



IHS Markit®

Securities Finance

SFTR Newsletter

Edition 4



Welcome Note



Hello, and welcome to the fourth edition of the IHS Markit SFTR newsletter.

It has been a busy couple of months with the regulation being signed into law, data specs being shared with clients, our UI being launched and the team hosting and attending a number of events.

On 13th March, the European Commission confirmed the **adoption of the RTS and ITS for SFTR** for SFTR and a go-live date for banks and credit institutions of 11th April 2020 (bear in mind this is Easter Saturday and so the actual reporting will start the next week). CCPs and the CSDs begin reporting their SFTs three months later in July, the buy-side come into scope on 11th October 2020, and non-financial counterparties close out the final wave with their reporting requirements starting from 11th January 2021.

With the entry of the SFTR regulation into the Official Journal, firms now have a concrete date to work toward and we have seen a huge increase in activity as SFTR projects begin in earnest for the bulk of the market.

Early adopter clients in our Design Partnership Group were treated to the launch of our user interface and a demo of the solution before SIT testing begins at the

end of April, and a fortnight later over 150 people from 75 organisations attended a forum in our London offices to see the demo for themselves and hear how different industry participants have been working with us as they prepare to report. The major trade repositories then joined a panel to talk about timelines and challenges.

Our Counterparty Manager colleagues hosted a second Outreach 360 working group on 1st April with over 15 different firms to agree what questions will need to be asked as banks and buy-side institutions prepare to contact each other to exchange information regarding their respective paths to compliance and start thinking about additional legal agreements to ensure the right data can be shared so both parties to a transaction are in a position to report.

In other news, we have made good progress with our alliance partners on the triparty agent, CCP, MTF and booking platform side and will have some exciting announcements very soon – watch this space!

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,

Charlie Bedford-Forde

Head of Securities Finance Sales, EMEA, IHS Markit

Guest Contributor - Seb Malik

Guest Contributor



Now that the suite of SFTR level II legislation is official law, we have a transaction reporting start date: 11 April 2020 for banks and MiFID II firms. It's worth recapping 1- what the principle obligations are; 2- what problems firms are facing; and 3- what specifically you should be doing.

Principle Obligations

SFTR requires daily reporting of repos (plus buy-sell backs), securities and commodities lending and prime brokerage margin lending. Not only new transactions must be reported but also life cycle events such as partial returns, modifications and early terminations. Additionally, for centrally-cleared SFTs, aggregate initial and variation margin posted to the clearing house on a portfolio level. Collateral reuse (rehypothecation) and cash reinvestment must also be reported.

There are six types of reports comprising 155 fields spread across four XML schemas. The number and size of the individual XML messages is huge. ESMA will shortly officially release the schemas, but they are already available at [ISO20022.org](https://iso20022.org).

Main Problems

An estimated 10,000 firms are affected and we at Market FinReg have been conducting training and impact analyses for a number of banks, brokerages and hedge funds. Some of the principle problems firms encounter begin at trying to locate in the bank or institution where SFTs are transacted/traded. It sounds simple, but with scores of departments, branches, desks and traders, pinpointing which desks trade in SFTs is challenging. Data is often siloed so a simple SQL query against a database is not an option. Office politics can come into play too with fiefdoms reluctant to disclose. Once the universe of trades has been determined, clients must be categorised as financial (F); non financial (N) or small non financial counterparties (NFC-). SFTR mandates Fs additionally report for the NFC-s.

Booking has to be corrected. We often find that Repos are booked as Security Lending transactions, on occasions with a repo GMRA master agreement! Work is required to modify systems and processes to ensure correct booking of trades and correct allocation of master agreements. Counterparties must be contacted to ensure the other side of the transaction is on the same page.

The next problem is lack of static data. SFTR requires 40-60 data fields for a typical report, much of which is static data. Vendors, of which IHS Markit/Pirum is the industry leader, are providing valuable enrichment services.

UTI generation and timely sharing is a process that needs close cooperation with counterparties. for entities dealing with large number of transactions, the employment of a vendor is necessary.

Agreeing the terms of the SFT with the counterparty is essential. For example, trade execution is a matching field that must be matched to within a 1-hour tolerance. Given that trades can be booked on different days, this is a challenge.

We find firms are especially poor at tracking collateral reuse. Since this must be reported, often identification and then systems and processes need to be instituted.

Timely reporting of collateral allocation and settlement is challenging and lenders must be engaged.

What You Should be Doing

Due to SFTR's sheer complexity, never has expert training been more critical. In partnership with the leading pan-European trade repository – Regis-TR, we have been offering accredited SFTR transaction reporting training in London, Madrid, Luxembourg and Frankfurt at Regis-TR/Clearstream's offices. To date Regis-TR and Market FinReg have trained national regulators, state banks and other senior actors in the industry.

SFTR is not easily understood and without an initial injection of expertise, months can be spent struggling to decipher the complicated regime. Training is an inexpensive way to fast-track your projects and ensure you get off to the right start.

Errors in analysis are difficult and expensive to rectify at a later date.

Once your key staff are trained, a detailed impact analysis should occur with options presented to the project board. The project board needs to take certain strategic decisions, principally which chunks of the project will be procured from third-party vendors and which will be built in house. IHS Markit/Pirum offer various levels of packages.

For the smallest market participants who only occasionally engage in SFTs, our advice is always to consider pulling out of the market and seeking to replicate returns/cashflows via funds.

Having made strategic decisions, a gap-analysis should occur and solutions designed and built. ESMA's commissioned research suggests that the average cost to a typical tier 2 firm—not the top investment banks—is €300-600,000, which includes €50-100,000 in consultancy fees. For self-build, they estimate such firms will take one and a half to three man years. While these are average figures, if your senior management has not allocated this level of resourcing, you will struggle to reach compliance.

Market FinReg and Regis-TR's training courses are being held in May in London, Frankfurt, Madrid, and Luxembourg are always online. With less than 12 months till reporting go-live, time is of the essence.

Seb Malik

Head of Financial Law, Market FinReg

Outreach 360

Outreach 360



'Assist' for the (SFTR) win!

Scoring points is THE metric for winning. But as any sports nut will tell you – and pity for those that must live with one – assists are a key and often overlooked ingredient.

Regulatory compliance in general, and SFTR in particular, is no different. In this case, transaction reporting is THE metric. The score.

But for that score to happen, an assist is needed to set everything up. IHS Markit has built its Counterparty Manager platform around the concept of 'assisting' banks in gathering regulatory and compliance data from counterparties via a centralized platform. SFTR – like Dodd Frank, EMIR, FATCA, and MiFID before it – is ripe for an industry solution.

There are two types of reg change: the kind that require a one-off adjustment and the kind that require a fundamental process change and thus ongoing work. SFTR is of the latter persuasion. Dealers must gather reference data, operational information, project implementation plans, etc. They must then categorize their customers by 'in or out of scope', operational approach, state of readiness, and so on. But rather than being a 'one and done'

exercise, dealers will have to incorporate the same assessment into their new client onboarding process and their regular client remediation process.

Enter Counterparty Manager's Outreach360 (O360) solution. O360 will incorporate the full spectrum of SFTR-impacted counterparties as well as workflow tools for ongoing operations. We will support the standard ISLA questionnaire plus offer dealers the ability to add customized questions to it. We will also support additional questionnaires that we anticipate will be needed for repo, margin lending, and other client types. And finally, we will minimize the friction with counterparties by managing the outreach for multiple dealers using our dedicated operational team and allowing recipients to answer a questionnaire once and share the answers across multiple dealers.

Consistent data available via API, a proven track record delivering on multiple industry regulations, robust workflow and reporting tools – O360 has everything the industry needs to be in a position to score on their SFTR reporting.

Lansing Gatrell

Managing Director, Reg & Compliance Services,
IHS Markit

Media

Videos

IHS Markit caught up with Jo Hide of REGIS-TR to discuss SFTR and the day one expectations. View the short video clip [here](#)

What are the challenges that the industry is facing as a result of SFTR? Neil Davies of Clearstream discusses the implications [here](#)

At our recent SFTR Forum in London we held an insightful panel discussion with market practitioners, including representation from J.P. Morgan and UBS. Grab a coffee, and enjoy the conversation [here](#)

Industry Articles

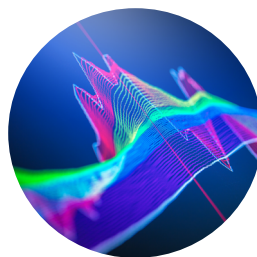
- SFTR Alert: Reporting Countdown
- The benefits of compliance – cost reduction, collaboration and best practice
- The devil is in the details
- Securities Lending Times: Interview with Paul Wilson, IHS Markit
- Challenges around SFTR and the effects of Brexit
- ESMA consults on future reporting guidelines under SFTR
- CASLA: ESMA SFTR Level III paper presents last chance for changes

Events

Past Events



DTCC and IHS hosted a joint webinar on the SFTR implementation process.



UnaVista and IHS Markit hosted a joint webinar on 9th April.



IHS Markit hosted a SFTR workshop and drinks reception at our offices in London attended by over 100 industry experts. Highlights included panel discussions, a presentation by Pirum and a demonstration of the GUI light.

Upcoming Events



On the 18-20th June, IHS Markit and DTCC will be hosting two breakout sessions for delegates attending the ISLA Conference in Madrid. If you'd like to join us to discuss getting SFTR implementation ready, please RSVP to cswitonski@dtcc.com



IHS Markit will attend and speak at the 2019 Calypso Client Conference Europa, in Paris on 25-26 June. We look forward to seeing you there

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 SFTs, 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 at

sftr@ihsmarkit.com

For further information, please visit to

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 80 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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