



IHS Markit®

Securities Finance

# SFTR Newsletter

Edition 1 | December 2018

# Welcome Note



Hello, and welcome to the first edition of our SFTR newsletter. The aim of these updates is to share our take on the challenges faced by the industry, while keeping you informed as to how we are progressing in designing and deploying an SFTR reporting solution that meets the needs of all securities financing market participants.

While we await the final publication of the Regulatory Technical Standards (RTS) to start the countdown to SFTR go-live, the IHS Markit SFTR reporting solution goes from strength-to-strength. We now count over 40 Design Partners, including more than 20 of the world's largest and most complex agent lenders, brokers, repo dealers and asset managers.

It is through working with these partners that we have established a deep understanding of the requirements of the markets impacted by SFTR, and, over the coming months, we will be sharing this knowledge to help you in your individual SFTR projects.

If you would like more information on the IHS Markit SFTR reporting solution, or a meeting with our experts, please contact us at [sftr@ihsmarkit.com](mailto:sftr@ihsmarkit.com)

All the best,

Pierre Khemdoudi  
Managing Director, Global Equities - 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. Below we take a deeper look into the impact of SFTR Article 4 reporting and discuss the matching rates under EMIR.



# The Scope of SFTR?

## Q&A on the Scope of SFTR

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

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

### **What other factors add complexity for market participants?**

The timing of the data collection and reconciliation for submission to a Trade Repository (TR) by midnight on a T+1 basis is a challenge. In addition, the tri-party workflow for SFTR reporting – market participants, TRs and the system used for reporting – adds another layer of complexity.

### **How are IHS Markit and Pirum helping the Securities Finance industry with SFTR?**

One critical aspect of the SFTR project is the need for massive scalability. The advantage of a diverse set of design partners is immense, allowing us to build a solution with the confidence that it will deliver for individual client needs, as well as the total potential scale of reporting across the industry. The wide range of firms across the value chain signed up the solution including agent lenders, borrowers, broker dealers as well as our engagement with CCPs, trading platforms, tri-party agents and trade associations has allowed us to tackle a lot of issues head on and gain a consensus on several difficult topics.

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

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

\* This article is part of a larger piece written and distributed by [Securities Lending Times](#) in September 2018.

## A journey to SFTR Article 4 reporting

At a recent conference, a panel of experts addressed the transaction reporting and recordkeeping requirements coming into effect under Article 4 of SFTR. Naturally, the panel also covered the major impact these requirements will have on the booking and reporting models that are currently used by market practitioners.

Historically, booking models have evolved to cope with myriad factors, such as contractual obligations, settlement processes and bespoke counterparty requests. This has resulted in a spectrum of customised functionality and practices which, when faced with the dual-sided requirements of SFTR, may need to be revisited to conform to new standards.

For example, when reporting transactions to Trade Repositories (TR), SFTR mandates that counterparties identify their respective side of the transaction using Unique Transaction Identifiers (UTI). In turn, the TR will use the reported UTI to match each trade for the counterparties. The challenge is that UTI can change multiple times throughout the lifecycle of a trade, and counterparties are responsible for accurately tracking and communicating this information.

In addition, each counterparty will have to aggregate and share 153 data fields for every in scope transaction, which creates a considerable workload, as no single trade or settlement system has sufficient data to cope with SFTR requirements.

The good news is that IHS Markit has collaborated with industry participants to design the industry's first solution for seamlessly aggregating and sharing all pertinent data fields on a pre-reporting basis. Any breaks between counterparties can be effectively reconciled using this tool, as opposed to relying upon multiple, disparate communication channels.

Having these capabilities can help firms implement a strong control framework for reporting, while dramatically reducing the submission costs charged to them by TR.

In addition, by reconciling trades on more expedient basis, firms can reduce common settlement issues. Counterparty breaks on items such as trade dates and quantities can be identified and corrected earlier in the process, which ultimately helps to optimize a firm's trade settlement efficiency – and the accuracy of its P&L accounting.

## Does ESMA really care about matching rates?

As many will know, the matching rates under EMIR were not ideal and one result of that is a more robust approach to matching and reconciliation under SFTR. For instance, we see the word reconcile appears 95 times in the Regulatory Technical Standards (RTS) alongside phrases like “utmost importance”, “as soon as possible” and “improve their reporting”. The RTS annex also highlights an understanding of the “specificities of the technology systems” and also the desire for “access by authorities to high quality data”. All of this clearly points to a desire for SFTR to learn from experience.

At the receiving end of the regulatory reporting process, some national authorities have mentioned the desire to not only see the trade data, but also to see the matching and correction rates in a MIS type report. Understanding this, many in the SFT market are keen that they should not stand out for the wrong reasons. There is also a strong desire to not repeat the EMIR experience and its associated internal and external costs of exception remediation.

A key starting point to reconciliation is the use of Unique Trade Identifier (UTI) which leads to counterpart pairing. This important first step allows trade repositories to at least find the other side, where relevant. However, the market wants more, especially where Agency Lending Disclosure (ALD) is concerned, without which even the counterpart traded with is unknown. Driven by this, vendor solutions are being sought to bridge this gap which are not a significant step forward from the contract compare solutions in the securities lending market which have been in place for many years.



# Guest Contributor

SFTR: Mix, Delay, Repeat...

Guest Contributor



## John Kernan

Head of Product & Business Development Management, REGIS-TR.



I have received a lot of requests recently from clients and prospects on the status of SFTR level 2. Here is my reading of the situation.

In a nutshell, the European Securities and Markets Authority (ESMA) declined to pick up the amendments proposed by the European Commission (EC) on ESMA's draft Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) – therefore, I think it is reasonable to expect the EC to adopt its own version of the draft RTS by the end of the year. The RTS/ITS would then be subject to a longer scrutiny period from the European Parliament (EP) and Council Council (3 months instead of 1 month, and renewable once).

### **Per a letter dated 24 July 2018, the EC tabled amendments to ESMA's draft RTS/ITS as follows:**

- ESMA's draft RTS and ITS envisaged the mandatory use of forthcoming industry standards such as legal entity identifiers (LEIs) for branches and unique trade identifiers (UTIs) for transactions for reporting to trade repositories once these standards have been endorsed by ESMA in the future.
- The EC and ESMA have a different understanding as to how such potentially forthcoming standards would be endorsed by ESMA and, hence, how that process should be reflected in the regulatory and implementing technical standards under SFTR.
- The EC proposed amendments to clarify that the responsibility to introduce changes to the reporting requirements due to potentially forthcoming industry standards remains with the EC on the basis of an according proposal by ESMA.
- As an alternative to the inclusion of “endorsed by ESMA” in the RTS and ITS on reporting, the EC proposed including in the recitals references to ongoing work on the development of legal entity identifiers for branches and unique trade identifiers for transactions.

**Meanwhile, ESMA rejected the EC's amendments – in its opinion issued on 6 September 2018, ESMA believes the changes will:**

- Hinder the possibility to take into account international developments and reporting standards agreed at global level and risk timely alignment with international reporting standards.
- Deviate from and create inconsistency with the currently applicable EMIR reporting standards.
- Not provide certainty, clarity, predictability and consistency which is essential for the market and public authorities in relation to reporting standards.
- Resulting in a significantly extended timeline for the introduction of global standards in the EU.

**As for next steps:**

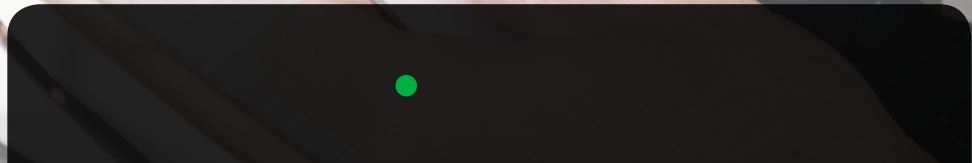
- The EC is now free to adopt the RTS/ITS with or without its amendments – I expect the EC to adopt the RTS/ITS including its amendments by the end of the year.
- As the EC is expected to adopt the RTS/ITS with amendments to ESMA's version, the Council and the EP would be granted a longer period to scrutinize the level 2 text of 3 months instead of 1 month (period extendable once). Note that both institutions may also agree to communicate their intention not to object which may also shorten the non-objection period.

Based on all of this, I expect a publication in the EU Official Journal around the end of Q1 2019, and for the reporting obligation to apply late Q1 2020.



# Media

Media



# Video

Media

What are the biggest challenges of SFTR?

[Hear from IHS Markit's Adrian Dale →](#)

Hear IHS Markit's Adrian Dale speak on market participant collaboration, surrounding SFTR.

[Watch the video now →](#)



## Industry Articles

SFTR report: firms preparing for a “tsunami of data”

[Read more](#) →

Joao Serodio, business analyst lead at AxiomSL, discusses SFTR and affirms collaboration is the best way forward for the industry to face it

[Read more](#) →

Andy Dyson and Richard Colvill of ISLA discuss the cross-industry steering group set up by the association to address key areas of the implementation process

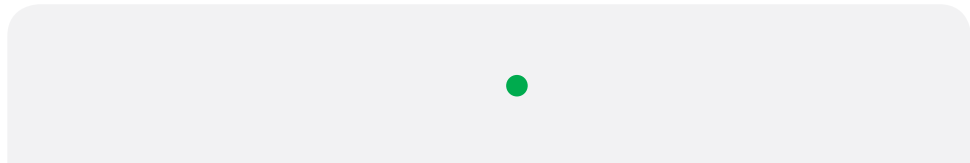
[Read more](#) →

SFTR reporting is a means of data quality, says Jochem Kimman, senior supervision office, Authority for the Financial Markets Netherlands

[Read more](#) →

Valentino Wotton of DTCC suggests the industry act now on SFTR to ensure readiness for the implementation

[Read more](#) →



# IHS Markit SFTR Press Releases

DTCC Collaborates with EquiLend, Trax, IHS Markit and Pirum to Advance Securities Financing Transactions Reporting Processes

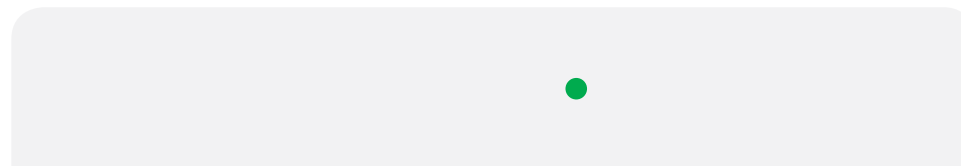
[Read more](#) →

IHS Markit SFTR Solution Adds Five Industry Design Partners

[Read more](#) →

Unavista Extends Alliance with IHS Markit to Cover SFTR Transaction Reporting

[Read more](#) →



# Events

To learn more about upcoming SFTR events and to see the countries we will be visiting, click on the [Upcoming Events](#) link below.

In this issue we also summarise topics discussed at our recent SFTR roundtable, hosted with Pirum.

# SFTR roundtable with Pirum Summary

Participants from across the securities lending industry were recently invited to an SFTR roundtable at IHS Markit in London. The roundtable highlighted the hurdles and opportunities of technical standards, among other topics.

At the conclusion of the roundtable, Adrian Dale, SFTR product manager at IHS Markit, asked how firms should prepare themselves.

Duncan Carpenter, head of SFTR at Pirum Systems, predicted there could be a “major upheaval in upstream processes systems” come the SFTR deadline, and added he had encouraged Pirum clients to “begin testing by the end of the year if possible.”

Craig Laird, vice president of regulatory operations at Morgan Stanley, noted there would be lots of focus in preparation for the go live, and outcomes of system testing would give more indication of where technology challenges will lie.

Jasper Dikker Hupkes, head of UK global markets & securities finance at ABN AMRO said, “The benefit of forums are very beneficial, and I would suggest taking notes from their standardization and guidance. There’s safety in numbers too.

The more ownership you have of your business, the more you will progress, and that’s the way we want to progress as an industry, together.”

Paul Bradford, director of global securities finance at ING stated that SFTR needs to be treated as a technological solution for most of the market, throwing extra resource at it in terms of headcount cannot be a long-term solution. “The securities lending industry has in the past been slow to adapt to new technology, but now firms could really fall by the wayside if they don’t keep up,” he said.

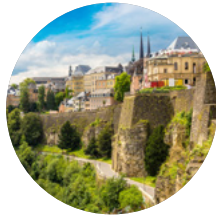
Bradford reiterated that solutions do need to take into account those with smaller budgets, as the smaller firms often do not have the same resources and capital as bigger firms.

Harpreet Bains, global product head for agent lending at J.P. Morgan said, “Question what you’re gaining from SFTR, and look at it deeper. You need the commitment from the outset. Think about your SFTR compliance model fitting into your longer term business model, not just as a deadline to meet.”

For the full version of this Securities Lending Times article, please click [HERE](#)



## Upcoming Events

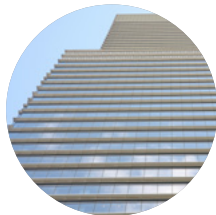


- Charlie Bedford-Forde and Stuart Cornock will be representing IHS Markit at the Global Funding and Financing (GFF) Summit 2019 in Luxembourg on 29<sup>th</sup>-31<sup>st</sup> Jan 2019.
- We will visit Milan in January 2019 to host clients in conjunction with Regis-TR.

[Details to follow](#)

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## Events Re-cap 2018



- Pierre Khemdoudi spoke about SFTR as a catalyst for positive change at the Infoline SFTR, MiFIR & EMIR Reporting event in London on 21 March.
- On 21 March, IHS Markit hosted the annual Securities Finance Forum in London with focus on SFTR and tech trends, with over 160 delegates in attendance.
- Fabien Romero spoke for IHS Markit at the VBO Symposium in Bremen, on the 22-23 March.
- IHS Markit hosted a webinar on SFTR with speakers Pierre Khemdoudi and Fabien Romero on 11 April. A recording of the session (in French)

[Viewed here](#)

# Events Re-cap 2018

- We also sponsored Finadium London and 9-10 May, where Pierre Khemdoudi spoke on the 'Implications of Regulation' panel and Annabelle Shrieves facilitated the Hedge Fun break out session.
- IHS Markit's Adrian Dale spoke on a panel at the Marcus Evans 'Optimise the Implementation of the SFTR' event on 24-25 May.
- On August 22nd, Fabien Romero represented IHS Markit and spoke at the REGIS-TR SFTR workshop in Frankfurt.
- Kabin George spoke on 'The Importance of Benchmarking and Utilising Data Effectively to Gain Competitive Advantage' panel at the IMN Beneficial Owners conference in London on 12 and 13 September.
- IHS Markit attended the ISLA post trade conference at Aviva's offices on 4<sup>th</sup> October.
- We also attended the ICMA conference at Bloomberg's building on 17<sup>th</sup> October.
- On 15<sup>th</sup> and 16<sup>th</sup> November, Charlie Bedford-Ford represented IHS Markit at the Euroclear Collateral Conference.
- Jonathan Chen attended the Fixed Income Leaders Summit in the Netherlands on 6<sup>th</sup> -8<sup>th</sup> November.



# 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

Contact us today to find out more,

[SFTR@ihsmarkit.com](mailto: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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