



Getting ahead of SFTR with Trax and EquiLend

Sunil Daswani of Trax discusses how its platform can help to mitigate the regulatory risk exposure arising from SFTR

The Securities Financing Transactions Regulation (SFTR), the most significant and ambitious regulation in the securities financing market, comes into effect on 11 April 2020.

Based on industry experience of other reporting regulations, such as the derivatives-focused European Market Infrastructure Regulation (EMIR), we know that the firms that have to comply with SFTR reporting will need to get a head start on user acceptance testing (UAT) if they wish to report their transactions in an accurate, complete and timely manner.

The regulation will create greater transparency, which can be seen as a major positive for both participants and regulators of this multi-billion dollar industry. European regulators are addressing the uncertainty and lack of transparency across the financial markets that came to the fore during the 2008 global financial crisis.

Market participants have risen to the challenge by coming together to deal with the regulatory requirements via the industry associations: International Securities Lending Association (ISLA), International Capital Markets Association (ICMA), FIX & the Association for Financial Markets in Europe (AFME), and also via Trax &

EquiLend's own SFTR Working Group, which provides a forum for over 25 organisations.

This helps to ensure challenges are tackled and ironed out by the industry itself, or by reverting collectively to the European Securities and Markets Authority (ESMA), which has been responsive.

Nevertheless, getting reporting wrong could be expensive and harmful to market confidence. The UK's Financial Conduct Authority (FCA) has made it clear that fines or penalties will be imposed for non-compliance of reporting. Non-compliance encompasses over reporting of transactions, mis-reporting of transactions, under reporting of transactions, late reporting of transactions and incorrect reporting of transactions. Given the securities finance industry estimates there may be in excess of 100 million transactions per day, which indicates the scale of reporting that will be required, with up to 155 fields of data per transaction.

Pre-matching of trades has not been a regulatory requirement and whilst it is still not required by regulators, with SFTR and the Central Securities Depositories Regulation (CSDR) imminent, this may result in a situation where regulatory transaction reporting or failed trades is more serious and has a

negative financial consequence, given that the industry has not benefited from pre-matching. Trax and EquiLend have been in talks with their clients about the potential benefits from the use of Trax Match Repo and EquiLend's Unified Comparison. Unsurprisingly, some clients who have not looked to pre-match their trades in the past are considering these options now.

On the front foot

Mindful of their clients' risk exposure, Trax and EquiLend have accelerated the build of our SFTR solution, and are currently offering free UAT to clients and prospects, a year out from go-live day. The offering benefits from seamless connectivity from front-to-back, starting with trading—be it on-venue or bilateral through to a reporting dashboard.

Eight key steps for the SFTR solution:

1. Unique transaction identifier (UTI) generation at point of trade via next generation trading or post-execution
2. Display, management and reporting of loan sub allocations from end-to-end
3. Access to the UTI portal, a centralised location where clients can generate or share UTIs with their counterparties
4. The UTI Portal also allows clients to give access to their counterparties without the need for them to contract with us
5. Data validation and enrichment throughout the life cycle of the trade or transaction, delegated reporting and a full status dashboard to manage exceptions
6. The ability for agent lenders to provide a customised view of the Trax Insight dashboard to their clients with view options set by the agent lenders
7. Full visibility and traceability of the entire reporting process before and after reporting transactions to the trade repositories
8. Our solution covers all the complexities of securities lending, repo and margin financing given our expertise and strength of all three products across our two organisations

Trax and EquiLend have made a point of working closely with approved trade repositories to build connectivity,

and to ensure greater flexibility for clients who may select the trade repository/repositories of their choice. Detailed below is a summary of what can currently be tested as of June 2019, with additional features set to be added soon:

-]UTI generation and sharing
- Straight through processing flow end-to-end
- Eligibility, enrichment and validation of transaction data
-]Monitoring of report statuses via Trax Insight
- Preparation of reports to trade repositories
- Testing report outputs from trade repositories
- Participation in the industry wide UAT testing on our platforms

When EMIR was introduced, the majority of issues that clients faced may have been avoided had firms made an early commitment to UAT.

Lack of preparation and testing resulted in a dearth of clarity regarding the process for generation and sharing of UTIs. In addition, inconsistencies in the inter-trade repository reconciliation process were for the large part not identified until after 'go live'. The combination of potential system problems and the discovery of possible missing static data needed to populate fields had not been spotted prior to going live, creating a backlog of issues for some organisations. Trax and EquiLend are working to support clients in addressing these issues earlier in the process. Through early testing, gaps can be identified and issues resolved, helping to mitigate the regulatory risk exposure arising from SFTR.

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