

A day in the life

Jo Hide of REGIS-TR explains how the proposed SFTR solution from EquiLend and Trax, in conjunction with the TR services offered by REGIS-TR can streamline SFTR reporting

Reporting under SFTR with EquiLend, Trax and REGIS-TR

So far, much research and debate has focused on the difficulties of SFTR reporting, including: the huge number of data fields to be provided; the difficulties of capturing the necessary lifecycle events; the creation and dissemination of unique transaction identifiers (UTIs); sourcing and maintaining legal entity identifiers (LEIs); the lack of straight-through processing (STP); and how the above will impact on the all-important inter-TR reconciliation.

You'd be forgiven for thinking there was nothing but bad news.

Vendors and infrastructure providers, however, are stepping forward with their offerings, and progressing on building out their solutions, and it's starting to become clear just how valuable these could be in supporting firms as they source their data fields, pre-validating, pre-reconciling, data formatting and submission to the trade repositories (TRs).

This article represents an illustration of how the joint-SFTR solution from EquiLend and Trax, in conjunction with the TR services offered by REGIS-TR can streamline your SFTR reporting and help to reduce the burden of maintaining compliance with the reporting regulations.

In short, this is the good news that firms have been waiting for.

Introducing EquiLend, Trax and REGIS-TR

EquiLend's services are designed to increase efficiency and automation in the global securities finance marketplace.

From their global trading platform (NGT) and post-trade suite, to the market data (DataLend) and EquiLend Clearing Services businesses, EquiLend's products deliver global access to liquidity, scalability and reduced risk.

Next Generation Trading (NGT) is a multi-asset class trading platform for the securities finance marketplace. Accessed through NGT's intuitive, web-based user interface or via full automation using EquiLend's proprietary messaging protocol, NGT offers access to global securities finance trading to firms of all sizes. With tens of thousands of trades conducted on the platform around the globe each day, NGT offers unparalleled liquidity in the securities finance market. NGT's strategic features increase trade-level transparency, improve workflow automation and generate efficiencies market wide.

Within the post-trade arena, EquiLend offers a suite of products, chief among them is Unified Comparison—the nucleus for post-trade lifecycle management and a gateway into all the other post-trade client service (PTS) products available within EquiLend, including Securities Financing Transactions Regulation (SFTR) lifecycle management.

NGT and PTS combined process a vast amount of trading and post-trade information daily. On NGT, for instance, \$39 billion notional is traded across the platform on average each day, and has reached as high as \$45 billion on particularly active trading days. EquiLend's PTS processes 42 million post-trade records daily, on average. Due to the staggering amount of activity flowing through EquiLend's pipes, the firm houses much of the data required for SFTR and is ideally placed to help firms with their SFTR data needs.

Trax, the post-trade services engine of MarketAxess, is a leading provider of trade matching and regulatory reporting services and is a trusted source of comprehensive and unbiased pricing and liquidity information to the global securities market. Trax processes on average over one billion cross-asset class transactions annually on behalf of its community of over 600 entities including approximately 12 million fixed income transactions. Trax operates an approved publication arrangement (APA) and approved reporting mechanism (ARM) for the second Markets in Financial Instruments Directive (MiFID II) trade and transaction reporting in addition to providing support for other regulatory regimes.

Trax is a leading provider of automation to the manual world of repo and buy-sell back. The Trax Repo matching service connects the largest community of buy- and sell-side firms in Europe and the US. Trax has been a voice for automation for over 10 years and the community has increased markedly in the last 12 months as repo units look to drive out cost and minimise the risks associated with typically very large trades.

Trax also has long-standing pedigree in regulatory reporting. For MiFID II, it operates both an ARM for transaction and an APA for trade reporting. Of the top 20 asset managers, those that have selected Trax for MiFID II reporting services represent approximately 67 percent of the total assets under management. For European Market Infrastructure Regulation (EMIR), it offers a reporting solution into TRs for relevant trading activity. Together, the two firms occupy, capture and process a significant amount of trading across both securities borrowing and lending, and repo and buy sell backs, and for a wide section of market participants:

Securities borrowing and lending

- EquiLend's MTF processes 90,000 plus new trades per day (82 percent equities, 18 percent fixed income)
- 60 percent plus of trades flowing across NGT are SFTR reportable transactions
- The break-rate for NGT trades is less than 3 percent (versus a rate of over 35 percent for over-the-counter (OTC) transactions) over the trade's lifetime

- In post-trade processing: real-time, on-screen reconciliation via EquiLend's unified comparison product

Repo and buy/sell back

- Trax Repo is one of the leading near real-time post-trade exception management tools for securities financing
- Trading is via NGT (BondLend)
- With post-trade processing via Trax Repo and BondLend PTS

Client coverage

- Each firm has over 100 clients likely to be impacted by SFTR, including tier one investment banks, inter dealer brokers, fund service providers and asset managers
- Clients numbers have been growing throughout 2018, notably in fixed income
- By accessing the EquiLend and Trax solution, firms will have access to a broad range of securities finance and repo counterparties
- Both companies have strong presences in all key regions in Europe (UK, France, German, Nordics region) and throughout the full range of international securities finance markets

REGIS-TR is the European regulatory reporting specialist, and one of the two largest EMIR trade repositories, regularly processing more than 30 million new trades per week for over 1,500 clients. It is the only trade repository offering both EMIR and FinfraG reporting, and will add SFTR to its stable of repositories in order to service both its existing clients, and the significant reporting requirements for its sister companies in the Deutsche Börse Group.

With Clearstream an active participant in the securities financing markets, REGIS-TR already has unrivalled in-house expertise in these markets, and will capture a high proportion of SFT reports across the UK and mainland Europe.

REGIS-TR's SFTR repository intends to have full two-way interoperability with the EquiLend and Trax solution, for both own and delegated reported, whether submitted directly by the firm or via Trax Insight.

The solution: introducing Trax Insight

EquiLend and Trax are collaborating to offer a full front-to-back SFTR solution to support the industry in meeting their reporting obligations.

EquiLend’s expertise in the securities finance industry, combined with the Trax regulatory reporting and repo trade confirmation products, will result in a comprehensive service covering all SFTR-eligible asset classes.

EquiLend and Trax’s joint solution will allow firms, subject to SFTR to obtain a pre-repository match to help ensure accurate reporting and efficient exception management processing.

The interoperable solution would enable the onward routing of trades to the Trax Insight engine, which captures and centralises reporting flows, enabling firms to manage exceptions through a single interface and to rely on the Trax rules engine to filter and enrich trades. Clients would also be able to benefit from delegated reporting.

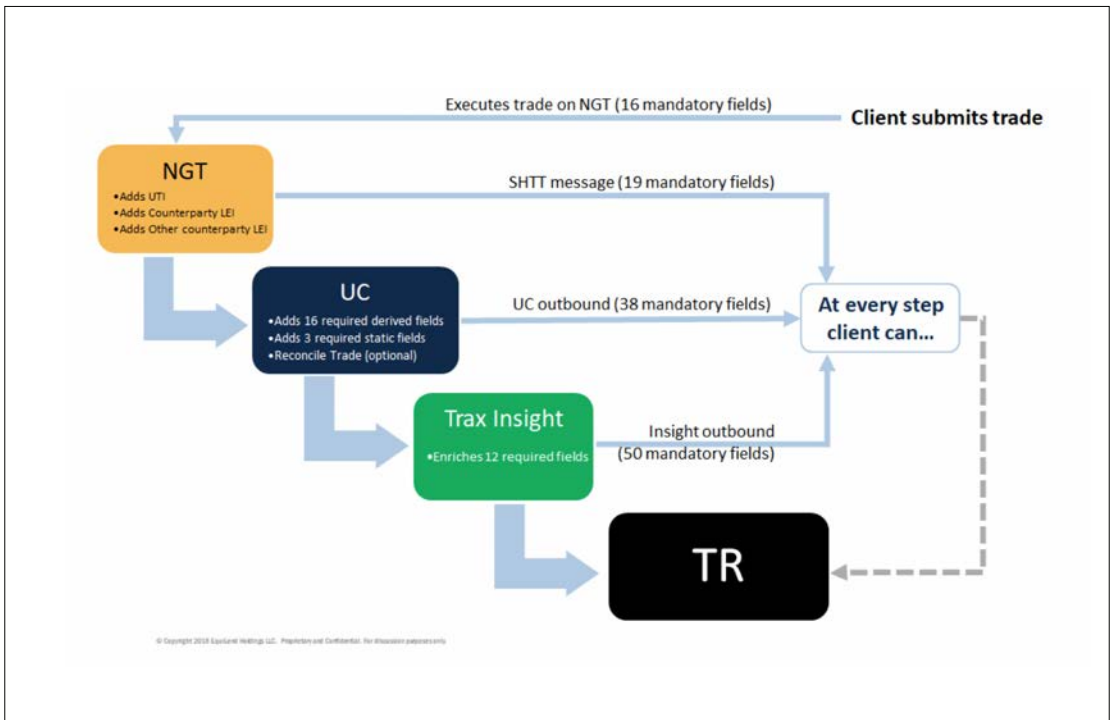
How it works

In a nutshell, the EquiLend and Trax solution has been created to take the fundamental trading data, which is native to every trade conducted in the market, enhance and enrich it with derived and reference data to such an extent that it transforms it into a complete SFTR transaction report, which is automatically sent to the TR.

If this ‘zero touch, front-to-back’ solution seems too good to be true, the flow of data through the various steps of the process from trade execution to TR submission is neatly summed up in the diagram below, using a classic new, non-cash securities lending direct trade.

Let’s step through the process starting with the client:

1. The Client executes the Securities Finance trade as normal on EquiLend’s NGT platform—this captures 16 of the mandatory SFTR data fields.
2. NGT adds three key fields of data to the Shared Trade Ticket (SHTT)—the UTI and the LEIs which identify the



two counterparties to the trade. The trade is now capable of being paired in the inter-TR reconciliation. At this point, 19 of the mandatory SFTR fields have been completed.

3. NGT would send the enhanced trade to Unified Comparison (UC).

4. The post-trade services then add a further 19 fields of data to the trade. 16 of these can be logically derived from the information already received from NGT in the SHTT, and these data points relate to the clearing of the trade, the collateral provided, the trade term, and information on the rebate rates which apply. The other 3 fields are reference data, drawing on static data set up during on-boarding. At this point, the trade has now reached 38 fields of populated data, and the trade can be sent to UC to confirm, at this very early stage, that it correctly reconciles against the other side of the trade.

5. At this point, the trade would be handed over to Trax Insight, where the transaction is further enriched with another 12 fields of data, utilising existing regulatory reporting products currently utilised for MiFID II reporting. The populated data now numbers 50 mandatory fields, and the trade is sufficiently complete that it can be submitted to a TR.

6. Trax Insight seamlessly converts the data to ISO 20022 XML format, according to the official schematic, and will send it to a TR, within the reporting deadline.

The Trax Repo platform will perform a very similar function as detailed in step three for repo trades.

Trax will look to provide the UTI on the confirmed trade, as well as allow for central matching on lifecycle events. This trade will then subsequently be sent to Trax Insight in a state where the key pairing fields of UTI, counterparty LEIs and master agreement have already been submitted and matched.

This is EquiLend and Trax's full-service offering to firms, but it is highly customisable depending on client needs.

If you'd like more, additional fields of data can be added to the trade during its processing by EquiLend and Trax, either by being supplied by the counterparty,

or by requesting the application of further enriched or derived fields.

If you'd like less, at any stage in the process, firms can decide to consume the trade themselves rather than passing it to the next step, so that they can apply their own internal enrichments and derivations, and run their own checks against the data. Reporting firms can even go so far as achieving full enrichment, with the final step being to deliver an ISO 20022 message to the reporting firm for self-reporting. This same approach is available for delegated reporting clients.

At all stages throughout the process, outbound reporting is available for clients to consume results of derivation and enrichment, thus facilitating the updating of source systems to ensure they are correctly aligned with what has been reported to a TR. It should also be noted that this process can be applied to OTC transactions, but that without the guaranteed matching of key fields at point of trade via NGT, the likelihood of mis-matches increases.

And this doesn't apply solely to the new trades being reported for the first time. Throughout its lifetime, whenever the trade is modified every action can be captured in the EquiLend and Trax solution and uniformly provided to the TR for confirmation reconciliation.

The TR takes over

Once received at REGIS-TR, the actions mandated in the SFTR regulation come into play, including: ensuring that EquiLend and Trax are correctly permissioned to report trades on your behalf; confirming that the UTI provided has not previously been used for another trade; running the field-level validations, and checking certain data elements against reference data lists (for example, LEIs, currency codes, venue codes); and confirming that the latest report fits logically into the trade history already received for that UTI, thereby preventing illogical workflows (for example, preventing a modification from being reported against a trade which has already matured).

Records which pass all these checks will be committed to the TR database. Records which don't pass the checks will not be committed, but in both cases, REGIS-TR will return a response message which fully describes the

latest state of the submission record at the TR, and any issues which need resolving. The quick turnaround time of the response message (required under the regulation to be within 60 minutes of submission, but typically significantly quicker at REGIS-TR), should give firms ample opportunity to investigate and correct any errors, and have the affected records re-submitted within the reporting deadline.

Once correctly validated, REGIS-TR will, in near-real-time, check in its TR to see whether the other side of the trade has also been received. If it has, REGIS-TR will pair the two sides together and then run the Intra-TR reconciliation process. This is a good time to explain exactly how that reconciliation process works.

Reconciliation

SFTR, like EMIR, is a dual-sided reporting regime. This means that trades must be reported from both counterparties' perspectives, and the details reported must match one another, or be corrected until they do. The reconciliation of reported trades is carried out by the TRs on a daily basis, and will follow the technical standards laid down by the European Securities and Markets Authority (ESMA). For SFTR, we expect those to replicate (to a greater or lesser extent) the process which TRs follow under EMIR:

1. The TR checks each trade it holds to verify whether that trade should be submitted for reconciliation—trades reported against individuals and non-European Economic Area counterparties, neither of which have a reporting obligation under the regulation, will be excluded.

2. For each trade which remains in-scope after step one, the TR attempts to find a pairing record internally within their own database.

In order to pair, the UTIs must match, and the LEIs of the two counterparties must be the mirror image of one another. For this stage to function successfully, it is therefore crucial that the correct UTIs and LEIs are used on the trade in order to locate the other side.

3. In cases where the TR cannot find the pair to the trade internally, it will include the UTI and both counterparty

LEIs in a list to be exchanged with all the other TRs. This is called the requested list.

4. Once per day, all the TRs exchange their requested list with all the other TRs. Each TR then searches its database in an attempt to locate the pair for the other TRs' records.

5. When it identifies a trade which another TR is looking for, it includes the trade details in a file created only for the TR which was searching for that trade. This is called the trade data details file.

6. When all the trades have been searched for, the trade data details files are sent to the other TRs, and the TR runs the reconciliation.

7. Once run, the TR will show or report to the reporting firm the results of the reconciliation, highlighting which fields do not match and need to be amended.

Any trades that do not find a pair are included in the requested list again the following day.

Lifecycle event management

Under SFTR, firms need to report not just the new trades, but also all the lifecycle events which apply to those trades, and these can also be captured and processed via the EquiLend and Trax solution. There are essentially two routes by which this can be done.

Route one is where clients can choose to match these events at the 'point of process' (for example, agree MTM via EquiLend PTS/Trax Repo functionality and consume results via outbound messaging) and allow Trax Insight to pass the associated modification/update messages to the TR.

Route two is where clients can communicate lifecycle events via regular data submissions and then manage any exceptions either utilising EquiLend or Trax functionality or allow this data to feed through to the TR and manage the feedback accordingly.

We believe option route one is the most efficient approach, as well as following the same model as the

new transactions, which are executed and enriched via NGT and Insight, whereby information is matched between both sides as part of the daily operational processing and therefore has hugely increased match rate at TR). For high volume market participants this is the most effective, efficient, STP approach.

Whichever route you decide to take, whenever an amendment is made to a trade, the TR will automatically re-submit that trade to the inter-TR reconciliation process again, so that the modified details are re-reconciled.

Complete oversight of your reporting submissions

Firms have several options in terms of how they can monitor the data which they could pass through EquiLend and Trax to REGIS-TR.

The Trax Insight user interface is the regulatory reporting dashboard for all things SFTR and Repo, whether the data is submitted via Trax Repo, EquiLend or where the firm is directly submitting data to Trax. It is within this online dashboard that a firm will be able to see whether data is being delivered to the repository in a matched or unmatched state and whether the transactions have passed the initial data quality and trade repository validations built out at Trax.

The automated feed from EquiLend and Trax Repo into Trax Insight, means that any changes made in source systems that feed the respective trading and matching platforms, or amendments made directly, will feed into the SFTR dashboard for assessment. Where there is a rejection from the repository, this will be viewed within Trax Insight user interface and will ultimately feed back to the end client as a message through EquiLend or Trax, depending on preference. These exceptions can be managed either in Trax Insight or through the respective matching and trading platforms of EquiLend and Trax, be that direct input or source system feed.

Trax Insight will centralise all breaks, be they rejections from the repository or breaks in the matching reports against counterparts. This will allow firms to continue to use the trading and matching platforms for their original intended purpose, with SFTR enhancements,

whilst also being able to clearly see purely SFTR and MiFID SFT activity through one online portal. All repository response messages and files, such as reconciliation reports, will be available through the SFTR dashboard in Trax Insight.

Further to this, Trax Insight will house all of the repository files, such as reconciliation, pairing, submission, to ensure that all of the information needed to support accurate reconciliations and exception management is in one place. The Trax Insight solution will interpret and present information in such a way that firms are able to direct resources towards understanding and resolution of issues.

As well as being available through Trax, if your overall reporting solution includes some delegated, some direct and some vendor assisted reporting, you may find it more straightforward to gain that holistic overview of your reporting status at the TR. REGIS-TR will include a state-of-the-art web user interface, which will amalgamate all your reporting into a single view no matter how it was reported, and provide both low and high-level dashboards, management information and reports for your compliance and control functions.

For an individual firm using the EquiLend and Trax solution, the benefits are clear and, whilst transaction reporting is never a 'fire and forget' endeavour, daily reporting with the proposed model becomes incredibly low touch.

Consider also the additional benefits which result when both counterparties to the trade report using the EquiLend and Trax solution. Not only is the trade enriched as described above, but both sides are enriched in an identical fashion, significantly increasing the likelihood of both sides being successfully validated and reconciled at the TR.

If the counterparties to the trade both use the EquiLend and Trax solution, then Trax Insight pairing and matching will quickly follow the execution of the trade.

Taken one step further, where both counterparties are using REGIS-TR as their repository, full TR reconciliation can be completed within T+1, virtually without you having to lift a finger. **SLT**