

Securities Financing Transaction Regulation (SFTR)



7 October 2019

Frequently Asked Questions

1. What is SFTR?

The concerns about systemic risk that arose among the G20 countries following the global financial crisis in 2007/8 were not limited to Over-the-Counter (OTC) derivative transactions. The G20 countries also recognised the risks that could arise from exposure to securities financing transactions (SFT) - repos, securities lending and margin lending. The FSB published a policy framework to address the risks arising from these transactions in August 2013 and followed this by a more detailed paper on standards and processes in 2015. The EU had been involved on the FSB working groups and was prepared to publish the EU regulations following the publication of the final Financial Stability Board (FSB) paper in 2015. So, on 25th November 2015 regulation 2015/2365 (level 1 SFTR text) was published. This regulation required European Securities Markets Authority (ESMA) to develop a Regulatory Technical Standard (RTS) and Implementing Technical Standard (ITS) and these documents, EU 2019/356 and EU 2019/363 respectively, were posted to the EU official journal in March 2019.

The 2015 regulation noted that the scale of 'credit intermediation', termed 'shadow banking' in the FSB reports, was approximately half of the regulated banking market and that any issues had the potential to have knock on affects throughout the financial system, in much the same way as credit derivative defaults had in 2007/8. The EU is fully aligned with this belief and the regulation makes it clear it will contribute towards the global transparency of SFT exposures by aligning fully with the overarching FSB framework.

2. When does SFTR take effect?

This regulation instructed ESMA to define the details of how such trades should be reported (known as RTS and an ITS). The final versions of these documents were published in the EU Official Journal on 22nd March 2019 and entered into force on 11th April 2019.

Consequently the implementation timetable is as follows.

- 11th April 2020 - Banks and Investment Firms
- 11th July 2020 - CCPs and CSDs
- 11th October 2020 – Other Financial entities
- 11th January 2021 – Non-Financial entities

3. Who is in scope for SFTR?

The following entities are required to report under SFTR.

- Financial counterparties that are established in the EEA, or where an SFT is executed by a branch that is located in the EEA. These financial counterparties are detailed as the following:
 - An investment firm authorised under 2014/65/EU
 - A credit institution authorised under 2013/36/EU or 1024/2013
 - An insurance firm under 2009/138/EC
 - A UCITS under 2009/65/EC
 - An AIF under 2011/61/EU
 - Pension fund under 2003/41/EC
 - CCP under 648/61/EU
 - Central securities depository under 909/2014
- Non-financial counterparties
- Counterparties engaged in reuse that are established in the EEA or executed by a branch that is located in the EEA

The following entities are exempt from reporting:

- Members of the European System of central Banks
- Bank of International Settlements

4. What are the products in scope of SFTR?

The following products are deemed in scope for reporting purposes.

- Repurchase transactions (Repo)
- Buy-sell back or sell-buy back transactions
- Securities and commodity borrow and loan transactions
- Margin lending transactions
- Collateral reuse transactions
- Liquidity swaps
- Collateral swaps

5. When must SFTs be reported and to whom?

There are three reports that must be reported to the Financial Conduct Authority (FCA) via an approved Trade Repository on a Trade Date+1 basis (or Settlement +1 basis in some cases)

- All eligible securities financing transactions, including details relevant to the parties to the transaction (deemed by ESMA as “Table 1”) and the associated transaction details (“Table 2”)
- Margin associated with any cleared securities financing transactions (“Table 3”)
- Collateral Re-Use (“Table 4”)

6. If both firms are in scope of SFTR, do both parties to the transaction report?

Both parties are required to report, unless one party is deemed a non-financial counterparty whose balance sheets do not exceed the limits of at least two of the three criteria laid down in Article 3(3) of Directive 2013/34/EU (NFC-). In this case, NWM will report on behalf of such counterparty.

7. Are LEIs mandatory going forward? Do I have to have a Legal Entity Identifier (LEI)?

All Natwest Markets (NWM) clients undertaking trades in eligible financial instruments under SFTR will need to provide its LEI to NWM to be able to continue executing these trades, so that both they and NWM can be compliant with the applicable regulatory obligations. NWM will be undertaking an outreach to all impacted clients in order to obtain their LEIs.

8. What are NWM's legal entities and LEIs?

NWM Plc's LEI is RR3QWICWWIPCS8A4S074. NWM NV LEI is X3CZP3CK64YBHON1LE12. For all other NatWest Markets entities, please contact us at the email address below.

9. Does SFTR only affect trades executed after the compliance date?

Generally, SFTR provisions apply only to trades executed on or after the compliance date. However, there are two points to note:

- Some events on trades which were executed prior to compliance date may also be in scope, such as re-rate events
- Article 4(1)(a)(i) requires the reporting up to but excluding 190 days after the relevant reporting compliance date of any repo with a fixed term to maturity which:
 - was executed before the compliance date; and
 - is still outstanding on the compliance date; and
 - still has more than 180 days remaining to maturity from the compliance date.

In addition, Article 4(1)(a)(ii) requires the reporting from and including 181 days up to but excluding 190 days after the relevant compliance date of any open repo which:

- was executed before the compliance date; and
- is still outstanding on the compliance date; and
- has not been terminated during the 180 days after the compliance date for the reporting party.

10. Are Securities Financing Transactions with central banks eligible under SFTR?

Under Article 2(3), transactions with members of the European System of Central Banks (ESCB) do not have to be reported under SFTR. However note they are eligible under Markets in Financial Instruments Regulation 600/2014 (MiFIR) transaction reporting.

11. What other requirements are there under SFTR?

Reconciliations: Under Article 4 of the RTS, the trade repository will seek to reconcile each securities financing transaction reported with the other firms submission. Therefore it is expected each firm shall report timely and accurately.

Reporting Format: Reports made under the SFTR regulation must conform to the ISO 20022 XML standard.

12. Who are the trade associations supporting counterparties to deliver SFTR

The International Capital Market Association (ICMA)

<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/repo-and-collateral-markets/regulation/regulatory-reporting-of-sfts/>

The International Securities Lending Association (ISLA)

<https://www.isla.co.uk/regulation-and-policy/markets-regulation/securities-financing-transactions-regulation-sftr/>

13. How will Brexit impact reporting?

SFTR as part of EU law has been incorporated into UK law and so will continue to apply after the United Kingdom leaves the European Union the scope of UK SFTR reporting will apply to the UK equivalent of the categories of counterparties under SFTR (with the exception of NFC counterparties who are exempted) but only where established in the United Kingdom as opposed to the European Union. Brexit will not impact the reporting obligations of counterparties established in the European Union under the EU version of SFTR