international financial services organisations on regulatory and risk management matters related to MiFID II/MiFIR, EMIR, SFTR, AMLD 4, AIFMD, UCITS, PRIIPs/KIDs, Market Abuse and Transparency.

Alexandros is an MCSI member of CISI and holds an Advanced Certification from CySEC. He also holds a BSc in Computer Science from the University of Reading (UK) and an MSc in Finance and Investment from the University of Edinburgh (UK).



### MAP Fintech

MAP FinTech is a trusted technology provider to the financial services industry. It specializes in regulatory reporting solutions that arise from the requirements of a number of complex and challenging international regulations such as EMIR, MiFID, MiFID II/MiFIR, FATCA, CRS, etc. Our team's combined expertise, integrity and its commitment to excellence and innovation, lead our partners to place their trust in us.

