



## Why Regulate the unregulated ?

- G20 commitment signed by the UK.
- Replace non binding guidelines with a consistent and coherent framework.
- Prevent another ‘sub-prime’.
- Faster collection of information on level of credit and liquidity
- to have a more realistic view of potential systemic issues
- And ....ultimately...



# Bringing Shadow Banking out of the shadows

From Shadow Banking...



...to Market Based Finance



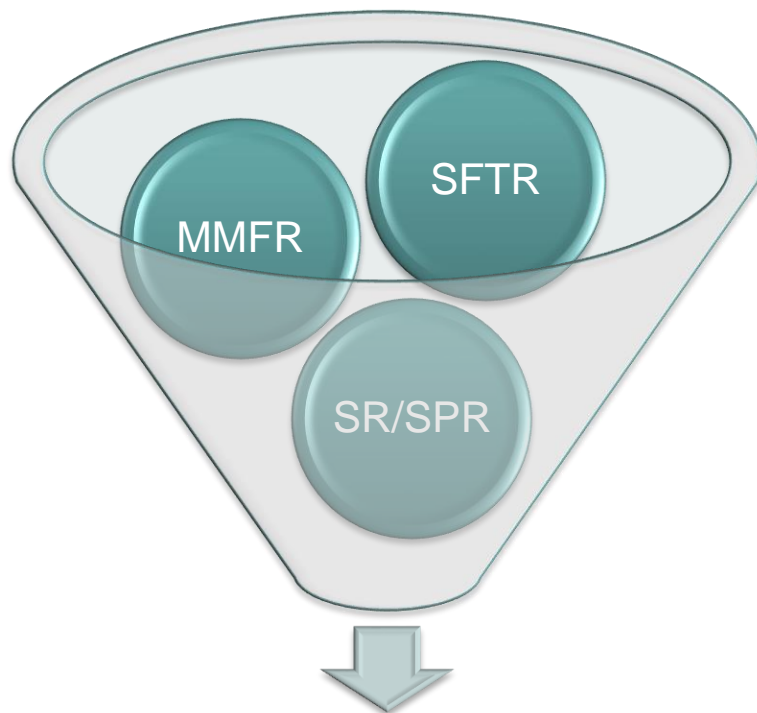


Monitoring Shadow Banking

## **FORTHCOMING REGULATORY FRAMEWORK**



## Three regulations one common aim

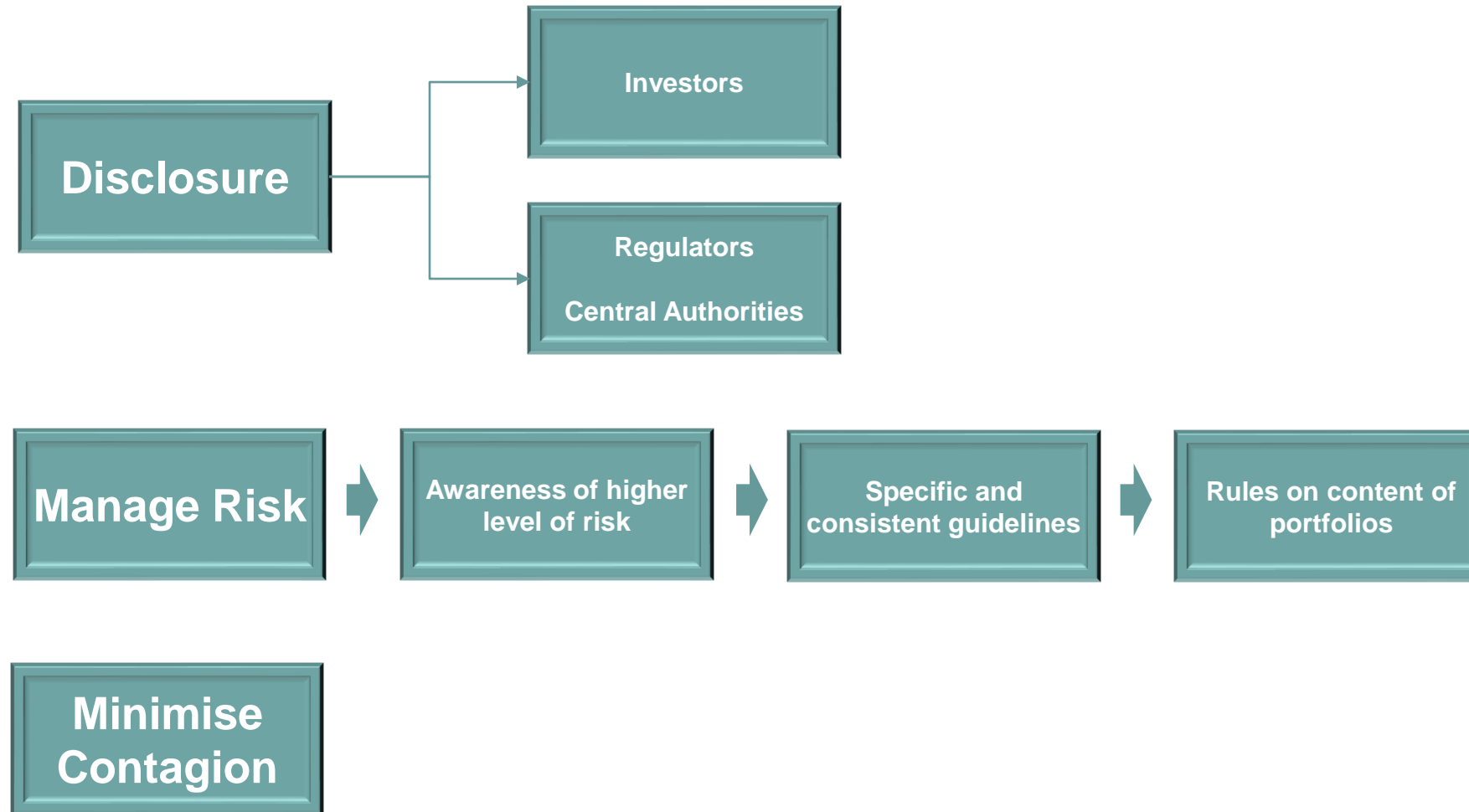


A new framework for  
Market Based Finance

- Disclosure
- Manage Risk
- Minimise contagion

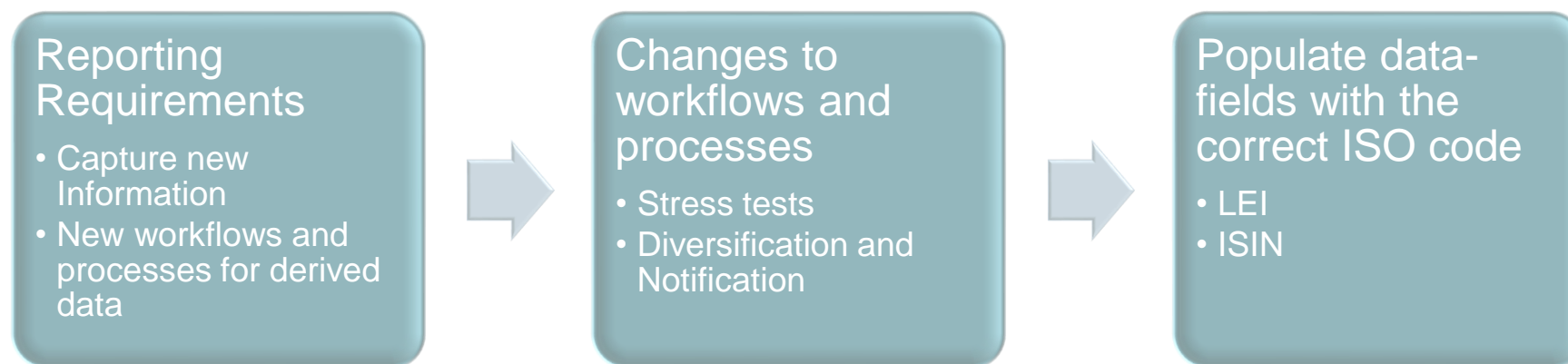


## Goals





## Data Challenge



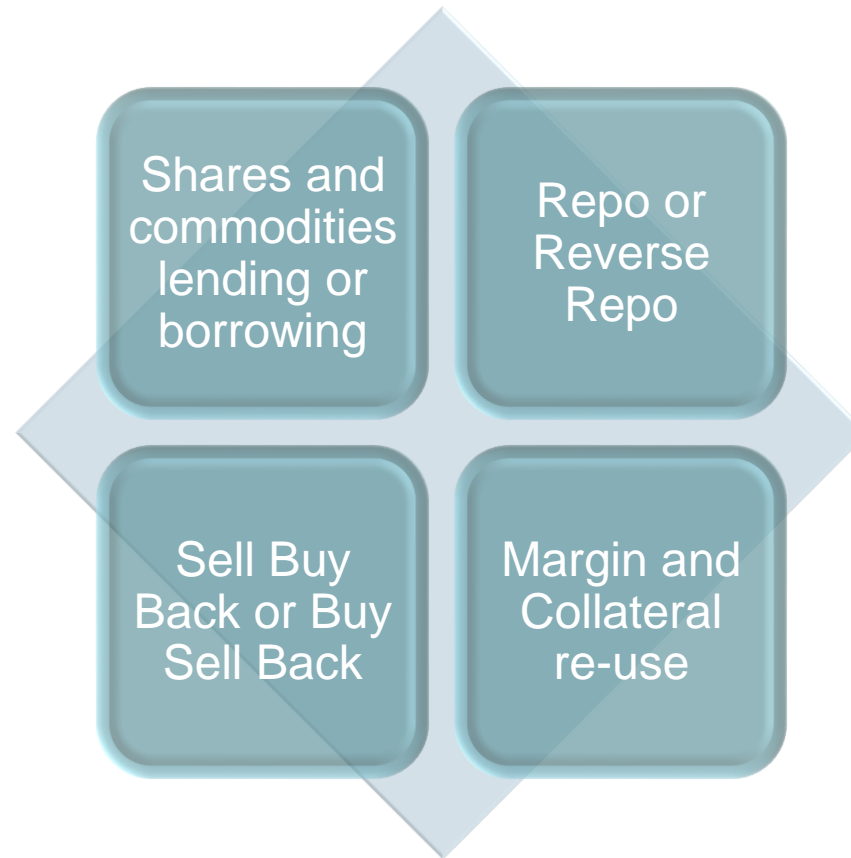


Disclosure, disclosure, disclosure

**SFTR**



## SFTR - Scope







## SFTR - Disclosure

- UCITS and AI Funds
  - Prospectus and Annual (or semi-annual) report
- Reporting to SFT Repository
  - Same principle as EMIR, different container
    - T+1 reporting of transactions
    - Repository will aggregate transactions and report aggregates to regulator and central authorities
- Ultimate asset owner (or owner of shares or units in a fund):
  - Specifically consent to the use of its Asset Under Management (or Asset Under Custody) for SFT or for margin/collateral re-use
- Investors in UCITS or AI funds
  - Based on the reporting they will know how much of their AUM (or AUC) has been re-used and what was the revenue associated with it.



## SDTR - Complexity

**Consent from clients/ultimate owners**

### Reporting Requirements

- Capture new Information
- New workflows and processes for derived data



Changes to workflows and processes

- New data capture
- New data processing
- New data storage



Populate data-fields with the correct ISO code

- LEI
- ISIN



Disclosure, diversification, concentration, eligible assets

**MMFR**



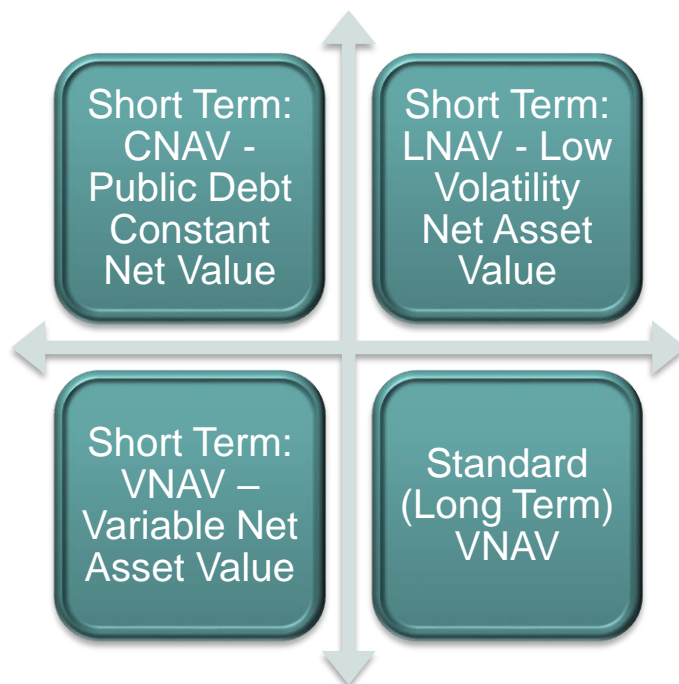
## Definition of a MMF

A UCITS or AI fund that invests in short-term assets and have distinct or cumulative objectives to offer returns in line with money market rates or preserving the value of the investment



## MMFR – eligibility and types of MMF

### Types of MMF



### Eligible Assets

- Asset types allowed to be in the portfolio of a MMF:
  - Money Market Instruments (MMI)
  - Eligible Securitisation of Asset Backed Commercial Papers (ABCP)
  - Deposit with credit institutions
  - Financial Derivative Instruments (FDI)
  - Repurchase Agreements
  - Reverse Repurchase Agreement
  - Other MMF
- Eligibility is further qualified by terms and conditions that restrict their use and, in many cases intend to regulate the risk associated to MMF.



## MMFR – Concentration, diversification

### Concentration

A MMF portfolio must not include aggregate position in MMIs, Securitisation and ABCPs issued by a single body exceeding 10% of the assets in the portfolio. Holdings in MMIs issued and/or guaranteed by public bodies are excluded.

### Diversification

Each type of MMF has specific diversification requirements relating to its composition, concerning:

- Money Market Instrument, Securitisation and ABCP
- OTC Derivative Counterparty Exposure
- MMI issued or guaranteed by public bodies
- Deposits
- Repos
- Reverse Repos
- Other MMFs

There are also rules concerning aggregate exposure per Counterparty, where companies belonging to the same group are considered as a single body



## Diversification Requirements for LVNAV Short-term MMF

<b>Money Market Instruments (MMIs), Securitisation and ABCP (++)</b>	Max 5% in MMIs, securitisations & ABCPs issued by the same body Aggregate 15% /20% max (**) in securitisations & ABCPs
<b>OTC Derivative Counterparty Exposure</b>	5%
<b>MMIs issued/guaranteed by public bodies</b>	Max 100% per public administration, institution or organisation, diversified across a min 6 issues with max 30% per issue
<b>Deposits</b>	Max 10% in deposits with the same institutions
<b>Reverse Repos</b>	Cash provided subject to max 15% per counterparty (Must be fully collateralized)
<b>Repos</b>	Cash received cannot exceed 10% of assets
<b>Other Money Market Funds (+)</b>	Max 5% per MMF Aggregate max 17.5% (investment in Short-Term MMFs only)
<b>Aggregate Exposure per Counterparty (++)</b>	Max 15% to a single body. Exposure will include MMIs, securitisations, ABCPs issued by the counterparty, deposit made with the specific counterparty and OTC FDI

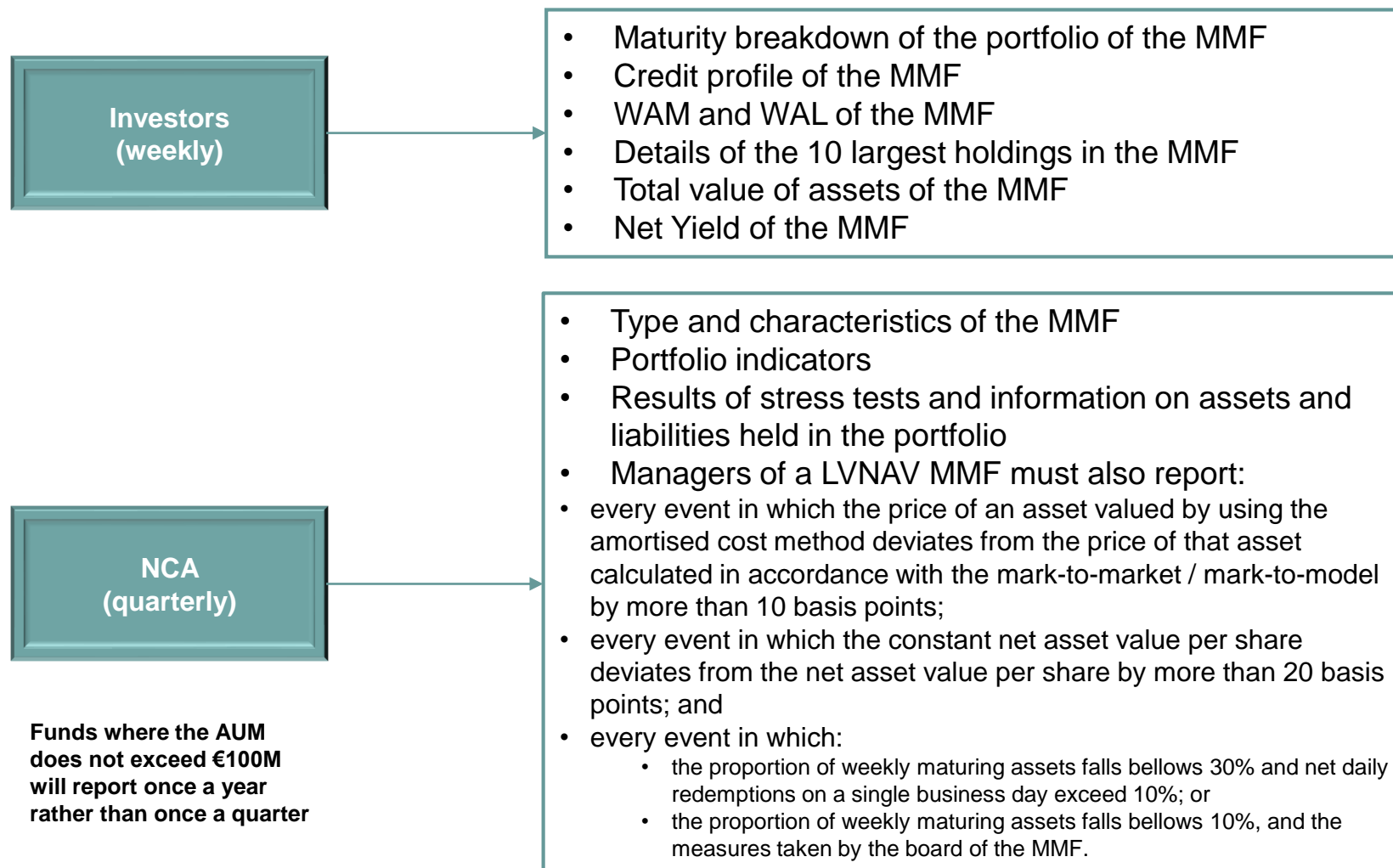
(\*\*) Max 15% until date of application of Commission Delegated Act referred to in Art 11(4) of MMFR relating to the proposed Regulation on STS securitisations and 20% thereafter whereby up to 15% may be invested in securitisations and ABCPs that do not comply with the criteria for the identification of STS securitisations and ABCPs.

(+) MMFs operating solely as employee savings schemes may diverge from these limits where the participants in such schemes, who are natural persons, are subject to restrictive redemption conditions that are not linked to market developments but instead relate to specific predefined life events.

(++) Subject to an MMF being authorised to invest up to 100% in MMI issued or guaranteed by a single public administration, institution or organisation provided investment is diversified across a minimum of six different issues with a maximum investment of 30% per issue.



## MMFR – Disclosure







## MMFR – Risk Management

- Guidelines for an optimum level of daily and weekly redeemable assets to monitor 'stress redemption'
- Stress testing guidelines, results to be included in the quarterly report
- Guidelines as to when, why and how to limit or suspend redemptions
- Assets valued daily; valuation and dealing requirements depend on the type of fund.

PORTFOLIO RULES				
	Public Debt			
	CNAV	LVNAV	VNAV	VNAV
	Short Term MMF	Short Term MMF	Short Term MMF	Standard MMF
WAM (Max)	60 days	60 days	60 days	6 Months
WAL (Max) (*)	120 days	120 days	120 days	12 months
				2 years
Daily liquid assets (min.)	397 days	397 days	397 days	Provided next interest reset date is 397 days or less
Weekly liquid assets (min.)	30% (+)	30% (+)	15% (#)	15% (#)

(\*) WAL for securities must be calculated using the residual maturity until legal redemption of the instrument. Special terms for options and ABCPs

(+) MMF issued or guaranteed by a public body may be included within the weekly maturing assets up to a limit of 17.5% provided:

- they are highly liquid and can be redeemed and settled within one working day, and
- they have a residual maturity of up to 190 days

(#) MMIs and other MMFs may be included within the weekly maturing assets up to 7.5% if they can be redeemed and settled within five working days.



## MMFR – Implementation complexities

- Creating a framework that monitors portfolios to avoid breaking composition, diversification, and other rules.
- Complex quarterly report, it includes a lot of information that are the results of processes (valuation, stress test results, liquidity profile of the MMF, etc.)
- Capturing the information required to comply with disclosure, concentration, diversification and risk management rules.
- No grandfathering, it may be complex and/or costly to 'transition' existing funds that have non-eligible asset types, or where the amount of daily or weekly redeemable assets does not follow the guidelines or that are in breach of the MMFR framework in any other way



STS, Risk Retention, Repositories, Bans, Grandfathering (?)

**SR/SPR**



## Securitisation Regulation

SR/SPR will bring the EU/EEA broadly in line with Basel IV framework on securitisation as agreed at G20 level

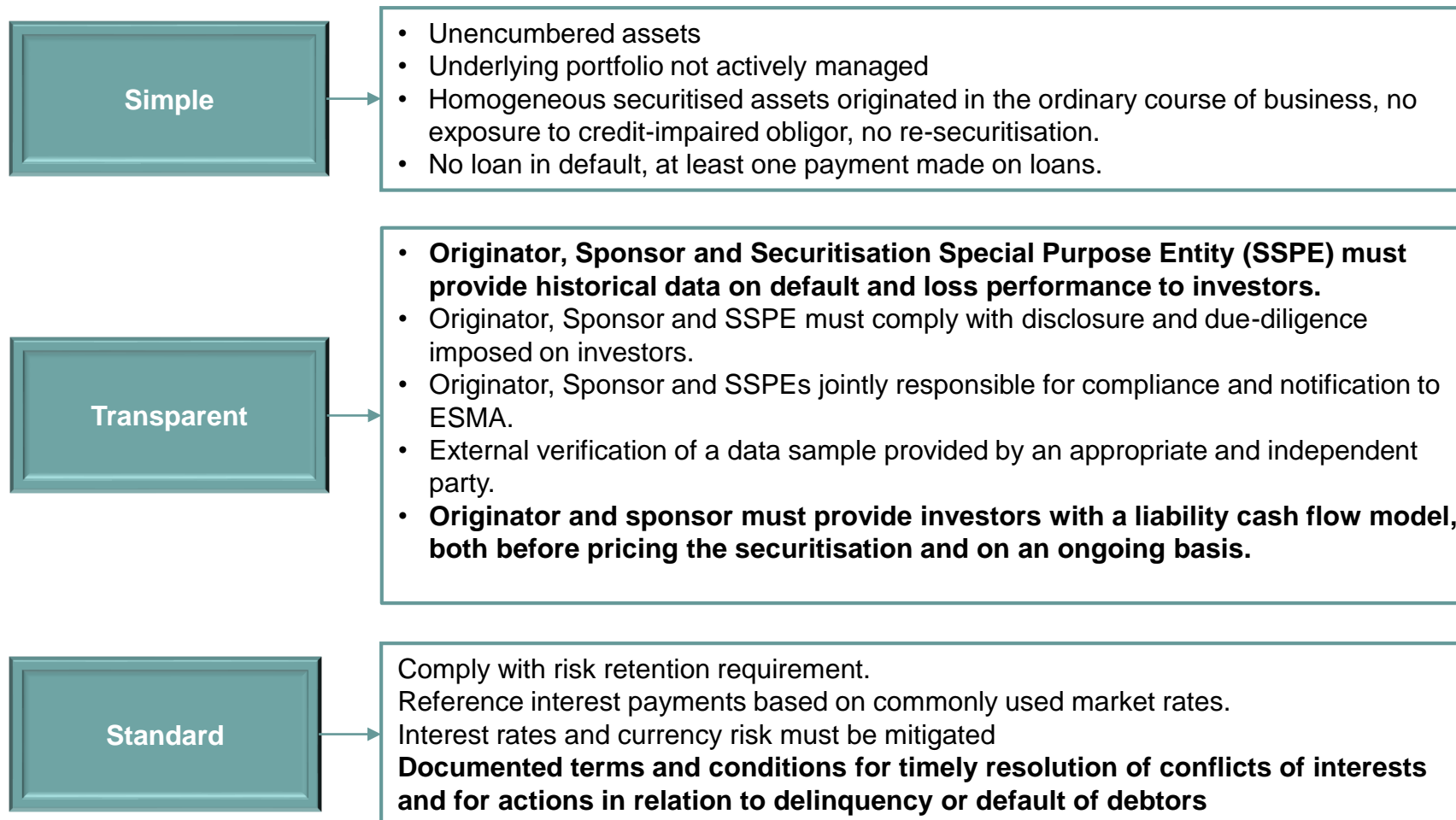
It will apply to securitisations issued on or after 01/01/2019 or whenever SR will become effective. Existing securitisation will be grandfathered and they will only be affected if they are refinanced or have additional notes issued after the date SR becomes effective.

ESMA and EBA have technical standards under consultation

Re-securitisation and securitisation of self certified mortgages are specifically banned



## STS – Simple, Transparent, Standard





## Exceptions to ban on re-securitisation

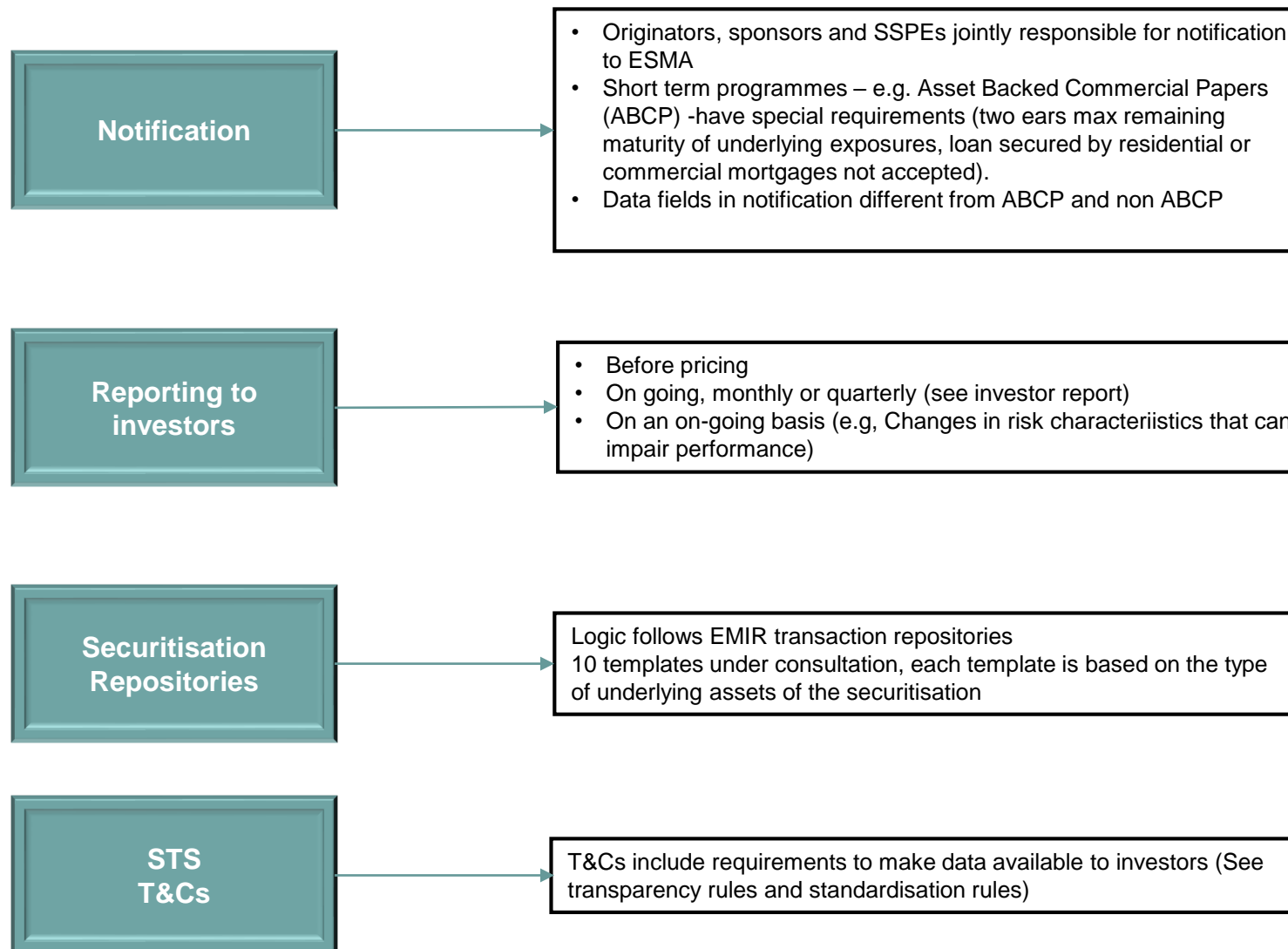
- 1) Securitisation issued before the date of application of SR
- 2) Securitisation used for the legitimate purpose of :
  - a) facilitating the winding up of a credit institution, an investment firm, or a financial institution, ensuring such institution viability as a going concern, or
  - b) avoid its winding up.
- 3) Any securitisation to be used for the legitimate purpose of preserving the interest of investors.

A fully supported asset-backed commercial paper (ABCP) conduit is not considered a re-securitisation, if :

- 1) none of the transactions within the conduit is a re-securitisation, and
- 2) if there is no subdivision of the conduit in parts with different level of liability, credit risk, etc.



# Disclosure





## Disclosure – what's in the investor report

Section	Number of Fields	
	ABCP Investor Report	Non-ABCP Investor Report
Programme Information	28	N/A
Securitisation Information	N/A	49
Tranche/Bond Level	13	25
Transaction Information	56	N/A
Tests/Events/Triggers	4	4
Cash-Flow Information	N/A	5
Account Level Information	5	5
Counterparty Level Information	6	6
Other Information	3	3
Protection Information (*)	N/A	51
Issuer Collateral Information (*)	N/A	18
Total	115	97+69(*)
(*) Synthetic non-ABCP Securitisations only		





## Disclosure – what’s in the reporting to repositories?

Type of Underlying Exposure	Four letter identifier	Number of fields
Asset Backed Commercial Papers	ABCP	59
Leases	LEAS	79
Credit Card Receivables	CRED	41
Consumer Loans	CONS	64
Auto Loan/Leases	AUTO	80
Corporate Loans	CORP	75+12 (*)
Commercial Mortgages	COMM	50+8 (**)
Residential Mortgages	RESI	97
(*) – 12 fields in the Collateral Section		
(**) – 8 fields in the Tenant Information Section		



## Risk Retention

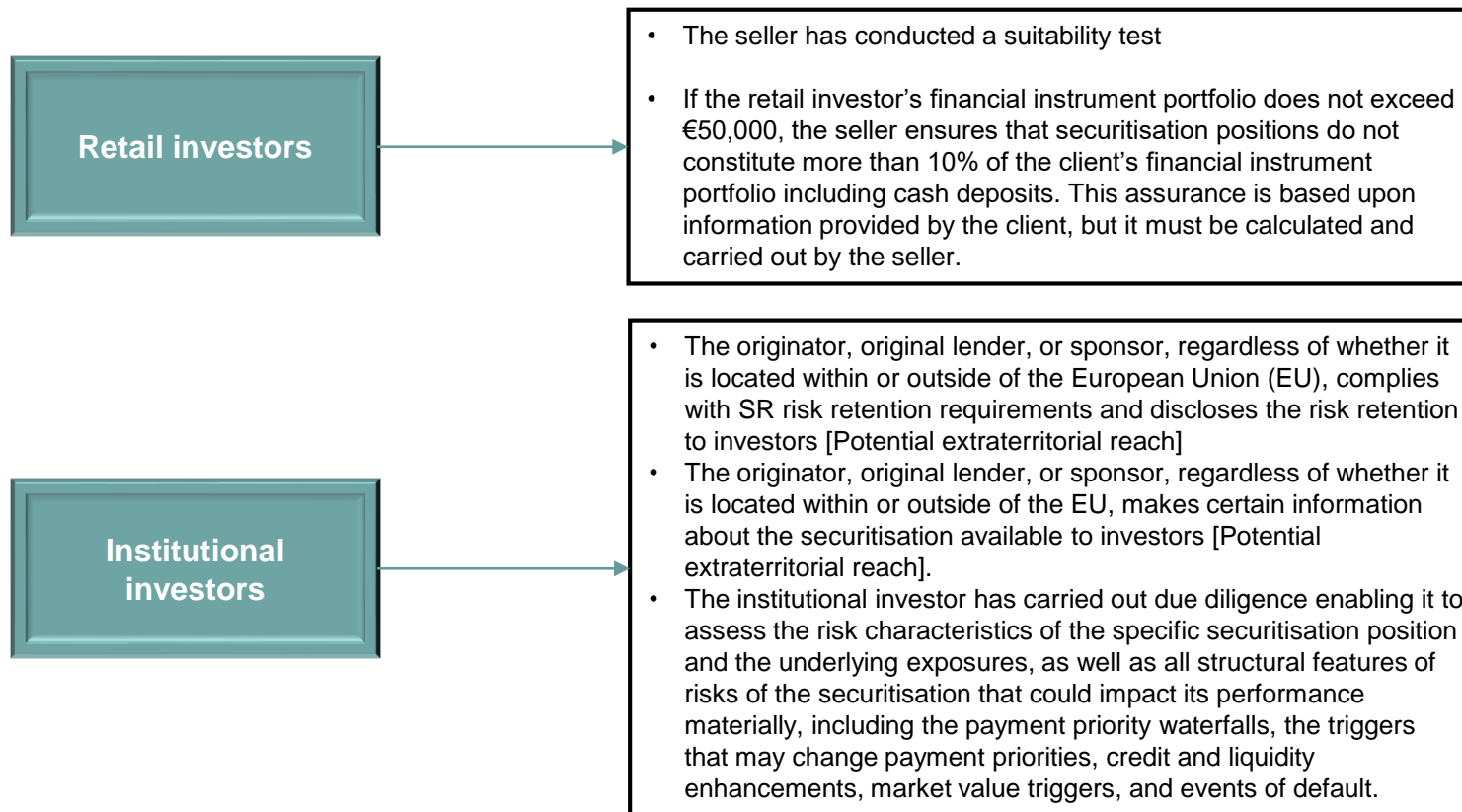
Originators, original lenders, or sponsors (or, absent agreement among them, the originator) must hold a material economic interest of not less than 5% in each securitisation transaction.



SR introduces a positive obligation on originators, original lenders, or sponsors to retain at least a 5% interest



## Investors in a securitisation





## Who can participate in a securitisation transaction?

- A STS-securitisation implies that the originator, sponsor and securitisation special purpose vehicles (SPVs) must be established in the EU. Asset backed commercial paper (ABCP) transactions can qualify as STS, only if the sponsor is an EU credit institution supervised under the CRR. Securitisation repositories must also be established in the EU to be able to register with the European Securities and Markets Authority (ESMA).
- SPVs used in any securitisations (including non-STs transactions) **cannot** be established in a non EU jurisdiction that:
  - is a tax haven,
  - lacks effective exchange of information with tax authorities,
  - lacks transparency with respect to legislative, judicial or administrative provisions,
  - imposes no requirement for a substantive local presence,
  - is listed as a “Non Cooperative Country or Territory” or is on the EU blacklist of uncooperative jurisdictions, or
  - has not signed an agreement to share tax information.

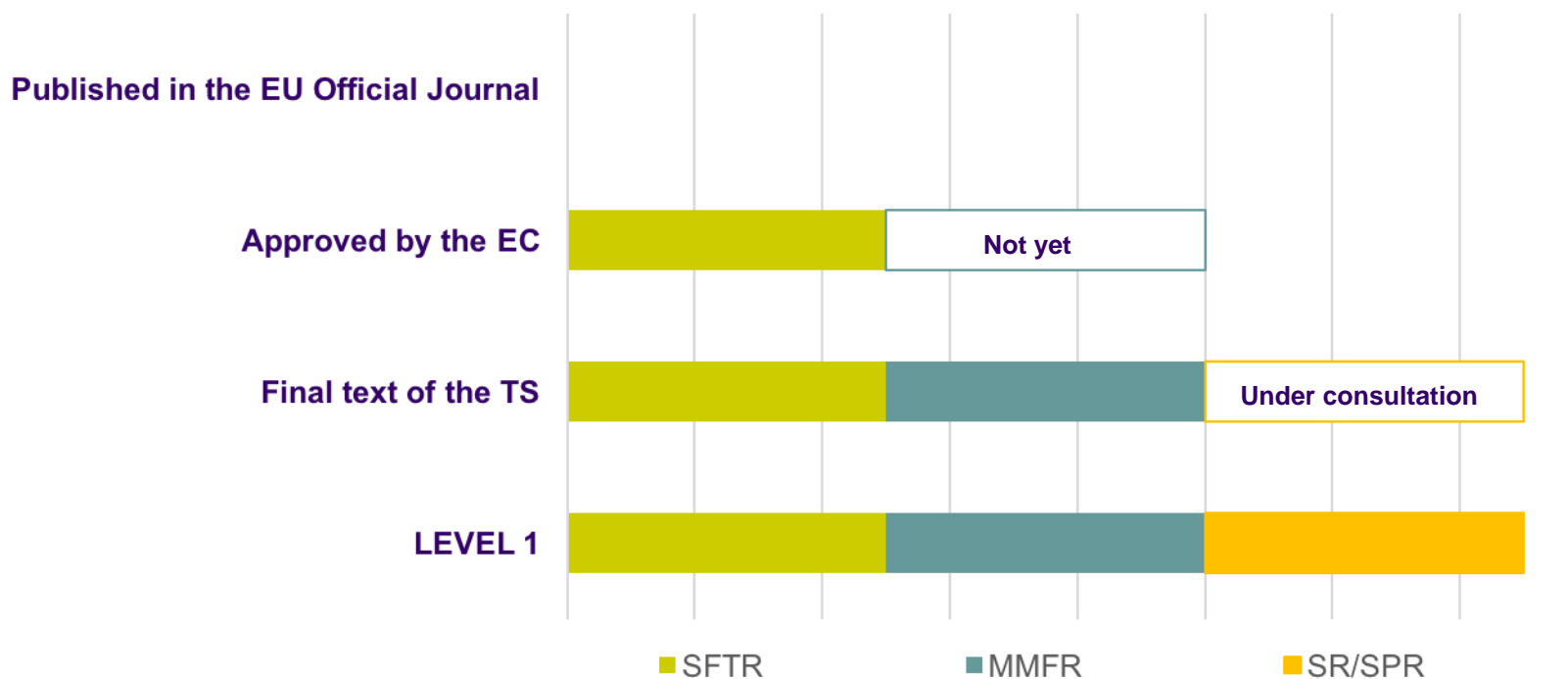
Where are we now?

# **TIMELINE**



## Three regulations

State of Definition (at 28/02/2018)



Effective in Q1 2019



Is it enough?

## **MINI-PANEL AND Q&A**

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