European Commission - Press release

Commission welcomes agreement on improving transparency of certain financial transactions in the shadow banking sector

Brussels, 17 June 2015

The European Commission welcomes today's political agreement on the proposal for a regulation on reporting and transparency of securities financing transactions (known as SFTR). The agreement follows negotiations between the Commission, the European Parliament and the Council of the EU to find common ground on the regulation. The proposed regulation aims to increase the transparency of certain transactions in the shadow banking sector to avoid that banks circumvent other rules by moving those activities to the shadow banking sector. Today's agreement will significantly improve the transparency of securities financing transactions and help identify their risks and their magnitude.

Securities financing transactions (SFTs) allow market participants to access secured funding, i.e. to use their assets to secure financing for their activities. This involves the temporary exchange of assets as a guarantee for a funding transaction (e.g. the lending or borrowing of securities, repurchase or reverse repurchase transactions, buy-sell back or sell-buy back transactions, or margin lending transactions).

"*Today's agreement is an important step forward in bringing transparency in securities financing markets*," said Jonathan Hill, EU Commissioner responsible for Financial Stability, Financial Services and Capital Markets Union. "*These activities are important for the financing of the economy and the right kind of oversight will make it easier to monitor and assess the risks involved*."

The formal adoption of the proposal is expected later this year.

Background:

Securities financing transactions were identified as a source of systemic risk for the stability of the financial system in the Commission's Communication on Shadow Banking in 2013 (IP/13/812), and therefore would need to be better monitored. The lack of transparency in these SFTs markets makes it difficult to identify property rights (who owns what?), monitor risk concentration and identify counterparties (who is exposed to who?). The proposal on the Securities Financing Transactions Regulation that was adopted in January 2014 alongside the proposal for the structural reform of the EU banking sector seeks to address these issues (IP/14/85 and MEMO/14/63).

The proposal contains three measures to improve the transparency of securities financing transactions (SFTs). First, all SFTs, except those concluded with central banks, will be reported to central databases known as trade repositories. Second, information on the use of SFTs by investment funds will be disclosed to investors in the regular reports and pre-investment documents of funds. Finally, minimum transparency conditions will need to be met on reuse of collateral, such as disclosure of the risks and the need to grant prior consent.

In August 2013, the Financial Stability Board adopted recommendations to address the risks inherent to securities lending and repurchase agreements. The proposed regulation is in line with these recommendations.

For more information on SFTs:

MEMO/14/64

http://ec.europa.eu/finance/general-policy/shadow-banking/index_en.htm#maincontentSec1

IP/15/5210

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