

# securities lending times



**SFTR Annual**

2018/19

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# All change for securities finance

The Securities Financing Transaction Regulation is one of the biggest regulations to hit the securities finance industry.

In the first Securities Lending Times SFTR Annual, find industry association opinions and various insights from those who focus on specific areas of the industry, as well as a broader spectrum.

Industry participants discuss how the regulation is affecting the market, what opportunities the regulation can bring, how the regulation is challenging firms and the lessons that the industry can learn from previous transaction reporting regulations.

The annual also features various industry trading groups and associations for an insight into the regulation that aims to increase compliance and minimise trade reporting failures.

SFTR is set to be the most challenging and complicated reporting regime the securities finance industry has seen.

As Seb Malik of Market FinReg puts it, the four-letter acronym will be on the lips of over 10,000 firms as they plough resources into projects to enable them to transaction report by go-live, pencilled in for Q1 2020.

According to the European Securities and Markets Authority chair Steven Maijor, SFTR "will provide transparency on the use of securities financing transactions, and will allow identifying risks associated with the collateral and its reuse".

The regulation requires both financial and non-financial market participants to report details of their SFTs to an approved EU trade repository.

Although many firms are now on their journey to deliver the transaction reporting obligations, there have been various warnings not to underestimate the effects that SFTR will have on the industry, with its broad scope and the significant volume of data.

Thank you to all our partners, whose sponsorship and help has been instrumental in putting this handbook together. If you have any comments or suggestions for future issues, please don't hesitate to drop us a line.

**Becky Butcher**  
Editor

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The implementation of SFTR is closing in and firms must act to ensure they are reaping the benefits of better optimisation and increased efficiency under the regulation [page 8](#)



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## SFTR Insight

Jonathan Lee of Kaizen Reporting explains how simple measures can prevent your firm from tripping on any banana skins during SFTR implementation

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Buy-side firms must continue to drive forward with their preparations for SFTR as the new regulation is more complex than MiFID II, writes Godfried De Vidts of NEX

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## Six Lessons

KPMG explains six lessons the industry can learn from previous transaction reporting implementations that can be taken into consideration when delivering SFTR

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# Regulatory Reporting

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# Welcome to the house of fun

The implementation of SFTR is closing in and firms must act to ensure they are reaping the benefits of better optimisation and increased efficiency under the regulation

### *Barney Dixon reports*

The future of securities lending is hinged on the Securities Financing Transaction Regulation (SFTR).

SFTR threatens to affect firms across the board, including banks, investment firms, central counterparties (CCPs), central securities depositories (CSDs), insurance, reinsurance, undertakings, pension funds, UCITS, alternative investment funds (AIFs), and non-financial counterparties (NFCs).

With the regulation's adoption edging ever closer—having recently been revealed to be as close as Q1 2019—firms must prepare, lest they be left by the wayside, struggling to keep up with SFTR's reporting requirements.

SFTR will require financial counterparties and NFCs to report their SFTs to an approved registered EU trade repository. It is structurally the same as reporting under the European Market Infrastructure Regulation (EMIR), requiring two-sided T+1 reporting, however, it also asks that firms disclose requirements to investors and collateral reuse obligations.

Two of SFTR's three pillars are already live. One is the disclosure requirement, which means funds must disclose the usage of SFTs and total return swaps. The second pillar mandates collateral reuse with permission of the collateral provider. The third pillar is the SFT transaction reporting requirement. This covers repos, buy-sell backs, margin lending, and securities and commodities lending.



There are more than 150 reporting fields, spread across four tables, 80 of which apply to repo, marking a shake-up for the repo market.

What, then, can firms do to prepare for SFTR? Walter Kraushaar, head of advisory services at Comyno, says that firms must get an idea of the four tables: counterparty data, loan and collateral data, margin data, and re-use, cash reinvestment and funding sources data.

He explains: "Firms will need to get these data categories internally in order to enable them to start the automation process with a correct database once the final data requirements are clear."

Similarly, Seb Malik, head of financial law (regulation) at Market FinReg, adds that it is important for firms to analyse their data. He says that many of the 153 fields required will "not be available currently in their systems".

Malik remarks that firms need to identify all counterparties, CCPs, agent-lenders, brokers, and ensure that mechanisms for reporting are put in place on the behalf of NFCs.

He says that firms must engage with vendors and trade repositories (TRs), but warns that "notwithstanding slick PR campaigns, not all vendors and TRs are equal".

"SFTR is the most complex reporting regime ever to effect the securities lending industry. Cut through the gloss and engage in robust discussions with the same. How much do they really know about SFTs and SFTR? Do their articles and material exude depth of knowledge, or are they superficial?"

Malik urges firms to consider accredited SFTR training as a starting point for in-house teams. Market FinReg offers one such course, which was the first SFTR course of its kind, accredited in March 2018.

Kraushaar notes that, since SFTR is in parts a "cut and paste" of EMIR rules, firms and institutions may be able to leverage some of the solutions already developed for EMIR and the second Markets In Financial Instruments Directive.

But, Jonathan Lee, senior regulatory reporting specialist at Kaizen Reporting, says that firms are still lacking

clarity on the exact dates that the SFTR Regulatory Technical Standards (RTS) will be approved by the European Parliament.

"We still believe that the RTS will appear in the Official Journal during Q1 2019 and that reporting will go-live starting with the banks and investment firms in Q1 2020, with others to follow at three month intervals."

Finer details of this timeline have become more clear in recent months, and on 4 September, the European Securities and Markets Authority (ESMA) formally rejected the European Commission's request to make minor amendments to the draft SFTR level II legislation.

According to Market FinReg, this has the potential to delay the formal adoption of level II legislation, as ESMA and the commission are "at loggerheads", despite "99.9 percent" of the legislation not being disputed.

In a blog post, Market FinReg said that this was simply a "power struggle".

It said that "ESMA has dug its heels in and 'squared up' to the commission", and on one level Market FinReg welcomes this.

Market FinReg explained: "A truly independent EU regulator is important."

"While ESMA has no formal power to prevent the commission from amending ESMA's draft legislation and then presenting it to the parliament and council for final consideration, should the commission do so, it can expect a rocky three months as its legislation is considered by the parliament and council."

"ESMA might choose to privately (informally) lobby sympathetic parliamentarians to raise objections to the legislation. Should the parliament or council vote to object, then SFTR will be holed up in a legislative holding pattern while the European Commission, parliament and council work out a compromise."

Market FinReg said it can't see the commission backing down, "given that the commission sees itself as the epicentre of the EU, as well as its front face, it is likely

commissioners will consider any climb down as a loss of face and prestige”.

Market FinReg laid out three potential scenarios: were the legislation to be adopted today, it can enjoy one month's scrutiny by the parliament and council, entering into legal force the following month.

The second scenario is the commission making amendments to the legislation and presenting it to the parliament and council, increasing the time for scrutiny to three months. Should there be no objections, the regulation would enter into legal force 20 days after.

Finally, Market FinReg outlined a third scenario, the same as the second, but where the parliament and council raise objections, which could cause “protracted delays”.

However, a delay might not be so bad, and Market FinReg explained that the only uncertainty would be the precise timings.

“While rational actors are quite sensibly ploughing ahead with SFTR projects, there remains shocking indifference in significant quarters. Many of these very firms will either fail to be compliant on time or, in the finest traditions of penny wise, pound foolish, delay and end up paying above-market rates for contractors and vendors later as they scamper to get over the line.”

Despite being relatively close to the wire, SFTR's implementation is still a respectable distance away, leaving a firm contingent of lobbyists continuing to shape the regulation. The International Capital Market Association (ICMA), for example, has fashioned an SFTR task force, which has responded to ESMA's consultation papers about SFTR.

According to Kraushaar, the main concern from lobbyists about the amount of required data have been taken under consideration by the EU, and the final “open” go-live date may hint at further amendments that are on the way. Whatever its final form, SFTR will change market practices for participants in the securities lending industry.

Kraushaar says that market participants will be forced toward transparency, resulting silos breaking within firms and the industry moving towards a more efficient integrated financing and collateral trading set-up across asset classes under newly defined common standards and market rules.

Lee adds that businesses today suffer from “being overly manual, prone to error and generally operationally onerous”.

“In the most extreme cases, we find that reporting parties are not even booking the same transaction types. In order to ensure that businesses continue to run smoothly and efficiently and that SFTR reporting and reconciliation requirements do not become overly demanding.”

In facing the new world, Lee expects that firms will “adopt new industry best practices”.

He explains: “The major SFT trade associations for securities lending, repo and margin lending respectively, have already started agreeing standards for booking practices, consequent transaction reports and the handling of trade lifecycle events.”

“In addition the broker dealers and agent lenders are likely to apply pressure on their clients to encourage them to execute more trades, particularly smaller, more vanilla tickets on electronic trading venues rather than by telephone, email or messaging services.”

Finally, it seems as though SFTR is driving the industry as a whole towards automation and increased efficiency.

According to Lee, companies should apply an appropriate controls framework to support SFTR, incorporating frequent regulatory testing will aid firms in becoming more operationally efficient, while complying with the regulation.

He suggests that the firms that choose to adopt tools to validate their reportable data, utilise TR validation rules and in counterparty pairing and matching will see the benefits of a virtuous circle of further automation, fewer trade touchpoints, lower headcount and, ultimately, cheaper financing. [SLT](#)

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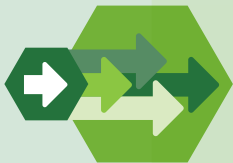
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In the run-up to the Securities Financing Transactions Regulation, Securities Lending Times has spoken to various industry trading groups and associations for an insight into the regulation that aims to increase compliance and minimise trade reporting failures.



We ask how the associations are assisting in the implementation of the regulation, what the regulation's main challenges are, and if previous regulations, such as the European Market Infrastructure Regulation, have helped to prepare the industry for this milestone change.

Initially, in connection with the first draft of the Securities Financing Transactions Regulation (SFTR), the Association for Financial Markets in Europe (AFME) and its members had internal discussions and then held various discussions with policymakers to ensure that the definitions, information requests and other aspects of the proposed regulation were relevant to the prime brokerage industry. Then we carefully and thoroughly analysed the reporting requirements, both with respect to the original data templates proposed by ESMA and with respect to the validation rules for trade repositories (TRs), and provided comments and concerns to the relevant policymakers. After this process was completed, we held further discussions, both internally with our members, and externally with policymakers, to resolve any outstanding questions or clarifications. We are currently discussing and putting into place certain implementation measures with our members whilst waiting for the final guidance from regulators.

While AFME's members are doing their best to get ready for the final SFTR guidance, it is quite difficult to know and assess the full financial, logistical, and infrastructure costs that will be required for full compliance. While regulators have assumed that parties can use the existing European Market Infrastructure Regulation (EMIR) infrastructure, prime brokers will need to develop entirely new infrastructures for reporting SFTs at potentially high costs. Another challenge is that the reporting requirements under SFTR are quite dense (with four different data templates), and cover a wide range of different SFT transaction types and counterparties. It is important that these requirements are well understood, consistent and relevant to the applicable SFT type.

With respect to margin lending specifically, some of the challenges are related to requirements to provide

information that we believe may not be readily available to, or easily obtainable by, the prime broker. For example, the information on a reuse transaction by a small counterparty, which in some cases might need to be reported by the large counterparty with which it has a business relationship. Another example, is certain counterparty or other identifiers that may not be available in every transaction.

It is also important to note that the transactions that must be reported under SFTR may also need to be reported elsewhere, for instance under EMIR or Markets in Financial Instruments Directive/Regulation. It is important that these reporting requirements are consistent and to the extent possible, not duplicative. Lastly, the risk disclosure requirements under SFTR have resulted in parties being required to send tens of thousands of risk notices to counterparties, which has been a challenging exercise.

EMIR is a good example with respect to how a comprehensive, Europe-wide reporting requirement might work. As I said, certain information might, technically, need to be reported under SFTR and EMIR. I think that the EMIR experience has demonstrated that regulators will likely receive an extraordinarily large amount of information, some of which will be less useful and relevant than others.

We've asked that they weigh this possibility against the utility of certain information, and should assess whether they are capable of receiving, less more processing and analysing such a large amount of data. In this respect, we have been able to use some of the EMIR requirements, as well as our members' experiences with EMIR, to better understand the potential impact of SFTR and, frankly, to support our positions when speaking to policymakers.



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Following the publication of the European Securities and Markets Authority (ESMA)'s final report on technical standards under the Securities Financing Transactions Regulation (SFTR) and certain amendments to the European Market Infrastructure Regulation (EMIR), ESMA has been setting up the implementation of SFTR in order to ensure high level of harmonisation with other reporting rules such as EMIR and Markets in Financial Instruments Regulation (MiFIR).

Already in the draft rules, extensive harmonisation and alignment, where feasible, was undertaken.

The most important aspect of the implementation of any regulation is to ensure supervisory convergence. Supervisory convergence is key to ensure consistent and harmonised application of the legal provisions as well as common supervisory culture.

As mentioned in the ESMA annual work programme for 2018, ESMA had planned to issue guidance on SFTR reporting rules.

However, given that the issuance of guidance is conditional on the existence of a legal text, the delay in the adoption of the technical standards has not allowed this to happen so far.

It is for that reason that the only available questions and answers on SFTR is on the Periodic reporting under article 13 of SFTR by UCITS and Alternative Investment Funds (AIFs) to investors on the use of SFTs and total return swaps.

In addition, building on the experience gathered in implementing EMIR and MiFIR, ESMA together with the competent authorities will be preparing a set of common data validation rules to be implemented by all TRs.

SFTR responds to the need to enhance the transparency of securities financing markets and thus of the financial system.

ESMA understands that the most important challenge from regulatory perspective is to ensure high quality, thus usability, of the data reported under SFTR.

Furthermore, ESMA and around 100 authorities that have access to SFTR data will need to build new (or extend) the currently existing data processing capabilities to be able to turn the SFTR reporting into intelligence.


This all being said, we understand that the main challenges around SFTR need to be consulted with the reporting parties.

SFTR would substantially leverage on key aspects of EMIR, such as (i) reporting logic, (ii) definition and standardisation of the common across regulations, data fields, (iii) data access rules and (iv) requirements for registration of TRs.

The requirements under articles 4 and 5, as well as recital 10 of SFTR, include mandate for ESMA for ensuring consistency, minimising overlaps and avoiding inconsistencies between the technical standards adopted pursuant to SFTR and the ones adopted pursuant to EMIR.

Furthermore, as evidenced in the final report, ESMA has used extensively its experience in implementing EMIR and the Markets in Financial Instruments Directive (MiFID)/MiFIR when setting up the reporting, data collection, data validation and operational requirements.

As a result, SFTR is the first end-to-end ISO 20022 XML reporting regulation, with extensive data quality and economic benefits for authorities and industry.



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Given the double-sided nature of the reporting regime and the need to match the two sides of the report, close industry collaboration is a critical factor for the success of the Securities Financing Transactions Regulation (SFTR) and key to avoiding excessive operational costs as a result of inconsistent reporting.

The International Capital Market Association's European Repo and Collateral Council (ERCC) created a dedicated SFTR Task Force in 2015, which brings together market participants, both sell-side and buy-side, and also includes market infrastructures and other relevant service providers, including vendors and trade repositories (TRs), to agree common definitions and establish market best practices beyond the guidance provided by regulators to facilitate the implementation of SFTR. We are working with members on an SFTR Annex to the ERCC Guide to repo best practice to codify common principles and best practices agreed by the group, which we hope to ultimately validate with European Securities and Markets Authority (ESMA).

SFTR will introduce a level of scrutiny that is unprecedented for SFT markets. While the FSB requires mostly monthly position level data, SFTR introduces very granular trade-by-trade reporting, based on no less than 153 reporting fields in total. More importantly, the vast majority of these fields will have to be matched between the two sides of the report, based on no or only very limited tolerance. This will be a major change for the repo market which today focuses almost entirely on the matching of the narrow trade economics. Unlike securities lending, automated matching and contract compare tools are still far less established in the repo market. This forced change will come at a high cost.

Firms are required to invest significant amounts into the necessary system developments. In addition, matching breaks will result in significant ongoing costs given that they will require manual intervention and repair. Agreeing common definitions and practices prior to SFTR go-live will help to minimise these costs.

There are some more fundamental challenges linked to firms' individual booking models which are harder to address through best practice alone. If firms book lifecycle events differently from the outset, for instance, matching becomes of course a near-impossible task. The discussions in the task force expose some of these inconsistencies, which is an important first step. However, it will take time for these processes to converge. In this respect, SFTR can be a driver for positive change leading to more automated and efficient processes and more aligned market practices, but this will inevitably come at a significant cost.

Regulators have made an effort to closely align the underlying reporting logic with EMIR. Despite the obvious differences between the products, this is very welcome as it allows firms to leverage on the EMIR experience. Considering the significant data quality problems with EMIR reporting, some important lessons have clearly been learnt for SFTR, both by regulators and the industry. In particular, the guidance provided by ESMA in the SFTR technical standards is much more granular. For example, the format of the reporting fields is now fully aligned with ISO20022 messaging standards. ESMA also provided more detailed guidance in relation to the generation of UTIs and defined common standards and processes for TRs to follow.

These aspects had all been identified as major shortcomings under EMIR. That said some of the fundamental problems remain the same, as they are related to the underlying logic of double-sided reporting and the excessive number of reporting and reconciliation fields.

In our view, a more gradual approach, starting from a small sample of fields which can gradually be increased, or more reliance on central infrastructures, such as central counterparties, would have been more effective as it would have avoided excessive implementation costs while at the same time ensuring that regulators have access to usable good quality data from the outset.



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Our members are looking towards us on several key issues associated with the implementation of the Securities Financing Transactions Regulation (SFTR).

As our role is non-commercial we are not here to either support or validate a particular product or business model. Instead, we are working towards providing guidance and standardisation around things such as the interpretation of data fields and the handling of life cycle events.

By setting either guidance or best practice, I believe we can ease the burden of implementation and ensure all industry stakeholders are looking at these key issues in the same way.

When looking at the requirements to allow firms to comply with the reporting obligation a number of important and consistent factors emerge.

First, around 25 percent of the data required by borrowers to comply with the reporting obligation can only come from lenders, so there is a clear interdependence between both sides of the market when you look at SFTR.

Second, while many firms may have most, if not all, of the relevant data it may not be available in one place against the required timelines.

The third key area is associated with collateral, which has to be allocated down to the lowest level of clients lending accounts and then reported, all on S+1. The timing here, although slightly easier in the final technical standard that was seen in earlier drafts is still aggressive.

To an extent, SFTR is quite unique although there are some similarities with elements of the Markets in Financial Instruments Directive.

Having said that the biggest driver that the earlier regulatory reporting regimes have brought to the market is an understanding on how to get these things done in a timely and efficient fashion.

As we are nearing the end of the post-crisis regulatory agenda the financial services sector is now well versed and equipped to deliver against these extensive reporting regimes.

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RMA created an SFTR working group to increase awareness of the SFTR trade reporting obligations in the US. We have been coordinating updates and inputs across various industry trade groups, including International Securities Lending Association (ISLA), International Capital Market Association (ICMA), Securities Industry and Financial Markets Association (SIFMA), Securities Financing Transactions Regulation (SFTR) vendor solutions, trade repositories, and the regulators.

Our primary area of focus has been to analyse the global impact of SFTR and create consistency for the securities lending industry across all markets. We believe that focusing on education, including beneficial owners, and creating close coordination across these markets will increase compliance and minimise trade reporting failures.

The main challenges associated with SFTR include the volume of reporting obligations, including lifecycle events, the timing required to complete these reporting obligations, particularly in light of standard agency lending disclosure processes, and potential costs to the industry, including liability, for complying with these reporting obligations.

Additionally, unique to agency lending, both borrowers and beneficial owners will be reliant on agent lenders to provide most, if not all, of the trade reporting data in order to complete their respective reporting

obligations. To the extent a beneficial owner is out of scope under SFTR but lends securities to an in-scope borrower, information reliance on the agent lender will persist. As a result, agent lenders have been focusing on building SFTR solutions to ensure they can provide the necessary reporting and recordkeeping obligations.

SFTR is based on the European Market Infrastructure Regulation (EMIR) derivatives transactions reporting. Due to the differences in the nature of derivatives and securities finance transactions, certain trade reporting fields create interpretative challenges.

Additionally, the securities finance industry seeks to learn from the challenges and corrections made to comply with EMIR reporting requirements. It remains to be seen whether and to what extent other jurisdictions incorporate similar types of trade reporting requirements outside of the EU.

The unintended consequences of SFTR trade reporting costs and obligations include the potential migration of securities finance activity out of the EU and decrease in securities lending profitability for all market participants, particularly certain types of beneficial owners.

The evolution of the global regulatory landscape and costs of conducting business should be closely monitored by all market participants and regulators.



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As an association, we are working closely with the International Securities Lending Association in reviewing the implications of the pending implementation of SFTR.

From an Asia Pacific perspective, in addition to the systems upgrade and implementation costs given the intensity of reporting on collateral flows, there will need to be a thorough examination of privacy obstacles to reporting and what consents (and related repapering) will be needed from

clients across a vast range of jurisdictions with differing laws and languages.

The need to obtain legal entity identifiers under previous reporting rules, for example, European Market Infrastructure Regulation and the second Markets in Financial Instruments Directive has certainly assisted but the collateral data fields of an entirely different order and there are still data lineage challenges that participants will face in sourcing collateral data internally in addition to external reconciliations.

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*SFTR is the implementation of one of the most detailed and complex reporting regimes seen in Europe, and as the industry resolves for this challenge, an emphasis needs to be placed on the processes that generate the data, the tools and control framework needed to support the accuracy of the reporting—so that firms are setting out to achieve an end state that is geared towards break elimination and high match rates.*

*We cannot lose sight of the fact that this isn't just about reporting by required deadline, it's about the need to report as accurately and completely as possible, and making sure that the correct controls are in place. The data will be used by regulators to provide transparency on the use of securities financing transactions and we should remain mindful that matching rates will be an important indicator for the regulator.”*

Harpreet Bains, global product head for agent lending, J.P. Morgan



“

*For me, there are two main concerns—the readiness of firms and ensuring consistency in the booking and processing of trades. We have been discussing these issues at our ISLA board meetings and at various working groups for some time. Many of us are making good progress but it is time some of the wider industry players become better informed and engaged—the clock is ticking, there is probably less than 18 months until SFTR goes live.*

*On the issue of consistency in booking and processing trades, firms in the industry have grown organically and as a result have various different legacy systems and booking practices for the same trade. To me, a big question that remains is if trades are booked differently, how can we ensure the transaction reports match? There's work to be done here.”*

Paul Bradford, director, financial markets, global securities finance, ING





*Two things stand out: one, we potentially overlook a critical piece of information during the business impact and requirement analysis, and two, there's a chance of regulatory reporting fatigue on the internal teams tasked with the build-out.*

*To date, SFTR has continually been the can kicked down the road. At Standard Chartered Bank, we are closely monitoring the dialogue between ESMA and the industry bodies like ISLA and ICMA to ensure number one does not happen.*

*Regarding my second point, SCB has ample experience with previous regulatory reform such as EMIR, MiFID, MiFIR and any transaction reporting requirements therewith. We can take comfort that we've been down this road before whilst leveraging our in-house knowledge."*

James Barten, head of agency securities lending, Standard Chartered Bank

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# Post-haste

## Seb Malik of Market FinReg explains the EU's policy objectives when implementing SFTR and recommends firms hurry up in preparing for the regulation

Make no mistake, 2019 will be the year of the Securities Financing Transaction Regulation (SFTR) for thousands of banks, pension funds, insurance companies, funds, lending agents, central counterparties (CCPs), trade repositories (TR) and associated vendors.

The four-letter acronym will be on the lips of over 10,000 firms as they plough resources into projects to enable them to transaction report by go-live, pencilled in for Q1 2020. The estimated €150 million to €200 million day-one cost is testament to the scale of changes required.

SFTR is the most challenging and complicated reporting regime to have been imposed on the securities lending industry. With 153 fields, four tables, six report types, 10 action types and permutations of the same, the European Market Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Regulation (MiFIR) pale into insignificance.

But let us not jump the gun. To truly understand SFTR, one must take a step back and understand the underlying policy objective that this regulation seeks to achieve. After all, under the EU's Principle of Proportionality and Subsidiarity, the EU is not allowed to legislate unless it is truly necessary.

Article 5 of the Treaty of the EU, states: "The union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the member states."

### Genesis of SFTR

On the decade anniversary of the 2008 financial crisis, the phrase 'systemic risk' is no longer confined to the boardrooms of stuffy bankers. Undercapitalised and over-leveraged financial institutions found that during times

of economic stress, assets become correlated leading to defaults, withdrawal of liquidity and contagion. Had it not been for unprecedented internationally coordinated monetary and fiscal intervention, the world's economies would have collapsed. A year later, in 2009, the watershed G20 summit in Pittsburgh convened and agreed on fundamental reforms to prevent a repeat of financial armageddon. The G20 agreed to centrally clear derivatives, with European Market Infrastructure Regulation (EMIR) representing the EU's implementation of the same. They set up the Financial Stability Board (FSB) to better coordinate and harmonise financial regulation across jurisdictions. Basel III was introduced, requiring higher capital and liquidity standards. Banks were deleveraged and better able to withstand a variety of shocks. Risky, uncollateralised lending was substantially reduced.

So how is this relevant to SFTR? While banks may have been made safer, data shows there has been an alarming rise in the non-banking (or shadow banking) sector that has migrated into credit-intermediation, occupying the place vacated by banks.

Pension funds, brokers, venture capital and insurance companies are now mimicking the role of credit intermediation 'the level of which is alarming', according to the European Commission. The European Stability Board's latest EU Shadow Banking Monitor report notes:

- In 2017, the shadow banking held total assets of just over €42 trillion, accounting for around 40 percent of the EU financial system
- European banks remain highly interconnected with the shadow banking system by providing funding to entities engaged in shadow banking activities
- With regard to derivatives and securities financing transactions, risks can arise from the use and reuse of financial collateral



Risk has migrated but ultimately remains connected to the banking sector.

If the shadow banking sector collapses, it risks bringing the banking sector crashing down with it. Welcome Lehman's II.

Worse still, the world's regulators have no way of monitoring or understanding the precise dynamics of the shadow banking sector's credit intermediation and therefore lack the ability to take mitigating action. There is no SFT transaction reporting currently.

Hence, the FSB issued recommendations in this regard (Strengthening Oversight and Regulation of Shadow Banking) and SFTR is the EU's interpretation and implementation of the same. It seeks to ward off the systemic risk. This is the *raison d'être* of SFTR.

## SFTR has three pillars

Pillar 1 is the disclosure requirement. Funds must disclose their usage of SFTs and total return swaps in their biannual reports. This pillar is already live.

Pillar 2 mandates collateral reuse (sometimes incorrectly referred to as rehypothecation) only with permission of the collateral provider. This pillar is also live.

Pillar 3 is SFT transaction reporting. This is the heart of SFTR and its most complicated part. It will provide the regulators near real-time data.

## SFTR transaction reporting

A large number of market participants will be required to report SFTs to an SFTR-authorized Trade Repository (TR) by T+1. Reportable SFTs are: repos; buy-sell backs; margin lending (prime brokerage extension of credit), and securities and commodities lending. Collateral reuse and cash reinvestment will also need to be reported by S+1.

At a high level, new transactions, modifications and terminations thereof must be reported. This will require ongoing trade lifecycle reporting of modifications. For

many transactions daily valuation updates till maturity or termination will be required. One event could trigger four reports. If a brokerage is in an existing stock loan agreement with a bank and subsequently borrows more stock, two reports will be required from each side. A modification report to report the change in economic terms (more stock) and a valuation update report to reflect the new value.

The reporting regime is a two-side reporting regime meaning that both counterparties will have to report their side of the transaction, although financial counterparties will have to report on behalf of non-financial counterparties. Delegated reporting is permissible.

Given that many SFTs will be transacted with non-EU counterparties, the European Securities and Markets Authority estimates 60 percent of reports will remain one-sided.

There are a total of 153 fields spread over four tables.

Table one contains counterparty data, comprising 18 fields; table two contains the economic details of the transaction—99 fields; table three is for centrally-cleared transactions' margin data—20 fields, and finally table four is for collateral reuse—16 fields.

A 'typical' new report would require the completion of between 60 and 130 fields, depending on the product.

## Reporting issues

The word 'data' occurs 1,109 times in ESMA's SFTR draft legislation final report.

Back from the pre-legislation consultation phase, participants have complained that some 40 percent of the data fields will be difficult to source.

Legal entity identifiers (LEIs) have been mandated for 15 different entities in tables one and two ranging from counterparties, CCPs, brokers, lending agents to central securities depositories. Especially in extra-territorial scenarios, not all such entities will have LEIs.

## Policy Objectives

Reporting by T+1 will prove especially problematic where time zone differences exist between, say a Japanese branch of an EU entity and an American lending agent. Similarly, under the current Agent Lending Disclosure (ALD) of counterparties after settlement regime, T+1 reporting is not possible. ALD must be modified or replaced.

Turning to table two, most participants will not currently possess all the required data to complete the economic transactions fields. International Securities Identification Numbers, classification of financial instrument codes, product classifications, collateral type, quality and jurisdiction of issuer are not fields that a typical fund would store. These data would require sourcing or, in the alternative, enrichment via a data vendor.

Close trade interaction and monitoring between counterparties will be required in order to ensure lifecycle event coordination. For example, unique transaction identifier (UTI) generation and correct allocation to trades will require careful coordination. Given that 96 fields will be matched (albeit 32 after 24 months), many to zero or low tolerances, agreeing on, say, the execution timestamp to within one hour, is a novel concept.

Finally, reports must be in ISO 20022 XML format. Smaller funds may require IT expertise.

### Probable ramifications of SFTR

A by-product of SFTR will be faster settlement and post trade processing. Blockchain solutions providers are targeting T+0 settlement.

Linked to this, trades are already migrating to multilateral trading facilities that offer electronification, thereby helping consolidate data for reporting purposes. This trend is likely to accelerate and should be welcomed.

On the flip side, smaller players have already indicated they are likely to pull out of the market, potentially investing in money market funds instead.

The real question is what next? SFTR is merely providing data to the regulators. What will the data show? What

will the regulators do in the years to come? Will the data be sufficiently high quality to allow meaningful analysis? Will the authorities mandate central clearing?

The European Commission has already stated it will set minimum haircut levels once it has analysed the data.

### Start preparing

Banks and the second Markets in Financial Instruments Directive firms are the first entities due to start reporting in Q1 2020 with other entities staggered in three-month intervals.

The first step is to gain a thorough understanding of SFTR via training or in-house counsel. This should be followed by an impact analysis and formation of a project board. The various streams should then perform gap analysis. The project board should make strategic decisions regarding in-house or vendors and the extent of both and then begin remediation work. Users should engage TRs from inception.

Many vendors and TRs will be presenting SFTR products (including my own firm). From an end-user perspective, it is essential to engage in a detailed procurement process. Testing questions should be asked. Glossy brochures need to be carefully scrutinised—is it regurgitation of other's work or does it betray a genuine, original understanding of the regulation? Perhaps the single most valuable piece of advice is: commence post-haste. **SLT**

**Seb Malik**  
Head of financial law (regulation)  
Market FinReg





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# Shaping the future market

Sabine Farhat-Dupla of Murex explains how the changing landscape and increasing regulatory burden in the securities finance industry has put pressure on bank's technology

*Jenna Lomax reports*

## Have you observed a converging of traditional silo business units within securities finance? And what other key trends are you seeing?

From a business perspective, convergence has fast become a dominant trend in the securities finance space. Over the past few years, we have witnessed the merging of securities finance with collateral and funding management for central desks. Today, we are seeing a new kind of convergence between business lines. Traditionally managed in silos, fixed income and equities are now being brought together, giving traders access to a wider range of assets and different financing tools. Moreover, in an era of increasing regulation and collateral scarcity, we observe a growing demand for more unusual assets for collateral and return swaps, which could explain the convergence of both business lines. Facilitating optimisation and collateral arbitrage, the centralised, bank-wide monitoring of assets in a single view, from collateral to equities and fixed income, with pre-packaged solutions, is also part of this new wave of convergence.

From a technology perspective, banks choosing to consolidate their securities finance activities in a single IT platform gain a significant advantage. They can centralise their data, which gives them a reliable and straight-forward way to monitor their activities. At the same time, they cannot compromise on comprehensive coverage across business lines, and technology solutions need to give them the flexibility to grow.

As the industry emerges from a period of stagnation, volumes are rising, and new synthetic products, such as listed total return futures, total return swaps on loans, bond indices and exotic bonds, are being requested more and more. We have observed an expansion in market neutral strategies as well, where there is demand for fully hedged trades and increasing volumes, and we expect this to continue. In this context, having a system that can handle stock loan/repo, return swaps, equities/fixed income, loans and foreign exchange swaps, accurate risk and cost monitoring/transfer, with in-built connectivity to market infrastructure facilities, becomes very attractive.

## How does the changing landscape and increasing regulatory burden put pressure on bank's technology?

The need to centralise data because of increasing regulatory requirements, the rise in volumes and the larger variety of financing tools are putting pressure on technology teams to handle the growing range of products holistically, process data more quickly and safeguard data consistency. If an institution has a patchwork of different systems and modules, this is a difficult task to achieve.

Looking more closely at the regulatory environment, the Securities Finance Transaction Regulation (SFTR) will significantly impact booking models and lifecycle management. Open systems that can manage different types and standards of booking, plus trade lifecycles, will make it easier for financial institutions to maintain profitability. At the same time, it is important to invest in a system that will help you be a responsible reporter with your existing counterparties, with minimal change to your existing processes.

SFTR also increases the complexity of reporting itself as you are not simply booking the trade and then reporting it, as is the case for the European Market Infrastructure Regulation (EMIR). Under SFTR, you need global data to be able to calculate, estimate, and post required information, such as total bank assets to estimate collateral reuse. Single platforms and solutions that enable the centralisation of securities finance, collateral, equity and fixed income activities are well positioned to help financial institutions on the road to compliance.

## What should firms be doing to prepare for the implementation of SFTR?

To prepare for SFTR, financial institutions need to ask themselves where data is located within their organisation. In the market today, it is more common for data to be siloed off in different parts of the business than consolidated in one place that can be easily accessed. The challenge is putting in place an internal structure that closes the gaps between the front, middle and back office. They also need to carefully reflect on the quality of their data and identify exactly how and where

the regulation will impact trading with their counterpart, and if they need to change their business model to reduce potential breaks.

Financial institutions now need to start looking for technology partners that truly understand physical financing, collateral utilisation, closed and open-ended trades, collateral allocations, inventories and settlements. Moreover, they need software solutions that bring together each of these elements, providing a front-to-back view of their business, with native connectivity to trade repositories and reporting hubs.

## Do you think the industry will need to join forces and create the best practice? Is collaboration the way forward?

In a time of significant change, both from a technology and a financial perspective, the industry needs to come together to develop, maintain and enhance market best practices. For European banks, it is vital to make sure a certain level of standardisation is met to be a responsible reporter at minimal cost and avoid losing market share to competitors who are subject to less constraining regulations.

The initiatives of associations like the International Securities Lending Association and the International Capital Market Association bring the industry together, including technology vendors, to examine the data specifications of SFTR and analyse the potential impact on financial institutions. This helps to build a consistent approach to this challenging regulation

and helps shape the capital markets of the future, an important step towards standardisation.

## How does Murex meet the securities finance needs of clients in an evolving market?

Murex's MX.3 platform provides comprehensive coverage across all business lines, with solutions for trading and analytics, post-trade and risk management. This positioning naturally consolidates data and has meant we have been able to meet many of the regulatory needs of the market and evolve to new requirements easily.

Looking specifically at securities finance, the ability to adapt to the needs of our global client base meant we already had flexible booking models and could easily enrich data with new fields. For example, we already provide clients from Asia to Latin America with the capability to book repos and stock loans in the correct way for their geography.

MX.3 for securities finance covers all repos, securities lending and synthetic finance products and supports a wide range of underlying and exposure types. The single platform enables centralised management of securities and cash inventories for trading and margining with enhanced exposure management. Murex has also developed the ability to transfer positions and cost between business units. Moreover, with native connectivity to major market facilities, the solution is SFTR-ready to ensure MX.3 users can meet the requirements of regulators. [SLT](#)



*The industry needs to come together to develop, maintain and enhance market best practices*



**Sabine Farhat-Dupla**  
Head of securities finance product management  
Murex



# COMPLIANCE WITH SFTR TRANSACTION REPORTING FROM DAY 1

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## **Navigating the SFTR landscape**

DTCC's Valentino Wotton talks about trends, trade repositories and the possibility of the regulation going global



## What trends are you currently seeing in the trade repository space?

Trade repositories (TRs) are becoming an increasingly important tool for monitoring trading activity in key markets. Regulators have recognised TRs as essential elements of regulatory compliance because of their ability to consume, validate and store vast amounts of transaction data that regulators seek to monitor and analyse for trends in trading activity and risk.

They proved themselves as effective trade reporting solutions for over-the-counter (OTC) and exchange-traded derivatives contracts, so TRs are now being harnessed to implement Securities Financing Transactions Regulation (SFTR), the new regulatory mandate in Europe and the UK for securities financing transactions (SFT). For example, DTCC created the Global Trade Repository (GTR) in 2012 to help firms meet their derivatives trade-reporting requirements. Today, we're adding functionality so that GTR will also help users comply with SFTR.

Beyond extending TRs' role into a new market, the other notable trend is TRs with the capacity not just to collect and store massive volumes of data but also to enhance the quality of that data and analyse it. TRs that offer this added value can enable users to sharpen their market intelligence and reduce trading risks. Through its new portal GTR offers custom search capabilities along with detailed statistics on things like industry and client overall matching rates, the top five reasons for rejected submissions and historical statistics.

## How has the TR landscape become more competitive?

More TRs have come to market over the past few years, both in existing jurisdictions as well as in a growing number of new jurisdictions as regulatory mandates for OTC derivatives expand across the globe. We expect the same geographic expansion will occur with SFTR. SFT reporting is a G20/Financial Stability Board requirement in which EU and UK regulators are first movers with SFTR but regulators in the US and other jurisdictions will most likely adopt similar rules for securities financing transactions in the coming years.

The result is that users now have more choices for their trade reporting. And, while TRs are highly regulated, that doesn't mean all TRs offer the same capabilities or level of experience.

Firms looking to choose a TR to support their trade reporting compliance for derivatives and securities financing should vet their options carefully to identify those that can best address today's evolving regulatory demands.

For instance, look at a particular TR's track record—does it have solid relationships with clients and regulators along with proven data security? Looking forward, can the TR handle compliance beyond Europe if SFT regulation is enacted in additional jurisdictions? And, not least, can the TR support the various potential Brexit scenarios post-March 2019?

DTCC's GTR is arguably the largest and most experienced TR in the market today both in terms of global and the European Market Infrastructure Regulation (EMIR) reporting. In terms of experience, we are simply the most experienced player in the global derivatives processing space. In 2006, DTCC established the Trade Information Warehouse (TIW), a centralised credit derivatives utility, which services 98 percent of cleared and bilateral credit derivatives, valued at \$10 trillion.

TIW set the precedent for collecting trade data in a single place and served as a blueprint for the future of global trade reporting.

In terms of size, our European repository is the largest for EMIR reporting, processing more than 500 million messages a month. We have 6,000 clients worldwide, 3,500 of them in Europe. We have long-standing relationships with regulators and operate in seven jurisdictions around the world, from Europe to North America to the Asia Pacific region.

## What are the main challenges of SFTR? And how does it differ from EMIR and MiFID II?

Coping with high reporting volumes and a large number of data fields will be some of the biggest challenges. Due to the complexities of securities financing, many firms use manual processes in their trading and post-trade

activities. As a result, complying with SFTR will create extreme pressure to automate these processes. For example, SFTR mandates 155 data fields, compared to 129 required under EMIR for OTC derivatives. As a result, firms should seek out TRs that can help them automate, and therefore better integrate their processes with those of the repository.

DTCC's GTR offers a number of features that promote automation and simplify integration with firms' internal processes, such as user-friendly dashboards, ad hoc reporting options and data extraction for exception management. In the future, we plan to add scheduling functionality to create and manage bespoke recurrent reports. GTR also incorporates management information systems that record and track accepted and rejected trade details, and analyse the status pairing and matching of reported trades.

Additionally, firms shouldn't minimise the complexity of the regulatory reporting function they must fulfil under SFTR. SFTR rules are notably more detailed than EMIR and MiFID II for derivatives, in part because they address the very diverse universe of SFT products: repo, securities and commodities lending and borrowing, sell/buy-back, buy/sell-back, margin lending and borrowing. And as we know from experience, these rules will likely be revised and updated over time. Other challenges of this regulation involve pairing and matching and effects on a firm's booking model, agreeing on the unique trade identifier (UTI) and the reuse of collateral.

## How is DTCC working with clients on SFTR?

GTR was built through collaboration with our users and that continues to be our approach as we adapt our infrastructure to accommodate this new trade reporting mandate. As a user-owned and governed TR, which sets us apart from the competition, GTR works with users to develop reporting solutions that integrate with their workflows to ensure compliance with reporting requirements.

In the case of SFTR, we started user outreach early this year and will continue to host SFTR industry user group forums to help highlight industry issues and facilitate dialogue amongst market participants. We have been

engaged with both the International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA) for over two years in preparation for SFTR, as well as prominent industry players, like IHS Markit and Pirum, Equilend and Trax, for a similar period. Engaging through trade associations and within the existing infrastructure helps us work with the market to solve big challenges. For example, how to best exchange UTIs, leveraging the benefit of our experience of operating under the European Securities and Markets Authority's (ESMA's) first systemic risk monitoring regime, EMIR, as the largest trade repository. Between now and mid-2019 we'll be reaching out to users to explain updates to GTR functionality resulting from SFTR. We're making it easy for existing users to extend their service to SFTR by requiring them only to sign an appendix to the operating procedures under their existing contract. Those clients can continue to use existing connectivity with GTR, or connect to us via a number of partner firms.

GTR will conduct a full six months of end-to-end user acceptance testing (UAT) with clients, starting in mid-2019, and will go live as early as possible so that testing in production can start. As we have with other recent large initiatives, we are looking to provide a testing simulator to give firms the ability to begin identifying gaps in their data in advance of UAT. That should be available in the next couple of months.

This launch schedule ought to convince firms to begin their own internal preparations ASAP.

## If firms haven't started implementation, what advice would you give to them?

Don't wait another day. Q1 2020 is the target for the first phase of compliance and will impact investment firms and credit institutions. That date may seem like a long way away, but as we all know, it will be here quicker than we realise and as there is so much to do, you should start now.

Securities finance transactions have never been subject to the depth and breadth of data collection and reporting SFTR will demand, so firms in this market will need to enhance and test their processes for data gathering and, in many cases, retool their workflows that currently sit at the core of the securities finance markets.

## There have been many discussions around collaboration in recent months. In what ways are you seeing firms collaborate for SFTR?

Besides our collaboration with clients, we have strong relationships with leading vendors. GTR already has 150 vendors connected via an established partner programme for derivatives reporting. We are forging additional strategic relationships in the securities financing space to support our mutual clients' SFTR requirements. As of now, these announced partnerships include Equilend and Trax, IHS Markit and Pirum, amongst many other software providers, data aggregators and trading platforms.

Given the ISO 20022 reporting requirements, it's anticipated there will be extra dependencies on technology solutions to facilitate reporting to a TR. Vendors specialising in SFTR are key to the implementation effort for gathering the new data sets and testing against GTR's standards. Our partner programme not only gives users more options for connecting to GTR, it offers us additional opportunities to expand GTR's straight-through processing, reconciliation and data management capabilities and provide seamless links to mutual clients' existing infrastructure.

Alongside cost-effective vendor connectivity, we regularly share insights with our partners and contribute to each other's SFTR working groups. Collaboration within an increasingly connected ecosystem is vital in delivering an SFTR solution that adds real value to the end user.

## How are TRs preparing for SFTR?

All TRs that plan to seek authorisation to provide SFTR reporting need to become intimately familiar with the detailed requirements of the regulation. One challenge here is the fact that the regulatory details, namely a number of technical standards, are not nailed down yet and are still awaiting approval by the European Commission. So, ongoing vigilance in monitoring the reporting requirements is important.

Overall, though, it's clear that, structurally, SFTR is quite similar to EMIR for derivatives. For instance, parties

must report details of the conclusion, modification and termination of any SFT to a TR by no later than T+1. The regulation includes a dual-sided reporting obligation. Open positions need to be backloaded to a TR. Reports need to be paired and matched, with very tight tolerance levels.

This similarity between the regulations means that TRs' existing functionality can be adapted fairly easily to cover SFTR. For GTR, this fact is allowing us to focus our preparation efforts on the user community. Besides our extensive UAT programme, we offer a GTR training certification to users and are giving them early access to our testing simulator.

Our industry forums will continue to address questions and challenges around SFTR compliance, and our global client support team is always available to answer users' questions.

I should also note that, while it wasn't specifically designed to accommodate SFTR, the global portal we built for GTR last year will yield positive benefits for SFTR users. The portal is self-service and enhances the user experience by consolidating functionality at a single entry point. The portal gives users direct, electronic access to the data stored in GTR, which means they can control the content, number and frequency of reports we produce.

## How will DTCC's GTR help users once the regulation moves beyond Europe?

We expect jurisdictions beyond Europe to enact reporting requirements for securities financing transactions over the next few years. Firms with global trading activity should keep this point in mind in choosing their TR for SFTR reporting.

A repository like GTR with global experience and operations has already weathered numerous regulatory changes and has established long-standing relationships with dozens of regulators. GTR has a proven capability to adapt its functionality to accommodate the unique requirements of different jurisdictions and also to help users build flexible compliance frameworks suitable for multiple sets of rules. **SLT**



# ACT for SFTR

Dean Bruyns of Broadridge runs through the pillars of ACT: three guiding principles to help with firm's regulatory reporting

Regulators demand that reporting be accurate, complete, and timely. This conveniently lends itself to an easily remembered acronym: ACT. When determining your regulatory reporting strategy, ACT is short, simple and significant, and should be your guiding principle.

However, unlike other regulations, ACT for the Securities Financing Transactions Regulation (SFTR) is often a side conversation, with most of the airtime given to daily operational functions like matching and reconciliation.

These activities are of course important. However, regulators have indicated that they want reporting to reflect what is in firms' books and records, rather than have data copied or manufactured in an attempt to improve matching rates.

Market participants should adopt a generic reporting strategy and process that can be implemented

universally across client bases and that can cover all trade scenarios. Once you have established this base, you can then adapt the support services to cater for the different flavours of counterparty and trade flows.

It is equally important to build an all-inclusive and robust reporting infrastructure around the business, which follows ACT principles as its pillars for compliance. You can then use specialist service providers to complement the function, not determine it.

### Accuracy

Accuracy means reporting your books and records, including imperfections, even if they don't match your counterparty's version of events.

From a regulatory perspective, a fully matched report is not necessarily an accurate or compliant one.

## Accuracy first, matching and reconciliation second

When you create too much pressure on matching and reconciliation and that becomes the primary focus, you run the risk of forcing a match, when in reality it may not exist. The regulator has made it very clear that they want to see your book, as you genuinely see it. You cannot fudge, fix or fit it into a report that doesn't represent the truth.

## Completeness

Completeness is a principle upon which the industry is spending significant time and focus. The data field analysis market participants and industry associations are undertaking is yielding informative results. This analysis is raising further questions and prompting discussion on where gaps exist and where enrichment and derivation is required. The progress and direction in this principle are sound and should continue along this vein.

A recent example of completeness under discussion is the backloading obligation. This requires the firm to manage most open pre-go-live trades as a separate trade population and exclude them from reporting. The exception to this is when they meet the criteria for the 180 day rule. For convenience, some counterparties are tempted to report their entire book at go-live, rather than manage the back loaded trade population separately. Aside from unnecessarily enlarging the exception queue, this takes completeness a step too far and would constitute over-reporting.

A first-rate regulatory reporting specialist, with experience of helping clients report accurate, timely and complete data across multiple jurisdictions, will help you to effectively manage your backloaded trade population.

## Timeliness

Last but not least, is the principle of timeliness.

Efficiently managing the relentless waves of data will require a dialled-in reporting infrastructure, collaboration between service providers and no time wasted on superfluous tasks.

Time and resources are scarce, so it is vital to carry out a detailed analysis to assess the level of reporting effort the firm can perform within the restraints imposed. This is particularly true for those considering additional workflows that are not required by the regulator. You must not allow these superfluous factors to impede your progress or delay your counterparty in meeting their reporting obligation.

Those mandated by the regulator to generate and share Unique Transaction Identifiers should also do so quickly and freely, while those under contractual obligation should adopt the same sense of urgency.

Demand timely collaboration from your service providers and insist on trading with responsible counterparties who are proactive in their approach to reporting so that no time is lost and the wheels keep on turning.

Use ACT for guidance whenever regulatory reporting decisions have to be made and the consequences evaluated. Follow your intended roles and responsibilities as determined by the regulator and let others fulfil theirs.

## Don't overcomplicate

The ability to create a consistent and universal reporting methodology which does not compromise on accuracy, ensures completeness and meets time constraints, will be a core competence in the new era. It is important to keep it simple, avoid getting side-tracked and follow the principles of ACT to keep you compliant. **SLT**

**Dean Bruyns**  
Senior product manager  
Broadridge





# A significant challenge

Fabien Romero of IHS Markit and Robert Keane of Pirum Systems run through the challenges of regulatory reporting and urge firms to analyse SFTR now to ensure they are taking efficient, well-informed decisions

## What is the SFTR?

As part of the policies identified by the Financial Stability Board (FSB) to increase transparency across Securities Financing Transactions (SFTs), the EU introduced the Securities Financing Transaction Regulation (SFTR). The regulation includes a number of new rules for market

participants including a requirement to report all SFTs to an approved trade repository (TR) under article 4.

The reporting challenge itself is significant given the granularity of data that is required. When you look at how reporting fits in with the pre-existing securities finance industry processes, the challenge ultimately requires

participants to review, and in many cases, revise their existing data architecture.

## Which firms have to report under SFTR?

- Both financial counterparties (FCs) and non-financial counterparties (NFCs)
- EU-based entities including their non-EU-based branches
- Non-EU entities where the SFT is concluded by an EU-based branch

## Can firms delegate reporting?

We believe that a large number of EU buy-side firms (insurance firms, UCITS, Alternative Investment Fund Managers (AIFMs) and pension funds) will wish to delegate their reporting requirements to their custodian, third-party lending agent, or prime broker. However, if they act as a principal (direct) lender, they will likely have to set up their own reporting solution. In either case, the responsibility for reporting will remain with the buy-side participant, highlighting the importance of traceability and data integrity for reports submitted on their behalf. This constitutes a significant effort regarding data collection and submission to the TR.

## What type of transactions are in scope?

- Repo and buy/sell back
- Securities loans and borrows
- Commodities loans and borrows
- Prime brokerage margin lending
- Collateral re-use

## Can you provide a high level of overview of the reporting requirements?

- All new SFTs and any modifications and terminations of existing SFTs must be reported daily
- T+1 for transactions
- T+1 for collateral known at point of trade
- S+1 for collateral known at settlement
- Trades with maturity greater than 180 days at go-live
- Open trades at go-live that are still open after 180 days to be reported by the 190th day

- Up to 153 fields depending on product and report type
- 40 percent of fields are not readily available
- Unique transaction identifier (UTI) required for all transactions
- Extensive use of legal entity identifiers (LEIs)
- Data to be reported in ISO 20022 format

## How many of the reportable fields are reconciled?

- 96 fields reconciled in two phases, comprised of three counterparty fields and 93 loan and collateral fields
- 62 fields must match from day one of reporting go-live
- 34 fields must match 24 months after the day of the final phased reporting deadline
- 84 fields have zero tolerance for matching
- The TR are mandated to reconcile the transactions reported to them directly (intra) and reconcile transactions sent to other trade repositories (inter) as part of the two-sided reporting requirement

## Will the high number of reportable fields and matching pose a challenge to the industry?

Yes, the data gathering exercise will be one of the most significant challenges for the industry as securities finance systems tend to be fragmented with no one system having a complete view of all the data required to complete a single transaction report. Counterparties will need to source disparate and unstructured data both internally and from industry utilities such as central counterparties (CCPs), tri-party agents and third-party data vendors.

Tackling the challenge was one of the underlying reasons IHS Markit and Pirum agreed to work jointly on an SFTR solution—both firms already receive extensive sets of securities finance data from firms using their existing services, which participants can leverage to reduce the data collection and enrichment burden they face for the SFTR.

Additionally, we frequently see misalignment in transaction booking best practices. Some common examples of booking discrepancies include:

# Reporting Challenges

- Partial returns: where one counterparty books a decrease of an existing trade and the other a full return and a replacement new trade with a reduced quantity
- Price reference: parties using different pricing sources, or drawing the prices at a different time
- Execution timestamp: one party booking a trade immediately after agreement and the other a few hours later
- Corporate actions: disparities in booking practices generating differences in timestamp or trade date information

These are only a few examples of why the two sides of a trade will potentially break on some of the 96 reconcilable data points set by the technical standards.

## What's the difference between reconciling pre-reporting and post-reporting?

The reconciliation requirement under SFTR is also a potentially arduous task with data sent into the TRs by two counterparties reconciled within extremely narrow tolerances defined by European Securities and Markets Authority (ESMA) and any resulting breaks distributed to each counterparty to resolve. This process relies on both parties providing matching UTIs on their separate reports to achieve a basic match before field level matching is even considered, with a mismatch in UTIs leading to positions failing to pair within the TR. Additionally, in order to accommodate for data at multiple TRs the reconciliation runs in two phases: with an intra-TR reconciliation performed by each TR followed by an inter-TR reconciliation between the TRs where they share data based on an exchange of UTIs and LEIs to determine where both sides of a trade sit. The overall process means full reconciliation results are only available on T+2 at the earliest.

As part of the IHS Markit and Pirum SFTR solution a pre-reporting reconciliation has been included to allow participants to match their data prior to reporting it to a TR and as close to T+0 as possible to allow them the chance to resolve breaks before their positions are reported. It will also allow participants to confirm they are both using the same UTI on their reports to the TR to ensure they don't have reporting breaks.

Being able to identify these breaks and correct them before they reach the TRs will be crucial to sending good quality data. TRs will run various reports for ESMA and the national competent authorities (NCAs), including reconciliation ratios. Participants in scope for SFTR should endeavour not to be the outlier and expose themselves to unnecessary added scrutiny.

## What other factors are going to add complexity for market participants?

The timing of the data collection and reconciliation for submission to TRs by midnight on a T+1 basis is a challenge; automation and a rule-based approach is the only viable option. When looking at the workflow for SFTR reporting, you have three elements in the ecosystem—the market participant, the system or vendor facilitating the reporting, and the trade repository. Both market participants and vendors should be working with trade repositories when implementing their solution to help produce accurate, matched and timely reporting data.

## Has there been much industry collaboration for SFTR?

We know from experience that collaboration drives innovation, while creating greater value for more stakeholders across ecosystems.

Vendors are collaborating and having open discussions with each other about how to best serve their clients and this marked one of the reasons as to why IHS Markit and Pirum decided to work in partnership on their SFTR solution so that each firm could bring their respective strengths to the different challenges of reconciliation and reporting.

Many vendors also continue to publish informative content online and run workshops to increase awareness and understanding of the regulation. Similarly, industry associations such as the International Securities Lending Association, the European Repo and Collateral Council, the Association for Financial Markets in Europe and the Alternative Investment Management Association are working with their members to tackle issues the regulation poses and have set up several working groups to facilitate these discussions.



Market participants themselves are assigning considerable resources to internal projects to ensure they meet their requirements. All of this has been happening despite the resource constraints firms faced on the heels of European Market Infrastructure Regulation rewrites, the second Markets in Financial Instruments Directive go-live, the General Data Protection Regulation and the upcoming Central Securities Depository Regulation.

As a result of SFTR, the securities finance industry has embarked on an industry-wide transformation, which in the long term will bring greater transparency to the repo and securities finance markets.

### **What are IHS Markit and Pirum doing as a market intermediary to help their clients and the wider securities finance industry with SFTR?**

One critical aspect of the SFTR project is the need for massive scalability. The advantage of a diverse set of design partners is immense, allowing us to build a solution with the confidence that it will deliver for individual client needs, as well as the total potential scale of reporting across the industry.

The wide range of firms across the value chain signed up the solution including agent lenders, borrowers, broker dealers as well as our engagement with CCPs, trading platforms, tri-party agents and trade associations has allowed us to tackle a lot of issues head on and gain a consensus on several difficult topics.

The regulators' ambitious objectives have led to a lack of clarity on reporting obligations and the build effort required to comply with SFTR. The broad nature of the requirements and large number of required fields, along with the consideration that within a single entity there will be multiple data reporting lines means a potentially costly implementation for firms. In the regulation, we see an opportunity to cut through the complexity and deliver a modular, end-to-end solution for the market.

### **Can you shed any light on the proposed go live date?**

A couple of months ago, the European Commission announced that they would be looking to adopt the

draft regulatory technical standards and implementing technical standards, providing ESMA made some proposed amendments surrounding the future endorsement of the use of LEIs and UTIs. ESMA recently rejected this proposal, which has the potential to delay the formal adoption of the level II legislation, unless the European Commission choose to proceed with the text as it stands. If the European Commission makes amendments, then we still have the Parliamentary and Council scrutiny period and adoption process, which will take around three to four months. If there are no additional delays we would expect the standards to enter into force some time during Q1 2019.



### ***SFTR poses a significant challenge to the industry with far reaching operational implications***



The first phase of reporting will come into effect 12 months after the level two technical standards come into force, which would therefore result in a Q1 2020 go live date. However, as things stand now, we need to wait and see.

### **What should in scope participants be doing now?**

Some firms have not yet started their analysis of SFTR due to the focus on other regulations and the fact that the go live date appears far away. However, SFTR poses a significant challenge to the industry with far reaching operational implications, therefore, the earlier the regulation is addressed, the more efficient and well-informed decisions the firm can make. Implementing SFTR from a technology perspective will require significant effort, so participants need to start preparing for this now. **SLT**

# Keeping SFTR under control

Jonathan Lee of Kaizen Reporting explains how simple measures can prevent your firm from tripping on any banana skins and put you in a more positive position during SFTR implementation

Securities Financing Transaction Reporting (SFTR) represents a significant change in the way we do business. This is not a one-shot implementation; firms must take this opportunity to implement controls to enable them to evolve their businesses for the better.

## European gold plating

The greatest challenge of SFTR is the extent to which European regulators seek to 'gold plate' the global guidelines. The Financial Stability Board (FSB) stipulate the need for a retrospective, periodic, single sided, settled position level reporting that can be readily aggregated regionally and globally.

The European regulation sets out the need for very granular, daily, two-sided, trade and lifecycle event level reporting.

## Make your controls count

Rome wasn't built in a day; we are embarking as an industry on a long-term project as SFTR initiatives kick-off. SFTR is not going to be an immaculate implementation. However, some simple measures can prevent your firm from tripping on any banana skins and put you in a more positive position both with regulators and your business.

In this document, we focus on four simple pillars of control and the pragmatic steps you can take as part of a quality assurance strategy in order to ensure the most compliant and efficient SFTR delivery.

## The four pillars of control

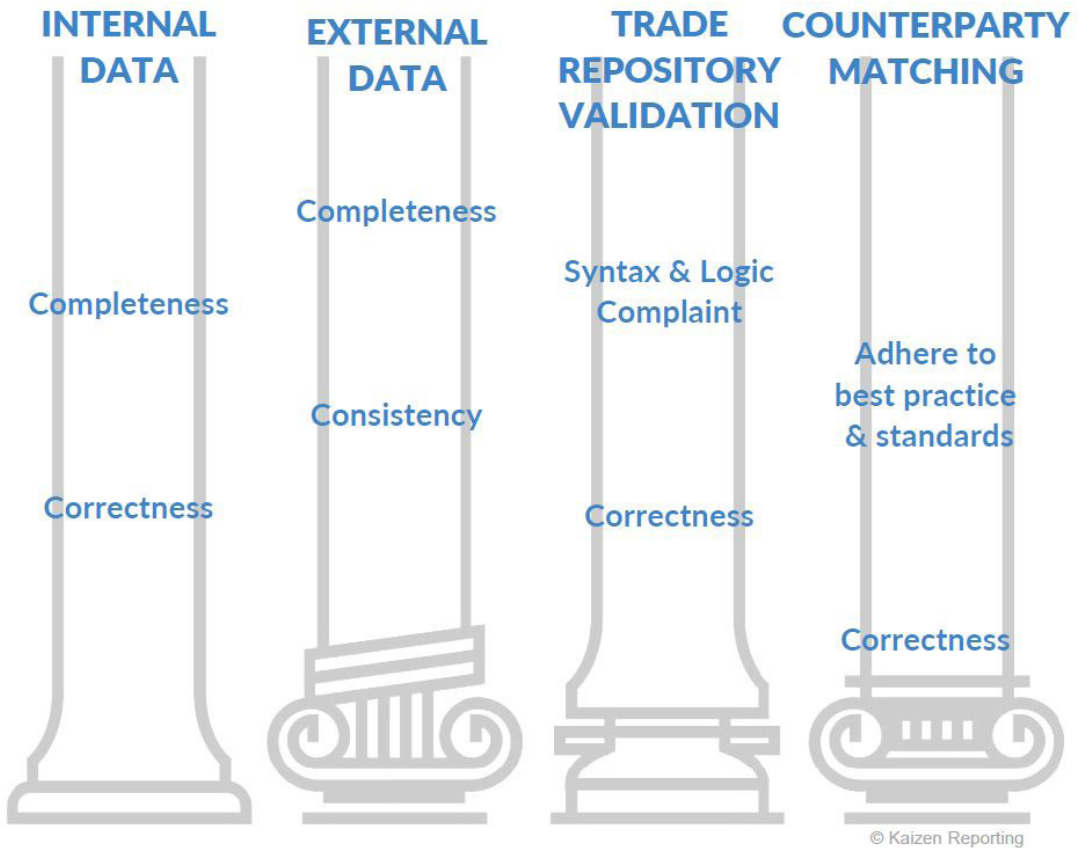
SFTR is both a complex build and initiative to manage post-go-live. There are many elements to attempt to control.

**Internal data:** Is your internally sourced dataset complete? Accurate in its capture and a correct representation of the market? Is the data available on a timely basis for reporting? Is data consistent across lines of business? Are you applying calculations such as re-use estimation fully at the legal entity level? Is your trade repository report accurately reporting trade capture and is it consistent with a firm's books and records? Are you accurately capturing the securities financing contractual obligations of the firm (are you confident that all of the firm's trades are booked correctly)? How robust is the firm's reference data?

**External data:** Are you in receipt of complete, accurate and timely data in relation to beneficial owners, collateral and loan allocations, triparty/DBV allocations, central securities depository (CSD) securities borrow programmes, CSD auto/self-collateralisation transaction details? This data must also be reconciled against internally sourced data to ensure consistency in pricing and classification. Decisions may be necessary across a firm to agree on golden sources for reporting; whether to prioritise internal sources, CSD or venue sources or other external data vendor sources of reference data.

**Compliance with trade repository validation rules:** The current draft of Trade Repository Validation Rules provide both the basic syntax specifications for each field and also the applicability rules (not every action type

## FOUR PILLARS OF CONTROL



is applicable to every table, for example). Furthermore, there is both conditionality to populating certain fields (rates, cleared trades, haircuts/margins and collateral classifications), and the need to respect concurrent timing in some cases in order to capture trade lifecycle events (for example, clearing timestamp must be greater than execution timestamp). There are also different legal entity identifier (LEI) Global Legal Entity Identifier Foundation (GLEIF) status requirements depending on the field, correct case and syntax rules, for example, certain fields accept 'lapsed' LEI while others do not.

**Counterparty pairing and matching controls:** Building controls to ensure that booking models meet contractual obligations, market best practices and industry standards. It is not sufficient to ensure that your own

house is in order if your initial transaction reports and subsequent lifecycle event reports result in repeated trade repository reconciliation queries.

Initial studies (through bilateral reconciliations between banks and investment firms) indicate that if the trade repositories were performing reconciliations today, these processes would fail comprehensively. Lowlights include many instances of counterparties booking entirely different transaction types (for example, repo trades facing securities lending trades). There were instances in which fixed rate trades were booked facing floating rate trades.

There were too many cases in which one party would provide contractual continuity and a single unique

trade identifier (UTI) in making a series of lifecycle amendments while following a re-rating, partial return or a collateral substitution, the counterparty would book a unilateral early termination and a new trade. Under SFTR this would result in potentially a whole string of unmatchable new UTIs as the trade evolves through a series of lifecycle events.

### How is your firm equipped to test and validate itself against these four key pillars?

#### One firm (one legal entity), one report

The repo, securities lending and margin lending businesses (where these exist) have a tendency to be very siloed within an institution, acting as independent business units regardless of the common legal entity within which they trade. When it comes to SFTR, it is important to bring everyone together. Collateral prices and consequently valuations will need to be consistent. Positions will also need aggregating across entire legal entities in order to report a single 'reuse' estimates per security of collateral given/sold in securities financing transactions. Firms should also ensure that all of their inter-entity transactions and lifecycle events match in full (two separate legal entities trading with each other as part of the same group).

This may prove to be a golden opportunity to consolidate operations teams, standardise booking models and possibly trading practices and venues. Greater standardisation and consistency will not only ensure greater SFTR compliance but should also cut cost per trade.

#### Adopt industry best practices

Business today can suffer from being overly manual, prone to error and generally operationally onerous. Firms must look to adopt new industry best practices (as championed by the trade associations International Securities Lending Association, International Capital Market Association and Association for Financial Markets in Europe) for securities lending, repo and margin lending respectively, particularly in agreeing standards for booking practices, consequent transaction reports and the handling of trade lifecycle events. This

adoption and the necessary changes will not take place overnight but it should form part of auditable business plans to be more SFTR compliant in the near future.

#### Venues and vendors smooth the transition

Trading venues have been under pressure to offer more SFTR compliant services in trading SFTs. Further automation of SFT trading through venues should result in a high level of consistency in populating the majority of reportable fields (with the venues becoming golden sources of reference data themselves or effectively outsourcing this component). The venues are also best placed to handle UTI creation and sharing and the tracking and reporting of trade lifecycle events. There will be greater standardisation in products traded but given the relative lack of public trade level transparency, we do not envisage much stifling of innovation.

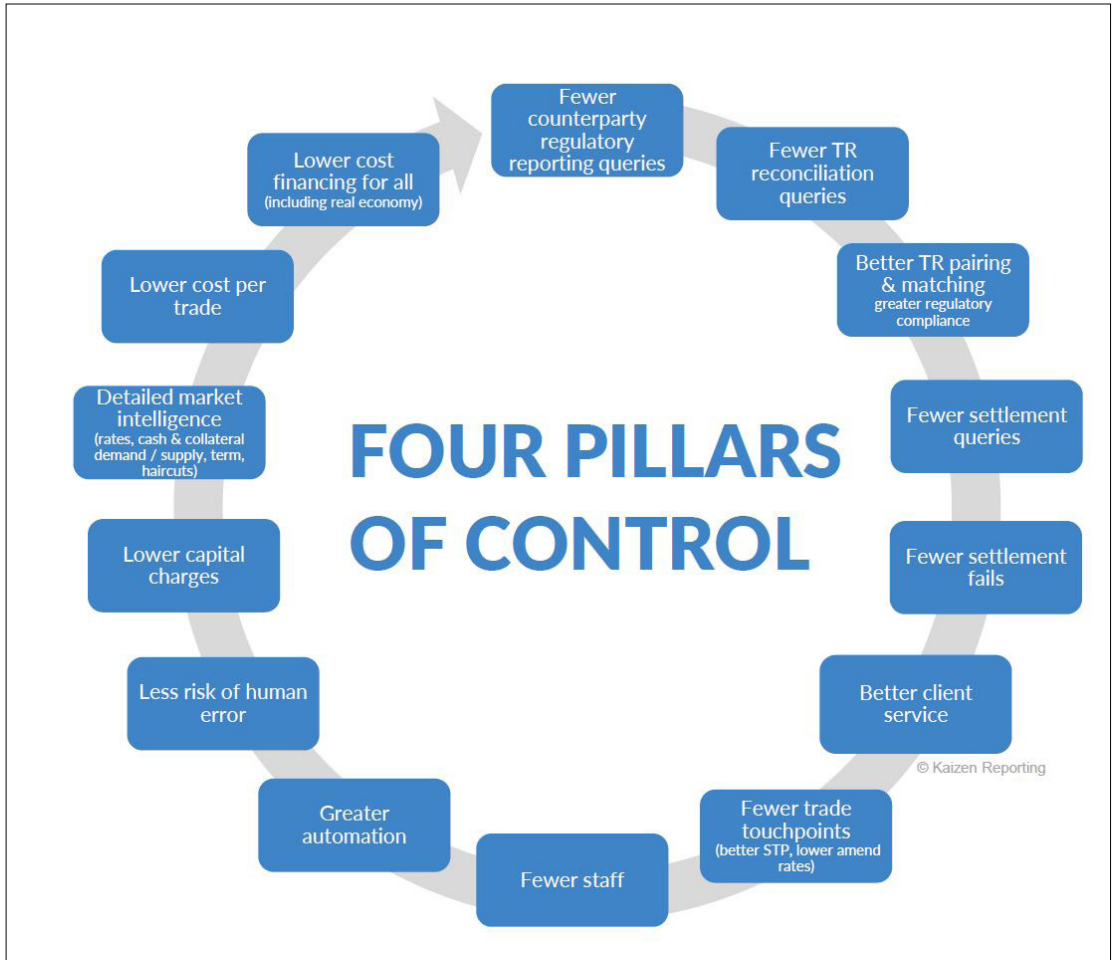
Trade matching, electronic affirmation and contract compare services are also likely winners in this SFTR delivery. While widely adopted by the securities lending industry, there is currently a far lower level of penetration into the repo market. SFTR is the first time a regulatory stick has been waved over this industry and this looks all set to change. There is tremendous value in starting to pair and match your trades close to real-time on trade date, ironing out the common problems in advance of the trade date plus one (T+1) SFTR submission to the trade repository. Booking issues are far easier to address with traders, trade assistants and trade support teams when identified immediately post-execution than several days hence.

The vendor matching services are likely to present the reconciliation results in a more user-friendly way than the trade repositories too.

#### Frequent, independent report testing

The adoption of frequent, independent regulatory testing will keep technology and operations teams on their toes in ensuring that SFTR is not a one shot, fire and forget delivery.

Early pairing and matching rates at the trade repositories are unlikely to be pretty and senior managers will be held to account in ensuring that an appropriate level of



incremental delivery and remediation is in place to satisfy local competent authorities and European regulators.

Many of these changes will improve business efficiency through greater automation, standardisation and consequently rates of straight-through processing.

Indeed, using independent regulatory testing to ensure that these evolutionary and iterative improvements remain on track is likely to be key to a business's success and should help offset many if not all of the SFTR associated costs in the medium to long-term.

We would go further to suggest that firms look to internalise business model changes for SFTR while outsourcing the quality assurance layer. Independent, frequent regulatory

testing capitalises on the significant economies of scale on offer (with a corresponding sizeable reduction in a firm's overheads) while taking full advantage of the depth of expertise offered by a regulatory testing boutique.

Outsourcing also provides a unique opportunity to provide objective benchmarking of the quality of your regulatory reporting versus peers—something that is otherwise largely unavailable to firms.

Also, independent regulatory testing is highly valuable in meeting senior manager regime obligations, addressing concerns around evaluating the performance of operations teams and in providing appropriate management information to ensure continual improvement in rates of SFTR compliance. **SLT**



# SFTR: an opportunity for the buy side?

Buy-side firms must continue to drive forward with their preparations for SFTR as the new regulation is significantly more complex than MiFID II, particularly its impact on the repo market, writes Godfried De Vidts, director of European Affairs at NEX

The latest piece of the regulatory jigsaw that underpins the European Commission's ongoing project to enhance market transparency and strengthen investor protection, the Securities Financing Transactions Regulation (SFTR), arguably represents the industry's biggest challenge yet, pertaining as it does to a market segment that has historically been lightly-regulated and under-reported.

SFTs are defined as any transaction where securities are used to borrow or lend cash. Addressing the repo and securities lending market, along with the reuse and rehypothecation of collateral, SFTR seeks to lift the veil of opacity that hangs over the shadow banking sector, address reporting deficiencies therein and accordingly grant regulators a clearer insight into flows of money to the real economy.

An important conduit for alternative sources of credit, the sector also has the potential to be a wellspring of financial instability and systemic risk—and whose growth in size to around half of the regulated banking systems has alarmed the European Commission and Financial Stability Board (FSB).

With its focus on the risks associated with non-bank alternative credit provision, SFTR has been described by the European Securities Market Association (ESMA) as “pivotal for financial stability”.

One of the most important and liquid types of transaction covered by SFTR are repo; sell/buy-back transactions, (repo agreements, the majority of which

are documented) and margin lending transactions also qualify as SFTs under the new regulation.

Pivotal to the efficient working of almost all financial markets, repo has a range of critical functions: providing an efficient source of money market funding, offering benefits in respect of liquidity and hedging; facilitating central bank operations, fostering price discovery, preventing settlement failures, and—an ever more important consideration—enhancing the efficiency of collateral management. The International Capital Markets Association values the repo market in Europe alone at €7 trillion or 21 percent of EU banking assets, securities lending and borrowing, by comparison, tops out at around €2.5 trillion.

Given its status today as ‘the new cash’, it is no surprise that collateral is a key focus for SFTR given that it makes an important contribution to greasing the wheels of securities trading.

SFTR is closely aligned with the derivatives-focused European Market Infrastructure Regulation (EMIR), not least in respect of the prescribed use of ESMA supervised trade repositories (TRs) such as NEX’s own TR. Under EMIR, these play a pivotal role in enhancing transparency of derivatives markets and help identify risks to financial stability by collecting and maintaining records of contracts. The hope is that, with EMIR serving as a blueprint, SFTR might avoid many past implementation pitfalls.

SFTR will impact all EU financial and non-financial counterparties that are active in the repo, securities lending, and commodities markets. It also extends to all their branches inside and outside the EU, and any counterparty established outside the EU transacting SFTs through an EU branch.

For its part, the ICMA’s European Repo and Collateral Council (ERCC) describes SFTR as “one of the most significant operational challenges for SFT markets”, and stresses it will demand “close cross-industry collaboration”. Unlike the reporting of securities lending/borrowing transactions, where there is already an ecosystem of providers and consequently a solution has organically evolved out of existing connectivity and workflows, repo reporting is more problematic. Years

of underinvestment on the operations side by buy-side firms means it remains essentially manual in nature, although there are solutions in the marketplace to help them to address these shortcomings.

SFTR reporting demands an increased depth and granularity of data—no less than 153 data fields need to be populated (EMIR requires 129). Furthermore, data accuracy also calls for data lineage, and that ability to track data back to its source, sometimes over many years, represents a significant hurdle. For repos, loan and collateral data alone will require 70 fields to be populated, when collateral reuse is added to the mix, that figure rises to more than 90.

The required list of data elements remains a working progress, with ESMA still working on validation rules.

Under SFTR, transaction reports must be sent to a recognised TR no later than the following working day (T+1 basis) after an SFT is concluded, modified or terminated. Collateral not known by T+1 must be reported by the end of the following working day after the settlement/value date of the collateral (S+1), collateral allocated on a net exposure basis and not explicitly linked to a SFT must be reported independently. According to ESMA, required details will include the relevant terms of the repo, the stock or margin loan, the composition of the collateral, whether the collateral is available for reuse or has been reused, the substitution of collateral at the end of the day, and the haircuts applied.

There is a significant focus within the industry on the time of reporting: voice-brokered transactions can take up to nine hours, for instance. So the mandatory use of timestamps to monitor the difference between execution and clearing times is an important step. Under SFTR, execution timestamps will need to be reported within a tolerance of one hour.

That is straightforward for trades executed on a trading platform or venue, but potentially more complicated in the case of bilateral off-platform trades, where there is no established market practice around when to record booking times. However, tightening up practices in this area will only boost the electronification of the markets, and further enhance their integrity.



SFTR implementation will be phased—and as the first wave of counterparts, banks will be required to start reporting 12 months after approval of the final regulatory technical standards (RTS) and the implementing technical standards. However, central counterparties and central securities depositories will only be required to start reporting 15 months after the RTS are approved. Ideally they would be going live with the banks on day one, given their integral role in the reporting process, and it is generally accepted that these separate phases will indeed be combined when SFTR does come into effect.

Replicating the tried and tested solution for EMIR, NEX's own approach takes the form of a centralised service model in the shape of the triResolve portfolio reconciliation network. Comprising over 2,100 groups, it not only allows firms to easily access all their counterparties in one place but also solves the problem of unique trade identifier (UTI) sharing, as data can be sourced from one place. UTIs may also be generated where none is available in the trade confirmation message.

As with EMIR, dual reporting is another key element of SFTR (Dodd-Frank, by contrast, requires reporting only from one-side of the transaction). While improving depth and quality of data, the two-way approach does leave the system vulnerable to mismatches, potentially intensifying firms' regulatory reporting burden.

Mindful of the additional reporting pressures, ESMA has sought to maximise overlaps and minimise inconsistencies between the technical standards. The consensus view is that it would be a mistake for SFT counterparties to assume the EMIR reporting model can be simply transposed to comply with SFTR.

SFTR reporting can be undertaken on an in-house or a delegated basis. However, if firms choose to delegate, they will retain responsibility for ensuring the accuracy of trades reported on their behalf, and must reconcile these with their own records. Penalties for misreporting are expected to be severe, and in addition records must be kept for a minimum of five years.

The ERCC has made the reduction or elimination of matching fails one of its key priorities. To this end,

last year NEX TriOptima launched a bilateral repo and buy/sell back trade reconciliation exercise to identify, among all ESMA's proposed reporting fields, which fields were most likely to cause problems when it came to reconciliation. Based on the subsequent findings, market participants are looking to develop additional guidance and market practices for critical reporting fields and transaction types to mitigate any excessive future operational burden through the ERCC SFTR task force.

The reconciliation exercise encourages the exchange of transaction data on a bilateral basis and to populate as many fields as possible. After a slow start, it has gained momentum, with a growing number of market participants, including vendors, now being integrated into the ERCC's task force, in turn enriching the dialogue on reconciliation.

In conclusion, it is clear that buy-side firms looking to comply with SFTR would benefit from consulting with reporting providers who possess proven regulatory expertise, as well as regulators and bodies such as International Capital Market Association, International Securities Lending Association and Association for Financial Markets in Europe.

They would be advised to press forward with their preparations to avoid the kind of last minute rush that characterised the run-up to the MiFID II deadline, particularly given the significant complexities that exist around repo as we transition to SFTR.

Undoubtedly, SFTR presents clear challenges, but if short-term pain is inevitable, so is a longer-term gain, specifically the harmonisation of market practice and a renewed focus on operational efficiency and consistency.

The enhanced transparency SFTR brings will also be extremely beneficial in helping buy-side firms understand the proportion of collateral they hold.

Loans unsecured by collateral are expensive, so there is a financial benefit having total clarity regarding what collateral can be realised, be it equities, bonds, corporate bonds or letters of credit. That ability to more effectively use collateral will transform the industry. **SLT**

# The changing landscape

With the securities finance industry about to go through possibly the largest round of regulatory driven change, David Field of The Field Effect discusses how it will affect the market

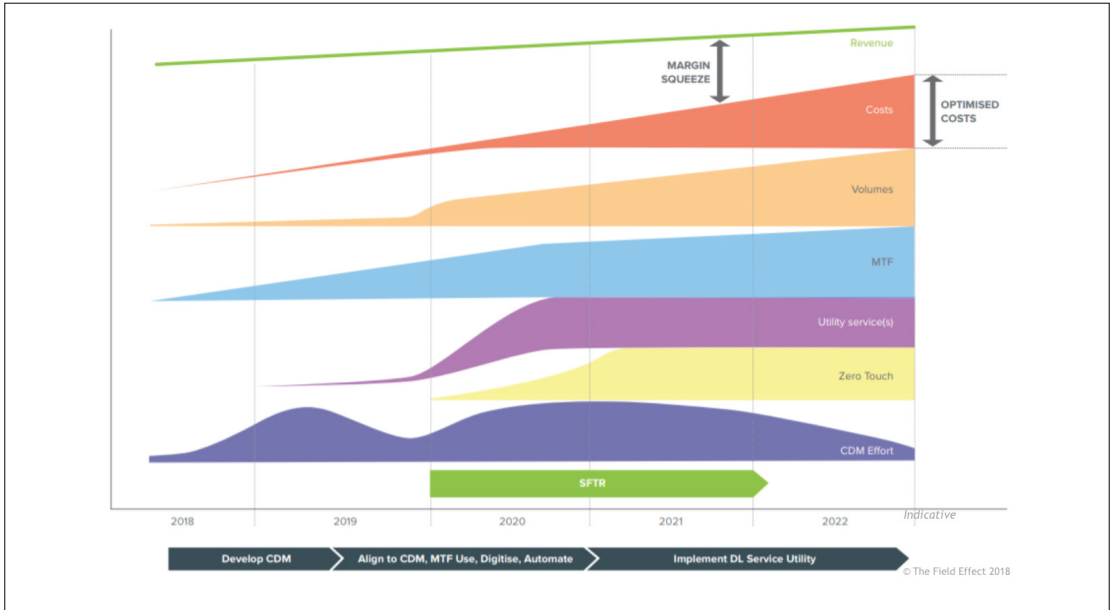
Securities finance is not immune to the changing forces seen within financial services, particularly those around regulation, technology, competition and shifting demands.

At The Field Effect, we've looked at some of the challenges ahead, and how the industry will evolve to deal with these. Are you ready for them?

The industry is about to go through its latest, and arguably the largest round of regulatory driven change in the shape of the European Union's Securities Financing Transactions Regulation (SFTR) reporting requirements—the EU's implementation of the Financial Stability Boards (FSBs) transparency requirements in securities finance. With other jurisdictions starting to consult on implementing the FSB requirements, this is expected to, in some form, rollout to the G20 over time.

## The margin squeeze

Although margin erosion isn't a new phenomenon, we expect this to accelerate as firms absorb the costs of regulatory compliance, and struggle to deal with the increasing costs of servicing legacy technology. SFTR, along with Brexit, brings new pressures on a firm's business model. Aside from significant compliance implementation costs, firms are facing increasing running costs through



additional trade repository and vendor charges, and new regulatory reporting processes and controls. These, alongside an explosion in reporting volumes (versus booking volumes)—firstly to deal with beneficial owner disclosure and multiple reportable events on trades, and secondly to counter the margin squeeze by increasing volumes to deal with lower margins—will produce a perfect storm. Factor in Brexit bringing in new teams to support local EU activity and back-to-back trading with existing entities—it will all add to the cost pressure.

In our opinion, the industry simply isn't efficient enough to support everyone in the future. Currently, there are too many participants in the value chain, and this is likely to be exacerbated with SFTR, increased clearing activity, new trading platforms and technology providers.

This will lead to firms assessing the viability of their securities financing business and increased competition amongst industry players to capture flow—itsself feeding back into the margin pressure. Of course, firms will look to pass on some, if not all of this cost to their clients—and the impacts on clients will be similar. They are also likely to look for alternative lower cost solutions or reduce/stop their securities finance activity.

## Dealing with the squeeze

Firms should be adapting their business models now in anticipation of the introduction of SFTR, but most are not. Inevitably, inertia, resistance to change and the desire to maintain the status quo prevail. Firms that adapt and change their business models early will help delay the onset of any pain that is experienced in the industry. However, many firms aren't adapting quickly enough, and the changes being made may help buy time, but delay the inevitable.

So, what should firms be doing to deal with these future challenges and how will technology play a part in the industry?

There are still too many manual touch points in securities finance, often exacerbated by legacy technology platforms—some of which date from the early 1990's. However, the cost of replacing that technology is often prohibitive. The budgetary hurdle will only increase as

time goes by, making it harder for firms to justify the cost of replacing systems when profits themselves are reducing and competition increasing.

Forward-thinking firms are looking at the use of zero-touch processing. This goes beyond straight-through processing (STP) and includes the pre and post-trade client engagement—with fully automated order management, trading, life-cycle events processing and exception handling. Clearly, this will have benefits in an SFTR and CSDR world but will take time to implement and is not supported by current systems functionally and industry best practices. Robotics will help with some of the strain in automating processes in current platforms, but while this is relatively quick it's not a sustainable fix to the problem.

The start of zero-touch is in the use of multilateral trading facilities (MTFs) and/or exchanges to automate trade processing. Firms, driven by the second Markets in Financial Instruments Directive (MiFID II) best execution have already made headway with this, and its expected to increase further in the build-up to SFTR going live. While this is increasing, there has often been slow uptake - driven by two factors. Firstly, incentivisation within the front office and secondly, opportunity. The first can be tackled by the individual firm's incentive models. Ask yourself—where an MTF is available, why isn't 100 percent of the relevant trading activity done on it? This is often because of behaviour within the front office and firms should look at how they structure teams and incentivise them to change this. The second will be driven by the relevant platforms that clients demand—is it a liquidity issue or functionality, and can this be tackled bilaterally or at an industry level to support the development and use of platforms? We've seen regulators push for more exchange trading of products in the derivatives world, and securities finance won't be an exception to this and will likely be a focus post-SFTR go live.

As firms grapple with zero touch and MTF use, reporting volumes will be huge compared to current trade booking volumes—we estimate that this will be at least 500 percent greater—driven by beneficial owner bookings of agent lending trades, and life-cycle events creating multiple reports per trade. Firms currently struggle to deal with the volumes that they have, and contract

comparison focused on risk and economic fields—unlike transaction-based reconciliation with very low tolerances as prescribed by SFTR. Reviewing these volumes and the expected breaks against your current processes will help you identify where issues are likely to occur and remediation to these processes should be prioritised, including any necessary automation and additional controls needed to deal with them.

Firms will also need to be more closely aligned with industry best practices. Alignment to industry best practices across the industry is at best, inconsistent. Ideally, firms will adapt their processes to the industry best practices, but again driven by current operating limitations and technology, they are often looking to report to these standards rather than fix the problem at source. For example, some firms book repo rolls by amending the maturity date, others by terminating and booking a new trade.

The industry standard is clear, and the reportable events required for SFTR purposes will be defined. Where booking processes differ, there will be a break at the TR and the firm with the incorrect process will either need to align to the industry best practice or create the correct reportable event and manage that going forward. Delaying process alignment is likely to cause process reworking and reporting enhancements post-SFTR go-live.

The definition of industry best practices differs greatly between the industry bodies and isn't always reflected in legal documentation, so firms often see it as a 'nice to have' rather than being legally defined and enforceable. This coupled with the use of legacy technology makes change very difficult at a firm level, and this is going to manifest itself in challenges around transaction reporting process automation. As an added incentive, the Bank of England requires firms to, voluntarily, sign up for the Money Market Code of best practices—these are reasonable prescriptive and refer to industry best practices too.

They have just published a list of firms that have signed up to the code—although it is telling who has not—a significant proportion of the volume passing through the market each day has currently not signed up.

Aligning the best practices to legal documentation would be beneficial, although this creates less flexibility. We advocate the use of a common domain model (CDM) across the securities finance industry incorporating securities borrowing and lending (SBL), repo, margin lending and collateral in a consolidated CDM model.

This has two benefits, a clear definition across the industry of best practices that firms can work towards implementing and a standard on which to build on and take advantage of new technology platforms—such as cloud and distributed ledgers, which will in turn help with the adoption of zero-touch processing and deliver significantly lower costs.

This will take a coordinated effort across the industry and we believe should be done across the product. Clearly there is a great deal that firms should be doing themselves, however, much of the industry would benefit from sharing technology and building towards a utility model, which in turn should help manage the costs associated with implementing new platforms and technologies.

In our opinion, the industry should be preparing for these changes now, with a view to firms developing transition plans towards 2020 and beyond.

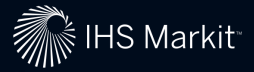
This planning should include scenario analysis, a target operating model and a roadmap to achieve the future state with the aim of achieving the optimised costs available to help maintain profitability. [SLT](#)

**David Field**  
Founder and managing director  
The Field Effect





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# Is time running out?

As the countdown to SFTR implementation looms closer, Tom Pikett of Trax explains why there needs to be a focus on how your vendors support you across trading, post-trade and reporting both when the regulation goes live and post-SFTR

As impacted firms gear up for tackling the transaction reporting challenge of the Securities Financing Transactions Regulation (SFTR), there will be a long road ahead to achieve compliance. That road may include initial gap analysis, data sourcing, technical build to vendors, technical build to internal reporting tools, operations model formulation and, perhaps most challenging of all, liaising with counterparties to understand how to share data on the 62 reconcilable fields on day one, as well as the additional 34 fields in phase two of SFTR. If a firm views it purely as a 'how can I get my data out of the door to the trade repository?', question of then time might be running out for that firm.

Simplifying compliance with SFTR can be achieved through greater use of vendor solutions, with trading venues, matching platforms and reconciliation providers playing a key role across the entire securities finance market. Looking at bilateral repos, for example, aside from settlement matching, there is little to no automation within the market. Firms already using the Trax repo matching platform are currently matching on over 20 fields of economic data across a community of some of the world's largest buy- and sell-side firms. With EquiLend, you have the most widely used multilateral trading facility (MTF) for stock loan (NGT) as well as a complete suite of post-trade services (PTS); on EquiLend's platforms, firms are trading, comparing and matching with counterparts not just throughout Europe but in the Americas, Asia Pacific and South African markets as well.

The question firms should be asking themselves is which approach they should take for SFTR. The first approach is to focus purely on the transaction reporting fields, looking to leverage existing systems and manual processes that will ultimately feed a transaction report to the TR. The second approach is to share the focus on maximising automation of trading, booking and confirmation processes, whilst also assessing how available platforms will solve one's SFTR needs. If the first option is taken, time may be a concern when looking to deliver a comprehensive solution that delivers the confidence required to meet regulatory compliance. The second approach is not without its issues, however, it may solve multiple

challenges whilst also reducing the cost of operations, trading and reporting functions.

## What will my counterparty do?

As the discussion around SFTR progresses, we are now moving into a phase where reporting firms are looking to understand where their counterparties will be trading and matching their securities lending and repo businesses. The dual-sided reporting requirement for SFTR, much like EMIR, requires a large number of fields to be reconciled with one's counterparty. Reporting firms can take the decision to manage this process within the TR or look to automate and deliver as much pre-repository matched data as possible. For the beginning of SFTR, firms should make every effort to match the unique transaction identifier (UTI), legal entity identifiers (LEIs) of the counterparties and the master agreement. Matching these fields facilitates pairing at the trade repository, which is the step before reconciliation occurs.

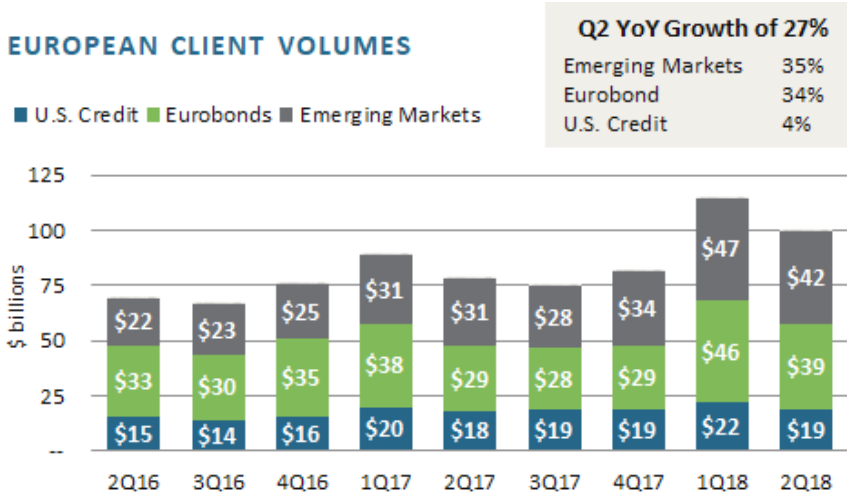
With any new regulation comes a range of new and existing vendors looking to assist firms with their implementation, some of those already known for their heritage and established regulatory reporting solutions. EquiLend and Trax, as vendors with established positions within the regulatory reporting and securities finance space, are well placed to help their clients achieve regulatory compliance.

SFTR presents a more acute problem in finding the appropriate vendor, as those firms that are both in the regulatory reporting space, as well as the securities finance markets, are few and far between. Trax, the post-trade services engine of MarketAxess, processes on average over one billion cross-asset class transactions annually on behalf of its community of over 600 entities. In relation to SFTR, the Trax Repo matching service connects the largest community of sell-side firms to both European and US buy-side firms. Each day, on average nearly \$40 billion worth of trades are conducted on EquiLend's NGT, the most widely used MTF in the securities finance market, across more than 90 firms active in the securities finance industry.

As reporting firms are looking to understand where they can share data with their counterparties before

# Reporting Challenges

**Figure one: MarketAxess European Client Volume**



submission to the repository, EquiLend and Trax represent comprehensive coverage across products.

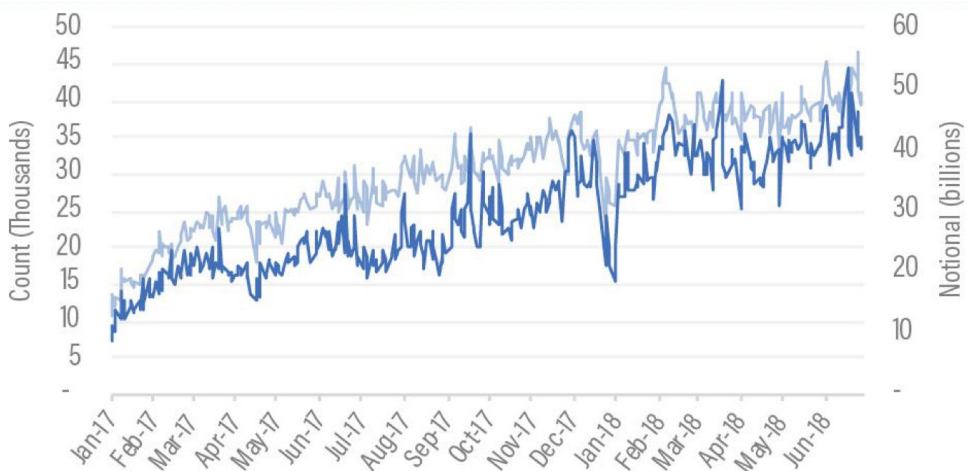
NGT platform have seen increased volumes with the implementation of MiFID II. This has been highlighted in figures one and two below.

## Venue trading

Post-MiFID II there has been an increase in the use of trading venues, whether regulated markets (RMs), MTFs or organised trading facilities (OTFs). Both European client volumes on the MarketAxess MTF, and EquiLend's

The increase in trading is reflected across many of the trading venues within Europe. What does this mean for SFTR? In real terms, it means that the combination of MiFID II and SFTR is likely to result in increased use of NGT. With regards to SFTR implementation, it means that

**Figure two: EquiLend NGT trade count and notional volume**





more of the industry will be using a trading venue to share UTIs, execution timestamp, LEIs, ultimately resulting in fewer breaks to manage at the trade repository.

The combination of decreased trading costs, increased reporting efficiencies and fewer breaks to manage across the middle- and back-office makes for a compelling argument to utilise the EquiLend and Trax solution.

As with all implementations, the impacts will be felt differently across differing securities finance products. The above increase in venue trading is expected to be seen in the securities lending space, which already sees a significant amount of on-venue trading. Within the bilateral repo market, although there are many venues to choose from, the expectation is that greater automation in the post-trade space will occur prior to the significant adoption of venue trading.

## Has time really run out?

If impacted, firms looking to use their existing systems and processes with only minor enhancements may have issues meeting their regulatory requirements.

Meeting the regulatory requirements will need to be supported by a significant increase in resources, which will be expensive and unlikely to support complicated transaction and collateral reporting within the required timeframes.

What is a relief for most reporting firms is that there is a general acceptance across the industry that increased use of automation in the securities lending and repo markets is necessary.

One of the biggest unknowns is how this will manifest itself within the bi-lateral repo market, which, as opposed to securities lending, is primarily manual and off-venue.

Trax has recently added 10 new counterparties across the buy- and sell-side, to its repo matching platform. However, the rate of adoption is not fast enough. Without this speeding up or a greater adoption of on-venue trading, the time required to be compliant with SFTR may well not be enough for the bilateral repo market.

A general guideline when listening to the various industry associations is that Q1 2020 is the anticipated date for SFTR implementation.

The continued delays are having an impact on a large number of firms, as it proves difficult to get budget for a regulation that doesn't have a live date yet, particularly when Brexit and the Central Securities Depositories Regulation are at the forefront of everyone's minds.

As we get closer to the endorsement of SFTR by the European Commission, impacted firms will begin their process of choosing which vendors will fit them best. Through this process, consideration will be given to a number of different vendors, looking at the cost and feasibility of an internal solution.

As we have already demonstrated, the securities lending market is adopting venue trading at an increasing rate. The bi-lateral repo market is also beginning to automate across all areas from buy to sell-side. The question is how does this link to your SFTR project?

There needs to be a focus on how your vendors support you across trading, post-trade and reporting both now when SFTR goes live and post-SFTR.

EquiLend and Trax can support you if you wish to increase your level of on-venue trading, improve your adoption of post-trade automation and leverage an industry leading, regulated, reporting service, all of which will ease your path to compliance with SFTR. [SLT](#)

**Tom Pikett**  
Business development manager  
Trax



# A day in the life

Jo Hide of REGIS-TR explains how the proposed SFTR solution from EquiLend and Trax, in conjunction with the TR services offered by REGIS-TR can streamline SFTR reporting

## Reporting under SFTR with EquiLend, Trax and REGIS-TR

So far, much research and debate has focused on the difficulties of SFTR reporting, including: the huge number of data fields to be provided; the difficulties of capturing the necessary lifecycle events; the creation and dissemination of unique transaction identifiers (UTIs); sourcing and maintaining legal entity identifiers (LEIs); the lack of straight-through processing (STP); and how the above will impact on the all-important inter-TR reconciliation.

You'd be forgiven for thinking there was nothing but bad news.

Vendors and infrastructure providers, however, are stepping forward with their offerings, and progressing on building out their solutions, and it's starting to become clear just how valuable these could be in supporting firms as they source their data fields, pre-validating, pre-reconciling, data formatting and submission to the trade repositories (TRs).

This article represents an illustration of how the joint-SFTR solution from EquiLend and Trax, in conjunction with the TR services offered by REGIS-TR can streamline your SFTR reporting and help to reduce the burden of maintaining compliance with the reporting regulations.

In short, this is the good news that firms have been waiting for.

## Introducing EquiLend, Trax and REGIS-TR

EquiLend's services are designed to increase efficiency and automation in the global securities finance marketplace.

From their global trading platform (NGT) and post-trade suite, to the market data (DataLend) and EquiLend Clearing Services businesses, EquiLend's products deliver global access to liquidity, scalability and reduced risk.

Next Generation Trading (NGT) is a multi-asset class trading platform for the securities finance marketplace. Accessed through NGT's intuitive, web-based user interface or via full automation using EquiLend's proprietary messaging protocol, NGT offers access to global securities finance trading to firms of all sizes. With tens of thousands of trades conducted on the platform around the globe each day, NGT offers unparalleled liquidity in the securities finance market. NGT's strategic features increase trade-level transparency, improve workflow automation and generate efficiencies market wide.

Within the post-trade arena, EquiLend offers a suite of products, chief among them is Unified Comparison—the nucleus for post-trade lifecycle management and a gateway into all the other post-trade client service (PTS) products available within EquiLend, including Securities Financing Transactions Regulation (SFTR) lifecycle management.

NGT and PTS combined process a vast amount of trading and post-trade information daily. On NGT, for instance, \$39 billion notional is traded across the platform on average each day, and has reached as high as \$45 billion on particularly active trading days. EquiLend's PTS processes 42 million post-trade records daily, on average. Due to the staggering amount of activity flowing through EquiLend's pipes, the firm houses much of the data required for SFTR and is ideally placed to help firms with their SFTR data needs.

Trax, the post-trade services engine of MarketAxess, is a leading provider of trade matching and regulatory reporting services and is a trusted source of comprehensive and unbiased pricing and liquidity information to the global securities market. Trax processes on average over one billion cross-asset class transactions annually on behalf of its community of over 600 entities including approximately 12 million fixed income transactions. Trax operates an approved publication arrangement (APA) and approved reporting mechanism (ARM) for the second Markets in Financial Instruments Directive (MiFID II) trade and transaction reporting in addition to providing support for other regulatory regimes.

Trax is a leading provider of automation to the manual world of repo and buy-sell back. The Trax Repo matching service connects the largest community of buy- and sell-side firms in Europe and the US. Trax has been a voice for automation for over 10 years and the community has increased markedly in the last 12 months as repo units look to drive out cost and minimise the risks associated with typically very large trades.

Trax also has long-standing pedigree in regulatory reporting. For MiFID II, it operates both an ARM for transaction and an APA for trade reporting. Of the top 20 asset managers, those that have selected Trax for MiFID II reporting services represent approximately 67 percent of the total assets under management. For European Market Infrastructure Regulation (EMIR), it offers a reporting solution into TRs for relevant trading activity. Together, the two firms occupy, capture and process a significant amount of trading across both securities borrowing and lending, and repo and buy sell backs, and for a wide section of market participants:

### Securities borrowing and lending

- EquiLend's MTF processes 90,000 plus new trades per day (82 percent equities, 18 percent fixed income)
- 60 percent plus of trades flowing across NGT are SFTR reportable transactions
- The break-rate for NGT trades is less than 3 percent (versus a rate of over 35 percent for over-the-counter (OTC) transactions) over the trade's lifetime

- In post-trade processing: real-time, on-screen reconciliation via EquiLend's unified comparison product

### Repo and buy/sell back

- Trax Repo is one of the leading near real-time post-trade exception management tools for securities financing
- Trading is via NGT (BondLend)
- With post-trade processing via Trax Repo and BondLend PTS

### Client coverage

- Each firm has over 100 clients likely to be impacted by SFTR, including tier one investment banks, inter dealer brokers, fund service providers and asset managers
- Clients numbers have been growing throughout 2018, notably in fixed income
- By accessing the EquiLend and Trax solution, firms will have access to a broad range of securities finance and repo counterparties
- Both companies have strong presences in all key regions in Europe (UK, France, German, Nordics region) and throughout the full range of international securities finance markets

REGIS-TR is the European regulatory reporting specialist, and one of the two largest EMIR trade repositories, regularly processing more than 30 million new trades per week for over 1,500 clients. It is the only trade repository offering both EMIR and FinfraG reporting, and will add SFTR to its stable of repositories in order to service both its existing clients, and the significant reporting requirements for its sister companies in the Deutsche Börse Group.

With Clearstream an active participant in the securities financing markets, REGIS-TR already has unrivalled in-house expertise in these markets, and will capture a high proportion of SFT reports across the UK and mainland Europe.

REGIS-TR's SFTR repository intends to have full two-way interoperability with the EquiLend and Trax solution, for both own and delegated reported, whether submitted directly by the firm or via Trax Insight.

## The solution: introducing Trax Insight

EquiLend and Trax are collaborating to offer a full front-to-back SFTR solution to support the industry in meeting their reporting obligations.

EquiLend’s expertise in the securities finance industry, combined with the Trax regulatory reporting and repo trade confirmation products, will result in a comprehensive service covering all SFTR-eligible asset classes.

EquiLend and Trax’s joint solution will allow firms, subject to SFTR to obtain a pre-repository match to help ensure accurate reporting and efficient exception management processing.

The interoperable solution would enable the onward routing of trades to the Trax Insight engine, which captures and centralises reporting flows, enabling firms to manage exceptions through a single interface and to rely on the Trax rules engine to filter and enrich trades. Clients would also be able to benefit from delegated reporting.

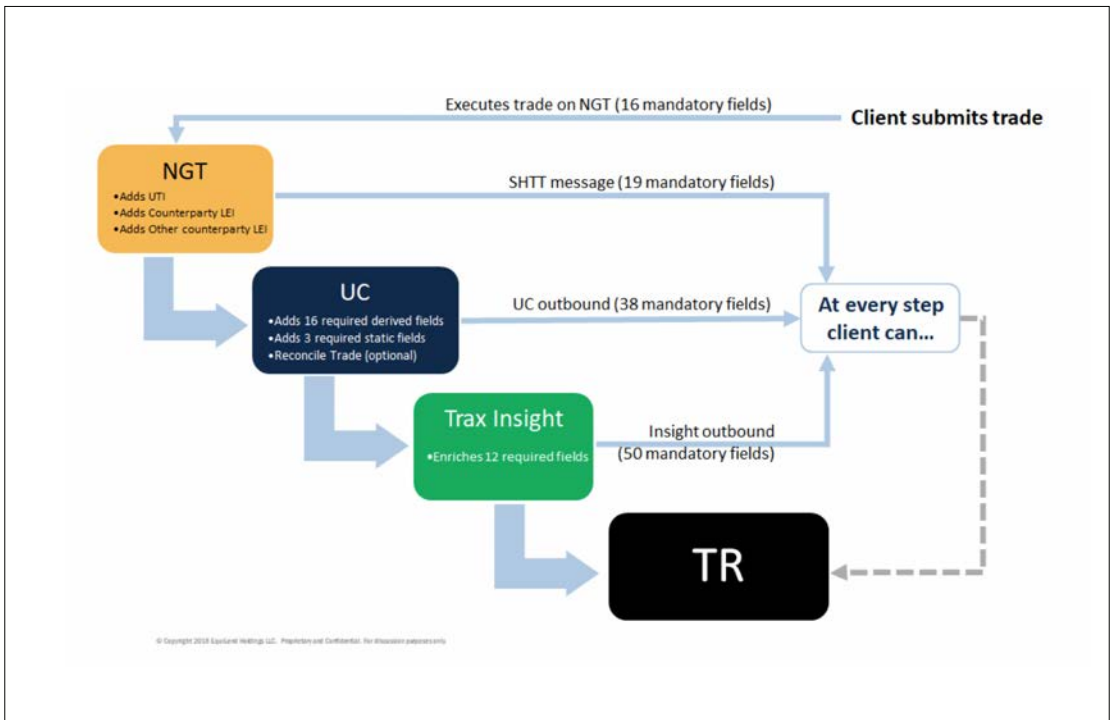
## How it works

In a nutshell, the EquiLend and Trax solution has been created to take the fundamental trading data, which is native to every trade conducted in the market, enhance and enrich it with derived and reference data to such an extent that it transforms it into a complete SFTR transaction report, which is automatically sent to the TR.

If this ‘zero touch, front-to-back’ solution seems too good to be true, the flow of data through the various steps of the process from trade execution to TR submission is neatly summed up in the diagram below, using a classic new, non-cash securities lending direct trade.

Let’s step through the process starting with the client:

1. The Client executes the Securities Finance trade as normal on EquiLend’s NGT platform—this captures 16 of the mandatory SFTR data fields.
2. NGT adds three key fields of data to the Shared Trade Ticket (SHTT)—the UTI and the LEIs which identify the



two counterparties to the trade. The trade is now capable of being paired in the inter-TR reconciliation. At this point, 19 of the mandatory SFTR fields have been completed.

3. NGT would send the enhanced trade to Unified Comparison (UC).

4. The post-trade services then add a further 19 fields of data to the trade. 16 of these can be logically derived from the information already received from NGT in the SHTT, and these data points relate to the clearing of the trade, the collateral provided, the trade term, and information on the rebate rates which apply. The other 3 fields are reference data, drawing on static data set up during on-boarding. At this point, the trade has now reached 38 fields of populated data, and the trade can be sent to UC to confirm, at this very early stage, that it correctly reconciles against the other side of the trade.

5. At this point, the trade would be handed over to Trax Insight, where the transaction is further enriched with another 12 fields of data, utilising existing regulatory reporting products currently utilised for MiFID II reporting. The populated data now numbers 50 mandatory fields, and the trade is sufficiently complete that it can be submitted to a TR.

6. Trax Insight seamlessly converts the data to ISO 20022 XML format, according to the official schematic, and will send it to a TR, within the reporting deadline.

The Trax Repo platform will perform a very similar function as detailed in step three for repo trades.

Trax will look to provide the UTI on the confirmed trade, as well as allow for central matching on lifecycle events. This trade will then subsequently be sent to Trax Insight in a state where the key pairing fields of UTI, counterparty LEIs and master agreement have already been submitted and matched.

This is EquiLend and Trax's full-service offering to firms, but it is highly customisable depending on client needs.

If you'd like more, additional fields of data can be added to the trade during its processing by EquiLend and Trax, either by being supplied by the counterparty,

or by requesting the application of further enriched or derived fields.

If you'd like less, at any stage in the process, firms can decide to consume the trade themselves rather than passing it to the next step, so that they can apply their own internal enrichments and derivations, and run their own checks against the data. Reporting firms can even go so far as achieving full enrichment, with the final step being to deliver an ISO 20022 message to the reporting firm for self-reporting. This same approach is available for delegated reporting clients.

At all stages throughout the process, outbound reporting is available for clients to consume results of derivation and enrichment, thus facilitating the updating of source systems to ensure they are correctly aligned with what has been reported to a TR. It should also be noted that this process can be applied to OTC transactions, but that without the guaranteed matching of key fields at point of trade via NGT, the likelihood of mis-matches increases.

And this doesn't apply solely to the new trades being reported for the first time. Throughout its lifetime, whenever the trade is modified every action can be captured in the EquiLend and Trax solution and uniformly provided to the TR for confirmation reconciliation.

### The TR takes over

Once received at REGIS-TR, the actions mandated in the SFTR regulation come into play, including: ensuring that EquiLend and Trax are correctly permissioned to report trades on your behalf; confirming that the UTI provided has not previously been used for another trade; running the field-level validations, and checking certain data elements against reference data lists (for example, LEIs, currency codes, venue codes); and confirming that the latest report fits logically into the trade history already received for that UTI, thereby preventing illogical workflows (for example, preventing a modification from being reported against a trade which has already matured).

Records which pass all these checks will be committed to the TR database. Records which don't pass the checks will not be committed, but in both cases, REGIS-TR will return a response message which fully describes the

latest state of the submission record at the TR, and any issues which need resolving. The quick turnaround time of the response message (required under the regulation to be within 60 minutes of submission, but typically significantly quicker at REGIS-TR), should give firms ample opportunity to investigate and correct any errors, and have the affected records re-submitted within the reporting deadline.

Once correctly validated, REGIS-TR will, in near-real-time, check in its TR to see whether the other side of the trade has also been received. If it has, REGIS-TR will pair the two sides together and then run the Intra-TR reconciliation process. This is a good time to explain exactly how that reconciliation process works.

### Reconciliation

SFTR, like EMIR, is a dual-sided reporting regime. This means that trades must be reported from both counterparties' perspectives, and the details reported must match one another, or be corrected until they do. The reconciliation of reported trades is carried out by the TRs on a daily basis, and will follow the technical standards laid down by the European Securities and Markets Authority (ESMA). For SFTR, we expect those to replicate (to a greater or lesser extent) the process which TRs follow under EMIR:

1. The TR checks each trade it holds to verify whether that trade should be submitted for reconciliation—trades reported against individuals and non-European Economic Area counterparties, neither of which have a reporting obligation under the regulation, will be excluded.

2. For each trade which remains in-scope after step one, the TR attempts to find a pairing record internally within their own database.

In order to pair, the UTIs must match, and the LEIs of the two counterparties must be the mirror image of one another. For this stage to function successfully, it is therefore crucial that the correct UTIs and LEIs are used on the trade in order to locate the other side.

3. In cases where the TR cannot find the pair to the trade internally, it will include the UTI and both counterparty

LEIs in a list to be exchanged with all the other TRs. This is called the requested list.

4. Once per day, all the TRs exchange their requested list with all the other TRs. Each TR then searches its database in an attempt to locate the pair for the other TRs' records.

5. When it identifies a trade which another TR is looking for, it includes the trade details in a file created only for the TR which was searching for that trade. This is called the trade data details file.

6. When all the trades have been searched for, the trade data details files are sent to the other TRs, and the TR runs the reconciliation.

7. Once run, the TR will show or report to the reporting firm the results of the reconciliation, highlighting which fields do not match and need to be amended.

Any trades that do not find a pair are included in the requested list again the following day.

### Lifecycle event management

Under SFTR, firms need to report not just the new trades, but also all the lifecycle events which apply to those trades, and these can also be captured and processed via the EquiLend and Trax solution. There are essentially two routes by which this can be done.

Route one is where clients can choose to match these events at the 'point of process' (for example, agree MTM via EquiLend PTS/Trax Repo functionality and consume results via outbound messaging) and allow Trax Insight to pass the associated modification/update messages to the TR.

Route two is where clients can communicate lifecycle events via regular data submissions and then manage any exceptions either utilising EquiLend or Trax functionality or allow this data to feed through to the TR and manage the feedback accordingly.

We believe option route one is the most efficient approach, as well as following the same model as the

new transactions, which are executed and enriched via NGT and Insight, whereby information is matched between both sides as part of the daily operational processing and therefore has hugely increased match rate at TR). For high volume market participants this is the most effective, efficient, STP approach.

Whichever route you decide to take, whenever an amendment is made to a trade, the TR will automatically re-submit that trade to the inter-TR reconciliation process again, so that the modified details are re-reconciled.

### Complete oversight of your reporting submissions

Firms have several options in terms of how they can monitor the data which they could pass through EquiLend and Trax to REGIS-TR.

The Trax Insight user interface is the regulatory reporting dashboard for all things SFTR and Repo, whether the data is submitted via Trax Repo, EquiLend or where the firm is directly submitting data to Trax. It is within this online dashboard that a firm will be able to see whether data is being delivered to the repository in a matched or unmatched state and whether the transactions have passed the initial data quality and trade repository validations built out at Trax.

The automated feed from EquiLend and Trax Repo into Trax Insight, means that any changes made in source systems that feed the respective trading and matching platforms, or amendments made directly, will feed into the SFTR dashboard for assessment. Where there is a rejection from the repository, this will be viewed within Trax Insight user interface and will ultimately feed back to the end client as a message through EquiLend or Trax, depending on preference. These exceptions can be managed either in Trax Insight or through the respective matching and trading platforms of EquiLend and Trax, be that direct input or source system feed.

Trax Insight will centralise all breaks, be they rejections from the repository or breaks in the matching reports against counterparts. This will allow firms to continue to use the trading and matching platforms for their original intended purpose, with SFTR enhancements,

whilst also being able to clearly see purely SFTR and MiFID SFT activity through one online portal. All repository response messages and files, such as reconciliation reports, will be available through the SFTR dashboard in Trax Insight.

Further to this, Trax Insight will house all of the repository files, such as reconciliation, pairing, submission, to ensure that all of the information needed to support accurate reconciliations and exception management is in one place. The Trax Insight solution will interpret and present information in such a way that firms are able to direct resources towards understanding and resolution of issues.

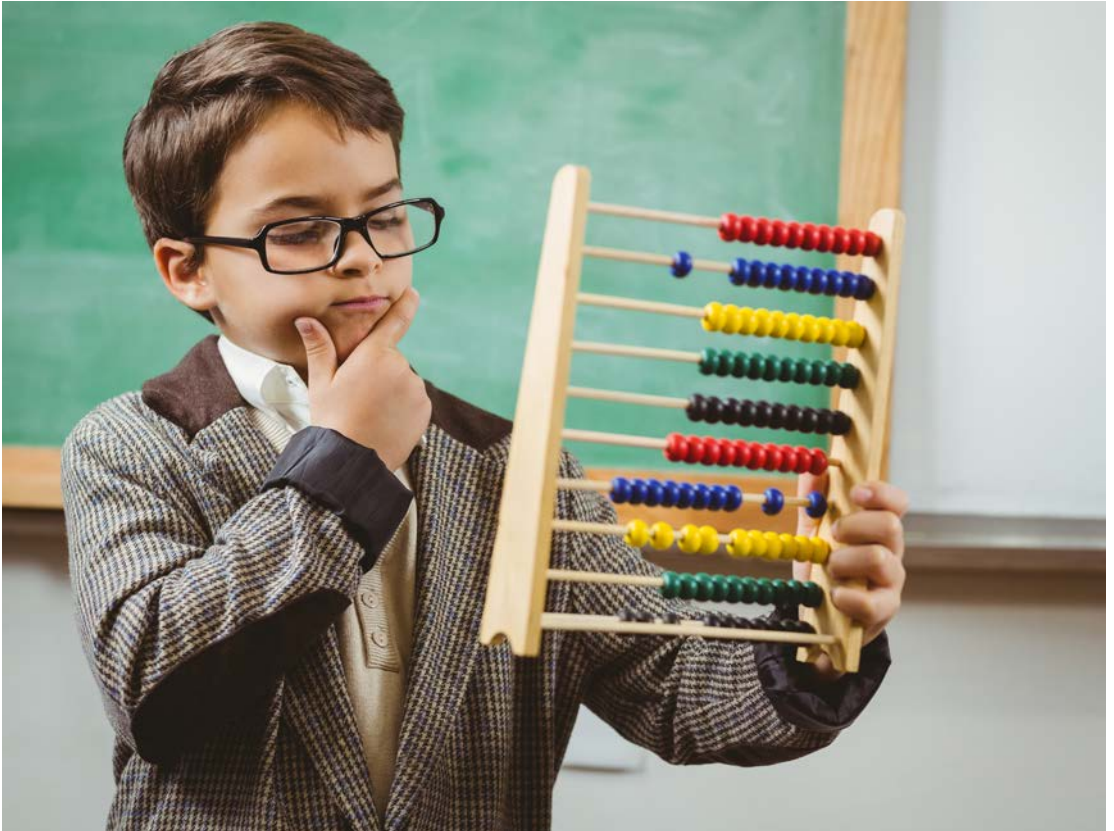
As well as being available through Trax, if your overall reporting solution includes some delegated, some direct and some vendor assisted reporting, you may find it more straightforward to gain that holistic overview of your reporting status at the TR. REGIS-TR will include a state-of-the-art web user interface, which will amalgamate all your reporting into a single view no matter how it was reported, and provide both low and high-level dashboards, management information and reports for your compliance and control functions.

For an individual firm using the EquiLend and Trax solution, the benefits are clear and, whilst transaction reporting is never a 'fire and forget' endeavour, daily reporting with the proposed model becomes incredibly low touch.

Consider also the additional benefits which result when both counterparties to the trade report using the EquiLend and Trax solution. Not only is the trade enriched as described above, but both sides are enriched in an identical fashion, significantly increasing the likelihood of both sides being successfully validated and reconciled at the TR.

If the counterparties to the trade both use the EquiLend and Trax solution, then Trax Insight pairing and matching will quickly follow the execution of the trade.

Taken one step further, where both counterparties are using REGIS-TR as their repository, full TR reconciliation can be completed within T+1, virtually without you having to lift a finger. **SLT**



# SFTR: applying the lessons learned

KPMG explains six lessons the industry can learn from previous transaction reporting implementations that can be taken into consideration when delivering SFTR

The Securities Financing Transaction Regulation (SFTR) is the beaming spotlight that the securities finance industry has been quietly expecting for a number of years. It represents a transparency concept that has so far been missing but moreover presents an opportunity for change.

SFTR entered into force in January 2016, with certain themes—collateral reuse; periodic reporting for UCITS/alternative investment funds (AIFs); and pre-contractual transparency—already live. The industry continues to

await eagerly the draft technical standards for transaction reporting (SFTR Article 4) to be approved. Once ratified, these will trigger an increased focus and urgency on the implementation, similar to what we saw unfold with European Market Infrastructure Regulation (EMIR) and the second Markets in Financial Instruments Directive (MiFID II) transaction reporting.

We have witnessed that securities finance participants are at very different stages of their SFTR planning,



ranging from little awareness of this regulation at all, awareness of the high-level requirements but waiting for the regulation to be ratified before formally triggering a delivery capability, through to a delivery programme fully mobilised and working on implementation.

Irrespective of where firms are on their particular SFTR journey, we aim to explore some of the lessons learned from previous transaction reporting implementations that can be taken into consideration when delivering SFTR, and discuss some of the new challenges to be addressed.

## Lesson one: mobilise early

The draft regulatory and implementing technical standards were made available in March 2017 and the current view is that:

- These are likely to be approved in Q4 2018, with the first go-live for investment firms and credit institutions expected to be Q1 2020 (See figure one). However, there is a risk that this could be delayed further as a result of the current debate between the European Commission and ESMA regarding who has the final say in mandating the use of global unique trade identifiers (UTIs) and branch legal entity identifiers (LEIs).

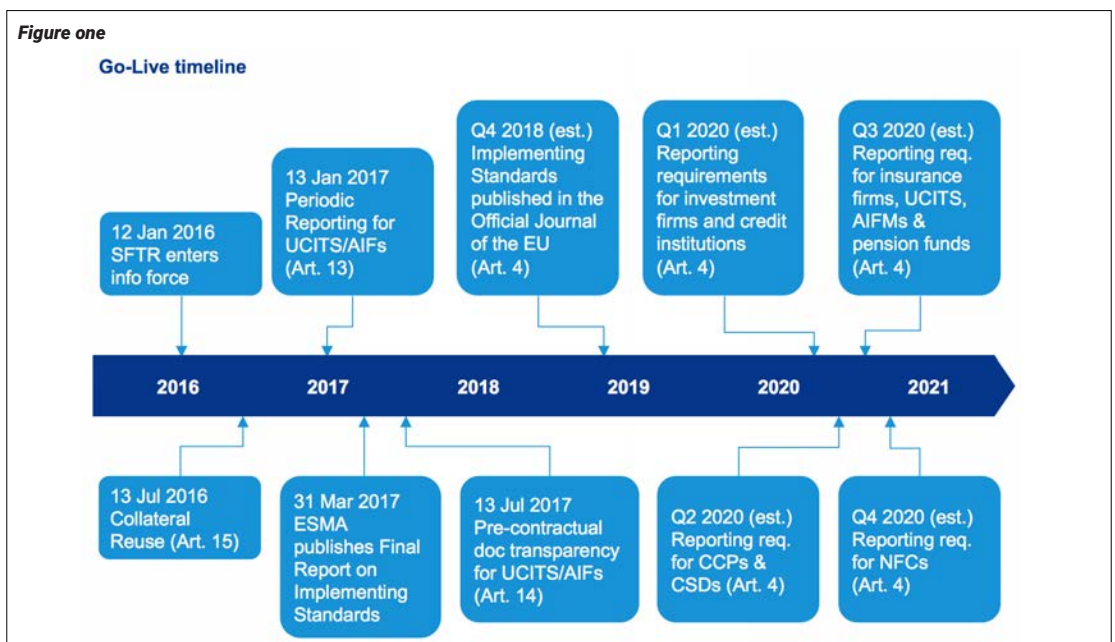
- We do not expect the requirements within the draft technical standards to change materially when they are finalised and approved.
- The requirement to capture and report 153 fields to a registered trade repository (TR) is a significant deliverable since the asset classes in-scope are new to this type of reporting, and some of the required data is not readily available.

Our recommendation is to take advantage of the delay in the formal approval of the technical standards and progress with the known requirements.

## Lesson two: don't underestimate the collateral requirements

Under EMIR, there is a requirement to report the extent by which a derivative is collateralised and the collateral balances associated with that trade. This same requirement also applies to SFTR, but there are additional requirements impacting collateral that should be considered:

- The requirement to report how the collateral received as a result of an SFT has been subsequently reused. This is likely to be one of the more complex requirements to deliver because of the challenges



## Six Lessons

in attributing specific collateral to specific SFTs and tracking complex collateral chains around reuse.

- The requirement to report the LEI of the issuer. Under MiFID II and EMIR, the absence of an LEI had implications on whether it is possible to trade with a counterparty. If the same premise carries through to SFTR, there is a risk that large pools of existing collateral may become ineligible.

Given the scale of collateral changes under SFTR, market participants should perform a collateral impact assessment and form plans for implementation.

### Lesson three: define a delegated reporting strategy

Under SFTR, delegated reporting is mandatory in certain scenarios (for example, where financial counterparties face small non-financial counterparties). The mandatory delegated requirement does not go live until nine months after the requirement for investment firms and credit institutions to report (estimated Q1 2020). However, firms should consider their broader delegated reporting strategy early. Any delegated reporting strategy should consider whether discretionary delegated reporting will be offered as part of a day one reporting solution.

Historically, delegated reporting has proven to be a challenging topic for the industry with market participants deciding close to the compliance date whether to provide delegated services. Delegated reporting has often been looked upon as an overhead with limited revenue capabilities. However, SFTR potentially opens the door to a tangible revenue stream and exposure to a market where trade and lifecycle volumes are considerable.

A robust and efficient delegating reporting framework could, for example, become a key factor for 'beneficial owners' deciding between an agency lending programme or a hedge fund deciding on which prime broker to execute through.

Delegated reporting will no doubt become an expectation of respective clients and hence should be given appropriate focus.

Below are some of the lessons learned from EMIR which should be considered as part of SFTR delegated reporting plans:

- The scope of service: Should the number of reports cover all four reports (collateral/loan/margin/collateral reuse), or just a subset. This is a key decision to make as not all data required will be available within the reporting firm.
- Client scope: Analysis and definition of client scope and the data that will be required from clients.
- Client engagement and repapering of client contracts.
- Data: All required data is requested, obtained and stored well in advance of the compliance date.

Taking lessons from EMIR into consideration, it is important to conclude on a delegated reporting strategy early to allow sufficient time for delivery and implementation.

### Lesson four: don't forget about commodities

One of the key challenges of any new regulatory programme is ensuring that the regulatory text is fully translated into business requirements to identify what products, functions, entities and market participants are in scope. SFTR is no different and while there is a broad understanding of equity and fixed income lending and repo transactions, the scope and role of commodities is an area that has arguably received limited attention to-date and hence should be considered across the traditional securities finance market participants as well as the core commodities houses across the street.

We know that the scope of SFTR is far-reaching, however, it does include non-financial participants of commodity transactions.

Based on the regulatory definitions, the following common commodity finance types are unlikely to be considered in scope for SFTR:

- Trade financing where the lender provides finance and take a charge on the underlying commodity
- Receivables financing where the borrower receives financing by selling debt
- Secondary market financing by lending banks

However, other structured finance instruments may be in scope, for example, repo and commodity lending;

inventory financing products which, depending on how they are structured, might fall under the definition of a sell and buy back; and some pre-payment financing scenarios which might be considered commodities lending.

Any market participant along the commodities value chain, for example, producers, processors and traders, who use structured finance products, should consider assessing their activity against the regulatory definitions to understand if they are impacted by SFTR.

### Lesson five: don't underestimate the build effort

It is clear that there is synergy between SFTR and EMIR regulatory technical standards and therefore it's easy to assume that a significant amount of SFTR has already been delivered as part of EMIR. Below we explore the similarities and differences between SFTR and EMIR.

At a high level, the reporting obligation is very similar between SFTR and EMIR. Both have an obligation to report to a registered TR on a T+1 basis. Both regimes

specify that new trades, amendments, and terminations must be reported.

Trades executed prior to, and still open on, go live must be reported and the obligation applies at a transaction or position level. In addition, both regimes provide for the ability to delegate reporting to a third party and there is some overlap on the field requirements.

However, digging a little deeper, there are significant differences between the two regulations. See figure two, which summaries some of the key similarities and differences.

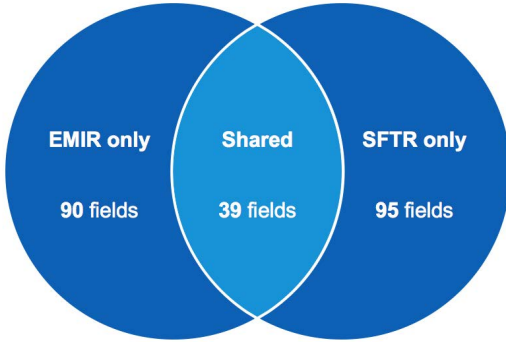
The reality is that the product sets are very different and there is limited synergy, as demonstrated by figure three below.

While some of the concepts may be consistent between SFTR and EMIR, SFTR will require a significant implementation effort to determine where the required data will be sourced and aggregated to meet the reporting obligation.

**Figure two**

	EMIR	SFTR
<b>1: Product scope:</b>	Derivatives <b>129 fields</b>	Securities Financing Transactions - Repurchase transactions - Securities or commodities lending and Securities or commodities borrowing - Buy-sell back transactions or Sell-buy back transactions; and - Margin lending transactions <b>153 fields</b>
<b>2: Counterparty scope:</b>	All Financial Counterparties (FCs) and Non-financial counterparties (NFCs) established in the European Union	
		Including all branches irrespective of their location
<b>3: Report collateral reuse:</b>	No	Yes
<b>4: Delegated Reporting:</b>	Optionality for Firms to delegate their reporting obligation to another party	
		Mandatory in some instances
<b>5: Reporting Format:</b>	Not specified	ISO 20022
<b>6: Go live:</b>	Big bang	Phased
<b>7: Parties to the trade:</b>		<ul style="list-style-type: none"> <li>- Beneficiary</li> <li>- Broker</li> <li>- CCP</li> <li>- Clearing member</li> <li>- Other Counterparty</li> <li>- Reporting counterparty</li> </ul>
		Agent lender Branch of the other counterparty CSD participant/indirect participant Tri-party agent

Figure three



Analysis performed on:

- 129 EMIR fields
- 153 SFTR fields

(Reducing to 134 once duplicates removed)

## Lesson six: perform an assessment of third-party offerings

There are many vendors offering solutions across the SFT trade lifecycle. These offerings can be categorised into the following themes:

- End to end functionality: from trade capture, trade matching, report generation and reporting into a TR
- Reporting engine: post-trade booking, eligibility rules engine, report generation and submission to the TR
- Specific service: report validation and testing
- TR: report collection and maintenance

Understanding this complex and evolving landscape is essential to help firms determine their target operating model.

Even though many firms are now well versed in the delivery of transaction reporting obligations, the impact of SFTR should not be underestimated.

The scope is broad and the volume of data significant. You should ensure that you have performed an impact assessment across all your lines of business, including

commodities and have an integrated delivery plan; and start early on your delegated reporting strategy and start engaging clients as soon as possible to allow sufficient time for implementation.

While the regulatory text has not been finalised, the probability of regulatory congestion remains high.

Based on current plans, SFTR go-live is likely to coincide with other major deliverables including EMIR, the European Commission’s Regulatory Fitness and Performance Programme, the Commodity Futures Trading Commission’s overhaul and Brexit.

This will require careful planning and it is critical that firms have a holistic view of upcoming obligations.

Given the complexity of the vendor landscape understanding the offerings and making an informed build versus buy decision will save resources as well as create an opportunity for process improvement.

KPMG professionals are well-versed in the implementation of complex regulatory requirements from programme mobilisation to final end delivery and assurance. [SLT](#)



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Broadridge is a global fintech leader with \$4 billion in revenue, providing communications, technology, data and analytics.

We drive business transformation with solutions for enriching client engagement, navigating risk, optimising efficiency and generating revenue growth, helping our clients get ahead of today's challenges and capitalise on what's next.

Broadridge offers a suite of global, front to back office securities finance and collateral management solutions. This includes integrated or standalone systems for securities lending, repo, collateral management, collateral optimisation, clearing report harmonisation and a multi-jurisdictional, cross-asset trade and transaction reporting solution for SFTR and other major global regulations.

For more information about Broadridge, our proven securities finance, collateral management, clearing report harmonisation and trade and transaction reporting solutions, please visit [www.broadridge.com](http://www.broadridge.com)

# DTCC

**Securing Today. Shaping Tomorrow.®**

With over 40 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 16 countries, DTCC, through its subsidiaries, automates, centralises, and standardises the post-trade processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers worldwide.

DTCC's Global Trade Repository is the industry's preferred solution for global OTC derivatives reporting. GTR holds detailed data on OTC derivatives transactions globally and has grown to become the largest trade repository in the world, providing new insight and perspectives to better monitor and respond to the regulatory reporting requirements of our clients. It maintains approximately 40 million open OTC positions per week and processes over one billion messages per month.

GTR will be extending their regulatory reporting capabilities within the securities financing market, helping clients meet new reporting requirements under the Securities Financing Transactions Regulation.

To learn more, please visit us at [www.dtcc.com](http://www.dtcc.com) or connect with us on LinkedIn, Twitter, YouTube and Facebook.



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EquiLend is a leading provider of trading and post-trade services for the securities finance industry with offices in New York, London, Dublin, Hong Kong and Toronto. EquiLend is owned by BlackRock, Credit Suisse, Goldman Sachs, J.P. Morgan, JP Morgan Chase, Bank of America Merrill Lynch, Morgan Stanley, Northern Trust, State Street and UBS.

Used by securities borrowers and lenders globally, the EquiLend platform (for equities) and BondLend platform (for fixed income) automate formerly manual trading and post-trade processes in the securities finance industry. DataLend provides performance reporting and aggregated, anonymised, cleansed and standardised securities finance data covering all asset classes, regions and markets globally. EquiLend Clearing Services operates the ECS Middle Office and the ECS Gateway, which offer CCP services and connectivity.





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IHS Markit, in partnership with Pirum Systems, offers an end-to-end reporting solution for Securities Financing Transactions Regulations (SFTR). The collaboration sets an industry-wide standard to aggregate, exchange, enrich, reconcile and report trading activity across all in-scope SFTs.

Building upon advanced connectivity with CCPs, triparty agents, venues and trade repositories; the turn-key service leverages a proven track record of delivering industry-wide reporting solutions and over 16 years of partnership with the securities finance community.

#### Key benefits

- **Built-in infrastructure and relationships:** An extensive network of data contributors, built over 16 years, represents \$21 trillion of inventory held by over 120,000 underlying funds. Over three million transactions are processed and matched each day using a reporting specification covering the majority fields required by the SFTR legislation.
- **Comprehensive product coverage:** IHS Markit's unique Design Partner framework means the product benefits from the ongoing input and feedback of many of the world's largest securities finance participants across securities lending, repo, prime brokerage and commodities finance markets.
- **Flexibility:** The system's modular architecture helps firms meet not only their individual needs for SFT reporting, but also includes customisable delegated reporting modules to support on-behalf reporting. This flexible approach extends outward to data sources such as CCPs, triparty agents, trading venues and trading platforms.
- **Future-proof compliance:** A forward-looking approach to design provides flexibility to support anticipated future securities finance transaction reporting regimes in a holistic way.

# KAIZEN

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Kaizen are regulatory reporting experts on a mission to improve the quality of regulatory reporting in the financial services industry. Kaizen has combined regulatory expertise with data science to develop its market-leading quality assurance service ReportShield™, which tests the accuracy, completeness, timeliness and overall quality of regulatory reporting. ReportShield™ delivers full transparency of reporting data quality and won a Queen's Award for innovation, one of the UK's highest business accolades.

Whether it's SFTR, MiFID II, EMIR, Dodd-Frank or another G20 regulation, Kaizen helps financial institutions reduce costs and increase confidence in their regulatory reporting.



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In the UK, KPMG employs 12,000 people in 22 offices across the country and we are part of the KPMG global network of member firms operating in 155 countries around the world. We combine our multi-disciplinary approach with deep industry knowledge to help clients meet challenges and find opportunities each and every day.

How can KPMG help?

KPMG in the UK is a market leading advisor on regulatory reporting with extensive experience of transaction reporting implementations and assessments.

Our teams combine deep SFT knowledge with a proven track record of transaction reporting implementation to support clients with:

- Programme and project management
- Business impact assessment
- Testing design, strategy and execution
- Target operating model review and design
- Vendor assessment
- Assurance

With a decomposition of SFTR in plain English, summary business requirements and extensive implementation experience to draw on, our team can provide accelerated traceability and implementation.

KPMG professionals have a broad-ranging understanding of the emerging vendor landscape and are well placed to support clients with vendor selection and buy vs build analysis.



# London

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## Stock Exchange Group

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UnaVista is an award-winning EMIR trade repository and MiFIR ARM helping thousands of firms report more than 8 billion transactions Annually. UnaVista's flexible technology enables you to manage all your reporting obligations with one easy-to-use platform. When SFTR goes live, firms will be able to report all their SFTs to UnaVista's SFTR trade repository.

UnaVista is London Stock Exchange Group's global platform for reference data, reconciliation and regulatory reporting. UnaVista provides firms with a range of solutions designed to reduce operational and regulatory risk through one interface.

Benefits of using UnaVista as your regulatory hub:

- Consolidate your EMIR, MiFIR and SFTR regulatory reporting into a single operational view
- Import and automatically validate data from multiple sources using UnaVista's Rules Engine
- Access reliable reference data direct from the source at the London Stock Exchange including benchmark data for fixed income from MTS
- Flexible connection options; either direct, or near real-time message processing
- Extract your data in a variety of formats for onward processing in your organisation
- Advanced analytics including monthly KPIs to help you improve your reporting process
- Wealth of resources and access to our large community of users to help you benchmark your reporting
- Keep track of over/under reporting with our regulatory reconciliation solution



### **Murex—MX.3 for Collateral Management and Securities Finance**

For more than 30 years, Murex has provided enterprise-wide, cross-asset financial technology solutions to capital markets players. Its cross-function platform, MX.3, supports trading, collateral management, treasury, risk and post-trade operations, enabling clients to better meet regulatory requirements, manage enterprise-wide risk, and control IT costs. With more than 50,000 daily users in 60 countries, Murex has clients in many sectors, from banking and asset management to energy and commodities.

**MX.3 reinvents active trading of enterprise asset inventory.** It provides funding and collateral trading desks with a real-time view of their equity and bond enterprise inventory. The solution includes tri-party repos with agent connectivity, evergreen and extendible fee and rebate stock loan, as well as synthetic financing across asset classes. Corporate actions can be executed automatically. Compliance and concentration rules, as well as collateral eligibility checks, automatically apply.

**MX.3 for Collateral Management and Securities Finance offers a single framework for enterprise-wide margining, optimization, regulatory compliance and collateral trading.** The offering features an enterprise inventory manager for cash, security and physical commodity positions—synchronised in real-time with positions, market data and settlement events. The analytical optimisation algorithm proposes optimal allocations, substitutions or repo booking against margin or funding requirements and user-defined constraints.

**The single platform bridges gaps between silos, decreases cost of ownership and increases efficiencies across the chain.** Operational processes are rationalised around a single data source. This avoids unnecessary reconciliations between front, back and risk functions.

**This solution centralises collateral processing across entities and business lines** for bilateral or cleared OTC, repo or securities lending, and exchange-traded derivatives products. The exception-based workflow manager enables intra-day margining and high STP across the collateral chain, including connectivity with key market infrastructure.

**MX.3 for Collateral Management and Securities Finance supports the mandatory collateralization of un-cleared trades,** it is compliant with BCBS/IOSCO, including Basel III and SFTR, and regional or local jurisdictions, as well as initial margin methods, including ISDA SIMM.

For more information, please contact [info@murex](mailto:info@murex) or visit [www.murex.com](http://www.murex.com)

# NEX Regulatory Reporting

Regulatory Reporting is a business area operating within NEX Optimisation. Through our multi-regime reporting hub, regulatory obligations are translated into future proof compliant solutions while our specialist advisory teams interpret the impact of evolving markets regulation relating to trade and transaction reporting.

In addition to local European regulatory environments (EMIR, MiFID/II, REMIT), we are developing a solution for SFTR and provide specialised reporting services for entities subject to international regulatory regimes (ASIC, MAS). We act as a Trade Repository for EMIR, approved reporting mechanism and approved publishing arrangement for MiFID/II and a registered reporting mechanism for REMIT.

NEX is a financial technology company that operates across the full trade lifecycle.

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Pirum offers a secure, centralised automation and connectivity hub for global securities finance transactions, enabling complete automation of the post-trade and collateral lifecycle. Our position within the securities financing market enables clients to seamlessly access counterparts, tri-party agents, trading venues, market data companies and central counterparties as well as assisting regulatory adherence.

Pirum Systems in partnership with IHS Markit will be providing an end-to-end modular reporting solution for SFTR. Using our extensive expertise in post trade services we have created a matching engine that will generate and manage UTIs as well as offering a fully transparent pre-reporting reconciliation tool that allows industry participants to monitor the reconciliation status of their trades, before reporting.

Pirum's offers a range post-trade services which complement the SFTR solution by increasing the STP processing of reportable securities finance transactions:

- Real-time and overnight contract compare including pre-settlement compare
- Billing compare, billing delivery
- Mark-to-market automation
- Automated returns
- Triparty RQV automation with links to BNY Mellon, J.P. Morgan, Euroclear and Clearstream
- Real-time exposure and margin management
- Automated prepay cash process
- Automated loan release
- Collateral visibility and efficiency
- CCP gateway



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Since the start of EMIR Reporting in February 2014, REGIS-TR has become one of the largest trade repositories (TRs) in Europe, handling in excess of 30 million records per week, and supporting over 1,500 clients. As a truly and natively European TR, we have established ourselves as the experts in G20 reporting across Europe. We are the only TR servicing both EMIR and FinfraG obligations and our future offering will be further extended to include SFTR reporting.

REGIS-TR, is uniquely positioned as a TR with deep expertise in securities lending, repo and collateral management, thanks to the market position of our sister companies. Not only we will support Clearstream, Eurex and BME Clearing in their SFTR reporting obligations, but we have received significant interest from our existing customer base, and additionally from customers using a different TR for EMIR, but who consider us the natural TR of choice for SFTR reporting. Whether you will be reporting via IHS Markit/Pirum and Equilend/ Trax or another leading third party provider with whom we have full interoperability, whether you will adopt a delegated reporting model, prefer to be hands-on with your TR, or even a combination of all three, we have the technology and tools to support you all the way from submission to compliance.





## THE FIELD EFFECT

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The Field Effect is an independent consultancy specialising in clearing and collateral management spanning cleared, non-cleared OTC Derivatives, Exchange Traded Derivatives and Securities Finance.

We provide advisory and implementation services to every participant in the industry value chain: buy-side and sell-side firms, clearing houses, custodians and CSDs. Our in-depth understanding of cleared and non-cleared OTC business processes, collateral, transformation and optimisation, along with extensive experience of change management, allow us to add value to your organisation and a structured approach to your needs.



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Trax, the post-trade services engine of MarketAxess, is a leading provider of trade matching and regulatory reporting services and is a trusted source of comprehensive and unbiased pricing and liquidity information to the global securities market. Trax processes on average over one billion cross-asset class transactions annually on behalf of its community of over 600 entities including approximately 12 million fixed income transactions. Trax operates an APA and ARM for MiFID II trade and transaction reporting in addition to providing support for other regulatory regimes, including EMIR, SFTR and CSDR.

Trax is based in London and was originally established in 1985. Acquired by MarketAxess in 2013, Trax is a trading name of Xtrakter Ltd and is a wholly owned subsidiary of MarketAxess Holdings, Inc. For more information, please visit [www.traxmarkets.com](http://www.traxmarkets.com).

Trax, in collaboration with Equilend, offer a full front-to-back SFTR solution to support the industry in meeting their reporting obligations. The combination of EquiLend's expertise in the securities finance industry, combined with Trax's regulatory reporting and repo confirmation solutions, will result in a comprehensive service covering all SFTR-eligible asset classes.

The key benefits of the cross-asset SFTR reporting solution include:

- Leverages existing functionality, connectivity and data across the Trax and EquiLend solutions
- Allows reporting firms to have full transparency across all of the reportable products under SFTR
- Provides interoperability between Trax and EquiLend matching platforms
- Point-of-trade matching via EquiLend's SFT trading platform, NGT
- Enrichment of data through Trax Insight
- Pre-repository reporting validations
- Peer benchmarking supported by data quality analytics via Trax Insight
- Breaks can be managed and replayed through Trax Insight and EquiLend
- Seven years of historical data maintained
- Delegated and assisted reporting



THE FIELD EFFECT

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The Field Effect specialises in designing and delivering change across Securities Financing, Collateral Management and Clearing by using our market-leading tools & world class consulting methodology.

We have a proven track record in increasing revenue, reducing capital consumption, strengthening regulatory compliance and lowering operating costs.

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# Are you ready to report for SFTR? COME AND TALK TO US



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**REGIS-TR**, the European Trade Repository, is the G20 reporting specialist and the only TR who can service EMIR, FinfraG and SFTR obligations. Our unique expertise in Securities Finance and Regulatory Reporting means we're the natural choice for your TR partner for SFTR. Find out more about how we can help you meet your reporting requirements and about our new SFTR collaboration with IHS Markit and Pirum, by scanning the QR code.



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