

Securities Financing Transaction Regulation – Re-use of collateral



What is SFTR?

- The Securities Financing Transaction Regulation (SFTR) is a European regulation formally adopted by the European Parliament on 29th October 2015.
- SFTR forms part of the EU's package of legislation targeted at reforming shadow banking and aims to enhance transparency around securities financing transactions (SFTs) and the re-use of collateral

What are SFTs?

SFTs are defined as:

- A repurchase transaction
- Securities or commodities lending and securities or commodities borrowing
- A buy-sell back transaction or a sell-buy back transaction; and
- A margin lending transaction

What is the Article 15 requirement and when does it apply?

- **Art. 15 – Reuse of financial instruments received under a collateral arrangement:**
 - Disclosure of risks and consequences of reuse
 - DB must send Information Statements to all clients with title transfer collateral arrangements (TTCAs) or securities collateral agreements (SCAs), regardless of the products traded under them.
 - The Information statements will outline the potential risks and consequences of collateral re-use provided under a TTCA or an SCA and must be sent by **13th July 2016**.
 - Right to re-use:
 - The client has granted prior express consent to reuse collateral under a SCA.

Which clients are in-scope for the Information Statement?

- An Information Statement must be sent to financial and non-financial clients that are:
 1. *An EU domiciled client and has a TTCA or SCA with an (i) EU or non-EU DB branch or (ii) EU or non-EU subsidiary*
 2. *A non-EU domiciled client that has a TTCA or SCA with an (i) EU or non-EU DB branch or (ii) EU subsidiary*

Which Products are in-scope for the Information Statements?

The requirement to send an Information statement is dependent on the type of contract that clients have, i.e. Does it facilitate transfer of collateral and does it contain the right to reuse collateral, and not the products it covers. Therefore, the products that are in-scope are not limited to SFTs.

Contracts that are TTCAs and SCAs include, but are not limited to; ISDA/CSAs, GMRA's, Prime Brokerage Agreements and Structured Trade Agreements.