



## SFTR overview

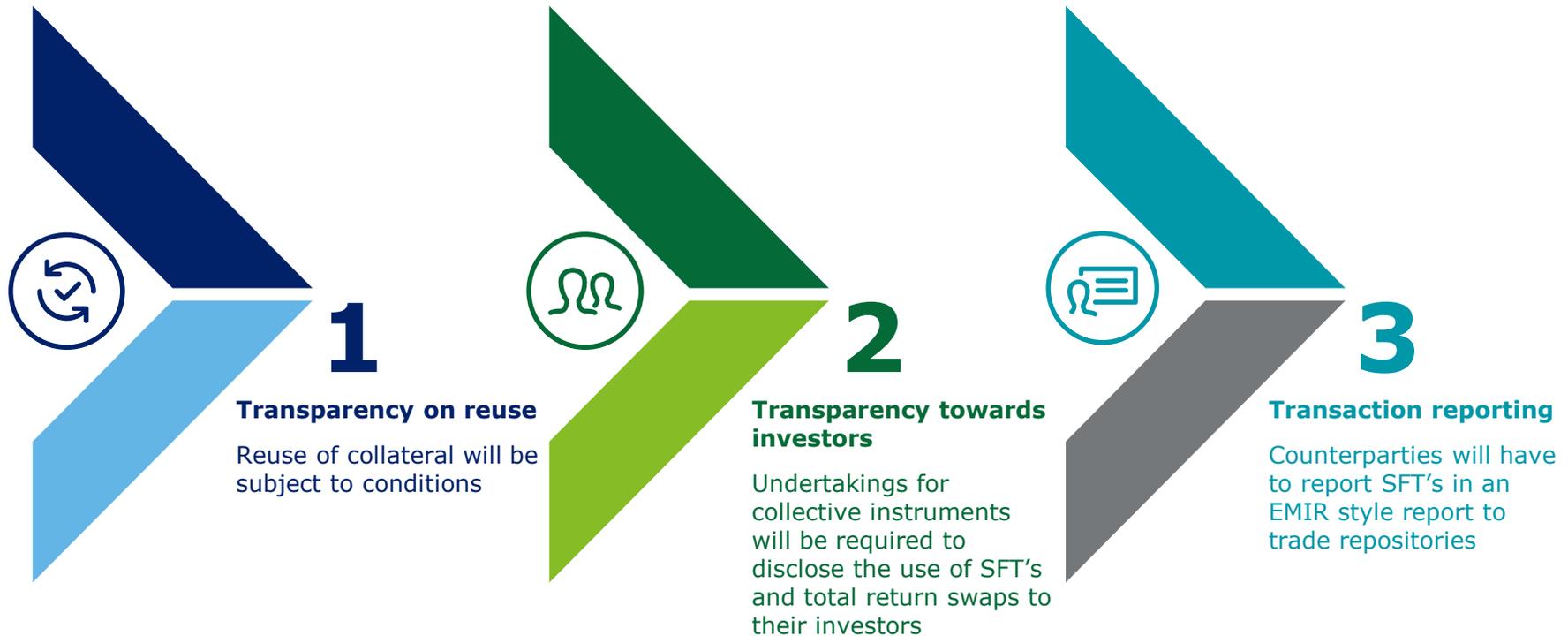
December, 2016

# Securities Finance Transactions Regulation

## Transparency for SFT's

### Context & Scope

Concern from the G20 leaders on high-risk activities moving from regulated banking entities into unregulated "shadow banking" entities. Measures are introduced around 3 main pillars



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## Who and what?

### Impacted entities

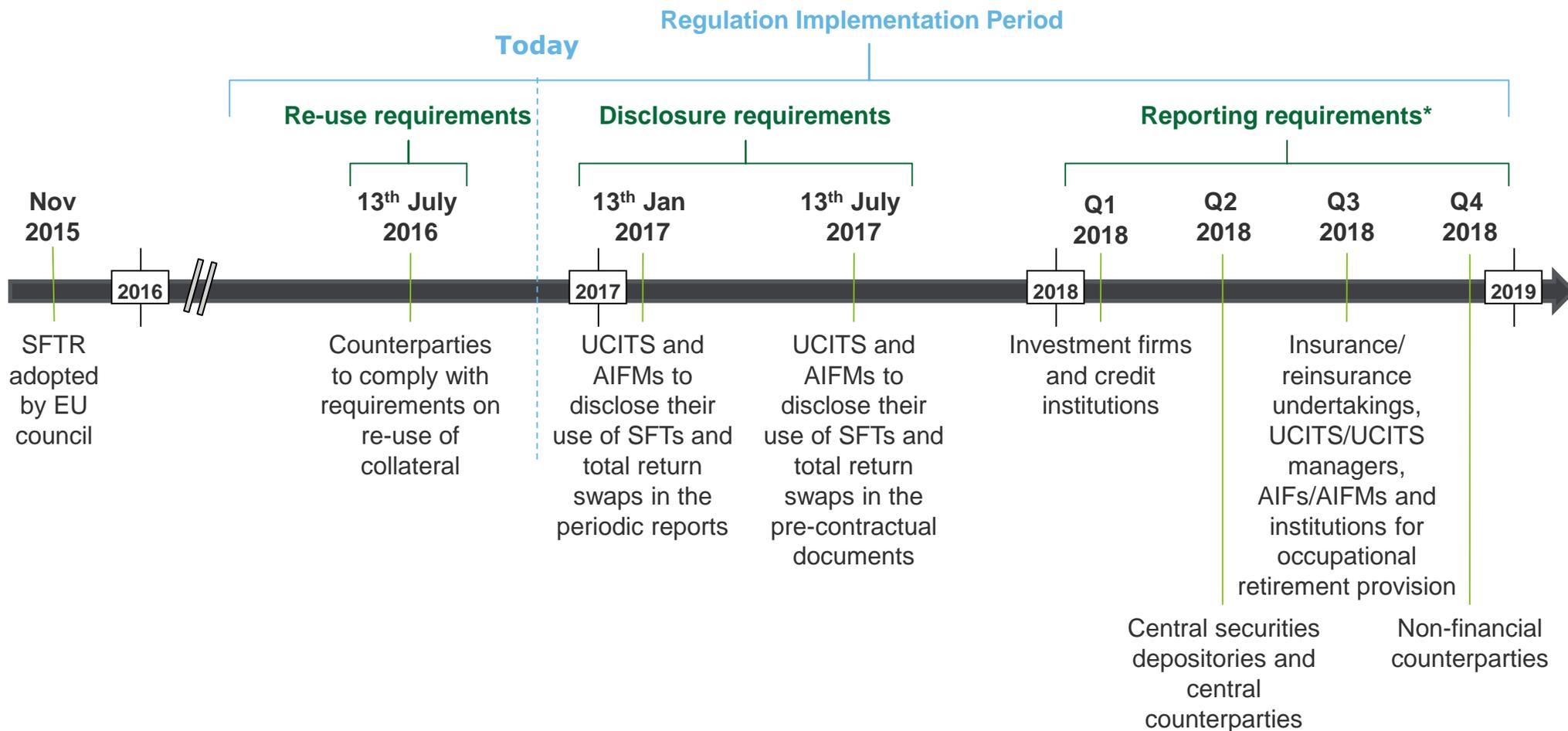
- Counterparties to SFT established in the EU (including all branches irrespective of where they are)
- Counterparties to SFT with a branch in the EU
- ManCo's of UCITS
- AIFM
- Counterparties engaging in reuse established in the EU (including all branches irrespective of where they are)
- A counterparty engaging in reuse if the reuse concerns instruments provided under a collateral arrangement by a counterparty established in the union or a branch of a counterparty in the union established in a third country

### Impacted transactions

- Repurchase transactions
- Securities or commodities lending
- Securities or commodities borrowing
- Buy-sell back transactions
- Sell-buy back transactions
- Margin lending transactions
- Total return swaps (only investor disclosure)

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## Expected timeline



\* Expected dates as entry into force of level 2 Delegated Act expected in Q1 2017

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## Transparency of reuse

Article 15 of Regulation EU 2015/2365: applies from 13 July 2016

### Right to reuse

#### Conditions

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- Collateral providers must be informed by receivers in writing on risks and consequences of allowing right of use by the receiver or a transfer of title collateral agreement, and
- Collateral providers must agree in a legally binding manner on the right of use or a transfer of title collateral agreement

### Exercising right to reuse

#### Conditions

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- Reuse is undertaken in accordance with the terms specified in the collateral arrangement, and
- The financial instruments received under a collateral arrangement are transferred from the account of the providing counterparty

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## Transparency of SFT's towards investors

Article 13 and 14 of Regulation EU 2015/2365

	Requirement	Required information
Pre-contractual documents	<p>The prospectus of UCITS and disclosure documents by AIFM's must contain</p> <ul style="list-style-type: none"> <li>• A clear statement SFT's and/or total return swaps are used</li> <li>• A clear disclosure on which SFT's and total return swaps are authorised to be used</li> </ul> <p><b>Applies from 13 Jul 2017 if fund existed prior to 12 Jan 2016</b></p>	<ul style="list-style-type: none"> <li>• General description of the SFT's/total return swaps used and rationale for their use</li> <li>• Proportion of AUM which can be used for SFT</li> <li>• Criteria used to select counterparties</li> <li>• Details on collateral and collateral management</li> <li>• Description of risks associated to SFT's/total return swaps</li> <li>• Details on safekeeping of assets and collateral subject to SFT/Total return swaps</li> <li>• Restrictions on re-use of collateral if applicable</li> <li>• Policy on sharing of returns</li> </ul>
Periodical reports	<p>Provide information on the use made of SFT and total return swaps.</p> <p><b>AIF:</b></p> <ul style="list-style-type: none"> <li>• Annual report</li> </ul> <p><b>UCITS:</b></p> <ul style="list-style-type: none"> <li>• Half-yearly report</li> <li>• Annual report</li> </ul> <p><b>Applies from 13 Jan 2017</b></p>	<ul style="list-style-type: none"> <li>• Proportion of lendable assets</li> <li>• Concentration data on collateral</li> <li>• Aggregate transaction data for each type of SFT/Total return swap, including data on collateral</li> <li>• Data on reuse of collateral</li> <li>• Details on the safekeeping of collateral</li> <li>• Data on return and cost for each type of SFT and total return swap</li> </ul>

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## Periodic Reporting - Practical Steps

ESMA has confirmed that this information should be included in the next annual or half-yearly report to be published after 13 January 2017 which may relate to a reporting period beginning before that date.

Global Data	<ul style="list-style-type: none"><li>• Amount of securities / commodities on loan as proportion of total lendable assets.( excluding cash and cash equivalents)</li><li>• Amount of assets engaged in each type of SFT or total return swap , expressed as total amount ( in the fund's currency ) and proportion of AUM.</li></ul>
Data on reuse of collateral	<ul style="list-style-type: none"><li>• Share of collateral reused, compared with maximum amount disclosed to investors or specified in the prospectus.</li><li>• Cash collateral reinvestment returns to the fund.</li></ul>
Concentration data	<ul style="list-style-type: none"><li>• Top 10 largest collateral issuers across all SFTs and total return swaps with volume breakdown per issuer name.</li><li>• Top 10 counterparties of each type of SFT and total return swap separately, including counterparty name, gross volume of outstanding transactions.</li></ul>
Safekeeping of collateral received	<ul style="list-style-type: none"><li>• The number and name of custodians and amount of collateral held in safekeeping by each</li></ul>
Aggregate transaction data	<ul style="list-style-type: none"><li>• Type and quality of collateral</li><li>• Maturity of collateral broken down into 7 maturity buckets (&lt;1D, 1D-1 W, 1W-1M, 1M-3M, 3M-1Y, &lt; 1Y, open)</li><li>• Currency of collateral</li><li>• Maturity tenor of SFTs and TRS broken down by 7 maturity buckets (&lt;1D, 1D-1 W, 1W-1M, 1M-3M, 3M-1Y, &lt; 1Y, open)</li><li>• Country where counterparties are established.</li><li>• Settlement and clearing of trade (eg. tri-party, CCP, bilateral).</li></ul>
Safekeeping of collateral provided	<ul style="list-style-type: none"><li>• Proportion of collateral held in segregated, pooled or other accounts</li></ul>
Cost and return details	<ul style="list-style-type: none"><li>• Broken down by fund, fund manager, third party (eg. agent lender) in absolute terms and as a % of overall returns generated by relevant type of SFTs and total return swap</li></ul>

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## Transparency of SFT's through reporting

Article 4 of Regulation EU 2015/2365: phased in as from publication of RTS, expected Q1 2018

What?	<ul style="list-style-type: none"><li>• All SFT transactions concluded, modified or terminated after entry into force</li><li>• Transition measures for SFTs open when regulation enters into force</li><li>• Transactions with any member of the European System of Central Banks do not require reporting</li></ul>
To who?	<ul style="list-style-type: none"><li>• Trade repositories recognised for SFTR, extended approval may apply for trade repositories recognised under EMIR</li><li>• ESMA if no trade repository is recognised</li></ul>
By when?	<ul style="list-style-type: none"><li>• All transactions which are concluded, modified or terminated must be reported on T+1</li></ul>
Who?	<ul style="list-style-type: none"><li>• All counterparties to SFT must report</li><li>• If the counterparty is a non-financial party and qualifies as SME under Directive 2013/34/EU, the financial counterparty must report both sides of the transaction</li><li>• For undertakings in collective investment, the ManCo of the UCITS or AIFM are responsible for performing the reporting</li><li>• The reporting may be delegated</li></ul>
What information?	<ul style="list-style-type: none"><li>• Technical details to be confirmed by January 2017</li><li>• Alignment with EMIR envisaged</li><li>• Minimum details already known: currency, asset type used as collateral, collateral value, method used to provide collateral, reuse allowed, collateral reused, repo/lending/margin lending rate, haircut, maturity, callable date, market segment</li></ul>

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What action should you take?



# Appendix

## Product definitions

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## Definition of transactions in scope

### **Repurchase transactions**

“means a transaction governed by an agreement by which a counterparty transfers securities, commodities, or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a recognised exchange which holds the rights to the securities or commodities and the agreement does not allow a counterparty to transfer or pledge a particular security or commodity to more than one counterparty at a time, subject to a commitment to repurchase them, or substituted securities or commodities of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a repurchase agreement for the counterparty selling the securities or commodities and a reverse repurchase agreement for the counterparty buying them”;

### **Securities or commodities lending and securities or commodities borrowing;**

“means a transaction governed by an agreement by which a counterparty transfers securities, commodities, or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a recognised exchange which holds the rights to the securities or commodities and the agreement does not allow a counterparty to transfer or pledge a particular security or commodity to more than one counterparty at a time, subject to a commitment to repurchase them, or substituted securities or commodities of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a repurchase agreement for the counterparty selling the securities or commodities and a reverse repurchase agreement for the counterparty buying them”;

# Securities Finance Transactions Regulation

## Definition of transactions in scope

### **Buy-sell back transaction or sell-buy back transaction; (including collateral and liquidity swaps if they are not derivatives under the European Market Infrastructure Regulation (EMIR));**

“means a transaction by which a counterparty buys or sells securities, commodities, or guaranteed rights relating to title to securities or commodities, agreeing, respectively, to sell or to buy back securities, commodities or such guaranteed rights of the same description at a specified price on a future date, that transaction being a buy-sell back transaction for the counterparty buying the securities, commodities or guaranteed rights, and a sell-buy back transaction for the counterparty selling them, such buy- sell back transaction or sell-buy back transaction not being governed by a repurchase agreement or by a reverse- repurchase agreement

### **Margin-lending transaction**

“means a transaction in which a counterparty extends credit in connection with the purchase, sale, carrying or trading of securities, **but not including other loans that are secured by collateral in the form of securities**” ;

“Commodities’ are defined by reference to the implementing regulation under the Markets in Financial Instruments Directive (e.g. includes electricity but not emissions allowances or other intangibles)

“Guaranteed rights” are rights relating to title to securities or commodities where that guarantee is issued by a recognised exchange which holds the rights to the securities or commodities and the agreement does not allow a counterparty to transfer or pledge a security or commodity to more than one counterparty at one time

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