

Securities Financing Transactions Regulation

Transaction Reporting

This paper summarises the transaction reporting requirements for securities financing transactions (SFTs) introduced by the EU Securities Financing Transactions Regulation (SFTR).

SFTR also introduced consent and disclosure obligations for collateral takers in respect of collateral re-use (Article 15 SFTR) and specific disclosure obligations for AIFM and UCITS management companies in respect of their AIFs or UCITS use of SFTs and total return swaps (Articles 13 & 14 SFTR).

SFTR Articles 13, 14 and 15 transparency requirements are already in effect and are not covered by this paper.

Background and Timing

SFTR came into force on 12 January 2016 however the transaction reporting requirements did not come into effect until the Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) were drafted by European Securities and Markets Association (ESMA) and agreed by the European Commission.

On 22 March 2019 the Delegated and Implementing Regulations setting out the technical standards for SFT transaction reporting were published in the EU Official Journal. They came into force on 11 April 2019.

SFT Transaction Reporting will apply on a phased-in basis as follows:

- 11 April 2020: Investment Firms and Credit Institutions
- 11 July 2020: Central Securities Depositories (CSDs) and Central Counterparties (CCPs)
- 11 October 2020: all other Financial Counterparties including UCITs and AIFs
- 11 January 2021: Non - Financial Counterparties

For reference, the RTS and ITS are available via the following links:

[SFTR RTS](#)

[SFTR ITS](#)

The Reporting Obligation

In-scope counterparties to a SFT are required to report details of the SFT to a registered Trade Repository (TR)

on a trade date + 1 basis. Certain collateral reports may be made up to, but no later than, settlement date + 1.

The information reported will be centrally stored and directly accessible by relevant authorities such as ESMA, the European Systemic Risk Board (ESRB) and the European System of Central Banks (ESCB) for the purpose of the identification and monitoring of financial stability risks.

What transactions are in scope for SFTR?

SFTR defines a SFT as a repo or reverse repo, buy/sell back, securities or commodities borrowing or lending transaction and a margin loan.¹

Who is subject to the reporting obligation?

A counterparty to a SFT that is:

- established in the EU including all of its branches (this includes EU and non-EU branches); and
- third country entities where the SFT is entered into through an EU branch.

This is a dual sided reporting regime. Both in-scope counterparties must report details of their side of the SFT to a TR.²

The responsibility for reporting lies with the in-scope counterparty except where:

- a financial counterparty enters into a SFT with a non-financial counterparty which does not exceed the limits of at least two of the following criteria:
 - (a) balance sheet total: EUR 20million;

¹ Official Journal of the European Union, Regulation (EU) 2015/2365 of the European Parliament and the Council on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, Article 3(11)

² Regulation (EU) 2015/2365, Article 2

- (b) net turnover: EUR 40million; and
- (c) average number of employees during the financial year: 250

in which case the *financial counterparty* is responsible for reporting on behalf of both parties;

- a UCITS is a counterparty to a SFT, in which case its manager is responsible for reporting on behalf of the fund;
- an AIF is a counterparty to a SFT, in which case its manager is responsible for reporting on behalf of the fund.

Delegated reporting is permitted.³

Exemptions to the reporting obligation

The following entities are not subject to the reporting obligation:

- Members of the ESCB and other member state bodies performing similar roles;
- EU public bodies charged with or intervening in the management of public debt; and
- Bank of International Settlements.

SFTs entered into with members of the ESCB are completely exempt from SFT reporting – neither party needs to report. However, SFTs with ESCBs are subject to transaction reporting under MiFIR (absent any relevant exemption.)

Unlike European Market Infrastructures Regulation (EMIR), there is no exemption for counterparties who enter into low volumes of SFTs.

Third country entities

A third country entity who is a counterparty to a SFT is not required to report that transaction however details of the transaction may still need to be reported by its counterparty. Therefore third country entities may still be impacted by SFTR as their counterparties will need to receive certain information from them (for example a Legal Entity Identifier - LEI) in order to allow them to meet their reporting obligations.

A third country entity operating through a branch in the EU is subject to the reporting obligations.

Information to be reported

In respect of any SFT, the *conclusion, termination and any modification* is required to be reported on a trade date + 1 basis.

This means that for many market participants, daily reporting will be required in respect of each SFT.

For agency transactions, the principal lender is considered to be the counterparty rather than the agent and, if it is an in-scope counterparty it will have its own reporting obligation.

Collateral that is not identifiable by trade date + 1, for example, where collateral baskets are being used, may be reported no later than settlement date (value date) + 1.

Collateral updates are reported based on end of day positions.

UTI

Each SFT is given a Unique Transaction Identifier (UTI) allowing modifications to be tracked through the life of the SFT. The party who is responsible for generating the UTI is set out in a decision tree provided by ESMA in the final implementing technical standards.⁴

LEI

In order to comply with the reporting obligation for SFTR, the reporting counterparty will, if applicable, require an LEI identifier for the following parties:

- a) counterparty
- b) beneficiary
- c) broker
- d) CCP
- e) CSD
- e) triparty agent
- f) agent lender

How to obtain an LEI: LEIs can be purchased from an LEI issuing organization; these can be found on the [Global Legal Entity Identifier Foundation's \(GLEIF\)](#) website. A LEI must be renewed on an annual basis for a fee.

Morgan Stanley will capture your LEI from the GLEIF database, please ensure that your LEI is updated and present on this system ahead of the 11 April 2020 go-live date.

Reporting Content

There are four reporting tables (counterparty data, loan and collateral data, margin data and re-use and funding sources data). The data required to be

³ Regulation (EU) 2015/2365, Article 4(3)

⁴ Official Journal of the European Union, laying down implementing technical standards with regard to the format and frequency of reports on the details of securities financing transactions (SFTs) to trade repositories in accordance with Regulation (EU) 2015/2365, Article 3 [SFTR ITS]

reported is tailored to the specific SFT type however generally the following information is required:

- counterparties to the transaction (and beneficial owner if not the counterparty (i.e. trust structures and certain fund structures); details of agent lenders, brokers and triparty agents are also required. Identified by LEI
- Principal amount of margin loan, short market value, securities loan value or repo principal amount
- Currency of the above mentioned amounts
- Collateral – type, cash amount, security quality, security or commodity market value, price, haircut, LEI of issuer, method of transfer, availability for re-use (at ISIN level); actual or estimated re-use; all substitutions of collateral
- Repo rate, securities lending fee or rebate rate, margin lending rate
- Value dates, termination date, event date
- Loan Price, daily market value for securities lending
- Maturity dates and first callable dates
- Termination optionality (evergreen, extendible, fixed or open term)
- Margin data for cleared SFTs
- Lifecycle event information (such as event date, action type)

The full set of reporting tables can be found in the [SFTR RTS](#).

Matching Data

Where the reporting is done on a bilateral basis (i.e. where both parties are established in the EU or operating through a branch in the EU), a large number of data fields are subject to matching criteria.

Securities lending via agency lending programmes

Disclosures

Morgan Stanley and its affiliates disclaim any and all liability relating to this information, including, without limitation, any express or implied representations or warranties for statements in, or omissions from, this information. This information does not constitute legal, regulatory, investment or tax advice and the client should consult its own professional advisors on these matters. This information does not supplement, amend, or otherwise vary or substitute any agreement between the parties and does not constitute an independent cause of action. The information contained herein is given as of the date hereof, remains confidential and proprietary to Morgan Stanley and should not be disclosed to any third party without the prior written consent of Morgan Stanley

Beneficial owners (domiciled in the EU) who lend securities through agency lending programmes, are required to report the loans under SFTR. Beneficial owners and borrowers will require a significant amount of information from the agent lenders in order to meet their reporting requirements.

The reporting obligation is at the counterparty level; borrowers will require agent lenders to provide all allocation data (including intraday allocation data) on a timely basis. Without the allocation data, the borrower will not be able to fulfil its reporting obligations.

Margin Lending Reporting

A margin lending report is required where there is a net cash debit in the base currency or where there is an outstanding short market value.

Any change to the net debit balance, short market value or composition of the collateral will trigger a reporting requirement.

All securities held as collateral by a prime broker will be required to be reported at ISIN level (likely on a daily basis due to changes in composition of portfolio or changes in the mark to market value).

Short Market Value.

Short cover provided by the prime broker to the client will be reported under the Margin Lending table as SMV not as a securities lending transaction.

Collateral Re-use Reporting

Parties are required to report collateral re-use at legal entity level on a per ISIN basis. The requirement applies to any non-cash collateral that is received in a SFT and subsequently used in another SFT.

Vendor/ TR connectivity

There are a number of vendor solutions being developed in the industry which aim to facilitate reporting of SFT data to TRs. Morgan Stanley intends to be able to send and consume data from several vendors.

Further Information

Should you wish to discuss how SFTR may impact your relationship with us please email your query to SFTRResponse@morganstanley.com.