

SFTR (Securities Financing Transactions Regulation)

Following the global financial crisis in 2008, the Financial Stability Board (FSB) decided to review the risks arising from securities securitization transactions. This work resulted in a framework of guidelines that was adopted in August 2013 and approved by the G20 in September 2013. In parallel with FSB's work, the European Commission has investigated the risks of shadow banking.

This document summarizes the transaction reporting requirements for securities financing (SFT) introduced by the EU Securities Financing Transactions (SFT) regulations. In addition to transaction reporting, SFTR also imposes a duty of consent and information for security holders with regard to the reuse of collateral (Article 15 SFTR). SFTR is a "sibling" with the regulatory framework EMIR, which in turn regulates OTC derivatives, central counterparties and transaction records.

Following consultation with the industry and the Member States, SFTR was adopted in November 2015 and entered into force in January 2016.

Goal

The goal of SFTR is to improve the supervision of securities financing transactions, to increase transparency and to regulate shadow banking. The purpose is to identify and monitor the risks of financial stability.

Important dates

SFTR entered into force on January 12, 2016. However, the sections relating to the transaction reporting (Article 33) for securities transactions are implemented incrementally according to:

- July 13, 2020: Investment companies and credit institutions, Central Securities Depository.
- October 12, 2020: all other financial counterparties including UCITs and AIFs.
- January 11, 2021: Non-financial counterparties.

What to report?

- Repos, reverse repos
- Securities Lending
- BSB/SBB
- Margin Lending

When to report?

Both counterparties to an SFT are required to report information on SFT to a registered Trade Repository (TR) on trade date +1, i.e. T+1. In cases where a collateral is linked to the transaction, this should also be reported T+1. If this is not known on T+1, it should be reported at the latest on settlement date+1, i.e. S+1.

The reported information is stored centrally and will be directly accessible to relevant authorities such as ESMA, the European Systemic Risk Board (ESRB) and the European System of Central Banks (ESCB).

Who is covered by the reporting obligation?

This is a two-sided reporting. This means that reporting to TR must be done for both parties that are part of an SFT. The actual reporting to TR can be delegated, but the responsibility itself cannot be delegated. The exception is when a financial counterparty enters into an SFT with a non-financial counterparty which in turn does not exceed the limits of at least two of the following criteria:

- (a) total assets: EUR 20 million;
- (b) net sales: EUR 40 million, and
- (c) average number of employees during the financial year: 250.

In these cases, the financial counterparty is responsible for reporting on both parties' behalf.

Identifiers

UTI (Unique Transaction Identifier)

A unique transaction identifier must be assigned to each transaction and included in the reporting to the Trade Repository.

LEI (Legal Entity Identifier)

In order to fulfil the reporting obligation for SFTR, a LEI is required. Since LEI must be renewed on an annual basis, it is important to ensure that LEI is valid before April 11, 2020.