securities lending times

SFTR Annual

2019/20

The final countdown

While the clock is ticking down on the Securities Financing Transaction Regulation implementation date, the industry is—or at least should be—preparing for the Q2 2020 deadline.

SFTR is set to be the most challenging and complicated reporting regime the securities finance industry has seen, will things ever be the same again?

Market participants have encouraged the rest of the industry to collaborate and communicate together during the implementation stages of SFTR. Many have already taken action, with various firms teaming up to form working groups or to create combined SFTR solutions.

There is still a lot of concern within the industry that firms have taken too few steps to prepare for the incoming regulation deadline. A survey, conducted by IHS Markit in May, suggested that over half of those that responded are yet to select a vendor.

In this, the second SFTR Annual, find out how various areas of the industry are dealing with the copious amounts of work needed to become compliant in time for the April 2020 deadline.

Also, read opinion and insight from specific areas of the industry, as well as a broader spectrum.

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.

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In the driver's seat

Richard Colvill of ISLA discusses how the association is helping the industry prepare for SFTR and how its steering committee shapes the future of securities lending

Maddie Saghir reports

How are the ISLA working groups helping industry participants prepare for SFTR?

The International Securities Lending Association (ISLA) has appointed a dedicated project team to tackle the many issues related to this European shadow banking legislation. The team is four-strong and works exclusively on this topic, with the simple objective to help deliver 'best-practice' to the industry. ISLA acts as a conduit to the regulators and, working with the industry, provides feedback to the European Securities and Markets Association (ESMA), challenging many of the finer points within the regulatory technical standards and implementation of the technical standards. The feedback to ESMA is derived from many hours of forensic analysis and debate by steering committee and associated working groups; assembled to tackle the many identified issues. While considered informal, ISLA was fortunate enough to present its findings to the senior policy officer at ESMA in a dedicated forum hosted by one of our member firms. During this consultation, we were able to articulate our findings, and in many cases, provide carefully constructed arguments in the case of no alternatives should our proposed solutions not be granted.

Are the ISLA working groups well attended and what insight can be gained from them?

The steering committee acts as our executive board, deliberating on all issues raised in this forum and in all other working groups. Its 16 members' companies were chosen to ensure a diverse participation and representation from all demographics within the industry. Meeting every two weeks and for up to four hours at a time, the steering committee is well placed to analyse a lot of content and drive solutions. With ISLA chairing and the members acting as stakeholders and a democracy, this group is well placed to debate and vote on all contentious issues and propose the best direction of travel for the entire industry. This year, ISLA has opened up telephone participation to all ISLA members so that this meeting is not exclusively for this group. We continue to welcome anyone who wishes to dial-in.

In addition to the steering committee we also host three dedicated working groups for vendors, tri-party collateral providers and trade associations to resolve numerous topic specific issues. These meetings are held monthly and often raise issues that require escalation to the steering committee. The Trade Association WG is a forum that ISLA chairs, bringing together over 10 associations globally. It provides a platform to share knowledge with the industry in a collaborative way and to ensure a common approach to implementation. We happily distribute all of our project documentation with these associations, so they too can disseminate them to their membership.

Examples of this include our findings supporting issuer legal entity identifier (LEI) gap analysis, agent lender data provision, counterparty and participant LEI construction logic, corporate actions analysis. Alongside our friends at the International Capital Markets Association, we drive innovation in this space and lead by pushing content.

How well is the industry collaborating in preparation for SFTR?

We've seen a rise in interest since passing the 12-month marker, prior to entry-into-force of the Securities Financing Transactions Regulation (SFTR), with many of the outliers now seemingly more focused. Most of the tier-1 banks and larger industry participants who are well resourced, have been taking an active role in their analysis since early 2018. They are well prepared, with many sitting on the board of the steering committee. Many of these board members are industry thought-leaders and subject matter experts who seem very happy to collaborate, recognising that it is in their best interests if there is agreement on best-practice.

There are two dynamics in the Vendor WG, those companies who manage trading platforms and have an obligation to their existing clients, and those who are seeking a commercial advantage by selling solutions in this space. These participants are playing together nicely and are sharing knowledge without encumbrance, seemingly comfortable to be transparent.

What do you anticipate the biggest challenges will be in the first few months of SFTR go live?

We have seen in previous legislation, for example the European Market Infrastructure Regulation, that the matching rates are initially quite low. Many agent lenders will not have a reporting obligation to the regulators until the 11 October 2020, being a phase three entrant, but they will have to provide data to their borrowers who go-live on the 11 April 2020.

The backloading process will be a challenge due to the matching requirements, where applicable. Participants are advised to ensure that they conduct a suitable pre-matching process or contract comparison prior to reporting, to ensure a higher success rate at the trade repository.

Do you think SFTR will provide the industry with opportunities in the longer term?

This reporting obligation is a good initiative as it provides participants with the opportunity to take a long, hard look at their booking practices and controls. It provides the perfect opportunity to clean-up their data and pre/post-trade processes, leading to higher straight-through processing rates and settlement efficiencies.

The unparalleled transparency that SFTR will provide to the regulators will strengthen our product and remove the doubts surrounding our industry, which have led to this legislation being proposed after the crisis in 2007. So the spotlight being shone on shadow-banking is not a bad thing. **SLT**

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Jonathan Adams
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Delta Capita

A price to pay for change and progress

Jonathan Adams of Delta Capita questions whether SFTR will ultimately deliver more efficiency and transparency to the securities finance market

When the first Securities Financing Transactions Regulation regulatory technical standard (RTS) was released to market participants for consultation, it was met with dubious distain. Of the 153 fields, few could imagine how it would be possible to report more than 30 fields. Settlement matching had been on dates, security identifiers, counterparty information and economic terms.

The reporting complexity for the securities finance industry is set to trump other transaction reporting regimes despite the fact that those already live regimes had suffered poor matching statistics, resulting in multiple participants being burdened with significant remediation programmes.

From a processing perspective, a stock loan with the participation of multiple principals, currently treated as a single transaction, will have to be treated as multiple transactions with each of those principal's participation to the trade treated as individual transactions with separate trade identifiers. This essentially mandates point-of-trade disclosure. This will disrupt the existing post-trade Agent Lender Disclosure of Principal (ALDOP) regime with its deadline of one day after settlement.

It begs the question, how can a reporting regime of this complexity, fraught with the risk of matching failure, serve the regulator in determining the potential for systemic failure? Moreover, how can it benefit market participants?

The penny drops

With the finalisation of the RTS market participants in discussion with the industry's trade associations, vendors and consultancies quickly came to the realisation that the immense challenges were not going to be solved by the individual efforts of firms working in isolation; it would require the collaboration of all participants irrespective of their role in the securities finance 'food chain'. And so, a journey of discovery was embarked upon.

The fallout is significant. Within seemingly identical businesses, firms' varying approaches to lifecycle event processing will be a showstopper in a transaction reporting context.

Even when two firms employ the same technology vendor solution, there is sufficient flexibility to approach lifecycle events differently. For example, one firm may treat a lifecycle event as an amendment to a transaction (retaining the original trade identifier) whereas another may close the transaction and create a new transaction (creating a new trade identifier). In a reporting context, trades that matched on day one will no longer match after a lifecycle event.

Solving for this challenge requires an industry-wide consistent approach.

Today's world

The roles of the types of institution in the securities finance 'food chain' to a large extent have remained unchanged irrespective of jurisdiction. The bulk of the supply is provided by the beneficial owners many of which lend via their global custodian. There are significant exceptions, some beneficial owners with their own lending programmes and some beneficial owners participating in third-party lending programmes, either via another custodian lender or via a dedicating third-party lending provider. Whether directly or via a lending programme, stock is lent to broker dealers and prime brokers. Prime brokers on-lend to hedge funds. Lending platforms and other intermediaries (voice broking still exists) serve the prime brokers and broker dealers; there is no disintermediation.

There are two reasons why this is the case. Credit disintermediation by prime brokers serves to protect the beneficial owners. Secondly, it has usually not made economic sense for beneficial owners to invest in the technology and expertise required to run their own programmes. Income from securities lending is still considered as discretionary, non-core and more effective when pooled in custodian lending programmes with flexible product and collateral options.

Prior to the financial crisis of 2008, the function of a highly effective settlement was a source of competitive advantage over a less efficient counterparty. For example, knowing that there was a good chance that a counterparty would fail to deliver provided the borrower with the use of the cash collateral, punitive charges for failing and the arrangement of a temporary borrow.

"The unintended consequence of SFTR is that the industry has no option but to improve data quality"

However, the overall impact was chaotic with settlement bottlenecks impacting heavily on market liquidity, so eventually tools such as contract comparison became available to reduce settlement failures. It reinforced that the direction of travel for the securities finance market (as with markets in general) had to be innovation to reduce friction. This had been achieved where markets are on-exchange and clear via central counterparties because clearing processes require process standardisation driven by the central counterparty.

However, bilateral over-the-counter (OTC) activity, such as securities lending, remains largely unchanged despite the availability of lending platforms and clearing solutions. The technology that supports the industry has evolved to support new products and new jurisdictions, but industry participants adopt the changes with varying levels of sophistication. Over time, each firm has addressed the evolutionary changes individually, hence a variety of approaches to solve for the same change.

To sum up, despite the emergence of trading platforms the bilateral securities finance 'food chain', business process and technology have remained largely unchanged for decades and the absence of industry-wide standardisation has held back the uptake, development and investment in the next generation technology and cost reducing innovation. Until the SFTR regulation, with competition for resources, cost controls and the burden of other regulation, industry participants have had to focus on 'keeping the lights on'. Where firms have invested in newer enterprise technology, implementations have sometimes been lengthy and costly, making it difficult to realise the cost benefits of the investment, reducing the incentive for other firms to invest in wholesale change, giving tactical improvements to the front office experience.

Unintended—but highly desirable—consequences of SFTR?

The unintended consequence of SFTR insistence on so much more data being matched is that the industry has no option but to improve data quality and adopt a far greater level of standardisation through industry collaboration.

SFTR indirectly forces the digitisation of data that in some cases remains undigitised (for example, legal agreements) and elimination of manual task and processes. It also forces the standardisation of data in order for it to match at the trade repository. Therefore, every element of transaction data has to be available digitally.

More generally, even when budgets and resources are constrained, it forces investment in streamlining industry processes.

Unlike other traded products represented by a single trade association, the securities finance industry is served by multiple trade associations—the International Securities Lending Association, the European Repo and Collateral Council and the Association for Financial Markets in Europe, not forgetting the Risk Management Association, Pan Asia Securities Lending Association, South African Securities Lending Association and Canadian Securities Lending Association. In solving for the common challenges that have emerged as a result of SFTR regulation, these associations have consulted one another and collaborated.

It has precipitated the emergence of the first securities finance industry consortium where banks have collaborated to agree approaches to common issues and an industry-wide SFTR test strategy, with test packs and expected results.

Perhaps a little late for the SFTR compliance deadline, the industry (at the association level) is collectively investigating a common domain model for securities finance. This will form the foundations of next-generation technology, eventually setting the course for the adoption of distributed ledger technology. It will reduce the time, cost and risk of developing, integrating and implementing new technology, paving the way for rapid innovation.

The industry is on a journey to solve challenges collectively, collaborating on common complex process challenges to reduce cost (individually and collectively), which will improve efficiency of the marketplace overall.

This journey will over time disrupt the securities finance ecosystem enabling sophisticated beneficial owners to lend low margined supply directly to large end-user firms. Prime brokers will perform a facilitation or agency role, disintermediating themselves from a credit perspective, reducing expensive balance sheet usage. The industry landscape will change and may bring greater success to emerging platforms and trading venues.

While the SFTR regulation may appear to be a business burden, it will be the catalyst for change across the securities finance industry as whole. The full digitisation of all elements of the data and resulting improved data quality will smooth the path for greater innovation, automation and cost reduction and precipitate fresh approaches to a business that in places has come dangerously close to being unprofitable.

Call to action

It appears, that however positive, there is always a price to pay for change and progress. The securities finance industry has traditionally been a very relationship-based industry and its eventual streamlining will diminish that benefit. Moreover, it will change the business model for the supply side of the business and transparency will cause some beneficial owners to lend securities in jurisdictions that have not yet been impacted by SFTR or retreat altogether.

> ***The industry is on a journey to solve challenges collectively***

The industry as a whole needs to develop metrics on the impact to asset liquidity if certain types of beneficial withdraw from lending. More generally, firms that operate pooled lending programmes will need to develop strategies and infrastructure to re-incentivise beneficial owners to participate in lending. Those firms that are essentially conduits for end users will also need to develop strategies to deliver and capture business value in the medium to long term ecosystem. After all, infrastructure plumbing services may prove to be temporary if distributed ledger technology is the direction of travel.

Getting ahead of SFTR with Trax and EquiLend

Sunil Daswani of Trax discusses how its platform can help to mitigate the regulatory risk exposure arising from SFTR

The Securities Financing Transactions Regulation (SFTR), the most significant and ambitious regulation in the securities financing market, comes into effect on 11 April 2020.

Based on industry experience of other reporting regulations, such as the derivatives-focused European Market Infrastructure Regulation (EMIR), we know that the firms that have to comply with SFTR reporting will need to get a head start on user acceptance testing (UAT) if they wish to report their transactions in an accurate, complete and timely manner.

The regulation will create greater transparency, which can be seen as a major positive for both participants and regulators of this multi-billion dollar industry. European regulators are addressing the uncertainty and lack of transparency across the financial markets that came to the fore during the 2008 global financial crisis.

Market participants have risen to the challenge by coming together to deal with the regulatory requirements via the industry associations: International Securities Lending Association (ISLA), International Capital Markets Association (ICMA), FIX & the Association for Financial Markets in Europe (AFME), and also via Trax & EquiLend's own SFTR Working Group, which provides a forum for over 25 organisations.

This helps to ensure challenges are tackled and ironed out by the industry itself, or by reverting collectively to the European Securities and Markets Authority (ESMA), which has been responsive.

Nevertheless, getting reporting wrong could be expensive and harmful to market confidence. The UK's Financial Conduct Authority (FCA) has made it clear that fines or penalties will be imposed for non-compliance of reporting. Non-compliance encompasses over reporting of transactions, mis-reporting of transactions, under reporting of transactions, late reporting of transactions and incorrect reporting of transactions. Given the securities finance industry estimates there may be in excess of 100 million transactions per day, which indicates the scale of reporting that will be required, with up to 155 fields of data per transaction.

Pre-matching of trades has not been a regulatory requirement and whilst it is still not required by regulators, with SFTR and the Central Securities Depositories Regulation (CSDR) imminent, this may result in a situation where regulatory transaction reporting or failed trades is more serious and has a negative financial consequence, given that the industry has not benefited from pre-matching. Trax and EquiLend have been in talks with their clients about the potential benefits from the use of Trax Match Repo and EquiLend's Unified Comparison. Unsurprisingly, some clients who have not looked to pre-match their trades in the past are considering these options now.

On the front foot

Mindful of their clients' risk exposure, Trax and EquiLend have accelerated the build of our SFTR solution, and are currently offering free UAT to clients and prospects, a year out from go-live day. The offering benefits from seamless connectivity from front-to-back, starting with trading—be it on-venue or bilateral through to a reporting dashboard.

Eight key steps for the SFTR solution:

1. Unique transaction identifier (UTI) generation at point of trade via next generation trading or post-execution
2. Display, management and reporting of loan sub allocations from end-to-end
3. Access to the UTI portal, a centralised location where clients can generate or share UTIs with their counterparties
4. The UTI Portal also allows clients to give access to their counterparties without the need for them to contract with us
5. Data validation and enrichment throughout the life cycle of the trade or transaction, delegated reporting and a full status dashboard to manage exceptions
6. The ability for agent lenders to provide a customised view of the Trax Insight dashboard to their clients with view options set by the agent lenders
7. Full visibility and traceability of the entire reporting process before and after reporting transactions to the trade repositories
8. Our solution covers all the complexities of securities lending, repo and margin financing given our expertise and strength of all three products across our two organisations

Trax and EquiLend have made a point of working closely with approved trade repositories to build connectivity, and to ensure greater flexibility for clients who may select the trade repository/repositories of their choice. Detailed below is a summary of what can currently be tested as of June 2019, with additional features set to be added soon:

- UTI generation and sharing
- Straight through processing flow end-to-end
- Eligibility, enrichment and validation of
- transaction data
- Monitoring of report statuses via Trax Insight
- Preparation of reports to trade repositories
- Testing report outputs from trade repositories
- Participation in the industry wide UAT testing on our platforms

When EMIR was introduced, the majority of issues that clients faced may have been avoided had firms made an early commitment to UAT.

Lack of preparation and testing resulted in a dearth of clarity regarding the process for generation and sharing of UTIs. In addition, inconsistencies in the inter-trade repository reconciliation process were for the large part not identified until after 'go live'. The combination of potential system problems and the discovery of possible missing static data needed to populate fields had not been spotted prior to going live, creating a backlog of issues for some organisations. Trax and EquiLend are working to support clients in addressing these issues earlier in the process. Through early testing, gaps can be identified and issues resolved, helping to mitigate the regulatory risk exposure arising from SFTR.

Sunil Daswani
SFTR product management
Trax


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SFTR: the red pill or the blue pill?

Martin Walker of Broadridge discusses how firms should open their eyes to the consequences of failing to adequately prepare for SFTR implementation

> ***"You take the blue pill—the story ends, you wake up in your bed and believe whatever you want to believe. You take the red pill—you stay in Wonderland, and I show you how deep the rabbit hole goes."***
>
> ***The Matrix***

In the film 'The Matrix' taking the blue pill would have returned the hero Neo to the state of blissful ignorance of reality that most humans lived in. Taking the red pill revealed the true reality of the world. When it comes to the Securities Finance Transaction Regulation (SFTR), it is very comforting to believe you can simply take the blue pill by trusting that a series of steering group meetings, the right infrastructure and drawing a collection of vaguely defined boxes with arrows between them is enough to comply. The trouble with simply taking the blue pill is that eventually you will face the consequences; spiralling costs, disrupted business focus and, potentially, fines for failing to meet the reporting requirements. Though the deadline for SFTR compliance is fast approaching, there is still time to take the red pill and face up to some uncomfortable truths now to avoid a great deal of pain in the future.

Market participants face huge challenges around SFTR compliance. Many firms are still in the nascent stages of defining how their target operating model will look. Some are simply making blue pill assumptions. Others have been so distracted by the second Markets in Financial Instruments Directive (MiFID II) and preparations for Brexit that they have not had time to make key decisions around data, process, technical and organisational models. Then there has been the on-going dialogue between the industry and regulators to drive out ambiguity in the regulations. While the temptation is simply to plunge in and do things because of the shrinking timeline for implementation and testing, it is critical that the big questions are properly aired in your organisation.

The big questions

Where is the data going to come from? Much of the data simply does not reside in existing core trade processing systems. Data point gap identification can highlight where required data is missing and a plan put in place for sourcing it. Firms must give further thought to how they will enrich data and what elements of data enrichment will take place through third party solutions. If your firm has been making assumptions about where data points would come from (whether from internal or external sources), now is the time to stop and work through each data point to get definitive answers.

What exception management flows (including counterparty interaction) need to be designed? Following go-live, ops teams will spend a lot of time and effort identifying and resolving breaks and mismatches. Setting out a clear process for exception management and how ops teams will interact with counterparties to resolve discrepancies in advance will lessen the operational strain immediately after go-live.

How should processes and teams supporting SFTR interact with existing securities finance processes? A great many of the breaks and exceptions that will be identified by trade repository reconciliations or 'pre-matching' prior to reporting will also appear as exceptions in existing processes related to contract compare or trade/settlement instruction matching. There is also a clear overlap between SFTR and the European Market Infrastructure Regulation (EMIR) related business processes for the management of unidentified transaction identifiers (UTIs) and legal entity identifiers (LEIs). These types of problems do not just create costs in the reference data or regulatory reporting teams. When there is a break due to LEI or UTI issues, the query can bounce around the organisation, including the front and middle office until a conclusion is reached about what are simple questions. Who have we traded with and which trade are we all talking about? These breaks, which can persist for days in some scenarios are a major source of operational risk and potentially, regulatory fines in future.

What should the roles and responsibilities look like for relevant functions? Roles and responsibilities need to be clearly defined to avoid confusion where some work is duplicated, and other work may have been completely missed. No firm, particularly those in the securities finance business, can afford the costs that would occur from lack of ownership of problems or unclear escalation paths.

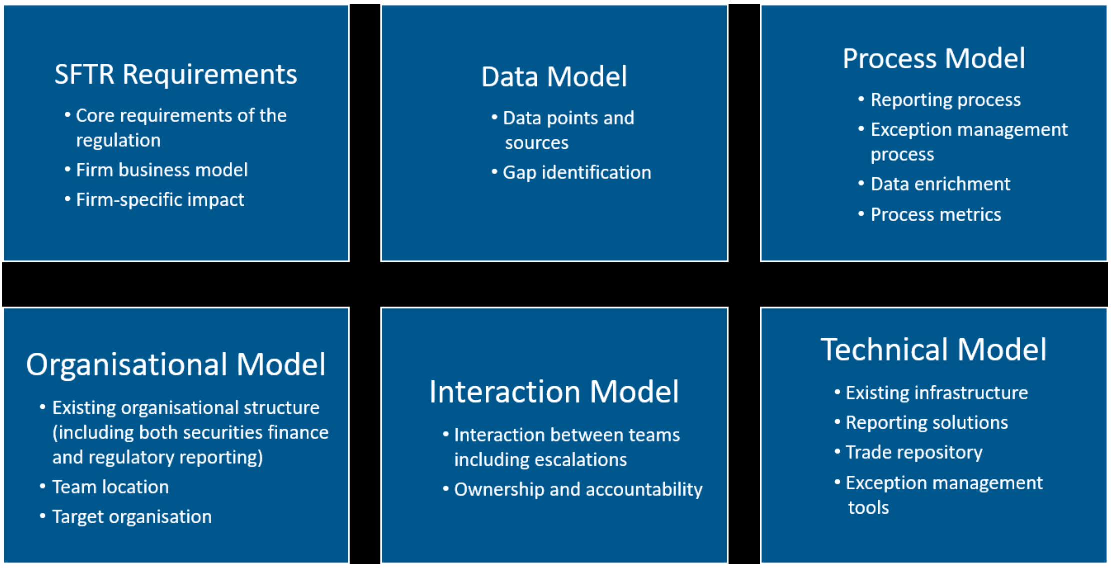
How are you going to use data to manage and change the processes? Everyone in capital markets seems to be talking about data these days. However, the data in many firms and functions is incredibly poor quality.

An effective data-driven process for management, control and change requires up-front thinking as part of operating model design. Do you really want to repeat the mistakes of so many other major changes? Many people will be familiar with the experience; operational and regulatory teams are initially overwhelmed and management demand data and metrics about the extent of the problem. Data that comes from the very same teams that are sinking under work. It is hardly the basis for generating high quality data and making good decisions.

Designing clear and accurate reporting of process metrics will enable managers to measure the volume of work and efficiency of processes. It can also identify where to focus efforts to deal with the root causes of problems and where to invest in process improvement in the future.

Is your current plan genuinely joined up? Finally, there is a fundamental need for all firms to look at their model, in terms of both infrastructure and business process and ask if it is genuinely joined up. Many of the obvious gaps at both the firm and the industry levels involve the exchange of UTIs. Do you hope pre-matching will ensure you always have the same UTI as your counterparty? Well what if your counterparty is using a different reporting service? What would happen if, despite the best intentions of the 'waterfall', counterparties generate (or do not generate) UTIs as agreed. Do you have smaller counterparties you trade with less frequently? Then there will inevitably be some need for manual exchange of UTIs. Do you know who will do this and how?

SFTR Wonderland



More than just boxes

Based on our experience, the high-level view of an SFTR operating model should look like the diagram above:

However, effective targeting operating model design is more than just a collection of boxes on a PowerPoint. It needs to capture a picture of current reality, clearly articulate the needs the operating model has to fulfil and provide real solutions. To turn the target state into a practical reality requires significant effort. Generally, implementation is harder work than creating the blueprint, but without the initial design it is unlikely the new model will work effectively. Ideally those designing the operating model are people who have had practical (and successful) experience of implementing change and are available to help as you move from design to implementation.

Broadridge can help

Broadridge is helping existing clients and other market participants to cut through the complexity of SFTR and create a long-term vision for their SFTR operating model. This provides a practical blueprint for front-to-back changes to overall architecture, organisational structure, business processes and where appropriate, location strategy.

Broadridge's SFTR consulting service offers:

- Consultancy to define target operating models for SFTR that reduce the cost of compliance and operational risk
- Project management, business analysis and testing support to augment firms' internal project teams to help firms get over the line with SFTR and hit reporting deadlines
- A long-term strategic approach to operating model definition that will position your firm for future phases of the reporting mandate and facilitate further automation of the securities finance process

Broadridge's SFTR consulting service leverages our deep knowledge of the securities finance business, lessons learned from EMIR and MIFID trade reporting and the expertise of staff who have managed large-scale transformation projects in banks.

Martin Walker
Head of product management
Broadridge SFCM

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SFTR: less than a year to go

How can firms become compliant with SFTR ahead of its implementation date, which is just under a year away. Fabien Romero of IHS Markit and Simon Davies of Pirum explain

With Securities Financing Transactions Regulation (SFTR) due to go live in its first phase on 13 April 2020 there is now under one year for many firms to be compliant.

Following the ratification of the SFTR regulatory technical standards (RTS) by the EU parliament on 22 March 2019, the European Securities and Markets Authority (ESMA) has published its much awaited consultation on proposed level three guidance. Firms now have until 29 July 2019 to submit contributions under the consultation timeline, then there will be a period where the finalised guidance notes will be used to clarify some of the outstanding points the industry is waiting for.

Since the regulation was ratified, Pirum and our SFTR partners, IHS Markit, have seen an increase in activity from firms preparing for SFTR compliance, as well as new clients signing up for our regulatory reporting services. Furthermore, existing clients are ramping up their efforts, particularly around how they are going to adapt their operating model in order to maximise the pairing and matching rates at go-live.

Is the industry ready?

No, not yet! I don't think anyone would be surprised by that.

Firstly, firms are working though some complicated issues at an industry level, adopting the emerging industry best practices, along with dealing with these changes at a reporting level, firms are having to adapt how they process transactions and the resulting life-cycle events.

Secondly, we need to wait until the level 3 regulatory guidance has been completed. Specifically, market participants are looking for further clarity on how to report a number of scenarios. Following this period of consultancy we are likely to see guidelines published in Q4 2019.

Thirdly, there is no requirement to report yet, and there are no authorised trade repositories (TRs) yet to send reports to. Rightly, the industry is taking full advantage of the timeline afforded to them by the regulators to prepare for the go-live date.

Importantly, we've seen firms engage across their business units and regulatory reporting teams to work on their solution designs and through our design partnership group (DPG) we've seen an impressive level of engagement to deal with the challenges the regulation creates. The industry has learnt from issues in the past, and whilst firms are not fully compliant, we've seen an increase in their activity in preparing for the regulation since the ratification of the RTS took place.

The consultation period seeks to deal with some of the outstanding issues the industry is waiting for clarification on, however it has thrown out a few further questions. At the same time some of the more significant topics covered include:

- **Backloading:** how to approach the backloading requirement at reporting start date, including a discussion on the pros and cons of reporting all open trades on day one
- **Reverse stock borrow loan:** should 'cash-driven' securities loans be reported using the repo reporting template
- **Effective date:** should modifications be reported once they 'have taken place' as opposed to when they are initially agreed?
- **Collateral re-use and reinvestment:** where a non-financial counterparty (NFC) receives mandatory delegated reporting from more than one financial counterparty (FC) should each FC submit a separate reuse/reinvestment report on behalf of the NFC. Does the same apply to voluntary delegation?
- **Non-financial counterparties:** should an EU domiciled NFC fulfil their own reporting if the FC is non-EU domiciled

Running at 178 pages and 85 questions, there is a lot to consider, and while the paper gives an indication on how ESMA are thinking about dealing with some of the issues that the industry faces, there could be changes once the final guidance notes are published. Although that gives very little time to deal with those changes when it comes to meeting the initial phase one go-live date.

There is no time for complacency given some of the reporting complexities. There is a need for both data and process remediation prior to go-live along with the introduction of new industry practices (particularly around agency lending disclosure (ALD) and collateral reporting treatments). A lot of work needs to be completed before firms are ready to start reporting.

Are you ready?

For those firms still in their solution design and vendor selection phases, now that the EU parliament has ratified the RTS, there is no time to waste in galvanising focus and ensuring there is necessary support internally to start or accelerate your project. You should also consider what data and process remediation is required. As part of our SFTR design partnership group (DPG) we have taken the time and effort to listen to what our clients need and working out how we can support them in their reporting solution. Around 830 hours have been spent by the DPG reviewing requirements and discussing how best to achieve these—along with the many hours invested by the industry bodies in defining best practices. Naturally, this has taken time, as firms grapple with the requirements and gain a broader, more detailed understanding of what they need. This hasn't delayed anything and has added enormous value to both our delivery programme and our clients. Between Pirum and IHS Markit, we've dedicated over 30 resources to our joint programme over the last two years and we're now in the late phases of our project. Most importantly, we remain on track and continue to progress well including client integration and testing.

What this means in practice is that we have firms on-boarding and integrating file feeds to our service well ahead of the go-live date for reporting, and ahead of our pre-production testing planned to start in Q3 of this year.

We actively share and review our progress and pipeline with the DPG and our clients, as part of our ongoing communication with the market. We now have 48 firms committed to using our solution representing the broad range of securities finance market participants. Within this group we have agent and principal lenders, prime brokers, broker dealers, asset managers and funds all represented. In terms of product representation this group covers securities lending, commodities lending, repo, buy-sell back and margin lending, so we've been able to design our solution for every combination of participant and product.

Helping you to be ready

With such demanding requirements, how can IHS Markit and Pirum help firms to be compliant with their SFTR reporting?

Firms can leverage their existing experience and connectivity to both IHS Markit and Pirum in the Securities Finance and regulatory reporting spaces, alleviating some of the effort required for SFTR compliance.

IHS Markit already has internationally recognised expertise in data management and provides trade reporting services for the reporting regimes of the following regulators: Australian Securities and Investments Commission (ASIC), Hong Kong Monetary Authority (HKMA), Japan Financial Services Agency (JFSA), Monetary Authority of Singapore (MAS), OTC Derivatives Regulators Forum (ODRF), US Commodity Futures Trading Commission (CFTC) and in the EU under European Market Infrastructure Regulation (EMIR).

Additionally, clients can take advantage of Pirum's decades long expertise in securities finance lifecycle management and automation, delivered through its award-winning contract compare solution, helping address many of the challenges of the SFTR dual sided reporting and unique transaction identifier (UTI) generation and dissemination.

The result of this interoperable and seamless combination delivered by two of the Securities Finance market leaders, is a reporting solution for Securities Financing Transactions Regulations (SFTR) that sets an industry wide standard. Providing the foundation needed to reconcile trading and collateral activity down to the necessary UTI and legal entity identifier level of granularity. The SFTR solution offers participants turnkey connectivity to trade repositories, the reports produced by the TR with associated trade status. This modular, fully hosted, solution leverages our proven track record of delivering industry wide reporting solutions and our years of partnership with the securities lending community.

The service is composed of the following modules, providing an end to end solution for all in scope SFTs:

- **Data exchange:** leveraging IHS Markit and Pirum's extensive connectivity to collect all the underlying information required for SFTR reporting
- **Data warehouse:** full history and audit trail of all received transactions retained for more than seven years and data enrichment using centralised reference data
- **Data reconciliation:** reconciliation of all transactions to the SFTR required standard with UTI generation and management
- **Reporting:** creation of ISO 20022 reporting messages and management of all reports to a TR of the client's choice
- **Delegated reporting:** management of delegated reporting including access for underlying clients to view and affirm the reports made on their behalf

Key benefits:

- **Built-in infrastructure and relationships:** tap into the existing relationships that IHS Markit and Pirum have built across the securities finance industry. Our network of data contributors, built over the last 20 years, represents $15 trillion of inventory held by over 120,000 underlying funds. We process and match over 3 million transactions daily using a reporting specification that already covers the majority of fields required by the latest draft of the SFTR legislation.
- **Flexibility:** use the solution's modular nature to meet your individual needs and structure. Flexibility starts with the data ingest architecture all the way down to trade reporting as the solution will be connected to every TR.
- **Future-proof compliance:** get a solution that has the flexibility to deliver transaction reporting across future legislation, which might require transaction reporting in other jurisdictions, as well as any additional transparency/risk reporting framework that could be mandated across the securities finance industry.

Things that make you go owwww

SFTR experts at REGIS-TR discuss some of the less obvious pitfalls in the run up to SFTR

Many aspects of the Securities Financing Transaction Regulation (SFTR) workload have been obvious from the start. Others—less obvious, possibly trickier—may only emerge as you go along. Some of these lurking banana skins are coming up in industry working groups and in our discussions with our in-house experts, notably Clearstream product delivery guru Neil Davies. In no particular order—and most will hopefully be resolved before reporting starts—these are a handful of the potential headaches.

Backloading

Backloading, as of course, you know, is the requirement to report outstanding SFTs traded before going live. If you go with level 2 approach, you don't report your the open-ended transactions on the first day, but hang on to them until 180 days after your start date. From that point, you have a maximum of ten days to submit the ones that are still open.

So far, so—relatively—straightforward. If you're a bank or investment firm in the first wave of reporting, this means constantly updating any SFT with the slightest likelihood of still being live on 8 October 2020. You then have until 18 October—a Sunday—to submit them to your TR. Bear in mind, however, that the execution timestamps on those trades might still have to be within one hour of the stamps on the other legs. And what about the other reconcilable fields? Also, 12 October is the first reporting date for funds. Your first dual-sided reporting with fund counterparty newbies comes bang in the middle of the unique trade identifier (UTI)-riddled runup to your backloading deadline.

There's another potential issue here, too. Net exposure managed collateral updates and reuse are reported daily to the TR. Fine, except what happens if some of the trades to which the collateral is allocated are waiting to be backloaded? They'll be invisible. Same goes for reuse data reporting.

UTI sharing

The UTI issue is sticky anyway, but once it's decided which counterparty creates it, how do they communicate it to the other one? All the main vendor solutions can generate a UTI—great if both parties use the same vendor, but not if they don't. There needs to be some quick, efficient and inexpensive system to deal with this—a market utility?—and so far, there isn't one.

Agent lender data sharing

The US Risk Management Association has said something rather interesting about agent lending and unintended consequences. If an agent lender brokers a trade between, say, a borrower in the scope of SFTR and an out-of-scope beneficial owner—or vice-versa—the in-scope party must rely on that agent lender for most of its reporting data. Fine, and they are preparing SFTR solutions for this, but it's a huge obligation, especially for those outside the EU. If agent lenders are not fully geared up for SFTR reporting needs, could there be a migration away from the EU?

What time is it?

This might sound too obvious to even mention, but we've heard that one of the biggest issues with transaction reporting has been people not figuring out the correct times, and possibly even the days. Think execution timestamps, reporting in UTC, the international dateline, different bank holidays.

Morphing regulation

The European Securities and Markets Authority's (ESMA) Level 3s—guidelines and new validation rules—were published at the end of May, with a two-month consultation period to follow. Watch out for the fine-tuning; the final clarifications aren't due till Q4 and could have a very material impact on what is being built currently. The whole industry could feel the effect.

Phased roll-out

First, there is the reporting go-live programme, with new groups of institution coming on board at three-month intervals. Backloading comes later, also at three-month intervals, and this will mean clashes, first in October 2020 (reporting go-live for funds/backloading for banks and investment firms) and then in January 2021—reporting go-live for non-financial counterparties (NFCs) and backloading for central securities depositories (CSDs) and central counterparties (CCPs). On top of this, the number of reconcilable fields will be increased periodically until January 2023.

Phasing makes sense for many reasons, but it means that nothing will be quite stable for the first two years, with counterparties all at different stages and everyone dealing with across-the-board changes at the same time.

Reuse data reporting

Even if you're delegating all your main trade and collateral reporting, keep an eye out where reuse data reporting is concerned. You will need to provide an overview of all your SFT-based collateral reuse activity—even from across product lines—and this is very hard for someone else to do for you. It looks like most institutions will need to do their own reuse reporting.

The ISO XML

XML is a language with strict syntactical rules, and considerably more complex than CSV. Reporting firms that do not have staff already skilled in XML will need to set up training, and/or hire experienced analysts and programmers, and get third-party software tools for conversion, analysis and testing (the ISO 20022 website is the best starting point).

Booking model

For dual-sided reporting, both counterparties need to book trades and lifecycle events the same way to avoid reconciliation breaks. Corporate actions could be a minefield—many institutions will be using different legacy platforms to manage their SFT activity, and trade modifications made as a result of a corporate action will simply not get matched unless the parties can figure out some sort of workable system. On the bright side, the ESMA level 3s have gone some way towards clarifying the great actual-or-contractual reporting model debate.

In fact, Neil Davies thinks the booking model could prove the worst headache of the lot: "It'll be interesting to see how well the industry adapts their booking and reporting models to the myriad of guidelines, best-practice papers and Q&As still coming out, and whether there'll be enough detail even in all these to cover the full complexity of the SFT business."

Target operating model

There's getting ready and then there's the afterlife. After going live, there's overseeing your reporting, finding and resolving reconciliation breaks—have you considered the differences between yours and your counterparties' operating models?—and generally keeping up. Issues will be how many staff, what level of knowledge do they need, when and how to start training, what facilities you will use for monitoring—your TR's dashboard? your vendor's? Do you use the vendor's pre-TR reconciliation? There will be a lot of this stuff. Work out as much of it as possible during planning and testing.

Here to help

All in all, it does make sense to use a trade repository that knows and understands the market. This applies regardless of your reporting model; full or partial outsourcing, via a vendor, direct reporting to the TR or all three. REGIS-TR has unrivalled access to in-house securities lending, repo and collateral management expertise. Clearstream, one of our parent companies, acts as principal in securities financing transactions and as a triparty agent offering repo, securities lending, collateral management services and CCP margining, while our parent company groups include Eurex Repo and BME Clearing Repo. REGIS-TR is the trade repository for our group entities and their clients, and for the flows from group entities offering delegated reporting services.

For clients, this has practical benefits; we understand the market, the regulations—we have been involved in the consultation process throughout—and the implications for both firm and TR. This is reflected in our solution design and our day-to-day services. Our pre-user acceptance testing (UAT) SFTR environment is open for firms to test their XML ISO 20022 messages against the latest ISO schemas. We plan to extend the testing availability in July to include account opening, data processing, intraday (same-day response messages) and web searches and will follow this with reconciliation testing in August and finally the end of day reports and public data in September. These testing facilities are open to our clients and to other firms looking to test our solutions. Our account model is highly flexible. As an example, clients that outsource their SFT submissions through our vendor partners or other entities can also open an account for reporting on their own behalf, which will give them full feedback and reporting on both their direct and their delegated SFT submissions. There is also a low charge non-reporting option offering read-only access to this data.

> ***"We are working with our partner Market FinReg to provide detailed SFTR training and insight"***

Our support network, which is free of charge to our clients, offers fluency in all the main European languages in addition to several others. Our expert client services team has in-depth knowledge of the regulation and our solutions, with a response time averaging three hours. We work with our clients if an issue proves complex, constantly stress-test our systems and contact a client directly if our monitoring tools detect an unexpected change in reporting patterns. Our relationship managers, who can be contacted directly for assistance with all aspects of our regulatory services, hold regular user groups throughout Europe to discuss current issues and regulatory developments.

REGIS-TR will continue to support the industry in the runup to SFTR. We are working with our partner Market FinReg to provide detailed SFTR training and insight, and details of our coming SFTR Webinar, implementation groups and other information will be made available on our website.

Navigating the SFTR landscape

DTCC's Valentino Wotton talks about trends, trade repositories and the possibility of SFTR 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've added 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 trade repository 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-October 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 and reverse 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 in early 2018 and 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 best to exchange UTIs, leveraging the benefit of our experience of operating under the European Securities and Markets Authority (ESMA)'s first systemic risk monitoring regime, EMIR, as the largest trade repository. We began reaching out to users to explain updates to GTR functionality resulting from SFTR in mid-2018 and continue to do so. We're making it easy for existing users to extend their service to SFTR by requiring them only to complete a DocuSign service request to add SFTR to 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 October 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 provide a testing simulator to give firms the ability to begin identifying gaps in their data in advance of UAT. This launch schedule ought to convince firms to begin their own internal preparations as soon as possible.

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

Don't wait another day. April 2020 is the implementation date for the first phase of compliance and will impact investment firms and credit institutions. That 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 has been a lot of talk about 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.

With data being one of the main challenges of the SFTR obligations, we have partnered with Xceptor, the leader in data-centric intelligent automation software, to enable clients to leverage Xceptor's data transformation capabilities within GTR for SFTR. This partnership will significantly lessen firms' operational burden by enabling them to enrich, normalise and validate data before submitting it to a trade repository.

We have also partnered with Driot, the leader in real-time transactional compliance, to enable market participants to leverage Droit's reporting eligibility capabilities within DTCC's Pre-Reporting Transformation Services. As an optional service, the Droit eligibility platform allows clients to determine the full global cross-regulatory reporting implications and obligations associated with a transaction in real-time. For every reporting decision, the Droit platform will provide complete auditability and traceability through to fully digitised regulatory text.

Firms will be able use these Pre-Reporting Transformation Services to enrich reporting with both internal and external reference data, manage exceptions leveraging native workflows, and benefit from real-time gap analysis and testing.

Alongside cost-effective vendor connectivity and our Pre-Reporting Transformation Services, 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 trade repositories preparing for SFTR?

All TRs seeking authorisation to provide SFTR reporting will have become intimately familiar with the detailed requirements of the regulation, including a number of technical standards approved by the European Commission late last year.

Overall, 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 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.

Why maintain multiple solutions for diverse compliance regulations?

deltaconX's Fabian Klar explains why he left a market infrastructure facilitating reporting to provide an intermediary service that actively supports market participants

Unify your reporting processes with our deltaconX regulatory platform

When the reporting component of the Securities Financing Transactions Regulation (SFTR) comes into effect in 2020, market participants will face significant additional reporting challenges. SFTR will certainly be the most complex regulation in terms of reporting. Therefore, we are convinced that with our approach of unifying and automating all relevant data collection, enrichment and validation processes across European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Regulation/Directive (MiFIR/MiFID II), Swiss FinfraG (FMIA) and SFTR into a single solution—deltaconX—will significantly reduce your efforts and costs to comply with multiple reporting regimes, and allow you to refocus on your core business.

Throughout 2019, we have participated in many conferences in which SFTR was the main topic of conversation. We heard a lot of people talking about the challenges and issues for the market to comply with this complex regulation, but only very few of the people talked about solutions.

Although we cannot resolve all the issues and challenges the market is facing—for example, the agency lending disclosure (ALD)—process that needs to be aligned), we support our clients with our innovative deltaconX software-as-a-service (SaaS) platform to overcome some of the main challenges.

Meeting the challenge of fragmented source data

Data can be received and processed from multiple internal and external sources to generate complete reports for our clients. This means that if our clients use multiple systems to capture different types of SFTs, we extract the required data from those various sources. Our customers are therefore not obliged to centralise all these data internally in advance of ingestion by deltaconX. We can also source information from different trading venues, clearing houses, brokers, etc. and combine those flows into one complete report to be sent to the client's trade repository of choice. Therefore, the implementation efforts of our clients are significantly reduced.

However, some data may not be available in the transaction capture systems, for example, the type, year, and version of the master agreement. Usually, our clients use a dedicated agreement with their counterparties and specific transaction types. That information can be set as a default value in our system so that our clients do not have to provide all information in each transaction, but they can use default values. Our clients can decide which values should be defaulted under which condition and the same is possible for data mapping.

Supporting UTI generation and sharing

One of the most discussed topics is the unique transaction identifiers (UTI) generation and sharing between counterparties. The European Securities and Markets Authority (ESMA) has published a waterfall schema on who needs to generate the UTI. Our system can receive reports including UTIs generated by the counterparties, central counterparties (CCPs), or trading venues. However, in case the UTI is missing in the data set, for example, because our client has agreed with a specific counterparty that they are systematically generating the UTI, deltaconX can generate UTIs according to market standards and send the UTIs in an end-of-day report to the counterparty, even if the counterparty is not a deltaconX user. For our clients, the UTI generated by our system will be sent back to the client's source system, so that their records are complete.

Ensure the use of valid LEIs

Generally, our clients do not identify their counterparty with a legal entity identifier (LEIs). Our system is freely configurable so that our clients can still use their internal counterparty identifiers, and we transform those into valid LEIs.

Our deltaconX platform contains a counterparty repository in which all static data including LEIs have automatically loaded from the Global Legal Entity Identifier Foundation database on a daily basis. Hence, we can ensure that only valid LEIs are reported to the trade repositories by our clients.

Capture and report SFT lifecycle events

All material changes to the securities finance transactions that need to be reported are detected by our deltaconX regulatory platform and the respective message to the trade repositories are created automatically. Daily collateral and valuation updates, as well as margin data reports, are automatically generated and sent to the trade repositories. Our clients can, therefore, be assured that they comply with their reporting obligation without spending many hours per day generating complete reports for each and every lifecycle event.

Reporting in ISO 20022 format

We have created a generic XML schema which contains all information to fulfil the reporting obligation under multiple regulations, including SFTR. The required data will automatically be extracted from the customers' source system(s) so that our deltaconX platform can generate the reports according to the applicable regulation's required format (for SFTR it is ISO 20022 XML). In addition, we support manual data upload via MS

Excel spreadsheets or manual transaction entry directly into the deltaconX GUI for those participants having only a few transactions per month.

Timely and accurate reporting

If our clients opt for system integration, deltaconX automatically generates reports containing all required data in a timely manner via straight-through processing. In addition, we validate the data before submitting them to the trade repository. If we do not receive all the required data for a specific transaction from the source system, or a data element is not in the required format, we put this transaction on hold and alert the user accordingly. Our client can then either input the missing data directly on our platform or add it in the source system and resubmit the transaction to deltaconX. Similarly, our client can correct the data element which was provided in the wrong format. Therefore, our clients do not need to perform a data validity check with any other system component. Data validation is a vitally important process that is included in our service package, and it ensures that no incorrect data is reported to the trade repository, and ultimately on to the national competent authorities (NCAs).

We know that ESMA and the NCAs are looking at rejection statistics, so the risk of our clients contributing to bad rejection statistics at their trade repositories is reduced to a bare minimum.

Regulation never ends

The past years have proven that even after entry into force of regulation, the journey to compliance is not over.

Various changes to EMIR kept the market busy. From the first version over Level 1 and Level 2 validations to the implementation of the new regulatory technical standards (RTS) back in November 2017, EMIR was constantly evolving. Even after the so-called EMIR re-write back in 2017, various changes in the validation rules made constant system adaptations necessary. And still, this journey is not over, as we see the European Commission's regulatory fitness and performance (REFIT) programme coming into force soon. Although the intention of REFIT is to relieve the non-financial counterparties from some of their reporting and clearing obligations, REFIT means some substantial IT changes for the financial counterparties. For example, they are now obliged to report on behalf of small non-financial counterparties if they decide not to report themselves. Despite ESMA's stated intentions to learn the lessons of EMIR, we anticipate a similar pattern of revisions to SFTR.

Highly secure cloud-based solution

We decided to build our solution in a highly secure private cloud, as changes in the regulations can be adopted much easier in a centralised hosted cloud than in multiple on-premise installations at each client. Now five years after the go-live of EMIR and multiple additional regulations, we consider that this was certainly the right approach as each of the regulations is constantly changing. Above all, EMIR went through multiple significant changes.

As previously mentioned, these changes are keeping the entire market busy, while most of our clients did not even realise that there were multiple changes going on. The reason for this is that we offer a fully automated reporting service. We manage these changes on behalf of our clients so that they do not have to adapt their source systems to the new requirements. Our aim is to enable our clients to focus on their core business.

We are not thinking about the challenges, but we are thinking of solutions. This was also the reason why I have decided to leave a market infrastructure that facilitates reporting and moved to provide an intermediary service that actively supports market participants to overcome these challenges.

One of our clients has stated: "I have decided to move to deltaconX as I heard a lot of market participants having difficulties to handle the pace of regulatory changes, while deltaconX and their underlying clients never had any issue. This proved to me that deltaconX is an intermediary that has the full control about their own systems and services, and has the right knowledge and capabilities to add value for market participants."

THE FRONT-TO-BACK SFTR SOLUTION FROM TRAX AND EQUILEND

Complete front-to-back solution from point of trade to trade repository reporting.

Access to the leading Securities Finance trading platform, EquiLend NGT.

Best-in-class Trax GUI provides complete visibility and audit trail of every step in the reporting lifecycle.

Supports lifecycle event management, loan and collateral allocations and centralized post-trade services.

30+ years of experience in regulatory reporting over multiple regulations.

Access to industry-wide UTI generation and sharing portal.

MarketAxess®

EQUILEND

Assessing your SFTR reporting build

Jonathan Lee of Kaizen Reporting discusses how to make an honest assessment on the quality of your firm's SFTR reporting

Congratulations! You've got the project over the finishing line and built your SFTR reporting infrastructure. Is it now time to take an independent, honest assessment of the quality of your reporting?

In many instances, new regulatory reporting deliveries have been about getting the project across the line. Initial ambitious plans to have fully reconciled data and controls frameworks in place have been paired back. A lack of time (complex project planning), lack of resources, or in some cases, lack of opportunity to deploy as many resources as were budgeted for are all reasons cited for a lack of initial controls. This last situation occurs as too many institutions chase too few developers and subject matter experts in the clamour to build for new regulation.

In the midst of just getting reports out of the door, there are a number of questions that have come to light. Have controls been de-prioritised or deemed 'day two' deliveries at your institution? Have temporary deferrals been applied for encompassing aspects of the delivery with your national competent authority (NCA)? Do you have appropriate reconciliations in place internally? Are data guardians, accountable owners for every data point in your SFTR reports? Hand on heart, have you done enough testing? Do you have regression packs ready to test the impact of all new business deliveries on your SFTR reporting flows going forward?

Lost in the delivery?

It is a commonly held view that approximately 40 percent of SFTR fields are challenging to obtain. Nevertheless, we would urge that you do not sacrifice data quality in pursuit of populating all fields correctly or allowing your vendor reporting service to make incorrect assumptions in pursuit of a complete report. There is a temptation during the planning and build phase to see an instance of value somewhere in the production stack of internal systems that appears to be applicable and to configure reports to use that value. These quick fixes or Elastoplast's if you like, are often stale, unverified and not validated. Be wary of using data sources where data ownership and governance are unclear and adequate controls around the data points are not in place.

10 tests of the quality of your SFTR delivery

Here is just a sample of questions that you should be asking about your SFTR delivery:

- Does your reporting capture every trade in your risk systems?
- Is every lifecycle event accounted for?
- Are you able to send daily collateral updates to reflect changes in collateral value on open trades?
- Are you reporting trades facing every lender by close of business execution date plus one once the allocations have been received?
- Are lender changes accurately captured in your reporting?
- Are you accurately reporting every line of collateral in triparty securities lending and repo trades by settlement date plus one and each overnight collateral allocation for those trades?
- Are you capturing transactions entered into through auto and self-collateralisation and auto borrowing and lending programmes at the central securities depositories or sub-custodians?
- Do all of your trades pass the trade repository validations?
- Are you seeing significant volumes of alleged trades from the trade repository post-TR reconciliation highlighting gaps in your reporting?
- Do you have correct securities issuer legal entity identifiers (LEIs)? CFI codes? collateral type?

If you are delegating your SFTR reporting, how much visibility do you receive in relation to these areas from the reporting party?

A recap on what regulators are trying to achieve

Tackling concerns about the role of securities financing markets in the last financial crisis and fears that they might be at the centre of the next financial crisis led securities financing transaction reporting to become a top G20 agenda point and one of the last to be tackled post-crisis.

SFTR is based on the G20 Financial Stability Board's (FSB) work on "Transforming Shadow Banking into Resilient Market-based Finance: Standards and processes for global securities financing data collection and aggregation". A lot of concern has been expressed about shadow banking and collateral reuse. Specific objectives raised focus on tackling a lack of transparency, spotting build ups on leverage, identifying interconnectedness and addressing concerns about the pro-cyclical nature of SFT markets.

What does this mean for reporting firms?

It is no coincidence that SFTR reporting is closely modelled on the European Markets Infrastructure Regulation (EMIR) reporting. Both of these regimes were born out of the G20 FSB remit to tackle the last financial crisis and help prevent the next financial crisis. The majority of the objectives are the same.

The local competent authorities require the data to meet macro-prudential requirements at a national and European level in conjunction with the European System of Central Banks (ESCB) global level. The aim is to achieve this in the most efficient and cost-effective way given severe resource limitations.

Essentially, regulators are expecting to be spoon-fed—not only details of all transactions, collateral, lifecycle events, master agreements, but also industry standards for identifiers for all nine potential parties to a transaction, instrument identifiers, security issuer LEIs, unique trade identifiers, rate indices, haircuts, nominal, price per unit and minimum notice periods. In addition to all of this, they are also expecting a whole host of classification data.

On top of all of the economics and industry standard identifiers, they also require: country of other counterparty, actual rates, earliest call back dates, whether the collateral is general collateral or specific, method used to provide collateral, the principal amount on value date, collateral market value, maturity dates for collateral securities, the credit quality of those securities, classification of a security (CFI code), collateral type classification and the availability for re-use.

They want all of this information in the most digestible, paired and matched state (to avoid double counting) in order to meet their regulatory objectives as soon and as easily as possible. Anything that prevents regulators from achieving that objective will at best need correcting/back reporting and at worst will be subject to fines, public disclosure and possibly legal measures taken against a business or responsible senior managers.

History of enforcement actions for other transaction reporting regimes

The UK Financial Conduct Authority (FCA) alone lists 14 transaction reporting related fines over the past decade. This does not include the largest ever fine and first fine levied by the FCA for EMIR reporting failures; £34.5 million in October 2017. The EMIR fine and the commentary attached are most applicable to SFTR. The fact that two firms got fined a total of £61.9 million during March 2019 makes this all the more topical. These fines also do little to illustrate the much larger number of firms that have been subject to lengthy and expensive section 166 skilled person review, external audits, remediation efforts and back reporting.

Lessons from enforcement actions

The text of the EMIR fine cited the following, which we believe to be equally applicable to SFTR: "the reporting requirements introduced under EMIR were an important component in addressing uncertainty around systemic financial risk, caused by a lack of transparency. The FCA directly communicated the importance of EMIR reporting requirements to firms in a variety of ways [...] and the authority has published a number of enforcement actions taken in relation to similar failings by other firms in relation to other categories of transaction reporting."

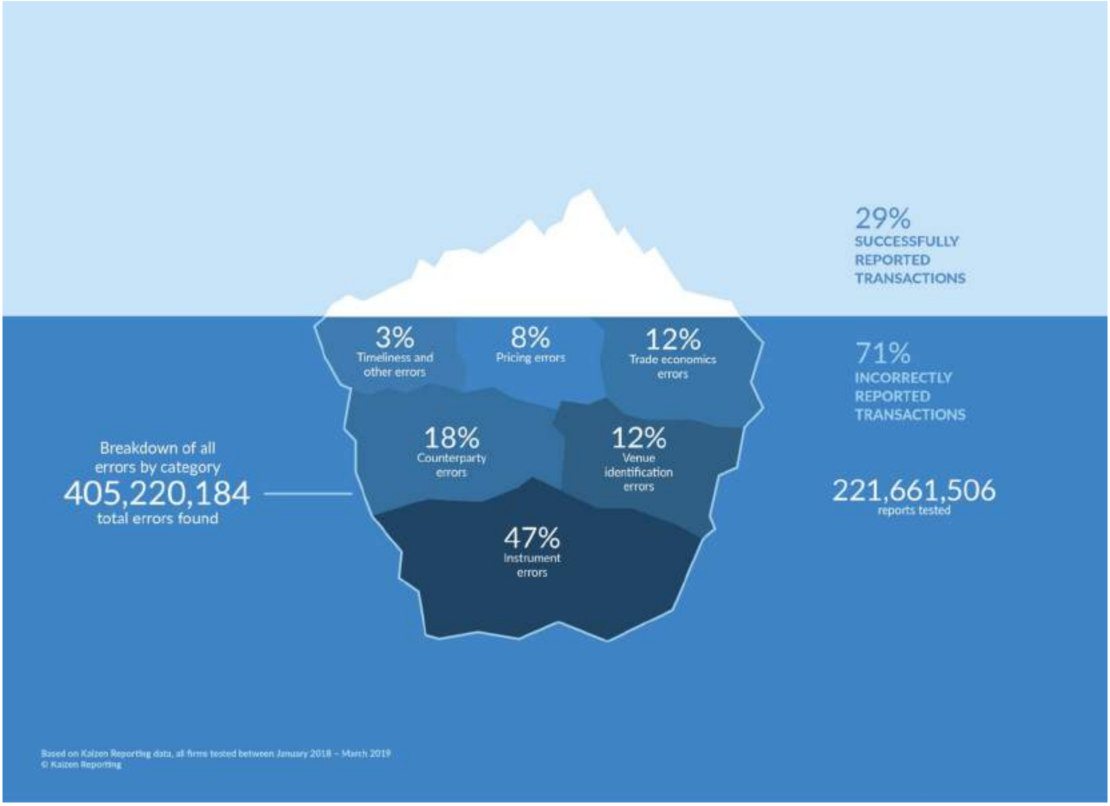
The misdemeanours that the FCA has repeatedly picked up on are:

- Failing to have adequate systems and controls to ensure that reference or 'static' data used for various mandatory fields in the transaction reports submitted to the authority were complete and accurate;
- Failing to have in place adequate change management controls to manage changes affecting transaction reporting processes and systems, and
- Failing to undertake appropriate testing to ensure the completeness and accuracy of transaction reports. Most recent notices have called out the inadequacies of periodic and sample-based testing—firms need to test their whole universes.
- Failing to allocate adequate and sufficient appropriately trained human resource to undertake its obligations to report.

In Kaizen's experience, regulatory reporting data quality is an industry-wide problem (example form MiFID II). In the graphic, we summarise the 405 million issues we have identified after testing over 221 million records in the last year.

Keeping your nose clean

The obvious lesson is that the FCA and other NCAs are actively enforcing transaction reporting. If your firm



does not have adequate systems and controls in place or doesn't even know how good (or bad) its reporting is; you could be at risk.

Ensuring that operations, compliance and the business are adequately trained on SFTR will be a significant first step towards ensuring compliance. Ownership and governance need to be in place to ensure accountability for the reporting itself and all of the underlying data points. SFTR development resources should be retained post-go-live to aid the inevitable necessary remediation efforts.

We also recommend giving serious consideration to outsourcing the controls layer. This can provide a great deal of peace of mind and cover off on your senior manager and certification regime requirements in addition to basic SFTR compliance. Vendor solutions can offer economies of scale, independent, impartial experience and expertise. Regulatory testing service offerings such as Kaizen's ensure that nobody is marking their own homework and that every transaction report, lifecycle event and field is thoroughly tested. Not based on a sample, we can help ensure full end-to-end completeness and accuracy of your SFTR reporting.

Jonathan Lee
Senior regulatory reporting specialist (SFTR)
Kaizen Reporting

Maximising SFTR benefits

Markus Büttner of Comyno explains why firms shouldn’t implement SFTR with a sole view on reporting requirements

The Securities Financing Transactions Regulation (SFTR) is at everyone’s door now. Since the timeline is set by the regulators, discussions are progressing and the first customer projects have are kicking off. There have been many articles published about SFTR business requirements in general, but this one will focus on Comyno’s unique strategy towards getting the maximum returns out of the new reporting regulations for our clients and how it correlates with our company goal of supporting the market with best of breed software and services.

What is the key for us when we think of SFTR?

As experts for all business and technical matters in securities finance, we have one simple message: do not implement SFTR with a sole view on the reporting requirements, but have a second thought about the synergies for the business it can create if you do it right.

From our point of view, there is huge potential in turning the cost you are forced to bear for SFTR into real benefits for your business. Therefore, it is essential that traders and collateral managers jump on the SFTR train in an early stage of the project, to better understand what it is about, to be able to add business ideas to the project and make use of synergies the reporting has to offer.

Why are we convinced that there are such synergies?

This has a lot to do with the many projects we already did in the securities finance arena in general and specifically in the area of collateral optimisation. Clearly, we see that firms who have put effort on a collateral optimisation strategy will have torn down their internal (product) silos already.

They will have a consolidated view on the firm-wide collateral portfolio and will have implemented the necessary infrastructure to efficiently manage liquidity and risk while increasing their revenues at the same time. If your firm has invested in such an infrastructure environment already, the implementation of the new reporting will be an easier task because SFTR is requiring exactly that consolidated data of all your securities finance transactions across asset classes and business units and is a full view on the firm-wide collateral portfolio.

If your firm has not yet invested in such a consolidated infrastructure—SFTR will force you to do so at some point further down in the value chain. This is exactly the point when Comyno comes in to help to define how to bring all of the collected and required data into the right place and format. As a result, your company will be able to report SFT properly and will increase the efficiency of collateral allocation at the same time.

This business-driven approach led towards our decision, to implement and offer a full-scale SFTR system solution to the market instead of just providing a tool to collect the required data and fill the fields in the reports.

Our C-ONE trading/collateral management and C-ONE connectivity/reporting platform initially was built embedding the SFTR requirements as their core data structure. Now we are continuing with adding the missing pieces to deliver SFTR reporting fully in line with the regulator’s requirements.

To better explain our software approach to SFTR, a reminder of the current Comyno C-ONE enterprise version seems appropriate. The innovative C-ONE Enterprise suite offers a complete solution for Securities Finance Trading and Collateral Management, covering the complete value chain of the corresponding transactions.

It is built as a 'hybrid platform'—incorporating features for an in-house trading and collateral management system and a multi-entity, multi-product trading platform across asset classes.

This enables our clients not only to manage their whole securities finance business with C-ONE but also grants online access to and for their clients and counterparts including white-labelling potential simply via the web.

Not only does this provide seamless possibilities for position sharing, but also locates management as well as affirmation processes.

Furthermore, clients and counterparts can see their side of the trading activity as well as their side of the collateral- and exposure management. Even the PnL features can be used by all entities with access to the platform.

If the word existed (maybe it does from now on), we would call C-ONE a 'tribrid platform'—because it incorporates total connectivity to every internal and external system or third party entity which might be imagined. This includes the possibility to connect with various distributed ledger technology platforms as well.

To stick to our word of the 'one-stop-shop' slogan, the next logical step was to include SFTR into our product suite since we wanted to keep our other promise, to be able to provide all system features as single modules as well.

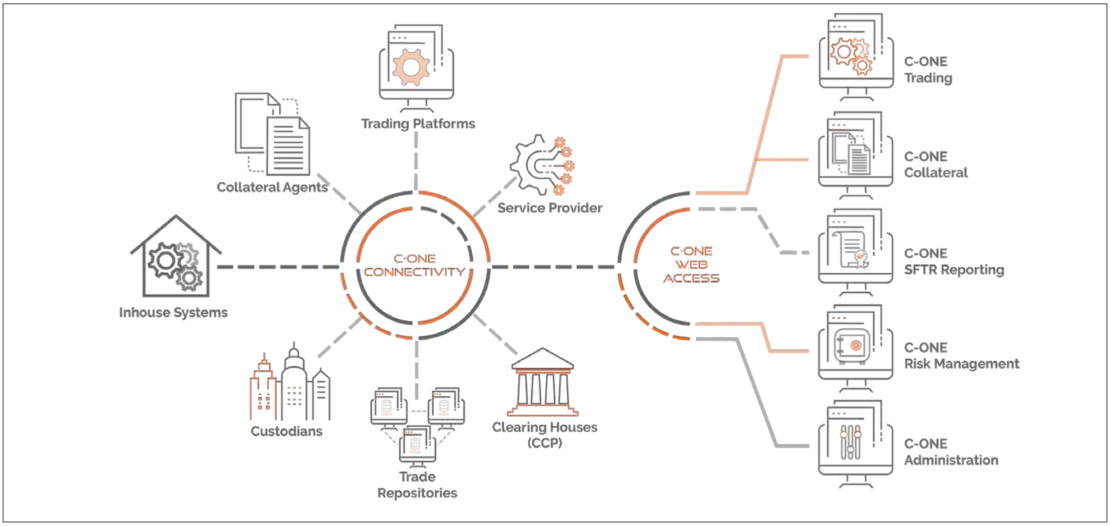
In other words, the SFTR functionality can also be used as a stand-alone tool for SFTR reporting from your legacy SFT in-house systems, or out of the box for firms already using our full enterprise suite.

One of the biggest cost drivers for the industry is the multitude of internal and external parties involved in securities finance transactions, the variety of software systems and IT components as well as a big number of manual workarounds and interfaces which are necessary to fill gaps in the underlying systems.

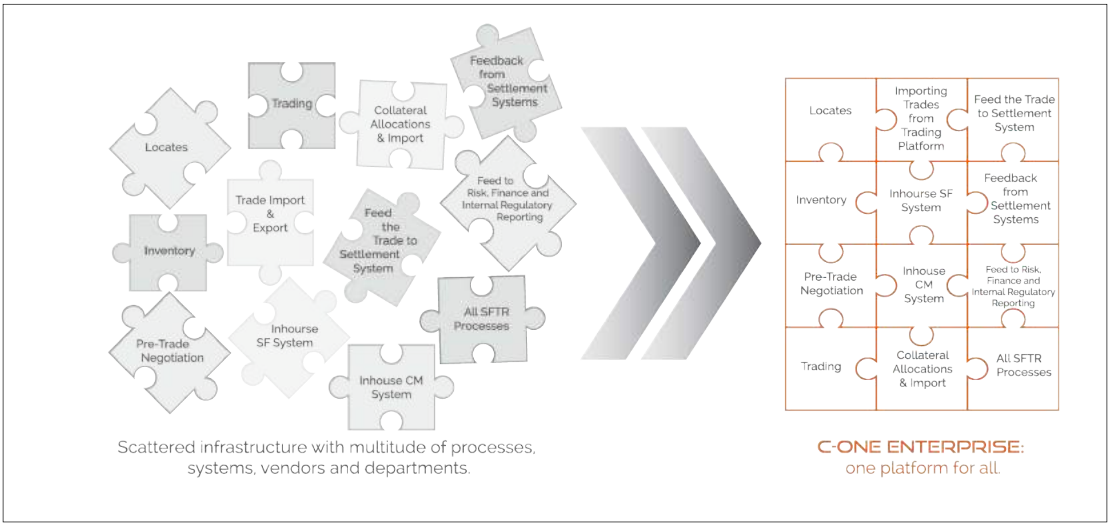
Comyno has done no less than tackle this industry challenge for the benefit of our market with its solution: C-ONE Enterprise with all its different modules is now covering the whole value chain, both from a business and technical perspective.

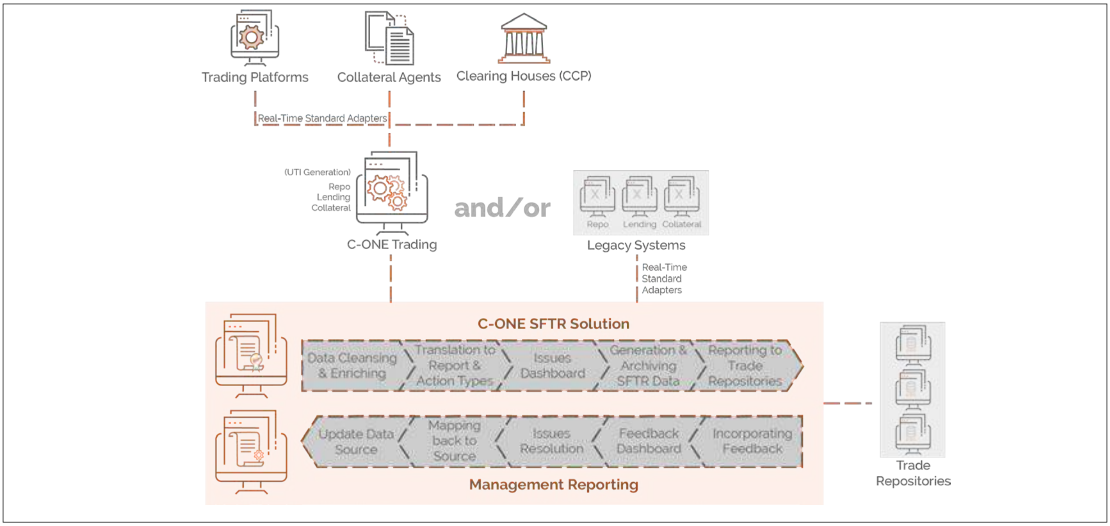
Just imagine for a second

From generating the trade idea, finding your counterparty, online-negotiation, affirmation and trade booking, unique transaction identifiers (UTI) generation, collateral allocation or triparty import, reconciliations and feeding the trade to your in-house systems, settlement and SFTR reporting—all this now can be performed fully straight through on one platform which is our C-ONE Enterprise.



Reporting Challenges

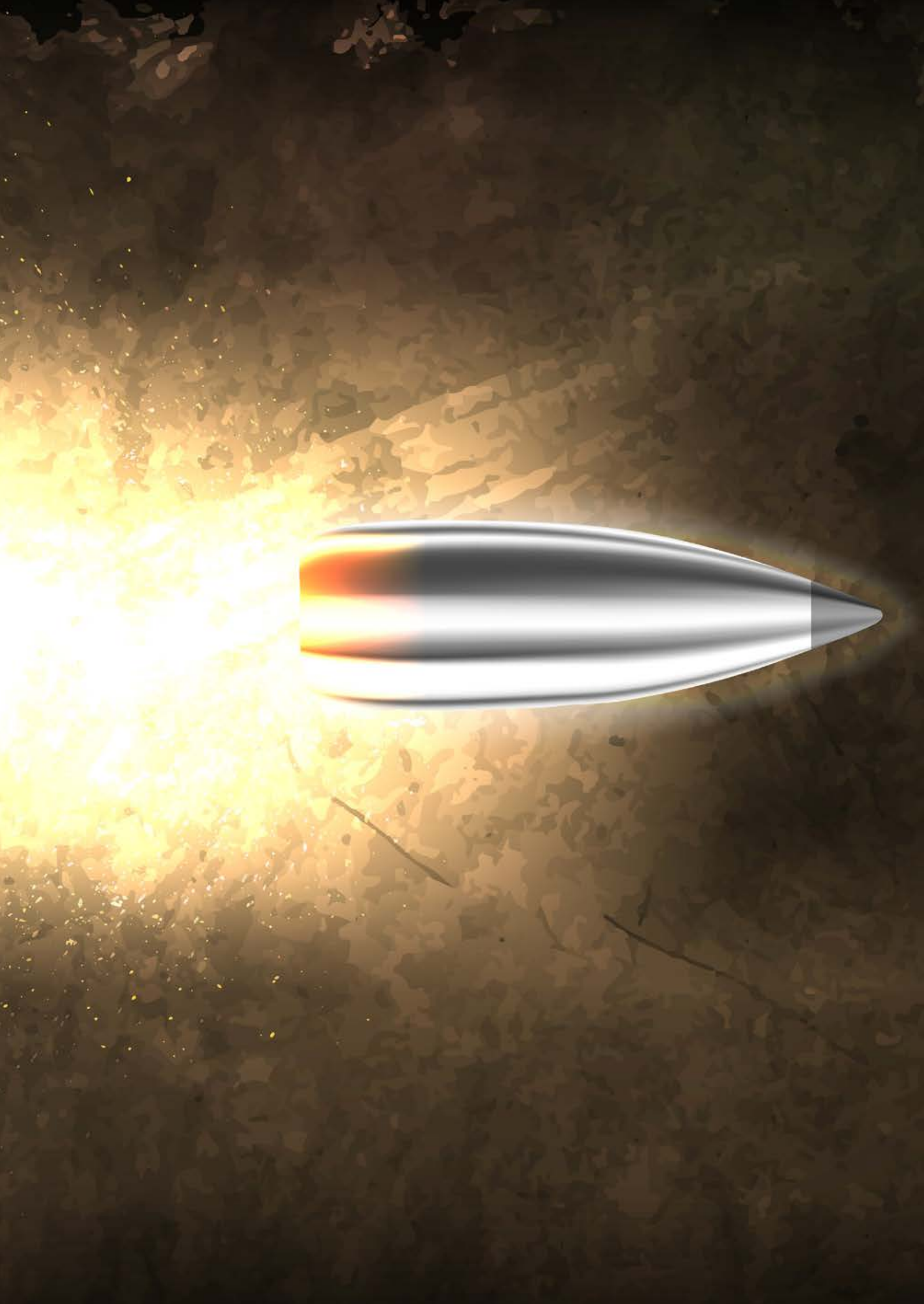




Of course, a firm can't jump from a scattered IT landscape to a single platform in one go. But the good news is that C-ONE, either as a whole or just some of its modules can be added at any point and expanded and migrated step by step over time.

We would evaluate your existing infrastructure carefully to start with and put together a road map with all the necessary steps and processes and prioritise them according to their value add, cost impact and pain points. The idea of then starting to implement the most crucial steps at first brings us back to the topic of SFTR because its implementation by using the C-ONE solution would subsequently not only solve your reporting obligations.

It will be the first step and basis towards modernising and fully digitalising your securities finance infrastructure and gaining various business benefits at a lower cost.



Pre-matching: not the silver bullet as hoped

Catherine Talks of UnaVista suggests that pre-matching is not the silver bullet the industry is hoping for and may even create additional complications

Matching the two sides of a trade is one of the most important and historically difficult parts of regulatory reporting. Recent data from the European Securities and Markets Authority (ESMA) showed that just 40 percent of swaps trades reported under the European Market Infrastructure Regulation (EMIR) are matched in the trade repository (TR). When matching rates are this low it makes it very difficult for the regulator to accurately monitor systemic risk. To increase the success rate the industry has created a number of solutions, aiming to improve the data quality and reduce the number of breaks that result in the reconciliation process.

There are two schools of thought on the best way to improve the process, pre-matching and post-matching.

Pre-matching is a process where two parties send their portfolio of messages into a platform for a reconciliation to take place prior to reporting to the TR. The idea is that if the data is matched at source then it will naturally match once inside the TR. There are many market vendors looking to implement pre-matching processes that could be used as platforms to disseminate the unique transaction identifiers (UTI) between parties, ensuring improved pairing within the TR. Although there are some benefits to attempting pre-matching, there are several complications which could cause pre-matching to have a reduced success rate.

Time to resolve validation failures

With such a short timeline between trade execution and the reporting obligation cut off time, there is very little time to perform and correct the matching and reconciliation prior to sending the report. If the report is not corrected by the reporting required time, then it must be sent to a TR regardless of the number of residual pre-matching breaks. In addition, time must be allowed for potential resolutions after a report is sent into a TR and there may be a number of validation failures to address before the message can be accepted. It is only once the message is accepted by the TR that the reporting obligation is complete.

Disparate vendors and data

Pre-matching requires both counterparties to use the same pre-matching vendor for the same report dataset to attempt a match. As pre-matching is not a regulated requirement there may be some firms who simply decide not to utilise a pre-matching vendor. If the counterparty is using a different vendor then a match will not be possible as there isn't an inter-vendor matching process in place. Many of the pre-matching services also only offer the service for some of the four reportable asset classes, meaning a firm may need to use multiple pre-matching services to get the sought-after benefit, but this leads to the undesired outcome of your data in more disparate systems.

SFTR Complications

Data issues

Most pre-matching and reconciliation takes place on a subset of data. To ensure a good level of matching, the number of fields required to match is often restricted to core economics, depending on the pre-matching vendor model. In contrast, the number of fields required for the inter-TR matching process is vast (upwards of 90 fields over the matching phases). It is therefore possible that even with a pre-matching process that there may be breaks at the TR matching level.

An alternative method

UnaVista believes that the most effective route to better matching is using the intra- and inter-matching capabilities of the trade repositories. These will provide the best results with the fewest delays. This has also been recognised by the regulators, who have prescribed that TRs must perform the inter-TR matching process.

Intra-TR matching

Once a transaction is accepted by a TR it is then subject to the first level of trade repository reconciliation, called an intra-TR matching. This is where the TR uses the matching key (UTI, reporting party, other counterparty and master agreement) to seek the other side of the transaction within its own repository of transactions. If both parties report to UnaVista then the results of this will be displayed back to the clients along with any breaking fields. If there is no match within UnaVista's Trade repository then UnaVista will give the transaction a reconciliation status of 'unpaired'.

Inter-TR matching

UnaVista will keep seeking an internal match until the inter-TR matching process is undertaken on T+2. The inter-TR process works by each TR providing a file in XML format containing the matching key, where two TRs have the same key then a trade is 'paired' and a separate file containing the trade economics is exchanged. UnaVista then displays back to the client both sides of the reconciliation i.e. the client side and counterparty side along with any differences. If there are no differences, then the transaction moves to a state of 'reconciled'.

Improving the inter-TR matching rates

Although matching rates within EMIR still have a long way to go, there are a number of reasons that SFTR should see an improvement. Firstly, unlike EMIR, ESMA has introduced a standardised format for the reporting to a trade repository, this means no conversions will need to be made during the inter-TR matching process, this should really improve matching rates. ESMA has also prescribed some field level tolerances which allow a marginal difference in some values to count as a match, which means even if certain attributes are a decimal place off due to a rounding error, those reports can still match.

Industry bodies anticipate that more than half of the volume of SFTR transactions sent to TRs will actually be single sided. The total number of transactions that are eligible (and able) to be reconciled will, therefore, be relatively small in comparison to the number of submitted transactions. So, matching SFTR reports may not be as onerous as it has been in previous regulations.

Ultimately the more a firm can do to ensure their data is correct at every stage of the reporting process the better. However, our belief is that pre-matching is not the silver bullet the industry is hoping it is and may even create additional complications for accurate reporting.

Catherine Talks
Product manager
UnaVista

Uniformity may be the new differentiator

David Lewis of FIS suggests that if the market can move effectively in the right direction, the industry will realise it loves SFTR

While this may sound like a version of "doublespeak" from some new dystopian world, there is, like in the book, 1984, some basis in the suggestion that the observations in this article will only tell you what you already know.

One of the positive spinoffs, as described by Andy Dyson, ISLA CEO, from the efforts being applied to analysing and implementing the Securities Finance Transaction Regulation (SFTR), is that the industry is being forced to

shine a light on areas that have hitherto lacked the kind of attention that they have perhaps deserved.

In order to meet the stringent and complex demands of SFTR, market participant organisations and their providers are expending significant resources on data and processes. This includes not only adding and maintaining data items that they have not needed to consider before, such as legal entity identifier (LEIs) but potentially revamping their entire booking and position management process from start to finish. The ultimate aim, of course, is to be able to satisfy their regulators that they not only have a good grip of exactly what their positions and obligations are, but they can also efficiently and accurately report them within the quality and time constraints laid down in the regulation.

Both the dynamics of quality and time (to delivery) will weigh heavily on those reporting to their regulator, via their chosen trade repository. The time aspect can be altered through process and system/technology enhancements, but the key to quality is a different animal altogether. While pre-matching is not a direct requirement of the regulation, the matching rates arising from the data reported to the market trade repositories will become the benchmarks by which quality could well be measured. Early bilateral testing of data between some the International Capital Market

Association (ICMA) members highlighted just how difficult a task this was going to be, showing that the somewhat fundamental data items of trades, including the security traded, the volume of that security and the rate charged, seemed to be causing most of the comparison mismatches. The fact that such mismatch issues could translate not into embarrassment and red faces but to real and potentially substantial fines has brought the need to prepare for SFTR properly into sharp focus.

At the recent Securities Lending Times Technology Symposium, some of the discussions revolved around the need to get the basics right in our market, and rarely has a more accurate statement been made when considering the requirements of SFTR. As an industry, we have an unusually varied approach to undertaking the activities of the securities finance and collateral business and it is those differences that may well cause the greatest issues. While tokenisation and distributed ledgers may be exciting buzz words and attractive bandwagons to jump aboard, the common data model (CDM) sounds positively pedestrian, even tedious. If the industry can get past that, and move toward not only a CDM but a more unified model of trading and position keeping, then the foundations for the more exciting developments will be all the more solid.

Few would advocate that all market participants should suddenly become carbon copies of each other, but the way that our business is undertaken could certainly benefit from more standardisation. This would be one logical response to the challenges of SFTR and other regulations where faster, more accurate data exchanges will be key to market success. One other, and certainly potentially as important, response could be increased mutualisation. At FIS, we have witnessed the benefits to our clients of bringing a utility approach to the post-trade management of derivatives, for example, and the success of this kind of mutualisation should not pass the securities finance industry by. The advent of SFTR has certainly brought about an unprecedented sense of collaboration right across the market. Witness the various vendor and market participant groups showing members working diligently together toward resolving the industry-wide challenge that is SFTR; yes, even the vendors, FIS included, are behaving kindly to each other in the common aim of bringing this project to a successful conclusion.

In real terms, the output of these efforts is likely to be more commonality in booking and processing methods, greater automation and higher rates of straight-through processing, coupled with solid regulatory reporting compliance. The work required to bring these often-disparate approaches to the market together into a single, unified set of reportable data is no small task, and that task could conflict with the desire of each market participant to retain their methods of working and managing their businesses. It is these individual approaches to working that can often deliver the competitive edge or differentiator that protects each organisation's market position. With that in mind, the key will be to concentrate on the areas of commonality that make sense, without degrading the identity and advantages each participant has built up over many years.

Whatever route the industry takes to get there by next April, it is the standardised reporting outputs that the regulator will be looking at, as processed and delivered by the authorised trade repositories who operate under strict and well-practised record acceptability criteria. In that respect, it makes good sense for market participants to work toward common output testing regimes, as being promoted by one prominent market consultant. As the vendors work together, with each other and their clients, to try and reach processing and output standards, we will be working toward a common data model in terms of output. The only way to achieve that effectively is, of course, to get the inputs and data storage to also conform to new standards of commonality.

If the market can move effectively and swiftly in that direction, under the banner of regulatory conformity or otherwise, then the uniformity of data, trade booking, recording and management will bring operational efficiencies and a direct positive impact to the bottom line of all those that achieve it. Only then, just like Winston did in 1984, will we wake up from the nightmare of conforming to the authority of the regulator and realise that we love SFTR.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Broadridge, a global fintech leader with $4 billion in revenue, provides communications, technology, data and analytics.

Broadridge offers a suite of global, front to back office securities finance solutions for the buy side and sell side. This includes integrated or standalone systems for securities lending, repo, collateral management, collateral optimisation, and an end-to-end transaction reporting solution for SFTR. Broadridge's solutions help customers to comply with new regulations, increase efficiency, improve strategic decision making and make more intelligent use of capital, balance sheet and liquidity.

Broadridge also offers consulting services to help market participants design their target operating models for SFTR. This service provides a practical blueprint for front-to-back changes to overall architecture, organisational structure, business processes and location strategy.

In addition, Broadridge provides project management, business analysis and testing support to augment firms' internal SFTR project teams and help them comply with the rules in a timely manner.

Broadridge's in-depth expertise in both securities finance and trade reporting regimes including US (CFTC), Europe (EMIR, MiFID I and II), will enable clients to adapt to SFTR smoothly while minimising operational disruption and reducing the resource impact of complying with the reporting mandate.

For more information about Broadridge and our proven securities finance, collateral management and transaction reporting solutions, please visit our website.

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Calypso is building upon its cross-asset product suite and award-winning post-trade processing, collateral and securities finance platform to help clients address the SFTR regulatory reporting requirements.

A single database/source of truth for data management, combined with an event-based approach to all SFTs required by the regulation, means Calypso aligns perfectly to SFTR requirements. Add to this the Calypso fully integrated Collateral Management module, complete with back-office message integration, and our clients will be well positioned to manage and track their SFTR reporting needs.

Our integrated, cross-asset platform enables firms to centralise security pools, facilitating optimal use of cash and securities inventory for trading and exposure management. From trade input to post-trading processing, the flow is seamless offering complete and instant transparency.

Calypso can be deployed to cover all aspects of securities lending, repo and collateral management—on an incremental basis, where required. Indeed, many clients have started by implementing a single module and expanded usage later, so combining an initial tactical win with a strategic solution.

Combining a solution for repo and securities lending may seem obvious, but by also adding in collateral management and optimisation, with cross-asset coverage from trade initiation to risk, post-trade processing and reporting, Calypso's clients can see true transformation.

About Calypso Technology, Inc.

Calypso Technology, Inc. is a cloud-enabled provider of cross-asset front-to-back solutions and managed services for financial markets with over 35,000 users in 60+ countries. Its award-winning software improves reliability, adaptability, and scalability across several verticals, including capital markets, investment management, central banking, clearing, treasury, liquidity, and collateral.

Calypso is pioneering innovative technologies (native cloud technology, AI, Big data) that reimagine capital markets.

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Comyno is a fintech software and business consultancy boutique with a clear focus on all securities finance related topics. For more than ten years we have been specialists in securities lending and repo, collateral management, treasury and liquidity management, clearing and regulatory topics. Our expertise combines strategic advisory and a digital IT-platform technology. We deliver tailored solutions for real straight through processing with various connectivity options to our clients. Comyno also offers in-house workshops and training for all security finance and treasury-related products.

Comyno's C-ONE Enterprise suite is a digital Securities Finance Trading platform built to deliver straight-through-processing. It offers a real-time front-to-back office solution which at the same time facilitates the interaction to numerous third party service providers such as electronic trading platforms, Tri-Party collateral agents, trade repositories and CCPs. C-ONE offers various data management technologies and data analytic tools within a single digital platform. It has an intuitive and easy-to-navigate customised dashboard/cockpit using distributed ledger technology.

The plug and play technology provides various analytical tools such as: C-One Collateral; C-One Trading; C-One Risk Management; C-One SFTR Reporting; C-One Fairness Algorithms for the automated allocation of fund inventory to trade requests.

Customers can choose to use the entire platform to run their Securities Finance business, or alternatively choose any functionality as a module to bridge the gaps of their legacy infrastructure as required.

Comyno's advisory specialist are already working on different SFTR implementation projects and therefore could also help your firm to comply with this reporting regime in time and budget. Our SFTR Reporting tool covers the increasing regulatory and transparency requirements. A fully traceable reporting and message flow is available to comply with the latest audit requirements that will enter into force on April 2020.

Consulting
Strategic Consulting and Advisory | Project Management | Business Analysis

Securities Finance Software
C-ONE: Connectivity | Trading SFTs | Collateral and Risk Management. | SFTR Reporting | Fairness Algorithms

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Delta Capita is an international business and technology consulting and managed services provider.

We work with many of the world's most important financial institutions helping them comply with regulatory obligations, transform and simplify operations, reduce cost and adopt ground-breaking models and technologies.

We operate an end-to-end consulting model, including advisory, solutions and delivery capabilities and high-quality specialist managed services.

Managed Service Solutions
Post-trade operations and technology managed services: Collateral and exposure management and billing, asset servicing, operation controls, stock settlement record and financial transaction ledger. UK-based industry practitioner servicing team.

Software Solutions
Front office inventory management, trade booking and position keeping
Pre-trade risk tools: credit limit management and balance sheet usage/optimisation

Consultancy
Target operating model
Vendor selection
System implementation
Regulatory: BASEL III, SFTR, MiFID II, EMIR, BCBS IOSCO
Post-trade

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deltaconX is a "full-service" provider offering a unique software and support package specifically tailored to the community of European financial, energy, and commodity trading organisations.

Our offer

We are a "full-service provider" to unify all regulatory compliance processes across multiple regulations with the aim to:

- Reduce all manual efforts through automated processes
- Give full control and visibility over all relevant data
- Reduce the total cost of ownership

Our service

Our service includes the following performance:

- Monitoring of regulations and interfaces
- Adjustments to regulatory changes or changes to the interfaces (for example, EMIR Validation Rules, MiFIR 1.3 Release, etc.) - Customer is always compliant
- Operation and development of the deltaconX regulatory platform
- Support and maintenance

Our platform

Our platform is a MultiRegTech Solution that combines different requirements for regulatory reporting and market surveillance in a single solution.

It's also an innovative software solution specifically tailored to the needs of European financial, energy and commodity traders, enabling them to meet their regulatory obligations under:

- EMIR
- SFTR
- MiFIR Art. 26
- FinfraG
- MiFID II Art. 58
- REMIT
- MiFID II Art. 20/21
- MAR

Our platform is a source-agnostic system offering complete input and output flexibility, and a full audit trail of data ingestion, processing and transmission.

DTCC

Securing Today. Shaping Tomorrow.®

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With over 45 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centres 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 (GTR) 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 its regulatory reporting capabilities within the securities financing market, helping clients meet new reporting requirements under the Securities Financing Transactions Regulation (SFTR). Leveraging the GTR infrastructure, our SFTR solution supports all product types to be reported under SFTR including repo and reverse repo, securities and commodities lending and borrowing, sell/buy-back, buy/sell-back and margin lending and borrowing.

In addition to supporting the core trade repository requirements, our value-added services, including data transformation tools and consulting services, allow DTCC to offer a one-stop, end-to-end solution for SFTR.

To learn more, please visit us at www.dtcc.com or connect with us on LinkedIn, Twitter, YouTube and Facebook.

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

EquiLend operates NGT, the securities finance industry's most active trading platform, as well as a Post-Trade Suite for securities finance operations. DataLend provides performance reporting and global securities finance data to agent lenders, broker-dealers and beneficial owners. EquiLend Clearing Services offers CCP services and connectivity. EquiLend SFTR offers a no-touch, straight-through solution for Securities Financing Transactions Regulation. EquiLend Spire is a front-, middle- and back-office platform for securities finance businesses.

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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 more than 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.

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Kaizen Reporting are specialist regulatory reporting experts on a mission to improve the quality of regulatory reporting in the financial services industry. They've combined regulatory expertise with data science to develop our multi award-winning assurance service ReportShield which provides full visibility of the quality of regulatory reporting providing accuracy testing, reference data testing, advanced regulatory reconciliations, control framework and training.

Whether it's MiFID II, EMIR, Dodd-Frank, SFTR or another G20 regulation, Kaizen helps some of the world's largest banks, asset managers, hedge funds, brokers and other financial institutions to reduce costs and increase confidence in their reporting.

London Stock Exchange Group

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UnaVista is an award-winning technology platform from the London Stock Exchange Group. UnaVista helps firms to reduce operational and regulatory risk through a range of regulatory reporting, reference data and analytics solutions.

As a regulated platform, UnaVista helps thousands of firms meet their compliance obligations, reporting more than eight billion transactions for global regulations including EMIR, MiFID II across all asset classes. UnaVista is in the process of becoming an approved trade repository for SFTR, and helping firms prepare their data and processes with a range of technology and educational led products.

Following the fulfilment of their transaction reporting obligations, UnaVista helps firms make more from their data, with advanced analytics to provide peer-to-peer transaction intelligence and surveillance alerts. UnaVista is also the source for a range of unique global identifiers such as SEDOL and LEI and offers firms access to new derived alternative data.

MUREX™

For more than 30 years, Murex has been providing 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. Murex is an independent company with over 2,200 employees across 17 countries. Murex is committed to providing cutting-edge technology, superior customer service, and unique product innovation.

The MX.3 platform addresses the core collateral management and securities finance challenges facing market participants. It offers a single integrated framework for enterprise-wide margining, optimisation, regulatory compliance and collateral trading. Moreover, it delivers advanced exposure management monitoring, while offering broad product coverage and full lifecycle management.

Murex's collateral management and securities finance solutions have been designed to help banks to meet complex regulatory demands, including FRTB, SFTR and non-cleared margining rules. With the compliance deadline for initial margin regulation fast approaching, thousands of financial institutions are seeing an overall increase in the demand for collateral assets. At the same time, an increase in the consumption of high-quality liquid assets is significantly impacting the supply. Securities finance and treasury desks must put the right technology in place that will allow them to act as business enablers and adapt to these stringent market conditions.

Contact the Murex team today at info@murex.com to learn more about how we help our clients to establish new operating models while also meeting regulatory deadlines.

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Pirum Systems is the market leader in real-time automation and connectivity services to the securities finance industry, providing unparalleled connectivity with counterparties, CCPs, trade and collateral venues. Pirum Systems is ready to assist you in connecting.

Pirum provides a secure processing hub which seamlessly links market participants together, allowing them to electronically reconcile and process stock lending and repo transactions as well as providing exposure, margin and collateral management solutions. Our clients benefit from increased processing efficiency, greater STP, reduced operational risk and improved profitability.

We deliver highly innovative and flexible services which are tailored to fully support the industry's complexities and evolving business processes. With our extensive existing client base and our renowned service quality, we are invariably seen as the users' service provider of choice.

Pirum's Services include:

- Tri-party and bilateral connectivity
- Exposure calculation and reconciliation
- Margin and collateral management
- CCP gateway
- Real-time contract compare
- Billing reconciliation
- Billing delivery
- Real-time mark automation
- Automated returns
- Automated loan release
- SPO and other payment processing
- SFTR reporting

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REGIS-TR is a leading European trade repository offering reporting services covering all the major European trade repository obligations. We are one of Europe's largest TRs for EMIR, with around 1500 clients and weekly new trade volumes averaging over 30 million. We also have REGIS-TR UK in London, ready to provide continuity of service to UK clients and those reporting on their behalf if the UK leaves the EU.

Our parent company groups include Clearstream, Eurex Repo and BME Clearing Repo, giving us unrivalled access to in-house securities lending, repo and collateral management practice and expertise. This is reflected in our solution design and day-to-day services.

Whether you will be reporting through one of our vendor or infrastructure partners, delegating your submissions or prefer to be hands-on with your TR, we are ideally placed to offer a comprehensive, fully-informed SFTR reporting service.

TRAX®

A MarketAxess Company

www.traxmarkets.com

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 more than 1 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 MiFID II trade and transaction reporting in addition to providing support for other regulatory regimes.

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.

Notes