



We're ready for SFTR. Are you?

Sunil Daswani of Trax talks through the key challenges and what to remember in the lead up to the go-live date of SFTR reporting

In just under a year from now, the first phase of the Securities Financing Transaction Regulation (SFTR) reporting obligations will come into force. That may still seem a long way away, but as we know from the second Markets in Financial Instruments Directive (MiFID II), the European Market Infrastructure Regulation (EMIR) and a host of other regulatory regime change—and don't even mention Brexit—it's not. As most securities finance practitioners will appreciate, the clock is ticking and the race is on.

In 2017, early birds EquiLend and Trax, the post-trade services arm of MarketAxess, began working together on a joint SFTR solution designed to make client migration to the new regime as swift, painless and advantageous as possible. This was launched to market

in late 2018, and several major clients from our industry-wide SFTR client working group are now proposing to adopt the solution. In addition, as I write this article in early 2019, we're offering a live test environment for the SFTR Solution, for all firms to test their eligibility, data enrichment and business validations processes in a single place.

Having reached this point, what's been clear to me during the solution rollout is that there are still many questions surrounding the what and why of SFTR. This article, therefore, serves two purposes, to draw out what we believe are the most important and pressing challenges and opportunities of the SFTR, and to describe in brief how the joint SFTR Solution can help our clients to face them head-on.

SFTR Outlook

One: the key challenges

There is no doubt that SFTR will precipitate an extra reporting and control lift in securities finance functions across the industry. That is evident when you outline, even in brief, the challenges and requirements of the new regime.

Setting up and on-boarding of underlying principals and their respective legal entity identifiers (LEI's):

- LEIs are not stored in front-end systems today and will need to be going forward
- Disclosure of their underlying principles (beneficial owners) will create challenges for the borrowers of the data received from lenders
- Out of scope entities still need to have an LEI, for example, third-party non-EU entities will still have work to do if they are a counterparty

The need to have a unique trade identifier (UTI) generation, sharing and management throughout all lifecycle events:

- All new transactions will be required to have an execution timestamp

The ability to manage collateral allocation at beneficial owner/counterparty level:

- Trades with known collateral will be reportable on a T+1 basis
- Where collateral is not known at the point of trade, it is reportable on S+1
- Omnibus collateral structures are not conducive for automation and straight-through processing (STP)

Careful management of lifecycle events for securities lending, repo and margin lending transactions:

- Unlike MiFID, all lifecycle events that impact any of the reportable fields need to be reported through to termination

Dealing with the huge volume and complexity of data:

- Difficulty sourcing up to 40 percent of the required reportable data. For example, governing agreements and versions are some of the challenges
- Sources state that there may be in excess of 100 million transactions that are reportable daily

The phased implementation with backloading of data will create reconciliation issues industry-wide:

- Reporting requirements are phased but UTIs will still need to be generated and reportable by the in-scope party only

Two: A unique SFTR Solution from not one, but two market leaders

The key benefits of the SFTR Solution can be summarised as follows:

- A complete front-to-back solution from the point of trade to trade reporting
- Access to the leading securities finance trading platform, EquiLend's Next Generation Trading
- Access to industry-wide UTI generation and sharing portal
- The Trax GUI provides complete visibility and audit trail of every step in the reporting lifecycle
- Supports lifecycle event management, loan and collateral allocations and centralised post-trade services
- A complete reporting solution including enrichment, eligibility and break management either via direct or delegated reporting

Trax is ready for clients to undertake detailed user acceptance testing (UAT) now, with a fully live test environment, so clients can really accelerate their implementation projects.

The SFTR solution has been built to be modular. This is of importance to clients, as it means that clients can tailor their product by choosing either a complete end-to-end solution, a single component to complement their existing framework or solution or something in between. That makes it potentially more cost-effective.

While we expect the regulation to increase the use of electronic trading via EquiLend's Next Generation Trading, or trades that are agreed bilaterally, the SFTR Solution can still offer the mechanism to share and enrich data including the UTI. Clients can match trades with any provider and use Trax Insight to validate and enrich each transaction. To ensure flexibility, the fully enriched and validated data can

be returned to your regulation operations teams to report to your chosen trade repository utilising the 'prepared reporting' module.

Furthermore, Trax Insight allows for careful exception management with detailed analytics and benchmarking against your peer group. The dashboard also allows lenders, where they are acting as an agent, to provide access to the underlying beneficial owners, whose responsibility it is to report transactions. This can be on a read-only basis to satisfy their clients that their reporting obligations are being dealt with in a timely manner by their agent.

No matter how you choose to do your reporting or what part of the SFTR service you wish to take, we have created a community sharing portal to address the concerns we have heard from our clients about ensuring UTI's can be shared between counterparties from a single hub. This is known as the Trax UTI Portal.

Finally, an additional important element of what we provide is the expertise that clients can derive from a team of practitioners, with client-side experience, from two securities finance solution providers who can advise on providing a solution which fits your company and needs. Whether it's agency, principal lending or margin lending, prime brokerage and delta one, prop trading or treasury desks and repo or asset management portfolio, managers. We can help all those who all fall under the reporting requirements.

What to remember as we get closer to the go-live date

So, to close, my pick of six key items to remember for SFTR is:

- **Easter weekend:** SFTR Phase 1 goes live on Easter weekend 2020
- **Backloads mean everyone must have shops in order:** Any open loans after 180 days of your Phase go-live date need to be backloaded, so this data will need to be recorded and maintained to report in the SFTR standards
- **Sharing of UTIs:** The Trax UTI Portal can assist with addressing industry concerns
- **Early commencement of UAT Testing is critical**

to pick up issues: At least six months is usually required once the onboarding has been completed (if using the SFTR solution). This can take some time depending on the complexity of client set ups

- **Consolidation and minimising the number of vendors in the process and also across different regulatory reporting regimes:** At Trax, all regulatory reporting can be completed on the Trax Insight dashboard including, EMIR, Authorised Publication Arrangement (APA), Approved Reporting Mechanism (ARM) and now SFTR
- **Post implementation impact:** It's not all about day one. Consider the nuances of different markets, lifecycle management, the volume of transactions and changes (not just to static data but changes with any part of the transaction from regulation, to counterparties to clients)

Regulatory reporting is here to stay. Trax has experience of over 30 years with global regulators to provide seamless solutions to clients, meeting the ever increasing and complex regulatory reporting requirements. We strongly believe we offer clients the ability to report transactions accurately, completely and in a timely manner to ensure minimal management of exceptions through a single platform connected to trade repositories, national competent authorities and our Trax UTI portal.

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