



Regulation on transparency of securities financing transactions and reuse. May 2016.

The Regulation on transparency of securities financing transactions and reuse was published in December 2015 and is the EU's response to a global initiative to bring more transparency to shadow banking activities.

Shadow banking is a term often used to refer to credit intermediation transactions by non-banking institutions. These can be beneficial to the economy as they diversify sources of finance. However, the financial crisis has led to an international consensus that such activities need to be made more transparent and brought under appropriate regulation.

Shadow banking transactions include, for instance, securities financing transactions (SFTs). The Financial Stability Board (FSB) and European Systemic Risk Board, have identified the following key risks that can arise from such transactions: i) increased leverage; ii) pro-cyclicality; and iii) interconnectedness in the financial markets. The European Commission's Green Paper on shadow banking, meanwhile, emphasised that SFTs made it harder to identify counterparties and manage risk concentration and might also lead to an over-leveraged financial system.

Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on Transparency of Securities Financing Transactions and of Reuse and amending Regulation (EU) No 648/2012 (the SFTR) represents the EU's response to the international initiative to improve transparency on SFTs and the reuse of collateral, thus improving risk monitoring of both types of transaction. To help ensure comparable terms of competition and international convergence the EU standard has followed the approach taken by the Financial Stability Board.

The key obligations in the SFTR are as follows:

- First, it requires that financial and non-financial market participants **report all the SFTs they conclude to trade repositories**. Reports must include details of the composition of the collateral, if the collateral is available for reuse or has been reused, end-of-day substitution of collateral and any haircuts applied. For the purposes of this regulation, SFTs include: i) repurchase transactions; ii) securities or commodities lending and borrowing; iii) buy-sell back transactions or sell-buy back transactions; and iv) margin lending transactions.
- The SFTR also notes that investment managers are frequent users of SFTs and total return swaps to manage their portfolios efficiently. As a consequence, it imposes on them an **obligation to report this to investors in undertakings for collective investment** in regular reports and pre-contractual documentation.
- The SFTR also improves **transparency for collateral reuse transactions** by setting minimum disclosure obligations that apply in the absence of any stricter laws in force. It also requires the explicit knowledge and consent of the providing counterparty and the recognition of the transaction in its securities account.

On 11 March, ESMA opened consultations by publishing a Discussion Paper of **proposals for implementing the reporting framework required by the SFTR**.

In line with the Regulation's requirement to make use of existing infrastructure and previously introduced operating formats and procedures for reporting derivative contracts to trade repositories, the **ESMA proposals draw on the experience of launching EMIR and other EU reporting frameworks**, by aligning all the relevant standards as far as possible.

ESMA considers that the **technical standards implementing the SFTR must provide a sound basis for providing high-quality data from the start**, and must constitute an excellent basis for supervision of all relevant risks related to shadow banking activities.

The consultation aims to attract **contributions from all stakeholders**, particularly institutions active on the

markets for repos, securities lending and borrowing and commodity derivatives. It is targeted at anyone who engages in securities trading or financing transactions, trade repositories, central counterparties and central securities depositories.

Specifically, the Discussion Paper includes detailed information on the following points: i) the procedure and criteria for registration as a trade repository under the SFTR; ii) the use of internationally accepted communication standards and the logic underlying reporting under the SFTR; iii) the essential points for inclusion in firms' SFT reports; and iv) tables of fields for the various types of SFT and a summary of all questions raised.

The consultation closed on 22 April 2016, having attracted more than 40 responses from asset managers, banks, trade associations, trading platforms, central securities depositories and trade repositories.

Based on these responses, ESMA plans to develop detailed Level II technical standards which will be put out for a second public consultation during the second half of 2016.

ESMA must submit the draft technical standards to the European Commission for endorsement by 13 January 2017 at the latest.

Links:

[Regulation on transparency of securities financing transactions and reuse](#)

[Discussion Paper on draft regulatory and implementing technical standards on Regulatory on transparency of securities financing transactions and reuse](#)