



# Is time running out?

As the countdown to SFTR implementation looms closer, Tom Pikett of Trax explains why there needs to be a focus on how your vendors support you across trading, post-trade and reporting both when the regulation goes live and post-SFTR

As impacted firms gear up for tackling the transaction reporting challenge of the Securities Financing Transactions Regulation (SFTR), there will be a long road ahead to achieve compliance. That road may include initial gap analysis, data sourcing, technical build to vendors, technical build to internal reporting tools, operations model formulation and, perhaps most challenging of all, liaising with counterparties to understand how to share data on the 62 reconcilable fields on day one, as well as the additional 34 fields in phase two of SFTR. If a firm views it purely as a 'how can I get my data out of the door to the trade repository?', question of then time might be running out for that firm.

Simplifying compliance with SFTR can be achieved through greater use of vendor solutions, with trading venues, matching platforms and reconciliation providers playing a key role across the entire securities finance market. Looking at bilateral repos, for example, aside from settlement matching, there is little to no automation within the market. Firms already using the Trax repo matching platform are currently matching on over 20 fields of economic data across a community of some of the world's largest buy- and sell-side firms. With EquiLend, you have the most widely used multilateral trading facility (MTF) for stock loan (NGT) as well as a complete suite of post-trade services (PTS); on EquiLend's platforms, firms are trading, comparing and matching with counterparts not just throughout Europe but in the Americas, Asia Pacific and South African markets as well.

The question firms should be asking themselves is which approach they should take for SFTR. The first approach is to focus purely on the transaction reporting fields, looking to leverage existing systems and manual processes that will ultimately feed a transaction report to the TR. The second approach is to share the focus on maximising automation of trading, booking and confirmation processes, whilst also assessing how available platforms will solve one's SFTR needs. If the first option is taken, time may be a concern when looking to deliver a comprehensive solution that delivers the confidence required to meet regulatory compliance. The second approach is not without its issues, however, it may solve multiple

challenges whilst also reducing the cost of operations, trading and reporting functions.

### What will my counterparty do?

As the discussion around SFTR progresses, we are now moving into a phase where reporting firms are looking to understand where their counterparties will be trading and matching their securities lending and repo businesses. The dual-sided reporting requirement for SFTR, much like EMIR, requires a large number of fields to be reconciled with one's counterparty. Reporting firms can take the decision to manage this process within the TR or look to automate and deliver as much pre-repository matched data as possible. For the beginning of SFTR, firms should make every effort to match the unique transaction identifier (UTI), legal entity identifiers (LEIs) of the counterparties and the master agreement. Matching these fields facilitates pairing at the trade repository, which is the step before reconciliation occurs.

With any new regulation comes a range of new and existing vendors looking to assist firms with their implementation, some of those already known for their heritage and established regulatory reporting solutions. EquiLend and Trax, as vendors with established positions within the regulatory reporting and securities finance space, are well placed to help their clients achieve regulatory compliance.

SFTR presents a more acute problem in finding the appropriate vendor, as those firms that are both in the regulatory reporting space, as well as the securities finance markets, are few and far between. Trax, the post-trade services engine of MarketAxess, processes on average over one billion cross-asset class transactions annually on behalf of its community of over 600 entities. In relation to SFTR, the Trax Repo matching service connects the largest community of sell-side firms to both European and US buy-side firms. Each day, on average nearly \$40 billion worth of trades are conducted on EquiLend's NGT, the most widely used MTF in the securities finance market, across more than 90 firms active in the securities finance industry.

As reporting firms are looking to understand where they can share data with their counterparties before

# Reporting Challenges

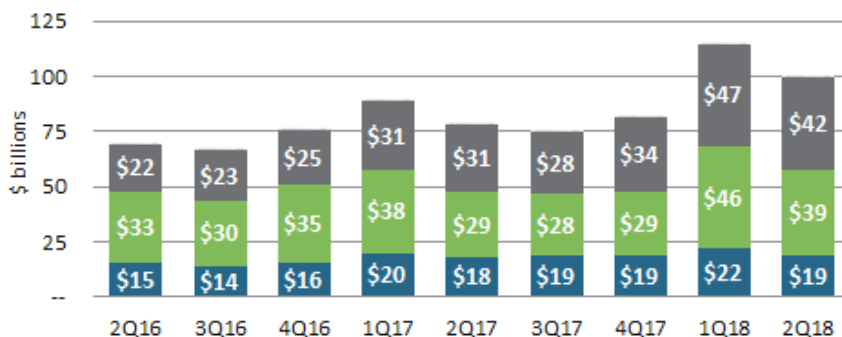
**Figure one: MarketAxess European Client Volume**

## EUROPEAN CLIENT VOLUMES

■ U.S. Credit ■ Eurobonds ■ Emerging Markets

**Q2 YoY Growth of 27%**

Emerging Markets	35%
Eurobond	34%
U.S. Credit	4%



submission to the repository, EquiLend and Trax represent comprehensive coverage across products.

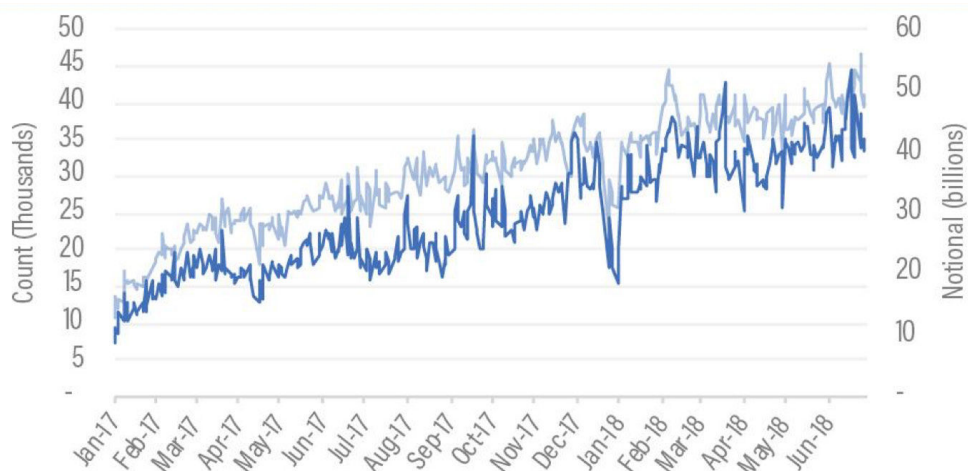
## Venue trading

Post-MiFID II there has been an increase in the use of trading venues, whether regulated markets (RMs), MTFs or organised trading facilities (OTFs). Both European client volumes on the MarketAxess MTF, and EquiLend's

NGT platform have seen increased volumes with the implementation of MiFID II. This has been highlighted in figures one and two below.

The increase in trading is reflected across many of the trading venues within Europe. What does this mean for SFTR? In real terms, it means that the combination of MiFID II and SFTR is likely to result in increased use of NGT. With regards to SFTR implementation, it means that

**Figure two: EquiLend NGT trade count and notional volume**



## Reporting Challenges

more of the industry will be using a trading venue to share UTIs, execution timestamp, LEIs, ultimately resulting in fewer breaks to manage at the trade repository.

The combination of decreased trading costs, increased reporting efficiencies and fewer breaks to manage across the middle- and back-office makes for a compelling argument to utilise the EquiLend and Trax solution.

As with all implementations, the impacts will be felt differently across differing securities finance products. The above increase in venue trading is expected to be seen in the securities lending space, which already sees a significant amount of on-venue trading. Within the bilateral repo market, although there are many venues to choose from, the expectation is that greater automation in the post-trade space will occur prior to the significant adoption of venue trading.

### Has time really run out?

If impacted, firms looking to use their existing systems and processes with only minor enhancements may have issues meeting their regulatory requirements.

Meeting the regulatory requirements will need to be supported by a significant increase in resources, which will be expensive and unlikely to support complicated transaction and collateral reporting within the required timeframes.

What is a relief for most reporting firms is that there is a general acceptance across the industry that increased use of automation in the securities lending and repo markets is necessary.

One of the biggest unknowns is how this will manifest itself within the bi-lateral repo market, which, as opposed to securities lending, is primarily manual and off-venue.

Trax has recently added 10 new counterparties across the buy- and sell-side, to its repo matching platform. However, the rate of adoption is not fast enough. Without this speeding up or a greater adoption of on-venue trading, the time required to be compliant with SFTR may well not be enough for the bilateral repo market.

A general guideline when listening to the various industry associations is that Q1 2020 is the anticipated date for SFTR implementation.

The continued delays are having an impact on a large number of firms, as it proves difficult to get budget for a regulation that doesn't have a live date yet, particularly when Brexit and the Central Securities Depositories Regulation are at the forefront of everyone's minds.

As we get closer to the endorsement of SFTR by the European Commission, impacted firms will begin their process of choosing which vendors will fit them best. Through this process, consideration will be given to a number of different vendors, looking at the cost and feasibility of an internal solution.

As we have already demonstrated, the securities lending market is adopting venue trading at an increasing rate. The bi-lateral repo market is also beginning to automate across all areas from buy to sell-side. The question is how does this link to your SFTR project?

There needs to be a focus on how your vendors support you across trading, post-trade and reporting both now when SFTR goes live and post-SFTR.

EquiLend and Trax can support you if you wish to increase your level of on-venue trading, improve your adoption of post-trade automation and leverage an industry leading, regulated, reporting service, all of which will ease your path to compliance with SFTR. [SLT](#)

**Tom Pikett**  
Business development manager  
Trax

