

SFTR Agency Lending Allocations Reporting - AMAFI's Analysis

AMAFI would like to draw ESMA and AMF's attention on critical issues regarding the SFTR regime related to agency lending reporting allocations from the perspective of AMAFI Borrowers.

In France, this issue has become especially topical due to the AMF's announcement that data quality would be one of its 2023 priorities for Action and Supervision.

The current functioning impairs the quality of the SFTR reporting due to i) from a regulatory perspective, limitations to perform past corrections of errors ii) the important role of agency lenders (AL) acting in agency and not as principal and which are not subject to the regulation and iii) the role of external vendor platforms ("Pre-matching platforms"). These issues are all the more important to consider that their impact on the SFTR reporting is proportionate to the significance of agency lending in the total volume of securities lending and borrowing (SLB) in the EU. According to the International securities lending association (ISLA) and Depository Trust & Clearing Corporation (DTCC), 73% of the SLB trades received by the trade repositories (TR) are associated with AL submissions.

I- DESCRIPTION OF THE SFTR REPORTING RELATED TO AGENCY LENDING

According to article 4 of SFTR, counterparties must report to a trade repository, all securities financing transactions they have concluded as well as any modification, no later than the working day following its conclusion, modification or termination (T+1).

This reporting concerns different securities financing transactions (SFTs) namely, repurchase transactions (repos), securities or commodities lending and borrowing, buy-sell back and sell-buy back transactions and margin lending transactions. The issue this paper raises, concerns SLB transactions¹.

In the context of SLB with an agency lending model, the AL usually acts as third-party lending agent intermediary between lenders (generally asset management companies that act on behalf of funds, the end Beneficial owners) and borrowing counterparties (Borrowers). From a legal point of view, the AL acts on behalf of the Beneficial owners and carries out the reporting on their behalf under a delegated agreement. From an SFTR point of view, the Beneficial owner remains fully responsible for the report.

From an operational point of view, an SLB transaction between a Borrower and an AL takes place in two steps (see *Appendix*). First, there is a transaction to borrow the overall quantity of securities involving the Borrower's broker and the AL and then a reconciliation process ("Pre-TR reconciliation process"). For that

¹ AL also exists for repos but in much smaller volume than for SLB.

Pre-TR reconciliation process², the Borrower sends the trades executed by the broker (shell block trades³) to a pre-matching platform to get in return the allocations from the AL and report those allocations to the TR. There is a similar allocation process on collateral data. This phase is especially essential for the undisclosed agency lending model⁴.

II- ISSUES RELATED TO AGENCY LENDING

In a nutshell, the Borrower's accurate and timely reporting of trade and collateral allocations depends on several external factors listed below:

- ALs' **timely reporting** and **data quality**.
- ALs decide on the quantities allocated to Beneficial owners, and the subsequent life cycle events (partial and full returns). This results in **limited control from Borrowers over the respect of the T+1** reporting deadline. ALs also decide on collateral pool allocations based on each lender proportional participation in the loan book⁵.
- As explained above, there is a mandatory reconciliation on key fields of the Borrower's shell with the AL's multiple allocations. This Pre-TR reconciliation process impacts the reporting of the Borrowers' allocations to the TR, as the **matching criteria are defined by the Pre-matching platform and may be different from the ones used by the TR reconciliation**.
- Within the pre-TR reconciliation process, if the Borrower's shell and the AL's shell never manage to pair, the corresponding allocations cannot be reported by the Borrower. In that case, when examining TR rejections, it is impossible to see that the rejection is due to the non-pairing of Borrower's and AL's shell within the Pre-TR reconciliation process.
- There are on-going structural issues coming from **dyssynchronization of life cycle events** between the Borrower and the AL with specific issues for post terminations/maturity dates.

² This Pre-TR reconciliation process is sometimes called "pairing" but is totally different from the other pairing that is the TR reconciliation that the NCAs and ESMA look at. This Pre-TR reconciliation occurs on a Pre-matching platform, which is a mandatory channel to get the allocations from the AL acting on an undisclosed basis. Borrowers have to go through the same Pre-matching platform to receive the allocations. That Pre-TR reconciliation process is not in synchronization with the TR pairing.

³ It should be noted that shells facilitate reconciliations and allocations in the context of SFTR but are not reported to the TR.

⁴ Undisclosed Agency lending: the AL allocates the block trade executed with the Borrower to many lenders according to an agreement it has with the latter. At the point of trade, the Borrower does not know the identity of each end beneficial owners the loan was allocated to. That is why in that case, third party Pre-matching platforms are mandatory for borrowers to get the allocations since all major agents will send their UTI through those Platforms.

⁵ Collateral data are also impacted. There are allocations on collateral as well with data coming from triparty agents and agent lenders. Loans can be traded and collateralized on a net exposure basis on behalf of several end beneficial owners/lenders (net collateral): where a lender has x % representation in the loan vs. a collateral pool, it will be allocated x % of each line of collateral within the pool. SFTR collateral reports are aggregated at ISIN level and on a net pool basis per counterparty/lender LEI.

- Besides, there are greater limitations to perform past corrections of errors due to limitations on backdated corrections in the case of agency lending⁶ : Borrowers have often no other choice but to get their allocations from Pre-matching platforms where pre-matching is only based on the **last version of the records and does not allow for reconciliation based on past event dates**, so it is usually not feasible to remediate missed events for agency lending.

To illustrate the above, we provide a more detailed description below of the difficulties Borrowers face in particular regarding life cycle events mismatches between the AL and the Borrower such as differences in roll-overs, re-rates or corporate action management. These, which often occur, impact negatively the Borrowers' ability to report as required by SFTR, triggering regulatory risk and undue operational burden.

A – DEPENDENCY ON KEY FIELDS & RECONCILIATION SHELL/ALLOCATIONS

To comply with their reporting obligations, Borrowers are dependent on AL on one hand and on Pre-matching platform on the other hand.

1) Dependency on the AL

For the Borrower to report accurately and on a timely basis, some key fields⁷ on the loan have to pre-match between the Borrower's shell and the agent allocations within the reporting deadline T+1. This stringent deadline is difficult to meet for Borrowers, as they are dependent on the quality of the data provided by AL, over whom they have no control and who do not have any reporting obligation under SFTR. And as previously stated, it is the Beneficial owner who is legally responsible for the reporting.

A similar dependency exists for the pre matching process of the collateral.

In addition, this Pre-TR reconciliation process of the collateral does not guarantee any consistency with the loan reconciliation, which can lead collateral to be reported without the corresponding allocations or with discrepancies on the unique trade identifier (UTI) for trade based collateralized SFTs.

2) Dependency on Pre-matching platforms

Furthermore, Pre-matching platforms define criteria of the Pre-TR reconciliation that are usually not relevant enough. It can lead to mispairing (for example the start date could be missing as a reconciliation criterion).

⁶ For corrections and modifications of past reports of more than one day, ESMA requires 2 reports to be sent:

- a correction report (action type CORR) with the former historic event date to update the trade state report,
- a modification report (action type MODI) with a current event date to update the reconciliation status.

However, for agency lending allocations, the process is more complex. For open live trades, corrections and modifications of past reports of more than one day are not feasible with a former historic event date since the pre matching reconciliation is by default based on current date and last versions. As for trades already closed (sometimes just erroneously terminated or mis paired), reports with an event date in the past is not feasible, there is only a one day window for the reconciliation on the matching platform and at the TR. The reconciliation at the matching platform impacts the borrowers reporting.

⁷ **Pre-matching platforms key pairing fields**

The shell trade executed between the borrower and the agent should pair on **following fields** to get correct critical data for allocations reporting: **(1) Other counterparty LEI, (2) Reporting Counterparty LEI, (3) Agent Lender LEI, (3) Counterparty side, (4) Principal amount on value Date for Repos, (5) Security identifier for Securities lending, (6) security identifier for collateral, (7) Type of SFT, (8) Type of collateral component, (9) Quantity of Nominal Amount for securities lending.**

With a mix between asset manager and agent lender

Collateral pairing criteria are **(1) Other counterparty LEI, (2) Reporting Counterparty LEI, (3) Agent Lender LEI, (4) Signage of cash collateral amount or collateral quantity or nominal amount, (5) Security identifier, (6) Type of collateral component, (7) Collateralization of net exposure, (8) Collateral currency, (9) Master agreement.**

It is then impossible to correct efficiently erroneous reporting and bad pairing when one side has closed the transaction, but the other side has not.

These above discrepancies in the reconciliation shell versus allocations will indirectly impact the accuracy and timeliness of the Borrowers' reporting.

Asynchronous life cycle events also impact this critical pre-TR matching. However, synchronization on both sides could prove challenging:

- There could be several dozen intraday allocations from the agent or triparty agents with corrections, errors and useless events. There is usually no filtering of allocations on the AL' side, and a single file is often difficult to produce, as it would imply refraining from reporting certain events by the AL. As a result, it is often up to the Borrower to filter out the meaningless events, despite the generation of multiple events coming from the AL.
- There is uncertainty in the industry on the approach to adopt on partials and full returns, with diverging views on this⁸.

B - SFTR Limitations on past corrections

The correction of past errors on allocations reporting requires re-sending the shell and re-entering the pre-TR reconciliation process via the Pre-matching platform. The difficulty is that the Pre-matching platform does not base itself on the past event date, but only considers the last version of the events. There is then a multiplier effect due to allocations and re-allocations along with related collaterals. Allocations characteristics would have already moved very fast since that past event date and some ALs could be reluctant to provide past event dates as they are not subject to any reporting obligations themselves. Hence, in practice, back reporting of allocations beyond one or two working days is usually not feasible.

This issue is common to all SFTR processes, but the impact is much worse for agency lending allocations reporting due to the number of trades and reallocations executed. For example, initial mispairing cannot be undone/corrected when trades are closed; one side has no open trade anymore, but the other side's trades are still open due to errors on closure on one side or the other, or mismatches between termination events; roll overs with several UTIs cause mispairing of shell / allocations, reallocation / partial allocation.

III- EXAMPLES OF ISSUES

Let us consider a loan of 100 shares between the Borrower "FC" and the AL "XYZ".

On date T, Borrower "FC" executes that trade with AL "XYZ" :

- Start date = T
- Quantity = 100 shares
- SFT type = SLEB
- Security identifier = ISIN XXX

Borrower "FC" sends a shell to the AL "XYZ" via a Pre-matching platform.

⁸ ESMA requires that partials returns be reported on contractual date while full returns should be reported on actual settlement date with modifications for future dated terminations and ETRM for same day terminations. This is inconsistent with the business operating model of some agent lenders. The specific reporting for settlement fails does not correspond to the actual business processes of market participants.

Agent Lender “XYZ” allocates the shell to N end Beneficial owners.

Allocation	Beneficial owner's LEI	UTI	Loan allocated to individual lenders
1	LEI 1	UTI 1	10
2	LEI 2	UTI 2	10
....			
i	LEI i	UTI i	I
.....			
N	LEI N	UTI N	N

Total 100

It should be noted that where the initial loan with the Borrower is traded and collateralized on a “pooled” net exposure basis, the AL allocates the collateral pool to each end Beneficial-owner in proportion to its participation in the loan.

The AL does not have a reporting obligation under SFTR, which falls on the Borrower and Beneficial owners. However, it supports the latter in their reporting by sending the N allocations of the shell to a Pre-matching platform in order to process their SFTR reporting⁹.

The same pre-TR reconciliation process on key matching fields applies for the collateral.

 **“Normal” scenario**

- The N allocations and collateral match the Borrower “FC” shell on key pre-matching fields allocations vs. shell on day 1.
- The Borrower “FC” reports the N allocations and collateral against each Beneficial owner from the AL (the Borrower sometimes uses the Pre-matching platform for reporting as well and not only to receive the paired allocations/collateral, in which case this is an end-to-end “delegation” to an external platform of the agency lending reporting).

 **Scenarios with issues**

Dyssynchronization of life cycle events between the Borrower and the AL triggering trade closure issues for instance.

Dyssynchronization of life cycle events often occurs between the Borrower and the AL, as they may have different booking processes or ways to manage life cycle events. However, corrections in the past are limited.

Let us consider again the SLB trade between the borrower “FC” and the Agent lender (AL) “XYZ”, Quantity = 100 shares on ISIN XXX.

“FC” sends a shell to “XYZ” via a Pre-matching platform, and “XYZ” allocates the shell to N Beneficial owners and sends the N allocations corresponding to the shell to the same (or another) Pre-matching platform.

⁹ The AL “XYZ” also sends the shell to the SLB reconciliation system, this AL shell must match with the Borrower’s shell in that system.

A life cycle event occurs on the shell (such as for example a roll-over or a corporate action / dividend split etc.). Such events can be processed differently between the Borrower and the AL, which will impact the Pre-TR reconciliation process and could also impact the trade “closure”.

- One side (e.g. the Borrower) keeps the same shell trade and rolls the maturity¹⁰, keeping the initial characteristics of the initial shell trade (start date, etc...).
- The AL closes the trade and re-open a new shell trade, thus triggering the closure of corresponding allocations.
- On one side, the allocations are still live while they are closed on the other side.

This results in a mismatch in end dates between the allocations and the Borrower’s shell.

Hence, the AL allocations and Borrower shells become “un-paired” on the Pre-matching platform which impacts the reporting to the TR, whether the latter is performed via the Pre-matching platform or by the Borrower itself. The Borrower will have reported the allocations as closed whereas the allocations are still live for the AL (or the other way round).

The issue is that those mismatches can lead to the allocations not being reported correctly without being able to be corrected after the end date.

- On the Pre-matching platform, past back dated re-pairing is not possible once a record is closed (i.e.the trade is terminated or the maturity date is reached or errored out), amendments are allowed only during a same day window.
- At the TR, beyond one day past the end date, reviving the allocations following issues on terminations is not allowed.

Those limitations also occur for bilateral trades although issues are more acute for agency lending. This is because reallocations occur more often and sometimes several times during a day, leading to mismatches in key pairing fields with errors growing over time.

Back reporting is not feasible without coordination between the ALs, borrower, and the vendor:

- ALs are reluctant to re-extract back dated data to resend allocations in the past.
- Borrowers have to resend the original shell back in the past.
- Pre-matching platforms cannot re-perform their reconciliation back at a date in the past, it is based on the last record by design. They also mention a potential disturbance on their current production process.
- The whole process has to respect a complex life cycle events sequencing and coordination between the AL’s and the Borrower’s data.

Mispairing could occur - the shell trade will pair with wrong allocations due to limited pairing criteria, also too loose sometimes, thus leading to mispairing.

¹⁰ Furthermore, it must be noted that roll-overs for instance may be very frequent and on very short periods of time (a day).

IV- PROPOSALS

The high dependency on external parties for the agency lending reporting, mandatory Pre-TR reconciliation process through Pre-matching platforms, and synchronization with ALs who have no regulatory obligation, advocate for granting more flexibility to Borrowers in their reporting obligation.

As already communicated by AMAFI to the AMF¹¹, some way forwards to correct specific issues Borrowers encounter due to agency lending and the use of Pre-matching platforms, could be envisaged by either:

- i) amending SFTR
- ii) amending ESMA's [Guidelines on Reporting under Article 4 and 12 of SFTR](#)¹²
- iii) national competent authorities (NCAs) granting more flexibility to Borrowers.

i) Amendment to SFTR

Article 4.1 of SFTR provides that the reporting should be done “*no later than the working day following the conclusion, modification or termination of the transaction*”.

As Borrowers are dependent on ALs' timely transfer of data as well as their quality, for their reporting obligation, they should be allowed more time, e.g. T+3 for trades and S+2 for collateral.

Furthermore, there should be a transfer of reporting responsibility to ALs considering that the latter have control and hold all relevant data needed for Borrowers' reporting. Alternatively, reporting could be authorized at the level of the asset manager, as reconciliation between the Borrower and AL shells are already performed by them. Some regulatory obligations should be set on the Pre-matching platforms, as they are mandatory providers for Borrowers.

ii) Amendment to ESMA's Guidelines

To facilitate Borrowers timely and accurate reporting, ESMA's guidelines could be modified to introduce the following points:

- Back reporting after the reporting window post-maturity date or termination should be allowed: some sort of “Revive” functionality should be introduced, such as in EMIR REFIT, to re-open historically closed transactions or erroneously terminated trades, hence allowing amendments in the past. In the case of agency lending this impacts pre-matching reconciliation, third parties should allow for reconciliation in the past and not just based on the last version of the records.
- Pairing between the shell and the allocations could be optional for back reporting.

iii) More flexibility granted to Borrowers from NCAs

As part of their data quality review, NCAs should take into account the dependency Borrowers' face towards ALs and pre-matching platforms.

In summary, we should review and define some specific rules for reporting trades under the agent lending model. Those proposals if they were adopted, would improve the matching and the pairing under the SFTR reporting regime, enhancing the quality of the reporting while reducing inefficient operational processes for Borrowers.



¹¹ On July 2022, AMAFI sent to the AMF a presentation explaining the issues encountered by Borrowers due to the AL model and proposed some way forward ([AMAFI / 22-52](#)).

¹² ESMA70-151-2838.

APPENDIX

