

SFTR reporting

The challenges around article 4



Introduction

The pace of regulatory change shows no sign of abating with financial institutions in Europe having recently gone live with MiFID II, now needing to focus their energy and resources on reporting under article 4 of the Securities Financing Transaction Regulation. SFTR represents a significant change to the securities finance industry and the reporting obligation is expected to be live in Q2/Q3 2019.

SFTR is part of the EU's response to the financial crisis and reflects policy recommendations made by the Financial Stability Board (FSB) as part of its examination of shadow banking. These recommendations are outlined in the FSB's 'Policy Framework addressing Shadow Banking Risks in Securities Lending and Repos' published in August 2013. ESMA has used the FSB recommendations as the foundation for SFTR whilst following the rules and processes already contained within EMIR for consistency.

Main features

The main features of reporting under SFTR are as follows:

- EU counterparties, plus their non EU branches and EU branches of third party firms, except certain public bodies (i.e. Central Banks) to report the details of all SFTs traded, including collateral, reuse and any modification or termination to a trade repository authorised under SFTR.
- ESMA is placing a high dependence on the trade repositories' ability to match trades both intra and inter repository.
- The SFTR reporting obligation has 153 reportable fields. There will also be two phases of the trade repositories' reconciliation process, with the first phase consisting of 62 matchable fields required for the initial SFTR implementation. A second phase, starting 2 years after the start of the reporting obligation, will contain another 34 matchable fields, bringing the total matchable fields required to 96.
- The standard reporting format will be based on ISO20022, not just from the trade repositories to regulators, but also from users to trade repositories.
- Securities lending, repo and margin lending activities are not homogenous. So ESMA has had to come to terms with specific rules for specific SFTs compared to their previous reporting regulations.
- ESMA proposes to follow the Unique Transaction Identifier (UTI) generation waterfall used under EMIR.

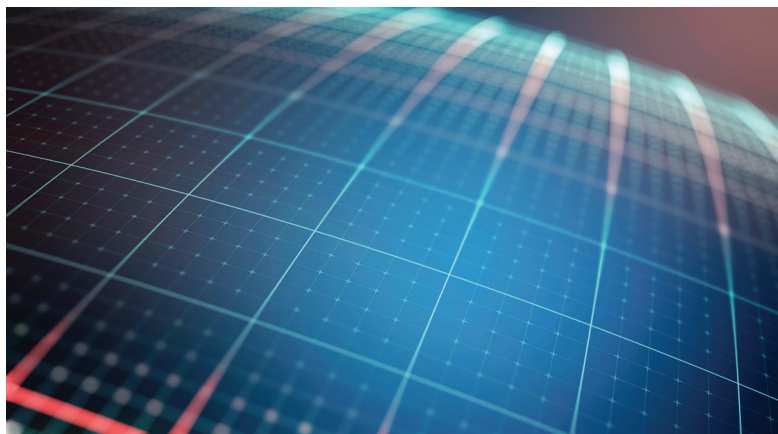
However, as explained earlier, SFTs are not homogenous. Consequently, the lowest level of the waterfall differs depending on the type of SFT.

Observations

There has been a mixed response from market participants regarding the final draft RTS released from ESMA on the 31st March 2017. Some are happy that ESMA has listened to the market in some instances i.e. the collateral reporting obligation has been changed from value date to value date +1. Others who had asked for a significant decrease in the amount of matchable fields required have been disappointed that the 82 matchable fields from the consultation paper has only been reduced to 62, increasing to 96 matchable fields after 2 years.

It is clear that to comply with the new regulation, many firms will need to change their existing processes and overcome many challenges. These are likely to include:

- The location of the full data set. This is currently highly fragmented, with no one entity or system having all of the reportable data. In some instances, the reportable data isn't currently captured, i.e. margin data within the reporting deadlines. The challenge is pulling together, harmonising and controlling the full set of data to be reported.
- Reconciliation. ESMA requires trade repositories to match 62 reportable fields with no tolerance for difference on 52 of these fields. In some instances, the reportable data isn't currently captured i.e. classification of a security via ISO10692.
- Fragmentation of processes and reporting routes will complicate end-to-end solutions.
- Market participants will have to decide whether they will send all reportable data direct to the trade repositories, or via a market middleware/utility, or from an existing post-trade service.
- The need for a multi-jurisdictional solution. Some firms will want to leverage existing strategic regulatory reporting infrastructure, so will need those existing systems to support the new regulation.



In all cases, Broadridge can assist market participants.

A truly strategic solution to trade and transaction reporting

Broadridge provides a proven technology solution that facilitates end-to-end trade and transaction reporting between multiple source systems and destinations, in both real-time and batch. The solution covers reporting to a range of jurisdictions, including US (Dodd Frank – CFTC), Europe (EMIR, MiFID I and II), Canada, Singapore, Japan, Australia, Hong Kong and Switzerland, from a single data layer, viewed through a user-friendly configurable dashboard.

Commercial and operational independence

We are completely independent of all trade repositories, ARMs, APAs, and other market participants and we offer our clients the same independence. Our platform provides a single abstraction layer between multiple internal systems and multiple external destinations. This approach prevents our clients being inextricably linked to a single external provider, with the associated potential concerns of commercial inflexibility and unsatisfactory operational performance. With Broadridge it is possible to use more than one destination for each jurisdiction concurrently, perhaps per asset class or purpose, and destinations can be changed at any time with minimal disruption.

Broadridge clients can always adopt the most cost-effective way to report

Harmonising fragmented data

With 153 reportable fields, it is unlikely that most firms will have all the required data for SFTR in their source systems. Obtaining data such as cleared initial margin posted, variation margin posted, excess collateral, and making sure these

numbers relate exclusively to SFTs will be a time consuming task. Within our data model Broadridge already harmonises margin and collateral data from over 80 CCPs globally. This is one of the many examples where Broadridge can be used to help enrich the data to be sent to the trade repositories or a firm's SFTR solution.

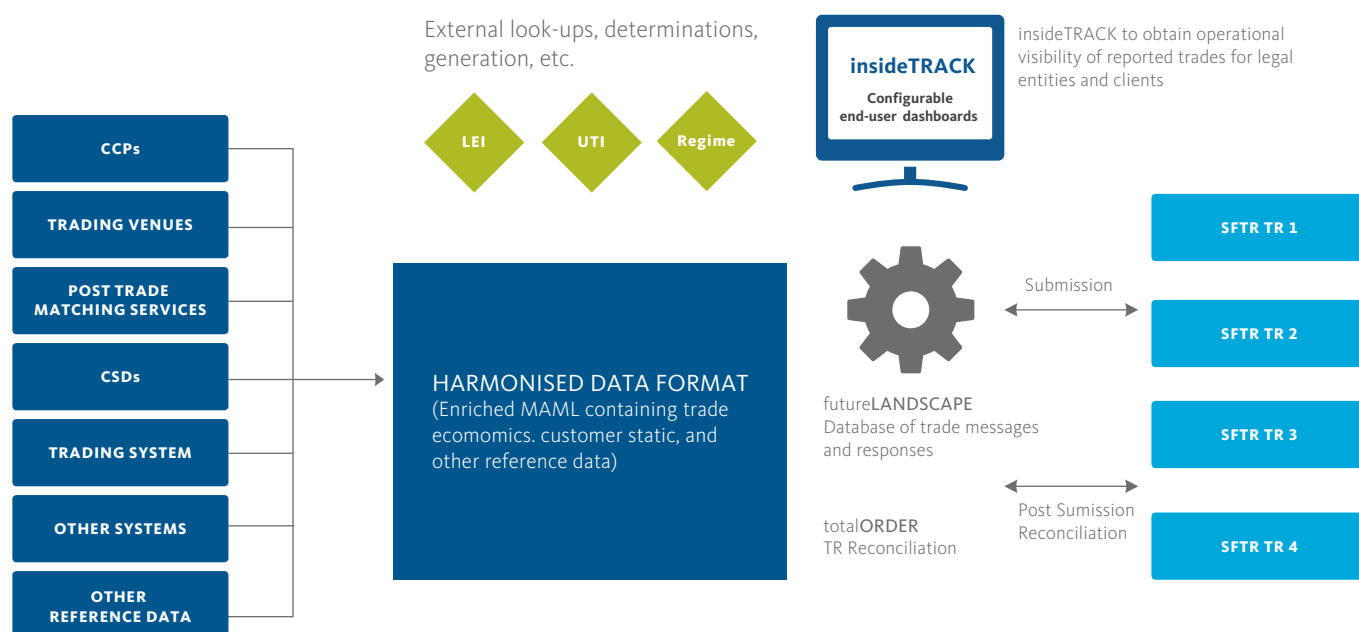
Operational visibility

The operational overhead of understanding why trades are reportable or not reportable, dealing with responses from the trade repository, managing and categorising exceptions, and then ensuring completeness and accuracy of reporting is often overlooked until a firm has the reporting obligation and the additional workload. Our experience in multi-jurisdictional reporting has enabled us to design our solution to cater for the operational requirements of reporting and proving the accuracy of the numbers being reported to both internal stakeholders and regulators.

Control

Using Broadridge's solution, clients are able to gather all relevant data in one place before deciding 'what should be sent, and where' under configurable, fully-audited rules. Only data that needs to leave your organisation is released and the dashboard provides a full history, including powerful data lineage functionality. This operational oversight of all of your reporting is of critical importance to staying compliant with SFTR requirements, particularly when a number of third parties are offering reporting services for part of your trading book.

THE SFTR REPORTING LANDSCAPE



Ready for Next

Broadridge, a global fintech leader with \$4 billion in revenue, provides communications, technology, data and analytics solutions. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

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Technology
Data and Analytics

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