

The SmartStream Reference Data Utility (RDU) SFTR Service

The complete set of instrument reference data to support Securities Financing Transaction Regulation (SFTR) transaction reporting requirements

Executive summary

The European Union's Securities Financing Transactions Regulation (SFTR) requires banks and investment firms to start reporting transactions from 14 April 2020 and many firms are now focused on preparing for that date.

Both counterparties of a Securities Financing Transaction must report that transaction to a registered Trade Repository (TR) on a T + 1 basis, compiling a comprehensive report that includes the details of the transaction, the counterparties and the specifics of the security involved.

The security reference data fields that are required for a complete SFTR transaction report need to be derived from a variety of different industry sources, through a complex set of mappings and history needs to be retained to support back-loading, enable necessary reporting corrections and underpin an auditable control framework.

The SmartStream RDU SFTR reference data service removes the complexity of sourcing and deriving the instrument reference data that you need for SFTR. You simply identify the instrument that is the subject of the Securities Financing Transactions (SFTs), make a simple call to a cloud-based API and the SmartStream RDU returns the fields that you need to complete the SFTR transaction report before submission to the Trade Repository.

Simplify your SFTR reporting requirements with complete, accurate and timely security reference data from the SmartStream RDU, the reference data specialists.

What is SFTR?

The Securities Financing Transactions Regulation is the European Union's response to the Financial Stability Board (FSB)'s policy proposals on securities lending and repos (repurchase agreements). These proposals followed a recognition that during the financial crisis, regulators and supervisors had difficulty anticipating risks in securities financing, due to a lack of data.

SFTs are transactions where securities are lent or borrowed in exchange for cash including a financing fee. This includes repurchase agreements (repos), securities lending activities, and sell/buy-back transactions. In each of these, ownership of the securities temporarily changes hands.

The SFTR regulation imposes conditions on the 'reuse' of financial instruments which have been provided as collateral; requires investment funds to disclose details of the use of SFTs to their investors; and requires both counterparties to an SFT to report the transaction to an ESMA registered Trade Repository.

What is the timeline for SFTR?

- ▶ August 2013 - the FSB published its “Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos”
- ▶ January 2016 – EU Regulations (2015/2365) on SFTR came in to force
- ▶ March 2017 – ESMA’s final report on technical standards for implementing SFTR was published
- ▶ May 2019 – ESMA consulted on “Future Reporting Guidelines under SFTR”
- ▶ Q3 2019 – ESMA is reviewing the feedback it receives to this consultation
- ▶ Q4 2019 – ESMA expects to publish a final report on the Guidelines on Reporting under SFTR

Phased Go Live:

- ▶ Tuesday 14 April 2020 – Reporting go-live for banks & investment firms
- ▶ Monday 13 July 2020 – Reporting go-live for CCPs & CSDs
- ▶ Monday 12 October 2020 – Reporting go-live for insurance firms, UCITs, AIFs, pension funds
- ▶ Monday 11 January 2021 – Reporting go-live for non-financial entities

SFTR requires that both parties of a trade, report that transaction to a registered TR on a T + 1 basis although delegated reporting is permitted. Both transaction reports are required to match and the number of fields that need to be reconciled increase in a phased approach making it increasingly important to source accurate and clean data.

The required transaction reports include 143 attributes of which about 10 are fields detailing the financial instrument that was traded, including an SFTR specific classification and a security quality indicator.

The business challenge

The SFTR focus for many firms is sensibly on ensuring that the transactional elements of the SFT are captured and populated effectively. The SmartStream RDU SFTR Service allows you to retain that focus and be confident that you can populate the instrument reference data using a simple cloud based API call with the best in class reference data available.

The instrument reference data fields that are required for a complete SFTR transaction report need to be derived from a variety of different industry sources, including ESMA, ANNA, GLEIF, ISO, Ratings providers and Index providers.

Acquiring, normalizing and integrating the complete set of reference data sources for SFTR creates a significant challenge for financial institutions. Files can be large and the mappings, the enrichment, the derivations and the data quality management that is essential to ensure accurate regulatory reports is a huge and unnecessary distraction. On top of this, the back-loading, the reconciliation and correction cycle and the need to provide an auditable control framework for a number of years means that a history of the reference data is essential for any firm to reliably meet the regulatory requirements.

The SmartStream RDU SFTR Reference Data Service

The SmartStream RDU SFTR reference data service removes the complexity of sourcing and deriving the instrument reference data that you need for SFTR. You simply identify the instrument that is the subject of the SFT and the SmartStream RDU returns the fields that you need to complete the SFTR transaction report before submission to the Trade Repository.

The SmartStream RDU acquires the data from the necessary industry sources, normalizes, enriches and maps it into the form required by SFTR and then makes the data available through simple-to-use cloud based APIs. Data is updated daily and 5 years of history will be retained and be accessible through the APIs to support back-loading, to enable necessary reporting corrections and to underpin an auditable control framework.

The fields that the SmartStream RDU provides are as follows:

| Attribute Name | Attribute Definition |
|---|---|
| Effective Date | Effective date of the reference data set to be used. |
| Security/collateral identifier | Identifier of the security/collateral (ISIN) subject of the SFT. |
| Classification of a security/collateral | CFI code of the security/collateral subject of the SFT. |
| Currency of nominal amount | In the case where nominal amount is provided, the currency of the nominal amount shall be populated in this field. |
| Security/collateral quality | Code that classifies the credit risk of the security/collateral: 'INVG' – Investment grade 'NIVG' – Non-investment grade 'NOTR' – Non-rated |
| Maturity of the security/collateral | Maturity of the security/collateral. |
| Jurisdiction of the issuer | Jurisdiction of the issuer of the security/collateral. In case of securities issued by a foreign subsidiary, the jurisdiction of the ultimate parent company shall be reported or, if not known, jurisdiction of the subsidiary. |
| LEI of the issuer | LEI of the issuer of the security/collateral. |
| Security/collateral type | Code that classifies the type of the security/collateral: 'GOVS' - Government securities 'SUNS' - Supra-nationals and agencies securities 'FIDE' - Debt securities (including covered bonds) issued by banks and other financial institutions 'NFID' - Corporate debt securities (including covered bonds) issued by non-financial institutions 'SEPR' - Securitized products (including CDO, CMBS, ABCP) 'MEQU' - Main index equities (including convertible bonds) 'OEQU' - Other equities (including convertible bonds) 'OTHR' - Other assets (including shares in mutual funds) |

The SmartStream RDU also offers custom services, if necessary, for integration with an individual financial institution's business processes.

Why SmartStream RDU?

For SFTR, and any regulatory project, it is important to build an infrastructure and a set of operational processes that are sustainable over a decade or more. The SmartStream RDU allows you to focus on your business, building an efficient SFT workflow, while leaving the complexity of sourcing the instrument reference data to the SmartStream RDU – the reference data specialists.

The SmartStream RDU SFTR reference data service:

- ▶ Sources and stores the reference data needed to support SFTR reporting from the various industry sources required (see above)
- ▶ Derives SFTR specific fields: Security Type, Security Quality and Issuer Jurisdiction
- ▶ Updates the SFTR data set daily and retains a point in time history of reference data over a 5 year period
- ▶ Provides a cloud based high throughput REST API service to retrieve data for a specific instrument and transaction.
- ▶ Provides access through the APIs to the current set of reference data (today's data) and data for every working day from the initial SFTR go live date (Tuesday 14 April 2020)
- ▶ Provides a web based read-only GUI that displays the reference data, offering the same search criteria as the REST API service.

About The SmartStream Reference Data Utility (RDU)

Financial institutions are critically dependent on high quality reference data to ensure that they can successfully trade electronically, automate their operations and report accurately to regulators. Large institutions spend millions of dollars to improve data quality, fix data issues and manage the exceptions that occur due to bad data.

The SmartStream RDU offers a simple solution to satisfy those complex reference data needs, by providing a high quality security master built using industry best practises. The RDU is the product of an initiative developed in close association with demanding global institutions and has been proven to deliver dramatically better quality data.

For more information visit:
smartstreamrdu.com