



No shortcuts

Martin Seagroatt of Broadridge explains why doing the bare minimum to comply with SFTR gives little thought to the long-term effects

The short-term view

The sheer scope of data that firms must report for Securities Financing Transactions Regulation (SFTR) means it is tempting to do the bare minimum to hit compliance deadlines. This short-term tactical view gives little thought to the long-term effects of SFTR and the direction of travel the securities finance industry is heading in.

One of the key lessons learned from European Market Infrastructure Regulation (EMIR) and the second Markets in Financial Instruments Directive (MiFID II) was that many firms did not think about the consequences of sub-optimal systems and processes and poor quality data. This then resulted in subsequent tactical projects post go-live to address technical debt and higher ongoing maintenance costs around IT and operations.

With SFTR, it is important to seriously think about whether a short-term solution is going to simply add to your complexity and data problems.

Turn challenges into advantages

It can seem daunting to redefine operating models and implement major projects to improve data quality. However, taking the time to design a solution that enables your firm to achieve future benefits and recover some of the costs of SFTR compliance need be no more difficult than cobbling something together to get over the line.

While taking some initial effort in the short term, getting your data model in order now while you are digging up the road anyway will provide cost savings in future. Selecting vendors such as Broadridge with a proven track record in getting clients live with previous reporting mandates and who can provide a long-term vision around

how SFTR can provide competitive advantage can also make the process significantly easier.

Advantages of the long-term view

When combined, these benefits can result in a significantly lower long-term cost of ownership for the systems and processes required to successfully comply with SFTR. They also help your firm to position for subsequent industry evolution and future trends coming down the pipes. (See figure 1) As a bare minimum, an SFTR solution needs to provide timely, accurate reporting that meets regulatory deadlines. This is the basic view of compliance.

However, past experience with MiFID and EMIR has shown that two other components are also critical in any effective reporting solution:

- Clear data lineage (where the data has come from, where it is held, how it has been enriched)
- Traceability (why this data is being reported/not reported)

A reporting solution that provides a clear view of the origin and evolution of data flows from multiple systems makes it far easier to verify the quality of that data. It can also help the firm to unlock added value from the data it holds.

With the European General Data Protection Regulation (GDPR) coming into force on 25 May, it is also becoming more important to demonstrate good data lineage and traceability. Ownership of data—and reducing the number of third parties it is shared with—are critical components to consider.

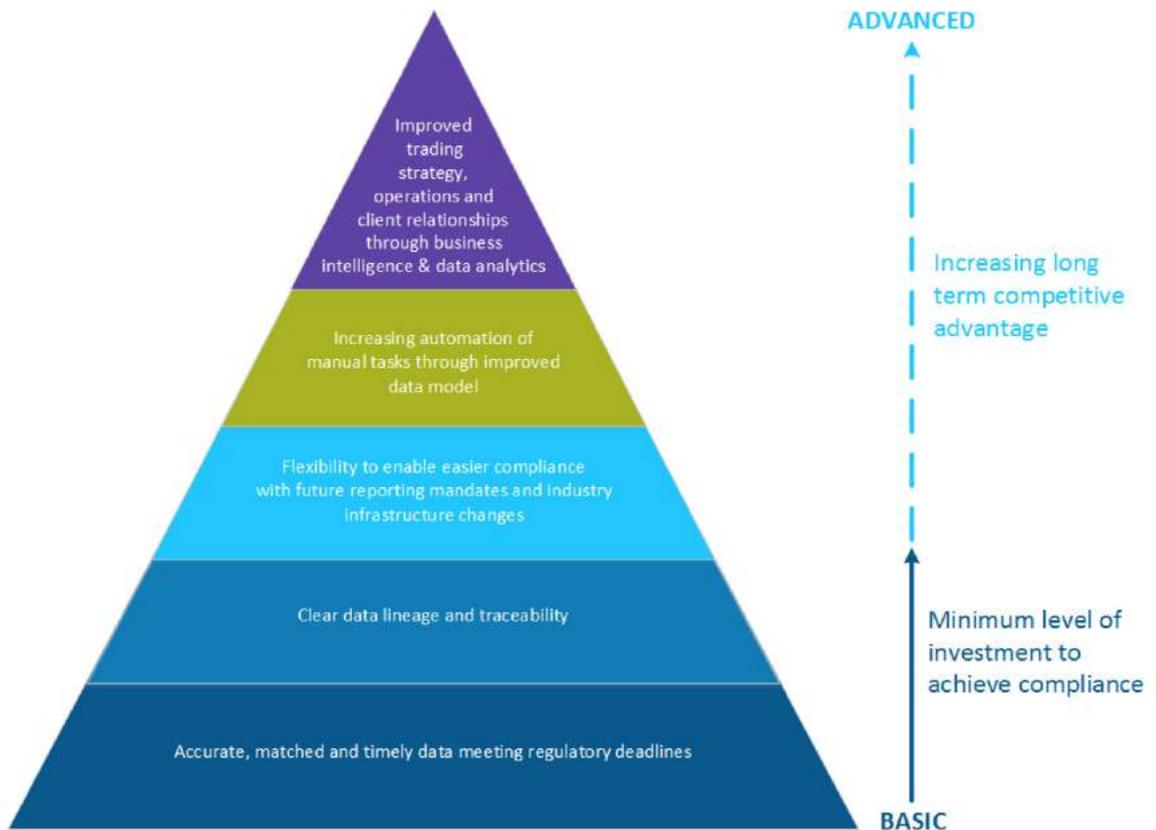
Increased flexibility and scalability

Regional regulators globally have indicated a desire to align with the Financial Stability Board's (FSB) recommendations around transparency in securities finance transactions. Furthermore, once SFTR is live in Europe, ESMA will no doubt require future iterations of the rules. There is also overlap with other regulations; for example, firms falling under the ECB's Money Market Statistical Reporting Regulation (MMSR) will benefit from having a robust SFTR solution.

Likewise, industry evolution such as increasing electrification, a move to trading via central counterparties (CCPs) and the emergence of peer to peer/all to all networks may have an impact on the SFTR data that firms need to report.

Implementing a flexible solution that will allow you to repurpose SFTR systems, processes and data for reporting mandates further down the

Figure 1: Benefits of the long-term view



line can therefore result in lower risk for implementations, migrations and system replacements in future.

This allows you to achieve a scalable, end-state regulatory reporting infrastructure that accommodates frequent changes while covering multiple jurisdictions and mandates.

Reduced reputational risk and market share growth

While focusing on transparency, SFTR is as much about improving and standardising the way people do things. Firms need to ask themselves whether they really want to be transparent in having sub-optimal data and processes. SFTR provides an ideal opportunity to work through the kinks in some currently cumbersome operational procedures.

To avoid headaches with reconciliations, counterparties will prefer to trade with firms who have their house in order around data and reporting. There will be little patience extended to counterparties who are inefficient and slow to cooperate with timely reporting requirements. Those with strong operational processes therefore have the ability to gain market share and trade flow. For service providers offering delegated reporting, providing clients with a solution that reduces the burden of SFTR by minimising exceptions will be seen as a key differentiator.

Greater automation and straight-through processing

Getting a clean, standardised data model in place now will enable automation of manual tasks further down the line. This will unlock great potential to achieve efficiency gains and cost reductions in the future and achieve some return on investment from the cost of SFTR compliance. As the industry becomes more standardised and industrialised this will become a 'must have' for firms who wish to remain competitive in a fast moving environment with increasing cost burdens.

Improved trading strategy, risk management and client relationships

Another longer-term benefit of taking a more strategic approach to SFTR is the ability to unlock new insights from the wealth of

data required for SFTR reporting. There are clear opportunities to use this to improve risk management, management reporting and front office to back office reconciliations. The ability to create new analytics and business intelligence from SFTR data will also support better decision making around trading strategy and client servicing.

With the emergence of artificial intelligence (AI), a robust data model will be a prerequisite to designing effective AI applications. If you are not doing this, then some of your competitors are certainly putting the building blocks in place to adapt to AI now, as seen with recent examples of forward thinking securities finance market participants starting to launch AI driven solutions. Having a standardised taxonomy and clear ownership of your data to manipulate it in new ways is a fundamental requirement for this.

There is still time to stop and think

With tight regulatory deadlines and regulatory fatigue setting in, it is tempting to dive in and start moving forward with basic compliance. However, it is important to stop and think before you plunge in to consider about the long-term effects on your systems and processes and how SFTR can be seen as a strategic investment that adds incremental business benefit. [SLT](#)

Key considerations

Some key considerations include:

- Start planning early to avoid vendor onboarding crunches
- Understand the regulation. Make sure you have invested time in comprehending the requirements of the regulation, its complexity and how it affects your business
- Communicate with industry associations to help shape best practice
- Grasp internal requirements and the process changes required early on
- Define a long-term scalable operating model
- Identify data gaps and define coping strategies
- Get your data in order now to allow time for solutions implementation and testing
- Think about how reporting mandates will evolve and overlap with other regulations/jurisdictions and select a flexible solution with the ability to scale
- Select vendors such as Broadridge with a proven track record in complex regulatory reporting mandates to meet demanding deadlines. This allows you to leverage lessons learned from previous implementations to help you avoid sleepless nights
- Select vendors with a long-term vision around how SFTR and other reporting mandates can provide competitive advantage and who can offer a consultative approach

All of this will enable you to put in place a robust and scalable reporting solution that meets regulatory deadlines while minimising long-term costs and maximising competitive positioning.



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