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## REPORTING AND TRANSPARENCY OF SECURITIES FINANCING TRANSACTIONS (SFTR)

In January 2014, the Commission made a proposal for a regulation on the reporting and transparency of securities financing transactions.

The purpose of the regulation is to increase transparency on securities lending and repo transactions. Information on such transactions must be reported to trade repositories in the same way as derivatives contracts (cf. EMIR). In addition, investment funds must complement their prospectuses with information on securities financing transactions. Rehypothecation would only be permitted at the collateral provider's authorisation. The regulation would apply to all users of securities financing transactions.

The Parliament has started discussing the dossier in autumn 2014. The Council reached a General Approach in November 2014. From the Nordic Securities Association (NSA)<sup>1</sup> perspective many important improvements were made in the General Approach.<sup>2</sup>

However, the NSA is still of the opinion that the proposed regulation could be further improved to limit the negative consequences and additional costs.

### **Financing transactions are important for maintaining liquidity**

In smaller markets such as the Nordic markets, financing transactions are of utmost importance to maintain market liquidity also during downturn. We estimate that *in the future, companies will have even greater need for securities lending and repurchase transactions*, as collateral requirements increase and access to finance could be more problematic and expensive.

The NSA supports increasing transparency in markets, but *the obligations must be correctly focused*. They should not become so inflexible and burdensome that financial and non-financial companies give up transactions or operations entirely.

### **Scope of application must follow the proportionality principle**

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<sup>1</sup> The Nordic Securities Association (NSA) represents the common interests of member firms in the Nordic securities dealers associations towards external stakeholders primarily in the Nordic market but also on European and international issues of common interest. Members of the NSA are the Danish Securities Dealers Association, the Federation of Finnish Financial Services, the Norwegian Securities Dealers Association and the Swedish Securities Dealers Association.

<sup>2</sup> The definition of SFTs is more clear and the reporting obligation for some non-financial counterparties is restricted. The text also contains an important statement that the proposed rules on reuse should not affect the validity of the transaction.

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*All companies, both financial and non-financial companies, incur huge reporting costs for example from system changes, trade repository memberships and Legal Entity Identifiers (LEI).*

*Reporting obligation should only apply to transactions and companies that exceed certain thresholds, not to individual transactions. This will ensure a balance between the reporting costs and market effects of a transaction. Double reporting should be avoided by making information exchange more efficient between authorities. The ECB, for example, is planning the collection of nearly identical information.*

*In addition, counterparties should be allowed to agree on reporting obligation at the point of entry in to the transaction. This should be supported by an obligation to produce only one report per transaction which should lead to lower costs and better data quality as no matching problems at trade repository level would apply.*

To clarify the scope of this proposal in a proportionate manner we would like to see *the term undertaking defined in the SFTR level 1 text*. The term undertaking is very important for the understanding of the concept of counterparties and it should be defined in a legislative act.

### **Rehypothecation must be regulated well in the right place**

The NSA supports the risk warning requirements for rehypothecation of collateral. Rehypothecation or reuse as suggested by many is a key means to respond to growing collateral requirements and the so-called collateral squeeze. To avoid restricting rehypothecation in practice, *the requirements should at least not be tightened from the Commission proposal and from the General Approach of the Council.*

*The rules on reuse should be limited to collaterals placed on the SFT referred to in the regulation.* Rules on collateral posted for any other instruments than SFTs have to be set in the FCD<sup>3</sup> or similar context with a wider scope. This would maintain the consistency of the legal structure and support better regulation principles.

Renegotiating all collateral agreements is extremely costly and burdensome. Therefore it has to be noted that *the requirements regarding rehypothecation should not apply to existing contracts*. In case this is considered absolutely necessary, *a phase-in for at least 24 months* must be included in the regulation.

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<sup>3</sup> EU directive on financial collateral arrangements 2002/47/EC.