

AUGUST 2020

# REGULATION UPDATE

## SECURITIES FINANCING TRANSACTION REGULATION (SFTR)

THIS NOTE IS AN UPDATE TO THE ONE WE SENT OUT IN MARCH 2020. IT SUMMARISES THE ACTIONS INSIGHT IS TAKING TO ASSIST CLIENTS TO FULFILL THEIR REPORTING OBLIGATIONS UNDER THE SECURITIES FINANCING TRANSACTION REGULATION (SFTR).

### BACKGROUND

After the global financial crisis, securities financing transactions (SFTs) were identified by regulators as sources of financing that were like traditional banking but less transparent. As part of the European Union's (EU) wider initiative to enhance transparency and regulatory oversight of global 'shadow banking' activities, the EU introduced the Securities Financing Transaction Regulation (SFTR) in 2016.

SFTR is specifically aimed at improving the transparency and monitoring of SFTs and **introduces a set of trade reporting requirements** similar to the requirements for derivative transactions under the European Market Infrastructure Regulation (EMIR). The regulation also covers **disclosure obligations** and **collateral reuse obligations** which were implemented in 2016 and 2017.

#### Securities financing transactions

SFTs allow investors and firms to use assets, such as the shares or bonds they own, to secure funding for their activities. These include:

- repurchase transactions ("repos")<sup>1</sup>
- lending a security for a fee in return for a guarantee in the form of financial instruments or cash given by the borrower
- buy-sell back transactions or sell-buy back transactions
- margin lending transactions

<sup>1</sup> Selling a security and agreeing to repurchase it in the future for the original sum of money plus a return for the use of that money

<sup>2</sup> The European Securities and Markets Authority is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system.

<sup>3</sup> Both counterparties in an SFT are responsible for reporting under SFTR, but there is an exception if a financial counterparty

### REPORTING OBLIGATION

#### Who is required to report?

SFTR will require EU-based entities to report details of all SFTs. Under the new regulation, both sides of an SFT must report the details of any SFT entered into to an ESMA-approved trade repository<sup>2</sup>. SFTR allows an entity to delegate reporting to a third party; however, the entity remains responsible for the reporting obligation.

In some instances, delegated reporting is mandatory if an entity is deemed to be a 'non-financial counterparty' and meets certain criteria<sup>3</sup>. Additionally, UCITS management companies and AIFMs are required to report on behalf of their funds.

### REPORTING TIMELINE

#### When does the reporting go live?

Reporting start dates under SFTR differ according to counterparty type and are currently being phased in over a transitional period. The remaining start dates of the transitional period are as follows:

- 11 October 2020 – Other financial counterparties, including pension funds, AIFs and UCITS
- 11 January 2021 – Non-financial counterparties (NFCs)

transacts with a non-financial counterparty that does not exceed the limits of at least two of the following three criteria: 1) a balance sheet total of €20,000,000, 2) net turnover of €40,000,000 or 3) an average number of 250 employees during the financial year.

## HOW DOES SFTR REPORTING AFFECT INSIGHT AND INSIGHT'S CLIENTS?

Insight transacts repos on behalf of many of its clients and such transactions are subject to new reporting obligations in SFTR.

Any client that is not a credit institution or investment firm is not impacted until at least 11 October 2020.

**Insight's actions:** Insight shall take all reasonable steps to report on behalf of our clients, for the mandates that we manage, to meet the requirements stipulated within SFTR. We will report the data to the UnaVista trade repository, part of the London Stock Exchange Group. We will report directly to UnaVista, rather than delegating this responsibility to a third party, although we may source some data from trading venues and brokers where necessary. Where reporting a trade event is not possible within the SFTR timeframes, we will take all reasonable steps to report that trade event as soon as all necessary data becomes available.

Insight will also retain records of SFTs for the mandates that we manage to meet the SFTR record-keeping requirement.

We can confirm that the data set out in your monthly and quarterly reports, including the valuation and transaction reports, is consistent with the data that we have submitted to the trade repository on your behalf.

**Client actions:** A valid Legal Entity Identifier (LEI) will need to be provided to Insight for each entity trading SFTs in order to meet these trade reporting requirements. Our clients should ensure that they have obtained a LEI and that it is renewed when required to ensure its ongoing validity.

Clients should also ensure that they have provided their correct classifications to Insight to enable accurate reporting.

## WHAT IS THE IMPACT OF BREXIT ON SFTR?

SFTR is an EU regulation. After the Brexit transition period ends on 31 December 2020, we expect a UK version of SFTR to apply in the UK.

On 23 June 2020, the UK Financial Conduct Authority issued an update stating that NFCs established in the UK will not be required to meet the reporting obligation under UK SFTR. However, the impact on our NFC clients with the ability to trade repos is small.

For clients subject to EU SFTR, we will report to an ESMA-approved trade repository.

For clients subject to UK SFTR, we will report to a UK FCA-approved trade repository.

## ANY FURTHER QUESTIONS

If you have any questions about the requirements or the steps Insight is taking, please do not hesitate to get in touch with your contact at Insight.

### FIND OUT MORE

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