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Regulatory News Alert

Important milestone for SFTR reporting: Further technical details from ESMA

8 November 2019

Context and objectives

With the objective of increasing transparency of securities financing markets, from April 2020, the package of new measures under the Securities Financing Transactions Regulation (SFTR) was **published in the Official Journal of the EU.**

On 31 October 2019, the European Securities and Markets Authority (ESMA) announced **one more important milestone** of the SFTs reporting. In particular, ESMA's publication includes **further technical details** for the reporting of Securities Financing Transactions (SFTs) as required under the SFTR.

Validation rules applicable for SFTR reports

ESMA provided information on the Validation rules describing:

- **Technical standards** to be reported by Field and Format

- **The mandatory nature** of the fields is described for each combination of Action Type and, where relevant, Level (Trade/Position) as either mandatory, conditionally mandatory, optional or not applicable

- **Description of the conditional validations** as well as the format and content validations

These validation rules are the ESMA's guidelines including principles that apply to SFT reporting, including how the reports should be constructed. The guidelines provide clarity and a harmonised implementation on the following key aspects:

- **Type of SFT transaction**: 'SLEB' – securities or commodities lending or securities or commodities borrowing, 'SBSC' – buy-sell back transaction or sell-buy back transaction, 'REPO' – repurchase transaction, 'MGLD' – margin lending transaction

- **Type of investment fund**: 'ETFT' – ETF, 'MMFT' – MMF, 'REIT' – REIT, 'OTHR' – Other

- Indication of whether the reporting counterparty is a **collateral provider or a collateral taker**, whether the SFT is subject to **a general collateral arrangement or specific collateral arrangement**, whether the collateral in the SFT is subject to a **title transfer** collateral arrangement, a **security financial** collateral arrangement.

- For **general information to identify the counterparties**, several rules from International Organization for Standardization (ISO) are applied, such as ISO 8601 for date format, ISO 17442 for Legal Entity Identifier (LEI) 20 alphanumerical character code; ISO 3166 for country code, ISO 10383 for Market Identifier Code, ISO 4217 for Currency Code, ISO 6166 for ISIN, ISO 10692 for Classification of Financial Instruments code

- **Taxonomy for Financial Counterparties**: 'CDTI' - Credit institution, 'INVF' - Investment firm, 'INUN' – Insurance undertaking, 'AIFD' – AIF managed by AIFMs, 'ORPI' – Institution for occupational retirement, 'CCPS' – Central counterparty, 'REIN' – Reinsurance undertaking, 'CSDS' – Central securities depository, 'UCIT' - UCITS and its management company

- **Taxonomy for Non-Financial Counterparties**: The categories correspond to the main sections of European Statistical Classifications of Economic Activities (NACE) classification, for example: 'A' – Agriculture, forestry and fishing, 'B' – Mining and quarrying, 'C' – Manufacturing, etc.

- Reference to the **master agreement type** under which the counterparties concluded a SFT from general type such as 'GMRA' – Global Master Repurchase Agreement, to specified type such as 'CNBR' – China Bond Repurchase Master Agreement

Other specific reporting rules for floating rate, type of the security used as collateral, type of collateral component, etc.

XML schemas that reporting entities should use

Under the SFTR, **both parties** to an SFT need to **report new, modified or terminated SFTs** to a registered or recognised trade repository (TR), including the composition of the collateral.

The ESMA published **three set of XML schemas** reporting entities should use for this purpose:

- Schemas for Counterparty and TR data exchange, in particular:

  o **Sent from the counterparty to the trade repository (TR)**: Securities Financing Reporting **Transaction Report**, Securities Financing Reporting **Transaction Margin Data Report**, and Securities Financing Reporting **Transaction Reused Collateral Data Report**.

  o **Made available by the trade repository (TR) to the report submitting entity**: the 3 previously**-mentioned reports** and also Securities Financing Reporting **Transaction State Report**, Securities Financing Reporting **Reconciliation Status Advice**, Securities Financing Reporting **Missing Collateral Request**, Securities Financing Reporting **Transaction Status Advice**, Securities Financing Reporting **Margin Data Transaction State Report**.

- Schemas for Intra-TR data exchange, sent by the TR to other TRs, in particular:

  o Securities Financing **Reporting Pairing Request** in order to identify the trade repository (TR) holding information on a second leg of a given transaction.

  o Securities Financing Reporting **Transaction State Report** containing latest state of the transaction

  o Securities Financing Reporting **Reconciliation Status Advice** to provide a status advice for reconciliation.

- For TR to authority data exchange

  o **Sent from the TR to the competent authority (CA)**: all previously mentioned reports from the counterparties and TR, except Securities Financing Reporting Pairing Request, Securities Financing Reporting **Missing Collateral Request**

Sent from the CA to the TR: Securities Financing **Reporting Transaction Query** to query data based on the search criteria for the transactions as defined by the system user.

Next steps

These Guidelines will complement the SFTR technical standards and ensure the consistent implementation of the new SFTR rules. The **technical standards on reporting entered into force on 11 April 2019.** SFTR reporting requirements will **apply at various dates**, depending on the type of financial counterparty involved.

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Credit institutions and investment firms will be required to comply with the reporting requirements by **11 April 2020**, followed by central counterparty clearing (CCPs) and central securities depository (CSDs) **11 July 2020**.

All other financial institutions, including pension funds, insurance companies, AIFs and UCITS obligated to report **11 October 2020**; and finally, **non-financial institutions** go live **11 January 2021**.

How can Deloitte help?

Our **Deloitte Transaction Regulatory Reporting Solutions** also support institutions in their day-to-day obligations in the context of SFTR as well as EMIR and MiFiR reporting.

Deloitte's **advisory specialists** and dedicated services will help you design and implement your business strategy in light of future evolutions of the regulatory framework and market trends.

Deloitte's **RegWatch Kaleidoscope** service can help you to stay ahead of the regulatory curve and to better manage and plan for upcoming regulations.

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