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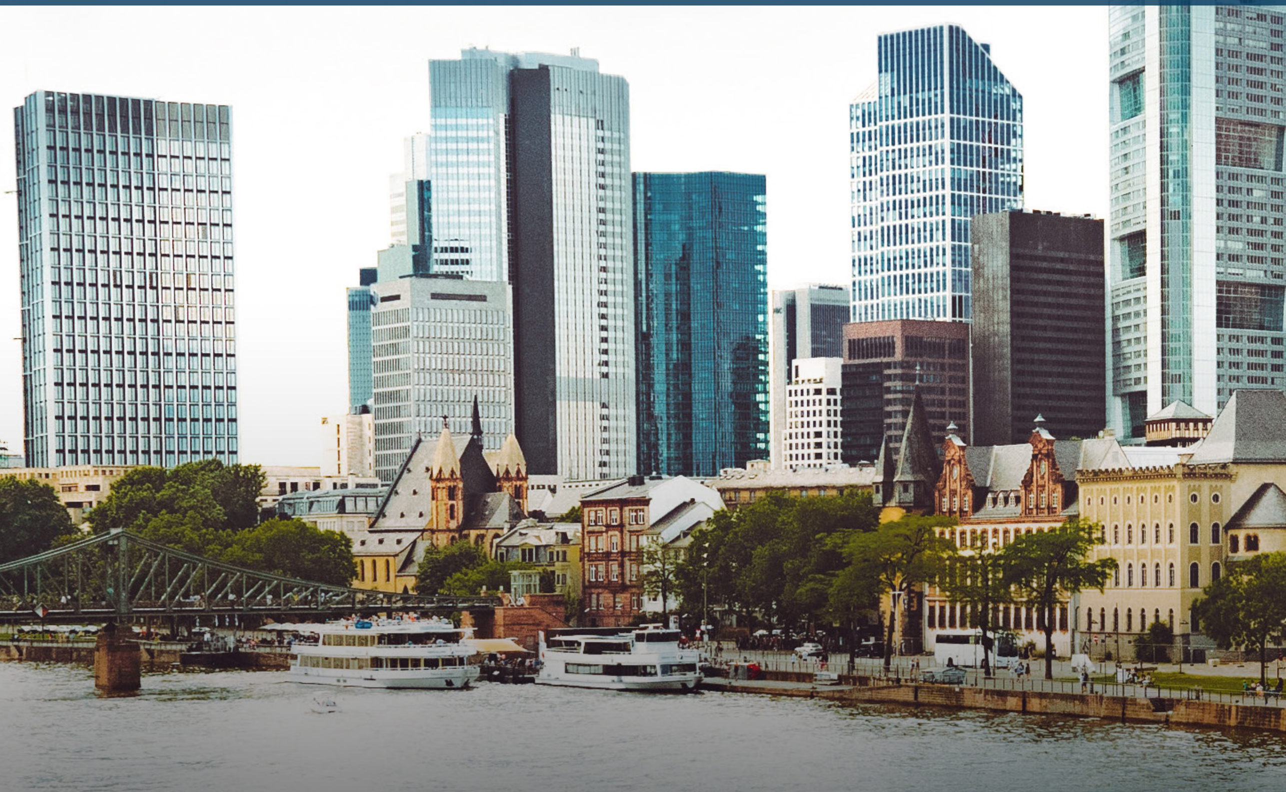

MarketAxess

EQUILEND

Editor's letter

It's finally here. For many, the belated go-live of reporting requirements under SFTR represents the culmination of a Herculean, multi-year effort to create and curate data fields and weave an entirely new, complex web of data flows. As this magazine goes to press, proverbial fingers are ready to flip the switch and begin recording, sharing and reporting securities finance transaction data on a scale we've never seen before. By the time the final implementation phase comes into effect in January 2021, EquiLend predicts that ESMA will be receiving more than 150 million reportable transactions per day. I repeat, per day. Whether ESMA's own systems are up to the task of managing such a deluge is yet to be seen.

To get to this point, service providers and the sell side, who are first in line to empty their pockets on the regulator's inspection table, have had to navigate unclear guidance, revised instructions, faulty XML schemas, last-minute releases and an even more last-minute grace period to dot the i's and cross the t's. The final result is a diverse landscape of unique in-house solutions along with a handful of service provider offerings and a smattering of hybrid in-house-vendor builds that seek to gain the best of both worlds; each representing huge amounts of sunk costs and resources.

But, in many ways, July will only signify the end of the beginning of the SFTR saga, if you'll excuse the cliche. Many market observers are already speculating that lawmakers in Brussels and Paris see SFTR as merely the vehicle for change, not the destination. Once regulators do get a handle on the vast quantities of transaction data they are expected to find new wrinkles in the market that must be ironed out. The possibility of an SFTR II may turn out to be more than just a scary story development teams tell each other around the campfire.

For now, however, there is a lot for the industry to be proud of, as the pages of this magazine will attest. SLT's SFTR Annual 2020 serves as a testament to the uncountable hours of work given by those in all corners of the securities finance industry that enabled the market to rise to the challenge first set by regulators way back in 2014.

Meanwhile, the optimists among us suggest go-live will also bring benefits to the market beyond the transparency afforded by reporting. The work to drag ageing systems into the modern world will bring new opportunities for digitisation, standardisation and innovation that may prove to make all this worthwhile.

From SLT, a special thank you goes to our sponsors who have shared their experiences and wisdom in tackling SFTR's many hurdles in this magazine for the benefit of all. And, for those reading this in early July, good luck.

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Editor

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Inside this issue

Inside this issue

Addressing SFTR's challenges with tools to transform the trade reporting process

*Val Wotton
Managing director, product development and strategy, repository and derivatives services
DTCC*

SFTR is the most complex regulation yet to hit the EU's securities finance market, and a robust reporting solution is needed to meet its requirements. DTCC presents its Report Hub

Most firms lack efficient, centralised systems and procedures for trade reporting and, as a result, they've struggled to keep pace with the new regulatory requirements that have emerged in recent years, including the Securities Financing Transactions Regulation (SFTR).

The most complex regulation yet

SFTR, which impacts around 60 percent of current securities finance trading and post-trade processes, is inherently more complex than other regulations. Unlike the European Market Infrastructure Regulation (EMIR), SFTR involves the reporting of all associated collateral in addition to SFTs, which is further complicated by the requirement to report on the reuse of underlying collateral at the entity level, not the trade level. Over-the-counter (OTC) derivatives and securities financing are different products with different trading patterns and hence different sequencing for reporting obligations. OTC derivatives, for example, tend to be held for a long duration whereas a securities finance transaction can be for one day with re-rates and collateral exchanges. As a result, SFTR has more fields than EMIR and twice the number as the Markets in Financial Instruments Directive (MiFID).

Since the European Securities and Markets Authority (ESMA) requires the use of the ISO 20022 format and schema, and there are over 150 fields, every firm now needs to convert its internal SFT data to this format and add pre-reporting checks. Historically, there was no industry standard XML representation across all the SFT products and collateral flows, and data fragmentation was prevalent. The introduction of ISO 20022 XML standards for SFT data often requires firms to translate data from different internal systems in order to create a submission message that meets the XML schema and regulatory validations.

Adding to the complexity, the translation process is not a one-time exercise. For example, ESMA published one set of ISO validation rules in October 2019 then an update to the XML schema in December 2019. Each update means a new project plan and client validation requirements.

Parts of the industry are only now fully appreciating the complexity of this regulation. A lot of time has been spent on considering pre-matching and generating a unique transaction identifier (UTI) in the context of the Central Securities Depositories Regulation (CSDR), but now firms must figure out how they sequence messaging in SFTR in the context of how the market works.

Easing the reporting burden

Through our conversations with clients and partners, it became clear that firms needed help with data translation as well as other aspects of pre-reporting – that is, to transform and enrich their trade data to meet stringent eligibility, completeness, accuracy and timeliness standards before it's submitted to a trade repository (TR) – and also that critical post-reporting tasks could be improved.

DTCC was perfectly positioned to respond to this industry need. We operate the world's premier trade reporting service for OTC and exchange-traded derivatives, the Global Trade Repository service

Unlike EMIR, SFTR involves the reporting of all associated collateral in addition to SFTs, which is further complicated by the requirement to report on the reuse of underlying collateral at the entity level

(GTR), which has streamlined derivatives trade reporting around the world. As a result, we have had the opportunity to observe first-hand the various pre- and post- reporting challenges facing our clients and identify opportunities to develop solutions that create greater efficiencies in their trade reporting processes.

To meet these challenges, we designed the DTCC Report Hub service to transform the trade reporting workflow, starting with preparing the data and ending with post-reporting error clean-up and reconciliation to internal records. Our solution provides firms with tools that help alleviate the burden on in-house technology and staff tasked with building and supporting complex systems to meet evolving regulatory requirements.

The DTCC Report Hub service is a customisable suite of pre- and post- reporting data and reconciliation tools for use across products and regulatory jurisdictions. It's designed to easily translate transaction data into formats required by regulators, enrich the data using reference data sources, and identify errors and/or missing required data elements before firms submit their transactions to a TR. These tools also enable users to complete accuracy checks by comparing their daily activity reports from the TRs against their own trading books.

A flexible solution for all in-scope firms

The DTCC Report Hub service offers a flexible toolbox for buy-side and dealer firms, small or large, by allowing them to select only the features they want to use. Eventually, some users may choose to replace their internal systems and vendor solutions with the service's full suite of capabilities to reduce technology costs, manage the ongoing changes to regulation, eliminate fragmented solutions, and improve the overall quality of their reporting and control framework.

Others will leverage the DTCC Report Hub service for quality assurance – to address timeliness, completeness, and accuracy of their reporting data. The DTCC Report Hub service can enhance these users' overall control framework, allowing them to move to proactive versus reactive monitoring and reduce the overall operational and compliance risks associated with trade reporting.

The DTCC Report Hub service will also offer a pre-reporting eligibility rules engine that will allow users to check and confirm reporting eligibility for their books and records with full traceability against both the underlying rules and regulatory text in place at the time. Firms will be able to choose to apply additional services and workflows to trade data for onward submission to a TR.

As for internal audit and reconciliation, these regulations have created a need for tools that simplify these functions. Otherwise, firms will be expending tremendous time and resources tracing their trade data through the entire reporting lifecycle. The DTCC Report Hub service leverages leading-edge technology to deliver full audit and tracing capabilities.

It's important to mention that a firm does not have to report directly to a TR in order to benefit from DTCC Report Hub services. For example, buy-side firms that plan to delegate their reporting to a counterparty can use our post-reporting reconciliation capability to match their own trading books to transactions reported on their behalf.

The future of trade reporting

If ESMA adopts the ISO 20022 standard for the EMIR Regulatory Fitness and Performance (Refit) programme, we would expect similar tools to be in high demand for that mandate as well.

Then, as global Refits come to market in Europe and Japan, firms will be seeking a solution like the DTCC Report Hub service to help reduce costs as well as manage their trade reporting data needs across jurisdictions.

DTCC supports securities finance and derivatives reporting regimes across the globe. While the DTCC Report Hub service is currently available for ESMA's SFTR, it will soon cover ESMA's EMIR, the Commodity Futures Trading Commission, Canada, Switzerland's Financial Markets Infrastructure Act (FMIA or FinfraG), Australian Securities and Investment Commission, Hong Kong Monetary Authority, Japan's Financial Services Agency, Monetary Authority of Singapore, as well as the UK Financial Conduct Authority's SFTR and EMIR post-Brexit.

While the DTCC Report Hub service currently provides pre- and post- reporting and reconciliation tools compatible with DTCC trade repositories, we would consider expanding its capabilities to support other trade repositories if there is industry interest.

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Top-quality services for financial markets

Maciej Trybuchowski
President & CEO
KDPW and KDPW CCP

KDPW's president and CEO, Maciej Trybuchowski, reviews the Polish CSD and CCP's services and how Poland has fared during the COVID-19 volatility

Poland is the largest and the most attractive market for foreign investors in Central and Eastern Europe (CEE). It has a critical mass to attract new investors, especially those acting on emerging markets. The country has a stable economy with a well organised and supervised financial market, is well perceived by foreign investors, who are confident in the high resilience of the Polish economy to potential financial downturns.

Even in the time of the COVID-19 pandemic, the forecasts for the Polish economy are promising.

Looking at the financial market and its infrastructure, it is really worth to notice how the KDPW Group built Central Europe's leading clearing and settlement infrastructure. Thanks to services offered in KDPW, the Polish central securities depository (CSD), and KDPW CCP (the clearinghouse) the quality and safety of the Polish financial market and its attractiveness to international investors were strongly improved. KDPW Group offers the services of an authorised CSD and central counterparty (CCP) (including over-the-counter clearing), a registered European Market Infrastructure Regulation (EMIR) and Securities Financing Transactions Regulation (SFTR) trade repository (TR), an approved reporting mechanism service, a global numbering agency (ISIN, CFI, FISN), as well as an authorised local operating unit (LOU).

Trade repository

KDPW TR was one of the first TRs in Europe to be registered by the European Securities and Markets Authority (ESMA) in confirmation of compliance with all international standards which guarantee the highest quality of service.

KDPW has participated in the implementation of EMIR and SFTR from the very beginning and is engaged in active dialogue with all market participants: regulators, other TR, as well as reporting participants. KDPW aligns its services with the legal requirements and the ESMA guidelines and follows the needs of market players covered by the reporting obligation.

Our strengths:

- Secure certified access to the application,
- User-friendly intuitive website interface with reporting functionalities and direct access to maintained data,
- Global communication standards: XML messages, dedicated message queues (MQ),
- Easy access to support our highly qualified experts,
- Existing procedures applicable in the event of contingencies, solutions ensuring the highest security; standards and business continuity in data collection and maintenance (including a back-up site).

EMIR TR

KDPW EMIR TR offers the reporting of derivative trades via a user-friendly secure website interface or over automatic direct connections. Derivatives trades are reported in messages developed in line with the scope of information required under the EMIR technical standards. They include all data necessary for the TR to identify trades and process reports as required by ESMA.

Our online application supports the following functionalities:

- Reporting and modification of trades;
- Viewing and browsing reported data;
- Filtering and downloading reported data (export in *.xml, *.xlsx, *.csv format);
- Tracking the reporting process.
- KDPW EMIR TR is authorised to accept reports for all classes of derivatives on all markets:
- Commodity derivatives (CO);
- Credit derivatives (CR);
- Currency derivatives (CU);
- Equity derivatives (EQ);
- Interest rate derivatives (IR);
- Other derivatives (OT).

SFTR TR

KDPW has extended its TR services to include SFTR reporting for all class of instruments such as repo, buy-sell back, sell-buy back, securities lending, commodity lending, margin lending as well as margin and reuse reporting. In May 2020 ESMA has decided to extend the registration of the KDPW TR to include trade reporting under SFTR.

KDPW, which operates the trade repository under EMIR, has the necessary experience, expertise, resources, as well as a range of technological and procedural solutions necessary to accept and maintain trade reports.

Complementary services offered by KDPW provide participants of the TR (under SFTR and under EMIR) with clear benefits afforded by the existing KDPW TR communication interfaces, the ability to meet both obligations by reporting to a single repository, reduced workload, available technological solutions, expert support, as well as low prices, all those factors ensuring a significant reduction of the cost of the reporting obligations.

Professional clearing services

KDPW CCP is authorised under EMIR and has a broad experience in extending the scope of its services. In view of its current levels of trade clearing and taking into account future volume growth and the potential to offer its services in the CEE region, KDPW CCP holds the necessary level of own capital, which currently stands at €54 million. The CCP's own capital is the last line of defence in the face of member insolvency and the higher the capital of the CCP, the lower the risk exposure of the remaining members.

The clearinghouse performs a broad range of services in the financial market. For the regulated market, KDPW CCP clears equities, fixed income and other cash market instruments, as well as derivatives such as futures and options based on indices, equities, bonds, currencies and interest rates. It also offers clearing of securities lending and borrowing and derivatives from the interbank market (forward rate agreement, interest rate swaps, overnight index swaps, basis swaps and repos).

CSD and blockchain

KDPW operates as the CSD, and is responsible for the settlement of transactions concluded on the regulated market and in alternative trading systems (ATS) and for the operation of the CSD.

In addition, KDPW provides many services to issuers including dividend payments to shareholders, assimilation, exchange, conversion and split of shares, and execution of subscription rights. In March 2020, the Polish Financial Supervision Authority (KNF) has authorised KDPW under CSDR.

KDPW invests in innovation. Developed in 2019, our blockchain platform for the capital market supports general meeting services. eVoting is our application for shareholders to VoteLocal remotely at general meetings. The app offers much more than the remote voting functionality (including secret ballot). Its features include access to and management of shareholder and proxy information, meeting agendas, and draft resolutions. eVoting can be used to vote before and during a general meeting. It supports the proceedings, the publication of results, and the drafting of minutes of general meetings.

Numbering agency and LOU

The CSD of Poland (KDPW) is the only institution in Poland and one of the few institutions in Europe to offer such a broad range of numbering services for financial market entities and instruments. KDPW assigns: LEI, ISIN, CFI, FISN codes.

Since 1994, KDPW is the member of the Association of National Numbering Agencies (ANNA), and since 1996 plays the role of the national numbering agency.

The main advantages of the KDPW LEI service include:

- Customer service in English and Polish;
- Very competitive fees for the issuance and renewal of LEIs.
- Prompt processing of orders;
- Individually dedicated account manager for each order, available to the client at every step of the application verification process;
- Automatic communicating of all events in the processing of orders;
- Highly competent staff dedicated to customer service and an excellent understanding of the specificity of the Polish capital market including local legal requirements.

KDPW's secure online application https://lei.kdpw.pl is offered in Polish and English.

KDPW Group offers post-trade services to the market with the largest turnover in the CEE region. This is a strong market, which provides a stable revenue stream that in turn allows us to offer low-cost processing of trades.

Delta Capita commentary on SFTR challenges for go-live

Julian Eyre
Commercial manager
Delta Capita

Julian Eyre, of Delta Capita, examines how the sell side should best approach SFTR and avoid falling foul of regulators by learning the lessons from previous rules frameworks

All banks have been proactive and fully engaged in their Securities Financing Transaction Regulation (SFTR) transaction reporting compliance programmes. It is fully recognised that the reporting obligations for the securities finance sector have created challenges in sourcing data (such as master agreement versions and dates) and aligning non-standard business process across many market participants.

The International Securities Lending Association (ISLA) and the International Captial Market Association's (ICMA) European Repo and

Collateral Council have made significant contributions to aligning data and process through the publication of their industry best practice models. However, it is unclear how many banks have a consistent interpretation of these best practices and have been able to implement them in the time window available.

The regulatory obligation requires accuracy, timeliness and completeness in SFTR transaction reporting. The additional three-months extension effectively provided by the European Securities and Markets Authority (ESMA) to finalise reporting may now reasonably require all SFTR reporting to fully meet the criteria. It is likely ESMA and the national competent authorities (NCAs) will have little sympathy for any incorrect SFTR reporting – the UK's Financial Conduct Authority (FCA) has a clear record of fines for enforcement of transaction reporting obligations under the European Market Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Regulation (MiFIR).

Delta Capita believes that banks have a short window of opportunity to validate and affirm their compliance and regulatory reporting capabilities before falling under the lens of the regulator.

NCA fines risk

To date, the FCA has fined 13 or so firms for MiFID transaction reporting breaches.

Mark Steward, FCA executive director of enforcement and market oversight, said:

"Firms must have proper systems and controls to identify what transactions they have carried out, on what markets, at what price, in what quantity and with whom. If firms cannot report their transactions accurately, fundamental risks arise, including the risk that market abuse may be hidden.

"Effective market oversight relies on the complete, accurate and timely reporting of transactions. This information helps the FCA to effectively supervise firms and markets. In particular, transaction reports help the FCA identify potential instances of market abuse and combat financial crime.

"The problems identified include banks failing to ensure they provided complete and accurate information in relation to reportable transactions. It also erroneously reporting transactions to the FCA, which were not, in fact, reportable.

"The FCA also found that there were failures to take reasonable care to organise and control its affairs responsibly and effectively in respect of its transaction reporting. These failings may relate to aspects of change management processes, its maintenance of the reference data used in its reporting and how it tested whether all the transactions it reported to the FCA were accurate and complete.

"The FCA has identified failures over an extended period to manage and test controls that are vitally important to the integrity of the markets. These were deemed serious and prolonged failures. With the FCA stating "we expect all firms will take this opportunity to ensure they can fully detail their activity and are regularly checking their systems, so any problems are detected and remedied promptly."

Clearly the importance and value of accurate and complete transaction reporting data are recognised by the NCAs and action will be taken to incentivise high-quality reporting.

Lessons learned from existing transaction reporting regulations

Prior to EMIR go-live there was limited industry alignment, incomplete best practice definition and non-standard data all creating challenges to regulatory interpretation and effective transaction reporting.

The most recent ESMA supervision annual report 2019 reflects EMIR trade state report pairing and matching at 59 percent and 29 percent respectively.

Post-go-live the poor pairing and matching performance has required ongoing remediation and management. Root Cause Analysis activity was required to understand the trade repositoires (TR) exceptions, identifying the responsible party to repair the fail which all contributes to a high cost of on-going compliance, poor key performance indicators and sub-par tracking and audit reports.

Many banks have relied on offshore low-cost resources to perform these tasks, further increasing operational costs and delivering a tactical solution to transaction reporting compliance. While trade confirmation matching services catch most of the economic trade breaks there remain high risks of material exceptions passing through to the trade repository. Prioritising these exceptions requires improved business and data knowledge. Further increasing the longer-term costs of compliance.

By promoting ISO standards for SFTR reporting ESMA has addressed some of the transaction reporting data format challenges experienced under EMIR but the rules may still lead to some interpretation inconsistency. To submit the trade reports to the TR message validation needs to pass. It is likely there will be a high volume of trades that fail validation and do not proceed to the trade pairing process. Understanding the acknowledged/negative acknowledgement (ACK/NAK) error message is an art in its own right.

While the securities finance industry has a good contract compare process for key economic terms there are many data items that open to error. For example, legal entity identifiers/International Securities Identification Number (LEI/ISIN) references are frequently stored in a bank database but are not reconciled to Global Legal Entity Identifier Foundation/Association of National Numbering Agencies (GLEIF/ANNA). There are examples where LEIs are incorrectly mapped to counterparty legal entities. Collateral identifiers are missing as the collateral is out of the scope of the registry. UTIs can be misreported where two counterparties are reporting to different TRs.

Industry best practice seeks to align and normalise processes but there remain variations in business processes across banks such as the booking models for partials. Huge strides have been made in alignment across the sector, but further strategic transformation is needed to harmonise further across the industry.

Call to action

The proliferation of regulations has led some banks to adopt a historical strategy of ‘cheapest to comply’ which may provide tactical cost benefits but client experience may be compromised and a more strategic approach to high quality, industrialised ongoing transaction reporting will help reduce reputational risk and regulatory fine risk. In addition, the lower cost compliance approach may contribute to future technical debt as the platform may not scale or provide the flexibility to support future regs or changes.

Based upon the experience of previous transaction reporting regulations some banks have identified a need to perform a compliance validation and due diligence review. This has the goal of validating and benchmarking the compliance implementation against best practice and identify any compliance gaps, risks or issues. The health check approach will provide a review of the compliance architecture and identify any priority remediation steps needed to de-risk future reporting.

Delta Capita has captured and modelled the SFTR EU law, the regulatory technical standards and technical standards, ISLA and ICMA best practice in modus our award-winning RegTech 2020 Best Regulatory Reporting Solution. This approach provides the benefit of a packaged, modelled alignment with industry best practice that supports regulatory traceability at the clause level for both data and business processes.

The result is that banks gain increased confidence in the report population and consistency of trade reporting – a standardised approach for the industry.

Delta Capita recommendations

As a trusted partner for SFTR to 11 global sell-side banks including prime services and agent lending, Delta Capita has a wealth of experience and expertise to leverage the Modus tooling to deliver services of either a high level or deep-dive review of the SFTR implementation – to benchmark and analyse against industry best practice. This approach will help reduce the risk of regulatory fines, decrease work effort and resources needed to perform continuous compliance and to manage the exceptions.

SFTR testing updates, time is the challenge

*Que-Phuong Dufournet-Tran
Director,
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IHS Markit*

IHS Markit discusses current testing, the vexing issue of UTI generation and ISO 20022 schema challenges under SFTR, which many firms will be going down to the wire to solve

With the start of the Securities Financing Transactions Regulation (SFTR) reporting delayed until 13 July, firms are all keen to use this extra time given by regulators as effectively as possible: testing has never been more important. Data quality was stated to be expected by regulators as of go-live date, so where do we stand now on SFTR testing?

The focus has moved from user acceptance to production like volumes and scenarios testing and we have observed an accelerated shift to production end-to-end testing until reporting to the trade repositories (TR), more complex agency lending flows, triparty collateral data and central clearinghouses data testing. However, the testing window is shrinking day-on-day while some areas still remain to be more tested such as some agency lending flows, collateral re-use, delegated reporting and parties have expressed concerns around unique transaction identifier (UTI) pairing.

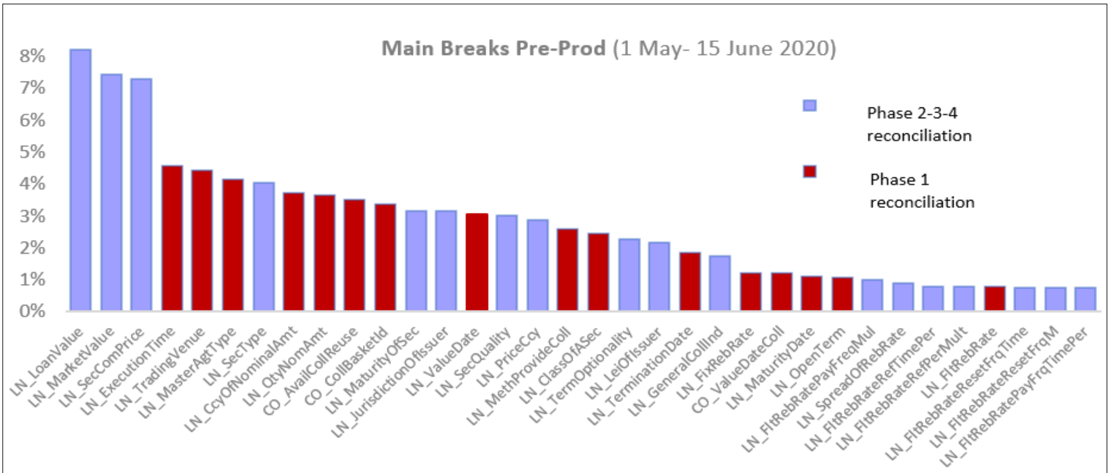
In quest of the UTI

UTI design, its generation and exchange are certainly at the core of current tests with an intense investigation on 'alleged' and 'unpaired' trades, with some actors able to leverage on vendor pre-matching platforms to help find the other side, where relevant. A major challenge relates to the dual-sided nature of the reporting regime with upfront UTI bilateral agreements with all counterparts and consistent UTI configuration has proved quite difficult, ending up in bespoke solutions requests. Clear communication to the counterparties is key to address UTI reporting issues as stressed recently by the European Securities and Markets Authority (ESMA) during the virtual event hosted by IHS Markit on June 10.

Exchanging minimum key 'pairing' fields proved quite challenging, especially as both sides of the trades may not always 'synchronised' in submitting their events in the appropriate order and in the complete data set whilst corrections on UTI wrongly assigned could prove operationally intensive if trades were already reported to the trade repository.

On a positive note, we observed parties could streamline their process to some extent and rectify key pairing elements, sometimes engaging in additional clean up exercises on counterparty and agency lending correct identification or adjusting their source systems and operational processes.

After getting the UTI, the next challenge lies with the individual fields reconciliation, where pre-matching platforms could help. In current testing, parties look at major 'day one' breaks: recurrent discrepancies are on execution timestamp, master agreement type, trading venue, value date, collateral basket identifier, quantity or nominal amount. It is worth mentioning exceptions



in all the fields related to master agreements where some firms may not populate consistently when their trade contract names could differ across countries with a value not necessarily covered by the setlist allowed by ESMA in the relevant field.

While we expect some of those discrepancies to be resolved during the course of the testing such as around reference data, some others will take more time to remediate, and some may only be fixed after post-go-live along with operational processes and control changes. Addressing some of the gaps may take time and could occur at different timelines across participants, which could result in ‘persistent’ exceptions and realignment efforts post-go-live.

In quest of the ‘ACK’

Another major challenge is the making of the ISO 20022-compliant message and the successful report to the trade repository with an acknowledged (ACK) message.

Common issues relate to XML messages failing to be compliant with the ISO schema: missed mandatory fields, skipped cross-validation rules or incorrect format.

A significant part of the rejections in user acceptance testing and production were related to inconsistent dates sequencing and missed ‘action type choreography’ such as subsequent lifecycle events and collateral, valuation messages being reported without prior successful submission of the initial new trade report.

Some of the rejections observed were due to LEI status or country having an invalid format or being inconsistent with the Global Legal Entity Identifier Foundation database.

Security reference data, issuer LEI, country of jurisdiction of the issuer on the security loaned/borrowed or collateral still presented some gaps, in which case, correction/process should be put in place to address such missing data. But, how does one manage a whole collateral message rejection due to a single erroneous line within the whole set of collateral securities? One approach could be to retrieve the erroneous line out of the message and report the rest of the lines. Specific error in the Pre-NACK/exceptions screen could be pointed out to facilitate errors management.

In addition, analysing the feedbacks from TRs were insufficiently clear to accurately remediate issues on a timely fashion, hence pre-TR exceptions (pre-NACKs) monitoring could sometimes be useful. For example, ‘bulk’ rejection messages (NACK) on collateral messages could make it difficult to identify errors on specific collateral components when the whole ‘collateral block’ is rejected.

Vendor platforms can bridge that gap providing more details within the error messages prior to TR reporting, categorising exceptions by field category and criticality with the possibility to assign errors resolution to a specific member of operational teams: this exception monitoring covers files ingestion errors, fields cross-business rules and points out critical issues preventing the XML message creation or preventing from getting a UTI.

Categorising errors and having appropriate operational process around exceptions remediation is key. Consequently, we observed queries on user interface and tools/reports to facilitate investigations were increasingly numerous, which relates back to ‘data quality’ requirements, and on ‘how can data be verified, how are the data given back to reporting entities?’ As was pointed out by ESMA recently.

We also observe that interfacing to several TRs represents a challenge: whilst the core of the ISO 20022 XML schema is the same for all TRs, there could be some technical divergences in some peripheral elements, which sometimes requires bespoke developments and re-testing such as responses files handling, entity permissioning, opening hours of the channel, business days, headers and technical records.

In addition, on the field reporting level, the validation rules themselves, the ISO schema and the ESMA guidelines sometimes gave room to interpretation, for example, around fields marked as conditional in the rules but optional in the ISO schema or vice versa (currency, collateral basket identifier, collateral component), action type corrections on trades with net exposure, the way to report collateral and reconcile with late guidance clarification presented some implementation challenges among participants.

Industry bodies such as the International Capital Market Association, the International Securities Lending Association and the Association for Financial Markets in Europe have certainly helped establish best practices to work around some of those ambiguities and testing issues were actively conveyed to each trade association. In some countries, other trade associations have actively supported 'broadcasting' members concerns, such as AMAFI in France and BVI in Germany.

Epilogue

At the eve of go-live, a lot of challenges remain as shown in current testing. At this stage, the focus is still on UTI pairing on trades, collateral and successful reporting to the TR on production-like scenarios.

Some regulatory guidance and subsequent clarifications and TR implementation amendments left insufficient time for participants to change their build.

Multiple actors engaged 'in the reporting chain' also included external parties which were out of the scope of SFTR reporting obligations.

On the whole, current testing windows still seem quite narrow while firms are still facing severe operational challenges related to COVID-19 measures, and reduced testing resources. Time is the main challenge.

On the positive side, we have seen a lot of engagement from all market participants and industry associations along with TR and market infrastructures and vendors to build reporting solutions, get reports 'out-of-the-door' and move to production without losing track of more strategic implementations in line with best practices and regulatory requirements.

ICMA, ISLA and AFME have certainly helped establish best practices to work around some of those ambiguities and testing issues

Que-Phuong Dufournet-Tran
Director,
trading services analytics
IHS Markit

Deadlines loom

Iain Mackay of EquiLend and Sunil Daswani of MarketAxess explain how buy-side firms will benefit from their SFTR connectivity ahead of the reporting deadline in October 2020

With the first phase of the Securities Financing Transactions Regulation (SFTR) go-live imminent for securities finance market participants, certain questions continue to be asked, and some firms are behind on their preparation. The aim of achieving full transparency for regulators within the EU has driven a significant data requirement for impacted market participants. The requirements demand an avalanche of data to be collated across multiple systems and may even include data which is not yet digitised.

As we have seen so far, stand-alone solutions may offer a short-term resolution but may be more costly in the long term. A staggered start to reporting and a further delay to enforcement has done little to further ensure data quality, with time pressures for those managing the data on a daily basis further impacting on the underutilisation of interoperable systems sector-wide.

To address these market concerns, EquiLend and MarketAxess have partnered to offer an end-to-end SFTR solution which brings together the highest-quality trading and post-trade data, along with filtering, validation, enrichment and reporting in ISO 20022 format, resulting in a simple yet comprehensive solution for firms of all types and sizes. As the financial and credit institutions are set to begin reporting via the EquiLend and MarketAxess SFTR Solution in July, the industry focus now turns to the remainder of the financial institutions, generally referred to as the “buy side”, who are next up to begin reporting.

The announcement in June that the UK treasury will no longer require UK non-financial counterparties (NFCs) to report under SFTR will have an unknown impact on certain firms, although the regulation itself will continue to have a considerable impact across the wider global market.

New regulation

SFTR comes at a time when regulation fatigue has set in for many financial market players. The first two versions of the Markets in Financial Instruments Directive (MiFID I & II), the European Market Infrastructure Regulation (EMIR) and the Central Securities Depositories Regulation and ongoing updates to ESMA's guidelines—although well-intended in their efforts to bring transparency—have consumed budget, energy and goodwill.

Questions such as "what if I'm not ready?", "Will fines be implemented from day one?" and "Do I need to provide all 155 fields?" are continuously raised, just weeks out from the commencement of reporting.

SFTR will impact banks, broker-dealers, exchanges and central counterparties from July with buy-side firms including asset managers and hedge funds reporting from October. While it may limit the instant impact for some, this is a complex industry, and each market participant books trades, manages collateral, holds records and identifies trades differently. Early on, firms had to decide whether to buy, build or enhance what they had in order to deliver on such complex reporting requirements on a daily basis.

It is estimated by industry sources, that the European Securities and Markets Authority will receive over 150 million reportable transactions per day via approved trade repositories (TR) across the industry. Automation is widely appreciated as the only way to deliver on the true essence of SFTR: accurate, complete and timely reporting. Such automation can best be deployed seamlessly, where tried and tested links, processes and relationships are already in place with potential users.

Many individual market providers have offered up solutions to deliver SFTR compliance, and with each solution comes the additional consideration of how well the solution integrates with a firm's systems now and in the future. The option of partnership solutions from third-party providers such as EquiLend and MarketAxess offer an alternative for firms of all types and size on both the buy side and sell side to ensure compliance regardless of the complexity of their business.

Building blocks

As fintech businesses facilitating access to liquidity across the globe, together EquiLend and MarketAxess have been able to draw on and enhance their existing technology platforms and expertise on the securities finance and repo markets to deliver an all-inclusive SFTR reporting solution.

On the EquiLend and MarketAxess SFTR Solution, EquiLend's trading and both firms' post-trade platforms link seamlessly into the MarketAxess system, supplying required trading and lifecycle event information. Then, MarketAxess enriches the data with further required fields and offers full reporting services directly to multiple trade repositories (TRs). The partner solution supports both principal-to-principal and principal-to-agency traders of all sizes in meeting their obligations, thus ensuring that user firms experience a seamless transition to the new reporting regime driven by straight-through automation.

EquiLend

EquiLend's premium SFTR solution combines the resources of NGT, the securities finance industry's most active trading platform, and Unified Comparison, the nucleus of EquiLend's Post-Trade Suite (PTS), which covers all trade lifecycle events. With EquiLend's proprietary trading and post-trade technology at the core of the SFTR solution, full SFTR support is ensured for clients including unique transaction identifier (UTI) generation and execution time stamps, in addition to full lifecycle management, including loan and collateral allocation data.

With UTIs and execution timestamps generated right at the point of trade on NGT and accompanying data points consistently applied for both counterparties throughout the lifecycle of the transaction on PTS, the result is a clean data set that serves as the base of an SFTR report.

Using this service, EquiLend pre-matches client data, which ensures greater accuracy in a client's reporting. Data is compared ahead of submission to the respective TR, securing an optimal match rate for TR reconciliation and a more efficient settlement process.

Some firms may want to handle more of the required data collation themselves. As a result, EquiLend also offers a lighter-touch solution which includes NGT trading data only, including UTIs and a range of optional other fields as desired by a client.

MarketAxess

Seamless connectivity between EquiLend and MarketAxess, built and tested over the past three years, means these files automatically flow in near real time from EquiLend to the MarketAxess Insight reporting hub. From there, the data is validated for accuracy and any syntax errors are picked up early. MarketAxess continues to enrich data primarily on static table information already provided or for counterparty and security-level information as part of the validation and enrichment process. Transactions are then filtered out if they are not eligible for SFTR—for example, if the counterparty is a central bank, the transaction is reportable under MiFIR.

In the MarketAxess UTI Portal, 'pairing' takes place optionally and UTIs are generated and shared, along with key data, with clients' counterparties who may have developed SFTR solutions outside of the EquiLend and MarketAxess ecosystem. This is generally applicable to transactions which have neither been traded on-venue nor are pre-matched. Accepted transactions are sent to the TR, and where transactions are two sided—that is, if both counterparties are in scope for reporting under SFTR—the transaction status will be flagged as matched or unmatched. Clients can further view and optionally manage exceptions in MarketAxess Insight. Where eligible, clients may also benefit from consolidating their regulatory reporting on MarketAxess Insight, adding SFTR to EMIR, ARM, APA and RTS28.

Within MarketAxess Insight, clients can also override transactions or do so in their source systems where incorrect data may be creating an unmatched trade, bringing the transaction to a matched status. Unmatched transactions, termed exceptions within SFTR, should be resolved by either counterparty by the SFTR reporting deadline, which is T+1 at close of business. MarketAxess Insight also provides detailed decision trees to manage exceptions and key management information reports to understand how to improve reporting.

Bringing together the best of trading, matching, reporting and UTI sharing systems creates a full front-to-back and seamless solution from EquiLend and MarketAxess, two leading platform providers each leveraging their respective industry expertise.

The bigger picture

The costs of SFTR are considerable, in both manpower and resources. The industry has called out many of the challenges that will come with meeting the regulatory obligations by firms that are in scope, particularly for the buy side. Confusion and data inconsistencies are anticipated in the early days of SFTR, and, particularly for firms that have opted for an imperfect post-trade-only solution, such issues will likely extend well beyond the first days. Additionally, the broad scope of SFTR threatens to highlight industry inefficiencies over creating an accurate view of the market for regulators.

On the eve of SFTR, recent market turbulence has once again highlighted the benefits of drawing on a cross-business and interconnected view. Influenced by the cathedral thinking of SFTR that is motivated toward long-term industry advancement, the sector could see greater efficiencies at scale where there is an appreciation that the decision-makers of the moment may not be the immediate beneficiaries of the change.

The EquiLend and MarketAxess partnership leverages expertise and technical capacity from both providers. The result is a single, tried-and-tested industry solution that both serves clients and serves to highlight the advancements needed to streamline industry processes, deliver greater efficiencies in execution and satisfy regulators' reporting obligations.

The new world of interconnected data

David Lewis
Senior director
FIS, Astec Analytics

David Lewis, of FIS, tracks the increasing use of data as a window into the market over the years and explains how the COVID-19 pandemic could also be the next driver of improvements

With the rollout of the Securities Financing Transactions Regulation (SFTR), 2020 was going to be a pivotal year for regulation and data transparency across the securities finance industry. It has been more than 15 years since the idea of commercially available data brought rate and volume transparency to market participants, data I would deliver personally to client's office on a compact disc, once a month. While the instant access to global intraday data, 24 hours a day, illustrates the huge advances in market transparency made since that pioneering time, 2020 was still going to mark a seismic change for the industry. The global financial crisis highlighted the need for greater transparency and control across the breadth and depth of what was referred to as shadow banking – arguably, an unnecessarily negative term for bank-like activities that occur outside normally regulated business. The Financial Stability Board's transparency directive was part of the global response to the crisis and a significant step in bolstering the resilience of the financial markets to defaults.

One of the key objectives of the transparency directive was to gather sufficient data to understand the interconnectedness of financial counterparties as a way of understanding and, therefore, controlling contagion risk. While it might seem an unlikely comparison at first, the seismic events that have affected the entire world through the first half of 2020, and are likely to permanently change many aspects of the way we work and live, have created many parallels in the way the world has responded to these very different crises. Both the global financial crisis and the COVID-19 pandemic events caused significant market turmoil, a rush to safe assets such as government debt and gold, as well as increased margin calls and attention to market and counterparty risk. They also caused vilification of short sellers and multiple jurisdictions applied short selling bans in vain efforts to force markets to rise, or at least not fall further.

The events have also caused a significant uptick in the gathering, analysis and publication of data. At present, no news bulletin passes without a raft of terrifying statistics around the battle against COVID-19, often making many of us armchair experts in the R0 factor and the relative impacts of social distancing and the wearing of masks on contagion. But these statistics are vital if a viable response is to be determined. As a popular and appropriate maxim, "if you can't measure it, you can't manage it" applies equally to the containment and management of a viral pandemic as it does to the containment and management of a financial crisis. The global connections between the world's population, through public transport and city living, as well as the trading and exchange of goods, provides a clearly comparative model with that of the financial industry. The interdependence of many nations upon each other has been brought into sharp focus by COVID-19, just as the collapse of Lehman Brothers identified the Jenga-style impact on a market when one brick is pulled from the bottom.

Few can argue that SFTR has presented the securities finance market with an extremely complex and demanding reporting regime, broad in its scope of inclusion and deep in the required data granularity. Many argued that it was too much, too hard and too invasive, and not without good cause. However, it is hard to argue such points with a great expectation of success while, at the same time, underlining the importance of the industry as a vital part of the very fabric and process of the wider financial community. The business of securities finance and collateral management is either in, or out of the business. It cannot be both.

There was a strong argument made for a delay in implementation of the SFTR regime, due to the impact of the virus on working practices and the capacity to deliver the required changes in time to meet the well-publicised deadlines. Due to the mechanisms of European Law, a formal extension would itself have been difficult to deliver given the need to make a change in the law and the lack of availability of the European institutions to make such a change.

As a result, the European Securities and Markets Authority (ESMA) delivered a pragmatic solution, allowing local, nationally competent authorities to turn a blind eye to the delivery of data under SFTR for three months. This will, no doubt, have created concerns because it wasn't a complete shift of dates, it was simply a delay of phase one to align with and not displace phase two. Phases three and four remain as scheduled. This does mean the first two phases would be going live at the same time, but some respite was given to allow the industry time to adapt. The speed and strength with which those business practices were managed, and the degree of success achieved, is unlikely to support any further extensions to SFTR or indeed any other item on the upcoming regulatory calendar. Note the refusal to adjust the timeline for the Shareholder Rights Directive.

So, how to make lemonade from the lemons delivered to our doors? Many, including the CEO of the International Securities Lending Association, Andrew Dyson, have argued that this is a turning point for our market and for the good. It is an opportunity to redesign and redevelop the way the market works, improving standardisation and interoperability between participants and the companies, like FIS, that serve them. Significant effort has been expended on meeting the demands of SFTR; as a vendor, FIS, one of the largest providers on the street, we have invested heavily in our solutions as well as improved interoperability, with other service providers enjoying a more collegiate approach, even among competitors, than many have not seen before.

In a period that has seen margins and demand fall more recently, there has been a clearly identifiable direction of travel toward automation and doing more with less, be that less financial or human capital. The increasingly lean structures we all operate in make it all the more amazing that the challenges of the first half of 2020 presented by the COVID-19 pandemic have been managed relatively well. At the same time that market volatility explodes, markets crash then recover, the vast majority of market participants and their service providers are forced to work from home. While individual circumstances to do with home-working environments will vary greatly, where, for example, dogs and children may decide to participate in that vital conference call you are having, the performance of most firms has been phenomenal.

In a June Business Insider report, Fidelity Asset Management stated that they have improved productivity 147 percent in recent months, citing an investment in technology and agile team working as the main reasons for being able to change their business practices, effectively overnight. FIS is in a similar position to Fidelity, and indeed many of our thousands of clients, and have 98 percent of our 55,000+ staff working from home.

While this transition was going on, the markets were seeing huge increases in volumes and volatility. Collateral movements have been said to have increased by 70-80 percent, with margin calls rising five-fold and disputes by eight-fold. With failure rates of around 5 percent, it is not difficult to see how difficult this transition could have been without scalable technology and the ability to manage it effectively from a remote location, such as your kitchen table. The vital nature of the data we need to manage an increasingly complex market, including demands for collateral that change with increasing frequency and volume, is inarguable.

The ability to call upon scalable technology managed from remote locations, hosted by professional providers, has been proven in a worldwide disaster recovery event; a disaster-recovery event where having the traditional safety net of a physical disaster recovery site was no help. In the same way that the arguments about the effectiveness of working from home have been, potentially, answered for good, so have the arguments pitted against cloud-managed and hosted services, which have proved themselves indispensable this year.

Automation and the data upon which it functions has allowed the securities finance and collateral management industry to continue working and oil the wheels of the global financial machine. While there have been business failures across the world as a direct result of the pandemic, there haven't yet been any failures of major financial institutions. Much was learned from the global financial crisis.

The data gathered since and the data yet to be gathered by SFTR and other implementations of the transparency directive around the world will help ensure that when the next financial crisis comes, as it will, the financial system will be in a better place to understand, manage and control the contagion risk and interconnectedness of the counterparties involved and limit the impact felt by those the industry serves.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Evaluating yesterday's SFTR challenges today

Cappitech reviews how far the market has come in tackling the key SFTR challenges flagged in its 2019 survey

In September 2019, in preparation for the Securities Financing Transactions Regulation (SFTR), Cappitech conducted a survey on the new regulation with Kaizen Reporting providing feedback on the findings.

The survey focused on preparing for SFTR and included sections on identifying pain points, effects of SFTR on the business and breakdowns of products transacted falling under its scope. With SFTR going live now in July for most banks, brokers and central counterparties, and hitting the buyside in October, we wanted to review where the industry is at compared to survey feedback in September.

Reuse reporting and operational difficulties

Within the survey was a section where respondents could list their biggest 'question marks' of their SFTR preparation (See Figure 1, overleaf). Not surprisingly, topping the list of challenges was complying with unique transaction identifiers matching, of which 54.8 percent of respondents mentioned it. Coming in number two was compliance around reporting of reuse obligation. Overall, among those surveyed, 44.1 percent included 'defining reuse obligations' as the main challenge.

Under SFTR, reporting of reuse is required when a security used for collateral is subsequently being reused for another SFT. Beyond the requirement of tracking the receiving and giving of collateral, an added complexity of reuse reporting is adjusting for a firm's existing assets they owned outright, excluding unused collateral that can be reused as well as splitting reports by ISIN.

Due to the complexities, as we near go-live, reuse continues to be an area of concern. There are two main problems being encountered. One is related to properly providing full asset details for reuse calculation estimates. The second is compliance of reuse obligations among the buy side.

Capturing 360°

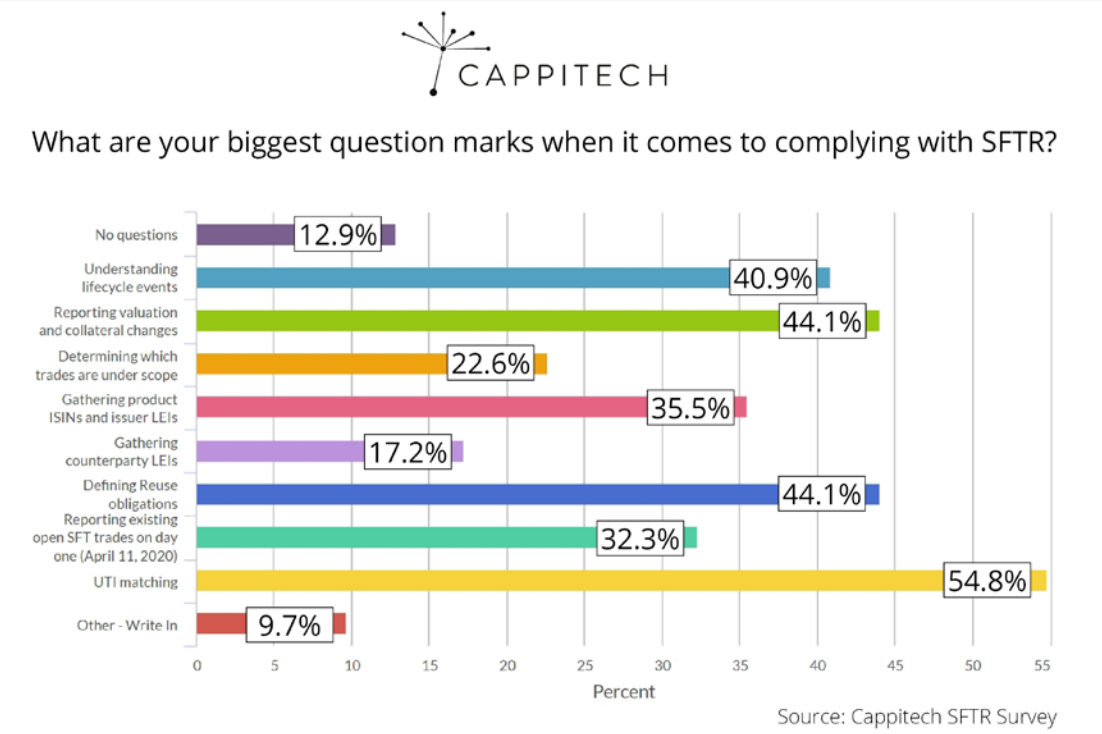
To support SFTR, many firms are working with third-party tools to assist with capturing SFT details, enrichment of regulatory fields and ISO 20022 XML formatting and submissions of reports to a repository. These products can greatly increase the efficiency of day-to-day submission of new SFT reports and collateral and valuation updates.

In cases where received collateral is marked available for reuse and existing on another transaction as being lent out, a reuse calculation can be made on that product ISIN. However, simply looking at SFT details for reuse calculations excludes the effects of an investment firm's existing ownership of the loaned collateral.

As such, firms are realising that to properly report reuse fields under SFTR means capturing and sharing collateral ownership details with their external vendor. Alternatively, while counterparty, loan and collateral details are being created through external firms, reuse reports may need to be managed internally.

Reuse and delegation

Another area of challenges that continue under reuse obligations is by who and how it is reported when delegated reporting is being provided. While not expected to be as widely available as it is under



the European Market Infrastrastrucutre Regulation (EMIR), a number of sell-side firms and agent lenders are providing delegated reporting services for SFTR.

For sell-side firms reporting their leg of an SFT, providing delegation to their clients is a natural extension of services they can provide. However, where things get tricky is in regard to reuse reports of which a bank or broker doesn't have exposure to their client's reuse of collateral or external holdings of owned products needed for calculations.

The bottom line is that firms taking advantage of delegated reporting need to be aware that under SFTR there is a very good chance they will need to manage their own submissions of reuse details.

Will SFTR disrupt the SFT industry?

Taking into account the challenges of complying under SFTR, costs associated with the regulation and potential disruption of available collateral for SFTs for products where ISINs and the legal entity identifier (LEI) of the issuer don't exist, in the 2019 survey, we asked whether SFTR will affect their company's expected transacting in SFTs.

With 23.2 percent of respondents claiming the new regulation will impact their business (see Figure 2, overleaf), and nearly 50 percent unsure, it revealed that SFTR is set to shake up who are the market participants for SFTs, such as repos and securities lending.

Costs of compliance and time

Heading the concerns of SFTR is the costs associated with complying under SFTR. For many buy-side firms and small banks, SFTs are an opportunistic product to generate added alpha by lending unused assets. However, they may not be a core part of their investment thesis. Thereby, complying with SFTR means evaluating the costs expected to comply with the regulation versus gains of transacting in securities lending and repos.

Beyond financial costs, time involved with supporting the regulation has become a bigger issue due to COVID-19. Even after the European Securities and Markets Authority's (ESMA) delay of phase one to July, a number of firms had hoped for a greater delay for SFTR going live.

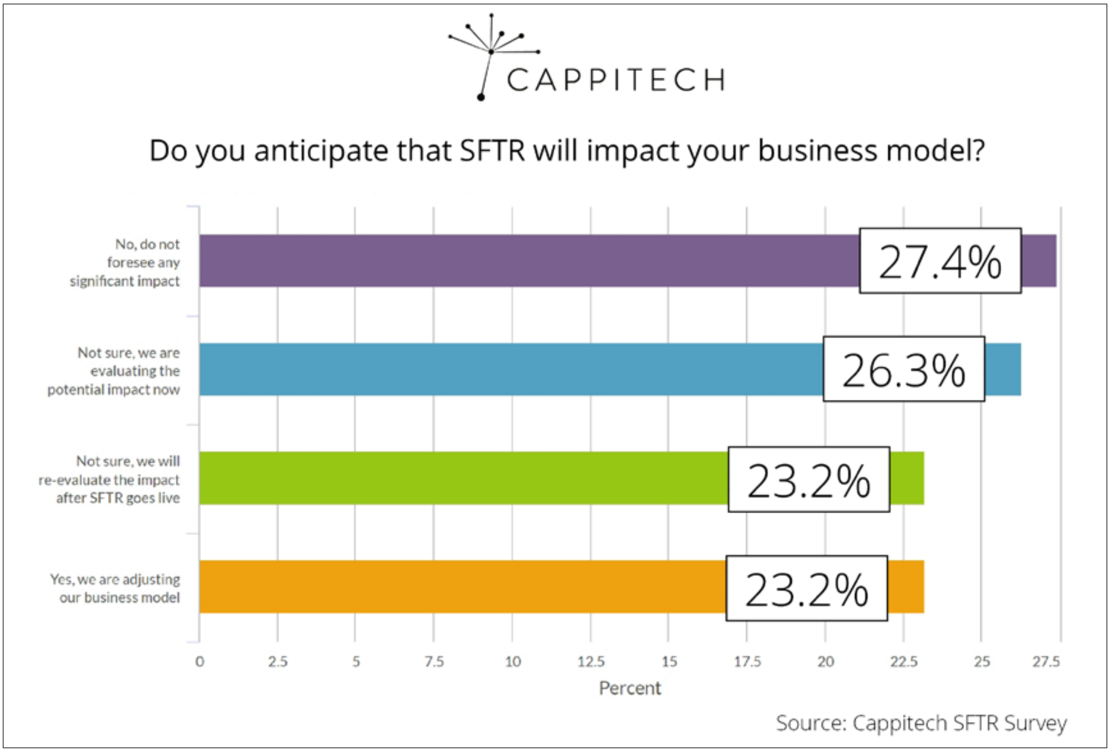
Initial impact

In the lead-up to SFTR going live, at Cappitech, we have seen firms pause their new repo business in anticipation of the new regulation. Often cited is the desire to have more time to prepare due to COVID-19 challenges drawing time to other projects. In addition, companies, including those impacted by the July go-live date taking a 'wait-and-see' approach to evaluate how their peers are handling SFTR and delegated reporting alternatives that could assist them.

On the security lending side, in a recent panel hosted by IHS Markit and including representation from representatives from the International Securities Lending Association (ISLA), agent lenders and a major bank, it was asked if they were aware of buy-side firms exiting lending due to SFTR. The consensus among panellists was that they weren't seeing an exodus of lenders due to the regulation. However, with SFTR further out for the buy side, and many companies just entering the preparation stage, it is worth keeping an eye on how the regulation will ultimately impact their securities lending when the October go-live for them comes into effect.

Gaps in LEIs of an issuer

Included under SFTR is a new reporting field of LEI of the issuer. Included under the securities and collateral portion of the report, LEI of the issuer doesn't exist under either EMIR or MiFID II transaction reporting. In regards to SFTR, collateral reported without an LEI of issuer won't pass validations.



In a September 2019 report from ISLA found that around 34 percent of assets managed by custodial banks didn't have an issuer LEI required by SFTR. The main challenge has been among non-EU issuers. But even within the EU, figures in 2019 were far from 100 percent coverage of LEIs.

In response, ESMA provided a 12-month relief of validations on LEI of Issuers from third-party countries. In addition, ESMA has collaborated with the Association of National Numbering Agencies and local national competent authorities to raise awareness of among companies to register LEI.

As a result, recent estimates from industry participants have pointed to higher levels of LEI issuer rates being found. Nonetheless, gaps among EU issuers do exist and are expected to continue to be a problem at go-live.

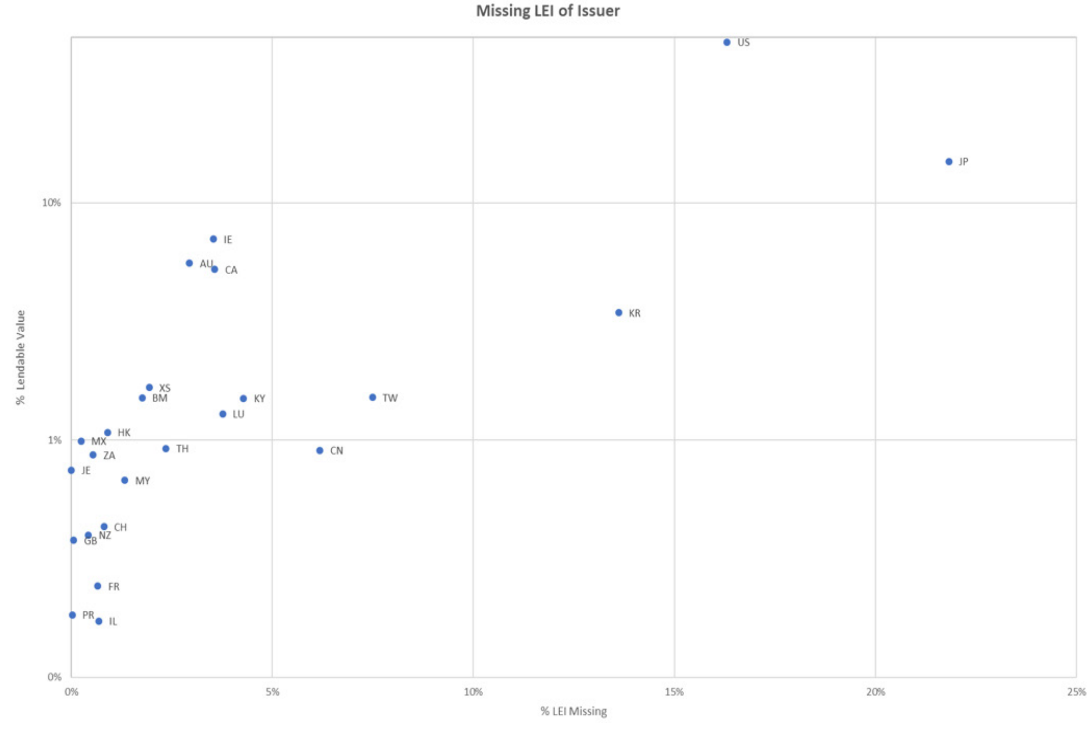
Among data compiled by IHS Markit in mid-May and reviewing ISINs where LEI of an issuer is available, Ireland continues to lag other EU countries. In addition, following the 12-month relief for third-party countries, collateral and securities of any non-EU issuers without an LEI will trigger rejected messages.

Missing LEI of issuer vs percent of lendable values, source IHS Markit

This all poses a question on how firms will deal with these products. Do you suspend transacting in SFTs where LEI of issuer field is unavailable? Or, do you continue dealing with them?

If you do continue, should a report for these SFTs be submitted with the knowledge that it won't pass validations? Or should they be held back and back reported when a LEI becomes available?

Operationally, how firms and their counterparties answer the question will ultimately impact their future SFT activity.



Source: IHS Markit

SFTR - adapting to a changing landscape

Nicholas Bruce
Head of business development
REGIS-TR

REGIS-TR discusses how industry collaboration has helped firms meet the challenges of SFTR, in the context of a global pandemic

The COVID-19 disease that caused a global pandemic saw businesses having to materialise contingency plans pretty much overnight, regardless of whether these were pre-planned or not. As a trade repository (TR), we have seen a shift in how our day-to-day business is executed, experienced huge spikes in reporting volumes and explored new areas of digitalisation as a result of having to work from home for this extended period.

On top of this, and with the Securities Financing Transactions Regulation (SFTR) go-live date just around the corner, the shift in schedule as a result of altered working conditions has provided a whole new set of challenges to overcome in a short time frame.

The SFTR deadline was tight to begin with. With the final schema and validation rules only being confirmed in December and January respectively, the COVID-19 crisis only exacerbated the situation. The delay to the start of reporting was welcomed industry-wide, allowing TRs more time to develop and test their environments,

and market participants time to address their immediate day-to-day operational challenges. The workload of SFTR came as a surprise to many; the sheer volume of data to be pulled together, verified and integrated, and the increase in data quality across market participants. Data quality is increasingly important, and we expect greater attention to be paid by regulators to whether SFTR, as with other regulations, is fit for purpose as we face this new uncertainty over market stability as a direct result of the pandemic.

The strong alliance across industry bodies in response to SFTR has been widely appreciated. Working in collaboration to define best practice and guidance, the International Capital and Market Authority (ICMA) and the International Securities Lending Association (ISLA) set up expert groups, bringing the European Securities and Markets Authority (ESMA) together with other regulators, TRs, market participants, infrastructure providers and vendors to analyse and develop the regulation. This has ensured a better understanding across all parties of the regulation and its practical application, allowing such issues to be addressed. A particularly valuable deliverable is the publication ICMA recommendations for reporting under SFTR. It is a freely available and actively-maintained resource, with well over 200 pages packed with expert advice on the application and best practices in complying with the regulation.

Recent discussions in the industry forums have helped to set common ground for how to report on the variation margin for a group of transactions that share the same net exposure collateral, and the use of the negative sign in some fields that are used for reconciliation. Progress is also being made on exception-handling, such as partially failed settlement and the inability to report an error of a previously reported reuse of collateral.

SFTR is specialised, complex and niche and all firms should report to a TR that can simultaneously provide both expert market knowledge and swift, responsive service support, regardless of whether we are in the office or at home.

With no known date for businesses to return to normal working life and the disparity between the easing of lockdown rules across countries, it is crucial that now, more than ever, your TR can guarantee unaffected and seamless support in unpredictable climates. We continue to guide our clients through the entire lifecycle of regulatory reporting and, while we cannot provide legal or regulatory guidance, we are committed to finding them the right person to provide technical advice.

REGIS-TR has unrivalled access to in-house securities lending, repo and collateral management expertise, afforded through our parent companies Clearstream and Iberclear and the wider Deutsche Boerse and BME groups.

Our support network offers fluency in nine languages and our proactive Client Services team maintains a response time averaging three hours to work closely with clients in solving complex issues and ensuring support remains constant.

The ability to provide timely and continuous support and responses to both clients and regulators have been in thanks to our seamless transition to fully extend our working capability to our respective homes.

We frequently stress-test our systems and reach out to clients directly if our monitoring tools detect an unexpected change in reporting patterns and our relationship managers, who are dedicated to assisting clients with all aspects of our regulatory services, also hold regular user groups throughout Europe to discuss current issues and regulatory developments.

The forced remote access and further digitalisation caused by the pandemic has allowed us to explore hosting user groups online to provide digital support.

With events playing a considerable role in our day-to-day business, we have been participating in webinars in place of planned events. These have welcomed attendees of the same, if not greater, scale as a live conference would, and we look forward to the continuation and development of this. In future, we expect to see a shift away from international travel for business meetings and events, to be replaced by a rise in digitally hosted alternatives. This is not to undermine the power of meeting industry co-workers and clients face-to-face, but instead, we expect to find more of a balance going forward.

It is easy to see the continuation of the adapted business-as-usual activities throughout and beyond this pandemic, but developing new regulations and addressing the resultant problem solving have been more challenging. With the backdrop of additional regulatory change, such as the European Market Infrastructure Regulation (EMIR) Refit and Brexit, we see an increasing need to work closely with clients, providing specialist support and guidance.

At REGIS-TR, our first move after we settled into home office was to find a solution to the cancellation of our meetings, events, and general interaction with our clients. The social distancing does not allow us to have the more casual discussions with our peers in person, and this aspect of building relationships is easily lost in more formal meetings or professional webinars.

To combat this, we have enjoyed releasing a weekly podcast called The REGIS-TR Round-Up, providing topical updates surrounding the trade repository and regulatory reporting environment, and discussions with both internal and external industry experts. The more informal format of these short podcasts allows us to reach our peers on popular platforms and mimic these discussions that could easily be lost in the remote professionalism. We welcome you to listen in and join our increasing list of subscribers.

Looking back, and forward

Fabian Klar
Director, sales and customer relations
deltaconX

deltaconX's Fabian Klar discusses SFTR delays, CME's closure and issues with delegated reporting

How do you feel the industry has performed in getting ready for SFTR?

Even though the Securities Financing Transactions Regulation (SFTR) has been on the roadmap since about four years ago, most sell side clients will only be ready just in time before the new reporting start date on 13 July.

This has multiple reasons:

- The continuous postponement of the SFTR implementing regulation, which was finally published on 22 of March 2019 by the EU lead to budget issues for some market participants during the past three years. Many market participants have started and stopped their projects multiple times in recent years, as they lacked the certainty around when the reporting requirement will finally kick-in.
- Although it was clear after the publication of the implementing regulation that the reporting start date for the credit institutions and investment firms will be 13 April, market participants were lacking the final ISO 20022 XML schemas, which were published on 20 December 2019, while the final guidelines were only published by the European Securities and Markets Authority on 6 January.
- Many sell-side firms only really started their SFTR projects at the end of 2019 or at the beginning of 2020 once these level three guidelines were available, and therefore potentially underestimated the complexity of SFTR.
- Also, the broad definition of a securities financing transaction lead to some uncertainties regarding which transactions are considered as SFTs and which ones are not. Some entities were still struggling to identify whether the transactions they execute are subject to SFTR reporting and which are not.
- The late availability of the ISO schemas and the final guidelines lead to quite late availability of the trade repositories' user acceptance testing and pre-production environments.
- The introduced ISO 20022 standard has its complexity as a lot of firms have limited or no experience with this standard and multiple actions and reporting types, which are only applicable to specific transaction types depending on how these transactions are executed, make the reporting regime quite complex.
- Especially the collateral reporting requires a lot more information than any other reporting regime. This element of reporting has its own complexity considering data requirement and linking between reportable transactions and the associated collateral. The fact that many firms considered SFTR reporting requirement as an "EMIR-like reporting regime" might have misled them to think that SFTR is "just another EMIR".
- Due to the current market conditions, some credit institutions and investment firms have only very limited activity in SFTs, so that SFTR did not have the highest priority and they only recently figured out that they have a reporting obligation. These firms do certainly benefit from firms like ours, which can help them to generate SFTR reports with very limited efforts as we do not require the reporting in ISO 20022 XML format, but we can even accept Excel or CSV reports or they can input the data manually directly on our platform.

- A lot of regulatory consultations and changes are currently ongoing simultaneously. SFTR going live in July, Q&As as well as new technical standards and consultations were published for EMIR, MiFID II/MiFIR, Securitisation Regulation, CSDR, etc. Compliance and regulatory experts are getting overwhelmed by the shire mass of regulatory updates.
- Last but not least, the COVID-19 pandemic which has highly impacted the market volatility and the availability of resources. Some entities had to change the entire IT structure and their operating model to comply with the new situation in which interpersonal contact should be reduced as much as possible.

All the above-mentioned reasons lead to the situation that many market participants will get in trouble to complete their end-to-end testing before the go-live of SFTR by mid of July. However, our customer base is on track to finish their testing activities before the go-live.

What lessons could be learnt for future regulations or phases of SFTR implementation?

We believe that publishing the reporting schemas as well as the final guidelines less than six months before the initial go-live date of such a complex regulation like SFTR was simply to short for the market participants to get all done in an organised way before the reporting start date.

Obviously, the lockdown due to the COVID-19 had a dramatic influence on market participants and was absolutely unpredictable for everyone.

However, we encourage market participants being part of the October and January waves to make their decision on how they intend to comply with SFTR as soon as possible if not already done.

We experience that some buy-side firms are still in the evaluation phase, which is a bit concerning considering that the reporting start date for these entities is less than 80 days away. SFTR is a complex regulation and even highly-skilled and staffed market participants were struggling to get everything done in time.

For future regulations, we encourage the regulators to grant more time to the market participants after having published the schemas and guidelines, as most of them are simply overwhelmed by the flood of new regulations and regulatory changes they have to deal with.

How many market participants are outsourcing reporting? What would be the reason behind this?

We still see a strong appetite from buy-side firms to outsource the SFTR reporting to their sell-side counterparties. The main reasons are that they are struggling to get all the data which is required to create acceptable reports, the complexity in the SFTR reporting flows, lack of experienced resources and the fact that most buy-side firms involved in SFTs are mainly trading with the sell-side firms.

However, although the reporting process can be delegated, they cannot delegate the responsibility to their counterparties. This means that buy-side firms are still obliged to understand every detail of SFTR and they need to prove that they have effective compliance oversight processes in place.

These oversight and control processes are expected of the delegating institutions under SFTR, but then the cost of ensuring the required degree of ‘effectiveness’ can neutralise, or even outweigh, the obvious advantages of delegation, especially when several counterparties or intermediaries are involved.

Under EMIR, we have experienced a quite similar situation. At the very beginning, many buy-side firms decided to outsource their reporting processes to the sell side. After the regulators have been more active in their oversight exercises, they have discovered that many buy-side firms did not have the right controls and oversight processes in place without any plans to do so. After analysing these requirements, many buy-side firms have insourced the reporting process afterwards as they figured out that these control processes are much more time and resources consuming than the actual reporting processes, especially as the regulation left a lot of room for interpretation.

KDPW SFTR REPORTING SERVICE

KDPW

Regulation 2015/2365 of the European Parliament introduces the obligation for entities concluding securities financial transactions to report them to authorised Trade Repositories.

ESMA Extends KDPW Trade Repository's Registration to Include SFT Reporting.

Secure

- Secure, certified access to the application
- Top-range industry standard security and business continuity for data collection and maintenance (including back-up site)
- Global communication standards – XML messages, MQ or WebService

Transaction

- Extensive knowledge of securities finance transactions, margin and reuse
- Processing of all trade updates - modifications, collateralisation and valuation
- Providing and explaining trade rules and requirements deriving from technical standards, guidelines and ESMA Q&As
- Delivering a complete trade sample

Friendly

- Fast and easy access to our team of qualified experts
- Telephone and email support with tailored approach to each client
- Workshops and training provided by the Trade Repository - to reporting participants
- User-friendly, intuitive web interface with reporting functionalities and 24/7 direct access to data
- Various reporting models and options available to meet client needs
- Very competitive pricing model

Reporting

- Maintaining test environments – duplicate of current production environment and enriched environment before access to production mode
- Support during implementation of new functionalities
- Service contains in-built tools for validating submitted data
- Safeguarding an orderly and continuous process to ensure reporting obligations are met

Contact

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Stronger together

Sabine Farhat
Head of securities finance product management
Murex

Murex outlines the partnerships it has forged in building its SFTR solution and reviews how the industry has come together to solve the problems the regulation poses

What benefits will come from the transparency SFTR brings?

Transparency is the reason behind the Securities Financing Transaction Regulation (SFTR); this continuous surveillance of the market will ensure its sustainability and highlight any risk of a build-up of leverage. The target is centered around two major areas:

- The combination of the collateral reuse report and the transaction/collateral report is the key behind this objective: this dual reporting of transaction and collateral updates and then its reuse will give a clear idea to regulators and counterparties on the risks surrounding the reuse of their collateral. As a result, it will help in indicating the impact of a potential crisis on this area of the financial market.
- Disclosure of the actual investors for the buy-side market players.

The success of this achievement will be reliant on the quality of data received and how it can be treated. Although we will have to wait and see the concrete results post-go-live, the first results of pre-production tests from market players are reassuring in a sense that it is better than the first results of the European Market Infrastructure Regulation (EMIR), nevertheless, there are still areas for improvements.

Pre-matching and following up on the International Capital Market Association (ICMA) and the International

Securities Lending Association (ISLA) recommendations will be critical for success. The major driver is to reduce the number of breaks, as having transparency with breaks all along the chain no longer means anything.

What key lessons can be learnt for clients from the journey to the implementation of SFTR?

The data that needs to be collected for SFTR is coming from multiple areas in the firm and hence can be stored at multiple sources. Understanding the data model of each firm to meet their obligations and from where they can source that data is a crucial starting point.

The required data could include counterparty data from agent lenders, custodians, firms, or trading systems; loan and collateral data from legal databases, execution platform, affirmation platform, matching platform, +instrument reference databases, or trade risk systems; margin data from internal systems, central counterparties (CCPs), and clearing members; triparty agents and re-use of collateral data from omnibus accounts and other group entities.

This latter set has been highlighted by many of our clients as being the most difficult data set to source. Once you understand where that data can be sourced, consideration will need to be made on how to obtain, capture, store and feed that information into the firm's reporting architecture. Vendors like Murex that offer a solution to cover all required data in a single system and widely connected to the market participants stand-out, as we can represent all SFTs across all the assets caught by the regulation and on the overall chain hence helping banks avoid half solutions and in-house integration.

What partnerships have you been involved in and how has cooperation aided in the marketplace?

We would really like to thank ICMA and ISLA, both of which played a major role in assisting and paving the way forward for vendors and market players. Being a member of both organisations has helped us to structure our offering early on and has motivated our clients to start understanding their data model and structure. Murex has developed integration paths to reduce the reporting burden of its clients. Our SFTR offering includes direct connectivity to trade repositories including DTCC's Global Trade Repository (GTR), UnaVista and REGIS-TR; and IHS Markit and deltaconX reporting hubs.

Partnering up with them has led us to adapt our connectivity to make it flexible to cope with multiple offerings in the market, engage in early discussion for implementation and of course, follow and access trade repositories requirements early on. We appreciate DTCC-GTR, UnaVista et REGIS-TR for giving us access to their requirements and working together. This palette of packaged connectivity gives a wide choice to our clients to select what fits their current architecture best.

How has Murex helped and advised clients with regards to SFTR?

A total of 155 fields are required for reporting to the SFTR, with both counterparties having to report transactions and collateral having to be described with a certain degree of accuracy. We at Murex, have provided a gap analysis to our clients, reviewed their data model structure and advised on an adaptation of booking and event lifecycles to make sure it's compliant with ICMA and ISLA recommendations, especially when it comes to rebooking or amending existing transactions. We recommended that our clients analyse with their counterparty as soon as possible on how they are booking and applying events on their trade and to adapt if necessary, and in our system to conceptually reconcile with their counterpart in our system.

Our offering is modular in a sense you can pick and choose from it. We offer the data sourcing and enrichment in addition to a wide palette of connectivity and exception management. We adapted our pricing model to fit the purpose of our clients where it depends on SFT type, reports, volumes and the connectivity itself. This will benefit clients to have adapted pricing.

Finally, the major benefit of SFTR is that it gives banks a chance to revamp legacy processes and platforms and we helped our clients along this path and their re-platforming projects.

What sort of questions are you receiving from buy-side participants right now?

The major concern coming from the buy-side is about wanting to delegate reporting without the will to disclose their full position. How can they do this with the collateral reuse report? The answer is not straightforward and it will implicate and expose global positions or invest in software for collateral reuse calculation alone.

For those who are using Murex, benefit from the fact that we modelled our connectivity to trade repositories and hubs in a way that you can store reports incoming from your brokers, CCPs, agents, etc, in MX.3 and calculate the collateral reuse reports within our system to help them better deal with exposing their global position to their agent or broker. This is done without the need to structure and capture the other three reports within our system and rely on the reports they receive.

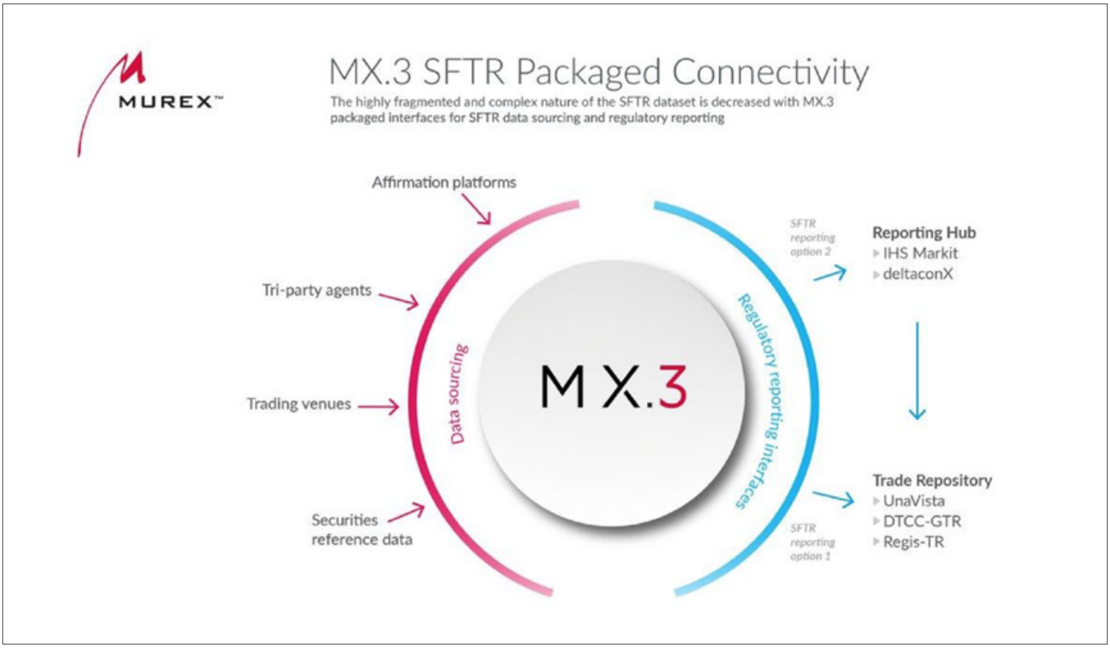
Do you feel there will be issues around the provision of UTIs on time and what is the best course of action for any delays with these?

Murex proposes in its modular offering the possibility to model who needs to generate the unique transaction identifier (UTI) and generates it accordingly. That being said, in its SFTR guidelines, the European Securities and Markets Authority (ESMA) sets out that the firm which generates the UTI needs to communicate it to the counterparty in a "timely manner so that the latter is able to meet its reporting obligation".

So, as the reporting delay is T+1, officially it shouldn't be an issue as UTIs should not take more than a day to be shared. There is a major concern in the market on the vehicle and how to share the UTI.

Once again, the choice will be to either invest in a system or a reporting hub that helps sending the appropriate info or build the xml or swift message acceptable to send. Definitely, the major concern would not be on generating but on communicating to avoid breaks in reporting, this being the defining break reason in all preproduction tests.

We can always provide a solution for our clients to report but the market needs to have an official recommendation on what to do if you don't receive a UTI on time, or again the objective of ESMA, transparency, will not be achieved.



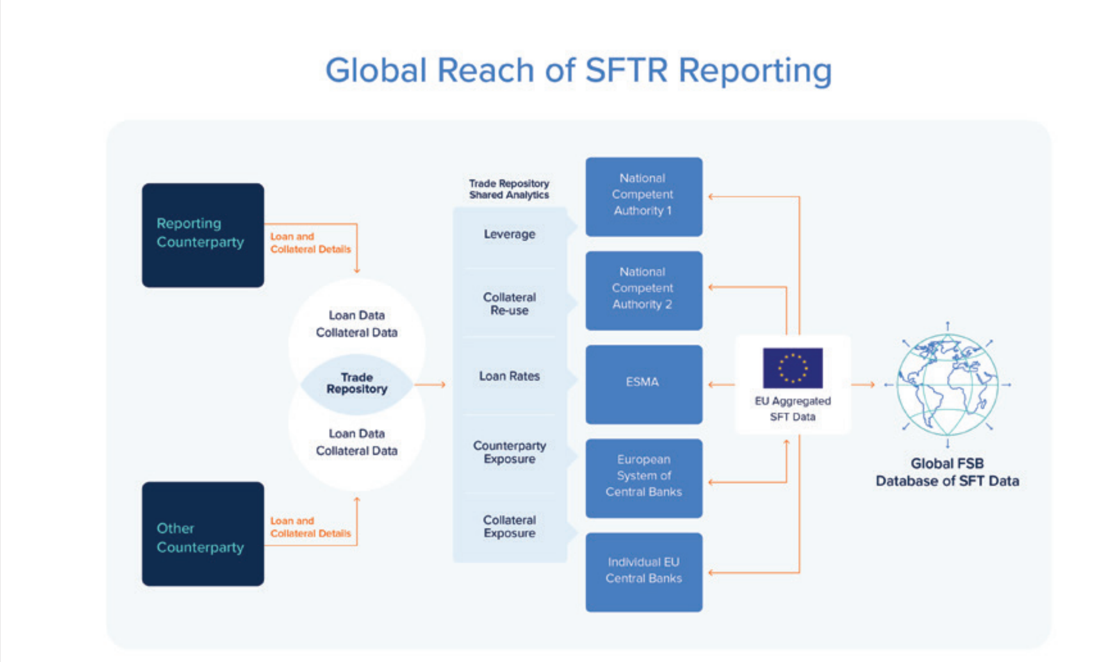
Navigating collateral reporting under SFTR

In this article, Jonathan Lee and Tony Weedon of Kaizen Reporting provide their recommendations for addressing the challenges of collateral reporting

Macro and micro regulation wrapped up in a single reporting regime

The Securities Financing Transactions Regulation (SFTR) challenge is made more complicated by the dual purpose of the regulation. The European Securities and Markets Authority (ESMA) states that the regulation is intended to "assess the risks related to the integrity of price formation and the orderly functioning of the SFT markets" and "a trade state report will also allow the authorities to access the most granular trade-level data, i.e. the latest state on all the outstanding trades that are required for financial stability, market monitoring and surveillance of bank-like risks and level of interconnectedness of the financial system."

This desire to capture both macro systemic and micro trade level risks in the SFT markets presents a significant and challenging compromise in the nature of reporting. Indeed, the periodic, settled position level reporting required by other jurisdictions is far less complex to provide and far more straightforward to interpret from a regional and global macro-prudential perspective. From a collateral reporting perspective, this added desire to perform trade level surveillance and market monitoring underlines the importance of maintaining the direct link between loans and collateral. If it weren't for the micro surveillance requirements, it would make far more sense to report all collateral on a net exposure basis. However, this added complexity should provide clarity around collateral scarcity, tight



collateral conditions, the dynamics of collateral reuse, and the loan rates.

There is a conflict in these dual purposes. Trade level reporting is inherently messy. Timely trade level timely data is subject to nuances in the settlement cycle and a lack of stored reference data to classify it. Trade data in itself with every lifecycle event doesn't lend itself to accurate position level data. This is because you do not have a base starting position (exacerbated by the lack of a backloading requirement). So it will take longer to establish positions as historic trades work their way out of the system.

Also, by insisting on such a large number of matchable and reconcilable fields from both parties, you risk never (or only very latterly) achieving a clean dataset of consistent values because many transactions are left in an unreconciled state with fundamental differences indefinitely.

To illustrate this, if a larger dealer is executing 10,000 new trades every day across several hundred counterparties, in its current state, it seems unrealistic to ever expect all of these transactions to match in their entirety. Either regulators will need to come to terms with only partially matched data (in which neither party is necessarily correct) or simply take the approach of using single-sided reports in order to complete their analysis of regional market activity. Clearly this pessimistic view is in direct conflict with the intention of the regulators.

Difficulty resolving the data set

Firms' relationship with collateral is often fleeting. It is a means to obtain lower cost financing, manage dealer inventory and maintain capital adequacy requirements and liquidity buffers. On many transactions, collateral is only disclosed on settlement date and, given its varied and often illiquid nature, it is unlikely to pre-exist in every case in a firm's books and records. Therefore, the regulators' insistence on passing all of the classification requirements onto counterparties rather than using golden sourced reference data, presents a unique and unprecedented challenge.

While MiFID II transaction reporting only requires the ISIN and CFI codes, SFTR requires everything including the kitchen sink! For loaned securities and collateral, firms are required to populate the ISIN code, issuer LEI, credit quality, CFI code, maturity date, jurisdiction of the issuer, collateral type (an FSB bespoke field) or a series of commodity details if the collateral is a commodity. In effect, regulators are testing the firm's reference data abilities just as much as they are testing their ability to provide timely economic transaction reports. As far as regulators are concerned, their ability to dish out fines does not involve a ranking of the importance of fields. Getting the classification of a piece of collateral right is often said to be just as important as getting the price or the quantity right. Regulators deem that if they can't trust one value, they cannot trust any aspect of the report. This whole task needs to be taken very seriously.

Full disclosure is required

Don't try to be too clever. There are no fields that are intended by regulators to be entirely optional: they simply couldn't write enough validation rules to make every field conditional.

Don't try second-guessing what is or isn't acceptable. Be as open and transparent as possible. If you are fully aware of details of the collateral at the point of execution (irrespective of whether the collateral is allocated on a later date), then you must disclose all of the known details in the new transaction report (NEWT), within the confines of the validation rules. Ensure that your collateral reporting (along with the loan and other aspects of the transaction) is as complete and accurate as possible. Reference data and market data sourcing should be kept under constant review, keeping your vendors on their toes and ensuring that every data item has an owner - a data guardian. As soon as you are aware of any changes in collateral, its pricing or classification, this should be reported by close of business the following business day.

Settled vs contractual? The moment an SFT deal is struck, it becomes reportable

As soon as an SFT transaction is agreed, it becomes reportable on the next business day. Regardless of whether the 'on' leg of the transaction settles and is followed through or not, it is a reportable event. If the on leg doesn't settle and both parties agree to cancel the transaction then from a reporting perspective this should be reported as a termination (ETRM) because it existed as a legal contract, even if only temporarily. If alternatively, both parties agreed to move the value date (start date) forward then this should be reported the following business day as a modification (MODI). If bilaterally agreed, it is a modification and not a correction (CORR). We appreciate that this exacting interpretation of the regulation is somewhat in conflict with normal securities lending practice of only recognising transactions subject to settlement finality.

In our view this latter approach is not in keeping with the spirit of the regulation as a whole.

Closing transactions – where settlement finality matters

When it comes to correctly reporting the 'off' leg of a transaction, again it is important to keep regulators on top of developments in the contract. If you have agreed to close a contract on a future date (the anticipated settlement date), then this should be reported as a closing leg with a maturity date (end date) added to the transaction using a modification (MODI).

Alternatively, if the intended closure is the same day, then this can be reported using a termination (ETRM). Having reported this, if the return doesn't take place, then the maturity date (end date) and other economic details should be modified (MODI) on the next business day. If a termination (ETRM) was booked, then this report should be suppressed if it doesn't take place. Again, the alternative approach suggested by elements of the securities lending community is to wait for settlement finality before reporting the intention to close a transaction. We do not believe to be consistent with the regulatory intent.

Unfortunately, regulators take a dim view of system limitations in providing this reporting. Links between risk management, booking systems and back-office systems may well need upgrading but this is not a concern of regulators. Regulators also believe that by implicitly requiring firms to upgrade their systems, they are playing a valuable part in reducing systemic risk across the industry.

Settlement status – how SFTR differs

Other regulatory reporting regimes, such as for MiFID II, transaction reporting are satisfied by assuming perfect settlement. Given that this regulation is placing a part of the very fabric of the capital market under scrutiny and provides a picture of leverage, collateral and liquidity risk, there is a need to understand outstanding risks rather than just contractual risks. This is why settlement status becomes key. This requirement differs from other transaction reporting regimes that focus on traded market risk rather than exposure risk and will allow you to assume perfect settlement.

Why collateral reporting is so fundamental to understanding the functioning of the repo market?

Trade level collateral reporting gives a clear view of the relative pricing of the market, the market's view on particular credit and demand for individual securities, asset classes, credit quality etc. It provided perspective on shorts in the market and where particular pieces of collateral (seen through the pricing of loans) become very expensive because they are behind other investment strategies. Collateral reporting provides a gauge of liquidity and credit conditions and a barometer of the health of the outright cash securities markets.

Repo bilateral margin collateral reporting

One of the greatest collateral reporting challenges under SFTR has been how to report bilateral margins for repo transactions (discretely) from their trade level collateral in accordance with the Global Master Repurchase Agreement (GMRA). Even to this day, the ESMA guidelines have still not presented any clear examples that enable firms to report in line with the contract.

The European Repo & Collateral Council (ERCC) division of the International Capital Market Association (ICMA) has worked closely with the industry and trade repositories (TRs) to provide a model for reporting repo collateral that is consistent with the transactions, the GMRA and the TR validation rules.

The approach proposed is to maintain distinct trade level collateral and bilateral margin collateral. This involves reporting new bilateral repo transactions on trade date +1 with their trade level collateral details, unique transaction identifiers (UTIs) and the collateralisation of the net exposure field when it's marked true. On settlement date +1, the current state of the bilateral margins should be reported with a collateral update using the other counterparty LEI and Master agreement details but no UTIs.

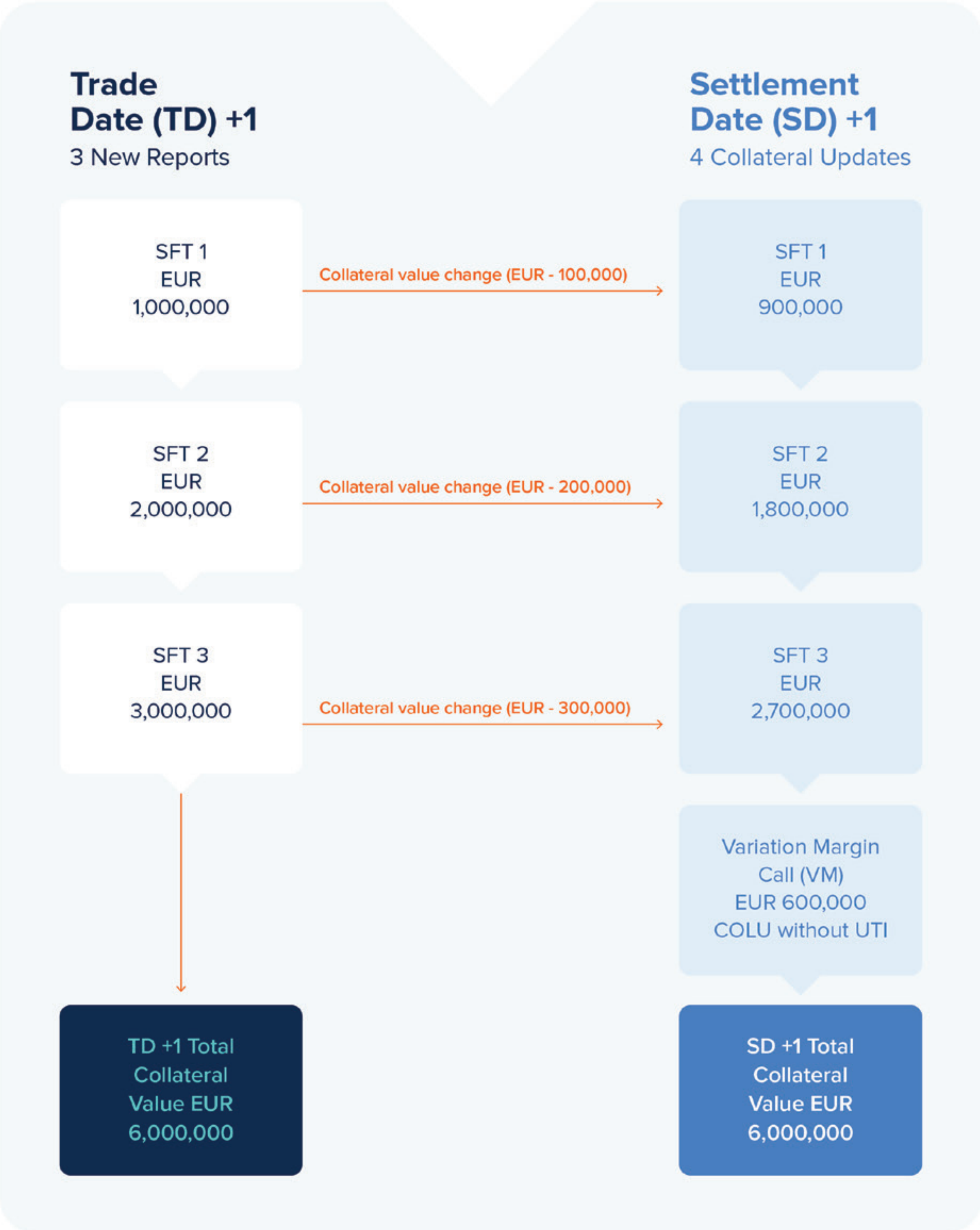
The value of each piece of open trade level collateral should also be updated using collateral updates including the UTIs. On this basis, the collateral can be aggregated and trade level collateral updates will not interfere with bilateral margin collateral updates.

[See diagram: Repo Bilateral Margin Reporting Process]

Kaizen's Recommendations:

- Install data guardians. Ensure every data item is appropriately sourced and has an accountable owner.
- Devote significant effort to sourcing SFTR data internally or around installing effective governance around externally sourced vendor data. Make your vendors earn their keep!
- Prioritise data sources i.e. ESMA demand official sources for data points such as CFI codes, so use official sources such as the numbering agencies and FIRDS rather than data vendors wherever possible.
- Be upfront, transparent and timely in all of your SFTR reporting including the collateral. Do not withhold know transaction details and ensure daily collateral updates of changes and pricing. Ensure executions are always reported on a trade date +1 basis.
- If the pricing of collateral or the quantity of collateral has changed in relation to open and outstanding term transactions then provide settlement date +1 collateral updates accordingly.
- Stay honest to the transactions: if the master agreement indicates that the transaction is collateralised at the trade level, then report accordingly. Do not allow net collateralisation reporting to absorb what should be trade level collateral reporting if this is not consistent with the contract.
- Follow ICMA ERCC best practice on bilateral margin reporting for repo until such time that ESMA have provided a Q&A or clear guidelines regarding any alternative approach. This process will involve maintaining two distinct sets of collateral and collateral updates (trade level and portfolio level) in relation to the repo book.

Repo Bilateral Margin Reporting Process



Meeting the efficiency challenge

Simon Davies
Business development manager
Pirum Systems

Simon Davies, of Pirum Systems, presents the case that SFTR's challenges should be met by an increased focus on driving operational efficiencies

When the Securities Financing Transactions Regulation (SFTR) was first dreamt up by regulators in 2015, few securities finance professionals could have foreseen the complexity the regulation would create and the amount of effort that would be required to implement it and adhere to it.

Much has been written about the reporting requirements and what to report, here we look at the impacts of this on firm's day to day operations. The associated challenges are complex, and we explore how, through increased operational efficiency, firms can deal with these.

As we go to print, the first two phases of reporting participants affected (credit institutions, central counterparties and central securities depositories) will be going live. Phase one was delayed from April due to the impacts of COVID-19, and firms will be managing their initial report submissions to the trade repository (TR) with their day-to-day operations, and the competing and often conflicting demands that these two may have.

As we know, there is a very tight timeframe for the market to get reports to the chosen TR, as well as any modifications to open trades on a T+1 basis for stock loan, repo and buy-sell backs (BSB), not forgetting the associated collateral information at either a trade level or a position level daily. In addition, the termination of open trades, including early termination of a term trade needs to be reported, and errors or corrections also need to be notified.

So far so good (hopefully), but we estimate that a typical securities finance trade will have 210 reportable events over its lifetime with the average tenor of a trade at 90 days, so multiplying this against a firm's open positions will give the many thousands, if not hundreds of thousands of reportable events on a daily basis depending on the book size and business complexity. Even a small number of issues or exceptions will quickly escalate into problems with firms managing their reporting obligation while trying to get on with their day to day activities. With the aim of learning from EMIR, linking the standards of reporting to your BAU processes will be key to achieving better exceptions rates for SFTR.

However, the effort required in managing the reporting process is also complicated by the bifurcation of firms current BAU processes and what is needed to support SFTR reporting (See Figure 1, overleaf). Broadly, SFTR is a contractually based reporting regime, with little regard to what is happening in the economic real world – I say broadly, as this is complicated further between what is required to report the starting transaction or 'on-leg', and what is required to be reported for lifecycle events. With the new trade being reported on a trade basis, and lifecycle events split between trade-based reporting and the contractual basis of the lifecycle event and collateral needs to be reported, at either a trade or net basis, albeit as of the end of the day too. In addition, a significant amount of the data used in SFTR reports is required specifically to meet the reporting requirements, however, there is a large overlap of the data used in both SFTR reporting and firms BAU processes and any issues with that data will need to be reviewed by the teams currently using that data for their processes, firstly to avoid duplication, but also because they own this data and it is critical for their processes and controls.

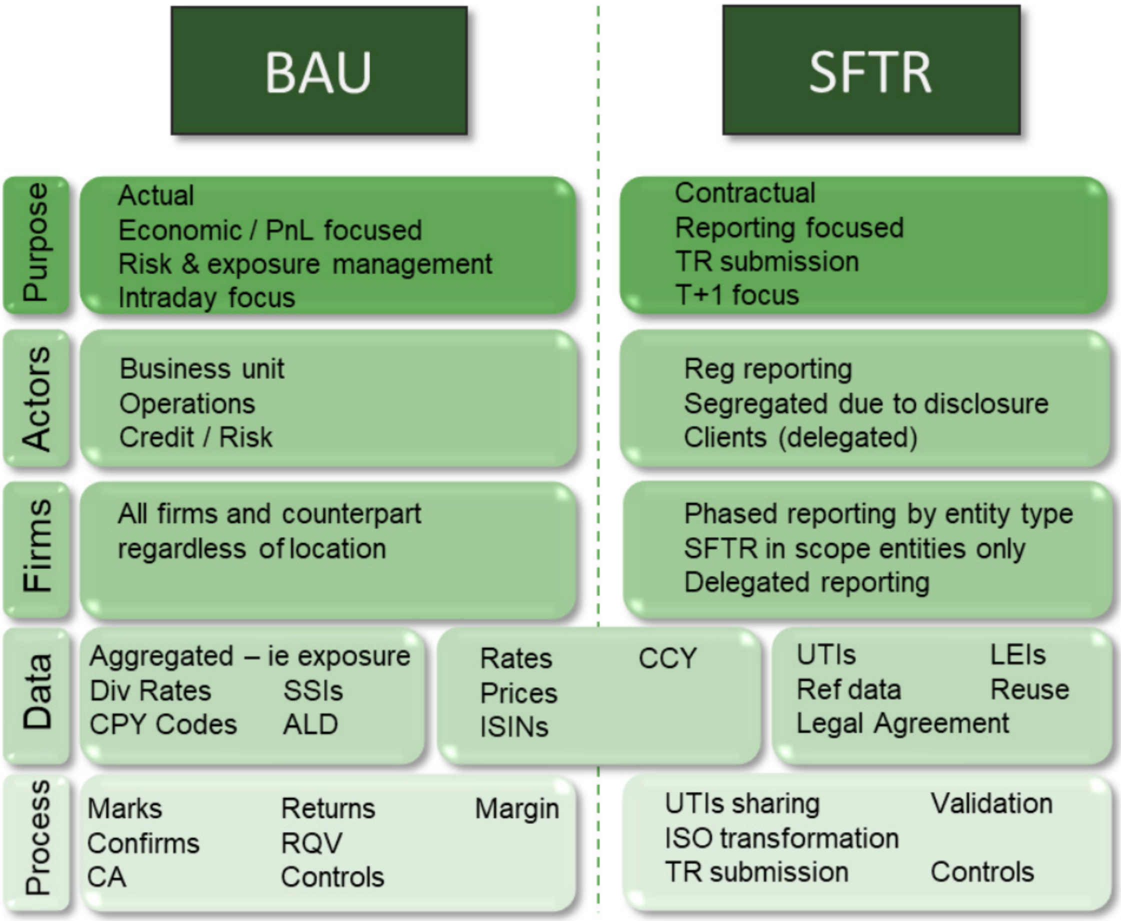
What needs to be reported and the data involved has very specific conditionality, validation rules and timing requirements, and grappling with these nuances whilst trying to get day-to-day activities completed will be time-consuming and could result in a relative importance decision.

Regulatory reporting requires a thorough understanding of these requirements, and they are complex, however, BAU teams are grappling with managing settlement and collateral processes that are looked at on an actual basis, the focus for these teams is risk management and getting things done in very compressed time scales, of hours if not minutes, and ensuring processing is efficient. They simply are not focused on dealing with the finer nuances of legal entity identifier (LEI) mapping or grappling with who should have generated and shared a UTI with their counterpart.

The goal for firms on day one of the regulation go-live has been to ensure smooth reporting to the trade repository, and to achieve this they need to ensure that there is effective sharing of UTIs with counterparts. There is also added complication with sharing agent lender allocations between firms on a T+0 basis – this affects both agency lending and agency repo, although the latter is often overlooked. Prior to SFTR go-live, firms have focused less on the causes of matching breaks – the breaks occurring between firms on individual data fields, than on making sure the trade pairs so that UTI sharing can take place, although this focus has now changed and the enormity of the challenge is starting to dawn on firms.

When we look at the type of breaks that are occurring during pre-production testing, we see some common

Figure 1: BAU and SFTR reporting driver comparison



themes across the 140 institutions signed up for our joint SFTR service with IHS Markit. Many issues are because of poor reference data, and it is also worth noting the much tighter tolerances SFTR has compared to what firms would normally consider an issue. However, when looking beyond this many of the breaks are due to lifecycle event processing - due to later booking of the event on one side of the trade or booking errors due to manual processing.

Additionally, the way firms process their events or modifications can be different, with one side of the trade processing this as a rebooking, with the other as a modification. This is often driven by systems limitations or workarounds that firms have adopted over many years, and due to the same system limitations or that up/downstream requirements are difficult to unpick and remediate without causing bigger challenges.

So, they are finding that trades pair and data items match on new trades, but they quickly get out of line when the day to day processing – returns, marks and collateral management start. Consequently, this could be our industries tidal moment, or as the sage of Omaha, Warren Buffet said: “Only when the tide goes out do you discover who’s been swimming naked”

The challenge for firms is to marry these competing demands, adjust their operating model – the processes (automated or manual) and the technology that delivers these, whilst introducing new processes to support the reporting requirements. Not a simple thing to achieve, and we have seen an increase in firms grappling with this challenge in recent weeks as the go-live date approached, and the enormity of the impact becomes apparent.

I had an interesting conversation just recently, with an operations team, that had just become involved in how they were going to need to manage SFTR breaks, and was told: “But it doesn’t work that way, how are we going to cope with this?” I think this sums up the situation of the competing and immovable demands of their day job and what regulators want to see.

Of course, there are also huge benefits to be gained. Improving process efficiency will not only help prevent and reduce errors but also save time – both in terms of effort and latency. This is going to be critical in dealing with SFTR, but also that other regulation looming over the industry – CSDR. As firms grapple with managing risk and reducing inefficiency in managing their processes for regulatory reporting, they will need to become much more efficient in managing fails – not just for their stock loan and repo books, but securities finance will be critical in minimising fails in their cash settlements businesses too.

However, in order to achieve this, firms will be looking at rapidly shrinking securities financing settlement times, and some of these are already pushed to the limit–not only do you need to agree, book, instruct – often the trade needs to be collateralised before it can settle – particularly when facing agent lenders that require pre-collateralisation before they will instruct their side of the trade for settlement. To achieve this, firms must improve their business practices and they need to drive latency out of their processes and enhance controls. This adds another element to the drive for efficiency.

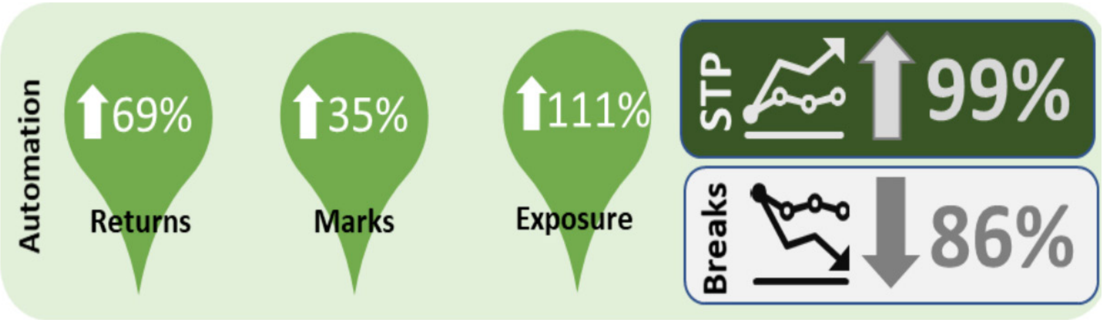
All these challenges have been a catalyst for most firms to look to improve their efficiency and how they can deliver best in breed operations to support their businesses, clients and achieve compliance.

This is why at Pirum, we have seen a huge increase in the level of automation that firms are seeking to achieve – particularly around managing lifecycle events, exception management and workflow across all their business activities, including margin and collateral management.

As shown overleaf in figure 2, year-on-year, we’ve seen an increase in returns automation of 69 percent, marks of 35 percent and exposure of 111 percent driven by our client’s desire to minimise the impacts of these on SFTR reporting and due to a general desire to be more efficient.

By implementing real-time lifecycle processing, firms can achieve STP rates of 99 percent and reduce

Figure 2: Industry automation trends



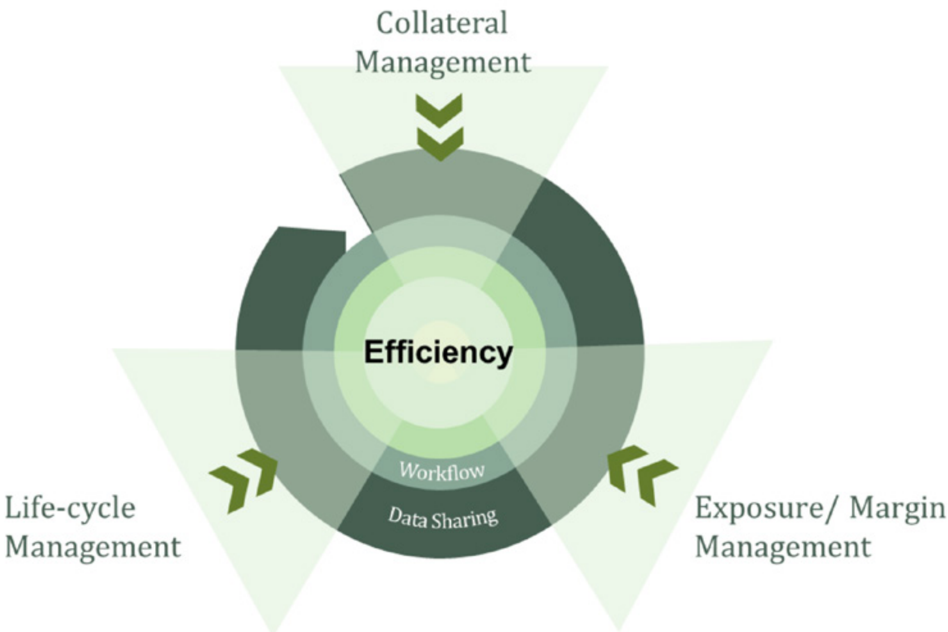
breaks by 86 perent. Tools that help minimise manual effort and the resulting timing differences and errors that occur as a result and those that help to streamline the remediation of issues when they do occur.

This benefits both firms' business-as-usual operations – helping to minimise risk and profit-and-loss impacts and improves controls, but also ultimately the smooth reporting to the TR for SFTR reporting by minimising exceptions.

In addition, this not only increases straight-through-processing rates, minimises breaks and fails, but also hugely compresses the latency that occurs in some processes, increasing firms capacity to speed up processes and compress settlement timescales – thereby preparing their businesses to support the CSDR regime.

Being able to bring together your post-trade management, collateral management and trade reporting, with seamless workflow and data sharing – whilst managing the different views, drivers and needs of each of these will help manage risk, drive efficiency in the future and deliver best in class processes and procedures.

Figure 3: Efficiency – bringing together processes through common workflow and data sharing



Comyno delivers securities finance innovation in SFTR and beyond

Frank Becker
Chief operating officer
Comyno

Frank Becker offers a comprehensive overview of Comyno's multi-faceted offerings including its SFTR suite and plans for expansion into DLT

Comyno is a specialised fintech company with more than 15 years of experience in securities finance, focusing on software and consulting. We work with leading private and public financial institutions, clearinghouses and triparty agents, combining our expertise in strategy, processes and technology.

We have extensive experience in the provision of standardised and tailor-made solutions, increasing functionality and efficiency across the entire value chain. Our innovative strength is not only demonstrated by developing solutions for topics such as the Securities Financing Transactions Regulation (SFTR) but also by our expertise in the area of distributed ledger technology (DLT)/blockchain and its practical application.

What do we offer?

Consulting Services

- Strategic Consulting
- Project & Program Management
- Business Analysis & Consulting
- Technical & Infrastructure Consulting
- Product Architecture & Design

Software solutions

- C-ONE Securities Finance platform: a suite built to deliver straight-through-processing for all securities finance business activities
- C-ONE Connectivity: standard connectivity to systems and service providers in Securities Finance
- C-ONE SFTR: regulatory reporting solutions
- Customised software development
- DLT/blockchain development

Rich front-to-back, state-of-the-art suite of software modules

Increasing efficiency across the entire securities finance process and value chain has always been one of the industry's main challenges, even more so within the fragmented and complex framework of most market participants. This has also been highlighted again in the recent period of increased market volatility. Our C-ONE platform addresses many of these challenges. Essentially, it is a highly flexible set of modules that can seamlessly be integrated into existing legacy infrastructure. Its front end can, yet does not have to be used. This is a vital advantage for any market participant successfully operating with a legacy front office system. Comyno provides various tools, such as C-ONE Collateral, C-ONE Trading, C-ONE Risk Management and C-ONE reporting, which can be easily expanded in a quasi-plug-and-play manner, once the first component is established (See Figure 1, overleaf).

Hence, C-ONE combines management technologies and data analytics tools into a single software suite with an intuitive and easy-to-navigate customised dashboard/cockpit (See Figure 2, overleaf) A dedicated data management platform, C-ONE Connectivity, imports data from various systems and enables customers to view the data in a clear and concise manner. It effectively serves as a data warehouse hub with the ability to receive and send data.

This range of tools give our clients the ability to cover all securities finance-related topics as efficiently

Figure 1: C-ONE Securities Finance Solutions

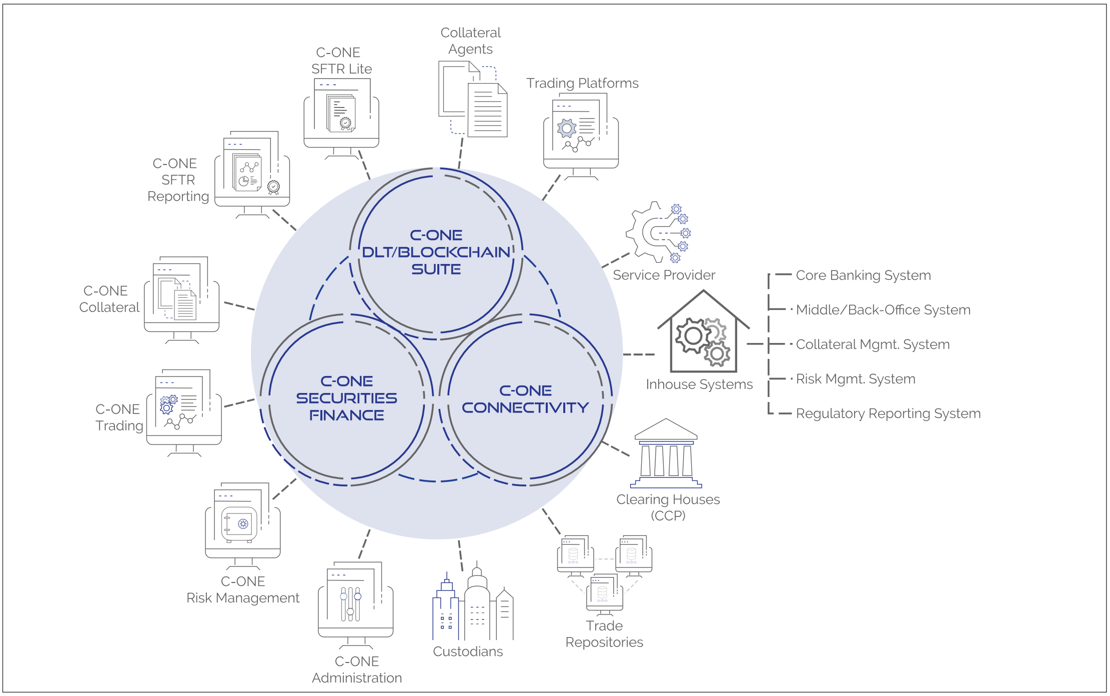
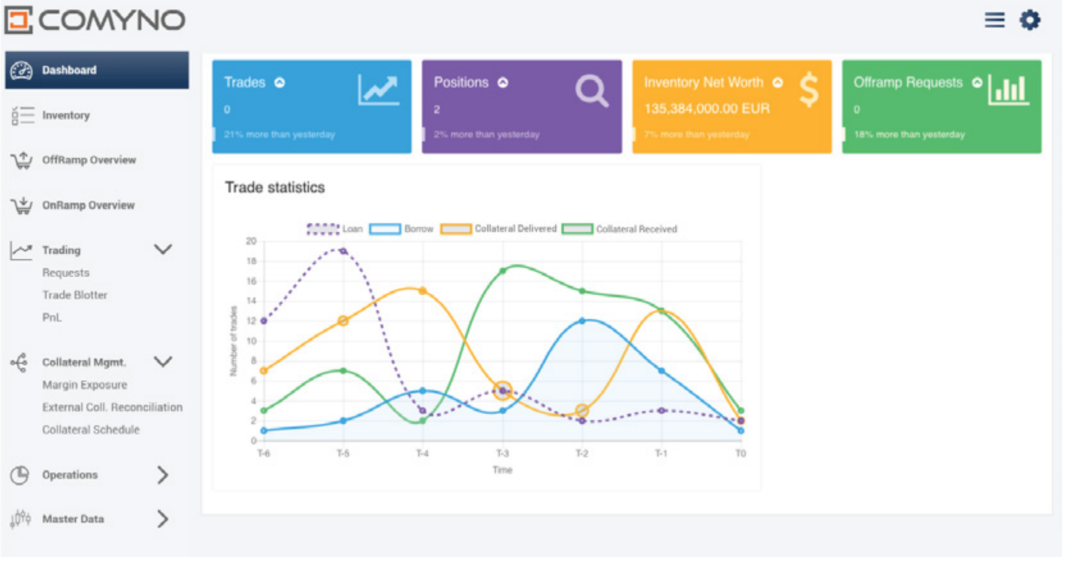


Figure 2: Line graph screenshot



as possible. A key role of the C-ONE platform is the collection of both structured and unstructured data from a range of internal and external sources and its subsequent integration and storage.

Furthermore, it provides a tailor-made hosted solution with front end, middle and back-office functionality at a reasonable cost for our clients. With the adaptor-based new platform technology, C-ONE does not need the programming and maintenance that is necessary for the broad range of other interfaces and existing in-house systems.

Looking at our SFTR solutions in particular, we've had a broad range of user institutions in mind when developing our set of solutions. They range from fully-fledged SFTR capabilities to a scaled-back approach for institutions that don't have the need for all functionality offered through a fully-fledged solution.

Comprehensive and powerful SFTR module

The SFTR module includes system-level data extracts from C-ONE, through to unique transaction identifier (UTI) generation, matching and direct reporting to trade repositories. Customers are able to take advantage of Comyno's unified solution for all of their SFTR requirements. They will also have the option of a modular solution that can be combined with other third-party reporting platforms as required.

C-ONE SFTR reporting is based on a highly extensible Java and web-based client-server architecture, a relational database system and standard interfaces. This optimised IT infrastructure makes transactions a platform-independent, multi-tenant and scalable software that can be easily adapted or enhanced, both technically and functionally, and smoothly integrated into complex system landscapes.

C-ONE SFTR's features are:

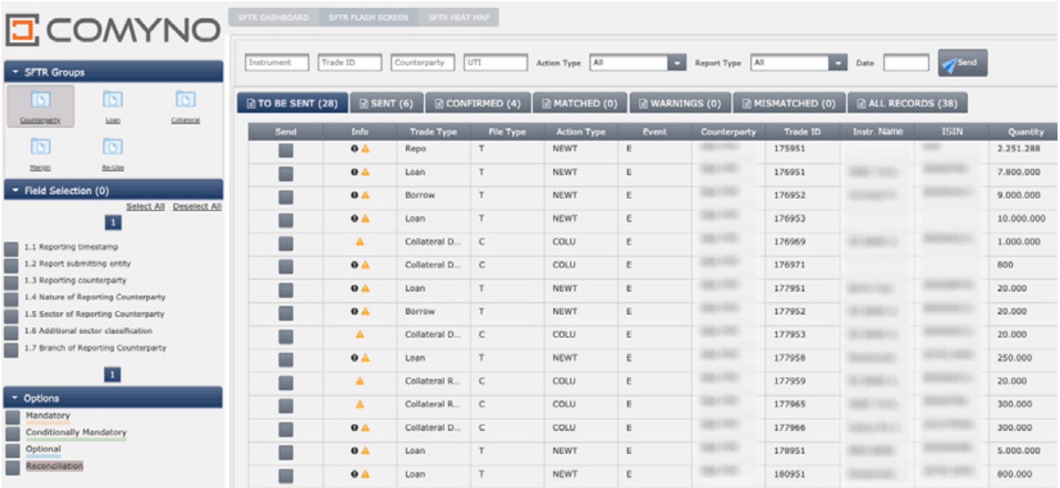
- Comprehensive user role concept for access authorisation management
- Flexible connection to multiple source systems
- Consistency check of input data with configurable error levels
- Option to make manual corrections, for example in case of consistency errors or "rejects"
- Results data presentation for SFTR data elements
- Internal portfolio reconciliation with additional functionalities (difference report, proposed transactions) as well as identification of report-relevant transactions including relevance report
- Functional validation according to specified rules of the report recipient
- Generation of the submission files, including technical XSD schema validation (XML files)
- Import and allocation of feedback notification from the trade repository
- Flexibility in the process management via the cockpit, the process menu or automatically via batch scripts
- Easy generation of several views/layouts
- "Golden copies" functionality with multiple options to support an audit-proof correction process
- Historical view (historical course of trades across a defined reporting period)
- Analytical tools
- Delegated reporting (e.g. client reporting)
- Various data delivery options and import and export functionality for tables (XML, CSV and XLSX)
- Audit-compliance (extensive logging of manual changes)
- Archiving functionality
- See C-ONE SFTR Reporting/Flash Screen (Figure 3, overleaf).

As we all know, one size doesn't fit all. We've acknowledged this by also having developed a slimmer version of our SFTR module.

Pragmatic and cost-efficient solution for SFTR compliance

In addition to the fully-fledged SFTR module, which is fully integrated into the C-ONE suite of systems, we developed C-ONE SFTRLite. The idea was to facilitate the requirements for companies which already have a strong database for its securities finance business and prefer a light technological footprint to meet the regulatory requirements or have the data spread across multiple systems. SFTRLite was created to support customised data imports, validation and

Figure 3: Datalog screenshot



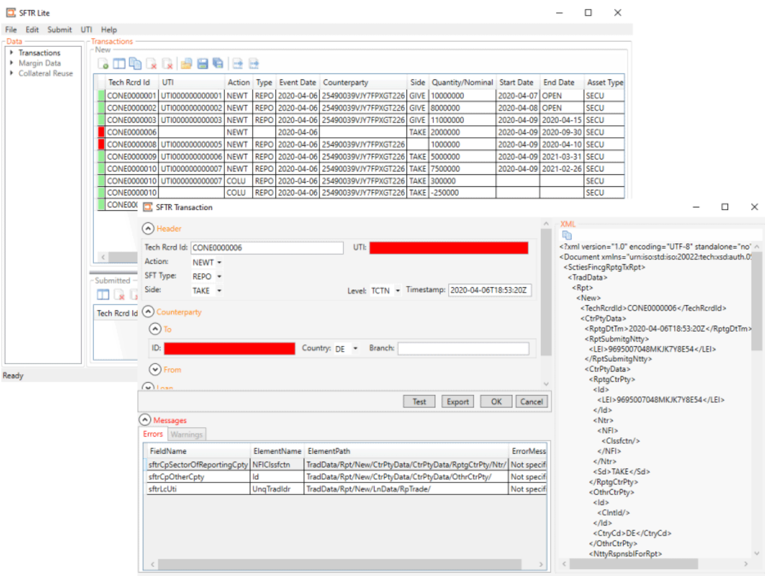
adjustment of the provided data and converting it into the required XML schema, so it is ready to be reported to a trade repository. See C-ONE SFTRLite Reporting Screens (Figure 4).

Last but not least, one of our focus areas has been a DLT based initiative aiming for significant benefits across the entire securities finance value chain.

A new dimension custody network using blockchain technology

Both parts of traditional securities finance transactions, principal and collateral, continue to be scattered across custodians and international central securities depositories (I)(CSD), with significant issues arising from moving them quickly and efficiently from where they are

Figure 4: SFTR task window screenshot



to where they are needed. The current crisis reinforces the need for revolutionary technology.

Blockchains as one form of DLT have been seen as a potential solution. More specifically, the concept of blockchain-based securities settlement has been floating around ever since blockchain, respectively DLT, has been around. That said, the reluctance by many market participants to challenge the established custody model has been underestimated. This explains to an extent why tokenisation using a blockchain-based custodian has not gained any traction yet. We share the belief that the real viable solution is not tokenisation, but on-chain transfers and position keeping.

As Comyno was expanding its technological capabilities on blockchain and DLT over the past few years, we were well placed to get deeply involved in an initiative led by DekaBank, aptly named the Digital Collateral Protocol (DCP). As indicated above, its key element is not tokenisation, but the creation of a common and joined settlement and custody protocol for the transfer of traditional securities. Crucially, it allows securities to be kept at their original custodian and the central securities depository.

This is achieved through the transfer of the settlement chain onto the DCP. The settlement itself occurs within seconds directly between the participating custodians in a digital representation, exactly as they are today but without the physical settlement. We are convinced that this will be a breakthrough in terms of combining legacy settlement infrastructure and modern technology.

This in turn should lead to tangible operational and technological improvements and will hence free up resources for all involved stakeholders. The efficiencies lay in a multitude of areas bringing benefits from several aspects due to the fast and certain settlement:

- Easy expansion of trading relationships through a scalable, transparent and unified settlement network
- Improved balance sheet efficiency due to reduced counterparty risk
- Reduced business risk due to increased settlement efficiency leading to reduced buy in risks and fines
- Increased operational efficiency by simple, instantaneous and straightforward settlement, hence decreased knock-on effects across the process chain
- Reduced settlement costs due to a smaller number of intermediaries for international activities

The project is at an advanced stage, having successfully completed all stages through to an alpha version. The initial use case is position keeping and securities settlement, initiated by the securities loan and non-cash collateral transfer. In other words, the DCP is now close to being in a position to book a collateralised securities lending transaction. The first legally binding trade on the DCP is expected in the near future.

Discussions are held with a large number of leading international and European custodians on the operating model for the DCP, discussing potential legal issues and their solutions, as well as the feasibility to implement this on an international scale.

With all this already achieved and close to production, we've gone even one step further and already enabled C-ONE Connectivity to integrate the DCP into the existing C-ONE technology suite and act as the interface into the DCP. C-ONE incorporates total connectivity via a message bus facility to every internal and external system or third-party entity. It can hence be used to link the existing internal technology landscape to the new technology without building own interfaces into the DLT.

It needs to be emphasised that the DCP is an initiative with a shared goal for all securities finance stakeholders, and a win-win constellation for the most part. There has been widespread interest across the securities finance industry with the aim to get the DCP fully operational as soon as possible. We couldn't be more excited by the combination of forces and would be happy to engage in any form of dialogue to strengthen and extend the DCP network on a global basis.

To round things off, we at Comyno are excited to play a part in the digitisation of securities finance.

Regarding the outlook for SFTR, it looks as if most market participants continue to work hard on their readiness to report. Needless to say, the buy-side continues to have a bit more headroom to work on any open points. That said, we expect teething issues with chosen solutions and approaches, as well as matching quota come go-live. We will be more than happy to assist in any such challenge, from both a technological and consulting perspective.


Vendor Profiles

CAPPITECH
PERFECTING REGULATION

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Cappitech is a leading provider of regulatory reporting, best execution analysis and business intelligence solutions for the financial services industry. Cappitech's cross-jurisdiction compliance platform, fully automates the reporting process and provides a comprehensive view on a single, intuitive dashboard for reporting regimes in Europe such as EMIR, MiFID, SFTR, RTS 27/8 as well as global regimes such as Canadian reporting, ASIC, MAS. Offering next-generation analytics, Cappitech is revolutionising the way financial services firms meet their compliance obligations by offering actionable insights that drive sales and improve execution quality derived from compliance data.

Led by a team of experts with a 20+ year track record in building financial technology products, Cappitech is relied on by over 100 global banks, brokers, asset managers and corporates. Established in 2013, the company has won multiple industry awards for the best regulatory reporting solution and innovation and was selected by IHS Markit as the platform provider for their SFTR solution.

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We have extensive experience in the provision of standardised and tailor-made solutions, increasing functionality and efficiency across the entire value chain. Our innovative strength is demonstrated by our expertise in the area of blockchain and DLT and its practical application, e.g. its usage in our trading software.

Consulting Services

- Strategic Consulting
- Project & Program Management
- Business Analysis & Consulting
- Technical & Infrastructure Consulting
- Product Architecture & Design
- Software Development
- Blockchain Development

Software Solutions

- C-One Securities Finance
In-house/Platform Hybrid Solution
- C-One Connectivity
Standard Connectivity to Systems and Providers in SecFinMarket
- C-One SFTR
Regulatory Reporting Solutions

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Delta Capita formulates and delivers strategic business and technology change for investment banks and investment management firms. We combine advisory, solutions and delivery to provide an end-to-end consultancy service. Our cross-discipline teams and IP-based solutions are accelerators for solving complex business problems and the delivery of tangible client value. Delta Capita specialises in strategy, business operating models, technology advisory and solutions, as well as programme management with PMO services.

Prime finance and brokerage together with securities lending and collateral are key focus areas for Delta Capita. We define global solutions based on vendor technologies to help our clients find optimum solutions to their business problems. This includes optimisation tools to manage collateral, trading platform solutions, business migrations locally or across jurisdictions, regulatory reporting, and simplification or automation of work flows to increase efficiency.

Delta Capita works front-to-back across equites, FI, FX, derivatives, structured retail products, risk, regulatory compliance, treasury and ALM. Further, we provide specialised managed services in a number of areas including structured retail products, regulatory compliance, and metrics and performance monitoring.

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deltaconX is a "full-service" provider offering a unique software and support package specifically tailored to the community of European financial, energy, and commodity trading organisations.

Our offer

We are a "full-service provider" to unify all regulatory compliance processes across multiple regulations with the aim to:

- Reduce all manual efforts through automated processes
- Give full control and visibility over all relevant data
- Reduce the total cost of ownership

Our service

Our service includes the following performance:

- Monitoring of regulations and interfaces
- Adjustments to regulatory changes or changes to the interfaces (for example, EMIR Validation Rules, MiFIR 1.3 Release, etc.) - Customer is always compliant
- Operation and development of the deltaconX regulatory platform
- Support and maintenance

Our platform

Our platform is a MultiRegTech Solution that combines different requirements for regulatory reporting and market surveillance in a single solution.

It's also an innovative software solution specifically tailored to the needs of European financial, energy and commodity traders, enabling them to meet their regulatory obligations under:

- EMIR
- SFTR
- MiFIR Art. 26
- FinfraG
- MiFID II Art. 58
- REMIT
- MiFID II Art. 20/21
- MAR

Our platform is a source-agnostic system offering complete input and output flexibility, and a full audit trail of data ingestion, processing and transmission.

DTCC

ADVANCING FINANCIAL MARKETS. TOGETHER.™

www.dtcc.com

With over 45 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 15 countries, DTCC, through its subsidiaries, automates, centralizes and standardizes the processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers. Industry owned and governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management, data reporting and information services across asset classes, bringing increased security and soundness to financial markets.

In 2019, DTCC's subsidiaries processed securities transactions valued at more than U.S. $2.15 quadrillion. Its depository provides custody and asset servicing for securities issues from 170 countries and territories valued at U.S. $63.0 trillion. DTCC's Global Trade Repository service, through locally registered, licensed, or approved trade repositories, processes over 14 billion messages annually. To learn more, please visit us at www.dtcc.com or connect with us on LinkedIn, Twitter, YouTube and Facebook.

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EquiLend is a global financial technology firm offering trading, post-trade, market data, regulatory and clearing services for the securities finance, collateral and swaps industries. EquiLend has offices in New York, Boston, Toronto, London, Dublin, Hong Kong and Tokyo.

EquiLend's services include:

- NGT, the securities finance industry's most active trading platform
- Collateral Trading, enabling funding and financing desks a centralised way to execute and manage trade structures with their counterparties
- Swaptimization, automating global equity total return swaps trading workflow
- EquiLend Post-Trade Suite for securities finance operations
- DataLend, providing performance reporting and global securities finance data to agent lenders, broker-dealers, beneficial owners and other market participants
- EquiLend Clearing Services, offering trading services and CCP connectivity
- EquiLend SFTR, a no-touch, straight-through solution for the Securities Financing Transactions Regulation
- EquiLend Spire, a front-, middle- and back-office platform for securities finance businesses

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FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

Sitting at the intersection of technology and finance, FIS is focused on delivering fresh ideas and inventive solutions to help our customers adapt and thrive in an ever-changing environment. With a blend of software solutions, cloud infrastructure, global service capabilities and deep domain expertise, FIS is capable of supporting virtually every type of financial organisation, including the largest and most complex institutions in the world.

Whether on the supply or demand side, FIS' comprehensive range of market data, securities finance and collateral management solutions gives our clients the efficiency to run smarter operations and the agility to capitalise on opportunities.

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IHS Markit, in partnership with Pirum Systems, offers an end-to-end reporting solution for Securities Financing Transactions Regulations (SFTR). The collaboration sets an industry-wide standard to aggregate, exchange, enrich, reconcile and report trading activity across all in-scope SFTs. Building upon advanced connectivity with CCPs, triparty agents, venues and trade repositories; the turn-key service leverages a proven track record of delivering industry-wide reporting solutions and more than 16 years of partnership with the securities finance community.

Key benefits:

- **Built-in infrastructure and relationships:** An extensive network of data contributors, built over 16 years, represents $21 trillion of inventory held by over 120,000 underlying funds. Over three million transactions are processed and matched each day using a reporting specification covering the majority fields required by the SFTR legislation.
- **Comprehensive product coverage**: IHS Markit's unique Design Partner framework means the product benefits from the ongoing input and feedback of many of the world's largest securities finance participants across securities lending, repo, prime brokerage and commodities finance markets.
- **Flexibility:** The system's modular architecture helps firms meet not only their individual needs for SFT reporting but also includes customisable delegated reporting modules to support on-behalf reporting. This flexible approach extends outward to data sources such as CCPs, triparty agents, trading venues and trading platforms.
- **Future-proof compliance:** A forward-looking approach to design provides flexibility to support anticipated future securities finance transaction reporting regimes in a holistic way.

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Kaizen Reporting are regulatory reporting specialists on a mission to transform the quality of transaction-based reporting in the financial services industry. They have combined regulatory expertise with advanced technology to develop their market-leading automated quality assurance services which are unique in giving clients full visibility of their reporting quality.

Kaizen's assurance services are used by some of the world's largest banks, asset managers, hedge funds and brokers, and have been recognised with multiple industry awards including a UK government Queen's Award for Enterprise.

Formed in 2013 by former regulator Dario Crispini, Kaizen's services were developed to directly address regulatory reporting data quality. For SFTR, this means accuracy testing of every report, testing and mapping of all client identifiers and reference data plus testing that all delegated reporting has been reported accurately and completely.

Kaizen's SFTR services are led by Senior Regulatory Reporting Specialist Jonathan Lee, a leading expert on the regulation, who has been at the forefront of industry educational and advocacy efforts for SFTR reporting.

Whether it's SFTR or another G20 regulation, Kaizen Reporting helps financial firms reduce costs, improve quality and increase confidence in their regulatory reporting.

What are your SFTR reporting challenges? For a conversation with one of our regulatory specialists, please get in touch.

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KDPW (The Central Securities Depository of Poland) is one of the key infrastructure institutions of the Polish financial market and CEE region. KDPW has more than 25 years of experience on the Polish and European capital market and offers a broad range of financial services to Polish and international clients. Among them – also trade repository services. KDPW Trade Repository was one of the first trade repositories in Europe to be registered by the European Securities and Markets Authority (ESMA).

In May 2020 ESMA has decided to extend the registration of the KDPW Trade Repository to include trade reporting under SFTR. The KDPW Trade Repository is one of four repositories whose registration has been extended to include SFTR reporting.

KDPW, which operates the Trade Repository under EMIR, has the necessary experience, expertise, resources, as well as a range of technological and procedural solutions necessary to accept and maintain trade reports.

Complementary services offered by KDPW provide participants of the Trade Repository (under SFTR and under EMIR) with clear benefits afforded by the existing KDPW_TR communication interfaces, the ability to meet both obligations by reporting to a single repository, reduced workload, available technological solutions, expert support, as well as low prices, all those factors ensuring a significant reduction of the cost of the reporting obligations.

Our strengths:

- Attractive fees tailored to your reporting needs. Simple, no nonsense fees
- Backed by our experts with proven regulatory reporting experience
- Full ESMA authorisation for EMIR/SFTR/MiFIR-MiFID II reporting
- Client-friendly onboarding and porting
- Easy switching and free porting to KDPW TR

Thinking of switching your TR? See what KDPW TR can offer you!

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MarketAxess Post-Trade is a leading provider of trade matching and regulatory reporting services and is a trusted source of comprehensive and unbiased pricing and liquidity information to the global securities market. MarketAxess processes over 1 billion cross-asset class transactions annually on behalf of its community of over 600 entities including approximately 12 million fixed income transactions. MarketAxess operates an approved publication arrangement (APA) and approved reporting mechanism (ARM) for MiFID II trade and transaction reporting. Additionally, MarketAxess provides support for other regulatory regimes such as SFTR helping clients automate, standardise, and streamline their reporting at every stage.

MarketAxess is headquartered in New York and has offices in London, Amsterdam, Boston, Chicago, Los Angeles, Miami, Salt Lake City, San Francisco, São Paulo, Hong Kong and Singapore. For more information, please visit www.marketaxess.com.

www.murex.com

For more than 30 years, Murex has been providing enterprise-wide, cross-asset financial technology solutions to capital markets players. Its cross-function platform, MX.3, supports trading, collateral management, treasury, risk and post-trade operations, enabling clients to better meet regulatory requirements, manage enterprise-wide risk, and control IT costs.

With more than 50,000 daily users in 60 countries, Murex has clients in many sectors, from banking and asset management to energy and commodities. Murex is an independent company with over 2,200 employees across 17 countries. Murex is committed to providing cutting-edge technology, superior customer service, and unique product innovation.

The MX.3 platform addresses the core collateral management and securities finance challenges facing market participants. It offers a single integrated framework for enterprise-wide margining, optimization, regulatory compliance and collateral trading. Moreover, it delivers advanced exposure management monitoring, while offering broad product coverage and full lifecycle management.

Murex's collateral management and securities finance solutions have been designed to help banks to meet complex regulatory demands, including FRTB, SFTR and non-cleared margining rules. With the compliance deadline for initial margin regulation fast approaching, thousands of financial institutions are seeing an overall increase in the demand for collateral assets. At the same time, an increase in the consumption of high-quality liquid assets is significantly impacting the supply. Securities finance and treasury desks must put in place the right technology that will allow them to act as business enablers and adapt to these stringent market conditions. Contact the Murex team today at info@murex.com to learn more about how we help our clients to establish new operating models while also meeting regulatory deadlines.

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Pirum offers a secure, centralised automation and connectivity hub for global securities finance transactions (Stock Loan, Repo & OTC), enabling complete automation of the post-trade and collateral lifecycle. Our position within the securities financing market enables clients to seamlessly access counterparts, tri-party agents, trading venues, market data companies and CCPs, as well as regulatory reporting facilities.

We combine an in-depth understanding of both the securities finance industry and the most innovative technology to provide highly innovative and flexible services. Supporting established and emerging financial institutions, Pirum's pioneering approach consistently reduces operational risk while increasing processing efficiency and profitability.

Pirum's innovative designs and customer focus have resulted in widespread industry recognition and multiple awards. Pirum was most recently named Global Post-Trade Service Provider of the Year at the International Securities Finance 2019 Awards, and our CollateralConnect product was named as the winner of the software solution award, for the second year in a row.

www.regis-tr.com
https://podcasts.apple.com/us/podcast/the-regis-tr-roundup

REGIS-TR is a leading European trade repository offering reporting services covering all the major European trade repository obligations. In accordance with legislation promoting market transparency, the detail of the trades reported is aggregated to present a composite view of current positions for the benefit of regulatory authorities and market participants. REGIS-TR is open to financial and non-financial companies and institutions. In May, we received authorisation from ESMA to provide Securities Financing Transactions Regulation (SFTR), and we look forward to providing a fully flexible reporting service solution.

REGIS-TR is a joint venture of Clearstream (Deutsche Börse Group) and Iberclear (BME Group).

In the UK, our sister TR, REGIS-TR UK LTD, is registered by the FCA to deliver full UK EMIR services after Brexit. REGIS-TR UK LTD will introduce SFTR services for the UK in line with FCA timetables.

Securities Finance and Collateral Management Solutions for Every Firm

- Optimize lending, funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Flexible to firms of all sizes in any location
- Meet regulatory and market requirement

Ready for Next

Communications
Technology
Data and Analytics

Broadridge.com