

Sent by email

09 July 2020

## **SFTR Challenges for Phase 1 Go-live**

Dear ESMA and NCAs,

A few days from now, many ISLA member firms will begin submitting SFT data to their preferred Trade Repositories, as directed under the Securities Financing Transactions Regulation (SFTR). The preparation for this reporting requirement has already had a profound impact on the SFT industry, and we believe it will continue to influence many aspects of our market going forward.

Although ISLA members have devoted extensive effort to be compliant, working with us to form new market consensus, investing in systemic developments, and resourcing the necessary staff to maintain those new processes, some aspects of the reporting requirement remain challenging. In addition to advising our members to communicate any issues directly to their local NCA, we would like to share some notable examples with you.

### Counterparty Dependencies & Complexity

As you know, a considerable proportion of our market's activity is generated by agent lenders, who in turn represent multiple diverse underlying beneficial owners. Most agents operate lending programmes that aggregate assets from multiple asset owners to create a single delivery (loan) to the borrower. Borrowers are therefore reliant on an agency lending disclosure process to map these one-to-many relationships. Where each loan represents multiple transactions, borrowers encounter expanded complexity and a corresponding increase in the material scale of reporting issues. This represents a key area of risk for completeness and accuracy of reporting.

We understand that not all firms may be at the same stage of testing and development. Where firms state of readiness is different, there could be an impact to transaction pairing, or worse, an inability for one counterparty to report in a timely manner due to a dependence on the other party. This divergence may introduce reporting issues related to the mapping of lifecycle events, which could also be generated by the diverse processing standards inherent in a market populated by heterogeneous booking platforms.

The above points align under the widely discussed challenge of UTI and LEI exchange. We have witnessed an extraordinary effort in this area with trading counterparts and system vendors implementing new solutions. In addition, ISLA has worked with the industry to create a standard minimum field data exchange that could facilitate communication. Other associations' have done the same. However, gaps remain in connecting a global market, especially where a dependency must be met before data can be submitted to a Trade Repository.

### Regulation Interpretation & Systemic Abilities

We would like to note that regarding the issue of missing Issuer LEI, firms may take different approaches depending on their internal policies. This will present itself as either selectively withholding data submissions, reporting data to a TR and tracking resulting NACK(s), and lastly, avoidance of securities from lending/collateral use. This last approach remains a concern due to any potential impact to settlement efficiency or market liquidity.

A similar issue is the full and partial returns scenario, otherwise known as actual-versus-contractual reporting. Whilst this has been discussed for considerable time, the clarification earlier this year arrived too late for some firms to implement. Alternatively, the guidance given diverges to such a degree from some firms operating models, that it creates an almost unattainable challenge. Through our SFTR working group, members have arrived at a pragmatic best practice that favours the spirit of SFTR, namely, to be transparent. We remain optimistic that the introduction of SFTR, and CSDR, will over time reduce the frequency of settlement failures.

The last point we would like to draw your attention to, is the management of required matching tolerances. With the above challenges and the exceptionally tight validation tolerances, we note that some transaction may experience mismatch across several fields. To prioritise and focus attention on this challenge, firms may first target fields that support pairing and commercial concerns. Over time, we believe matching rates will of course improve.

Finally, we would very much like to recognise the extraordinary effort of regulators, national authorities, market participants, vendors, and other trade associations in arriving at this important moment. Although there is still much to be done, this regulation does contain some vitally important preparatory steps for our industry. We look forward to continuing working with you on that evolution.

Yours sincerely,

**Adrian Dale**

Head of Regulation & Market Practice

The International Securities Lending Association (ISLA)  
75 King William Street, London, EC4N 7BE

