



Securities Finance

# SFTR Newsletter

Edition 5

# Welcome Note



Welcome to our latest IHS Markit SFTR newsletter.

It has been a hectic summer at IHS Markit with new clients joining our SFTR solution, going through UI validation, system integration testing and pre-onboarding.

With over 60 major clients and partners from all across Europe signed up to the IHS Markit SFTR solution, we did not experience the traditional slow down during the summer months. If anything, it was quite the opposite - we have had a sharp increase in client engagement and queries. With just 7 months left before the Phase 1 go-live of SFTR on 11th April 2020, most sell-side firms are in full project mode and those who haven't done so yet are expected to select a solution by the end of the month. Buy-side firms' interest and engagement has also increased dramatically with more questions being asked and contracts being signed, some aiming to be ready for April 2020 in parallel with their bank counterparties, others remaining focused on their official go-live in October 2020.

At IHS Markit, the last few months have been spent validating the early functionalities of our SFTR User Interface, after the successful April 2019 release.

We have also worked with 15 clients to undertake a total of 30 system integration testing cycles (SIT), going through the ins and outs of the solution with them, ingesting data files and generating feedback reports on their submissions.

From October 2019, the IHS Markit SFTR UAT environment is available for clients to test their end-to-end reporting process: data ingestion, validation, enrichment, UTI creation and dissemination, ISO20022 report creation and ingestion of ACKs/NACKs from Trade Repositories (as and when their respective test systems are ready).

Finally, for those of our clients sufficiently advanced in their projects to share their static data, we have completed the pre-onboarding phase 1, which will be followed up by a second phase shortly. This will lead to the release of our SFTR pre-production version later in the year, offering the possibility of a full 6 months of testing to our clients before go-live.

For more information on the IHS Markit SFTR reporting solution, please contact us at [sftr@ihsmarkit.com](mailto:sftr@ihsmarkit.com).

Best regards,

**Fabien Romero**  
SFTR Business Development, IHS Markit

# Latest News

## Latest News



## SFTR for non-banks: The Phasing Fallacy

**Charlie Bedford-Forde, Head of Securities Finance Sales EMEA, IHS Markit**

In the conversations we have with clients and prospects, we have observed a clear trend: that firms in the second and third waves of the Securities Finance Transaction Regulation Article 4 trade and collateral reporting (SFTR) believe they have time to spare relative to the banks. While direct reporting requirements indeed start later for these entities, we are seeing a concerning lack of urgency.

Much has been written about the impending onset of the SFTR requirements for banks, and rightly so – these start on Easter Saturday 2020. Between now and then, these in-scope firms must complete their IT projects, integrate with chosen vendors and trade repositories (TRs), finalise tech updates to ensure relevant data points may be extracted from different systems and then test their ability to construct ISO 20022 messages for TR ingest and implement mechanisms for communicating with counterparties to manage exceptions.

By way of a reminder, the regulation calls for securities finance principal data to be reported within one day of trade execution and for collateral data to be reported within one day of trade settlement. ESMA have implemented a phased implementation for first reporting as follows:

<b>11 April 2020</b>	<b>Banks (investment firms and credit institutions)</b>
<b>11 July 2020</b>	<b>CSDs and CCPs</b>
<b>11 October 2020</b>	<b>Non-bank financials (insurance / reinsurance firms, UCITS, AIFs and pensions schemes)</b>
<b>January 2021</b>	<b>Non-financial counterparties (e.g. corporates)</b>

This staggered start has given some market participants the false illusion that time is on their side, and this is dangerous for the following reasons:



- Counterparties to banks will need to ensure that they have a valid LEI ahead of the bank reporting requirement so the bank may report. This applies to out-of-scope counterparties as well as those within EU captured by SFTR.
- For transactions where the bank doesn't know their ultimate counterparty at point of trade, for example in agency lending and agency repo transactions, the intermediary to the transaction will need to make available the principal details so that the bank may report correctly (e.g. where a lender has entered a trade on behalf of two holders in the same asset, the bank will initially see the total value of the security loan but will not be able to report this until they receive the breakdown of the allocation across the multiple beneficial owners).
- Many buy-side firms do not ingest or process triparty collateral information today and this will need to be ingested where firms are not using a solution like IHS Markit's which can manage this process independently.
- Banks have a choice in terms of where and with whom they trade. If a counterparty or venue does not take steps to facilitate the bank's own reporting and they can trade with another firm at the same price, then the message we have been hearing is that they will.
- Many of our client have been surprised at the time and effort it takes to pull together the relevant fields from internal and external systems. Firms not using a solution like ours will need to ensure their contracts with data providers include redistribution rights for any of their fields being used for enrichment and will also need to develop processes to share allocation information and generate events, plus of course the surrounding controls framework to ensure effective oversight of reporting programs.
- Finally, by being ready in parallel with the banks, backloading requirements for term trades will be far easier to manage.

It is also worth bearing in mind that CSDs, CCPs and the buy-side will need to take steps to be ready for bank reporting requirements to begin, and in the absence of being ready themselves, these institutions will need to face two "go lives."

It's not all doom and gloom: a number of forward-looking firms have focused on their target operating models and industry best practice and used the SFTR regulation as the trigger to review processes and implement changes to better prepare their individual operations for not just SFTR but indeed other regulations on the horizon, the next major one for securities finance being the CSDR Settlement Discipline rules which will kick in on 14th September 2020, less than a month before buy-side reporting begins.

Here at IHS Markit, we have developed an unparalleled SFTR offering which includes a critical mass of market participants. By partnering with trading venues, booking systems, collateral agents, custodians and the TRs, we are able to offer a complete, multi-asset solution which takes much of the pain out of the path to compliance, providing you with a single view across your entire securities finance businesses in one innovative solution.

Regardless of your size and complexity, we are here to help – but don't delay! As Stephen Grady (SG's title etc.) wrote earlier in the summer, time is very much of the essence. Read his piece: [HERE](#)

# Guest Contributor



Guest Contributor



## A funny thing happened on the way to the Fora

**Simon Davies, Business Development Manager, Pirum Systems**

Whilst sitting through one of the many industry forums the other day one of the participants used the pluralised term for forum – fora. Along with the need to brush up on my Latin, this got me thinking about the effort in the industry to review and assess the impacts that SFTR will have on firms, and the need to adapt operating models – their processes, systems and behaviour, in order to deliver transaction reports to the trade repository accurately and on time whilst dealing with exceptions and breaks. Here, I'll summarise this effort and give an overview of what firms should be doing to deal with issues going forward.

As the majority of firms so far have chosen the joint Pirum & IHS Markit SFTR solution, their attention has moved to what they need to do to manage their SFTR reporting when they go live. We've been discussing extensively with firms what they need to do in the new regulatory transparent world.

Let's start with an overview. With apologies to Sondheim and Howerd\*.

### The prologue

ESMA has published their level three consultation and held their own fora on 15th & 16th July to discuss this generally with the market and the industry bodies. The publicly available responses are now on their website. With 85 questions over 178 pages, this provides some insight into what the regulators are thinking, but also seeks input into some of the outstanding questions that the industry is looking for guidance on, reading through the available submissions online also sheds light on the on-going struggle firms are having with grappling with the regulation. The guidance also provides some useful reporting examples that can be used to check both the reporting submission but also help to clarify issues.

At Pirum & IHS Markit we have been actively feeding into this consultation, along with the industry – the feedback reflects many of the challenges that the industry sees, and clearly there will be on-going discussions



on how to deal with these.

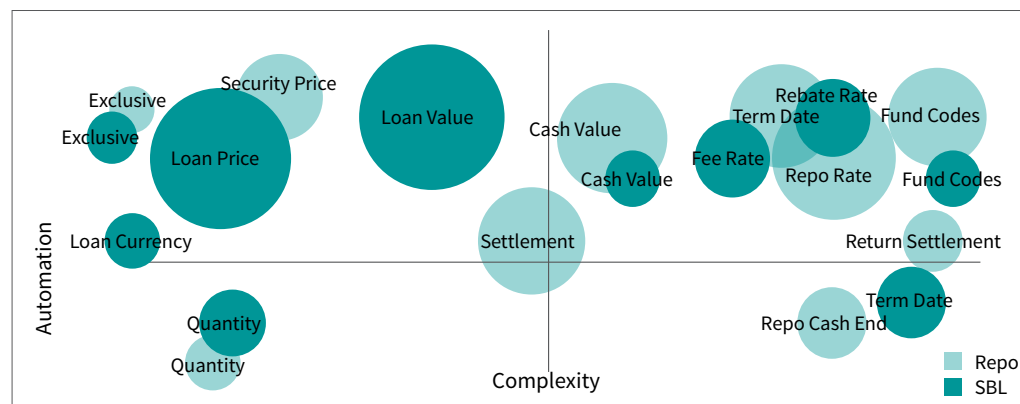
Some significant issues to monitor are around: Cashpool treatment for stock loan trades, lifecycle event report timing, LEI availability of security issuers, VM treatment for repos.

Clearly, clarification of these issues will benefit the industry, however the expected timeline – Q4 2019 for this to be published will then leave a quarter before the first wave of firms are due to go live, so not long! For those firms using our SFTR solution, we'll be able to provide an impact analysis of any last-minute changes and prioritise these with clients for delivery and testing, so if you haven't decided on a solution yet, it's time to get involved.

### Titter ye not

Whilst the discussions continue, we're actively helping firms clean up their books and automate processes through our reconciliation services and post trade automation. With an adjusted average daily trade rec of 6.3m trades, we saw a daily average of 276k unpaired trades and 1.4m paired trades with breaks across our client base\*\*. A review of these shows issues with data quality and booking practices that can be remediated prior to the SFTR go-live date.

Below we show the top 10 breaks per product and discuss the issues around their cause and how these can be prevented, automated and an indication of how complex resolution will be. Our analysis shows that there is a significant amount of automation available to help prevent these issues, however the impact on firms BAU operating model ranges from low to high complexity.



From average six-monthly trade reconciliation data, does not include unreconciled data. Indicative for information purposes only. Paired trade breaks for unpaired trades from total to be reconciled. Top 10 breaks for repo and SBL products mapped to client reconciliation requirements and % breaks from total paired trades to be reconciled

## **Top 10 breaks reasons for SBL & Repo mapped against the ability to automate and impact on operating model**

As part of our service, we provide firms with statistics and benchmarking via our GUI to help firms prioritise their account clean up. Additionally, firms can use our SFTR UAT environment, available for testing, to review the additional SFTR fields for data quality when they start to submit those, before moving on to pre-production testing later in the year. When firms are in pre-production, they will be able to review breaks to resolve root causes of issues on these additional data fields too and we're working closely with firms to help them identify issues early and prioritise these.

On the next page we review some of the specific issues that firms face and give some practical examples of what should be done to help prevent these issues. We recommend looking at your current breaks and processes and focusing on those that will prevent effective sharing of UTIs and will impact life-cycle event reporting.

This is particularly important for agent lender disclosure, for both SBL and Repo, and firms should pay attention to where they are currently matching overall quantities on a stock, but the individual trades or shapes are not matched either at the start of the trade cycle, as a result of re-allocations by the agent lender, or due to returns being taken from different shapes.

### **Nay nay and thrice nay**

Firms rightly have focused on regulatory compliance – there is an imperative in getting over the line and making sure that they are accurately reporting their books and records when the applicable go-live date occurs. However, there is a great deal of concern around what firms need to do daily in order to manage the new reporting burden and are reviewing their operating processes, automation, data quality and resources to support this.

It's not all bad, painful maybe, but should lead to better quality data and improved, automated processes in the long term. That's all well and good, but how do you get the balance between regulatory compliance and the nirvana operating model that the industry is looking for!

Whilst some firms are advanced in their operating model changes, many are yet to start. We're now supporting UAT testing for firms, and they have an opportunity to look at many of these issues in

practice – and as firms gather momentum, they will be able to review these issues in a pre-production environment.

From the reviews so far, there are several themes that reoccur which include;

**Data quality** – reviewing available data sources for both accuracy and process impact. Firms should also look at the BAU processes that update data. For example: when setting up new counterparts, funds within fund agreements and product static along with the controls and the timing around this to ensure consistency in the multiple use of the same LEI for reporting. Clearly prioritisation around data fields needs to be focused on given the breadth of this within the reporting requirement, and those causing pairing issues, large number of breaks or processing issues.

**Processes** – many processes need to be reviewed, not least the UTI generation and sharing – the process of agreeing who will generate the UTI, or if the waterfall will be followed. Exception management – for both report enrichment, creation and submission, along with breaks / UTI sharing reconciliation should be clearly defined with roles and responsibilities laid out.

**Workflow** – managing exceptions within your organisation, along with counterparts and the timing of resolution and escalation will be critical. Controls, and again clearly defined roles and responsibilities around this will be needed, and how these overlap with existing processes needs to be carefully aligned. Tools to help manage the information flow within your firm and between counterparts should be carefully reviewed, particularly where new processes and exceptions management overlaps with existing BAU process and roles and responsibilities, so the workflow, responsibilities, timings and controls will be critical in managing this going forward and needs careful review.

A big focus for firms is managing UTI sharing, where our solution will significantly increase the level of UTI sharing compared to other regulations - across SBL, repo, multiple MTF platform or bilaterally, and will help with managing UTI sharing on the back of life-cycle events. Where one side of the trade is not on the platform, we can either receive in or deliver UTIs from or to counterparts. As no firm will be trading on a single MTF and will be trading and managing life-cycle events with multiple bilateral counterparts across their SFT product range, this will be a significant benefit when sharing and consolidating your UTIs across your book for reporting. Understanding what your counterparts will be doing around this issues and use of vendors will be critical, and using the industry questionnaire and IHS Markits 360 tool to gather and

distribute your responses will help to manage this.

Clearly, firms need to efficiently manage data and breaks resolution along with the TR reporting submission and management. Our SFTR solution allows firms to manage this workflow and is integrated in to both the IHS Markit TR report submission process and the Pirum post trade processes for economic, risk management and process automation. This provides a comprehensive tool to manage exceptions and increase the efficiency of SFTR report management through benchmarking and MIS. We can efficiently allocate breaks both internally within your organisation, so the right person or team will have a view of any issues and resolve these as soon as possible or allocate issues to your counterpart for them to review, with communication between you captured and audited. Using this service will take advantage of the connectivity that we have with firms - now over 60 organisations (and growing), will be using our SFTR service, in order to effectively communicate and resolve issues.

### The epilogue!

Cicero said *Cuiusvis hominis est errare, nullius nisi insipientis in errore perseverare*.

To that end taking a look at your current issues, particularly from current reconciliation breaks, and we've mapped many of these issues as a strawman for firms to review and look at how they need to adapt their process and manage controls going forward and will be discussing this in more detail in the coming weeks with our clients.

\* Stephen Sondheim 'A funny thing happened on the way to the forum' and Frankie Howerd 'Up Pompeii'

\*\* Average daily volume from Jan- Jun 2019 reconciled via Pirum Systems, adjusted for ALD positions

# Media

## Videos



What are the latest market updates and how are IHS Markit and Pirum Systems progressing with the development of our SFTR solution?

Watch our latest update [here](#)



Before the summer at our SFTR Forum in London, we held an informative panel discussion with representation from a selection of Trade Repositories including DTCC and REGIS-TR.

Watch the full discussion [here](#)

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## Industry Articles

- ISLA responds to ESMA's SFTR consultation paper
- Trade bodies to pen new SFTR and EMIR-compatible Master Reporting Agreement
- Pirum and IHS Markit complete successful SFTR testing with Rabobank
- Calypso teams up with IHS Markit on SFTR reporting

# Upcoming Events



On 24th September  
IHS Markit will speak at  
**Finadium** in Paris.



IHS Markit will speak on a panel  
discussing benchmarking at  
the **IMN Beneficial Owners  
Summit** on 25th September,  
we are also sponsors of the  
event.



On 1st October, Robert Nunn,  
Beneficial Owner Product  
Manager from IHS Markit will  
speak on a panel at the **ALFI  
Leading Edge Conference**.

# Contact Us

**IHS Markit can help you comply with SFTR.** In partnership with Pirum Systems, we can offer fully hosted data and end-to-end reporting solutions for SFTs, which sets an industry wide standard, providing the foundation needed to reconcile trading activity down to the UTI and LEI level of granularity. This SFTR solution offers participants turnkey connectivity to trade repositories and leverages our proven track record of delivering industry wide reporting solutions and our 10 years of partnership with the securities lending community.

Contact us today to find out more [sftr@ihsmarkit.com](mailto:sftr@ihsmarkit.com)  
For further information <https://ihsmarkit.com/sftr>

Contact Us

## About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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