Regulatory initiatives on the identification and reporting of SFTs: An overview

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Background

Regulatory initiatives are currently under way to foster transparency in repo and securities lending and borrowing markets. Taken together, these initiatives have the potential to substantially change the way repos and other securities financing transactions (SFTs) are processed today. The push by regulators for more transparency and data on SFTs can be seen in the context of the so-called “shadow banking” agenda which aims to complete the regulatory post-crisis reforms. It is also related to an increasing interest in SFTs in general, with the market moving from unsecured to secured financing. Another stream of regulation that will have an important impact on the SFT lifecycle is the harmonisation of settlement discipline regimes across Europe. The industry will have to identify an efficient operating model to manage these changes. ICMA’s role is to help firms to better understand the regulatory requirements and to serve as a forum to agree on a harmonised industry approach, where appropriate.

Aims of this paper

The main aim of this paper is to provide an overview of all relevant ongoing regulatory initiatives with an impact on SFT reporting and post-trade processing more broadly. This should help to assess the resulting need for changes in existing post-trade processes for SFTs, with a particular focus on the impact on firms’ trade confirmation and affirmation practices, but also extending to the settlement instruction and matching process. It should also serve as a useful basis for further industry work to achieve a more harmonised approach.

The ultimate objective could be to establish standardised procedures, templates and messaging formats for the post-trade processing of repos beyond existing best practices, allowing compliance with upcoming regulatory requirements.

Approach

- Description of the current situation and industry work undertaken to date on the issue of SFT transparency (part 1)
- Assessment of the most relevant regulatory initiatives (part 2), including in each case:
  - A brief description of the context of the initiative (point a)
  - An overview of the key requirements (point b)
- A brief description of other related initiatives (part 3)

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1. State of play and industry work to date

- The ICMA ERCC *Guide to Best Practice in the European Repo Market* (latest version of 27 July 2015) includes detailed guidance on confirmation and affirmation practices for repo transactions - in particular, paragraphs 2.33 to 2.39 (confirmation) and 2.40 to 2.45 (affirmation). The Guide also includes template forms of confirmations in Annex II of the GMRA (Annex V of the Guide).

- The October 2013 ICMA ERCC white paper *Enhancing the transparency of the European repo market* (annexed to the joint ICMA ERCC – ISLA response to the FSB consultation on haircuts on non-centrally cleared SFTs) provides a first overview of ICMA's ongoing work on ways in which to enhance transparency in respect of the European repo market, whether through the establishment of a repo data repository ("DR") or otherwise.

- In the context of the different regulatory initiatives listed below, ICMA moreover produced some more specific comments, including the ICMA response to the FSB's public consultation on SFT data collection and aggregation (February 2015), some detailed informal feedback to the ECB on their draft guidance in relation to the Money Market Statistical Regulation and the ICMA ERCC Operations Group response to the Bank of England consultation on sterling money market data collection (October 2015).

- On 8 December 2015, the ICMA ERCC Operations Group published a standardised template for trade matching and affirmation (TMA) of repos, which aims to establish a list of harmonised matching fields that can be used by firms and which supports the fulfilment of the various reporting requirements described below. The TMA template was prepared in cooperation with several post-trade vendors and was published alongside a Glossary of terms explaining the different recommended fields included in the Template.

- It is also worth mentioning the more advanced work on the derivatives side in relation to transparency and reporting (see e.g. ISDA's work on a reporting protocol), as parts of this work will be an important reference for repo reporting. One example is the Financial products Markup Language (FpML), an open source XML standard developed for electronic dealing and processing of OTC derivatives. Driven by demand from the Russian market, an early mover in the field of repo reporting, a repo message type is currently under construction and is expected to be deployed for messaging in the Russian market in the course of 2015.

Box 1: Confirmation fields in the ERCC Best Practice Guide
1. Contract Date 2. Purchased Securities [state type[s] and nominal value[s]] 3. CUSIP, ISIN or other identifying number[s] 4. Buyer 5. Seller 6. Purchase Date 7. Purchase Price 8. Contractual Currency [9. Repurchase Date]* [10. Terminable on demand]* 11. Pricing Rate [12. Sell Back Price]* 13. Buyer's Bank Account[s] Details 14. Seller's Bank Account[s] Details [15. The Transaction is an Agency Transaction. [Name of Agent] is acting as agent for [name or identifier of Principal]]* [16. Additional Terms]* *Delete as appropriate

Box 2: Recommended matching fields in the ICMA ERCC TMA template	
Transaction details	1. Transaction Type 2. Agreement Type* 3. Direction 4. DvP 5. Open / Term 6. Reference* 7. Trading Venue* 8. Clearing location*
Economic Details	9. Trade Date 10. Purchase Date 11. Re-Purchase Date 12. Nominal 13. Security ID 14. Security Description* 15. Contractual Currency 16. FX Rate* 17. Trade Price 18. Rate Type 19. Repo Rate 20. Rate Index 21. Rate Spread 22. Day Count Fraction 23. Haircut* 24. Haircut % Rate* 25. Initial Margin* 26. Initial Margin % Rate* 27. Days to Put/Call*

	28. Call Period* 29. (Net Onside Amount) 30. Net Off-side Amount
Allocation and Settlement Details	31. Securities Settlement System 32. Counterparty Name 33. Legal Entity ID* 34. Buyer Settlement Details 1 - Local Agent BIC Code 35. Buyer Settlement Details 2 - Local Agent Account Number 36. Buyer Settlement Details 3 - Beneficiary / Custodian BIC Code 37. Buyer Settlement Details 4 - Beneficiary / Custodian account number* 38. Seller Settlement Details 1 - Local Agent BIC Code 39. Seller Settlement Details 2 - Local Agent Account Number 40. Seller Settlement Details 3 - Beneficiary / Custodian BIC Code 41. Seller Settlement Details 4 - Beneficiary / Custodian account number*

* Optional fields

2. Regulatory initiatives

(i) EU: Securities Financing Transactions Regulation (SFTR)

a. Background:

- On 18 June 2015, Council and Parliament reached a political agreement on the Commission's proposal for an EU Regulation on the reporting and transparency of SFTs. The final SFTR text was subsequently formally adopted by both co-legislators and published in the Official Journal on 23 December 2015. **The Regulation entered into force on 12 January 2016.**
- While most of the provisions of the law apply immediately, the key requirements for market participants only apply at a later date specified in the law and mostly contingent on the timing of relevant technical standards to be prepared by ESMA (see details in the box below).
- ESMA will have 12 months from the date of entry into force of SFTR (i.e. until 12 January 2017) to prepare the draft technical standards and submit them to the Commission for review. Once adopted by the Commission, the RTS will be subject to scrutiny by both Parliament and Council before they are published in the Official Journal and enter into force. This means that the entry into force of the RTS is currently expected towards the end of Q1 2017.
- In the context of the implementation of SFTR, the ECB has launched a project to build a central SFT Data Store, which would collect, store and analyse SFT data received from trade repositories. The aim is to make the data available to ESCB central banks and potentially regulators.
- In order to ensure the consistency of the collected SFT data, the ECB is seeking market input and has therefore established an industry Advisory Group to discuss the detailed data specifications. The AG met three times between September 2015 and November 2016. Based on the discussions, the ECB is now working on its final guidance. The ICMA ERCC Operation Group has been closely involved in the discussions through two representatives in the Advisory Group and submitted some final written comments.

b. Relevant requirements:

Issue	*Details*	*Scope*	*Timing*
Reporting (art.4)	Counterparties to report the details of all SFTs concluded, as well as any modification or termination thereof to a trade repository specifically authorized under SFTR. Data to be reported includes information on the reuse of collateral (see box below for the detailed items). **Timing:** transaction details to be reported no later than on the working day following the conclusion, modification or termination of the transaction. **Delegation:** The reporting obligation may be delegated to a third party	**a) Entities:** Reporting requirements apply to all EU based financial and non-financial counterparties to SFTs (including any third country branches of EU firms and EU branches of third country firms). Financial counterparties to report on behalf of non-financial ones that are considered as SMEs under the EU Accounting Directive. **b) Instruments:** Definition of SFT covers repos and buy/ sell backs as well as securities/ commodities/ margin lending and borrowing. **c) Backloading:** In addition to all newly concluded SFTs (following the date of application of SFTR), reporting firms also need to report all SFTs outstanding on that date if they have a remaining maturity of more than 180 days (or open repo that remain outstanding for more than 180 days thereafter). These need to be reported within 190 days of the date of application of the SFTR reporting requirements. **d) Exemptions:** (1) Entities: Members of the ESCB, other EU public bodies with similar functions, EU public bodies charged with or intervening in the management of the public debt; BIS;	**Q1 2018:** Banks and investment firms (and equivalent third country entities) [12 months after entry into force of the RTS] **Q2 2018:** CSDs and CCPs (and equivalent third country entities) [15 months after entry into force of the RTS] **Q3 2018:** All other financial counterparties (and equivalent third country entities) [18 months after entry into force of the RTS] **Q4 2018:** All non-financial counterparties in scope (and equivalent third country entities) [21 months after entry into force of the RTS]

		(2) Transactions with the ESCB being a counterparty do not need to be reported	
Record-keeping (art.4.4)	Counterparties to keep a record of any SFT concluded, modified or terminated for at least five years following the termination of the transaction	Any counterparty to an SFT (subject to scope above)	**<u>12 January 2016</u>** – Requirement applies as of the date of entry into force of the SFTR.
Collateral reuse (art.15)	Conditions for the right to reuse collateral: (i) duly inform in writing of risks and consequences of granting a right to reuse or concluding a title transfer agreement (ii) prior written consent to reuse in case of security collateral arrangement; or (iii) express agreement to provide collateral via title transfer In addition, for any exercise of the right to reuse, collateral received has to be transferred from the account of the providing counterparty; and conducted in accordance with the applicable collateral agreement.	**Entities:** Counterparties engaging in reuse either established in the EU (including third country branches), EU branches of third country counterparties or third country counterparties if the relevant financial instruments have been provided under a collateral arrangement by an EU-based counterparty.	**<u>13 July 2016</u>** - Reuse requirements in art.15 apply after a transitional period of 6 months from the date of entry into force of the Regulation. At that moment, the requirements will not only apply to new collateral arrangements but also to all arrangements already in place on that date.

- **ESMA technical standards to specify:**

  (1) Details of the reports for the different types of SFTs. SFTR article 4(9) includes a list of minimum data items to be reported (see box below)
  (2) Format and frequency of the reports. Format to include at least LEIs, ISINs and unique trade identifiers

Box 3: SFTR minimum data items to be reported (art. 4§9)

9. In order to ensure consistent application of this Article and in order to ensure consistency with the reporting made under Article 9 of Regulation (EU) No 648/2012 and internationally agreed standards, ESMA shall, in close cooperation with and taking into account the needs of the ESCB, develop draft regulatory technical standards specifying the details of the reports referred to in paragraphs 1 and 5 for the different types of SFTs that shall include at least:

(a) the parties to the SFT and, where different, the beneficiary of the rights and obligations arising therefrom;
(b) the principal amount; currency; assets used as collateral and their type, quality, and value; the method used to provide collateral; whether collateral is available for reuse; in cases where it is distinguishable from other assets, whether it has been reused; any substitution of the collateral; the repurchase rate, lending fee or margin lending rate; haircut; value date; maturity date; first callable date; and market segment.
(c) Depending on the SFT, details shall also be included on the following:
  i. cash collateral reinvestment;
  ii. securities or commodities being lent or borrowed.

In developing those draft technical standards, ESMA shall take into account the technical specificities of pools of assets and shall provide for the possibility of reporting position level collateral data where appropriate.
(...)

Box 4: Re-use of collateral (art.15§1-2)

1. Any right of counterparties to reuse financial instruments received as collateral shall be subject to at least both of the following **conditions:**
   (a) the providing counterparty has been **duly informed in writing** by the receiving counterparty of the risks and consequences that may be involved in one of the following:
      (i) granting consent to a right of use of collateral provided under a security collateral arrangement in accordance with Article 5 of Directive 2002/47/EC;
      (ii) concluding a title transfer collateral arrangement.
   (b) the providing counterparty has granted its **prior express consent**, as evidenced by the signature in writing or in a legally equivalent manner, of the providing counterparty to a security collateral arrangement, the terms of which provide a right of use in accordance with Article 5 of Directive 2002/47/EC, **or has expressly agreed to provide collateral by way of a title transfer collateral arrangement**.

   With regard to point (a) of the first subparagraph, the providing counterparty shall at least be informed in writing of the risks and consequences that may arise in the event of the default of the receiving counterparty.

2. Any exercise by counterparties of their right to reuse shall be subject to at least both of the following **conditions:**
   (a) reuse is undertaken in accordance with the terms specified in the collateral arrangement referred to in point (b) of paragraph 1;
   (b) the financial instruments received under a collateral arrangement are **transferred from the account of the providing counterparty**.

   By way of derogation to point (b), where a counterparty to a collateral arrangement is established in a third country and the account of the counterparty providing the collateral is maintained in and subject to the law of a third country, the reuse shall be evidenced either by a transfer from the account of the providing counterparty or by other appropriate means.

(ii) ECB: Money Market Statistical Reporting Regulation (MMSR)

a. Background:

- ECB Regulation No 1333/2014 concerning statistics on the money markets was published on 26 November 2014 and entered into force on 1 January 2015.
- The Regulation applies to all monetary financial institutions (MFIs) based in the euro area (including EU and EFTA branches) that have been identified by the ECB's Governing Council as 'reporting agents'. It imposes detailed reporting obligations for all money market transactions, including SFTs.
- On 24 September 2015, the ECB published detailed *Reporting instructions for the electronic transmission of MMSR*. These were published alongside an updated version of the MMSR amending some of the terms defined in the Annexes of the law in order to align them with the reporting instructions, as well as a number of additional documents with more specific guidance on the reporting formats and a Q&A document.

b. Relevant requirements:

Issue	*Details*	*Scope*	*Timing*
Reporting	For each SFT transaction in scope, a list of data items needs to be reported (specified in the upcoming final reporting instructions). For repo transactions, 24 data items have been defined by the ECB (see box below). **Timing:** Data to be reported daily to NCAs or the ECB directly. Data to be received by the ECB: (i) before 7am on T+1 for the largest MFIs; or (ii) before 1pm on T+1 for all other reporting agents; NCBs have however the possibility to allow certain smaller reporting agents to report daily data only on a weekly basis.	**a) Entities:** At the first stage, the ECB has designated the 53 largest euro area MFIs (balance sheet assets > 0.35% of total of all euro area MFIs), including all their EU and EFTA branches), as reporting agents. Other euro area MFIs can be added by the ECB to the list of 'reporting agents' as of 1 January 2017 based also on other criteria. The ECB will ensure that at least 3 MFIs per euro area Member State are covered. Once the Regulation is in force NCBs may add further MFIs from their jurisdictions based on their national statistical requirements. **b) Transactions:** Reporting to cover all transactions between the	The first reporting will start on 1 April 2016 for the largest euro area MFIs. There will be a three-month transitional period ending 30 June 2016 with only limited frequency of reporting. The ECB aims to allow reporting agents at least one year (between designation and start of reporting) to prepare compliance.

	Format: Data to be reported according to XML format (ISO 20022 compliant). Further details are set out in an *IT appendix for reporting agents*.	reporting agent and other MFIs, financial intermediaries, insurance corporations, pension funds, general government or central banks for investment purposes, non-financial corporations classified as 'wholesale' according to the Basel III LCR framework. The qualifying principle is the location where the transaction is booked (Reporting agent and all its EU and EFTA branches) and not where it was originated or executed. **c) Instruments:** Reporting of all daily euro denominated repos (incl. tri-party), unsecured lending and borrowing, FX swaps and overnight index swaps (all 4 data sets separately). The **definition of repo** covers: repo/ reverse-repo as well as buy-sell/ sell-buy back transactions with maturity/term of up to 1 year. The reporting requirements do not extend to securities lending and borrowing. **Exclusions:** (i) Intra-group transactions (ii) transactions related to Eurosystem tender operations and marginal lending facilities	

Box: ECB MMSR reporting elements – secured money market

1. Reported transaction status
2. Unique transaction identifier (if available)
3. Proprietary transaction identification
4. Counterparty proprietary transaction identification (if available)
5. Counterparty identification
6. Counterparty sector
7. Counterparty location

8. Triparty agent identification (mandatory for all tri-party transactions) 9. Trade date 10. Settlement date 11. Maturity date 12. Transaction type 13. Transaction nominal amount 14. Rate type 15. Deal rate (only to be reported in case RATE TYPE is fixed rate) 16. Reference rate index (only to be reported for floating rate repo) 17. Basis point spread (only to be reported for floating rate repo) 18. Collateral ISIN (optional for: (1) Tri-party repo not conducted against a basket of securities for which a generic ISIN exists; (2) Collateral types for which no ISIN is available) 19. Collateral pool 20. Collateral type (not needed if individual ISINs provided) 21. Collateral issuer sector (not needed if individual ISINs provided) 22. Special collateral indicator (optional but should be provided if feasible for the reporting agent) 23. Collateral nominal amount 24. Collateral haircut (only mandatory for single collateral transactions, otherwise optional; also optional for tri-party repo and where secured borrowed/lending takes place against a collateral pool)

(iii) Bank of England: Sterling money market data collection

a. Background:

- On 30 July 2015, the BoE launched a public consultation on a planned new data collection initiative in relation to sterling money markets, following similar initiatives by other central banks (see ECB MMSR). The consultation sets out the proposed approach to this new data collection – covering the intended reporting population, reporting requirements and anticipated timetable. The ICMA ERCC Operations Group submitted a response to the consultation by the deadline of 1 October 2015.
- Based on the consultation responses, the BoE published on 6 November 2015 a response to the feedback received and a revised final version of the proposed arrangements for the new sterling money market data collection, extending among other things the initially proposed implementation timeline.

b. Relevant requirements:

Issue	*Details*	*Scope*	*Timing*
Reporting	**1) Most active firms** would be expected to report more detailed information on a *daily transaction-by-transaction basis* (see list of data items below) **Timing:** daily data to be submitted between the	**a) Entities:** Reporting to take place at legal entity level (rather than at consolidated group level) and to include any relevant activity by EEA branches (non EEA branches at firms' discretion). Legal entities to report are:	The first annual data submission to the Bank was due on 8 January 2016 (based on November 2015 data only). Based on the first survey, daily reporters were notified by end

	close of RTGS payment system and 7.00am the following business day) **Format:** In line with other reporting initiatives, transactions have to be reported using the ISO 20022 Methodology. **2) Less active firms** would have to report aggregated information on an *annual basis* (number of trades and total turnover)	• Banks incorporated in the UK; • Banks incorporated outside the UK authorised to accept deposits through a branch in the UK; • Building societies; and • Major investment firms – PRA-designated investment firms. Divided into two populations: 1) <u>Most active firms</u>: To cover around 90% of the market (composition to be reviewed on an annual basis). 2) <u>Less active firms</u>: all other firms in scope **b) Instruments & transactions:** Data collection covers both secured and unsecured transactions. Secured money market transactions (repo, reverse repo and buy-sell-backs) to be reported, if: (1) concluded in **own name** (2) counterparty is a **'wholesale' market participant** (i.e. not classified as 'retail' under CRR LCR framework) (2) recipient is the **borrower or lender of sterling cash**; (3) secured against **UK government-issued stock** (e.g. gilts, treasury bills, BoE bills) or, at firms' discretion, secured against any sterling-denominated fixed-income securities. (4) the amount borrowed is **at least £1 million**; and (5) the original maturity is **no more than one year**. Forward-starting transactions should be included.	January 2016. Daily reporting will commence within five months from notification by end June 2016. Early adopters started submitting data in February 2016 with transition to daily reporting anticipated to take place during June 2016.

		Triparty repo: all transactions where sterling cash is borrowed or lent, secured against baskets of any fixed income securities **Exclusions:** (1) Intra-group transactions (2) Retail deposits (3) Transactions as part of BoE sterling market operations	

Box: BoE reporting elements – secured money market

1. Reported transaction status
2. Branch identification
3. Unique Transaction Identifier (where available)
4. Proprietary transaction identification
5. Counterparty proprietary transaction identification (where available)
6. Counterparty identification (LEI, where available)
7. Counterparty sector (optional)
8. Proprietary counterparty name (if 6 not provided)
9. Counterparty location (if 6 not provided)
10. Triparty agent identification
11. Trade date
12. Settlement date
13. Maturity date
14. Transaction type
15. Transaction nominal amount
16. Rate type
17. Deal rate
18. Reference rate index
19. Basis point spread
20. Brokered deal
21. Collateral ISIN (where available)
22. Collateral pool status
23. Collateral type
24. Collateral issuer sector
25. Special collateral indicator (optional)
26. Collateral nominal amount
27. Collateral haircut (mandatory for single collateral transactions)

(iv) EU: CSD Regulation (settlement discipline)

a. Background:

- The EU CSD Regulation (CSDR) entered into force in September 2014 and includes harmonised settlement discipline measures which will have important implications for the processing of SFTs.

- On 28 September 2015, ESMA submitted a first set of final draft standards to the Commission for adoption. However, these did not include the final RTS on settlement discipline which have been postponed following another consultation launched by ESMA in July specifically on the buy-in process.
- Subsequently, the final draft technical standards on settlement discipline were published on 1 February 2016 and submitted to the Commission for final review. Once approved by the European Commission, both Parliament and Council have to adopt standards before they are published and enter into force.
- **Implementation timeline:** In general, most of the relevant CSDR requirements will apply once the related technical standards have been adopted by Commission, Council and Parliament. ESMA has recommended a 2-year transition period for some of the technical standards, including settlement discipline (see overview table).

b. Relevant requirements:

Issue	***Details***	***Scope***	***Timing***
Trade confirmation (art. 2, RTS)	**Trading venues** to establish procedures to allow for same day trade confirmation **Investment firms** to: ▪ Require **professional clients** to send allocation and written trade confirmation on trade date (or T+1 in case of late trade execution or time zone differences >2 hours). ▪ Offer possibility for electronic confirmation ▪ Confirm receipt of allocation/ confirmation within 2 hours. ▪ List of minimum fields required for account allocations specified by ESMA (see below). ▪ Require **retail clients** to send all relevant settlement information by 12:00CET on T+1.	**Entities:** Trading venues and investment firms as authorised under MiFID2	ESMA has suggested a transition period for CSDR settlement discipline measures of 24 months (from the date of entry into force of the technical standards): this would imply an effective application in 2018, and thus after the full roll-out of T2S.

Matching fields	CSDR introduces a **list of harmonised matching fields**, including "transaction type" which would allow for the identification of repos (see below).	**Entities:** ▪ CSDs to introduce ▪ Fields to be used by CSD participants and reflected further down the settlement chain	See above
Late settlement penalties	CSD to establish procedures to address settlement fails, including late settlement (cash) penalties for each day a transaction fails to settle. Daily penalty rates recommended by ESMA range between 1bp (liquid shares) and 0.1bp (government bonds). The suggested rate for corporates is 0.2bp.	**a) Entities:** ▪ CSDs to introduce and apply ▪ Where a CCP is involved, CCP to apply penalties based on calculation provided by the CSD ▪ Measures to apply to all failing CSD participants **b) Instruments:** All transactions in transferable securities (MiFID2), money-market instruments, UCITS and emission allowances, which are **admitted to trading or traded on a trading venue or cleared by a CCP**. This includes SFTs. **Exemptions:** (i) Failing participant is a CCP (but CCP to apply penalties to its clients) (ii) Insolvency proceedings opened against failing participant (iii) "Principal venue for the trading of shares is located in a third country"	See above
Mandatory buy-ins	Mandatory buy-in process to be initiated at the end of the "extension period" (4 days for liquid shares; otherwise 7 days) Can be deferred once by another 7 days (4 days for	**a) Entities:** ▪ Depending on the scenario, the buy-in process is initiated either by the receiving trading party or the CCP (where CCP-cleared) ▪ Responsibility for other parties in the chain (e.g	See above

	liquid shares) if the buy-in is not successful. Where buy-in is **successful**, difference between the buy-in price and the original transaction price is paid by the failing trading party, but only in the event that the buy-in price is higher than the original transaction price (asymmetric). Where the buy-in is **not successful**, the process will default to cash compensation (difference between market value and original transaction price). This is again asymmetric, i.e. payable only where the market value is higher than the original transaction price. For more details on the buy-in process, see ICMA summary note of the final draft RTS.	custodians, trading venues or CSD) mostly limited to ensuring the necessary information flows. ▪ Liability for custodians (CSD participants) for the buy-in price difference where the buy-in is successful and the failing trading party does not pay. **b) Instruments:** Same as for penalties, but: **Exemption for short-dated SFTs**: Both legs of an STF are exempt from mandatory buy-in if the term of the SFT is 30 business days or less.	
Access to information	CSD to provide participants **real-time** access to information on pending instructions, incl their status (matched/unmatched; partially settled/ on hold). CSD to provide **daily** information on the calculation of penalties for each failed transaction.	**Entities:** CSDs	See above
CSD reporting and record keeping	Detailed reporting and record-keeping requirements for CSDs	**a) Entities:** CSDs **b) Instruments:**	In principle, once the related technical standards on CSD record-keeping enter

		CSDR level 2 will contain detailed lists of items that CSDs will have to report, in particular on settlement fails. Fails reporting may require a distinction of SFTs.	into force. However, the same transition period as for settlement discipline should apply given that both issues are linked.

Box: Minimum list of fields covered by trade allocations from professional clients (art.2(1) of final draft RTS on settlement discipline):

(a) the type of transaction, either; **(i) purchase or sale of securities;** **(ii) collateral management operations;** **(iii) securities lending/borrowing operations;** **(iv) repurchase transactions; or** **(v) other transactions, which can be identified by more granular ISO codes;** (b) the International Securities Identification Number (ISIN) of the financial instrument or where the ISIN is not available, some other identifier of the financial instrument; (c) the delivery or the receipt of financial instruments or cash; (d) nominal value for debt instruments, and quantity for other financial instruments; (e) the trade date; (f) the trade price of the financial instrument; (g) the currency in which the transaction is expressed; (h) the intended settlement date of the transaction; (i) the total amount of cash that is to be delivered or received; (j) the identifier of the entity where the securities are held; (k) the identifier of the entity where the cash is held; (l) the securities account name/number and/or cash account name/number;

Box: Minimum list of mandatory matching fields for the matching of settlement instructions (art.5 of final draft RTS on settlement discipline)

3. A CSD shall require from participants that they use the following matching fields in their settlement instructions for the matching of settlement instructions: (a) the type of settlement instruction, as referred to in point (h) of Article 13(1); (b) the intended settlement date of the settlement instruction; (c) the trade date; (d) the currency except in the case of FoP settlement instructions; (e) the settlement amount, except in the case of FoP settlement instructions; (f) the nominal value for debt instruments, or the quantity for other financial instruments; (g) the delivery or receipt of the financial instruments or cash; (h) the ISIN of the financial instrument; (i) the identifier of the participant that delivers the financial instruments or cash; (j) the identifier of the participant that receives the financial instruments or cash; (k) the identifier of the CSD of the participant's counterparty, in case of CSDs that use a common settlement infrastructure, including in the circumstances referred to in Article 30(5) of Regulation (EU) No 909/2014; (l) other matching fields required by the CSD for facilitating the settlement of transactions. **4. In addition to the fields referred to under paragraph 3, CSDs shall require their participants to use in their settlement instructions a field indicating the transaction type based on the following taxonomy:**

(a) purchase or sale of securities; **(b) collateral management operations;** **(c) securities lending/borrowing operations;** **(d) repurchase transactions; or** **(e) other transactions (which can be identified by more granular ISO codes as provided by the CSD).**

(v) FSB initiative on SFT data collection and aggregation

a. Background

- In August 2013, the FSB published its *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*, as part of its "Work Stream 5" on Securities Lending and Repo. The framework sets out policy recommendations for national authorities to collect SFT data and to share them with the FSB for aggregation and analysis in order to allow for an assessment of global trends in financial stability.
- As a follow-up to this report, in November 2014 the FSB published a consultative document with *Standards and Processes for Global Securities Financing Data Collection and Aggregation*. The document includes more detailed guidance on SFT data elements that national authorities will be asked to report to the FSB, as well as data architecture issues related to the data collection and transmission from the reporting entity to local authorities and from the latter to the global level. ICMA responded to this consultation in February 2015.
- On 18 November 2015, based on the outcome of the consultation, the FSB published its final *Standards and Processes for Global Securities Financing Data Collection and Aggregation*, defining the data elements for repos, securities lending and margin lending that national/regional authorities will be asked to report as aggregates to the FSB for financial stability purposes.
- On 23 February 2016, the FSB published a related consultation paper with Possible Measures of Non-Cash Collateral Re-Use, which sets out possible measures for reuse and additional data elements needed to monitor reuse. The deadline to respond to the consultation is 27 April.
- **In terms of next steps**, the final *Standards and Processes* outline the projected timeline for implementing the global data collection and aggregation:
    - **By the end of 2015**, the FSB aims to complete its stocktaking of national regimes on SFT data collection and form two sub-groups under the existing Data Expert Group (DEG), focusing on governance and data management respectively.
    - **By Q3 2016**, both sub-groups are expected to finalise their work and the FSB plans to set out a detailed timetable for the start of reporting to the global data aggregator
    - **By the end of 2016**, the DEG will also come up with recommendations on potential measures of collateral velocity and related data elements, including a timeline for collecting this reuse specific data.
    - **In 2017 – 2018**: Pilot projects and launch of operations of the global data aggregator;
    - **By the end of 2018:** Start of reporting from national authorities to the FSB

b. Relevant requirements:

<table>
<tr><th>Issue</th><th>Details</th></tr>
<tr><td>Data architecture</td><td>Two-tiered approach:

1) National/regional authorities to:
▪ Collect data frequently and with a high level of detail: Details of reporting to be decided by national authorities depending on market structure and existing data collection processes, but in line with general FSB recommendations (see below)
▪ Aggregate data on a monthly basis and submit to FSB (no individual counterparty information)

2) FSB to:
▪ Further aggregate the data, analyse and provide global trends of securities financing markets</td></tr>
<tr><td>Scope</td><td>Global aggregates to cover:

a) Entities:
▪ All SFT counterparties (<u>financials and non-financials</u>)
▪ Purely locational approach, i.e. all resident institutions in a given jurisdiction, including foreign owned subsidiaries and branches

b) Instruments:
▪ Repo, sell/buy back, securities lending, margin lending
▪ Separate lists of minimum data fields defined for: (i) repo, reverse repo, sell/buy backs, (ii) securities lending, (iii) margin lending</td></tr>
<tr><td>Data fields</td><td>Minimum data fields defined for global aggregates (more granular reporting at national level possible) for repo, reverse repo, sell/buy back:

(i) Flow data (=transactions traded over a certain period of time)
▪ Collected on reverse repo cash leg only
▪ All transactions traded over a certain period of time (spot leg has been traded during the reporting period)
▪ Data items limited to: (i) number, (ii) principal amount, (iii) currency and (iv) maturity of trades (see box 5.2)

(ii) Position/stock data (=outstanding balance of all transactions measured at a given point in time)
▪ Total gross amount of loans (cash leg) received for repo or provided for reverse repo
▪ Aggregated according to specific classifications (see boxes 5.3-5.4)</td></tr>
<tr><td>Double counting</td><td>▪ Problem of double counting complex due to differences in national reporting regimes (e.g. single-sided vs double sided reporting, differences in scope).</td></tr>
</table>

	▪ Locational approach to be applied by national authorities <u>prior to</u> data submission to FSB, or by global aggregator in case of double counting of cross-border transactions ▪ <u>Possible solutions:</u> (i) aggregate approach (reporting entities to classify counterparty) or (ii) granular approach (national aggregator corrects double counting based on counterparty identifier/ LEI)

Box 5.1: FSB recommendations for national/regional data collection

(1) Data standards should be **consistent with the data elements**, granularity level and definitions as defined in the report
(2) All jurisdictions to design their local requirements with a **minimum monthly reporting** period and frequency (allowing FSB to produce global aggregates and trends no later than 2 months after the reference date).
(3) Reporting population to be **comprehensive or at least highly representative** of the respective securities financing markets
(4) National/regional authorities to define an appropriate consolidation scope that would **not hamper the global comparability** and aggregation of data (if collected on a global consolidated basis at national level, there should be a flag allowing to extract local operations)
(5) Data to be **corrected for double-counting** at national/regional level before submitting to the FSB
(6) Use of **internationally agreed standard identifiers** (e.g. LEIs) is encouraged to reduce the reporting burden and to improve the consistency of aggregates at the global level.

Box 5.2: Loans flow data (reverse repo)

Element	***Definitions***
Reporting period	The month in which the trade date for a transaction falls.
Number of transactions traded during the reporting period	The number of transactions traded in the reporting period.
Original maturity	Maturity buckets of transactions traded in the period (in calendar days): • Open or continuing terms contracts for which no maturity date is specified • Overnight, including 1-day term trades or longer that mature the next business day • from 2 days to 1 week • from over 1 week to 1 month • from over 1 month to 3 months • from over 3 to 12 months • more than 1 year
Currency	All currencies are reported, using ISO 4217 currency code (three letter code such as USD, GBP, EUR, JPY)
Principal amount	The amount of cash provided for transactions traded in the reporting period, in millions of USD

Box 5.3: Loans stock data

Element	***Definitions***

Reference date	End-of-month date at which the snapshot of outstanding transactions is reported to the FSB.
Type of contract	• Repo and sell/buy back operations • Reverse repo and buy/sell back operations whose spot leg date is equal or earlier than the reference date and whose forward leg is later than the reference date.
Sector of the reporting party to a trade	The reporting party is the cash taker for repo or sell/buy back operations and the cash provider for reverse repo or buy/sell back operations. The sector classification is based on the System of National Accounts (SNA) definitions and consistent with other FSB initiatives (e.g. the GSIBs common data template) as much as possible: • Banks (SNA: deposit-taking corporations) • Broker-dealers and investment firms • MMFs • ETFs • REITs • CCPs • Other investment funds • Other financial corporations • Insurance/re-insurance corporations • Pension funds, retirement, charitable, and non-profit accounts • General government (transactions with central banks are excluded) • Non-financial corporations (including public non-financial corporations, large corporate and small-medium enterprises) and other sectors
Market segment – trading	Transactions traded: • on a pure principal-to-principal basis or • with the intermediation of an agent
Market segment – clearing	Transactions: • centrally cleared or • not centrally cleared
Counterparty sector	See “Sector of the reporting party to a trade” for the classification. In the case of centrally cleared transactions, the counterparty sector is reported as “CCP”.
Counterparty jurisdiction	Jurisdiction where the counterparty operates based on a pure locational approach as described in Section 3.1.2. For centrally cleared transactions, the jurisdiction of CCP is reported. All counterparty jurisdictions are reported, using ISO 3166 country codes (two letter code such as US, UK, JP). If materiality thresholds apply, jurisdictions below the thresholds are classified into a category “others”.
Residual maturity	See “Original maturity” in Box 5.2 For “evergreen” contracts, the residual maturity is based on the minimum notice period. For repos with a put, maturity is based on the first day the put can be exercised.
Repo rate	The repo rate is explicitly set and separately paid in a classic repo while, in jurisdictions where repo is carried out as sell-buy back, the rate is implicit in the difference between the forward price (including repo interest) and the spot price.

	In case the interest rate is floating (e.g. based on a benchmark), the repo rate is the sum of the benchmark rate plus spread as of the reference date. As a starting point, 0.1% increments are recommended, with a final calibration of globally consistent buckets to be agreed upon by national/regional authorities.
Cash currency	See Box 5.2
Principal amount	The amount of cash provided (reverse repo) or received (repo) in millions of USD, on a gross basis. In the case of centrally cleared transactions, pre-novation amount is reported.

Box 5.4: Collateral stock data

Element	***Definitions***
Reference date	See "Reference date" in Box 5.3.
Type of contract	See “Type of contract” in Box 5.3.
Sector of the reporting party to a trade	See “Sector of the reporting party to a trade” in Box 5.3.
Market segment – clearing	See “Market segment - clearing” in Box 5.3.
Collateral management	Collateral for transactions managed • by a tri-party agent or • bilaterally
Counterparty sector	See “Counterparty sector” in Box 5.3.
Counterparty jurisdiction	See “Counterparty jurisdiction” in Box 5.3.
Collateral re-use eligibility	Whether collateral is eligible for re-use: • Yes • No Re-use of collateral means any use of assets received as collateral by the collateral taker.
Collateral type	The collateral actually allocated at the reference date (it is also applicable for cases such as callable bonds, tri-party substitutions and other forms of collateral turnover) are classified into the following collateral types: • Government securities • Supra-nationals and agencies securities • Debt securities (including covered bonds) issued by banks and other financial institutions • Corporate debt securities (including covered bonds) issued by non-financial institutions • Securitised products • Main index equities (including convertible bonds) • Other equities (including convertible bonds) • Other assets (including shares in mutual funds), excluding cash
Collateral quality	Debt securities are split into: • Investment grade • Non-investment grade • Non-rated

Collateral currency	Currency of denomination of collateral assets. All currencies are reported, using ISO 4217 currency code (three letter code such as USD, GBP, EUR and JPY)
Collateral residual maturity	Non-cash collateral other than equities is classified into the following maturity buckets: • below 1 month • more than 1 month and up to 3 months • more than 3 months and up to 1 year • more than 1 year and up to 5 years • more than 5 and up to 10 years • more than 10 year
Jurisdiction of the issuer of the underlying security	See "Counterparty jurisdiction" in Box 5.3. In case of securities issued by a foreign subsidiary, the jurisdiction of the ultimate parent company is preferred, but the jurisdiction of the subsidiary could be reported in case of difficulties to identify the ultimate parent.
Haircut	Report actual haircut (cash investor margin levels) on non-centrally cleared transactions with 0.5% increments.
Collateral market value	Gross market value of the collateral in millions of USD, as of the reference date

3. Other related initiatives:

(i) ECB: TARGET2-Securities (T2S)

- In July 2008, the ECB's Governing Council decided to launch the T2S project, one of the largest Eurosystem infrastructure projects so far. T2S will provide a single settlement platform for all markets that decide to participate in the project.
- The platform went live on 22 June 2015, with initially 4 CSDs connected. Monte Titoli followed on 31 August 2015. The remaining 16 T2S markets will migrate to the common platform in three further waves with the final wave of CSDs scheduled to migrate in September 2017 (revised migration timeline as of December 2015).
- T2S will bring a significant harmonisation of post-trade processes across participating markets, with potential impacts also on SFTs and their post-trade processing
- Among other things, T2S introduces harmonised matching fields, divided into three categories: (i) mandatory matching fields, (ii) additional matching fields (mandatory if completed by one counterparty), (iii) optional matching fields
- Currently T2S does not allow for the identification of SFTs. The identification of SFTs at the settlement level would thus require CSDs to develop such functionality
- If T2S was to introduce in the future a functionality to allow for the identification of SFTs this should help to support market wide harmonisation and might reduce the compliance burden for firms

T2S mandatory matching fields	
Settlement type and parameters	1. Payment type
	2. Securities movement type
Trade details	3. Trade date
	4. ISD
FI identification	5. ISIN
Quantity and account details	6. Settlement quantity
Delivering settlement parties	7. CSD of delivering party
	8. Delivering party BIC
Receiving settlement parties	9. CSD of receiving party
	10. Receiving party BIC
Settlement amount	11. Currency
	12. Settlement amount
	13. Credit/ Debit

(ii) MiFIR transaction reporting regime:

- MiFID2 and MiFIR were passed into law in April 2014 and published in the Official Journal on 12 June 2014. According to the Level 1 texts, Members States have time until 3 July 2016 to transpose and implement the laws in national law. Both texts would then apply on 3 January 2017.

- Given recent discussions on the practicality of these dates, a further delay in implementation now seems highly likely. The Commission is expected to take a formal decision on this question in late January/ early February 2016, which is then subject to approval by Parliament and Council.
- MiFIR includes detailed requirements on transaction reporting, applying in principle to all transactions in financial instruments "admitted to trading or traded on a trading venue or for which a request for admission to trading has been made"
- Following some discussion on the applicability of the MiFIR reporting regime to SFTs, the final draft technical standards published by ESMA on 28 September 2015 now explicitly exempt SFTs that are subject to SFTR reporting requirements. This exemption is effective even before the actual reporting under SFTR commences, so that SFTs would at no point in time be subject to MiFIR reporting.
- There is however a remaining question in relation to the treatment of SFTs that have been granted an explicit exemption from SFTR reporting. As the MiFIR RTS exemption only applies to those SFTs that are actually reported under SFTR, MiFIR requirements seem to still apply to those SFTs that have been explicitly exempted under SFTR (e.g. SFTs concluded with ESCB members). On 23 December 2015 ESMA issued a consultation paper on Transaction Reporting, Reference Data, Record-keeping and Clock Synchronisation under MiFIR which confirms this interpretation (see example 3 on p.25).

MiFIR draft RTS 22: Meaning of transactions (art.2§5a)

5. A transaction for the purposes of Article 26 of Regulation (EU) No 600/2014 shall not include: (a) a securities financing transaction as defined in Regulation [Securities Financing Transactions –full reference to be inserted when available] that either
(i) has been reported under that Regulation ; or
(ii) is, at a time prior to the date of obligation of Article 4 of that Regluation, a securities financing transaction for which there would be a reporting obligation under that Article if the Article applied at that time.

(iii) Global LEI System

- At the November 2011 Cannes Summit, G20 leaders tasked the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The resulting FSB proposals were endorsed by the G20 Leaders in June 2012.
- The governance of the Global LEI System (GLEIS) consists of the Global LEI Foundation (GLEIF) (established in June 2014 as the operational arm of the GLEIS) as well as the Regulatory Oversight Committee (ROC) of 60 national supervisors (established in Jan 2013 to coordinate and oversee the system).
- The LEI itself is a 20-character, alpha-numeric code, to uniquely identify legally distinct entities that engage in financial transactions. They are issued by Local Operating Units (LOU), endorsed by the LEI ROC.
- By March 2016, over 425,000 entities from 189 countries had already obtained an LEI from their LOU. The GLEIF maintains a central database of all LEIs allocated to date.

- LEIs will be an important part of SFT data reporting. The use of LEIs is already mandated by law in several jurisdictions. This is particularly the case in the field of OTC derivatives reporting, but also increasingly through other initiatives (e.g. EU CSDR).

(iv) CPMI-IOSCO work on UTIs and UPIs

- Besides LEIs, regulators globally are also keen to establish a system of Unique Transaction Identifiers (UTIs) and Unique Product Identifiers (UPIs).
- UTIs (or Unique Swap Identifiers (USIs) in the US) and UPIs have already been mandated by law in several jurisdictions, in particular in the derivatives space, however in the absence of critical harmonised global standards for both identifiers
- IOSCO and the FSB are currently working on a single global system of UTIs and UPIs. CPMI-IOSCO's Harmonisation Working Group is working on guidance on the development of a uniform global Unique Trade Identifier (UTI) (by early 2016) and uniform global Unique Product Identifier (UPI) (by late 2016). A first consultative report on the *Harmonisation of the Unique Transaction Identifier (UTI)* was issued by CPMI-IOSCO on 19 August. Based on the feedback received, CPMI-IOSCO is currently working on the final guidance which is expected to be published in early 2016.
- In parallel, CPMI-IOSCO is also working on a global UPI and issued on 17 December 2015 a first consultative report on the *Harmonisation of the Unique Product Identifier*. A separate consultative report on more specific code proposals is envisaged to be published in the course of 2016.
- On the side of the industry, ISDA is closely involved in the discussions on UPIs and UTIs and has done extensive work on both issues in a derivatives context. This includes work on global industry standards on the use of UTIs and a taxonomy as a basis for UPIs. Jointly with other associations, ISDA has also submitted detailed comments on both CPMI-IOSCO consultations: 1) a response on UTIs (submitted in September 2015) and 2) a response on UPIs (submitted in February 2016).
- Although the bulk of the work on UTIs and UPIs at global level is currently focused on OTC derivatives markets, this work will be a relevant precedent for the repo market as well, which will have to accommodate the UTI concept in the near future.

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