



**JUNE 2021**  
**INITIAL ANALYSIS OF SFTR**  
**REPORTING DATA**



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## EXECUTIVE SUMMARY

The 2008 financial crisis highlighted a lack of transparency in the use of securities financing transactions, hampering the assessment of systemic risks. The Securities Financing Transactions Regulation (SFTR), based on the Financial Stability Board's recommendations, aims to increase the transparency of the non-bank financial intermediation system.

Under Article 4 of the SFTR, European counterparties and European branches of third country entities must report the details of, and any modifications to, any securities financing transaction to a trade repository no later than D+1.

SFTR reporting covers four types of securities financing transactions:

- Repo transactions
- Securities lending transactions (securities and commodities lending and borrowing)
- Buy-sell back and sell-buy back transactions
- Margin lending transactions.

Six months after the first phase of the entry into force of Article 4 of the SFTR, the AMF staff wishes to share its preliminary analysis of the market for securities financing transactions.

On the basis of this new and structural data for a proper understanding of the markets, several potential use cases have already been identified. In particular, the SFTR data can allow the regulator to:

- enhance its risk analysis;
- improve the monitoring of stress on a given underlying asset in the securities lending market;
- deepen the monitoring of net short position reports;
- study the techniques for using securities financing transactions that asset management companies employ;
- analyse significant movements in securities around key dates such as shareholders' meetings or ex-dividend dates.

Thereby, SFTR reporting is a highly complementary source of data that is useful to the AMF in the performance of its duties, notably the detection of potential market disruption or market abuse and risk analysis.

As for any new form of reporting framework, the AMF teams will focus keenly on its implementation in order to make the best use of it and ensure its reliability. Improving data quality will continue to be an objective shared by both regulators and market participants.

## 1. SFTR REPORTING

### 1.1. A GOAL OF TRANSPARENCY IN SECURITIES FINANCING TRANSACTIONS

The 2008 financial crisis highlighted a lack of transparency in the use of securities financing transactions, hampering the assessment of systemic risks. SFTR is based on 13 recommendations issued by the Financial Stability Board (FSB) in 2013. Their aim was to increase the transparency of the non-bank financial intermediation system. SFTR was adopted on 25 November 2015.<sup>1</sup>

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<sup>1</sup> Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse, and amending Regulation (EU) No 648/2012.

Under Article 4 of the SFTR, European counterparties and European branches of third country entities must report the details of, and any modifications to, any securities financing transaction ("**SFT**") to a trade repository no later than T+1.

The entry into force of the provisions relating to reporting transactions took place in three stages, starting on:

- 13 July 2020 for financial counterparties such as investment and credit institutions, central counterparties (CCPs) and central securities depositories (CSDs);
- 12 October 2020 for insurance companies, UCITS and AIF fund managers and institutions for occupational retirement provision;
- 11 January 2021 for eligible non-financial counterparties.

## 1.2. IMPORTANT NEW DATA

The content of SFTR reporting is specified by Delegated Regulation 2019/356 of 13 December 2018 and its annex. SFTR reporting breaks down into four tables of data on counterparties, loans and collateral, margins, and reuse of collateral. The reporting includes a total of 155 fields, a large number of which must be reconciled<sup>2</sup> by the trade repositories.

SFTR reporting covers four types of transactions:

- Repo transactions (RT)
- Securities lending (SL) transactions (securities and commodities lending and borrowing)
- Buy-sell back (BSB) and sell-buy back (SBB) transactions
- Margin lending (ML) transactions.

### Sidebar: Focus on the four types of securities financing transactions

A repo is a short-term financing transaction (typically maturing in one week) in which securities are exchanged for cash at a predetermined rate, the repo rate. There are two types of collateral: general collateral in cash-driven repos, for which the choice of security is not central and can be substituted by another security of equivalent quality; special collateral in securities-driven securities, where the buyer is interested in a specific security to improve the quality of its balance sheet and liquidity ratios (High-Quality Liquid Assets standards).

Buy-sell back and sell-buy back transactions are similar to repo transactions because they consist of a cash buy-sell transaction and a reverse forward transaction. The differences between repo and BSB transactions include the fact that the transaction is not subject to an initial margin or margin calls, securities cannot be substituted, and coupons are paid by the buyer to the seller at maturity.

Securities lending involves securities and commodities lending and borrowing transactions (shares or bonds). There are two types of securities lending and borrowing: securities lending/borrowing against securities or securities lending/borrowing against cash. In securities lending/borrowing against securities, a lending fee expressed as a percentage of the nominal amount is paid by the borrower to the lender. For securities lending/borrowing against cash, the borrower receives a rebate from the lender on the cash remuneration applied to the borrower. These transactions are used in particular to cover short sales of shares.

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<sup>2</sup> Trade repositories must reconcile the two legs of the reported transaction with a common Unique Trade Identifier (UTI) (pairing activity) and reconcile the common data (matching activity).

A margin lending (ML) transaction is a loan granted in the form of a credit line by a prime broker to its hedge fund client to finance its purchases of securities. The securities held by the hedge fund are pledged as collateral to the prime broker. The position is subject to daily margin calls.

SFTR data available to the AMF is collected through the four trade repositories authorised by the European Securities and Markets Authority (ESMA). These are DTCC Data Repository (Ireland) PLC (DDRIE), REGIS-TR S.A, UnaVista TRADEcho B.V. and Krajowy Depozyt Papierów Wartościowych S.A.

In accordance with the jurisdiction criteria set out in Articles 12 and 16 of the SFTR (Regulation (EU) 2015/2365), the AMF receives reports on securities financing transactions, particularly in relation to:

- reporting counterparties under its supervision or jurisdiction, including financial counterparties (including UCITS fund management companies, AIF managers, etc., but also insurers) and non-financial counterparties;
- securities lent or used as collateral for which the AMF is the competent authority;
- trading venues and CCPs that the AMF supervises.

Since 13 July 2020, the AMF has been integrating SFTR data into its “ICY” system, which has been developed in-house since 2016 to enable it to analyse the increasing volumes of data received. This information system is based on Big Data technologies.

## 2. USE OF SFTR DATA BY THE AMF

Despite the decidedly prudential nature of SFTR reporting, the wealth of data reported enables the AMF to expand its financial market monitoring system.

### Improving risk analysis

SFTR data will enable the AMF to further optimise its analysis of market risks. The data will be used to inform thematic studies, provide the AMF Risk Committee with finer indicators and contribute to international work.

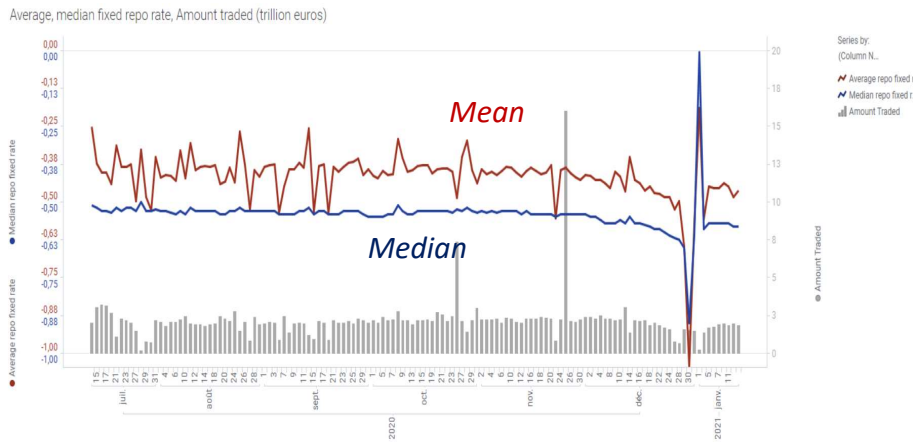
Visualisation tools already provide activity monitoring at macro level in terms of assets under management by SFT type and monitoring of the largest French reporting entities.

The objective is also to analyse situations of market stress on the repo market. During periods of liquidity shock, monitoring the average repo rate for fixed-rate transactions is a useful indicator for gaining a better insight into situations of market stress, such as those experienced in the US dollar markets in September 2019.<sup>3</sup> A further examination of specific securities used as collateral could also serve to detect strains that may appear on national debt.

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<sup>3</sup> See BIS study of 08/12/2019 “September stress in dollar repo markets: passing or structural?”

**Average and median repo rate for fixed-rate refinancing transactions (SFTR)**



Source: ICY SFTR, Trade activity reports received by the AMF

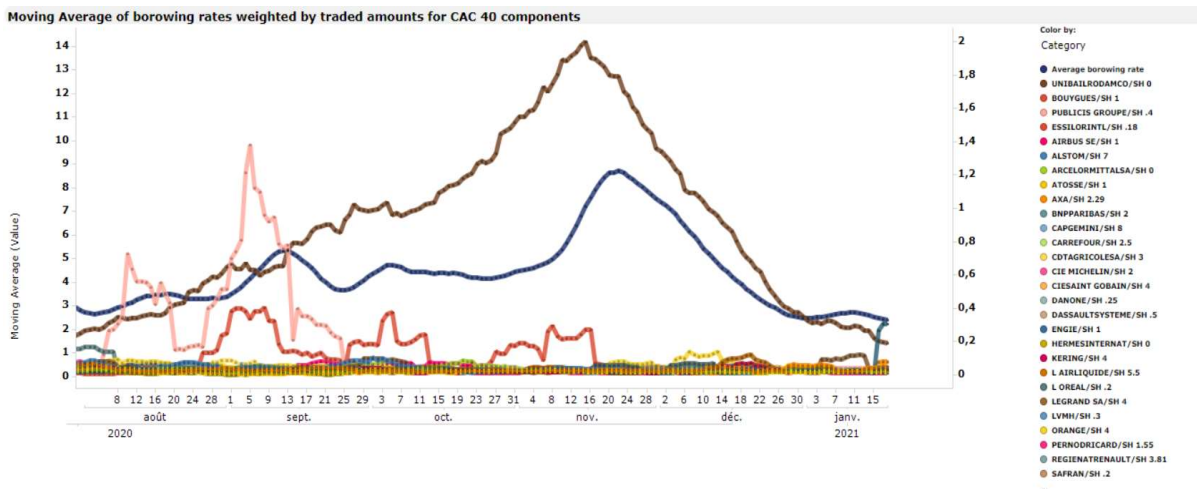
Measuring stress in the securities lending and borrowing market

For a given security, the AMF uses the lending fee reported in the securities lending/borrowing reporting to monitor stress in the securities lending and borrowing market. The lending fee is expressed as an annualised rate. By way of example, a rare and expensive security that is expensive to borrow may attract an annualised lending fee of as much as 10% (1,000 basis points), whereas a security that is easily borrowed would typically be borrowed at a low rate of 0.5%.

The identification of stress on a specific stock lending market could lead the AMF to step up supervision of this market to identify some form of market failure or abuse.

The graph hereunder illustrates the average borrowing rates for CAC 40 stocks: it highlights mounting stress that may appear during periods of corporate actions or dividend detachment.

**Average borrowing rate on CAC 40 stocks (bold blue right-hand scale)**  
**Borrowing rate of CAC 40 stocks that experienced significant movements in their borrowing rate in the second half of 2020 (left-hand scale)**



Source: ICY SFTR, Trade activity reports received by the AMF, field 2.67 (Lending fee)

Cross-use of SFTR reporting with net short position reports

The AMF is now able to compare different types of information, such as:

- an increase in the lending fee for the security lent via SFTR reporting;
- an increase in net short positions in a given security (in absolute terms and relative to free float) based on the reporting data generated by the European regulation on short selling;<sup>4</sup>
- a potential settlement fail.

The purpose is to complement the existing monitoring system with indicators of stress on a specific stock. In particular, these could contribute to the swifter detection of potential short squeezes, which expose investors to violent price movements<sup>5</sup>.

In addition, securities lending transactions reported under SFTR could be used to check the correct settlement of securities being sold short. Nonetheless, it should be mentioned that not all short sellers are subject to SFTR reporting (this only concerns European entities and their branches) and that mechanisms other than securities lending may be used to hedge short positions.

Identifying significant movements in securities as a percentage of a listed company's capital

Once data reliability checks have been completed, AMF staff also foresee using SFTR data to detect substantial transactions in securities, including during the period around shareholders' general meetings. These data could strengthen the AMF's ability to spot capital increases with the goal of ensuring transparency rule compliance.

Identifying transfers of securities around coupon detachment dates

SFTR data could also support the quantification and identification of certain tax arrangements in connection with the payment of dividends.

While not currently within its remit, the AMF could potentially have a future role in this field of activity. ESMA, at the request of the European Commission, has indeed carried out an investigation into schemes that have cost certain European states several billion euros, such as CumCum and Cum-Ex<sup>6</sup> schemes, and has drawn up a proposal that would bring national market authorities to collaborate as closely as possible with the tax authorities. This proposal has been submitted to the European Commission.

Studying the use of SFTs by asset management companies

SFTR data will also enable the AMF to gain a stronger grasp of regulated entities' activity, by studying French asset management companies' use of SFTs and their techniques for using securities financing transactions.

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<sup>4</sup> Regulation (EU) 236/2012 of the European Parliament and of the Council of 14 June 2012 on short selling.

<sup>5</sup> A short squeeze is the forced liquidation of short positions following an event that forces short sellers to buy back their positions as a matter of urgency, thereby fuelling a sharp rise in prices.

<sup>6</sup> The Cum-Cum scheme is a loan of attached dividend securities (before the ex-dividend date the share is said to be cum (with) dividend) to an entity in a third country that has a tax treaty with France, in order to avoid withholding tax. Cum-Ex is a transaction for the purchase and sale of securities around the ex-dividend date in order to benefit from the tax credit granted by the State to a holder of securities before the ex-dividend date.

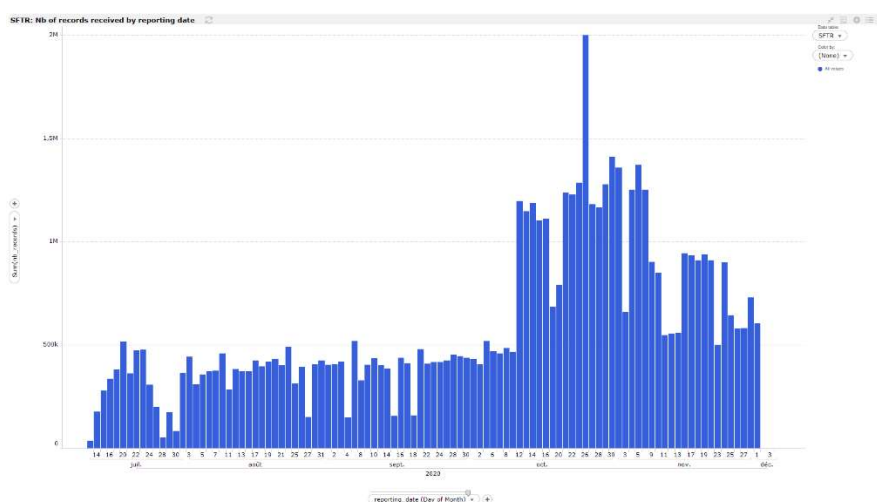
### 3. INITIAL INSIGHTS INTO SFTR DATA: MARKET OVERVIEW<sup>7</sup>

#### 3.1. DATA VOLUME

The AMF receives files on a daily basis from the four trade repositories (via TRACE, the centralised European access system) providing information on transactions and their life cycle, end-of-day positions outstanding transactions, the causes of rejections and on data reconciliations.

Approximately one million rows of SFTR data is fed into ICY each day. By way of comparison, the AMF receives around 10 million rows of transaction data every day from MiFIR reporting (RDT-TREM).

Volume of SFTR data input into the ICY system



Source: ICY SFTR, AMF

Data volume has been increasing on a weekly basis, particularly since mid-October with the addition of reporting from insurers and funds (see above). Quality problems have also been identified in the data reporting, which result in rejections. Supervisory work to identify missing reporting entities is planned for 2021 (see below).

It is appropriate to acknowledge that Brexit has brought about the additional impact of significantly reducing the volume of SFTR data from January 2021 onwards; nevertheless, the associated loss of information remains limited in the first analysis (see below).

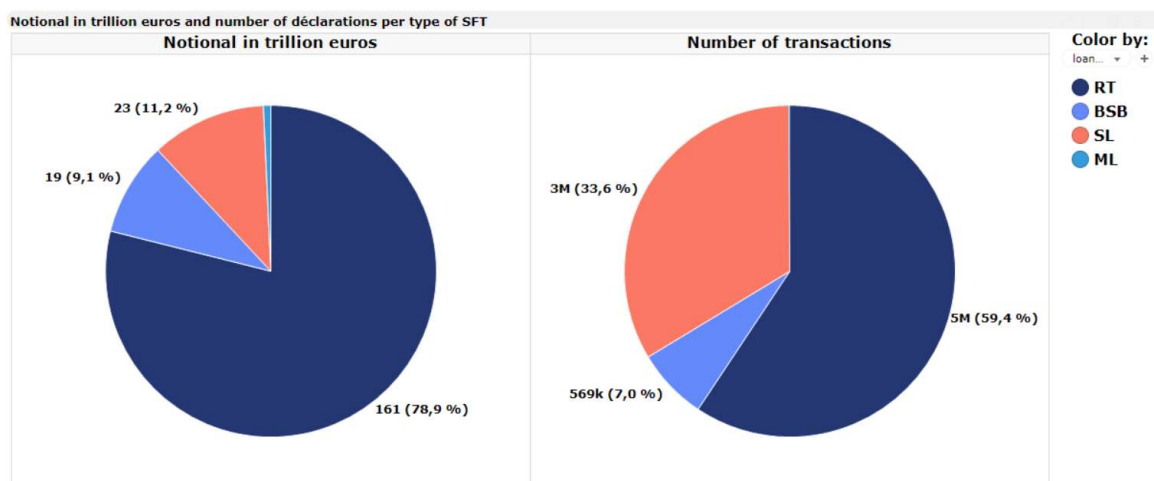
#### 3.2. SFT MARKET SIZE IN TERMS OF NUMBER OF TRANSACTIONS AND AMOUNT

An initial analysis of the volume and amount reported by type of product shows that repo and buy-sell-back (RT/BSB) transactions dominate, accounting for 89% of the total amounts reported, compared with 11% for securities lending (SL). However, in terms of the number of transactions, SL accounts for 33.6% of transactions.

<sup>7</sup> Methodology approach : the figures from section 3.2 to section 3.5 are based on the SFTR *Trade Activity Reports* received by the AMF from mid-July 2020 to mid-November 2020. They include action types NEW and MODI.

Unless otherwise specified, the « transactions » mentioned in the section 3 relate to *reported* transactions, i.e. transaction reports with the same three following characteristics : the Unique Trade Identifier (allowing both matched participants to recognise the specific trade), the reporting entity and the transaction direction. Thus, a trade usually results in two transaction reports, assuming that each of both counterparties reports. The amounts are calculated and converted in euros from the following SFTR reporting fields : 2.56 (loan value), 2.37 (principal amount on maturity date for repo and BSB transactions, 2.69 (the overall outstanding margin loan amount for margin lending transactions).

### Percentage of different types of transactions by amount and number of transactions



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

Since 12 October 2020, the date on which asset management companies and insurance companies started reporting their SFTs alongside investment service providers (ISPs), the AMF has been adding some 90,000 transactions from ISPs and 5,000 transactions from asset management companies and insurance companies every day.

According to an initial estimate,<sup>8</sup> the daily volumes processed by type of product amount to:

- approximately 60,000 repo transactions and 7,000 buy-sell-back transactions reported per day for an amount of €1.9 trillion,<sup>9</sup> which equates to an estimated daily volume of €950 billion in repo and BSB transactions, taking into account the two underlying transactions received from counterparties per transaction;
- 30,000 security lending transactions per day for an amount of €300 billion, i.e. an estimated daily amount processed of €150 billion<sup>10</sup>;
- around 100 margin lending transactions per day with widely varying daily amounts of between €20 and €500 million per day.

The AMF receives more repo transactions than securities lending transactions (in number of transactions), in contrast with the SFTR global data published by the trade repositories, which exhibit more securities lending transactions. This difference is mostly due to one particular reporting entity, LCH SA. As an AMF authorized entity, the CCP reports to the French regulator all its securities financing transactions, not only on French instruments but also for non-French instruments. At the European level, it is estimated that 35% of repo transactions are cleared<sup>11</sup> and LCH SA has a cleared repo transactions' market share of 85%<sup>12</sup>. Furthermore, only a few securities lending transactions are being cleared (please see details in section 3.3).

<sup>8</sup> The amounts processed correspond to approximately half the reported amounts as there are two separate reports for the same transaction according to the collateral giver/receiver direction, except for margin lending transactions for which one of the counterparties is not a reporting entity.

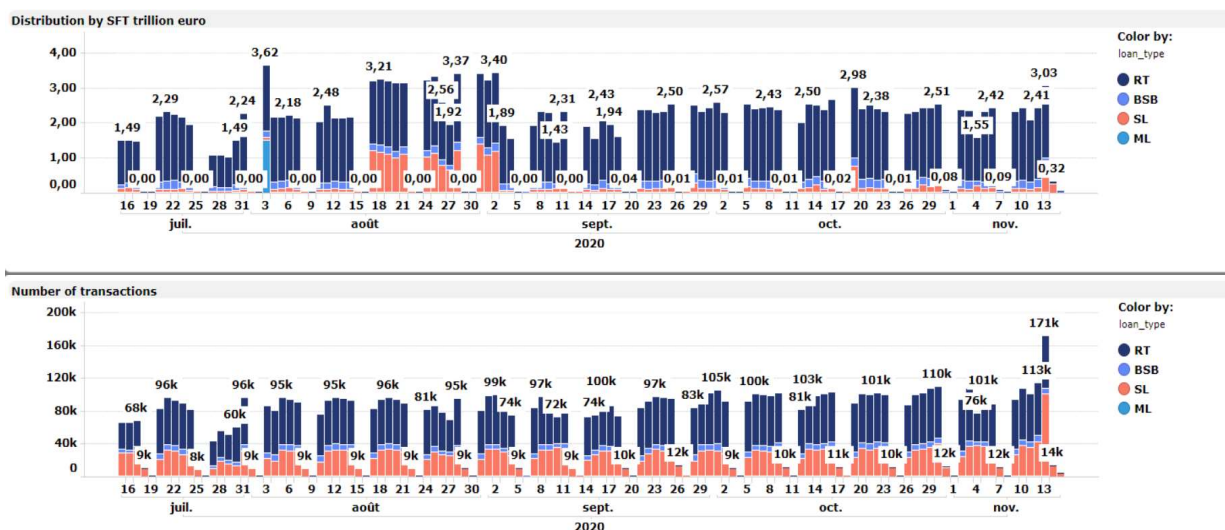
<sup>9</sup> 1 trillion = 1,000 billion.

<sup>10</sup> By using those figures, It can be assessed that the average transaction size equals 10 M€ (€300 billion / 30,000 security lending transactions). This amount seems to be very high compared to usual market figures. This could be explained by inherent data quality issues in the recent SFTR reporting. The median of the notional amount for securities lending transactions is close to 200,000 €, which is more aligned with standard market figures.

<sup>11</sup> Source : Les Echos (<https://www.lesechos.fr/2017/07/avec-lch-paris-devient-leader-du-repo-174265>)

<sup>12</sup> Source : L'Agefi (<https://www.agefi.fr/financements-marches/actualites/quotidien/20190225/lch-concentre-a-paris-activite-repo-dette-en-euro-268706>)

### Amounts in trillions of euros and number of transactions reported since 13 July by product



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

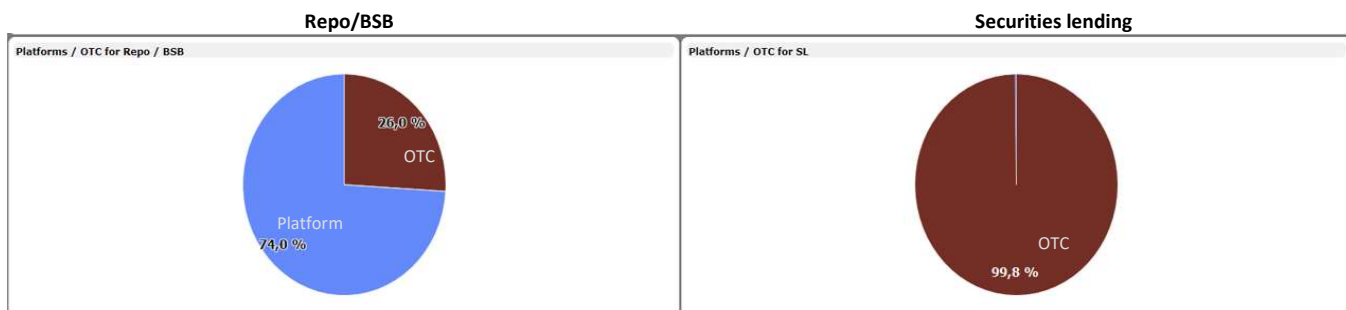
Note: In the figure above, there is an increase in the amount of reported margin lending on 3 August 2020 and an increase in securities lending activity between 17 August 2020 and 2 September 2020. These increases have yet to be explained and are currently being studied.

### 3.3. TRANSACTION FRAGMENTATION

The figures below provide an overview of the fragmentation of the amounts of transactions processed on trading venues and OTC.

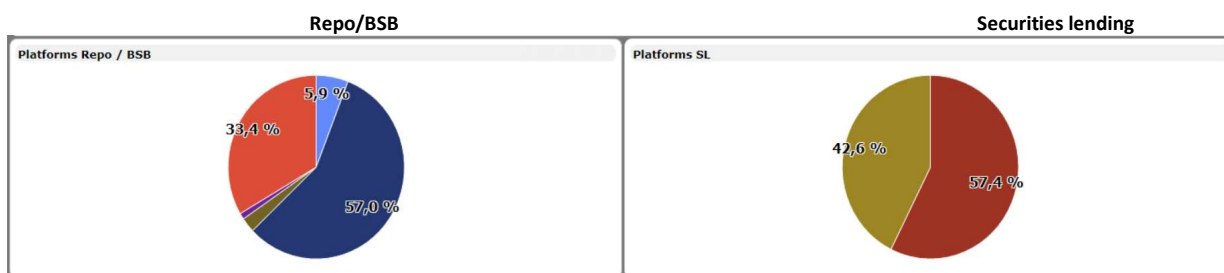
- 74%<sup>13</sup> of repo and BSB transactions are processed on trading venues, whereas only 1% of SL transactions are processed on trading venues, the remainder being processed exclusively OTC.
- The main trading venues are CME Amsterdam, Brokertec (also in the CME Group) and MTS Italia for repo.
- Equilend (a subsidiary of the Northern Trust financial group) is the main trading venue for securities lending and borrowing.

#### Percentage of OTC and on-venue transactions



<sup>13</sup> This percentage of repo transactions carried out on platforms is high with regard to usual market practices (ICMA) and global SFTR data published by trade repositories at European level. In the scope of data analysed by AMF, the share of transactions executed on platforms is overweighted by the reports from LCH SA.

### Percentage of major trading platforms for on-venue transactions



- BROKERTEC EUROPE LIMITED - ALL MARKETS
- CME AMSTERDAM B.V.
- EUREX REPO - FUNDING AND FINANCING PRODUCTS
- EUROMTS LTD
- MTS ITALIA

- EQUILEND EUROPE LIMITED
- EQUILEND LIMITED

Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

For repo and BSB, all transactions on trading venues are cleared, whereas only 4% of OTC transactions are cleared. Securities lending transactions are almost never cleared.

### 3.4. ANALYSIS BY REPORTING COUNTERPARTIES' BUSINESS SECTOR

Two key fields in SFTR reporting identify the reporting entity and its counterparty in the transaction. The following analysis focuses on the reporting entity's business sector only and not that of the counterparty.

#### Reporting entity classification

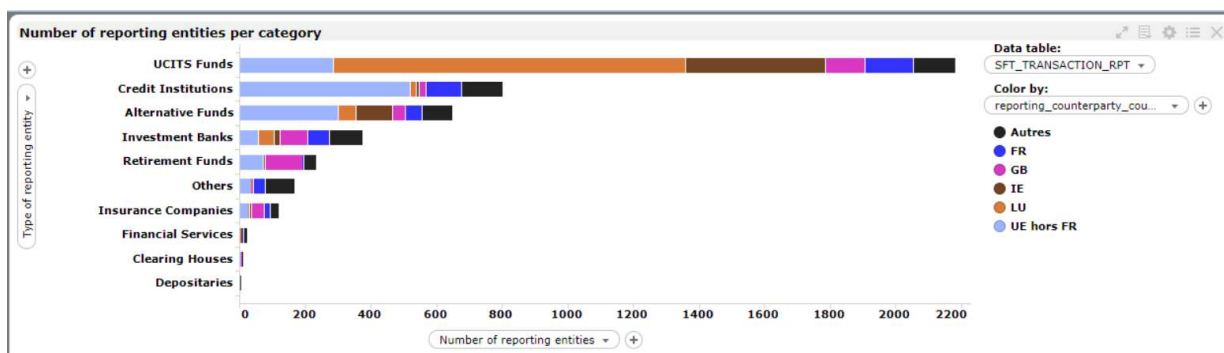
One field is used to classify the reporting financial counterparties according to their business sector:<sup>14</sup>

- Investment bank
- Credit institution
- Central counterparty
- Insurance company
- UCITS fund (fund governed by the UCITS Directive)
- Alternative investment fund (fund governed by the AIFM Directive)
- Other (non-financial counterparty).

Despite the dominance of banks and credit institutions in terms of reported amounts, the graph below shows that the number of reporting funds is higher than the number of reporting banking institutions (investment banks and credit institutions).

<sup>14</sup> The **Sector of the counterparty** field uses specific codes for **financial counterparties**: CDTI – Credit Institution; INV F – Investment Firm; INUN – Insurance Undertaking; AIFD – AIF managed by AIFM; ORPI – Institution for Occupational Retirement Provision; CCPS – Central Counterparty; REIN – Reinsurance Undertaking; CSDS – Central Securities Depository; UCIT – UCITS and its management company – and for **non-financial counterparties** (one letter for each non-financial sector of activity).

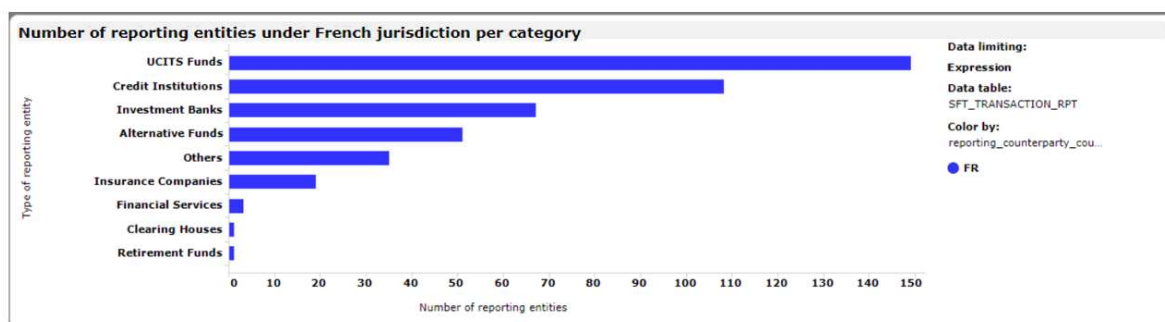
### Number of reporting entities by category



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

French reporting entities are active in all these categories except pension funds. At this stage, no French reporting entities are included in this category, probably because of the specific nature of the French pension system, which is predominantly pay-as-you-go.

### Number of reporting entities under French jurisdiction by category

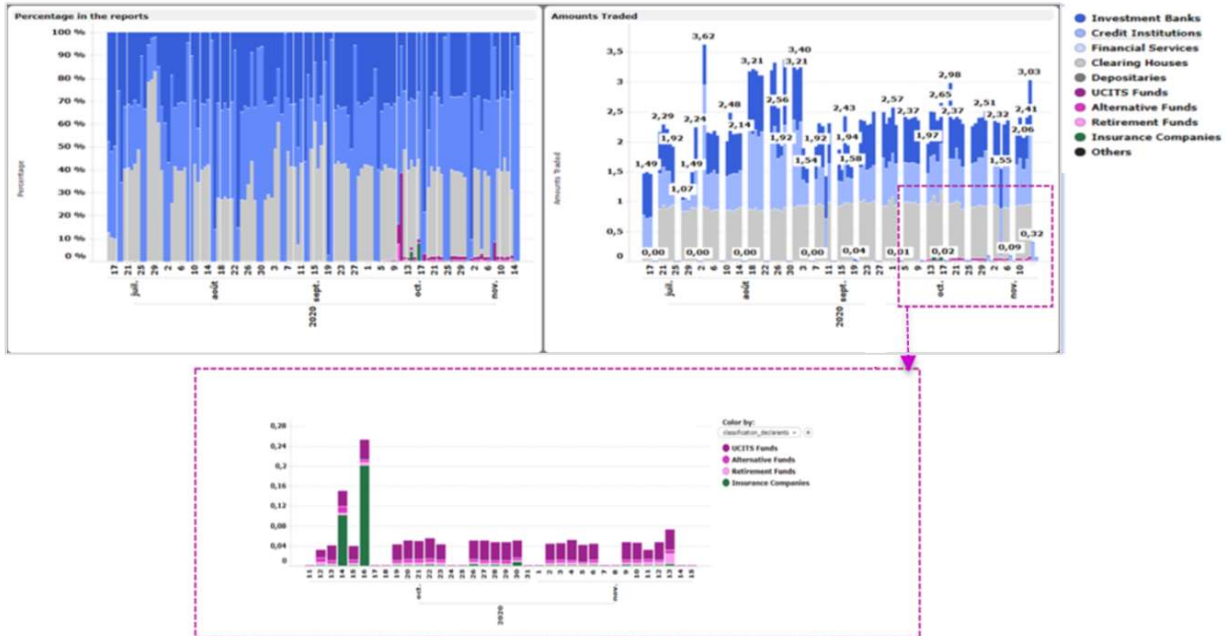


Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

### Activity by product and category of reporting entity

The figures below show the trends in market share and amounts per category in the reports received. The focus is on the period starting on 12 October 2020, the date on which reporting for funds and insurance companies came into force.

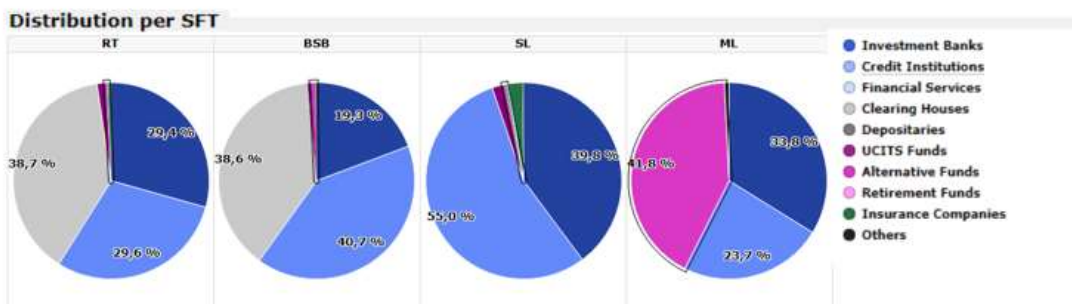
Amounts reported by reporting entity category (13 July to 15 November)  
as a percentage in trillions of euros



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

The breakdown of amounts by reporting entity category for each type of transaction for the period after 12 October 2020 are presented in the four pie charts below. These clearly show that funds account for only small amounts in the reporting, between 2% and 3% depending on the product, except for margin lending where their share is 41%.

Breakdown of amounts by reporting entity type for each transaction family (RT, BSB, SL and ML)

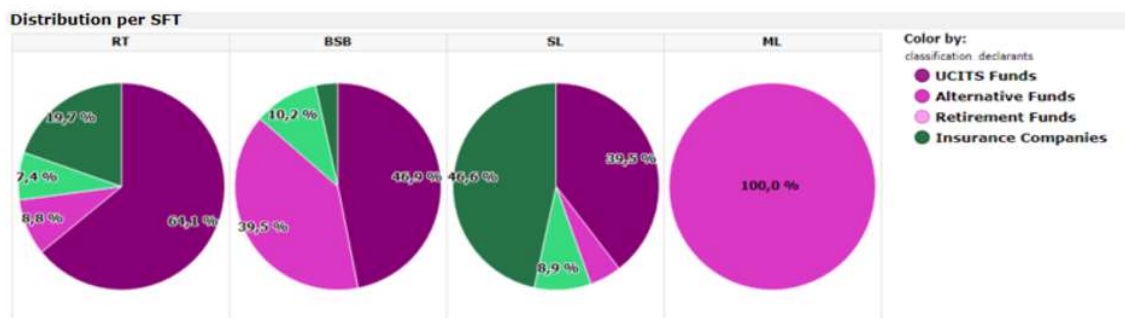


Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

The analysis of the activity of funds and insurance companies presented below leads to the following observations:

- Funds are highly active in repo, buy-sell-back and, to a lesser extent, securities lending transactions.
- Insurance companies are highly active in terms of securities lending and borrowing transactions, particularly as securities lenders.
- In practice, only alternative investment funds make use of margin lending. Margin lending transactions may not meet the “efficient management” criterion required by the UCITS delegated directive and therefore may not be favoured by these funds.

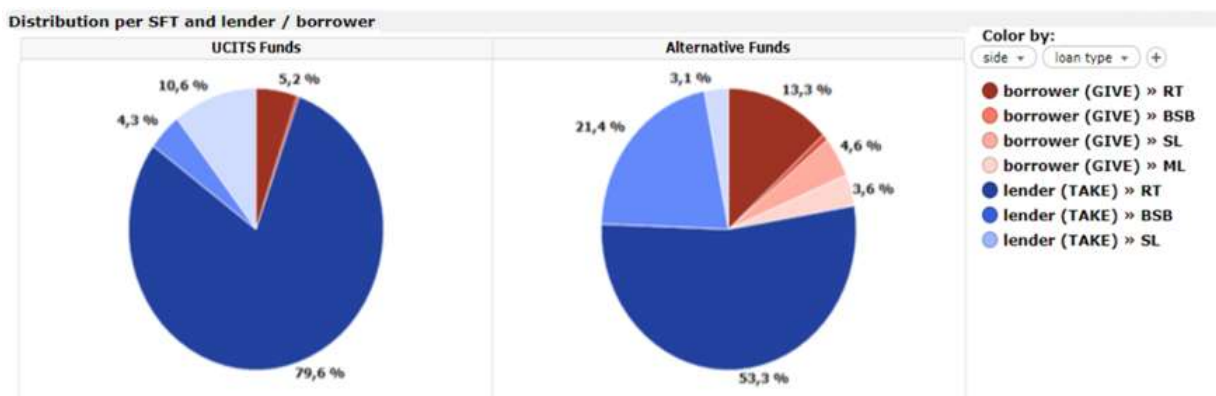
**Focus on activity by SFT of funds and insurance companies**



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

The following two pie charts show the percentage of amounts committed as lender and borrower in the reporting for funds. Asset management companies (including French funds regulated by the AMF) are mainly lenders of cash (in repo transactions) or securities (in securities lending and borrowing transactions) to banks, accounting for nearly 80% of the amounts reported.

**Breakdown between lending and borrowing funds**



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to the mid-November 2020

Note: To define the transaction direction in SFTR reporting, the reporting entity reports a “GIVE” direction when giving the collateral because it is borrowing the security. The reporting entity reports a “TAKE” direction when it receives the collateral because it is lending the security.

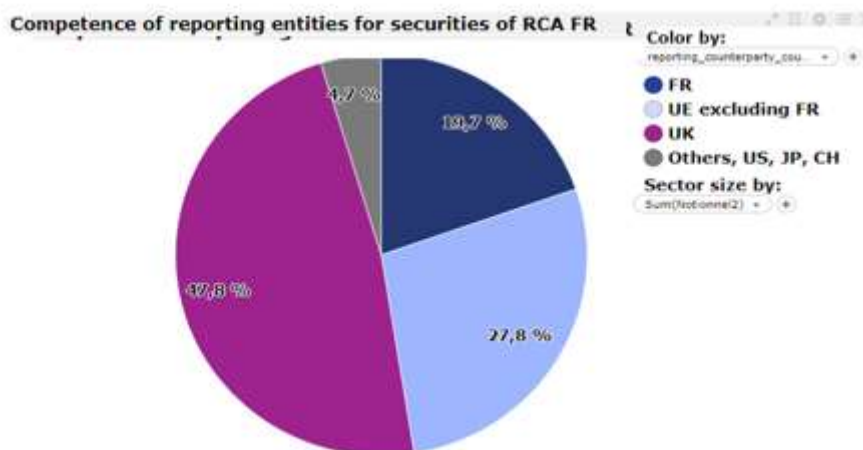
### 3.5. NATIONALITY OF REPORTING ENTITIES FOR FRENCH SECURITIES LENDING AND BORROWING

To understand the nationality of reporting entities, the analysis focused on instruments under French jurisdiction since the AMF is supposed to receive transactions from all European reporting entities within this jurisdiction.<sup>15</sup> It is easy to isolate the instrument's jurisdiction for securities lending transactions using a specific field that identifies them. However, determining the issuer's jurisdiction for the collateral in repo and BSB transactions can be much more difficult, especially in configurations where the collateral consists of a basket of instruments (general collateral). Consequently, only securities lending transactions are included in this analysis.

The analysis by reporting entity jurisdiction is based on the nationality given in the reporting entity's LEI code (source GLEIF):

- Almost 50% of reporting comes from British entities. After Brexit, the AMF no longer receives these reports unless they come from a European branch of a UK entity. However the transaction may still be reportable by the other counterparty. In a preliminary analysis, the proportion of trades between two UK counterparties - which would thus completely disappear from the reporting received - should be narrowed down to around 10% of the number of trades.
- French reporting entities account for only 20% of the amounts reported.
- 27% are EU reporting entities outside France, mainly in Benelux.
- 3% are Japanese and only 0.1% are US-based reporting entities.<sup>16</sup>

#### Breakdown of amounts by nationality of reporting entity (all categories)



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

<sup>15</sup> See the details provided on page 1 on the scope of data available to the AMF.

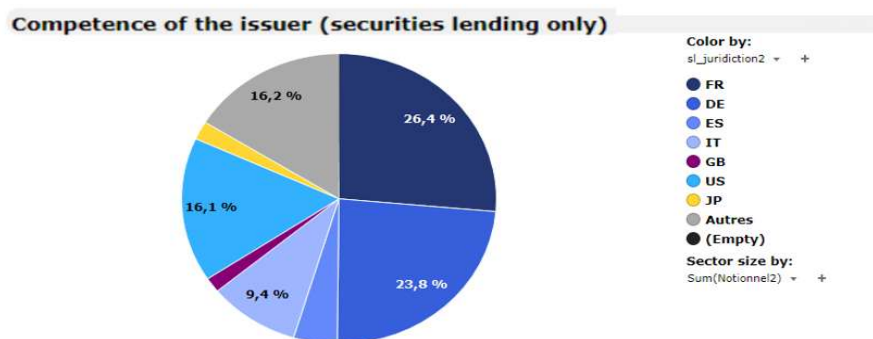
<sup>16</sup> Third country reporting entities are present because the SFTR also applies to the European branches of third country reporting entities, as stated on the first page.

## □ Breakdown of reporting by jurisdiction of the issuer of the security lent

This analysis shows the breakdown of securities lent according to their country (i.e. the issuer's jurisdiction), only for French reporting entities from which the AMF receives complete reports.

As the graph below shows, French reporting entities mainly focus their lending and borrowing transactions on European securities (EU27), which make up 65% of their reporting (including 26% for French issuers), compared with 35% for other areas (US, UK and Japan). It should be noted that these high percentages include the activity of French reporting entities' branches outside France.

### Breakdown of issuers by jurisdiction (securities lending only)



Source: ICY SFTR, Trade activity reports received by the AMF from mid-July 2020 to mid-November 2020

## 4. SFTR DATA QUALITY

The above analyses illustrate the value of SFTR data for the AMF's core duties.

However, several quality problems have emerged naturally, as with any new reporting framework, and will have to be corrected. For example:

- ↗ Delays in sending transactions, with some transactions being reported outside the one-day time frame required by the regulation.
- ↗ Abnormal peaks in amounts.
- ↗ Abnormal borrowing rates.

In terms of completeness, it would also be useful to examine which French entities, financial counterparties and investment funds have not reported any SFTs to date.

A major project to improve the reliability of the data must therefore be undertaken. ESMA's draft quality action plan for SFTR data will involve testing and questioning campaigns targeting reporting intermediaries, in addition to specific points flagged by users as they arise.

## 5. CONCLUSION

SFTR data contribute positively to the AMF's surveillance and supervision duties.

- From a micro perspective, these new data can be used to supplement and enhance the monitoring of short sold securities. The data will also make it more efficient to monitor the activity of entities regulated by the AMF, in particular management companies, in securities financing transactions.
- From a more systemic standpoint, the data could enable the detection and assessment of potential stress on the market for repo instruments that are symptomatic of financing problems.

Data will hence contribute to supervision by the regulator using a data-based approach.

However, this data is still recent and will need to be improved in terms of reliability and be more fully understood by the AMF's various functions. The implementation of the SFTR data quality action plan is also one of ESMA's priorities.