

The Future of Regulation & the SFTR Challenge

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About Cappitech

- 1 Providing FinTech solutions for over 15 years
- 1 Covering multi-jurisdiction across various geographies
- 1 Transaction reporting for MiFID II / EMIR / FinfraG / ASIC / MAS / Canada / SFTR and more >80 of regulated clients serviced globally
- 1 >1bn transactions reported per annum
- 1 Selected by IHS Markit to build their SFTR Platform

CAPPI TECH



Overview

- ┐ EMIR & MiFID II reporting update
- ┐ What is SFTR - why it was created, what it covers and when it goes live and firms required to report
- ┐ Definition of EU firm - responsibilities EU branch of non-EU firm and vice versa
- ┐ Excluded products - ESMA exemption for SFTs deemed not to be of risk (ie retail margin lending)
- ┐ Fields - common fields vs product specific fields
- ┐ Modification messages
- ┐ UTI matching - what it means and expected difficulties
- ┐ ISINs and LEIs - ESMA taking hard stance even if it means restricting available SFTs
- ┐ Trade Repositories - Who is a TR for SFTR, Costs, File Format
- ┐ Time stamps matching - Initial execution and modifications
- ┐ Important associations – ICMA (repos), ISLA (securities lending), AFME (prime brokers), ISDA
- ┐ Delegated reporting - buy-side and sell-side options
- ┐ Data preparation - understand what is being traded, what data is available, gaps and data extraction
- ┐ Cappitech's SFTR solution
- ┐ Brexit? – Reporting impacts to consider

Topic 1

EMIR & MiFID II reporting update

EMIR Data Quality Review

- 1 ESMA & NCAs conducted data quality review at end of 2018
- 1 Review was triggered by Brexit concerns to ensure smooth porting between Trade Repositories due to Brexit
- 1 Findings:
 - Open positions - firms struggled with reporting position terminations
 - UTI breaks – mismatches between reported UTIs
 - Data breaks – mismatches of data reported between counterparties

MiFID II

- ↑ 2018 vs 2019 - NCAs moved from reviewing who is reporting to analyzing report quality
- ↑ Some NCAs still have their own problems with connecting to ARMs, updating FIRDS list and messages to clients
- ↑ Problematic areas NCAs have focused on
 - Trade capacity mismatches- ie Company reports as AOTC but still reports itself in the Buyer/Seller fields (**Easy for NCA to detect**)
 - NCIs— Some NCAs are flagging firms that are reporting high %'s of the CONCAT identifier instead of the correct ID #s
 - GBp vs GBP pricing— Failing to convert pence to Pound (also applies to ZAR/ZAr and **Easy for NCA to detect**)

Topic2

Who, what, when of SFTR

Who, what, when of SFTR

┆ Why it was created?

┆ Products it covers?

┆ When it goes live?

┆ Who has to report?

Shadow banking

- † ESMA created SFTR in 2016 to regulate 'Shadow Banking'
- † Regulation based on recommendations from 2013 Policy Framework from the Financial Stability Board (FSB)
- † Shadow banking refers to the facilitating of credit across the financial system in a process that has no or little regulatory oversight
- † Following the global financial crisis (GFC) of 2008/9, conventional credit decreased which led to an increase in shadow banking to fill in the gap
- † ICMA survey showed 67% increase of outstanding repos from December 2008 to December 2019

Types of SFTs

1. Repurchase Agreements (Repos and reverse Repos)
2. Buy/Sell back & Sell/Buy back transactions
3. Margin lending transactions
4. Security and Commodity lending (stock loans are most common)

SFTR Timeline



Important dates

- † 2016 – **Reuse of collateral disclosure enforced**
- † May to July – ESMA opens comments period from the public
- † End of Q3 or Q4 – Final ESMA consultation papers published
- † April 11th 2020 - Go-live for Investment Firms & Credit Institutions
- † July 11th 2020 – Go-live for CSDs and CCPs
- † October 11th 2020 – Go-live for ‘other financial counterparties’
- † January 11th 2021 – Go-live for Non-financial counterparties

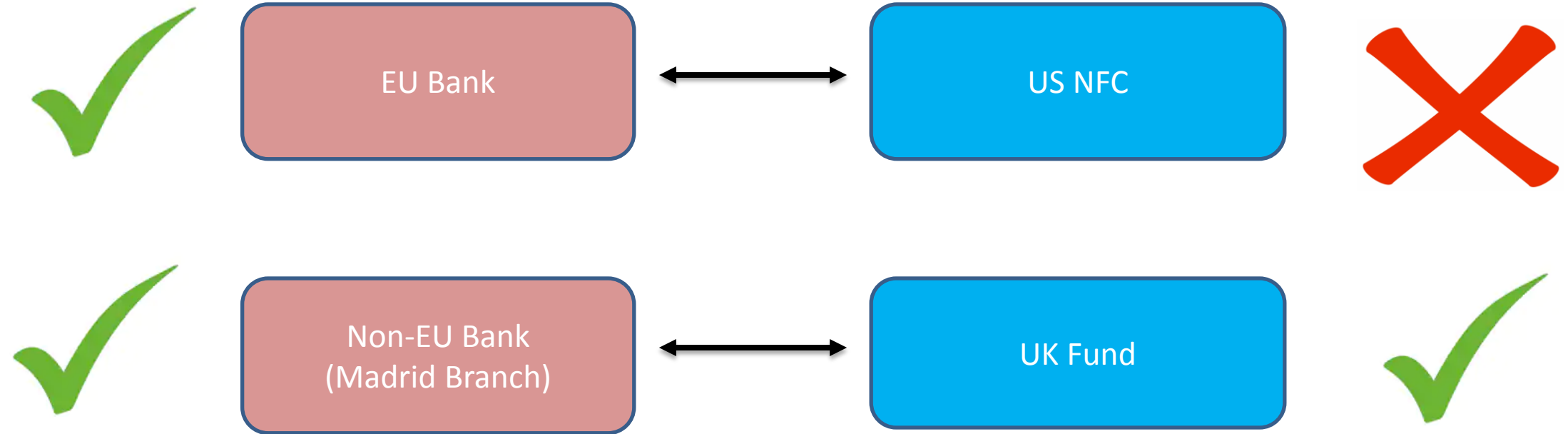
Who has to report?

- 1 Regulation states that the reporting obligation falls on:
- Counterparties (both FC and NFC) that are established in the EU
 - Non-EU counterparty that the SFT is transacted from their EU branch
 - Exemption for Small and Medium NFCs – more on this later and how it effects delegated reporting

Topic 3

Definition of EU firm

Who reports



Non-EU funds with EU Manager

- † No final interpretation but understanding is that Non-EU funds (ie Cayman, US, BVI) that are managed by EU manager are out of scope
- † ESMA was asked about this in July's public forum and private meetings

Topic 4

Excluded Products

Low to no risk products

- † ESMA has created exemptions for SFT transactions that they deem don't pose systemic market list
- † Exempted products include
 - Margin lending products to retail customers such as CFDs
 - SFTs where counterparty is a member of the European System of Central Banks (ESCB) or Bank for International Settlements (BIS)
 - Loans created for corporate restructuring purposes even when including securities

Topic 5

SFTR Fields

Basics

- † SFTR includes 155 possible fields
- † ESMA published Excel of Validation rules
https://www.esma.europa.eu/sites/default/files/library/esma70-151-1019_consolidated_sftr_validation_rules.xlsx
- † Like EMIR, depending on the SFT type, different fields become mandatory, optional, conditional or NR
- † UTI – one party creates the UTI (agreed by the counterparties)

Field Sections

- † Report fields are divided into several sections
 - Counterparty Information (18 fields)
 - Loan & Collateral data (99 fields)
 - Margin Data (20 fields)
 - Reuse, Cash and Funding Sources (18 fields)
- † Most reports include between 40-55 fields of data

Topic 6

Report types & Lifecycle

Action and Report Types

Table 2 – Valid combinations of Action types and Report Types											
		New	Modification	Error	Correction	Position component	Collateral update	Termination	Collateral reuse update	Margin update	Valuation update
Report types	Repurchase trade	X	X	X	X	X	X	X	-	-	-
	Buy-sell back	X	X	X	X	-	-	-	-	-	-
	Securities and commodities lending and borrowing	X	X	X	X	X	X	X	-	-	X
	Margin lending	X	X	X	X	-	X	-	-	-	-
	Margin	X	-	X	X	-	-	-	-	X	-
	Collateral Reuse	X	-	X	X	-	-	-	X	-	-

Source: ESMA 2017 Final report on SFTR technical standards

Lifecycle

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Backloading	All	Table 1 and Table 2	NEWT	TCTN / PSTN
Conclusion	All	Table 1 and Table 2	NEWT or POSC	TCTN / PSTN
Counterparty default or settlement fail	All	Table 1 and 2	ETRM	TCTN / PSTN
Allocation of securities to loan(s)	SLB	Table 1 and Table 2	NEWT or POSC	TCTN
Allocation of commodities to loan(s)	SLB	Table 1 and Table 2	NEWT or POSC	TCTN
Change of allocation ahead of settlement	All	Table 1 and Table 2	EROR + NEWT	TCTN

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Substitution of Collateral	All	Table 1 and Table 2	COLU	-
Change in collateral quality	All	Table 1 and Table 2	COLU	-
Change in cash collateral amount or currency	Repo, SLB	Table 1 and Table 2	COLU	-
Default of the collateral issuer	All	ALL	COLU or ETRM	- TCTN / PSTN
Variation margining in non-CCP cleared SFTs	All	Table 1 and Table 2	COLU	TCTN / PSTN
Variation margining by CCP in CCP-cleared SFTs	Repo, BSB, SLB	Table 3	MARU	

Source Table Reporting Guidelines Consultation Paper

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Lifecycle

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Re-rating (fixed rate and spread)	Repo, BSB	Table 1 and Table 2	MODI	TCTN
Extension	Repo	Table 1 and Table 2	MODI	TCTN
Elimination of termination optionality	Repo	Table 1 and Table 2	MODI	TCTN
Partial termination	All	Table 1 and Table 2	MODI	TCTN / PSTN
Partial returns	All	Table 1 and Table 2	MODI	TCTN / PSTN
Flat margin loan and/or short market value	ML	Table 1 and Table 2	MODI	-

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Change in outstanding margin loan or short market value	ML	Table 1 and Table 2	MODI	-
New base currency used for margin loan	ML	Table 1 and Table 2	MODI	-
Additional base currency used for margin loan	ML	Table 1 and Table 2	NEWT	
Clearing off-venue	All	Table 1 and Table 2	ETRM + NEWT	TCTN / PSTN
Close-out of open repo	Repo	Table 1 and Table 2	MODI	TCTN

Source Table Reporting Guidelines Consultation Paper

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Lifecycle

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Maturity/Expiration	All	Table 1 and Table 2	-	-
Valuation of securities on loan	SLB	Table 1 and Table 2	VALU	-
Valuation of securities used as collateral	All	Table 1 and Table 2	COLU	-
Haircut or margin renegotiation	Repo, SL	Table 1 and Table 2	MODI	TCTN / PSTN
Initial posting of margin to a CCP for cleared SFTs	All	Table 3	NEWT	-
Update of the initial margin posted at the CCP	All	Table 3	MARU	-

Table 5 - Mapping business events to action types and levels

Business / trade event	Type of SFT	Applicable XML message	Reportable action type	Reportable Level
Variation margining with the CCP	All	Table 3	MARU	-
Reuse of collateral, reinvestment of cash collateral	All	Table 4	NEWT	-
Update in estimated reuse or value of reused collateral	All	Table 4	REUU	-
Change in cash collateral reinvestment type, amount or currency	SLB	Table 4	REUU	-

Source Table Reporting Guidelines Consultation Paper

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Topic7

More Than Just UTI Matching

SFTR is Double Sided Reporting

- † UTIs – Counterparties are required to having matching UTI for their reported trades
- † Prime Brokers expect to have similar logic for UTI generation and distribute it to clients (they've learned from EMIR)
- † However, there has been little feedback so far from Banks to Buyside clients

Beyond UTIs

↑ Other areas breaks can occur

- Investment Grade matching – what happens if you use Moody's and your counterpart uses S&P for investment grade ratings and they are slightly different?
- CFI codes – Some firms only enter first two letters and then XXXX – ie DBXTFX vs DBXXXX
- Time stamps – Specific areas of concern are date for Corporate Actions and Margin Lending
- Collateral data - reuse information such as estimated value if reused collateral and reinvest cash (creates question of how to provide delegated reporting for clients)

Topic 8

ISINs and LEIs

More Than Just Company LEIs

- † LEIs required for counterparties, broker, clearing member, tri-party agent, agent lender, CSD and reporting entity fields
- † "No LEI, No Trade" - ESMA will enforce this
- † New requirement is *LEI of ISIN issuer*
- † Question is how to handle stocks where the underlying company doesn't have a LEI?
- † This includes stocks of many Large-Cap Japanese and Australian firms
- † There is discussion that ESMA may allow for a 'Dummy' LEI for these stocks or other methods (expects late decision)

ISINs

- ↑ If you are involved with MIFID II reporting, then ISINs under SFTR will be familiar
- ↑ Fields requiring ISIN
 - Product Identifier
 - Underlying Identifier
 - Security Identifier
 - Identification of security used as collateral
 - Collateral basket identifier

Topic 9

Trade Repositories

Trade Repositories

↑ Who they are?

- DTCC
- Unavista
- REGIS TR

↑ Currently in initial testing stages

- Cappitech is working with IHS Markit as an Early Stage integration partner with the DTCC

↑ Costs – Currently not published but estimates exist

- Tiered pricing starting between £5,000 to £15,000
- CSV to XML conversion of £10,000 to £15,000

Topic 10

Important Associations

Important Associations

- † ICMA – Repos
- † ISLA – Securities Lending
- † AFME – Building consensus among prime brokers
- † ISDA – Working on industry standards and interpretations for data Fields

- † AIMA – Representing Buy-side and providing Working Group feedback

Topic 11

Delegated Reporting & SFTR

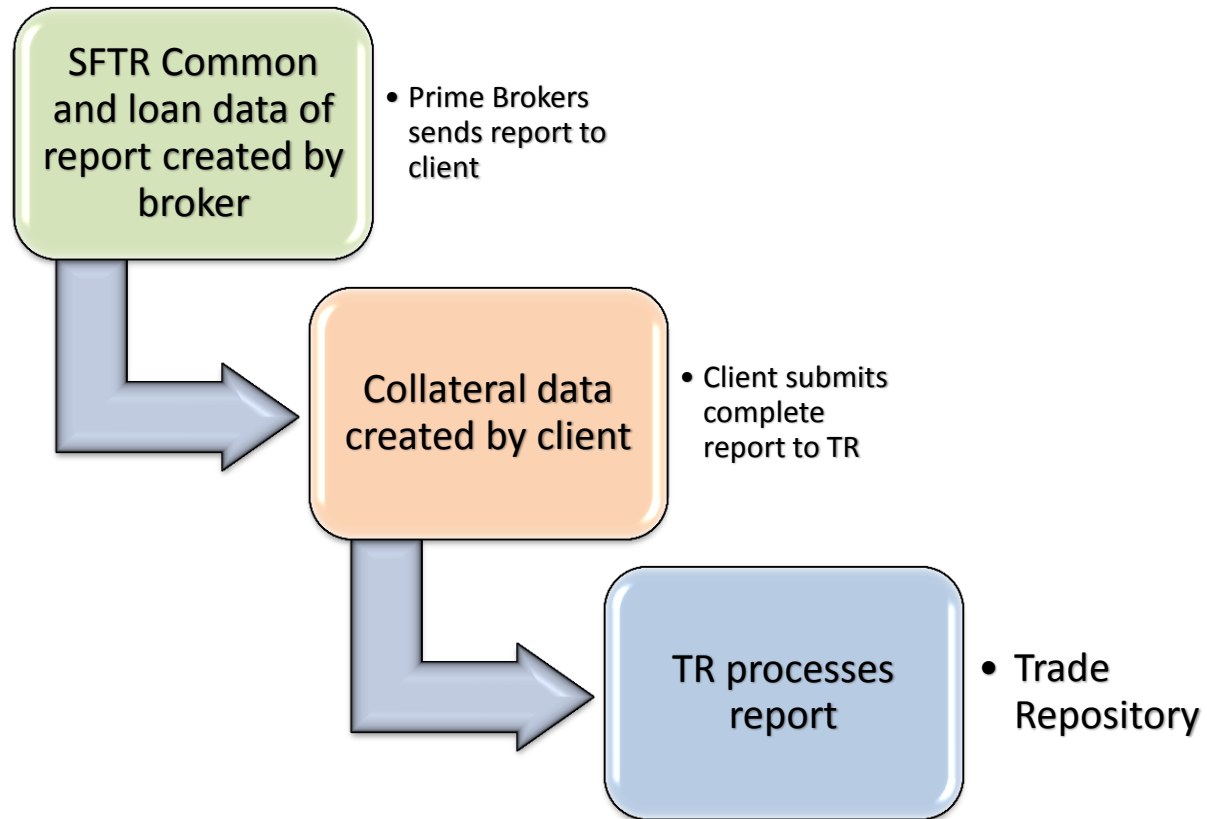
Challenges & Things to Consider

- ┆ UTI – who creates it, how is it distributed?
- ┆ How do I reconcile vs my counterparties?
- ┆ Collateral data – How is sellside information shared with buyside?

- ┆ Sellside
 - What controls in place do I have to review reports submitted on my behalf
 - Can I handle self-reporting if I have numerous counterparties

- ┆ Buyside
 - Is it worth the risk of doing incorrectly?
 - What are the benefits?
 - How do clients see what was reported for them

Assisted Reporting



Topic 12

Brexit

Potential Fallout

- † The FCA plans to create UK version of SFTR, EMIR & MiFIR that follows existing ESMA formats
- † But...Their formats may change in the future
- † Can't use a UK ARM or Trade Repository (ARMs and TRs have created dual listings)
- † FIRDs list for MIFIR Reporting will be split between EU and UK securities
- † EU and UK NCAs aren't expected to communicate on EMIR and SFTR data which will lead to Report Breaks with EU/UK counterparties
- † For firms with entities in both the EU and UK, their underlying NCAs will require compliance officers in each office to have oversight controls
 - **Can't** have compliance reviewed only in one jurisdiction
 - You **Can** one hub for handling compliance with oversight available in all jurisdictions

Topic 13

Data Preparation

Questions to Ask

- ┆ Delegated or self reporting?
- ┆ What type of SFTs do I trade?
- ┆ Is there a delegated option or not? (ie, banks may provide delegated reporting for bilateral Repo trades)
- ┆ If not, does my platform have a SFTR module to extract proper details?
- ┆ Self reporting – dealing with key data points
 - Product identifiers such as ISINs & LEIs – do I have them?
 - UTIs – How is UTI information shared with counterparties?
 - Valuation updates – can I calculate them or need 3rd party?
- ┆ What systems are available to simplify report delegation?
 - 3rd party systems to enrich data fields such as ISINs and Credit Ratings
 - Data aggregation solutions
 - Tri-party systems

Topic 14

Cappitech Solving SFTR

End to End

- 1 Cappitech and Intermoney have partnered to provide investment firms solutions to handle SFTR reporting
- 1 Services offered
 - Delegated reporting technology for banks to report under SFTR for themselves and client's behalf
 - Managed service to outsource uploading and submission of reports
 - Gap analysis of available transaction data and review of product scope
 - Automation platform to extract data, enrich, reformat and submit to trade repositories

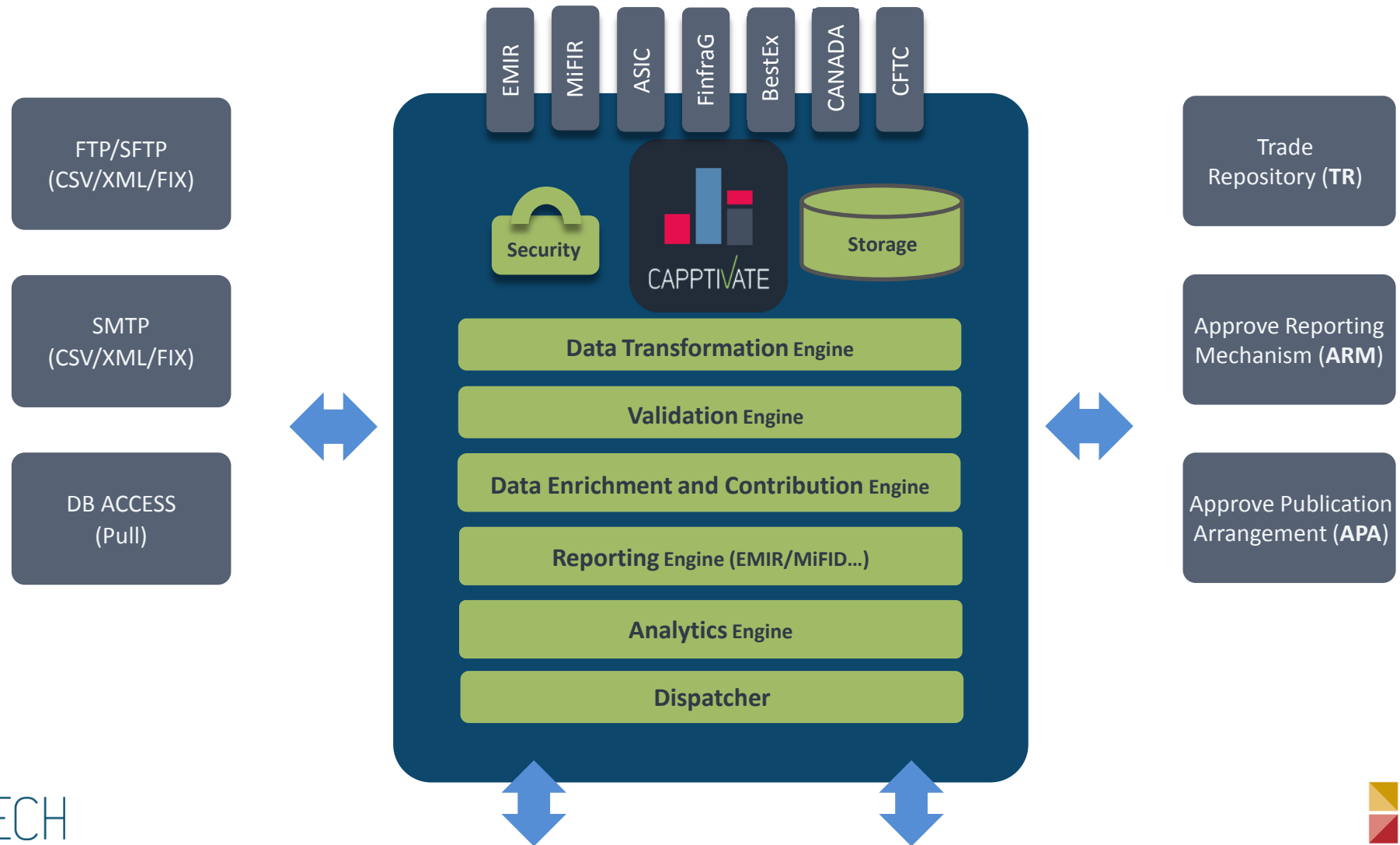


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The Capptivate Platform



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Thanks for listening...
now it's your turn!

Questions?



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