

SFTR: SECURITIES FINANCING TRANSACTIONS REGULATION

ARE YOU READY?

WHAT IS SFTR?

In 2015, the EU adopted the Securities Financing Transactions Regulation (SFTR) to increase transparency of securities financing transactions (SFTs) in the European market. SFTR is the EU's response to the G20 concerns about high-risk activities moving from regulated banking entities into unregulated 'shadow banking'. This regulation established that both parties to an SFT need to report new, modified or terminated SFTs to a registered or recognized Trade Repository (TR), including the composition of the collateral. SFTR's reporting go-live timeline is scheduled between 2020 and 2021, with the first phase now fast approaching.

Due to its similarities with the European Market Infrastructure Regulation (EMIR), which focuses on increasing transparency in the European derivatives markets, most financial institutions have tended to overlook the specifics of SFTR and are yet to address the potential challenges it poses to their business.

WHAT DOES SFTR MEAN FOR IMPACTED INSTITUTIONS?

SFTR includes a set of new rules on collateral reuse, transparency for fund investors and new reporting obligations.

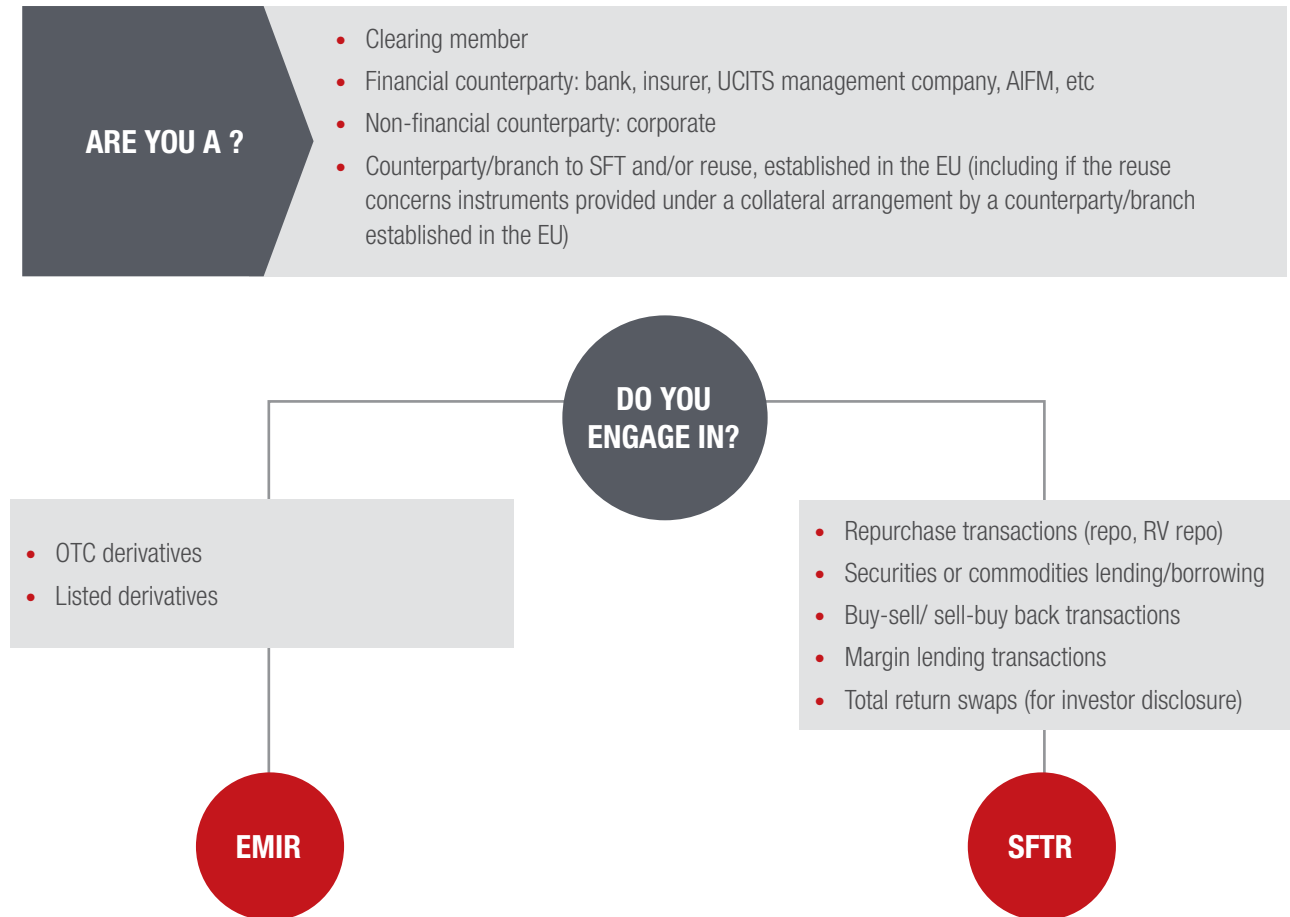
The first reporting obligation is expected to start in April 2020. The following rules will apply:

- Both counterparties must report the details of the "conclusion, modification and termination" of an SFT to an approved Trade Repository on T+1
- The associated collateral must also be reported on T+1 or value date +1
- The records of an SFT must be kept for five years after the termination



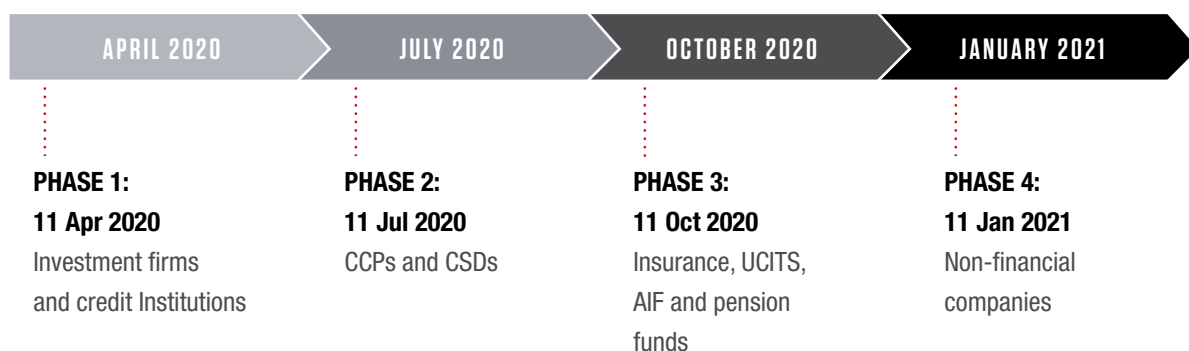
IS YOUR INSTITUTION IMPACTED?

If your institution falls into one of the below categories and deals with the activities listed, you are impacted by the SFTR's reporting obligation.



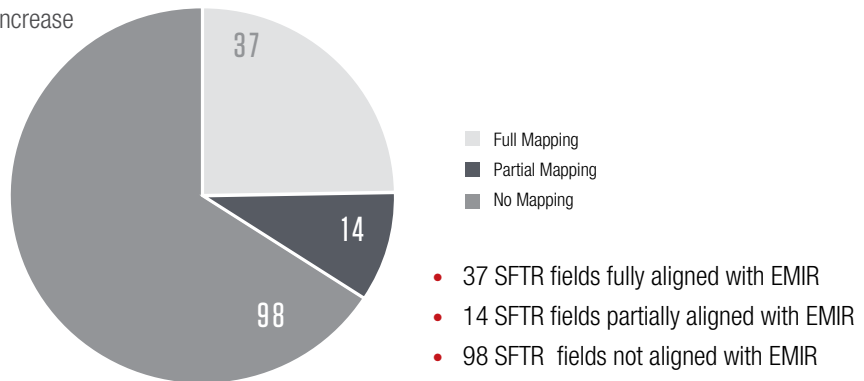
PHASED REPORTING TIMELINE

SFTR's reporting timeline is scheduled over four phases, according to the type of firm (as shown below).



SIMILARITIES AND DIFFERENCES BETWEEN EMIR AND SFTR

Although the two regulations both aim to increase transparency around collateral transfers, the reporting differs significantly in terms of scope, flows and other requirements between EMIR and SFTR.



SFTR and EMIR differ in terms of scope, flows and reporting requirements

SFTR IMPACT ANALYSIS

Whilst businesses understandably focus on SFTR compliance, they must not overlook the regulation's impact on their trading activity and operating model. At Capco, we have assessed the impact on the Target Operating Model and see significant impacts on end-to-end processes, controls and technology.

1. BUSINESS PROCESSES

- Transaction processing optimized for T + 1 reports
- Guidelines and controls for using SFTs
- Reporting of SFTs

2. DATA MANAGEMENT

- Reference data including legal persons or counterparty identification
- Data for calculating the share of AUM or assets
- Aggregated data on the transaction yield including collateral

3. METRICS & REPORTING

- Reporting obligation for all ongoing, changed or canceled transactions
- Cost and income details per entity in absolute and relative terms

4. TRADING & COLLATERAL MANAGEMENT

- Information on SFTs and related risks
- Definition of criteria for counterparty selection
- Defined limits and governance for the reuse of collateral

5. DEVELOPMENT & SECURITY

- Legally binding rights of use and transfer documentation
- Extended asset retention criteria
- Compilation of the necessary data for transaction-level reporting

6. TECHNOLOGY ARCHITECTURE

- Efficient reconciliation processing platform
- Integration of the reporting in the format required by trade repositories
- Revised controls and governance for SFTs

HOW CAPCO CAN HELP

Through the combination of a strong regulatory background and deep industry expertise, Capco's experts provide comprehensive regulatory consulting and strategy services to support businesses of any size. In addition, we leverage the experience of our global regulatory and SFTR practitioners to learn from markets (e.g. the UK) where SFTR has already been implemented.

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