

Securities Financing Transactions Regulation (SFTR)

November 2019

Frequently Asked Questions (FAQs)

1. What is SFTR and what does it seek to do?

- Securities Financing Transactions Regulation (SFTR) is a European Union (EU) regulation which was introduced with the aim of reducing systemic risk in the Securities Financing Transaction (SFT) market by increasing transparency and surveillance
- Transaction reporting is a key part of the SFTR requirements and, in scope and content, is broadly aligned with EMIR transaction reporting (which applies in respect of derivative transactions)
- SFTR transaction reporting has a wide industry scope in that it applies to both financial and non-financial counterparties, and generally, both sides of any transaction are required to be reported (i.e. it isn't a dealer-only style obligation)
- There is a phased go-live for SFTR transaction reporting, with phase 1 counterparties (primarily dealers) coming into scope as of 13th July 2020

2. What are the Key Reporting Requirements?

- Counterparties must report details of the '**conclusion, modification and termination**' of any SFT to an approved Trade Repository (TR) on a T+1 basis
- In addition to the reporting of the SFTs, counterparties also must report the associated collateral to the TR on either T+1 or settlement date + 1 dependent on the method of collateralization used
- Counterparties also need to keep records of any SFT for a minimum of five years following its termination

3. What products are in scope for SFTR Reporting?

- Repurchase transaction;
- Securities or commodities lending and securities or commodities borrowing;
- Buy-sell back transaction or sell-buy back transaction; or
- Margin lending transaction, related to prime brokerage activity

4. What type of entities and counterparty jurisdictions are in scope?

SFTR transaction reporting applies to all counterparties that are:

- Both Financial Counterparties (FCs) and Non-Financial Counterparties (NFCs)*
- EU based entities including their Non-EU based branches
- Non-EU entities where the SFT is concluded by an EU based branch

Or are established:

- in the EU, including all its branches irrespective of where they are located; or
- in a third country, if the SFT is concluded in the course of the operations of a branch of that entity in the EU

Even if you do not fall into scope directly, if your counterparty does, you will need to provide them your classification for their reporting purposes.

*Some FCs trading with smaller NFCs will have a delegated reporting obligation on behalf of the NFC

5. What are the different phases?

The implementation will take place in four phases, according to the type of firm needing to report, as seen below

First reporting Obligation

- 13 Jul 2020 – Phase 1 Investment firms & credit Institutions
- 13 Jul 2020 – Phase 2 CCPs & CSDs
- 11 Oct 2020 – Phase 3 Insurance, UCITS, AIF & Pensions
- 11 Jan 2021 – Phase 4 Non-financial Companies



6. What types of reports does SFTR require?

- Transaction reports: both new transactions and life cycle events
- Daily Central Counterparty Clearing (CCP) Margin reports: reports to provide changes in initial and variation margin that a reporting counterparty posts with regards to CCP-cleared SFTs
- Daily Collateral Re-use reports: reporting of the changes in the reuse of collateral, the reinvestment of cash or the margin lending funding sources

7. Why is SFTR classification important?

It is key that all entities determine their SFTR classification and communicate this to their counterparties in order to facilitate timely and accurate market-wide SFTR reporting.

What is your SFTR Classification?

Financial Counterparty (FC) – You will be an FC if you are an authorised investment firm; credit institution; insurance undertaking or a reinsurance undertaking; UCITS and, where relevant, its management company; AIF managed by AIFMs; an institution for occupational retirement provision (i.e. pension scheme arrangement); CCP or CSD

Non-Financial Counterparty (NFC) – You will be defined as an NFC if you are an 'undertaking' established in the EU or in a third country and don't fall into the 'financial counterparties' definition

Small Medium Enterprise Non-Financial Counterparty (small NFC) – You will be an SME NFC if you are a non-financial counterparty which does not exceed the limits of at least two of the three following criteria:

- (a) balance sheet total: EUR 20 000 000;
- (b) net turnover: EUR 40 000 000;
- (c) average number of employees during the financial year: 250.

These categories are then used for determining the SFTR Go-Live Phases

8. Is there a back-loading requirement?

SFTR not only requires new trades (or lifecycle events on those trades) to be reported from go-live, it also has a backloading element in that outstanding SFTs are also required to be reported if they:

- a) have a remaining maturity that date exceeds 180 days; or
- b) have an open maturity and remain outstanding 180 days after that date.

This population of trades will need to be identified and reported within 190 days of SFTR go-live. The market approach is still being discussed at industry level and we'll align our approach accordingly.

9. Who will I require an LEI for?

All legal entities subject to SFTR are required to have a Legal Entity Identifier (LEI). There are several authorised providers of LEIs. Please refer to [GLEIF](#) for more information on how to obtain an LEI.

In addition, LEIs will be required for other parties involved in a transaction –

- Counterparties (unless deemed a 'natural person')
- Brokers
- Beneficiaries
- Agent Lenders
- CSD Participants or Indirect Participants

- Triparty Agents
- CCP and Clearing Members
- Security Issuers

Given this, if you don't have an LEI or transact or otherwise interact with anyone of these parties and they don't have an LEI you, or they, will need to obtain one.

10. What is 'Mandatory Delegated Reporting'?

There are two scenarios identified in SFTR where one entity has the regulatory obligation to report on behalf of another:

Scenario 1 – FC's on behalf of small NFC's

Where an in-scope Financial Counterparty (FC) concludes an SFT with a **small NFC**, the FC shall be responsible for reporting on behalf of both counterparties.

Where the **small NFC** concludes a SFT with an out of scope FC, the **small NFC** has the obligation to report themselves or delegate reporting to a third party. See question 7 which sets out when an entity qualifies an **small NFC**.

Scenario 2 – Management Companies & AIFMs

The management company of 'undertakings for collective investments in transferable securities' (UCITS) or 'alternative investment fund manager' (AIFM) of an 'alternative investment fund' (AIF) is responsible for transaction reporting the SFTs that it's UCITS or AIF concludes.

11. I have multiple in-scope entities. Do I need to complete the questionnaire individually for each of my entities?

You will need to complete the questionnaire for each of your entities that trades SFTs with an EU Counterparty. However, if the answers are the same across entities, you can provide one set of answers and apply them to all your entities. Within Outreach360 IHS Markit have created functionality so that you can easily upload the relevant LEIs and then proceed to answer the questions once on behalf of all entities.

12. Client Readiness Checklist

What action do I need to take now as a result of SFTR?

- Where possible, join a trade association / vendor working group to benefit from the SFTR analysis already in progress
- Establish whether each of your legal entities are in scope for SFTR in terms of both products traded and jurisdiction (questions 3 and 4)
- Obtain an Legal Entity Identifier (LEI) for each of your in scope legal entities (question 9)
- Determine your SFTR classification and communicate to your counterparties (question 7)
- Determine your SFTR go-live date – your classification will dictate the date on which your SFTR reporting obligation will commence (question 5)
- Determine your Transaction Reporting solution, i.e. Delegated Reporting, inhouse development or transaction reporting via Vendors
- If building in-house choose your SFTR vendor(s) for pre-reconciliation, agent lender disclosure data and UTI generation / sharing

- Sign up to a European Union authorised or registered Trade Repository (if you have not done so already) or ensure you have sufficient delegated reporting arrangements in place

13. Who developed and created the SFTR questionnaires?

The International Securities Lending Association (ISLA) is working on Article 4 requirements with member firms and other industry stakeholders, including fellow trade associations through multiple working groups and outreach streams.

The working groups represent both buy and sell side participants, as well as vendors and tri-party agents; an important conduit between the market and the European Securities and Markets Authority (ESMA) as we look to define best practice around both data points and life cycle events.

The questionnaire that you have received was based on the questions published by ISLA on its website www.isla.co.uk and has been compiled by participating banks as part of efforts to help the industry prepare for SFTR.

14. How did you receive my contact details?

Your contact details were provided by your bank as part of the outreach, or because you are a user of Markit Counterparty Manager and have conducted regulatory related activities on the platform with your bank. For more information please see our [Privacy Policy](#). If you would like to opt-out of SFTR communications, please contact sftroutreachsupport@ihsmarkit.com. To direct this request to a colleague that is more appropriate, please use the 'invite a colleague' option in the email you received.

15. To whom will the completed questionnaire go to?

Upon submitting the completed the SFTR questionnaire on the Outreach360 platform you instruct us to share the completed response with your bank and any other bank you identify on Outreach360 platform or as otherwise notified to us in writing.

Escalation process for questions or log in issues

If you have any questions specific to SFTR regulation, please reach out to sftroutreachsupport@ihsmarkit.com for further assistance.

For technical issues please contact the below support team:

Hotline UK: + 44 (0) 207 260 2102

Hotline US: + 1 212 488 4049

Hotline Singapore: + 65 6922 4120