NEX

Regulatory Reporting

SFTR – the key challenges and how to overcome them

April 2018

EMPOWERING MARKETS

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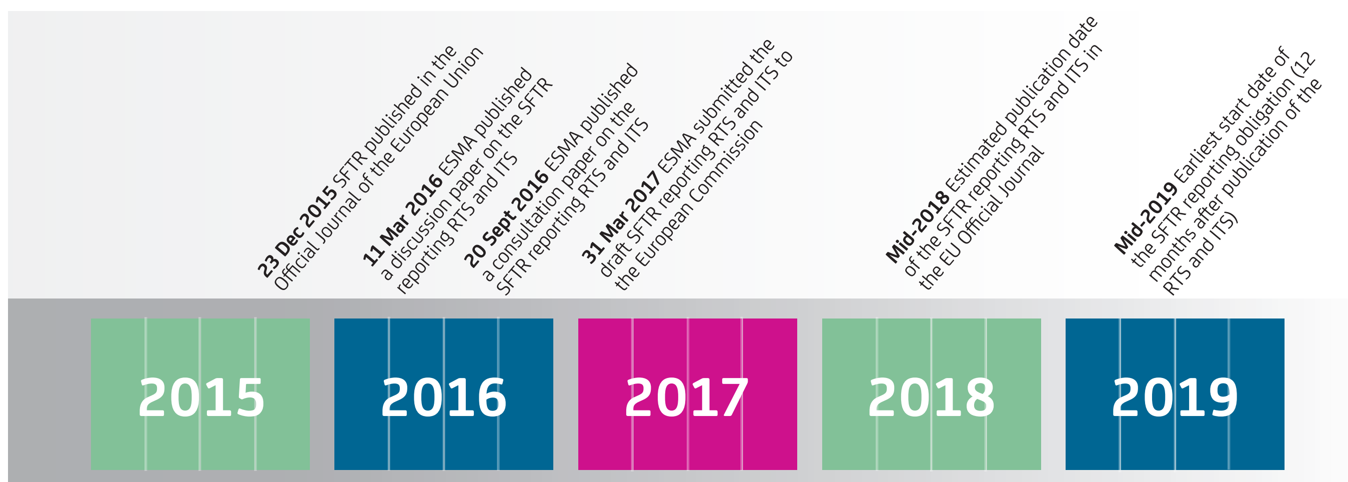
Executive summary

Securities Financing Transactions Regulation (SFTR) is the latest piece of the regulatory jigsaw aimed at strengthening investor protection following the trauma of the global financial crisis.

In some respects, it is the most challenging, because it shines a light on a segment of the market that has historically been lightly-regulated and under-reported. In casting the regulatory spotlight on to the repo and securities lending market, and on to the re-use or re-hypothecation of collateral, SFTR addresses the issue of opacity in the fast-expanding shadow banking sector. While shadow banking plays a constructive role in providing alternative sources of credit, it is also regarded as a potential source of financial instability and systemic risk.

The challenges associated with the implementation of SFTR are alleviated, in some measure, by the precedent of the European Markets Infrastructure Regulation (EMIR) in the derivatives market, if only because it provides a blueprint of many of the pitfalls to be avoided. Nevertheless, the reporting requirements called for by SFTR will be formidable. The reporting start date is still pending the adoption of the delegated act and publication in the EU Official Journal, but latest assumptions are that this will be mid-2018 and therefore the reporting start date will be mid-2019 at the earliest. With this in mind, it is essential that firms start work as soon as possible on the process of identifying and gathering the data they will need.

1 SFTR overview



> "You're joking! Not another one. Oh, for God's sake. I honestly can't stand this."
>
> ("Brenda from Bristol", April 2017)

Soon after the UK's General Election was called in 2017, the exasperation expressed in a BBC interview by a voter named Brenda from Bristol was widely regarded as a barometer of political fatigue in the UK. Across the buy-side as well as the sell-side of the financial services industry, market participants could be forgiven for expressing similar frustration with the alphabet soup of regulation they have been required to absorb since the global financial crisis.

One of the most recent additions to this repertoire is SFTR, the reporting for which will impact all EU financial and financial counterparties (small non-financial entities (NFC-) are exempt) active in the repo, securities lending and sell- and buy-back markets. As this extends to all branches, irrespective of their head office location, the new regulation will also apply to any counterparty established outside the EU transacting SFTs through an EU branch. Reporting of re-use also applies to counterparties outside the EU if the reuse concerns financial instruments provided under a collateral arrangement by an EU counterparty or an EU branch of a counterparty.

While it will inevitably add another layer of expensive and time-consuming requirements to the existing palette of regulation, SFTR is a necessary building block in strengthening investor protection. This is because the first phase of the regulatory response to the global financial crisis dealt principally with buttressing bank capital and enhancing governance standards. It was also aimed at safeguarding investors through MiFID II and EMIR. The costs of compliance with these new regulations have already been high. One estimate suggests that in the case of preparing for MiFID II alone, these have reached €2.5 billion for the buy-side[1].

Missing from the jigsaw was regulation addressing reporting shortcomings in the non-bank or shadow banking sector, much of which is underpinned by securities financing transactions (SFT), broadly defined as any transaction where securities are used to borrow or lend cash. The definition of SFTs in this regulation does not include derivative contracts defined under EMIR but includes transactions commonly referred to as liquidity swaps and collateral swaps not covered by EMIR. The most important and liquid of these is the market for repurchase agreements (Repo). In Europe alone, this amounted to €5.6 trillion at the end of 2016, which corresponds to approximately 13% of EU banking assets or 25% of outstanding European bonds and listed shares[2].

Securities lending, which is the lifeblood of the hedge fund industry, also make up a significant part of the broader SFT market. At the end of December 2016, according to the International Securities Lending Association (ISLA), the value of securities on-loan globally was €1.8 trillion, while the pool of lendable assets worldwide was estimated at €15 trillion.

Other notable components of the SFT universe covered by the new regulation are sell- and buy-back transactions, which are repo agreements which may or may not be documented, margin lending transactions, and total return swaps (although the latter will have already been reported under EMIR).

While the shadow banking industry fulfils a valuable role by providing alternative sources of credit for business, its recent expansion has been described as "alarming" by the European Commission, given that it is now estimated to

amount to "close to half" of the regulated banking system[3]. This explains why, in the words of the European Securities Market Association (ESMA) Chair, Steven Maijoor, "bringing transparency and oversight into the multi-trillion-euro market of securities financing transactions is an important step in closing a regulatory gap. It is pivotal for financial stability that the risks associated with non-bank alternative credit provision are properly addressed[4]."

More specifically, Maijoor has added that enhanced regulation "will provide transparency on the use of securities financing transactions, and will allow identifying risks associated with the collateral and its reuse." As with standard repo, the re-use and re-hypothecation of collateral makes an important contribution to greasing the wheels of securities trading, but some market participants believe it can also pose risks to financial stability by contributing to a build-up in leverage and increasing interconnectedness between market participants. It therefore heightens counterparty risk, the dangers of which were so brutally exposed by the Lehman collapse.

It was chiefly concern over these risks, coupled with the need to monitor and quantify volumes in the collateral re-hypothecation sphere which was the driving force behind the SFTR, which came into effect on 12 January 2016. The new regulation is part of a globally coordinated effort initiated by the Financial Stability Board (FSB) to reduce financial stability risks by mandating enhanced transparency, together with stricter and more consistent reporting standards amongst market participants.

The importance of this new regulation, and the reporting challenges it will create for all market participants, should not be underestimated. "The EU SFT regulation will introduce extensive reporting requirements for SFTs," the European Repo and Collateral Council (ERCC) warns[5]. The implementation of these rules, it adds, is seen as "one of the most significant operational challenges for SFT markets and will require close cross-industry collaboration."

For market participants across the board, compliance with SFTR will not come cheap. The London-based consultancy firm, European Economics, has put the total costs for the industry at €151 to €198 million on a one-off basis and between €44 and €59 million in ongoing costs[6]. It puts this figure in context, however, by adding that the total annual turnover of the euro repo sector is about €120 trillion. This suggests that the incremental transaction costs will be "a small fraction of a basis point".

SFTR REPORTING IN A NUTSHELL

- **OBJECTIVE?**
  - Transparency, improved oversight and regulation of shadow banking
- **WHO NEEDS TO REPORT?**
  - Financial firms (including banks, investment firms, CCPs, CSDs, insurance/reinsurance undertakings, UCITS management companies, AIFMs, occupational retirement provision institutions)
  - Large-size non-financial firms
- **WHAT MUST BE REPORTED?**
  - Repurchase transactions
  - Securities or commodities lending and securities or commodities borrowing
  - Buy-sell back transactions or sell-buy back transactions
  - Margin-lending transactions (on a daily position basis)
  - Liquidity and collateral swaps (that are not classified as derivative contracts under EMIR)
  - Modifications, collateral updates and valuations, margin valuations for CCP-cleared transactions, collateral reuse and margin lending funding sources
  - Transaction terminations and positions for CCP-cleared SFTs, if opting to report modifications and collateral updates at the position-level
- **WHEN MUST IT BE REPORTED?**
  - T+1 (or S+1 for collateral if not known by T+1)
- **REPORT TO?**
  - An SFTR trade repository (TR)

1 "€2.5bn cost of MiFID II rattles asset managers" – www.ft.com January 27th 2017

2 ISLA Securities Lending Market Report, 7th edition, June 2017 – www.isla.co.uk

3 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+AMD+A8-2015-0120+004-004+DOC+PDF+V0//EN

4 https://www.esma.europa.eu/press-news/esma-news/esma-provides-implementing- details-sftr

5 www.icma.org – SFTR Bilateral Reconciliation Testing – ICMA Best Practice Recommendations, updated 23/6/2017

6 Cost-Benefit Analysis on Draft Technical Standards relating to SFTR: Final Report – March 15th 2017, www.europe-economics.com

2 Learning from EMIR

In most respects, SFTR is closely aligned with EMIR, which was enacted in March 2013. This aimed to reduce counterparty risk, enhance transparency, establish common rules among central counterparties (CCPs) and mitigate systemic risk in derivatives markets by requiring trading in all listed and OTC derivatives to be reported to a trade repository (TR) supervised by ESMA.

EMIR TRs play a pivotal role in enhancing the transparency of derivative markets and reducing risks to financial stability by collecting and maintaining records of contracts. As of February 2018, eight TRs had been registered with ESMA, with the NEX Abide Trade Repository, which was developed in response to the new standards, becoming the latest addition to the list in November 2017. While rising competition among TRs provides an increasingly diverse selection for market participants, a negative by-product is that it potentially generates inconsistencies across the reporting universe.

An important feature of EMIR is that trade reporting is two-way, meaning that both parties to each transaction are obliged to report. This is in contrast to the Dodd-Frank regulation in the US, in which reporting is only required from one side. While it improves the depth and quality of data, dual reporting also leaves the system vulnerable to mismatches in which the data provided by each side may not be identical, potentially intensifying the regulatory reporting burden.

Many of the reporting requirements enshrined in EMIR are retained in SFTR, which is also based on dual reporting, with the collateral taker and collateral provider (if they fall into scope) each required to report.

Mindful of the additional reporting pressures that SFTR exerts on counterparties, ESMA has aimed to maximise overlaps and minimise inconsistencies between the technical standards required for reporting under EMIR and those set out in SFTR. There is, however, some debate as to whether firms will be able to generate synergies from having already implemented EMIR. In its cost-benefit analysis commissioned by ESMA, European Economics suggests that these are likely to be limited, adding that "whilst the SFTR schema is similar to that for EMIR, it is the difference in the finer details that will drive most additional costs[7]."

This is one of several reasons why it would be a mistake, on balance, for SFT counterparties to assume that the reporting model used in EMIR can be cut and pasted in order to comply with SFTR. Beyond the obvious differences in the products that are in scope in the two regulations, foremost among these is the general recognition that the requirements originally set out in EMIR were altogether too imprecise to deliver harmonised standards across the reporting system. The most widely-documented evidence of this was the public announcement from the Depository Trust and Clearing Company (DTCC) in March 2014 that up to 60% of the reports sent to its system could not be paired, and were therefore unmatched, making trade reconciliation impossible[8].

An additional weakness exposed by EMIR was that because report structures and data elements often differed from one TR to the next, inconsistencies arose in the information they gathered, complicating comparisons of data.

QUESTIONS FOR BUY SIDE TO CONSIDER

- With so much importance placed on data quality, can I rely on delegated reporting?
- What was my experience of delegated reporting under EMIR?
- Will I satisfy my oversight obligations?
- Will I have the ability to amend what's being reported in my name?
- Will I be able to establish a control framework? How will I measure and provide visibility on reporting?
- Delegated reporting requires the reporting of total interest in a given stock to each Prime Broker (PB). Could this information be exposed?
- How will I handle the complexity from common lending programmes and Agent Lender Disclosure (ALD)?
- How will custodians be able to support reporting by principle on T+1 if ALD remains in place?

NEW STANDARDS FOR DATA QUALITY[9]

TRs are obliged to reconcile the trades between themselves, where counterparties report to different TRs. However, in practice this process has not been that straightforward mainly for data quality reasons.	ESMA has continued the work on reconciliation by monitoring the correct implementation of the pending corrective actions by TRs and by further analysing the supervisory and statistical information collected around the Inter-TR reconciliation process. Measures implemented up to now have demonstrated improvements.	The average pairing rates in November 2017 have risen to 87% (average across TRs) up from 55% from November 2016. To keep the momentum, ESMA has revised, and is planning to implement, a new reconciliation statistics report to better monitor and assess TRs' performance individually and as a group as well.	ESMA continued to closely engage with NCAs and exchange data to identify counterparties where reporting causes large amounts of breaks in the reconciliation process. ESMA plans to further intensify its engagement with the NCAs as part of the NCA cooperation process related to data quality.

Regulators have taken the shortcomings of EMIR on board, tightening up a number of regulatory reporting requirements. As in EMIR, under SFTR transaction reports are required to be sent to an EU-recognised trade repository no later than by the end of the following working day after an SFT is concluded, modified or terminated (T+1). Collateral not known by T+1 must be reported by the end of the following working day after the settlement/value date of the collateral (S+1), and collateral allocated on a net exposure basis and not explicitly linked to an SFT is required to be reported independently. According to ESMA, required details will include the relevant terms of the repo, stock or margin loan, the composition of the collateral, whether the collateral is available for reuse or has been reused, the substitution of collateral at the end of the day and the haircuts applied.

When the data has been sent to the TRs, they assume responsibility for calculating and aggregating exposure positions, which are in turn delivered to ESMA, central banks, and national or regulatory authorities for more efficient monitoring of the shadow banking industry. The exact parameters of aggregate reporting and public data dissemination by TRs still need to be defined by ESMA.

For firms required to comply with the reporting requirements, the clock is ticking rapidly. The first counterparts will be required to start reporting 12 months after the approval of the final Regulatory Technical Standards (RTS) and the Implementing Technical Standards (ITS) are approved. Other subsets of counterparties are scheduled to begin reporting at three-monthly intervals thereafter. The current prediction is therefore that reporting will start mid-2019, assuming the RTS and ITS are finalised as planned by mid-2018.

Reporting can either be undertaken in-house or delegated. In contrast to EMIR, SFTR removes the reporting burden from clients defined as NFC-, which no longer have to submit their own reports. These are defined as entities meeting at least two of three criteria – a balance sheet total of €20 million, net turnover of €40 million, and average number of employees during the financial year of 250.

While delegating may sound an appealing option, especially for smaller firms lacking the necessary financial or human resources, they will still be responsible for ensuring the accuracy of trades reported on their behalf and reconciling these with their own records.

Although authorities are understood to be sympathetic to the challenges facing counterparties adapting to the new regulatory environment, penalties for mis-reporting are expected to be severe, if the precedent set under EMIR is any guide. In the first enforcement action against a firm under the EMIR framework, the Financial Conduct Authority (FCA) announced in October 2017 that Merrill Lynch had been fined £34.5 million for failing to report 68.5 million transactions between February 2014 and February 2016. The FCA said at the time that this fine reflected the importance that it puts on this type of reporting, adding that "it is vital that reporting firms ensure their transaction reporting systems are tested as fit for purpose, adequately resourced and perform properly."

Beyond concerns about reporting, another misgiving is that ESMA mandates that records of all SFTs that have been completed, modified or terminated must be kept for a minimum of five years. This is an aspect of data storage which will add to the administrative burden and costs of the regulatory requirement. It may also lead regulators to become submerged under a torrent of information which may be of limited utility.

FRONT OFFICE CHALLENGES

- From a capital charge and operational overhead perspective, SFTR is expected to move more trading on to venue
- We expect to see direct buy-side participation and greater access provided to venues by clearing members
- The reporting of intraday cleared transactions is not yet clear from the proposed RTS (They may vary by nature of lent instrument or basket)
- Traders have concerns about UTIs. Venues may be required to generate UTIs, and firms will maintain as a report tracking number
- Some platform trades may be directly reported to trade repositories if not centrally cleared
- The development work required across TVs, CCPs, banks, ISVs is likely to be similar to that of EMIR
- Generation of UTIs under netting

7 Europe Economics, ibid

8 See "Repositories call on Esma to help fix Emir reporting problems" - www.risk.net 14 May 2014

9 ESMA's supervision of credit rating agencies, trade repositories and monitoring of third country central counterparties, 2017 Annual Report and 2018 Work Programme - 8 February 2018

3 Implementation challenges

DATA READINESS

For firms preparing to comply with the new regulation, the first challenge is to fully understand article (4) of SFTR, which sets out the reporting and record-keeping requirements of the regulation. A good place to start would be to contact reporting providers with proven regulatory expertise, as well as industry associations and regulators, such as ICMA, ISLA, AFME, ESMA and others. Each of these have ample documentation on SFTR on their websites.

The magnitude of the reporting requirement looks intimidating at first sight, given the depth and granularity of the data that is prescribed by SFTR. For a subsector of the market which has not historically been familiar with regulatory reporting, and which has much less developed reporting infrastructure, the requirement may look doubly intimidating.

At the simplest level, this is because the required data may not be readily accessible. As one industry insider explains[10], "often the data is stored in systems not associated with the trading technology, so the covered firm or vendor must pull the information from multiple sources and enrich the dataset being sent to the repository."

Ensuring data accuracy also calls for data lineage, or the capacity to track data back to its source (sometimes over many years), which is another formidable hurdle to be overcome. As the same analysis points out, "if there is little confidence that dealers delivering the data can explain where it all came from, then the problems start to multiply as regulators start to doubt that dealers have a clear handle on their process control."

On the surface, the sheer detail of reporting data that is required by SFTR is also daunting, given that there are 153 data fields that need to be populated, compared with 129 for EMIR, and that tolerances of reporting discrepancies on these fields is minimal. These are broken down into 18 counterparty data fields, 99 for transaction data, 20 for margin data and 16 for re-use data. In other words, for loan and collateral data for repos alone, more than 70 fields are applicable, while in the case of collateral re-use, this total rises to over 90.

In practice, however, satisfying the regulatory requirements on these fields is likely to be less challenging than the total of 153 fields may first appear, for several reasons. One of these is that many of these replicate data already reported under EMIR. Another is that some are applicable only to certain types of trade – in the case of a fixed rate repo trade, as an obvious example, the fields required for a floating rate transaction will not apply.

ESMA recognises that for all participants, reporting compliance will represent a steep learning curve, which is why the reporting requirement is being introduced in phases. Counterparties required to report during phase one, 12 months after the RTS are finalised (including investment firms and credit institutions) will therefore have rather less time to prepare than those that can wait until subsequent phases. CCPs and CSDs will be required to start reporting 15 months after the RTS are approved, with AIFMs and UCITS management/ investment companies following after 18 months, and all others after 21 months.

The required list of data elements also remains a work in progress, with ESMA still working on some validation rules that will dictate whether the fields are mandatory, conditional or optional.

REPORTING IMPLEMENTATION CHALLENGES

- **UTI generation, sharing and management**
  - Determination of responsibility for UTI generation
  - Impacted by phased dates of application, potentially requiring interim tactical solutions
- **Double-sided reporting by financial firms with NFC- SFT counterparties**
  - Sourcing other counterparty data elements
- **Delegated/Facilitated reporting on behalf of clients**
  - Albeit revenue generating, may be driven by client expectation rather than pro-actively offered
  - Sourcing client counterparty data elements
- **Data management and report enrichment**
  - Sourcing and accuracy of data elements
  - Disparate sources of reference data
- **Report formatting**
  - ISO 20022 XML Schema Definition (XSD) (pending specification)
  - Alternative (non-XML) formats (e.g., CSV) will need to represent repeating groups of data elements
- **Exception/Rejection and reconciliation (pairing/matching) issue management**
  - Correction of data elements and report re-submission
  - Summary and management information (MI) reports

While for firms confronting this reporting requirement, the burden will inevitably look onerous, some may interpret the glass as being half full rather than half empty. This is because the reporting requirements may encourage firms to improve their internal data safekeeping, which in turn may help their risk management.

RECONCILIATION AND REPORTING

While gathering, enriching and reporting data is the first challenge to address under SFTR, the second is post-trade reconciliation and reporting implementation.

Complete and accurate reconciliation (pre-reporting) is essential in order to prevent the volume of matching fails that dogged the early days of EMIR. At best, matching fails generated by opaque or incomplete information can lead to expensive and time-consuming delays with errors needing to be corrected, often manually. At worst, they can lead to sanctions and heavy financial penalties.

Ensuring that matching fails are reduced or eliminated has been one of the main priorities of the European Repo and Collateral Council (ERCC), which was originally set up by ICMA in 1999 as the industry representative body responsible for promoting best market practice for the European repo market.

In the context of SFTR, perhaps the most notable initiative implemented by ERCC came in May 2017, when it launched a bilateral repo and buy/sell-back trade reconciliation exercise. ERCC explained at the time that the main aim of this exercise was to "identify among all the reporting fields put forward by ESMA in the final draft technical standards those fields (and transaction types) that are most likely to cause problems in terms of reconciliation."

The Council added that "based on the outcome of the exercise, the ICMA ERCC aims to undertake further targeted industry work, including with the relevant vendors, to develop additional guidance and market practices for critical reporting fields and transaction types, where necessary, to avoid excess operational burden in the future."

The reconciliation exercise, exhaustive details of which are publicly available on ICMA's website, encourages its members to exchange data on existing transactions bilaterally and to populate as many of the fields required by SFTR as possible.

Alexander Westphal, Director of Market Practice and Regulatory Policy at ICMA, explains that after a slow start, perhaps due to firms' attention being diverted by MiFID II, the bilateral reconciliation exercise is now gathering encouraging momentum. A growing number of market participants, including vendors, are now being integrated into the initiative's taskforce, which has enriched the dialogue on reconciliation and in some cases has provided a test environment for report matching.

NEX is working proactively with the industry to overcome the reporting and reconciliation challenges arising from SFTR.

triResolve

- In preparation for SFTR, NEX is working with the industry on a solution to help firms complete their reconciliation prior to the introduction of the reporting regulation.
- This is aimed at helping buy and sellside firms to understand and identify which gaps need to be tackled between them and their counterparties, and therefore to ensure high levels of pairing and overall data quality.
- The triResolve initiative illustrates how counterparties are already applying some of the hard lessons learned from some of the incomplete or inconsistent reporting under EMIR where many counterparties are validating their inhouse record with their reported EMIR record to ensure regulatory compliance.

Regulatory Reporting

- The NEX end-to-end reporting system that safeguards against regulatory mis-reporting, can also help counterparts to enrich their data before it is sent either to its own TR or to the TR of the customer's choice.

SFTR TRADE REPOSITORY

- With SFTR, ESMA has greatly increased the required performance for TRs. For example, transaction responses must be within one hour, they must operate a harmonised ISO 20022 communication interface and they must facilitate "Direct and immediate" access to the TR data. This will increase visibility for the regulator so they can monitor the state of SFT reconciliation.
- The NEX TR is built based on these requirements and is the first to be approved in the cloud so clients benefit from processing and storage scalability and a highly secure and robust environment. It is designed to give greater visibility and transparency to all end-users.
- Reconciling your data pre- and post-reporting to our next generation TR ensures data accuracy and completeness.

10 See "SFTR, Trade Data Repositories and Transparency: An Industry Challenge from the Inside Out", written by Mark Ellis, Securities Finance Monitor, Issue 09

COMPREHENSIVE AND UNAMBIGUOUS MESSAGING STANDARDS

A further challenge is the adoption of universal messaging standards, in line with ESMA's recognition of the importance of fully comprehensive and unambiguous rules regarding the format in which information is reported prior to it being transmitted to the TR. Again, the shortcomings of EMIR have formed much of the basis for drafting the guidelines on messaging standards in SFTR. As ESMA puts it, the detailed rules in the EMIR ITS have not been sufficiently precise as they failed to cover some technical details. As a result, adds ESMA, "the harmonisation of the entire reporting system was not ensured."

ESMA's response has been to require market participants to report "without exception" to TRs using the standardised ISO 20022 approach for reporting, which enables the repositories to aggregate and provide data to NCAs, ESMA, central banks etc. without unnecessary data processing or transformation. This is considered by ESMA to provide "open and transparent standards".

European Economics notes in a report commissioned by ESMA that ISO 20022 is already being adopted globally in the financial industry, meaning that firms may be able to leverage existing experience with the schema to smooth the transition process and limit adoption costs. They may also benefit in the future "if regulation in other product areas or jurisdictions mandates a transition to the ISO 20022 standard."

CONFIRMATION AND AFFIRMATION

Another area where the industry has been working on providing clarifications in advance of SFTR is in differentiating between trade confirmation and affirmation.

Confirmation refers to the mandatory validation of the economic terms and settlement addresses of all new transactions and material changes to existing trades. Affirmation is supplementary to the contractual obligation to confirm transactions, and refers in the repo market to the process of one party seeking urgent validation from the other of these key terms either immediately after execution or during the life of a transaction after any material change to this information.

ICMA notes that "like confirmation, affirmation is vital in ensuring parties are certain of the risks to which they are exposed and that their regulatory reporting is accurate."

TIMESTAMPS

Timestamps are another potential source of confusion in an SFTR reporting environment, but are an important means of monitoring the difference between execution and clearing time. Drawing from the experience of previous regulation, ESMA comments that "EMIR data has proved that such differences between the timestamps exist and are worth analysing."

ESMA has determined that clearing timestamps should be reported as the time when the CCP confirms that the trade has been registered for clearing and when the CCP takes on the risk of the transaction.

Execution Timestamps need to be reported within a tolerance of one hour. Complying with ESMA's requirements on timestamps should be straightforward for trades executed on a platform or venue, which will determine the execution time. This is because trades executed on electronic trading platforms are currently subject to automatic novation with instructions sent within milliseconds to CCPs.

A potential complication arises in the case of bilateral off-platform trades, where there is no established market practice on when to record booking times. ESMA has indicated that booking times can be accepted as execution times, although as these are likely to differ, it will be important to agree a standard market practice. Although these bilateral trades currently account for no more than about 5% of all European CCP-cleared repo trades, this share is expected to increase as buy-side firms become more active in the market and look to have direct access to CCPs.

The NEX network solves the problem of UTI sharing.

triResolve's portfolio reconciliation network of over 2100 groups means that firms easily access all their counterparties in one place.

- The centralised service model enables all counterparties to share the same view
- It solves problem of UTI sharing as data can be sourced from a single centralised place
- UTIs may also be generated where none is available in the trade confirmation message
- This replicates the tried and tested solution for EMIR

TRI-PARTY SPECIFIC ISSUES

According to ICMA, tri-party repo accounts for no more than about 10% of the total global repo market. Nevertheless, market participants need to be aware of the specific reporting issues applicable to tri-party repo, in which basket trades are required to be reported at the constituent level, where only the tri-party agent has access to the data on the day. Tri-party runs are typically conducted at the participant level, with the beneficial owner following afterwards.

End-of-day reporting is well-defined, with creation and redemption of net intraday positions needing to be reported.

THE NEX SOLUTION

Single sign-on UI

Client

Counterparties/ vendors

triResolve

Pre-reporting Reconciliation

UTI sharing/ generation (optional)

ENSO

Data sourcing

UTI sharing

Regulatory Reporting

Normalisation

Pre-reporting validation

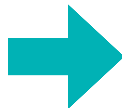
SFTR TRADE REPOSITORY

Other SFTR TR

triResolve

Pre-reporting reconciliation

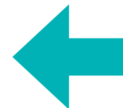
- Reconcile your portfolio in advance to ensure accuracy
- Identify patterns in data quality and pricing
- Work with your counterparties on on the same reconciliation
- Investigate exceptions using advanced analytics to identify, track, and resolve discrepancies
- Ensure accurate data submission for trade reporting



Regulatory Reporting

Complete and accurate reporting

- Understand your regulatory requirements with expert consultancy
- Automatically determine reportability, enrich and validate trade data
- Submit trade data to the **NEX SFTR TR** for seamless processing
- Utilise the intuitive UI and support team to resolve errors and satisfy oversight obligations



ENSO

Assisted reporting

- Simplify implementation by reusing transaction data sourced from counterparties/ PBs
- Consolidate and enrich PB files with required data and reconcile to OMS in triResolve prior to reporting
- Comply with the regulation by reporting with the matching UTI retrieved from the counterparty

Conclusion

In April 2017, the BBC interviewer covering the UK election responded to the exasperation expressed by Brenda from Bristol by reassuring her that "this will produce clarity; it gets things out in the open; it sorts things out."

Whether or not the new regulation on SFT reporting will generate more clarity remains to be seen. But as it will become a permanent and immovable pillar of financial regulation, it is essential that firms on the buy-side as well as the sell-side ensure that they are familiar with SFTR and are ready to implement it sooner rather than later. The key starting point for all market participants should be to ensure that they are able to identify, access and work with the real data that they will need in order to comply with the new regulation.

Get in touch today to see how NEX can help you get your data in order to ensure you comply with SFTR from go-live and meet the regulator's increasingly high standards for data quality:

E. advice@abide-financial.com

T. +44 (0)20 7148 0971

4 Times Sq, New York, NY, USA
T +1 212 404 1714

2 Broadgate, London EC2M 7UR, UK
T +44 (0) 20 7818 9400

W NEX.com
E NEXforum@nex.com

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