**Business Justification**

**for the development of new ISO 20022 financial repository items**

# Name of the request:

Securities financing transactions regulatory reporting

# Submitting organisation:

European Securities and Markets Authority (ESMA)

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France

# Scope of the new development:

The Regulation 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 (hereinafter referred to as SFTR) requires ESMA to develop Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) detailing data reporting requirements and operational standards for the access to information by relevant authorities.

SFTR responds to the need to enhance the transparency of securities financing markets and thus of the financial system. In order to ensure equivalent conditions of competition and international convergence, SFTR follows the FSB Policy Framework. It creates a Union framework under which details of securities financing transactions (SFTs, hereinafter) can be efficiently reported to trade repositories (TRs, hereinafter) and information on SFTs and total return swaps is disclosed to investors in collective investment undertakings.

The Regulation enhances transparency in three ways:

1. it introduces the reporting of Securities Financing Transactions (SFTs);
2. it introduces requirements for investment funds to disclose information on the use of SFTs and total return swaps to investors;
3. it introduces transparency conditions that should be met on the reuse of collaterals.

The new ISO 20022 messages are intended to support the regulatory requirements related to the reporting of SFTs (point 1 above).

Further details on the definitions and legal aspects of the reporting are specified in the Regulation itself available through this link <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R2365> and in the draft RTS/ITS being developed by ESMA (discussion paper and draft RTS/ITS can be accessed through the following link <https://www.esma.europa.eu/sites/default/files/library/2016-356.pdf>)

Under SFTR the counterparties to SFTs will be obliged to report their transactions to registered Trade Repositories (TRs). The TRs will maintain this information and enable access to it by the relevant competent authorities (CAs).

The exact date for the commencement of the reporting obligation under SFTR is not known as it will depend on the date of the entry into force of the delegated acts adopted by the European Commission. It is expected that this requirement will enter into force in 2018, as per the below indicative schedule:

1. development of draft regulatory technical standards by the end Q1/ beginning Q2 2017;
2. endorsement of the technical standards by the European Commision and objection period by the European Parliament and the Council– expected by end-2017;
3. reporting start one year after the technical standards endorsement (end-2018).

Taking into account the large data volumes and the daily frequency of the data collection, the aim is to establish a full automation of the data flows between counterparties to SFTs, the TRs and the CAs. In this regard, it is intended to prepare a full standardisation of the underlying taxonomy and data transmission format based on the ISO 20022 standard.

To facilitate the reporting required by SFTR as specified in the RTS/ITS, ESMA aims at adopting a set of ISO 20022 regulatory reporting message definitions, that the reporting institutions will implement to provide the required information by sending separate messages for each type of reporting:

* SFT transaction data;
* data reconciliation;
* status of the data validation and reconciliation;
* trade state data;
* data queries from CAs to TRs.

The new message definitions will use the ISO 20022 Business Application Header (BAH) without repeating header elements within the message. The exact number of messages is not known at the moment and it will be confirmed after the detailed business analysis has been completed. Wherever justified, ESMA intends to reuse already existing messages (e.g. those already developed for regulatory reporting under MiFIR and EMIR).

The submitting organisation wants to deploy the future messages in the default ISO 20022 XML syntax only.

The proposed business area for the set of messages is “auth”.

Based on the scope, the submitting organisation proposes to assign the Securities Standards Evaluation Group(s) (SEG) for the evaluation of the candidate ISO 20022 messages, once developed.

# Purpose of the new development:

As SFTR constitute a new data collection, there are no existing ISO 20022 messages containing a comparable set of information as the intended new messages for the transmission of the respective data required for regulatory reporting purposes. Where existing ISO 20022 messages are used for the transmission of information about the settlement and reconciliation of transactions between the market agents, the proposed new messages will take this into account by using existing ISO 20022 business concepts and by registering additional business concepts whenever required to address the SFTR requirements. In particular the new messages will take into account the messages being already developed by ESMA to support the reporting requirements as described in the Business Justification for financial instruments and transactions regulatory reporting (under MiFIR and EMIR) as well as messages developed by the European System of Central Banks for the Money Market Statistical Reporting and by Bank of England for the Sterling Money Market Daily reporting.

Rather than modifying the existing messages used for business purposes to comply with the requirements for the regulatory reporting, it is proposed to develop specific regulatory reporting messages complying with the regulation requirements. By adopting the ISO 20022 methodology the new messages will also bring significant gains in efficiency for processing of the data which will provide a further incentive for a prompt implementation.

Building on the adoption of the ISO 20022 standard by the European System of Central Banks for the Money Market Statistical Reporting, the Bank of England for the Sterling Money Market Daily reporting obligations and financial instruments and transactions regulatory reporting under MiFIR and EMIR, the adoption of the ISO 20022 standard for the SFTR reporting obligations continues to develop and promote adoption of the ISO 20022 standard in the regulatory reporting space.

# Community of users and benefits:

The community of users for these new message definitions is represented by the SFT counterparties (financial and non-financial institutions), the Trade Repositories (TRs) and the competent authorities (CAs), including national regulators and supervisors, central banks as well as European institutions (e.g. ESMA, ESRB and others).



1. Benefits/savings:

The proposed message definitions will improve the efficiency of the internal data processing of the reporting institutions as it will make use of existing ISO 20022 business concepts. In this way reporting institutions which are already using ISO 20022 will be able to apply consistent definitions of the information to be reported and re-use the existing data from their internal systems for the regulatory reporting. At the same time regulators and the industry will profit from the adoption of these messages as the usage of business concepts from the ISO 20022 standard will allow to apply consistent definitions and automate processing of the received data. It will make possible to collect the data at a daily frequency and to process the data in a very timely manner. Additionally, the usage of standards is likely to improve data quality and ensure global semantic interoperability with all other ISO 20022 based systems.

1. Adoption scenario:

The adoption of the new message definitions will take place as soon as the counterparties and the TRs are mandated to use the developed messages for the reporting of the data, following the entry into force of SFTR reporting requirements in 2018 (exact date will be known as soon as the relevant technical standards are endorsed by the European Commission).

1. Volumes:

The SFTR reporting obligation is a new requirement; therefore no precise estimation of the volumes is available at this stage.

1. Sponsors and adopters:

Once endorsed by the European Commission, the new RTS/ITS for SFTR will enforce the adoption of the new message definitions by all reporting institutions and the TRs for the reporting obligation which is expected to start in 2018 as indicated in the regulation and in the adoption scenario. Furthermore, ESMA and the other competent authorities will implement the processing of the new message definitions before the start of the reporting.

# Timing and development:

The submitting organisation expects to have the new candidate ISO 20022 business and message definition models developed and ready for submission to the RA in the first half of 2017.

# Commitments of the submitting organisations:

The submitting organisation confirms that it can and will:

* undertake the development of the candidate ISO 20022 business and message models that it will submit to the RA for compliance review and evaluation. The submission will be compliant with the [ISO 20022 Master Rules](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) and include a draft Part 1 of the Message Definition Report (MDR) compliant with the [template for MDR part 1](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) provided by the RA, the [ISO 20022 Message Transport Mode](http://www.iso20022.org/documents/general/MessageTransportModes.xls) (MTM) that the submitting organization recommends to consider with the submitted message set
* address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.
* promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

The submitting organisation confirms that:

* it will inform and consult the market on the SFT reporting messages but it does not intend to organize any testing of the candidate messages once they have been reviewed and qualified by the RA and before their submission to the SEG(s) for approval.
* It is committed to undertake the future message maintenance.

The submitting organisation confirms the knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows:

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free license to use the published information”.

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# Comments from the RMG members and disposition of comments by the submitting organisation:

None