SFTR Implementation Procedures

**For reporting of Margin Lending under a Prime Brokerage Agreement**1st June 2021

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# Introduction

This document captures items agreed by members of the AFME Prime Services Forum, to assist members and their counterparties with compliance with SFTR reporting requirements. The document specifically relates to margin lending transactions. Members of the Prime Services Forum conducted a field by field review of 3 data tables – counterparty data, loan & collateral data, reuse data – to establish the relevance of each field to Margin Lending and identify items requiring further clarification (either through a consensus interpretation or regulatory guidance where applicable.) Note that the ‘margin data’ table has been established as not applicable in the context of Prime Brokerage. Whilst this document highlights selected fields, the full field-by-field analysis of the data tables is included as an annex.

Note that, whilst the definition of “margin loan” in the Level 1 text is extremely broad, ESMA has confirmed that the reporting obligation under SFTR should only apply to prime brokerage margin lending, i.e. cash lending from prime brokers to their clients against collateral as part of a prime brokerage agreement.

* 1. Loan and Collateral Table/Information

Please see Annex A for the full set of AFME Prime Services Forum comments on the Loan and Collateral Data Tables.

* + 1. UTI (Fields 1 and 12)

One UTI should be used for the duration of the relevant client relationship. If a position is closed because there is no outstanding SMV or margin loan, the same UTI should be used if and when the client’s position is reopened.

* + 1. Termination (Field 15)

This field is reported only when the UTI is closed and left blank prior to that point.

In other words, this field should only be populated if the relationship is closed at top level – i.e. if the margin loan goes to zero, this should not be reported as a termination unless the relationship is over.

For more details regarding UTI generation and maintenance, please see the Appendix A.

* + 1. Fields 23 to 34 are repeatable for each currency in the margin loan.

**Either** fields 23-24 (fixed rate and day count convention) **or** fields 25-32 (relating to floating rate instruments) should be populated for each currency.

* + 1. Field 33 (Individual Margin Loan Constituents by currency)

In line with the overall margin amount, a net client debit in a given currency should be reported as a positive value together with the currency, while a net client credit balance should be reported as a negative value.

* + 1. Outstanding margin Loan (Field 69)

This field should be populated with the amount of the margin loan (i.e., the net cash balance).

The overall outstanding margin loan amount should either be reported as “0” (when the client has an overall cash credit/is long cash) or as a positive number (when the client has an overall cash debit/is short cash in the base currency).

For a particular reporting date, members intend to report the value dated cash loan and deposit balances for COB reporting date -1.

Members agreed to make their own determination on whether the value dated loan positions should or should not take account of failed trades.

* + 1. Short Market Value (SMV) (Field 71)

Report the existence of SMV as a positive number (this field would therefore never be less than “0”)

Where a client has SMV, but no margin loan, report the SMV and the long collateral that supports it. Therefore, the long client PB assets would also be populated in the collateral fields (Fields 74-94) as appropriate.

Given that SMV can also be collateralised by (net) long cash balances, the in-currency long and short cash balances should be reported in the margin loan constituent fields (Fields 23 -24 as applicable). Note that in the above scenario, Field 69 (Outstanding net margin loan) would be reported as zero.

In a scenario where the client has SMV, but no margin loan or cash balances, members generally agreed that the below fields should be populated as follows:

* + 2.34 Margin lending currency = USD
  + 2.69 Outstanding margin loan = 0
  + 2.23 Fixed Rate = 0
  + 2.24 Day count convention = A004

AFME’s understanding is that prime brokers should report prime brokerage securities lending as the short market value in the margin lending data tables, and would not be expected to duplicate that information by also reporting that information as a “securities loan” in the securities lending data tables. Prime brokers will report this information at the total level for each client on the relevant day, in the client’s base currency.

* + 1. Collateral Data

For a particular reporting date, members intend to report the assets held as of COB reporting date -1.

Members agreed to make their own determination on whether the value dated security collateral positions should or should not take account of failed trades.

* + 1. Type of Collateral Component (Field 75)

Members consider that derivatives held as collateral (including Equity Options) cannot be classified as cash, securities or commodities and thus are out of scope for reporting.

It was concluded that these could not be accurately reported as securities due to the fact that the following mandatory fields for securities are not applicable:

* Field 55 – Security Type
* Field 92 – Jurisdiction of the Issuer
* Field 93 – LEI of the Issuer
  + 1. Haircut or Margin (Field 89)

Given that PB margin is generally calculated on a trade date basis, firms may choose to take different approaches based on what is possible from a technical point of view. One possible approach is to look at the trade date margin records from reporting date-2 and use the margin requirement/haircuts calculated in the portfolio at that date. This is on the basis that regular trade settlement is on T+2, meaning the margin that is calculated on the morning of T+1 should represent the value dated positions as at cob T+2.

* + 1. Availability for collateral reuse – (Field 95)

This would be based on contractual arrangements more than anything else and therefore a PB would answer “true” with respect to any security for which the PB has a contractual right of reuse.

* + 1. Action Types (Field 98)

# New (“NEWT”)

Report this action type when starting a relationship with a new client [or when starting a new relationship with a client for which you have previously ended a relationship – and therefore reported a “Termination” with respect to that client. This action type should also be used when [CCP margins and] collateral reuse are reported for the first time.

# Modification (“MODI”)

Every change should be reported as a Modification (other than as set forth below with respect to reporting “Collateral Reuse Updates”).

If a margin loan goes to zero, report this as a “Modification” with no termination date**.**

If there are changes in the margin loan and/or the SMV, report this as a “Modification” (and assume that the collateral may have changed as well).

# Error (“EROR”)

Report this action type to completely cancel a previously submitted report, (i.e. the related SFT never came into existence or was not subject to SFTR reporting requirements but was reported to the trade repository by mistake.)

# Correction (“CORR”)

Use this action type to correct a previously submitted report (i.e. due to an error in the generation, processing or submission of the report.) This action type is required to distinguish the correction of an error from a change in the economic terms of the transaction.

# Termination/Early Termination (“ETRM”)

According to the RTS**,** this action type “specifies a dedicated report to fully terminate an SFT prior to the contractually agreed end date, or to terminate an open ended SFT.

AFME members agree that this action type would be used only when the PB is terminating its relationship with the relevant client and that other action types would be used in cases where changes have occurred, but the client relationship has not been terminated.

# Collateral Update (“COLU”)

If the margin loan and SMV do not change but there is a change in the relevant collateral, we would not report this as a “Modification” but would rather report it as a “Collateral Update”.

* + 1. Reporting of Zero Collateral

As per the published validation rules, fields 76 (cash collateral amount) and 77 (cash collateral currency) are ineligible fields for Margin Lending.

The ESMA Final Report provides an alternative, by which a Prime Broker can report a zero quantity against a single security ISIN with the collateral submission.

AFME members intend to use the ISIN EU000A1G0EB6 for this purpose, as recommended in the [ESMA Q&As.](https://www.esma.europa.eu/sites/default/files/library/esma74-362-893_qas_on_sftr_data_reporting.pdf)

* + 1. Reporting of Zero Non-Cash Collateral

The ESMA validation rules do not support a submission with no non-cash collateral element. In scenarios where a PB needs to report zero non-cash collateral, e.g. for a client holding only physical shorts and cash collateral on day 1 of a new transaction, AFME members intend to report a zero quantity against a single security ISIN. It is recommended to use the ISIN EU000A1G0EB6 for this purpose.

* 1. Counterparty Table

Please see Annex B for the full set of AFME Prime Services Forum comments on the Counterparty Data Table.

* + 1. Investment Fund Classification (Field 6)

To the extent that this field is not relevant or mandatory, it should be left blank.

DTCC has stated its understanding that this field is required for AIFs and UCITS funds (i.e., if the reporting counterparty is not an AIF or UCITS fund, it can be left blank)

* + 1. Country of the branch of the other counterparty (Field 8)

Generally, this information is not as relevant for PB clients (i.e. funds) as PB counterparties don’t usually work through branches.

Report this field as relating to the domicile of the fund (rather than the domicile of the investment manager).

If the counterparty is not operating out of a branch, either leave this blank, or report the country code or LEI of the parent in Field 12.

If this branch information is otherwise not relevant, leave this field blank.

* + 1. Entity Responsible for the Report (Field 10)

According to Article 4.3 SFTR, the management company of a fund counterparty to SFTs is responsible for reporting on behalf of that fund. However, as per ESMA guidelines 4.4.3, the reporting obligation remains with the fund where the AIFM is not subject to SFTR.

Therefore, following the UK’s departure from the European Union:

For UCITS & AIF, if the UCITS/AIF is in the same jurisdiction as their management company/AIFM (e.g. both in the UK or both in the EU27), the management company/AIFM is the entity responsible for the report.

For UCITS & AIF, if the UCITS/AIF is not in the same jurisdiction as their management company/AIFM (e.g. one in the UK and one in the EU27), the UCITS/AIF is the entity responsible for the report.

The reporting obligations for different scenarios are summarised below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Jurisdiction of the Fund Manager**  (AIFM or UCITS Manager \*) | **Jurisdiction  of the Fund**  (AIF or UCITS) | **Field 1.10  (ERR)** | **Reporting obligation** | **Reference** |
| 1 | UK | UK | Fund Manager | Fund Manager is responsible for the report on behalf of its fund under UK SFTR | Article 4(3) SFTR (EU) 2015/2365 |
| 2 | EU | EU | Fund Manager | Fund Manager is responsible for the report on behalf of its fund under EU SFTR | Article 4(3) SFTR (EU) 2015/2365 |
| 3 | UK | EU | Fund | EU Fund reports under EU SFTR | Guidelines 4.4.3 -61 ESMA70-151-2838  : 'Where the allocation of responsibility under Article 4(3) SFTR is not applicable to the AIFM, i.e. the AIFM is not subject to SFTR, the responsibility to report SFTs to a TR remains with the fund'. |
| 4 | EU | UK | Fund | UK Fund reports under UK SFTR |
| 5 | Outside EU or UK | EU | Fund | EU Fund reports under EU SFTR |
| 6 | Outside EU or UK | UK | Fund | UK Fund reports under UK SFTR |
| \* | UCITS manager can only be in the EU | |  |  |  |

* 1. Reuse Table

Please see Annex C for the full set of AFME Prime Services Forum comments on the Reuse Data Table.

* + 1. General points:
* There was a broad question as to whether the re-use data to be reported should be limited to assets that are being reused for subsequent SFT activity, as opposed to reporting on assets that are reused for SFTs or otherwise. Members intend to report re-use related to subsequent SFT activity open.
* If a PB has a relationship with a non-financial counterparty, it might be able to report reuse by that non-financial counterparty with respect to transactions to which the PB is a party.

The PB will not, however, be able to report reuse by that non-financial counterparty with respect to transactions to which the PB is not a party.

In some cases, this would require the non-financial counterparty to provide the PB with additional (potentially highly sensitive) information, and there is no way to guarantee that this information will be forthcoming or otherwise available to the PB.

A small non-financial counterparty has no obligation to provide information to PBs (for example) to enable PBs to report reuse on their behalf and therefore PBs may not be able to report on their behalf.

* + 1. Value of reused collateral (Field 8)

Members consider collateral as “reused” only after it has (pursuant to contractual agreement or other arrangements) been transferred from the PB client account to the PB’s own account. It is noted that “reused” collateral cannot be exactly and specifically linked to a particular SFT or client.

Please see Appendix B for an example of the reuse calculation, assuming that collateral as “reused” only after it has (pursuant to contractual agreement or other arrangements) been transferred from the PB client account to the PB’s own account.

Please see Appendix C for an example which uses the same data as Appendix B, but which assumes that PB collateral eligible for reuse includes all assets held in the client’s PB account, regardless of whether the PB has full legal rights to re-use the assets.

Note that the reporting in each example is done at ISIN level, and that Appendix C results in a higher number for “Estimated value of collateral reused” than the corresponding number in Appendix B, particularly with respect to “Nike”.

This is true even though the main firm account has not physically taken any delivery of Nike securities from the client’s PB account, and therefore cannot yet “re-use” any of the Nike assets. For this and other reasons, members believe that it would be more accurate and meaningful to report according to the Appendix B calculation.

In addition, please note that “reused” collateral cannot be exactly and specifically linked to a particular SFT or client. Therefore, since this field appears to be intended to provide the value of collateral that has been reused for a specific SFT, it will generally be left blank, and only the information requested in Field 9 reported.

* + 1. Estimated reuse of collateral (Field 9)

This field should be calculated, and reported, by taking the amount that has been transferred from the PB client account to the PB’s own account, and applying the applicable calculation set forth in the RTS.

* + 1. Funding Sources (Field 15)

It is noted that all of the funding sources suggested in the data tables might be used by PBs (and that members cannot attach specific funding sources to specific counterparties or to specific SFTs). Therefore, with few exceptions, members expect to report all of the choices in this field as possible sources of the PB’s funds.

If only one value can be reported, report as “Other” as any and all of the potential funding sources could be used for margin lending.

* + 1. Market value of funding sources (Field 16)

Report the aggregate value of outstanding margin loans

* + 1. Action Types (Field 18)

# New (“NEWT”)

Use this action type when you are reporting a “new reuse balance” [TBC]

# Reuse Update (“REUU”)

Use this action type when reporting a modification of the details of the reuse

# Error (“EROR”)

Use this action type when reporting a cancellation of a wrongly submitted entire report

# Correction (“CORR”)

Use this action type to provide a correction of data fields that were submitted incorrectly in a previous report.

Please see Annex D for Prime Services use cases/examples

* 1. Supporting [Miscellaneous] Documents

Please contact AFME for access

Annex A – Full SFTR Loan and Collateral Data Table Comments



Annex B – Full SFTR Counterparty Data Table Comments



Annex C – Full SFTR Reuse Data Table Comments



Annex D – SFTR Margin Lending Clarifications and Use Cases/Examples (below)

# SFTR Margin Lending Clarifications and Use Cases/Examples

## Field 69 – Total outstanding Margin Loan

|  |  |  |  |
| --- | --- | --- | --- |
| 69 | Outstanding margin loan | Total amount of margin loans, in base currency | Up to 18 numeric characters including up to 5 decimals. The decimal mark is not counted as a numeric character. If populated, it shall be represented with a dot. |

* As clarified in paragraph 308 of the draft guidance:
  + “The overall outstanding margin loan amount (field 2.69) should either be reported as 0 (when the client has an overall cash credit/is long cash) or as a positive value (when the client has an overall cash debit/is short cash in base currency).”

## Field 33 – Individual Margin Loan constituents by currency

|  |  |  |  |
| --- | --- | --- | --- |
| 33 | Margin lending currency amount | Amount of a margin loan in a given currency | Up to 18 numeric characters including up to 5 decimals. The decimal mark is not counted as a numeric character. If populated, it shall be represented with a dot. |

* As clarified in paragraph 309 of the draft guidance:
  + “In line with the overall margin lending amount, a net client debit in a given currency should be reported as a positive value together with the currency, while a net client credit should be reported as a negative value.”

## Field 71 – Short Market Value (SMV)

|  |  |  |  |
| --- | --- | --- | --- |
| 71 | Short market value | Market value of short position, in base currency. | Up to 18 numeric characters including up to 5 decimals. The decimal mark is not counted as a numeric character. If populated, it shall be represented with a dot. |

* As clarified in Table 81 of the draft guidance:
  + Report the existence of SMV as a positive number (this field would therefore never be <0)

## Reporting of cash balances where SMV exists, but there is no overall Margin Loan

* The group previously agreed that where a client has an SMV but no Margin Loan, we would still report the SMV and the long collateral that supports it. Therefore long client PB assets would also be populated in the collateral fields (74-94) as appropriate.
* Given that SMV can also be collateralised by (net) long cash balances, the proposal is to report the in-currency long and short cash balances in the margin loan constituent fields (24 – 34 as applicable). Note that in this above scenario, field 69 (outstanding net margin loan) would be zero.
* Clarified in paragraph 310 of the draft guidance