



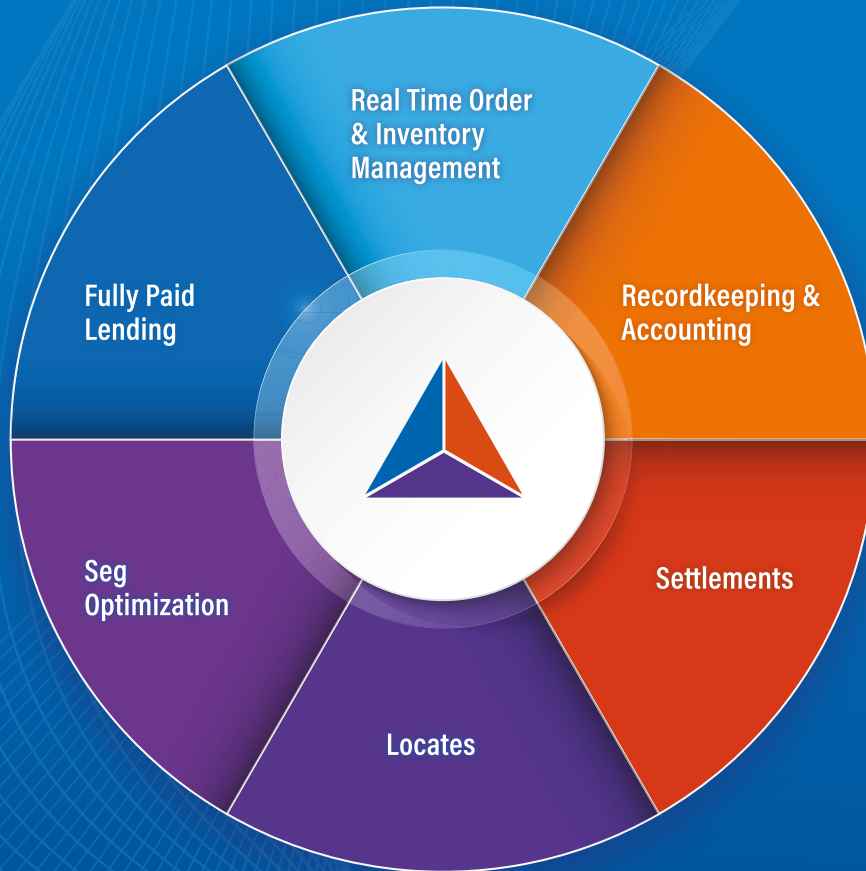
## Unlocking global markets

Stephan Wolf, CEO of GLEIF, speaks about its project to onboard validation agents in preparing the market for upcoming LEI legislation

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### Linklaters and ISLA sign MOU to automate securities lending documentation

Linklaters and the International Securities Lending Association (ISLA) have signed a memorandum of understanding (MOU) to automate securities lending documents.

The documents include the Global Master Securities Lending Agreement (GMSLA), the GMSLA Security Interest 2018, the Master Confirmation Annex (MCA) and related documents on the CreateiQ contract automation platform.

The platform, designed by Linklaters, aims to “dramatically reduce” the time to draft and agree documents, while creating and providing real-time access to contractual data in structured format.

The announcement comes as the CreateiQ platform experiences a “rapid growth”, with more than 200 institutions now using the platform in the financial industry.

The MOU to add ISLA’s documents gives market participants the opportunity to

digitise their broader trading documents, including any own account documents, on a single platform.

Speaking on the announcement, CreateiQ board member and Capital Markets Partner at Linklaters Deepak Sitlani says: “We are excited to work with ISLA on this first of its kind automation for securities lending negotiations, which will bring enormous efficiencies to banks and asset managers.

“This is a significant step towards our goal of becoming the comprehensive contracting solution in financial markets.”

Andrew Dyson, CEO of ISLA, adds: “We are delighted to work with Linklaters to develop a digital version of the GMSLA and our other related documents on CreateiQ. One of the biggest challenges for our members is negotiating these documents efficiently and at scale and are pleased that they will now be able to benefit from all the functionality the platform has to offer.”

### Broadridge launches ESG reporting service

Broadridge has announced the launch of a new environmental, social and governance (ESG) reporting solution as upcoming Sustainable Finance Disclosure Regulation (SFDR) looms.

The service will assist asset managers of European funds in preparing for compliance requirements and regulatory disclosure obligations of SFDR, which are expected to take effect in 2023.

The expansion of Broadridge’s multi-jurisdictional regulatory fund reporting suite will also enable disclosure through the European ESG Template (EET).

Broadridge comments that its end-to-end EET outsourcing solution has “rigorous evidential control systems” to support asset managers from pre-production through to dissemination, providing support for all aspects of the EET, encompassing composition, ongoing maintenance and dissemination to distribution channels.

The SFDR regulations require Principal Adverse Impact (PAI) information to be publicly disclosed from January 2023. Additionally, there are amendments to both MiFID II and the Insurance Distribution Directive (IDD) coming into effect in August 2022.

The EET will facilitate the necessary exchange of data between product manufacturer and distributor for the purpose of fulfilling ESG-related regulatory requirements contained in the SFDR, relevant provisions of the Taxonomy

## Securities finance news

Regulation, and the relevant delegated acts complementing MiFID II and IDD.

Speaking on the announcement, Paul Poletti-Gadd, chief solutions officer at Broadridge Fund Communication Solutions, comments: “Asset managers are navigating a very complex and changing regulatory landscape and are under increasing pressure to disclose more ESG data to investors.

“Broadridge’s new ESG solution enables asset managers to efficiently provide data by leveraging automation and existing network links amongst fund distribution channels to ensure they have data and regulatory documents at the right time for their end clients.”

### APG appoints Eurex for repo clearing

APG Asset Management, the Netherlands-based pension fund asset manager, has announced that it will begin accessing Eurex’s cleared repo market from mid-June 2022.

Eurex indicates that this will enable APG to trade repurchase agreements with more than 150 participants registered on Eurex Repo and to invest or raise cash securely against more than 13,000 ISINs as securities collateral. Its integrated GC Pooling repo environment offers straight-through processing trade flow across the Eurex Repo trading platform, the Eurex Clearing central counterparty and Clearstream’s tri-party collateral management service, while delivering operationally robust management of cash variation margin and initial margin requirements.

Eurex Clearing offers its ISA Direct Clearing service for repurchase agreements and for

over-the-counter traded interest rate swaps. It provides repo clearing in four currencies, namely EUR, USD, GBP and CHF.

On bringing ABP onto its repo clearing service, with approximately €600 billion in pension assets, Eurex will support pension fund clients with more than €1 trillion aggregate assets under management.

With increasing demand from buy-side firms, Eurex plans to allow further client groups to access cleared repo markets through its new ISA Direct Indemnified model from July 2022.

APG head of treasury and trading Jan-Mark van Mill comments: “The direct link to Eurex’s cleared repo markets is an important enhancement of our collateral and cash management capabilities. Thanks to Eurex’s ISA Direct clearing service, our clients are better prepared for the potentially upcoming derivatives clearing obligation for pension funds.”

Eurex’s head of securities financing product and business development Frank Odendall says: “Onboarding APG funds is the latest successful step in our efforts to open our centrally cleared markets to a greater diversity of market participants.

“Our ISA Direct model, available for both repos and over-the-counter traded interest rate swaps, offers market participants tangible benefits in terms of risk management and collateral optimisation.”

Societe Generale head of prime sales Netherlands Dirk Bellens adds: “We are proud that APG chose Societe Generale as partner to access the cleared repo market. Our continued partnership with Eurex allows clients like APG to

access increased liquidity and enhanced credit exposure. This type of innovative solution, partnership and forward thinking continues to demonstrate Societe Generale leadership in the clearing space.”

### ESMA submits final reports on CCP resolution regime

The European Securities and Markets Authority (ESMA) has published six final reports of its review of the CCP Recovery and Resolution Regulation (CCPRRR) and these reports have now been submitted to the European Commission.

The final reports set out proposals for Regulatory Technical Standards (RTSs) on the content of central counterparties (CCPs) resolution plans, resolution colleges, valuation of CCPs’ assets and liabilities in resolution, and safeguards for clients and indirect clients.

It also contains guidelines on the circumstances under which a CCP is deemed to be failing or is likely to fail, as well as on the methodology to value each contract prior to termination.

Aiming to guide resolution authorities in developing effective resolution plans, the overarching goal of ESMA’s reports is to contribute to market preparedness generally and in the “unlikely event” of a CCP entering into resolution.

To determine whether a CCP has failed or is likely to fail, the relevant authorities should assess the available objective elements as they relate to the availability and adequacy of the CCP’s recovery tools, the pre-funded and committed financial resources still available to the CCP, and the liquid

resources and liquidity arrangements still available to the CCP.

The authorities will also need to consider the operational capacity of the CCP and other requirements for continuing authorisation.

They should also be prepared for situations where a CCP is unable to manage the default of one or more clearing members, and where a CCP is unable to address a non-default event that results in unmanageable losses for the CCP. ESMA notes that these are both typical circumstances that may result in a CCP's failure.

According to ESMA, the determination that a CCP is failing or likely to fail should remain an expert judgement and should not be automatically derived from any of the objective elements alone.

The European Commission has three months to decide whether to endorse the proposed standards under a Delegated Regulation.

### ASIC releases second consultation paper for changes to its derivative transaction rules

The Australian Securities & Investments Commission (ASIC) has released its second consultation paper for proposed changes to simplify the ASIC Derivative Transaction Rules.

The consultation sets out further proposals to amend the ASIC Derivative Transaction Rules (Reporting) 2013 made under s901A of the Corporations Act 2001, following its first round of consultation, released in November 2020.

This consultation process on the second consultation paper is designed



### ICMA releases report on digitising repo market legal documentation

The International Capital Markets Association (ICMA) has published a strategy paper that evaluates steps to promote standardisation of industry-negotiated repo documentation.

The Association notes that the rising need for legal agreement data for downstream systems, including collateral, risk, pricing and capital decisions, is driving market participants to create their own data representations, despite the need for consistent data representation as industry infrastructure expands.

This trend has resulted in multiple house styles for master agreement templates, with firms employing differing formatting and describing common business outcomes in a variety of different ways.

To address this concern, ICMA released a Global Master Repurchase Agreement Clause Taxonomy and Library project in October 2021, delivering a library of model wordings that can be used to draft business outcomes in a standardised way across the industry.

The strategy paper, which has been released in collaboration with D2 Legal Technology, evaluates the work done to date on the GMRA Clause Taxonomy and Library project, outlines the next stages in the project and the role that market participants need to play to make this initiative successful.

ICMA encourages all its members to share their ideas and input to the project to “build on the key role GMRA documentation plays in repo trading. This is the time to embrace the enhanced benefits of a digital documentation approach to the GMRA,” it says.

In September 2021, The International Securities Lending Association (ISLA) announced the launch of the ISLA Clause Taxonomy and Library to guide standardisation of industry-negotiated securities lending transaction documentation, including the Global Master Securities Lending Agreement (GMSLA). This ISLA Clause Taxonomy and Library was also developed in association with technology partners D2 Legal Technology.

## Securities finance news

to help ASIC to develop its policy on over-the-counter derivative transaction reporting requirements.

The existing reporting requirements for derivatives transactions in Australia are designed to provide transparency in relation to trading activity, positions and counterparty exposures, helping regulators to identify financial system vulnerabilities, to conduct market surveillance, to monitor market metrics and practices, and to inform policy developments.

International standards have been developed for entity identifiers, transaction identifiers, product identifiers and critical data elements for transaction terms as well as valuation and collateral information for use in derivative transaction reporting.

Several overseas regulators have updated their existing rules to implement these standards.

In its second consultation paper, released 16 May, the ASIC looks to understand and assess the financial implications of the proposals and any alternative approaches on stakeholders.

The commission has asked stakeholders to outline the likely compliance costs and the likely effect on competition the proposals would have, if they are implemented.

The deadline to submit comments for the second consultation paper is 8 July 2022.

Commenting on the new consultation paper, Priya Kundamal, general manager and head of data repository at DTCC (Singapore):

“DTCC commends the ASIC for taking the lead in the Asia Pacific region to advance

global data harmonisation efforts that are critical in enabling cross-border data aggregation and in achieving systemic risk mitigation across global jurisdictions.

“Crucially, this includes incorporating critical data elements within the core reporting data framework, adopting common global identifiers, such as the legal entity identifier, the unique product identifier and the unique transaction identifier, and aligning to the ISO 20022 technical format and data standards.

She concludes: “We thank the ASIC team for their collaborative approach with the industry during the consultation process and we look forward to continued progress on this important initiative.”

### Clear Street closes \$165m Series B funding round

Clear Street has announced the completion of US\$165 million Series B funding round to accelerate the launch of its platform.

This marks Clear Street’s first venture capital raise since inception and brings its valuation to US\$1.7 billion.

The round was led by growth equity firm Prysm Capital, LLC and included investors NextGen Venture Partners, Walleye Capital, Belvedere, NEAR Foundation, McLaren Strategic Ventures, and Validus Growth Investors.

Angel investors, Illia Polosukhin, Moses Lo and Alastair Trueger were also investors in the funding round.

With this additional capital, Clear Street aims to expand its capabilities to serve fintechs,

market makers, and professional traders. It will aid the firm in continuing to grow its team, resources, and form new partnerships to meet its goal of improving access across the capital markets.

Since the beginning of 2021, Clear Street experienced a 220 per cent increase in financing balances, and 510 per cent growth in equity transactional volume. According to the fintech, Clear Street’s architecture processes more than US\$3 billion in daily trading volume.

Chris Pento, co-founder and chief executive officer at Clear Street comments: “We founded Clear Street to replace the outdated tech infrastructure being used across capital markets.

“It should not take six months to open an account or a year to begin trading a new asset class. Clients are demanding better technology and better service. Our cloud-native platform provides the services and data that investors need to compete in today’s markets.”

Sachin Kumar, co-founder and chief technology office, adds: “We started with prime brokerage, an area where we had experienced the frustrations caused by operating on outdated technology first-hand.

“As we built out prime services, we realised that 80 per cent to 90 per cent of the infrastructure used to service prime brokerage customers is the same infrastructure used by other market participants, like fintech app developers or market-makers. We have focused heavily on creating platforms that are API-first, such as clearing, settlement and custody, so that we can scale to other parts of the market.” ■

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## Driving industry engagement

*Fredrik Carstens, public affairs advisor at the International Securities Lending Association (ISLA), speaks to SFT about his role, work to strengthen the Association's activities in the face of the pandemic and Brexit, and key agenda points for H2 2022 and beyond*

### **Briefly describe your new role within ISLA and how you work with the other areas of the organisation**

In this new role at ISLA, my main focus is to build out ISLA's engagement with regulators and other stakeholders, as well as with members on the Continent. A strategic priority of the Board, and therefore ISLA's senior leadership team, has been to strengthen the Association's activities against the backdrop of the pandemic, which has limited engagement over the past two years, and in the context of Brexit by having a physical presence in Europe. As such, my activity is to directly engage with our members in the region and

to be the eyes and ears for regional and local topics that are important to our members. As such, I am working very closely with all internal stakeholders, including the regulatory, digital and legal teams in terms of content, and with the events, marketing and communications group in terms of the messaging and delivery.

### **What are your plans for 2022 and beyond? And what are the key milestones?**

Clearly the regulatory agenda drives much of what we do. Therefore, for much of this year the focus will be on



the Central Securities Depositories Regulation (CSDR), environment, social and governance (ESG) considerations, and short selling. In terms of engagement, this ranges from on-going dialogue with members to a more tactical approach with both local as well as European regulators in Brussels. One part of this agenda is to re-launch our in-person regional events and, on 17 May, we held our first event of this kind in Zurich — once again kindly hosted and supported by ZKB and Credit Suisse. The event was very well received, with a strong attendance from our Swiss membership, giving us an opportunity to network and engage on several key regulatory, digital, and legal themes. We plan to hold similar events later in the year in Frankfurt and Paris, followed by Stockholm, Dublin, Amsterdam and the Middle East as we look to 2023.

Another important occasion will be our meeting with the European Commission in early July, where we plan to engage with a range of stakeholders in Brussels. This will be underpinned with direct meetings with local regulators in the key financial centres later this year, focusing on specific topics for each of the regions.

### What role do events like the ISLA conference in Vienna play for members?

This annual event is our key forum for delivering updates on our markets and on regulatory topics, as well as an excellent opportunity for our members to network in person. While the regulatory agenda is ever expanding, this will, for many, be the first opportunity to meet in person on this scale since 2019. As such, we believe that the event is a welcome addition as a mark of going back to business and we are very pleased to be able to do this again in Vienna.

### What are the key challenges for the market at this time and how are you responding to these?

I already mentioned the immediate focus on CSDR, ESG and short selling regulations, but there are a number of ongoing regulatory strands happening at both a European and local level. For example, the Basel rules are potentially impacting the ability of unrated counterparts (e.g. UCITS) to lend and these are an important source of supply in the market. In the longer term, many of the current issues — particularly in

the post-trade space — will need to be addressed through a radical rethink of the way we process and settle transactions. These fundamental challenges will only be resolved through the progressive digitalisation of our markets. Work that ISLA is leading in collaboration with the International Swaps and Derivatives Association (ISDA) and the International Capital Markets Association (ICMA) through the development of the cross-market common domain model (CDM) will provide the building blocks for this process.

### Having spent most of your career working on the sales side at a number of agent lenders, what elements of your experience will be beneficial in driving ISLA's messaging forward across the region?

Having worked in this industry since the early 1990s, this experience has enabled me to develop a good understanding of the market and the needs and objectives of both beneficial owners and borrowers. While the industry continues to evolve, the fundamentals that drive value remain surprisingly constant. I see an opportunity to draw upon this expertise in providing context around the challenges and opportunities facing the market today and in advocating for more pragmatic outcomes and dialogue with the regulatory community. ■

**Fredrik Carstens**  
Public affairs advisor  
ISLA



# Unlocking global markets

*Stephan Wolf, CEO of the Global Legal Entity Identifier Foundation, speaks to Carmella Haswell on the trials and tribulations of its universal project to onboard validation agents in preparing securities finance markets for upcoming LEI legislation*

An initiative to ease regulatory compliance has resurfaced around the globe since it began in the fourth quarter of 2020. The Global Legal Entity Identifier Foundation (GLEIF) recently welcomed its first Legal Entity Identifier (LEI) validation agent in India — risk management and monitoring platform Rubix Data Sciences — after already onboarding validation agents in North America, Europe, Africa and China.

GLEIF, the Financial Stability Board-backed foundation based in Switzerland, introduced a validation agent framework in September 2020 and called on global financial institutions to become part of the LEI issuing process. The scheme is based on the understanding that banks are considered a trusted data source and seeks to leverage this by conducting company checks, and passing that validated data on to the LEI issuer as part of the LEI acquisition process.

LEI issuers will leverage know-your-customer (KYC) and anti-money laundering (AML) procedures to aid clients in obtaining an LEI, in line with increasing mandates from regulators, including the Reserve Bank of India, the Securities and Exchange Board of India, and the Insurance Regulatory and Development Authority of India. All three institutions have mandated LEI usage across over-the-counter derivatives, credit borrowing, large-value payments, insurance and cross-border transactions.

### A world-wide search

An LEI is a 20-character alphanumeric code that allows regulators to identify individual parties in a transaction. The Securities Financing Transactions Regulation (SFTR) will introduce a requirement for LEIs to be correctly indicated in transaction reports, irrespective of the location of the counterparties, the issuers of securities or the rest of the participants to an SFT, and regardless of whether these entities are subject to LEI requirements in their own jurisdictions.

Stephan Wolf, CEO of GLEIF, indicates a rapidly changing concept in the financial landscape, where participants are realising the value of the LEI. For instance, when participating in international trade, an LEI acts as a business' international passport. He says: "The Global Financial Crisis was a major point in time when the world was united. Regulators across the world mandated the LEI for counterparties in derivative trades. However, some regulators have been hesitant to enforce stricter entity identification, because the financial crisis did not originate in their country."

Observing the adoption of LEIs over each quarter, Wolf notes India and China are countries which consistently uphold the highest LEI growth rates. "The reason is not to protect the global financial market," he says, "but to support their organisations in the import and export of physical and digital goods. The use of the LEI in this way is now a major trend that we are pleased to see." To support this momentum, GLEIF has appointed representatives in Japan, Singapore, India and China to work with local authorities and businesses to further encourage LEI adoption in these regions.

However, the road to onboarding validation agents to assist these adoption efforts has not been an easy ride. Two of the main barriers facing GLEIF in their mission include contacts and publicity.

"It can be difficult for us to find the right people within a bank to start the process of becoming a validation agent. In cases where we have seen success, it happens that we know the people responsible for entity record management. But at other large financial institutions, it is not always clear," Wolf explains. "That is a challenge — first finding the right people and then contacting them, convincing them and showing them the potential benefits."

Despite these constraints, a McKinsey study has proven helpful in this quest to onboard validation agents, highlighting how banks could save US\$650 million annually by encouraging broader global adoption of LEIs.

In terms of publicity, Wolf notes that there is an issue with validation agents speaking openly about their work. He adds: “Unfortunately, banks are very private and do not want to overtly share their processes. We have validation agents, large organisations that are already operational, who do not allow us to mention them publicly, because banks fear that it would expose their client base.

“For example, if you had an uptick of 50,000 LEIs a day, and at the same time, announce the onboarding of a large bank to the programme, people could make the connection.”

### Attaining the international passport

Currently, SFTR regulation is accepting reports without the LEI of third-country issuers of securities which are lent, borrowed or provided as collateral in an SFT. The European Securities and Markets Authority (ESMA) expects national competent authorities to avoid supervisory actions in relation to reporting of LEIs of third-country issuers until 10 October 2022, after an 18-month extension.

The Financial Conduct Authority (FCA) has also offered an extension on these reporting demands, to align more closely with ESMA's deadline. The original deadline for UK SFTR was 13 April 2021, which was extended by 12 months to April 2022. However, the FCA has further extended this by another six months, delaying reporting until 13 October 2022.

The need for the extensions was to avoid market disruption after large gaps remained in LEI coverage outside of the European Economic Area. Previously, there were concerns that companies in smaller countries might have an issue in obtaining an LEI. In response, GLEIF ran a research study with the Asian Development Bank to assess whether large and small companies in developing countries — including Bangladesh, Cambodia, Samoa and Mongolia — could acquire an LEI relatively easily and at reasonable cost.

The report found that it was ‘a breeze’ to obtain an LEI in each of the listed countries, where multiple LEI issuers are available to help. Of those surveyed, 87 per cent of participants rated the LEI registration process as ‘very easy’, ‘easy’ or ‘average’. The study also disclosed that 65 per cent of participants paid US\$75 or less to acquire an LEI.

Difficulties were found, however, with small and medium sized enterprises (SMEs) entering international markets. The barrier was discussed by co-founder and CEO of Rubix Data Sciences Mohan

Ramaswamy, in the wake of Rubix Data Sciences becoming a validation agent in India. Speaking to SFT, Wolf explains that SMEs, which make up 90 per cent of businesses globally, struggle to access finance, form partnerships and trade overseas if they are unable to prove their identity.

“This is particularly difficult for SMEs in developing markets, where they may be perceived to be higher risk by potential partners. Banks are prohibited from offering them trade finance without undergoing painstaking and costly KYC and AML checks — processes which are hampered without a verified identifier,” notes Wolf.

He continues: “An LEI enables SMEs to apply for trade finance and establish contractual, regulated agreements with banks, payments networks and trading partners.”

### The next chapter

Forecasting which route this standard of practice on LEIs is heading, Wolf anticipates a broad pick up from the US, Canada, Mexico and the far East, with advancements being made in Asia, India and China.

Using the American Customs and Border Patrol as an example of greater LEI adoption, Wolf says that the government organisation has launched a project to test the use of LEI as a business identifier for import and export customs declarations. “This is a completely new use case for the LEI and could lead to a significant increase in its adoption should every exporter to the US require one,” says Wolf.

This theme can also be seen in China, which has walked a similar route in mandating LEIs for several countries, according to Wolf. He notes that Europe is ‘well covered’ with work still being done across the region to increase its adoption, such as the European Banking Association continuing to mandate the LEI for various use cases.

Speaking to SFT about future steps, Wolf says: “LEI adoption is currently weak in Africa. We have good coverage in Nigeria and South Africa, but less so in the Sub-Saharan area.” As part of its roadmap to advertise the LEI and work together with international organisations to foster its adoption in Africa, GLEIF recently ran a project to onboard NMB Bank in Zimbabwe as its first African validation agent.

“In doing so, we were able to showcase how the LEI could help African companies to easily participate in global trade,” says Wolf. “We have no pickup of the LEI in South America. Everywhere else in the world, you see growth potential and people endorsing the LEI.” ■

# The securities finance regulatory horizon

*For firms using derivatives and securities finance transactions, a wave of new regulatory amendments is demanding that they review their regulatory reporting architecture and adapt to changing reporting obligations. S&P Global, Market Intelligence, Global Regulatory Reporting Solutions's Igor Kaplun and Ron Finberg offer guidance on managing this regulatory pipeline*

Financial markets, and the securities finance market in particular, have been facing an increasing number of regulatory reporting obligations over the past few years. This has impacted not only plain securities lending and repo trades through the Securities Finance Transaction Regulation (SFTR), but also synthetic securities financing trades, involving swaps, options, futures or forwards, through the lens of various derivatives-focused regulations all over the world.

For those firms using derivatives and securities finance which have heavily invested in developing disparate internal systems at great cost, both for implementation and maintenance, there is little reprieve in sight with more regulations and investments on the horizon to keep up with the steady flow of incoming additional requirements. S&P Global Market Intelligence regulatory reporting experts have compiled a short summary — one that is by no means final — of the main regulatory changes expected. Securities finance firms should find this article useful when reviewing their regulatory reporting architecture and preparing for the upcoming wave of new regulatory changes.

### EMIR REFIT and equity derivatives

With SFTR planning and implementation now well in the past, European Market Infrastructure Regulation (EMIR) REFIT is the new regulatory buzz. First arriving in June 2020 with clearing threshold obligations and requirements to report for non-financial counterparties (NFCs), a much larger update arrives for REFIT when its Technical Standards for Reporting goes live.

Both the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA) published similar consultation papers in 2021. Feedback on those papers, and regulator approval from the EU and UK, has yet to be published at the time of writing. Taking into account the requirement of an 18

month lead time following parliamentary approvals, we could see the new technical standards go into effect by Q4 2023.

Despite the go-live date being still well in the future, complexities of the REFIT require adequate preparation — with 203 fields and 41 per cent of them being newly introduced — to comply with the updated standards. Below, we review a number of the changes affecting equity derivatives often traded by securities finance teams.

### Lifecycles

As part of the REFIT, EMIR is introducing new event types and action types to those that currently exist. The goal is to provide additional granularity to describe why events are taking place. Examples are descriptions for new actions, terminations or modifications that are the result of an allocation, post-trade risk reduction (PTRR), credit event or corporate events (see ESMA chart below). For equity derivatives, the corporate event type is of interest. The new event type will now allow reporting firms to explain in more detail modifications and new transactions of derivatives that are the result of stock splits and mergers of their underlying equities.

### ISO 20022 XML submission format

Familiar to firms currently reporting under SFTR, the REFIT update will also require all submissions to trade repositories (TR) to be in the ISO 20022 XML format. This change is expected to improve data quality as it standardises the submission format across all reporting entities and TRs. As a result, firms currently submitting to TRs in CSV or fPML formats will require processes to comply with the ISO standard.

### Counterparty details

Another item that should be familiar to SFTR reporting firms are the new counterparty fields that are being introduced. This will add:

- Entity Responsible to the trade
- Non-Reporting Counterparty Identifier type – indicator if LEI is used
- Nature of Non-Reporting Counterparty – description of non-reporting party NFC/FC/Other
- Corporate Sector of Non-Reporting Counterparty – sector description for NFC/FC
- Clearing threshold of Non-Reporting Counterparty – indication if above the clearing threshold
- Reporting Obligation of Non-Reporting Counterparty – whether they have
- EMIR obligation

While the data fields are not complicated, they do put the burden on reporting firms to collect additional details about their counterparties for use in submissions.

### Equity options

Currently, there are five option-specific fields under EMIR reporting. That number grows to 11. Of the current five, Option Type, Exercise Style, Strike Price and Maturity Date of

the Underlying will remain. The Strike Price Notation field is being removed.

Two new fields are explicitly relevant to equity options: Option Premium and Option Premium Currency. The Option Premium field is the amount per option paid by the buyer. The value for this field mimics that of Price.

### Cryptocurrency derivatives

The REFIT aims to fill a gap for how to report cryptocurrency derivatives. As a derivative product, crypto products such as Contracts for Difference (CFDs), options, tokens and total return swaps fall under the scope of EMIR. However, reporting them is difficult. As they lack ISO 4217 currency codes, they can not be submitted under the Foreign Exchange asset class. As a workaround, most firms currently report cryptos under the Commodity asset class, using the Commodity Base description of 'Other'.

With cryptocurrency derivatives volumes rising substantially to billions of dollars per day for both over-the-counter (OTC) and exchange-based offerings, EMIR REFIT introduces a new field

TABLE 4 COMBINATIONS OF ACTION TYPES AND EVENT TYPES

		Event Type											
		TRADE	STEP-IN	PTRR	EARLY TERMINATION	CLEARING	EXERCISE	ALLOCATION	CREDIT EVENT	INCLUSION IN POSITION	CORPORATE EVENT	UPDATE	No Event Type required
Action Type	NEW	T	T,P	T		T	T	T		P	T, P		
	MODIFY	T,P	T,P	T,P	T,P		T, P	T	T,P	P	T,P	T, P	P
	CORRECT												T,P
	TERMINATE		T,P	T,P	T,P	T	T,P	T	T,P	T,P	T,P		
	ERROR												T,P
	REVIVE												T,P
	VALUATION												T,P
	MARGIN UPDATE												T,P
	POSITION COMPONENT												T

Source: ESMA Final Report Technical standards on reporting, data access and registration of Trade Repositories under EMIR REFIT

# Regulatory reporting

called 'Derivative based on Crypto-assets'. While neither the FCA or ESMA directly define the asset class of cryptocurrencies, the new field will allow regulators to identify how exposure and risk relates to the cryptos.

## Direction field

Another area where REFIT aims to align reporting to how products are booked and traded is with an adaptation of the Direction field. Currently, the field is limited to Buy and Sell. However, Buy and Sell do not correctly describe multiple leg products such as swaps and forwards where there is payment made by both sides of the trade.

As an alternative, REFIT introduces the 'Direction of Leg 1' and 'Direction of Leg 2' fields to be used instead of the Direction field for swaps, forwards and forward rate agreements (FRAs). In place of the Buy and Sell values, firms will report whether they are the 'Payer' or 'Receiver' of each leg. For equity derivatives, the change does not affect equity contract for difference (CFDs) or options and futures, but securities swaps will fall under the new format.

## CFTC Rewrite

One year after the publication of the CFTC rewrite final rules, released in January 2021, the implementation timeline has been extended for an additional six months to 5 December 2022 from the initial compliance date of 25 May 2022.

By issuing this no-action relief, the CFTC Division of Data is indicating that they will not recommend enforcement action against anyone that does not meet the 25 May 2022 compliance date.

Ultimately, this is welcome news to the industry that has been expecting a reprieve from the May timeline and an additional six months will help both the SDRs and market participants prepare for the implementation.

The rewrite represents the most significant change to the CFTC reporting rules since they first went live in 2012. The entire derivatives ecosystem, from trade capture, risk management and confirmation systems, will potentially be impacted in some form to ensure data is captured accurately and represented in the new formats required.

This announcement also clarifies to the industry that the CFTC rewrite will be implemented in two phases. Phase 1 will be actual submission changes (new data fields, timing of trade state, etc.) for 5 December 2022 and Phase 2 to bring in UPI and ISO in Q4 2023.

The UPI and ISO implementations are significant in their own right and it will be interesting to see how these will be rolled out, particularly with the work around EMIR REFIT running in parallel.

The delay to the CFTC rewrite also introduces inherent delays to suggested REFITS and rewrites in Canada, which has historically stayed tightly integrated to the US reporting rules.

As with any delay or extension to the compliance date, it is imperative that firms use this opportunity to review their current systems, processes, technical and product solutions and ensure they are fit for purpose to meet the next regulatory challenge in front of them.

S&P Market Intelligence is partnering with clients to help them with the CFTC rewrite and is already servicing over 500 of the largest customers around the world with their trade and transaction reporting requirements. Clients using S&P Market Intelligence for the current CFTC requirements will seamlessly migrate to the Rewrite for the December 2022 implementation date.

## SEC 10c-1

On 18 November, the SEC released for comment proposed Rule 10c-1 under the Securities Exchange Act of 1934. The comment period was initially 30 days, but the SEC subsequently reopened the consultation with an amended close date of 1 April.

The core objective of this proposal is to increase transparency in the securities finance market by requiring any person lending securities to report that transaction to a registered national securities association (RNSA). The RNSA being proposed here is the Financial Industry Regulatory Authority (FINRA), which will collect and publicly disseminate information about each transaction and aggregate information.

Let's examine some of the key elements of the proposal:

## Who needs to report under SEC Rule 10c-1?

Any lender or lending agent would be required to report. A lending agent is identified as an intermediary such as a bank, broker-dealer or clearing agency that helps lend securities on behalf of the beneficial owners (which includes banks, insurance companies, pension funds).

For example:

- Where insurance or pension funds employ an agent lender to loan their securities, the agent lender would be responsible to report. If an agent lender is not used and the beneficial owner lends securities directly, then the responsibility lies with the beneficial owner.
- Clients of broker-dealers that take part in fully paid lending programmes would have their loans reported by their broker-dealer.
- Clearing agencies that have programmes that lend on behalf of beneficial owners would be responsible for providing the stock lending activity.

As we have seen with other regimes, the reporting could be delegated by the client to another party and there is a point in the proposal where a reporting agent can be designated through a written agreement.

## What needs to be reported under SEC Rule 10c-1?

Any securities lending trade involving equities or fixed income would need to be reported. If we compare the SEC's 10c-1 proposal against ESMA's SFTR, we see that participants that are in scope for reporting under SFTR would be well versed in retrieving the vast majority of fields required for 10c-1, as most of them are reported in SFTR. Although there are similarities in terms of data required, they have different objectives. The SEC is looking to improve transparency in the market, while ESMA wanted to measure risk and exposure in the securities finance market, which additionally includes repos, buy or sell backs and margin loans.

The following table on page 16 covers the data points requested by the SEC proposal. The fields in black indicate information that would be made public and those in green refer to fields that would be kept away from the public eye.

The key open question is how to determine whether a firm has to report. It is unclear if the determination is at the product level (US securities), which would capture non-US entities that lend US

securities? Or is the scope limited to firms domiciled in the US, regardless of where the actual security being lent is?

## How should the trades be reported under SEC Rule 10c-1?

For those that have been involved in trade and transaction reporting, there is a concept of reporting a trade with a unique trade identifier (UTI). The way this has worked for other regimes was that, typically, the UTI could be system-generated by a trading venue, or CCP-generated if trades are cleared or involved in dual sided regimes generated by one of the counterparties.

In the SEC proposal, however, it seems that subsequent modifications would need to be reported by a registered national securities association (RNSA)-assigned UTI. This means when a market participant submits a new trade to the RNSA, the RNSA would have to acknowledge the trade, assign a UTI to it, send it back and only then would the client be able to submit subsequent modifications associated with that trade with the same UTI. The SEC proposal around UTI is similar to the current CFTC derivatives obligations where a trade repository (Swap Data Repository) would create the UTI when the reporting party is a non-registered entity (non-SD, non-MSP, etc.)

The format, in which the reports need to be compiled, is still unspecified and there is an open question regarding whether this should be defined by the SEC or the RNSA. What we do know is that the reporting agent is required to submit the necessary information to the RNSA within 15 minutes after the securities loan is affected or the terms of the loan are modified. In addition, the proposal requires each lender to submit their on-loan balances, as well as their available-to-loan inventory at the end of each business day.

These three regulations and REFITS are only the tip of the regulatory iceberg hitting the physical and synthetic derivatives and securities finance ships. Among many others, the Monetary Authority of Singapore (MAS), the Australian Securities and Investments Commission (ASIC), the Hong Kong Monetary Authority (HKMA), the Japan Financial Services Agency (JFSA), are all going through some sort of REFIT, putting even more pressure on the firms trading those products in scope. It is the right time for each firm to take a hard look at its current process and to assert its scalability and sustainability in an increasingly demanding regulatory reporting environment. ■

## Regulatory reporting

SEC 10C-1 proposed fields	SFTR #	SFTR field names	Comment
Legal name of the issuer of the securities to be borrowed, LEI of issuer if available	2.54	LEI of the issuer	SEC's approach to potentially allow Legal Names of the Issuer instead of only the LEI would be well received. We have found that for all the securities that we enrich, US issuers are the main offenders to not have a LEI.
Ticker symbol/ ISIN/ cusip /other identifier of those securities	2.41	Security identifier	
Time and date of the loan	2.12	Execution timestamp	
Name of the platform or venue, if one is used	2.08	Trading venue	In addition to providing MIC codes of the trading venues, SFTR also allows for XOFF (traded off exchange) and XXXX (OTC)
Amount of securities loaned	2.46	Quantity or nominal amount	
Rates, fees, charges and rebates for the loan as applicable	2.58; 2.59; 2.66; 2.67	Fixed rebate rate; Floating rebate rate; Spread of the rebate rate; Lending Fee	
Type of collateral provided for the loan and the collateral margin percentage	2.75; 2.89	Type of collateral component; Haircut or margin	
Termination date of the loan if applicable	2.14	Maturity date (End date)	
Borrower type, e.g. broker, dealer, bank, customer, clearing agency, custodian	N/A	No equivalent	S&P Global platforms currently store regulatory classifications for SFTR, Dodd Frank, EMIR and others. Additionally, each participant must stipulate what kind of entity they are (custodian, corporation, dealer, asset manager, etc). These fields could be leveraged to populate a transaction report.
The legal names of the parties to the loan	1.03; 1.11	Reporting counterparty; Other counterparty	SFTR also include branches of the counterparty when trades are conducted by a branch
When the lender is a broker-dealer, whether the security loaned to its customer is loaned from the broker-dealer's inventory	N/A	No equivalent	
Whether the loan will be used to close out a fail to deliver pursuant to Rule 204 of Regulation SHO or whether the loan is being used to close out a fail to deliver outside of Regulation SHO	N/A	No equivalent	





## 08:00 - 09:00 **Breakfast & Registration**

## 09:15 - 09:30 **Welcome Remarks**

**Valentina Crovato**, Product Solutions Specialist Euroclear

## 09:30 - 10:00 **Opening Keynote Address**

The story of how regulators supervise the industry will change. We are on the cusp of a much-needed paradigm shift, in which the future of reporting is no reporting.

**Francis Gross**, Senior Adviser, Directorate General Statistics European Central Bank

## 10:00 - 11:00 **Beyond Acks & Nacks: The End of Regulatory Reporting as We Know it?**

Traditional push-style regulatory reporting is dead! Or is it? As we see potentially the final instances of transparency reporting emerge from the SEC and FINRA, the opening panel of the final day will discuss whether the industry is ready to move to this type of model in order to deal with oncoming regulation.

### **Moderator**

Miles Barker Lead Regulatory IT, BA Credit Suisse

### **Speakers**

**Pierre Khemdoudi**, Partner & SVP - Network & Regulatory Solutions S&P Global

**Jonathan Lee**, Senior Regulatory Reporting Specialist Kaizen Reporting

**Ian Sloyan**, Senior Advisor Data & Digital Solutions International Swaps and Derivatives Association (ISDA)

**Valentino (Val) Wotton**, Managing Director, Product Development and Strategy, Repository and Derivatives Services DTCC

## 11:00 - 11:30 **Networking Refreshment Break**

**11:30 - 12:15**

## **Platforms for the Future of Securities Lending**

Looking at two platforms that use blockchain technology to shape the next generation: native issuance on-chain vs. mobilisation of traditional assets using DLT.

### **Moderator**

**David Shone**, Director - Market Infrastructure & Technology ISLA

### **Speakers**

**Michael Cyrus**, Head of Collateral Trading and FX DekaBank

**Guido Stroemer**, Chief Executive Officer HQLA\*

**12:15 - 13:00**

## **Collaboration & Community for Standard Adoption**

In an increasingly complex world, with many possible solutions and routes to success, the penultimate panel will discuss the necessity to collaborate across organisations to converge on standards quickly and efficiently. A particular focus will be open-source development, relatively new to the traditionally conservative world of financial institutions, and its role in the future success of the Common Domain Model.

### **Moderator**

**David Lewis**, Senior Director FIS

### **Speakers**

**Vijayesh Chandel**, Executive Director Goldman Sachs

**Gabriele Columbro**, Executive Director FINOS

**Anastasia Kinsky**, Head of Programmes and Content Global Digital Finance (GDF)

**Shane Martin**, Head of Securities Finance Sales WeMatch

**13:00 - 14:00**

## **Digital Assets & Securities Lending: New Business Models for a New Asset Class**

As the conference sessions come to a close, the final panel will discuss new opportunities that digital assets provide for collateral, custody and securities lending.

### **Moderator**

**Tom Pikett**, Vice President of Product Development in Trading Services J.P.Morgan

### **Speakers**

**Staffan Ahlner**, Global Head of Collateral State Street

**Mike Norwood**, Director, Global Trading Product Owner EquiLend

**Alasdair Pitt**, Head – Legal, Zodia Custody Zodia

**Steve Sullivan**, Managing Director SETL

**14:00 - 14:10**

## **Closing Remarks by the ISLA Chairman**

**Jonathan Lombardo**, Senior Vice President Deutsche Borse

**14:10 - 16:00**

## **Networking Lunch**

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