

Regulatory News Alert

After EMIR & MiFIR, Securities Financing Transaction Regulation (SFTR) is finishing the trilogy

04 May 2018

Background

The Securities Financing Transaction Regulation (SFTR, (EU) 2015/2365) is the latest part of a sequel of the Financial Stability Board (FSB) and European Systemic Risk Board (ESRB) to mitigate the risks and increase transparency in the use of securities financing and reuse. It aims to reduce the risks arising from securities lending, repurchase and reverse repurchase agreements, and any sell/buy-back transactions involving securities or commodities by setting reporting and recording obligations for securities financing transactions and limitations on the reuse of collateral.

Luxembourg has published a project of law through the chamber of deputies (7194-01) to implement SFTR into the national legal framework. This draft law reflects the provisions of the European regulation and sets additional measures, notably linked to sanctions (up to €15 million) that may affect the financial industry as a whole.

Content of the regulation

The draft law reflects and includes the three pillars of SFTR and sets concrete sanctions in case of infringements:

- **Requirements for counterparties to SFTs to report all SFTs to central trade repositories (TR);** Reports that will need to comply with the existing reporting framework for derivative contracts established by the European Market Infrastructure Regulation (EMIR). These requirements will be included into Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) that have not been adopted yet by the European Institutions in a final version. As consequence, financial institutions will need to update their procedures and invest in operational solutions to be sure to comply with SFT reporting standards to avoid an administrative fee, subject to publication for five years and which could reach €5 million.
- **Requirements for investment funds to disclose the use of SFTs to investors** in their regular reports and pre-contractual documents; This implies operational changes to the prospectus of investment funds that will need to be reviewed to include data related to SFT operations. This point is still subject to questions regarding the inclusion of the evolution of the amount of collateral during financial year. The deadline to comply with these new requirements is scheduled for **January 2019**.



Minimum transparency conditions for the reuse of collateral received in an SFT, such as the disclosure of the resulting risks and consequences, as well as prior consent by the counterparty providing collateral. In case of breach, a dissuasive administrative fee up to €15 million could be applied, with a publication for five years on the official website of competent authorities.

How can Deloitte help?

1. Strategy definition and implementation

Design and calibrate a strategy for collateral management and practical implementation throughout the organization

2. Regulatory health check

A review of compliance with each requirement of the regulation, identifying any gaps with remediation actions

3. Transaction reporting

A fully integrated reporting solution for transaction reporting

4. Risk management enhancement

Deloitte's risk management specialists can assist you in reviewing or enhancing your general risk management framework, with a particular focus on the review and determination of haircuts

5. Kaleidoscope Regulatory Watch

Deloitte Kaleidoscope regulatory watch service can help your organization stay on top of the regulatory trends and incorporate them into your strategic planning

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