



THE SECURITIES FINANCING TRANSACTION REGULATION (SFTR)

Developing a strategic response to a data-intensive regulation



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Aimed at mitigating systemic risk within the banking system, the SFTR creates a range of challenges for many market participants. Data intensive in nature, the regulation places significant expectations on compliance teams, but seamless access to comprehensive reference data can help firms to build a strategic and effective response.

About the SFTR

The Securities Financing Transaction Regulation or SFTR is a European regulation that aims to boost transparency and ultimately mitigate risk within securities financing transactions (SFTs).

According to the European Commission (EC), SFTs “allow investors and firms to use assets, such as the shares or bonds they own, to secure funding for their activities.”

The Commission further identifies an SFT as:

- A repurchase transaction – selling a security and agreeing to repurchase it in the future for the original sum of money plus a return for the use of that money
- Lending a security for a fee in return for a guarantee in the form of financial instruments or cash given by the borrower
- A buy-sell back transaction or sell-buy back transaction
- A margin lending transaction¹

¹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/post-trade-services/securities-financing-transactions-sfts_en

The quality and fair use of collateral in SFTs has long been a source of risk and therefore of concern to the European Securities and Markets Authority (ESMA).

These concerns surrounding quality and fair use have arisen because firms may (sometimes even inadvertently) reuse collateral in complicated downstream transactions. This can effectively create a “house of cards” scenario where significant sums are involved, and the underlying collateral is insufficient to mitigate the inherent risk.

This sort of structure can lead to substantial fallout if and when future challenging trading conditions arise. Consequently, ESMA introduced the SFTR, which essentially requires:

1. All SFTs to be reported to central databases (trade repositories). ESMA has specified the set of fields that must be reported.
2. Specific rules and minimum transparency for the reuse of securities posted as collateral to SFTs.
3. Undertakings that the use of SFTs will be disclosed by investment funds.

Broad-based implications

While the SFTR will undoubtedly improve transparency and lead to healthier levels of risk, it also has broad-based implications for many market participants, including banks, investment firms, insurance companies and many others.

Moreover, although it is a European regulation, it nonetheless has global implications for multinational firms with operations in Europe.

It is important for all impacted firms to be aware of their obligations under the regulation, and to adhere to specified implementation dates. The SFTR's first reporting dates for market participants vary, with specific dates as follows:

- July 13, 2020: Credit institutions, investment firms, central counterparties (CCPs), central securities depositories (CSDs) and relevant third-country entities
- October 12, 2020: Insurance companies, funds, institutions for occupational retirement provision (IORPs) and relevant third-country entities
- January 11, 2021: Nonfinancial counterparties

As a data-intensive regulation, the core challenges facing these firms center on data, and more specifically, on being able to access quality data that is robust, relevant and reliable.

Developing a strategic response

In order to develop a strategic response – both to the SFTR and other, ongoing regulatory changes and amendments – firms need to ensure that they start from a solid foundation of trusted data.

A range of regulatory changes and trends is shaping the financial services industry in 2020 and beyond, and it is therefore important that firms position themselves to respond to each new requirement in an ordered and timely manner.

Each new or amended regulation requires a different set of regulatory-specific reference data, and the sheer scale and scope of many of the changes afoot, including the SFTR, can be overwhelming.

Many of the underlying challenges relate to data and data management, and therefore the firms that are able to ensure uninterrupted access to the right data – data that is relevant, accurate and of the highest quality – will already have a firm foundation from which to launch each regulatory-specific response.

This is where Refinitiv can provide trusted and reliable support, because we originate, consolidate and distribute reference data covering 80 million securities and aimed specifically at meeting a range of trading and compliance needs.

The regulation requires firms to report a broad range of data fields within specified time frames. Firms may struggle to access and/or collate the required data, and they may additionally face challenges in reporting within the required time frame.

Refinitiv already provides reference data fields that can be used to classify any underlying security or collateral referenced by an SFT, and we have also created new data fields to support classification and collateral quality requirements in line with the requirements of the European regulator.

New data fields include:

- Bond grades that indicate if a bond falls under the investment grade or high-yield category and is necessary for streamlined compliance with the data reporting requirements of the SFTR.
- SFTR security types – these are codes that classify the type of security or collateral according to the regulatory-specific taxonomy.

Fields are delivered to our customers via Refinitiv® DataScope Select, our strategic data delivery platform for non-streaming content; and Refinitiv® DataScope Plus, our solution for bulk pricing, reference and entity data requirements.

Another important aspect that deserves attention is that of data quality. This has been a persistent, industry-wide challenge and this is why Refinitiv focuses on ensuring that our data is consistently robust and accurate. We continually monitor data quality metrics to track the accuracy, timeliness and completeness of our data.

Committed to easing the compliance burden

At Refinitiv, we are committed to easing the compliance burden by delivering comprehensive reference data, which we believe makes lighter work of regulatory compliance.

Our data solutions, coupled with leading-edge technology and trusted human intelligence, offer a holistic response to inevitable regulatory change and provide market participants with the tools needed to remain compliant as regulations evolve.

We remain highly cognizant of the need to stay abreast of new data requirements and continue to deliver the data and solutions that enable market players to respond to changing regulatory requirements quickly, accurately and efficiently.

As the remaining SFTR first reporting dates approach, those firms that have ensured seamless access to reliable, trusted data and have built the solid foundations of a strategic approach to regulatory change, will find themselves at a distinct advantage when it comes to keeping pace with a dynamic regulatory curve.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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