



EMIR & SFTR – the journey continues

Link'n'Learn – 13 April 2017

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The big picture

- In September 2009 G-20 Leaders agreed that **'All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements'**.
- EMIR provides the framework for implementing the bulk of these requirements in the EU and will be complemented by changes to the Markets in Financial Instruments Directive (MiFID II / MiFIR) and changes to the Capital Requirements Directive (CRD IV)
- EMIR introduces sweeping requirements aimed at reducing counterparty risk, improving transparency and mitigating systemic risk. The requirements will, in some shape or form, affect all participants in OTC derivative markets
- Some relief from the clearing and margining requirements has been granted to non-financial firms, pension funds and intra-group transactions, although strict conditions apply



**All
standardised
OTC
derivatives
will be cleared
through
central
counterparties
(CCPs)**



**Non-cleared
derivatives will
be
subject to
strengthened
risk
management
requirements**



**All OTC and
exchange
traded
derivatives will
be
reported to
Trade
Repositories
(TRs)**



**Harmonised
framework for
the
provision of
clearing
services
within Europe**

EMIR is organized around three main pillars...



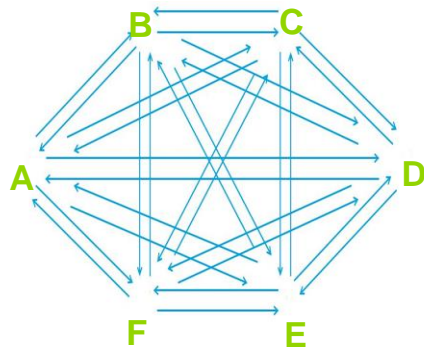
Why EMIR?

Addressing the OTC derivatives markets

EMIR is a regulatory response to the risks emerging from the interconnectedness in the OTC derivative markets

Problem

In the **bilateral** model each market participant has a legal relationship with, and separate (gross) exposure to each of the other participants, creating a tangled web of exposures.



Weaknesses exhibited during the crisis

Counterparty credit risk

Possible systemic implications that a default can have due to the interconnected web of market participants

Lack of transparency

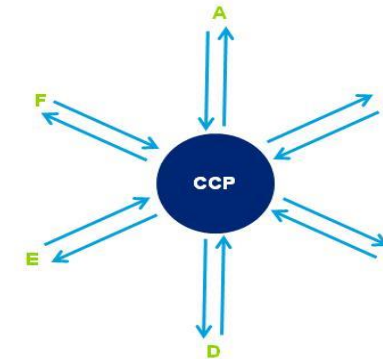
Regulators did not have sufficient oversight of the global positions to detect the accumulations of pocket of risk within the financial system

Weak risk management

for bespoke transactions, led to realised losses in times of market stress

Solution

- Each market participant has a legal relationship with and (gross) exposure to the CCP only. Counterparty will be required to post:
 - Initial margin – protect against losses suffered under the contract
 - Variable margin – protect against market fluctuations



Regulatory response

- All standardised derivatives should be centrally cleared
- Non centrally cleared derivatives should be bilaterally collateralised and subject to higher capital requirements
- All OTC derivatives should be reported to a Trade Repository
- All standardised and sufficient liquid OTC derivatives should be traded on an exchange or electronic platforms

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IRS clearing starting date & Categories of counterparties (EURIBOR, LIBOR)

Implementation timeline for RTS 2015/2205

- The clearing obligation is phased-in based on the category of the counterparty
- In case of a trade between 2 counterparties belonging to **different categories**, the date from which the clearing obligation takes effect for that contract **shall be the longer of the two**
- In case of intragroup transactions where 1 entity of the group is inside the Union and the other entity is in a third country, the clearing obligation will take effect on*
 - 21 December 2018 if no equivalence decision is reached with the relevant third country
 - In case of an equivalence decision, the later of
 - 60 days after the date of entry into force of the equivalence decision
 - The date when the clearing obligation takes effect as below



Counterparty Category Classification

Category's name	Clearing into effect	Frontloading
Cat. #1 Clearing members	21/6/2016	Yes
Cat. #2 FC & AIF that are NFC+ with volume > cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for the 3 months prior to the rule coming into force	21/12/2016	Yes
Cat. #3 FC & AIF that are NFC+ with volume < cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for the 3 months prior to the rule coming into force	21/6/2019	No
Cat. #4 NFC+	21/12/2018	No

Frontloading for IRS | EMIR requirements (EURIBOR, LIBOR)

- EMIR imposes an obligation to clear a posteriori some contracts concluded before the date on which the clearing obligation takes effects
- The frontloading application depends on (1) the categories of both counterparties¹, (2) the derivative type and (3) the dates of the contract as described below:

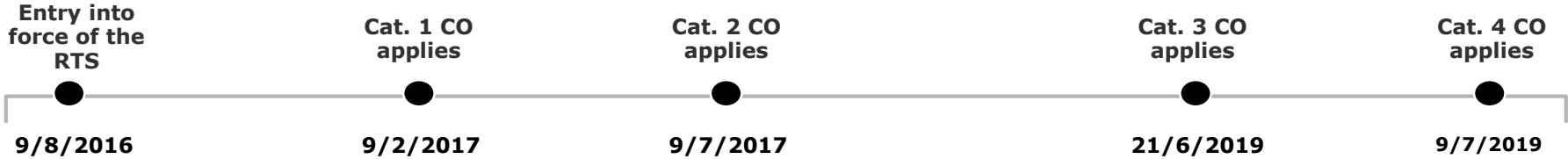


1. Where a contract is concluded between two counterparties included in different categories of counterparties, the date from which the clearing obligation takes effect for that contract shall be the later date. (RTS- IRS clearing obligation Art. 3.1.)

IRS clearing starting date & Categories of counterparties (NIBOR,WIBOR,STIBOR)

Implementation timeline for RTS 2016/1178

- The clearing obligation is phased-in based on the category of the counterparty
- In case of a trade between 2 counterparties belonging to **different categories**, the date from which the clearing obligation takes effect for that contract **shall be the longer of the two**
- In case of intragroup transactions where 1 entity of the group is inside the Union and the other entity is in a third country, the clearing obligation will take effect on*
 - 9 July 2019 if no equivalence decision is reached with the relevant third country
 - In case of an equivalence decision, the later of
 - 60 days after the date of entry into force of the equivalence decision
 - The date when the clearing obligation takes effect as below

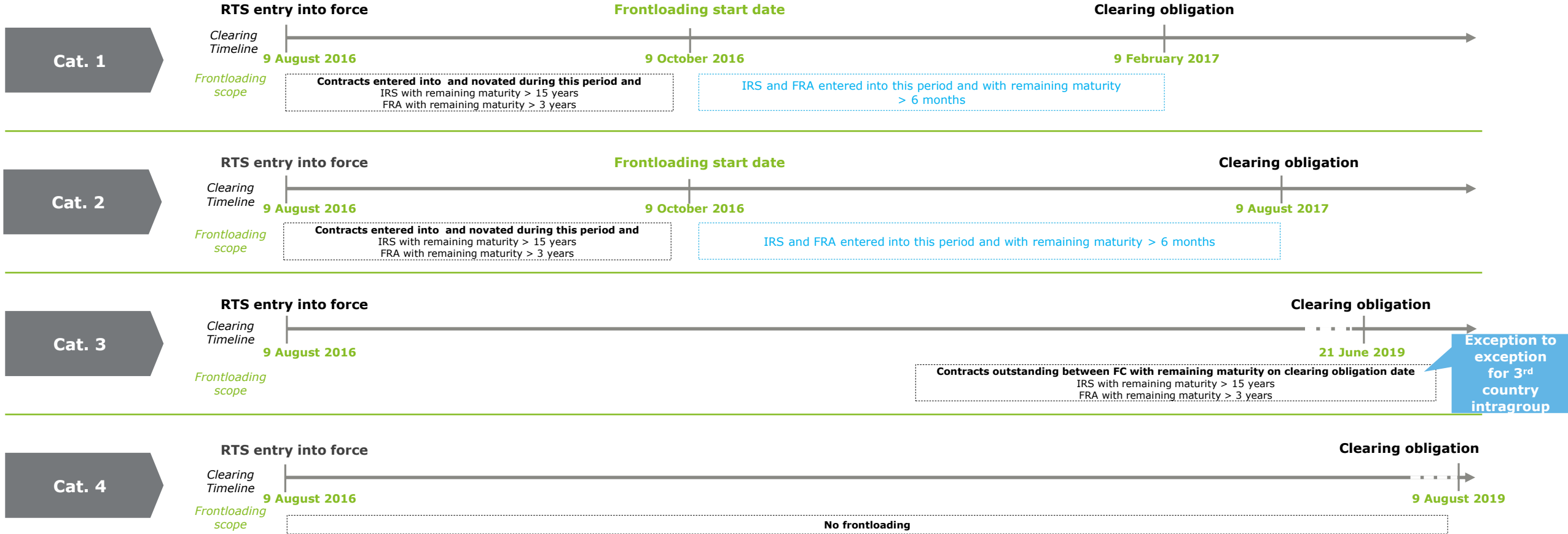


Counterparty Category Classification

Category's name	Clearing into effect	Frontloading
Cat. #1 Clearing members	9/2/2017	Yes
Cat. #2 FC & AIF that are NFC+ with volume > cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for the 3 months prior to the rule coming into force	9/7/2017	Yes
Cat. #3 FC & AIF that are NFC+ with volume < cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for the 3 months prior to the rule coming into force	21/6/2019	No
Cat. #4 NFC+	9/7/2019	No

Frontloading for IRS | EMIR requirements (NIBOR,WIBOR,STIBOR)

- EMIR imposes an obligation to clear a posteriori some contracts concluded before the date on which the clearing obligation takes effects
- The frontloading application depends on (1) the categories of both counterparties¹, (2) the derivative type and (3) the dates of the contract as described below:



1. Where a contract is concluded between two counterparties included in different categories of counterparties, the date from which the clearing obligation takes effect for that contract shall be the later date. (RTS- IRS clearing obligation Art. 3.1)

CDS clearing starting date & Categories of counterparties

Implementation timeline for Delegated Regulation 2016/592

- The clearing obligation is phased-in based on the category of the counterparty.
- In case of a trade between 2 counterparties belonging to different categories, the date from which the clearing obligation takes effect for that contract shall be the longer of the two.
- In case of intragroup transactions where 1 entity of the group is inside the Union and the other entity is in a third country, the clearing obligation will take effect on*
 - 09 May 2019 if no equivalence decision is reached with the relevant third country
 - In case of an equivalence decision, the later of
 - 60 days after the date of entry into force of the equivalence decision
 - The date when the clearing obligation takes effect as below



Counterparty Category Classification

Category's name	Clearing into effect	Frontloading
Cat. #1 Clearing members	21/09/2016	Yes
Cat. #2 FC & AIF that are NFC+ with volume > cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for January, February and March 2016	09/02/2017	Yes
Cat. #3 FC & AIF that are NFC+ with volume < cap threshold of EUR 8 bn in average aggregate notional amount on non-centrally cleared derivatives for January, February and March 2016	21/06/2019	No
Cat. #4 NFC+	09/05/2019	No

Frontloading for CDS | EMIR requirements

- EMIR imposes an obligation to clear a posteriori some contracts concluded before the date on which the clearing obligation takes effects.
- The frontloading application depends on (1) the categories of both counterparties*, (2) the derivative type and (3) the dates of the contract as described below:



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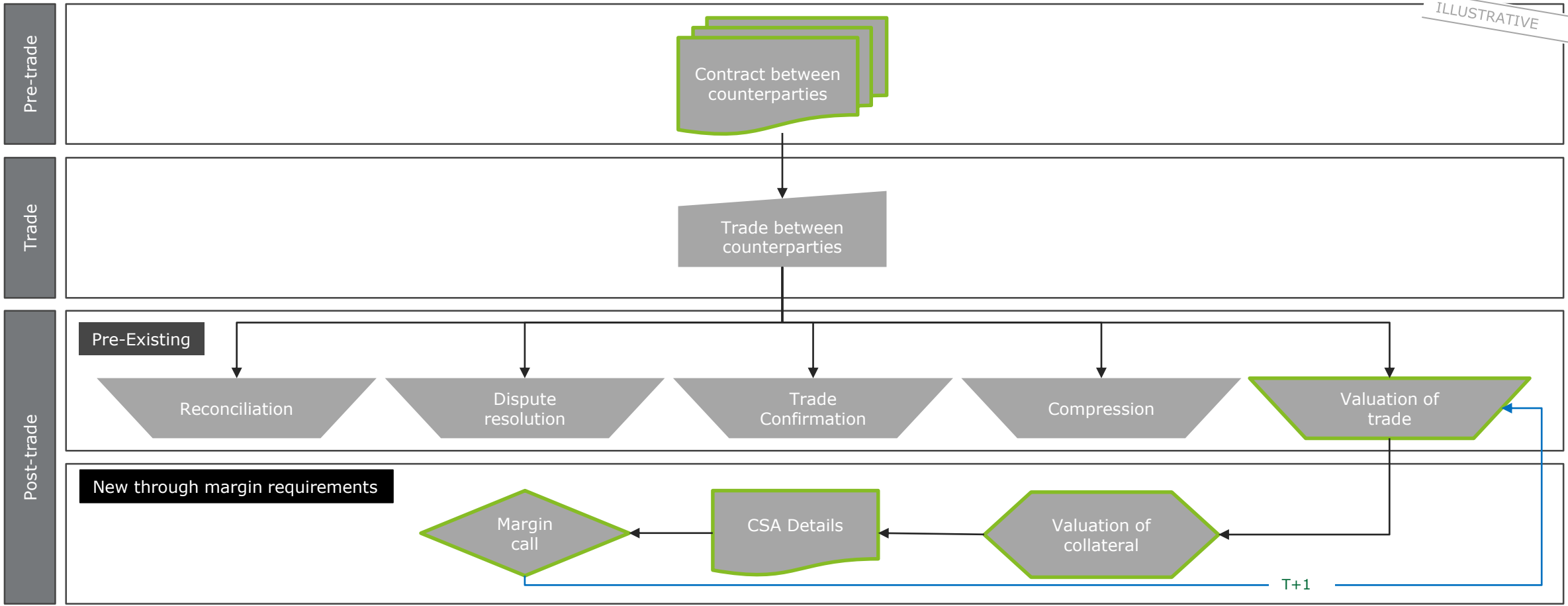
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The derivative lifecycle pre and post new rules

ILLUSTRATIVE

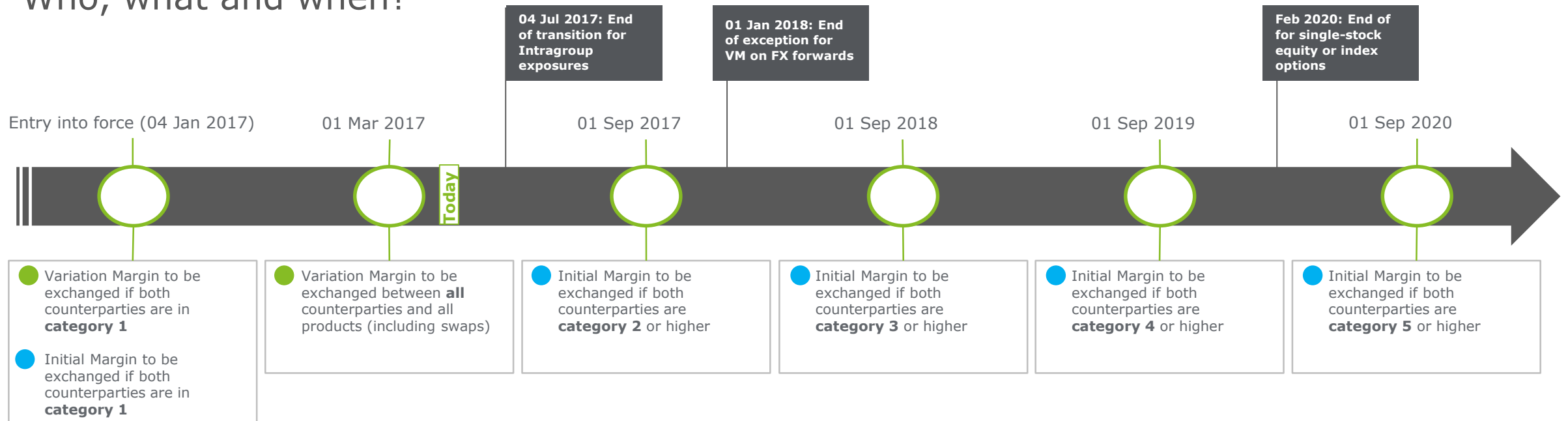


Additions applying to **new** trades - also new for UCITS, AIFM and those already collecting margin for OTC trades:

- Minimum standards for trade agreements
- Mandatory collection of margin with maximum intervals and a cap on minimum transfer amounts
- The calculation for the amount of margin to be collected will be regulated
- Collateral collected type and haircuts subject to regulatory requirements

The margin requirements

Who, what and when?



Average Notional Amount (ANA) at group level

Category 1	ANA ≥ €3 trillion
Category 2	ANA ≥ €2,25 trillion
Category 3	ANA ≥ €1,50 trillion
Category 4	ANA ≥ €0,75 trillion
Category 5	ANA ≥ €8 billion

Exemptions

- Counterparties may agree that **no initial margin** is collected for certain physically settled **Foreign Exchange (FX) contracts** (FX forwards, FX swaps, currency swap)
- Counterparties may agree that no collateral is collected when amount due from last calculation is lower than **Minimum Transfer Amount** agreed. The amount shall not > €500K
- Intra-group transactions** subject to certain conditions (which include regulatory approval)
- Covered bonds** issuers or pool under certain conditions

Transitions

- Collection of **variable margin for FX forwards** shall apply the date of entry into application of MiFID 2 (**January 2018**) or at the latest December 2018
- Transactions between entities belonging to the same group will become in scope as of July 2017

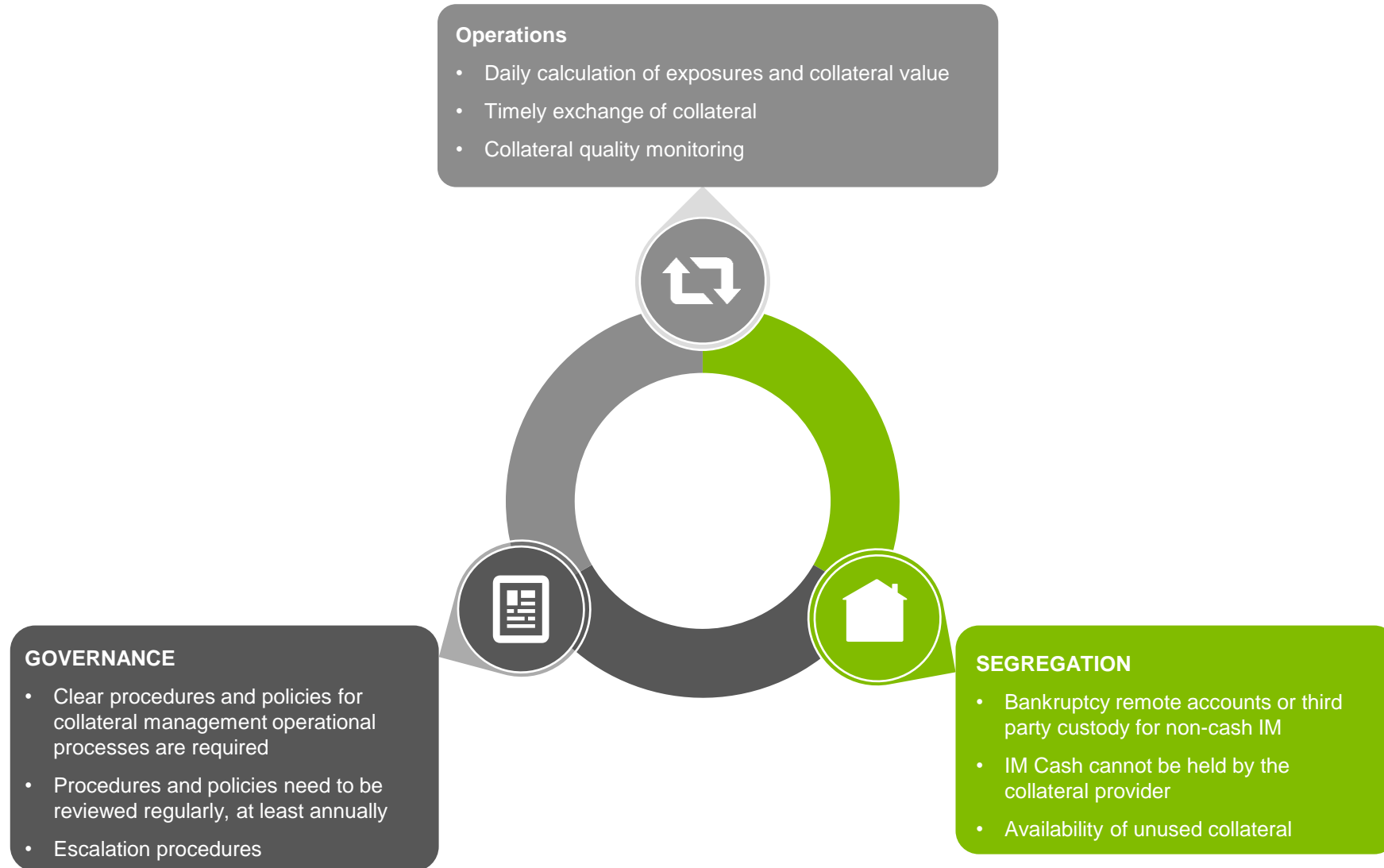
Margin requirements

Initial and Variation margin introduction

	Initial Margin (IM)	Variation Margin (VM)
What	<ul style="list-style-type: none"> • Buffer to protect against variations in the exposure, during the period between 2 different margin calls 	<ul style="list-style-type: none"> • A guarantee to protect against exposure incurred by trading in derivatives based on the latest known market price of the underlying
Governance	<ul style="list-style-type: none"> • 2 different methods allowed • Strict documentation and governance requirements 	<ul style="list-style-type: none"> • Must follow mark-to-market or mark-to-model • Strict documentation and governance requirements
Exceptions	<ul style="list-style-type: none"> • Intragroup transactions* • Certain physically settled FX transactions • Amount to collect is less than € 50 Mio 	<ul style="list-style-type: none"> • Intragroup transactions* • If at least one counterparty is NFC- and below de-minimis thresholds
Re-use	<ul style="list-style-type: none"> • Re-use of collateral collected as IM is not allowed 	<ul style="list-style-type: none"> • No restrictions on re-use for cash and non-cash collateral under EMIR
Collateral	<ul style="list-style-type: none"> • Must be segregated • Must be calculated and collected regularly • Limits on what is accepted 	<ul style="list-style-type: none"> • Must be calculated and collected daily • Deadline for collateral collection • Limits on what is accepted
Minimum Transfer Amount	<ul style="list-style-type: none"> • Sum of the minimum transfer amount per counterparty at group level of IM+VM cannot exceed € 500,000 	<ul style="list-style-type: none"> • Sum of the minimum transfer amount per counterparty at group level of IM+VM cannot exceed € 500,000

The margin requirements in a nutshell

Much more than just exchanging margin



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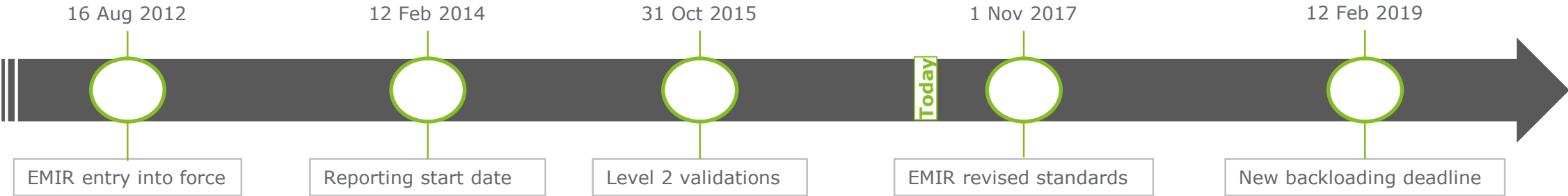
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EMIR reporting

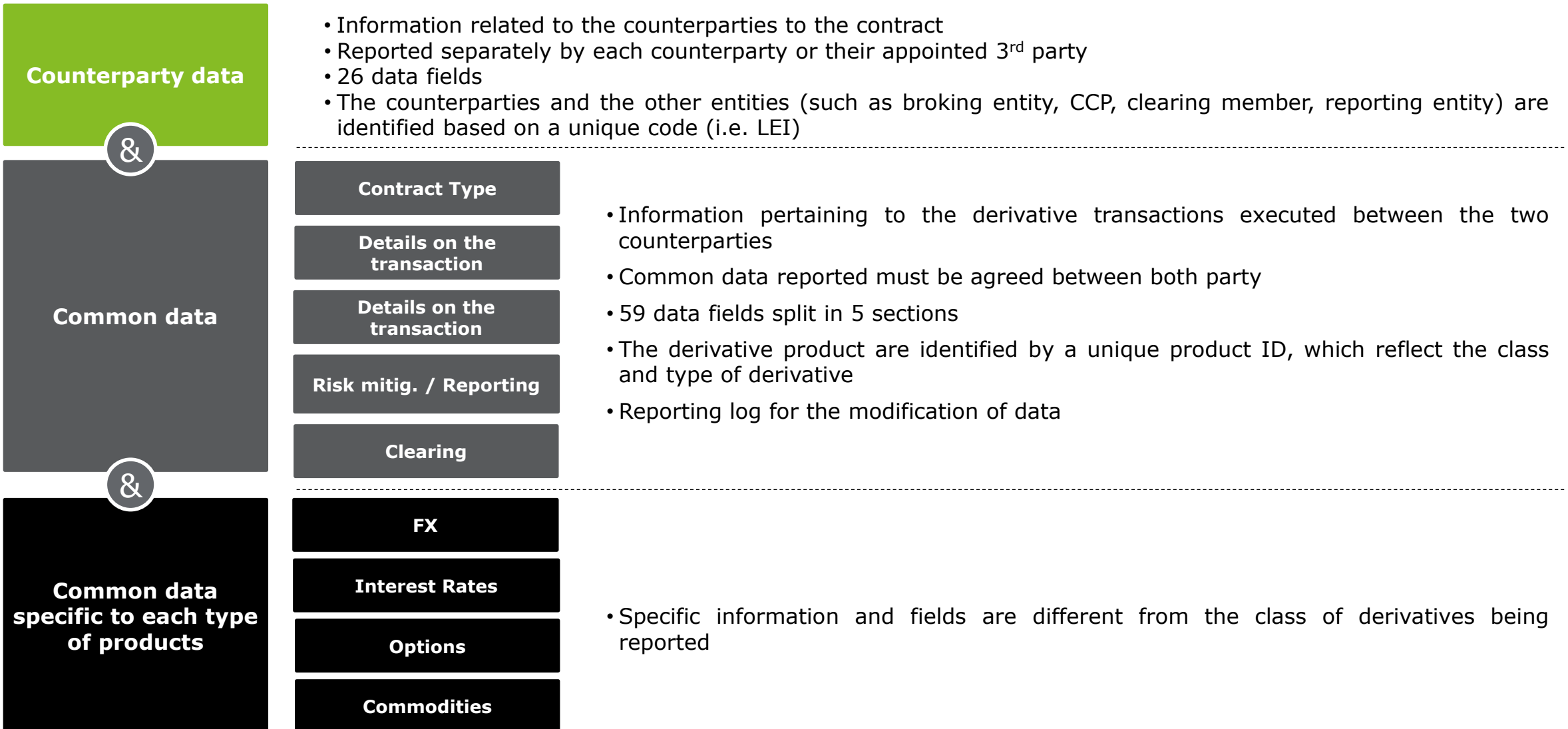
Where are we and what is coming?



- 12 Feb 2014** **Reporting start date** Daily reporting for all new and open transactions starts
- 31 Oct 2015** **Level 2 validations** ESMA has imposed stricter quality controls on the data
- 1 Nov 2017** **EMIR revised standards** The number of fields to report and data quality checks expand
- 12 Feb 2019** **New backloading deadline** Backloading of all transactions entered into between 16 August 2012 and closed before 12 Feb 2014

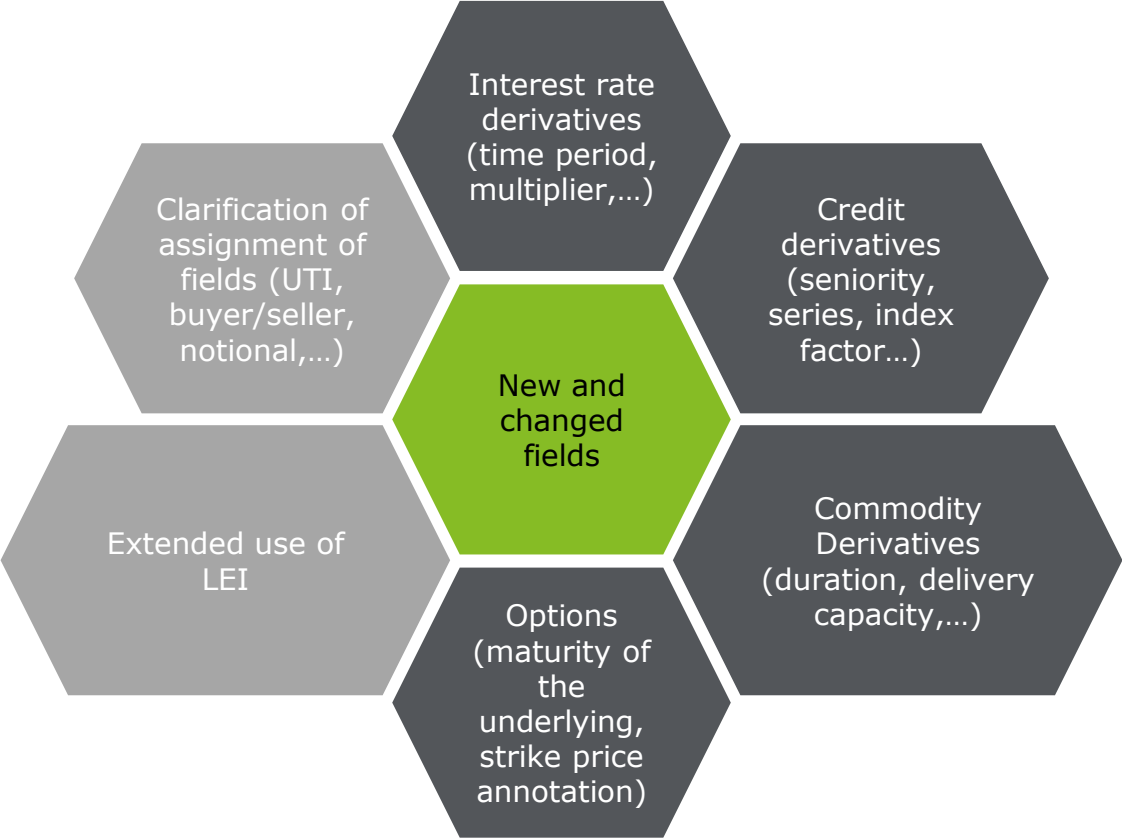
What is EMIR ?

Key Requirements Reporting



EMIR revised standards

From 85 to 129 fields as of November 1st, 2017



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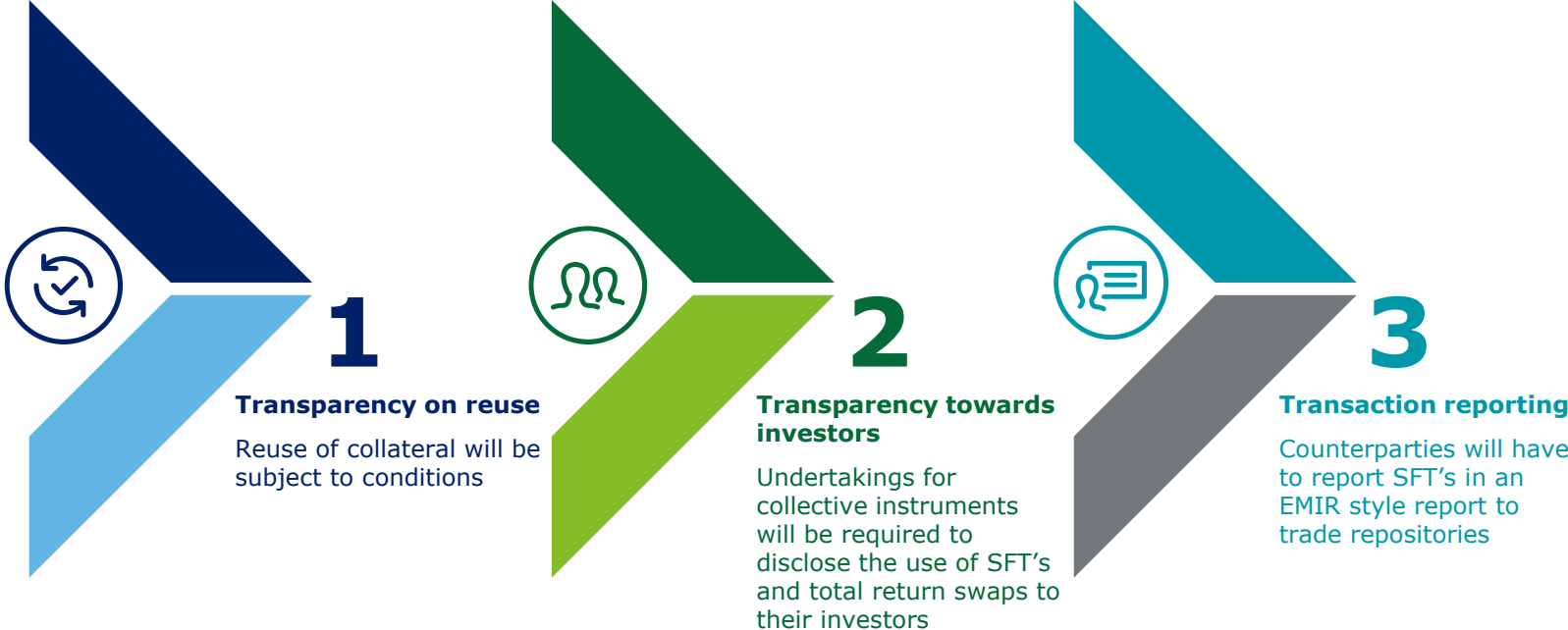
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Securities Finance Transactions Regulation

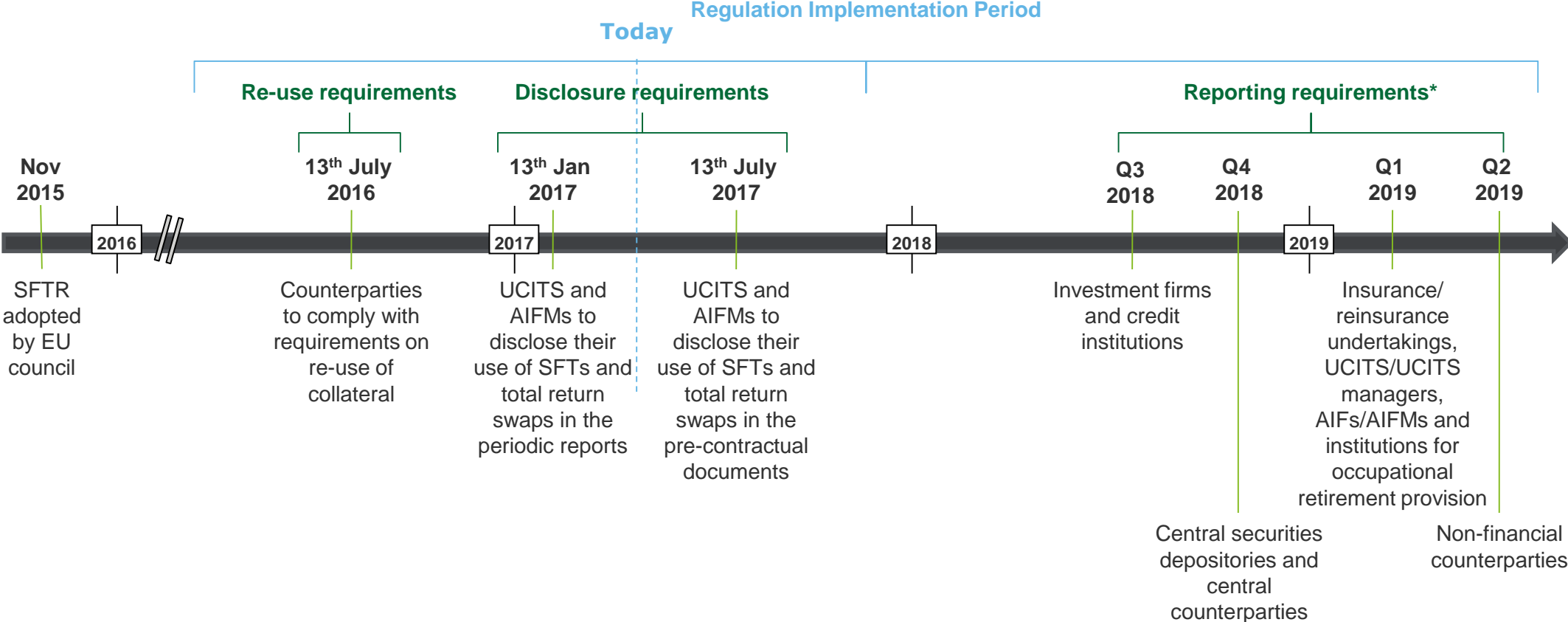
Transparency for SFT's

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



Securities Finance Transactions Regulation

Expected timeline



* Expected dates as entry into force of level 2 Delegated Act expected in Q3 2017

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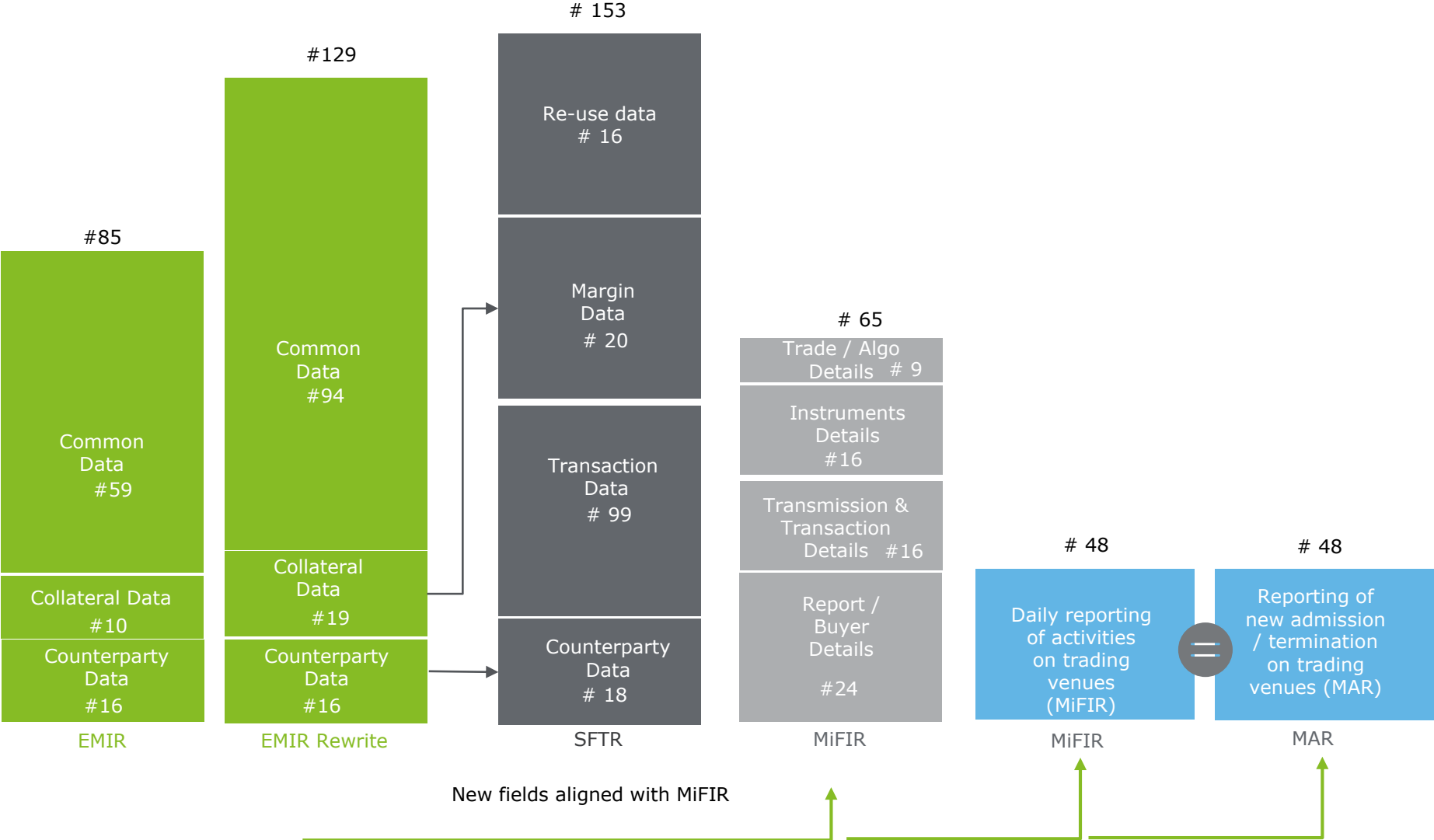
Data mutualisation: a short recap

By 2018, virtually all transactions will need to be reported

			 What ?	 Who ?	 Where ?	
2008	TRADE	1	MiFID I	Listed equity	Investment firms	National Competent Authority (NCA)
2014 2015	POST TRADE	2	EMIR EMIR Level 2	OTC and Listed Derivatives	All counterparties of the transactions : Investment firms, UCITS, AIF, Insurance, CCP	Trade Repository (TR)
2017			FinfraG	OTC and Listed Derivatives	All counterparty but single sided	Trade Repository (TR)
2018	TRADE	3	MiFIR	All Financial instruments admitted on trading venue (or with underlying on trading venue)	Investment firms / Trading Venues	NCA / Approved Reporting Mechanism / (TR)
			MAR	Reporting of new instruments admitted on trading venues	Investment firms / Trading Venues	National Competent Authority (NCA)
2018	SHADOW BANKING	4	SFTR	All Repo and securities lending / borrowing transactions / buy-sell back	All counterparties of the transactions : Investment firms, UCITS, AIF, Insurance, CCP	Trade Repository (TR)

Data mutualisation: the potential

Streamlined data sourcing will enable consistency of data and data management



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