SFTR + Brexit = ?

Elizabeth Pfaltz

Elizabeth Pfaltz does Brexit have any impact on your proportion and planning for SFTR?

Val Wotton

Val Wotton from a trade repository perspective, it links to what we are already doing for the European Market Infrastructure Regulation. The SFTR is a bigger project, so we are in a place where we will have a live trade repository for derivative trade reporting and a T+2 trade repository as well, so we would look to replicate that into the SFTR.

Ed Oliver

Yes, in our case and we are building it, but we continue to watch and see how the landscape plays out in relation to Brexit.

Elizabeth Pfaltz

I am sure we will all watch with interest.

Pierro Khennadiou

We are trying to work how the fundamentals of it may play as possible for clients. For example, for ESRB reporting it is only as simple as our clients saying Financial Conduct Authority (FCA) or ESRB’s message and then connect to the trade repository for all of it. It is a case of ‘why do we want to manage the impact of these events’ — and, in all honesty, we still have no plan on how we want to manage the impact.

Ed Oliver

Because we are a trading platform plus, we have had to set up an Irish entity to be able to accommodate SFTR. Our approach is one of ‘wait and see’.

Pierro Khennadiou

Everybody is working on the scenario that it is ‘going to be a hard Brexit’.

Ed Oliver

Yes, there is the possibility of unintended consequences with any new rules imposed across a sector, so what does the SFTR mean for all financial players operating in Europe from 2019?

Val Wotton

The Securities Financing Transactions Regulation (SFTR) came into force in the Financial Stability Board and gave the Financial Conduct Authority (FCA) the powers to set up and run a trade repository. SFTR impacts a number of counterparties — European entities and their branches, as well as non-European branches of non-European entities.

Pierro Khennadiou

There is a requirement to provide transaction details as a T+5 basis, both trade and collateral information, in SFTR. It is very detailed with valuations and collateral. This is the first time it has come into place in the securities financing transaction repository. Europe is in the lead around this regulation. It’s currently the first time the UK has introduced a new regime to trade and ensure it is within our plans and in being able to be ready to implement next year. There is a global trend, due not being an EU GAAP commitment.

Elizabeth Pfaltz

What is the timeframe? We are in terms of implementation and signing of client agreements.

Val Wotton

We have been on tenterhooks throughout the past year and we have had various Commission initiatives to approve the technical standards. We believe we will be ready to implement SFTR in Q1 2020. It is the first time they have phased a regulation in across different market participants. It will work through four phases, with non-financial counterparties at the end of the first phase.

Elizabeth Pfaltz

What does this mean in a day-to-day basis for insurers, asset owners and service providers?

Val Wotton

Two-hemispheres throughout the past year and half is a long time for any change to work. For our average loan file we are probably providing around 25 or 30 data points, but with SFTR there could be up to 153 data fields required, so it is going to be a challenge.

For the counterparty issue — and their responsibility to report — they do have assets that their data provider doesn’t quite provide or, on top of that, they have to go through the checks on the data. We will do all the provisioning as well, because it is a dual-sided reporting facility. The investor and borrower will report and there must be a reconciliation between each side. We would be running the test to make sure both they and the investor have responded in a timely manner, so clients can manage the delivery of a product and not just the information. We have been working with the industry and regulators to make sure everything is in place to provide the technology that will support developing products that meet that requirement. If you consider where we are in the regulatory process, services providers are likely to be managing the delivery of a product in a timely manner, so clients can have access to the information and solutions ready once ‘Go live’ arrives.

Pierro Khennadiou

Our approach is one of ‘wait and see’, waiting to see what the impact of SFTR is having a SFTR landscape for non-financial counterparties last at 2017. It is a challenge for firms to source — it is an exercise itself — the current process is, to be able to digest what the regulatory change is, what are lots of components that are operation model as well, so there is going to be a change in the target operating model and understanding what the change to the current process is, to be able to engage with the industry and regulators to make sure these components are in place.

EIOPA is not just the data elements themselves — the current implementation of SFTR may be that data is a little bit more granular, so there is a volume of data that is being reported and it has been mooted in the US. It is taking the lead around this place in the securities financing transactions. It is a challenge for firms to source — it is an exercise itself — the current process is, to be able to digest what the regulatory change is, what are lots of components that are operation model as well, so there is going to be a change in the target operating model and understanding what the change to the current process is, to be able to engage with the industry and regulators to make sure these components are in place.

In brief

Where we are when it comes to the implementation and signing of Fall papers.

What does SFTR mean for insurers, asset owners and service providers?

Insurance providers understand the scope and scale of SFTR.

Val Wotton

Insurance providers understand the scope and scale of SFTR.

Elizabeth Pfaltz

Val, can you say how your firm is approaching the regulations all at once and what type of benefits it brings to you as an organisation?

Val Wotton

As a trade repository we are already building it, but we continue to watch and see how the landscape plays out in relation to Brexit. We are already in a place where we will have a live trade repository for derivative trade reporting and a T+2 trade repository as well, so we would look to replicate that into the SFTR.

Ed Oliver

Yes, in our case and we are building it, but we continue to watch and see how the landscape plays out in relation to Brexit.
Spotted the unexpected

Regulation with benefits for clients and industry

Elisabeth Pfeuti
What are the unannounced consequences of SFTR?

Pierre Khemdoudi
Although securities financing transactions (SFTs) have been part of the capital markets for quite some time, they are still subject to a fragmented regulatory framework. With the introduction of SFTR, regulators are taking a broader and more comprehensive look at the entire lifecycle of an SFT, from origination and back-office operations, through operations and settlement, and finally to the back-office and regulatory reporting. This is an important development that has the potential to drive efficiency and transparency across the industry.

In brief

Elisabeth Pfeuti
The securities financing transaction report is in place to give a clearer picture of what is going on. We are now seeing a much more comprehensive view of the entire lifecycle of an SFT, from origination to back-office and regulatory reporting. This is a positive development that has the potential to drive efficiency and transparency across the industry.

Post-SFTR challenges

Pierre Khemdoudi
But if we do not get this right as an industry on day one, there will be a need for regulatory intervention, either in the form of years-end reporting or in the form of a trade repository.

Elisabeth Pfeuti
I am interested to see how these techniques start to be incorporated into regulatory frameworks, and to see how they drive the adoption of standardised products and data elements, and standardised business processes.

Pierre Khemdoudi
We have to look at the business case for what the industry needs most. The ability to have a more efficient and transparent system would have a far higher impact on the industry. However, it is important to note that this requires an understanding of the regulatory landscape and its impact on the industry.

Elisabeth Pfeuti
The growing need for technical solutions means companies should look to artificial intelligence, digital ledger and the Cloud to accelerate their agenda over time and relax with it then ultimately feed down into the trade repository costs, we are still in an unknown situation.

Val Wotton
And it is putting those components of cost, depending on whether you use different solutions, into the overall cost picture to understand the totality of the cost dynamic is really the next step. Considering making upfront strategic investment may be a short-sighted decision. It is a very short-term focus for firms.\n
Elisabeth Pfeuti
This is a very short-term focus for firms. But we do get this reporting right as an industry on day one, it will help regulators understand the impact and the cost implications eating into the EU financial institutions. The SFTR will take time, but we cannot question if it is really working.\n
Elisabeth Pfeuti
we need to look closely, because it could generate unintended consequences of SFTR and the SFTR reporting right as an industry on day one, we can see it in the industry.\n
Elisabeth Pfeuti
For SFTR, there is an opportunity to finally take some benefit of it. It is hard to do that in the industry. They do not have these business cases or these pockets any more. They are already working on these data buses and data lakes, but there are a lot of different business areas that need to be integrated.

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