



IHS Markit®

Securities Finance

SFTR Newsletter

Edition 2 | January 2019

Welcome Note



Hello, and welcome to the second edition of the IHS Markit SFTR newsletter. After what feels like an eternity, and with many false starts thrown into the mix, it now looks like the SFTR kick off is finally upon us! On 13th December 2018, the European Commission finally adopted the level II legislation that was presented by ESMA in their final report submitted on 31st March 2017.

The legislation is now with the European Parliament and Council for final approval, which we expect to be completed by April 2019. As has been widely publicised, once the regulation is officially written into law, the first reporting obligation will take place one year later – meaning a go-live around April 2020 for financial institutions.

While our more than 40 Design Partners have already begun implementing our SFTR reporting solution, this news was the signal that many other firms in Securities Finance were waiting for. They are now ready to start their respective SFTR projects and allocate resources.

At IHS Markit, we are here to support you in becoming SFTR compliant and look forward to working with you in the coming months.

If you would like more information on the IHS Markit SFTR reporting solution, or to schedule a meeting with our experts, please contact us at sftr@ihsmarkit.com.

All the best,

Fabien Romero

Director, SFTR - IHS Markit

Latest News

Latest News

In every edition of the SFTR newsletter we provide you with regulation updates and discuss the impact on our industry. This month Duncan Carpenter of Pirum gives a deeper look into the journey from Adapting to Adoption.



Regulatory Update: The European Commission approve the Level II SFTR text

SFTR Technical Standards adopted by the European Commission are available on the Commission website ([see links below](#)).

- Commission delegated Regulation with regard to regulatory technical standards specifying the details of securities financing transactions (SFTs) to be reported to trade repositories: [Main text](#) and [Annex with reporting tables](#)
- Commission delegated Regulation with regard to regulatory technical standards on the collection, verification, aggregation, comparison and publication of data on securities financing transactions (SFTs) by trade repositories: [Main text](#) and [Annex with reconciliation requirements](#)
- Commission delegated Regulation with regard to regulatory technical standards on access to details of securities financing transactions (SFTs) held in trade repositories: [Main text](#)
- Commission implementing Regulation laying down **implementing technical standards** with regard to the format and frequency of reports on the details of securities financing transactions (SFTs) to trade repositories: [Main text](#) and [Annex with reporting tables](#)

(Note: the ITS were published on Friday only and not yet widely distributed – unlike the RTS, these are not subject to EP/Council scrutiny and therefore final)

Adapting to Adoption – the ‘When?’

The long-awaited adoption process for the SFTR Implementing Technical Standards & Regulatory Technical Standards (ITS & RTS) finally began when the European Commission approved the draft technical standards on December 13th, 2018. Although there may not be too many who would have had it on their Christmas wish list, the start of the adoption process does at least provide a level of certainty around the timelines that the market must now follow.

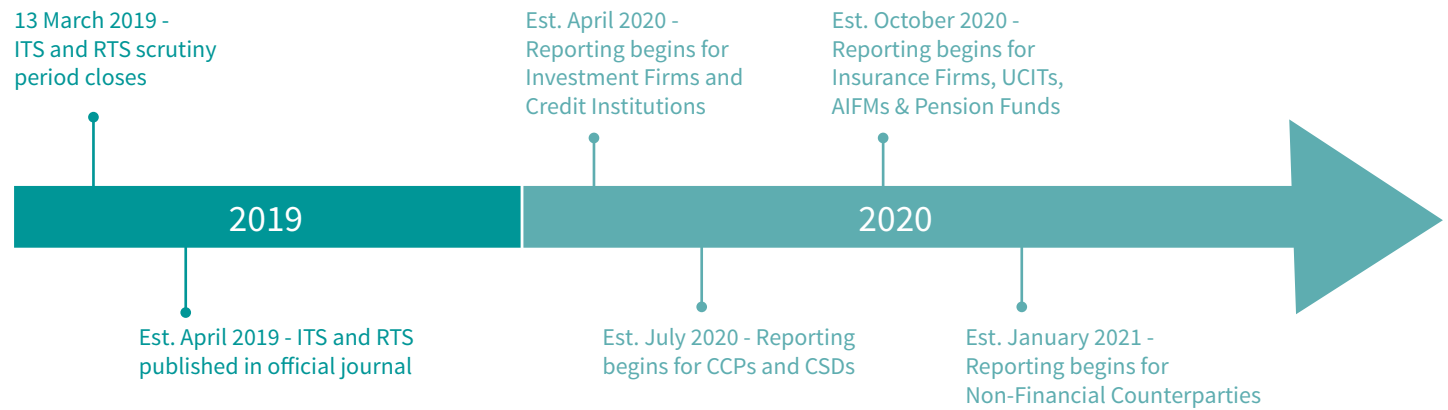
Following the initial news of the adoption process having officially started, the next two immediate questions on everyone’s lips were ‘when do I have to report?’ and ‘what do I have to report? (and has it changed?)’.

In recent weeks there has been some uncertainty over the exact length of time the various EU bodies would be allowing for scrutiny of the technical standards and therefore how long before reporting would need to begin. Scrutiny periods of 1 month, 3 months and 6 months were all cited at various points, however everyone now seems to have settled on a 3-month scrutiny period which is in line with the information listed online (on the EUs register of delegated acts).

Although there remains a small possibility for delay if an objection is registered during the scrutiny period. Given the length of time since the draft ITS and RTS was initially released by ESMA - nearly 21 months before the adoption began – the consensus seems to be that an objection is unlikely at this stage.



Factoring in the low likelihood of an objection and assuming there is no extension to the 3-month scrutiny period, then it should come to an end on March 13th, 2019. Following this, there are several weeks allowance for documents to be translated and then published in the Official Journal which will likely happen sometime during April 2019. Once this happens the proverbial clock begins ticking with the first wave of reporting to begin 12 months after in April 2020, with further phases starting in 3-month intervals as illustrated below.



Adapting to Adoption– the ‘What?’

As mentioned earlier, the draft technical standards have been available for so long now that the “what” has actually been fairly well known now for a while at this stage. Most who have been following the SFTR regulation will be well familiar with many of the key requirements: T+1 transaction reporting with extensive detail on each report, dual-sided reporting requiring the use of Unique Transaction Identifiers (UTIs) to pair and the reconciliation of numerous individual fields with low or often no matching tolerances. Pirum and IHS Markit, along with our design partner clients, have been working together to help market participants solve the various challenges SFTR will pose.

The main question when the adoption process began in earnest was has the “what” changed? Although there were in fact a number of changes to the text, some which are worth noting for those who have to report, ultimately the majority of the changes could be categorised as minor adjustments. This was also the view from various industry bodies and working groups who had reviewed the drafts in detail.



Below are some of the relevant changes from Pirum & IHS Markit's review of the final standards.

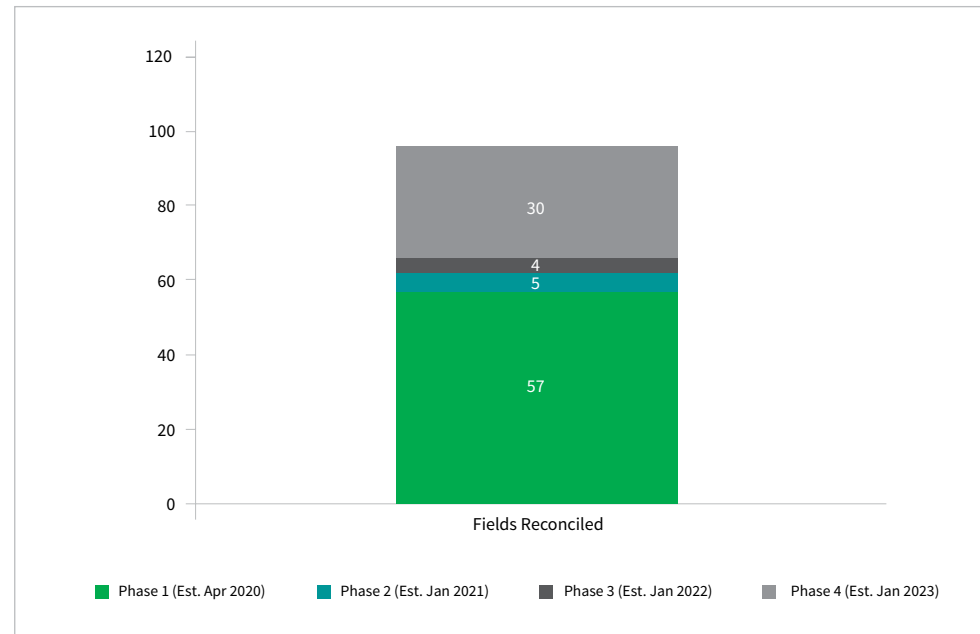
Loan and Collateral Data

Field ID	Field Name	Change
7	Branch of the reporting counterparty	LEI removed as an option, only ISO country code now permitted
8	Branch of the other counterparty	LEI removed as an option, only ISO country code now permitted
18	Agent Lender	Now applicable to Repo transactions
22	Termination Optionality	'NOAP' (Non-applicable) option added – previously only Evergreen or Extendable were permitted
24	Day count convention	Reference to 'fixed rate' removed from draft confirming field should be populated for both floating and fixed rate transactions
49	Security or commodity price	Now applicable to BSB transactions
51	Security Quality	'NOAP' (Non-applicable) option added – previously only Investment grade or Non-investment grade or not rated were permitted

Re-use, Cash Reinvestment and Funding Sources Data

Field ID	Field Name	Change
6	Type of collateral component	'SECU' (Securities) and 'CASH' (Cash) options confirmed, had previously both been '???' on draft standards
10	Reused collateral currency	New field
17	Funding sources currency	New field

Reconciliation Phase



Adapting to Adoption – the ‘Next Steps’

At Pirum Systems and IHS Markit, our preparations for SFTR are well underway and we have been working on the SFTR solution for nearly 2 years already. Alongside this many of our design partner group representing 40 markets participants have been working with us for well over a year providing valuable feedback into the design of our solution.

With the adoption process now started the amount of effort and planning required to comply with the regulation is only going to increase throughout 2019. The scale of the challenges posed by the regulation have been well covered, however as the technical standards remained in limbo post-draft and pre-adoption, some firms have chosen to focus valuable project and IT resource elsewhere while the SFTR timelines remained uncertain and seemingly perpetually delayed.

As the reporting deadlines become tangible, now is the time for those firms who haven't yet fully engaged with SFTR to begin. Once they do, they'll see that the 15 or so months left between now and the first day of reporting is less than it appears, so taking action now and choosing the right solution is imperative.



Duncan Carpenter

Head of SFTR, Pirum Systems Limited



Guest Contributor

Enhance your SFTR readiness with the right reporting solution

Guest Contributor



Val Wotton

Managing Director, Product Development & Strategy,
Trade Reporting, Derivatives & Collateral Management, DTCC

SFTR will subject a large swath of firms -- all EU-based entities that engage in securities financing transactions along with the EU-based branches of non-EU firms involved in these transactions -- to extensive reporting requirements more complex than those mandated under EMIR for OTC derivatives. Given the formidable data and operational challenges SFTR will engender, it's all-important that firms seek out a compliance solution providing user-friendly reporting tools and extensive data resources along with substantial client support.

Just as they do for derivatives trade reporting, trade repositories (TRs) are positioned to serve as the industry's compliance engines for SFTR. They offer the data storage, analysis and reporting functions the new regulation requires and, for those that already deliver derivatives reporting services, will give users a consolidated solution for their trade reporting needs.

Added scope and complexity

A broad array of transactions not previously scrutinized in this way will be covered by SFTR's reporting requirements: repo and reverse repo, securities and commodities lending and borrowing, sell/buy-back, buy/sell-back, margin lending and borrowing transactions. Furthermore, SFTR broadens the scope of data collection beyond previous mandates, stipulating 155 data fields, compared to 129 required under EMIR for OTC derivatives.

Together, these conditions heighten the importance to users of finding TRs capable of handling the demands of this regulation.

What to look for in a TR

Firms will have a choice of TRs once repositories have been licensed to provide SFTR reporting services. Here are some features and functionality firms should look for in choosing a TR for SFTR compliance.

- Robust testing support. TRs should provide individual as well as industry user-acceptance-testing (UAT) several months ahead of the regulation's go-live date. Individual UAT processes that enable integration and testing with industry vendors can be especially useful in preparing for the new reporting regime. DTCC goes even further in assisting clients with testing by offering a pre-UAT SFTR simulator tool. The simulator evaluates firms' SFTR readiness by alerting them to errors in their data submissions. Our UAT environment also has the ability to deal with production like volume – allowing faster and more efficient testing and a greater level of confidence as clients move into the production environment. These testing tools are essential to becoming compliance ready.

- Analytical and benchmarking tools. Users can sharpen their market intelligence and reduce trading risks by using a TR capable of not only collecting and storing massive volumes of data but also enhancing the quality of that data and analyzing it. Analysis and enrichment features can include data transformation, workflow management/replay, books and records reconciliation, near-real-time reconciliation, custom search capabilities and industry statistics on matching rates.
- Experience and track record. TRs with road-tested functionality for OTC derivatives reporting and well-established client and regulatory relationships are preferable. Furthermore, TRs with a presence in multiple jurisdictions are positioned to accommodate future SFT regulations that subsequently roll out beyond Europe.
- Superior customer service. Given the complexity of SFTR's requirements, end-to-end client service, from onboarding through to testing, go-live and beyond, is vitally important. Firms should look for 24/7 support along with ongoing training and learning resources.
- Vendor partnerships. By partnering with firms such as Markit that provide complementary work around trade pre-matching and data enrichment, TRs offer added value and facilitate user connections to the TR platform.

Firms have tremendous work ahead to prepare for SFTR implementation, but they can alleviate those burdens by doing their TR homework now and identifying the right one to meet their compliance needs.

Media

Media



Video

Media

Click here to gain access to a video recording of Pierre Khemdoudi speaking on a panel of experts including DTCC, Equilend and eSecLending. The panel discuss the new rules for risk management across the post trade landscape, and the new responsibilities required.

[Watch the video now →](#)



Industry Articles

Markets Media

<https://www.marketsmedia.com/sftr-could-cost-more-to-implement-than-emir/>

FN London

<https://www.fnlondon.com/articles/sponsored-navigating-the-sftr-landscape-20190115>

Bobs Guide

<https://www.bobsguide.com/guide/news/2019/Jan/16/system-consolidation-to-save-firms-from-sftr-struggles/>

Securities Lending Times

http://www.securitieslendingtimes.com/securitieslendingnews/article.php?article_id=222662

IFLR

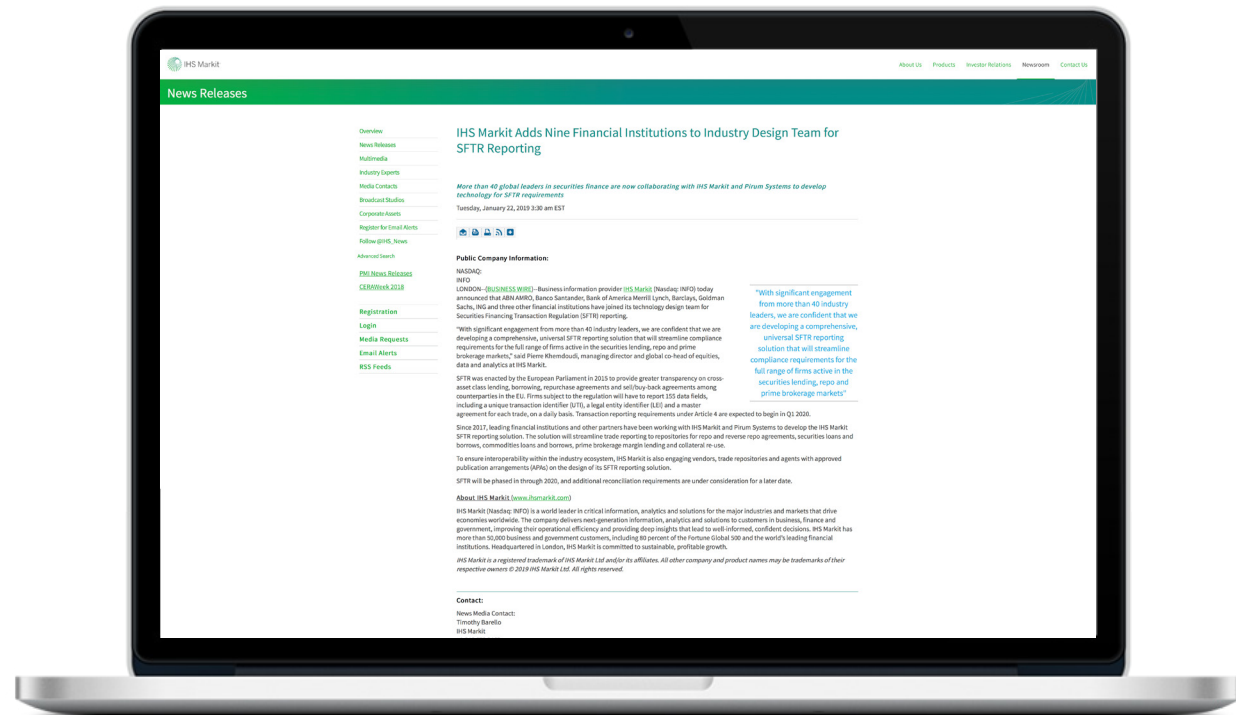
<http://www.iflr.com/Article/3853388/SFTR-market-still-needs-critical-data.html>

Consultancy.UK

<https://www.consultancy.uk/news/19946/autoreks-consulting-head-on-how-tech-can-help-overcome-sftr>

IHS Markit SFTR Press Releases

Media



Learn more →



Events

To learn more about upcoming IHS Markit SFTR events, and to see the countries we will be visiting, see below.

Events



Upcoming Events

Charlie Bedford-Forde and Stuart Cornock will be representing IHS Markit at the Global Funding and Financing (GFF) Summit 2019 in Luxembourg on 29 - 31 Jan 2019.

Charles Bedford-Forde will be attending the ALFI/ISLA in Luxembourg on 12 February 2019.

[Learn more →](#)

We will host a French webinar on 14th February, to discover how IHS Markit is developing the new market standard to meet the needs of regulatory reporting related to Securities Finance

[Click here to register →](#)

On 21 February 2019, IHS Markit will speak at the Business of Collateral Trading event in Frankfurt. Please click here to see the agenda.

[Click here to see the agenda →](#)

A joint IHS Markit and Regis-TR event will be held on 28 February 2019 in Milan for the Italian market, more details to come.

On Wednesday 20 March 2019, IHS Markit will host the annual Securities Finance Forum in London. This year the event will be held at BAFTA, 195 Piccadilly.

[Learn more →](#)

Contact Us

IHS Markit can help you comply with SFTR. In partnership with Pirum Systems, we can offer fully hosted data and end-to-end reporting solutions for SFTRs, which sets an industry wide standard, providing the foundation needed to reconcile trading activity down to the UTI and LEI level of granularity. This SFTR solution offers participants turnkey connectivity to trade repositories and leverages our proven track record of delivering industry wide reporting solutions and our 10 years of partnership with the securities lending community.

Contact us today to find out more,

SFTR@ihsmarkit.com

For further information,

<https://ihsmarkit.com/products/sftr-solution.html>

About IHS Markit

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

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