The securities finance sector is bracing for trade reporting regulation coming next year. Securities Financing Transaction Regulation (SFTR) is expected to begin to phase in for the largest market participants in late 2019. But don’t let the implementation date fool you. There is much to prepare between now and then and, the Depository Trust & Clearing Corporation (DTCC) advise “do not underestimate the work required—start preparing now”.

Although the financial services industry gained valuable experience from the trials and tribulations of complying with the various regulations born from the financial crisis, the securities finance sector has significant groundwork to lay in order to be ready for SFTR.

SFTR shares many similarities, as well as differences, with the European Market Infrastructure Regulation (EMIR) and the second Markets in Financial Instruments Directive (MiFID II). Being a systemic risk reporting regime, SFTR, which covers securities finance transactions, is more closely aligned with EMIR, which
covers over-the-counter (OTC) and exchange-traded derivatives, than with MiFID II, which regulates most derivatives and cash financial instruments and is centered on transparency and market abuse. Both EMIR and SFTR require reporting to a trade repository supervised by the European Securities and Markets Authority (ESMA), whereas MiFIR requires reporting to a National Competent Authority (NCA), either directly, or via an Authorised Reporting Mechanism (ARM).

The securities finance industry arguably has more work to do in comparison to the derivatives industry when it first faced trade reporting regulation, specifically in regards to data availability and the workflows that currently sit at the core of the securities finance industry. Mark Steadman, DTCC executive director, GTR European head of product development, warns: “Firms need to define best practices upfront, otherwise they risk more pain in the long run.”

Steadman also suggests: “Those who are not yet engaged with SFTR, really need to be.”

Conversations with industry participants show that a number of institutions are redeploying teams that have until recently worked on MiFID II onto the SFTR work.

Steadman explains: “We are seeing firms mobilise much more now resources are freeing up from MiFID II, and they’re initially looking to see how they can access and get the data they need in order to meet the reporting obligations. Many clients are really looking at the design and analysis of an end-to-end architectural solution at this stage.”

His advice to clients and other firms on how they should be preparing for SFTR is relatively straightforward and focused on data. He says: “A lot of firms are looking to source data. The most important thing is working through the workflows, understanding the data that needs to be reported as well as where they are going to get it from, as well as identifying the gaps. Clients then need to look at their overall end-to-end infrastructure and how they are going to plug those gaps.”

If preparations and compliance are done correctly, he sees clear benefits to be gleaned from SFTR. He identifies transparency of data as the most important issue and suggests: “The industry itself has tried to get a grip on the volumes of reporting that this is going to create. That in itself speaks to the lack of transparency that we see at the moment in the industry. The work that needs to be done to bring increased data transparency may bring economic benefits such as more accurate pricing.”

When looking back at derivatives reporting, it was a little bit of a slow process, or an easing in to trade reporting because the rules of validation were not as strict and tight as ESMA intends to make them from day one in the securities financing space.

Historically, under changes to the derivative reporting regimes the market has taken time to adjust to new mandatory requirements but reporting firms under SFTR should be aiming to report as accurately as possible. Whilst this increases the challenge of full compliance from day one, it needs to be the end target. That said, it should not be taken lightly, he advises. Firms should be looking to report as efficiently as they can, suggesting “if firms treat it with the seriousness that it deserves, and they don’t have to come back and repeat themselves through remediation of inaccurate reporting, they avoid incurring more costs and more disruption to their business”.

Reporting isn’t just about reporting in to a trade repository, it is also about having the correct controls in place and making sure that the required reporting takes place in an accurate and timely manner. Steadman explains: “Those elements can be overlooked by firms that are not necessarily familiar to an EMIR-like trade reporting regime, but they are critical to the success of implementation.”

He adds: “Firms should ensure that they have robust control frameworks in place including control over the data reported on their behalf, reflected fully in their books and records.”

DTCC has had an action-packed 12 months, according to Steadman. He revealed: “The major project that we are working on is the re-platforming of the Global Trade Repository (GTR) which enables us to extend the services of the GTR for SFTR.”

“This is paying dividends”, he says, “and paves the way to build new value-added services on top of the existing infrastructure and to also extend functionality for services like SFTR with competitive pricing.”

The heavy investment the industry has made in building out a global infrastructure for OTC derivatives trade reporting over the past five has helped DTCC establish an extensive portfolio of trade repositories in Europe, Asia Pacific and North America. He explains: “When the SFTR technical standards come in to place outside of Europe, firms won’t want to build out to another trade repository. We are the only global option.”

He is clear and passionate in his reply when asked why he thinks clients may select DTCC over other firms for SFTR reporting needs. Steadman explains: “From our perspective it’s worth looking back to why we become a trade repository in the first place. We were created by the industry for the industry and to be independent. Our objective is to be trusted guardians of the industry’s data. As the operator of three systemically important financial market utilities, DTCC adheres to the highest standards of security, reliability and transparency of data. We are an industry governed market utility, but commercial in the way we run our business, especially in terms of being able to price competitively.”

He concludes by going back to the basics, suggesting “if you look at the origins of SFTR, it is born out of a global Financial Stability Board agreement to monitor financing markets and provide transparency into ‘shadow banking’, in a similar way to G20 commitments to monitor systemic risk in derivatives through legislation such as EMIR and the Dodd-Frank Act. Therefore, we do expect it to go global.”

“He is clear and passionate in his reply when asked why he thinks clients may select DTCC over other firms for SFTR reporting needs. Steadman explains: “From our perspective it’s worth looking back to why we become a trade repository in the first place. We were created by the industry for the industry and to be independent. Our objective is to be trusted guardians of the industry’s data. As the operator of three systemically important financial market utilities, DTCC adheres to the highest standards of security, reliability and transparency of data. We are an industry governed market utility, but commercial in the way we run our business, especially in terms of being able to price competitively.”

He is clear and passionate in his reply when asked why he thinks clients may select DTCC over other firms for SFTR reporting needs. Steadman explains: “From our perspective it’s worth looking back to why we become a trade repository in the first place. We were created by the industry for the industry and to be independent. Our objective is to be trusted guardians of the industry’s data. As the operator of three systemically important financial market utilities, DTCC adheres to the highest standards of security, reliability and transparency of data. We are an industry governed market utility, but commercial in the way we run our business, especially in terms of being able to price competitively.”

He concludes by going back to the basics, suggesting “if you look at the origins of SFTR, it is born out of a global Financial Stability Board agreement to monitor financing markets and provide transparency into ‘shadow banking’, in a similar way to G20 commitments to monitor systemic risk in derivatives through legislation such as EMIR and the Dodd-Frank Act. Therefore, we do expect it to go global.”

“He is clear and passionate in his reply when asked why he thinks clients may select DTCC over other firms for SFTR reporting needs. Steadman explains: “From our perspective it’s worth looking back to why we become a trade repository in the first place. We were created by the industry for the industry and to be independent. Our objective is to be trusted guardians of the industry’s data. As the operator of three systemically important financial market utilities, DTCC adheres to the highest standards of security, reliability and transparency of data. We are an industry governed market utility, but commercial in the way we run our business, especially in terms of being able to price competitively.”

He concludes by going back to the basics, suggesting “if you look at the origins of SFTR, it is born out of a global Financial Stability Board agreement to monitor financing markets and provide transparency into ‘shadow banking’, in a similar way to G20 commitments to monitor systemic risk in derivatives through legislation such as EMIR and the Dodd-Frank Act. Therefore, we do expect it to go global.”

“That puts us in a perfect position. As the only global trade repository, the choice is a simple one.”

DTCC’s Global Trade Repository (GTR) for OTC derivatives reporting is the largest trade repository, serving approximately 80 percent of the global market.

GTR covers all asset classes, processing over 14 billion messages annually, 40 million open trades a week, cover 100,000 entities, serving 6,000 clients and connected to 150 partners worldwide.

For ESMA reporting alone, GTR captures around 60 percent of market volume and has the largest community of users.
THE GLOBAL TRADE REPOSITORY (GTR)

THE SECURITIES FINANCING & DERIVATIVES EXPERTS IN TRADE REPORTING

Ask us about our SFTR solution.

DTCC.COM/SFTR