



#5 – ESMA’s validation rules – Going off the grid?

This article is the fifth part of the ‘SFTR Shorts’, a series of bite-sized discussions around various aspects of the Securities Financing Transaction Regulation (SFTR). Alan McIntyre, Senior BA and Industry Relations Lead at Regtek.Solutions drills into various aspects of the reporting requirements under SFTR and identifies some of the challenges that firms will need to consider.

A pattern emerged under EMIR with the publication of ESMA’s EMIR Level 1 validations rules and subsequent Level 2. And along with many others in the trade reporting realm, I still have the battle scars from a campaign valiantly waged to comply within what felt at the time like naively short implementation timeframes. That pattern has evolved though, and ESMA has now thankfully extended the timelines as proven by the validations for MiFIR (RTS 22 for Transaction reporting) and last October’s EMIR RTS ReWrite where ESMA published Validation Rules for the new RTS/ITS.

The same approach is being applied to SFTR, where ESMA has already published a detailed field by field matrix of rules and conditions around where a field will be accepted, and more to the point, be rejected. The SFTR Validations rules were published mid-October 2017, but the document was initially only sent to the Trade Repositories and Trade Associations to elicit feedback from their member firms.

However, an enterprising chap named Steve Martin (presumably not that Steve Martin, of Planes, Trains and Automobiles fame!) had the vision and some would say temerity to submit a Freedom Of Information (FOI) request to ESMA. This FOI request convinced ESMA to make this document public on their website (link [here](#)) No disrespect intended to our hard-working colleagues at ESMA, but I for one salute the buccaneering approach of Mr Martin in submitting the FOI request. Perhaps it’s the more rebellious part of my Scots’ inner self, but I can hear the great Billy Connolly saying “power to ra people”. Though I doubt Billy had financial market practitioners standing up to mighty regulators in mind with his more anarchic routines!

The SFTR Validation rules document has three main tables, one for each of the three submission types:

Counterparty & Loan and Collateral Data (the transaction)

Margin Data (the collateral info)

Re-use (additional valuation info)

Each table breaks down the acceptable data content, values and format. It also includes what fields are mandatory, optional or not permitted (along with any conditionality). Finally, it also lays out how this all relates to the level of the report (transaction or position), the Action Type and the Type of SFT. The Margin Data and ReUse tables are relatively straight-forward but still bear their challenges (see [SFTR Shorts #3](#)).

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The Counterparty Loan & Collateral table is what Billy Connolly (were he interested, which I'm fairly certain he's absolutely not) might describe as a "belter". [Not sure how to translate that for non-UK natives but hopefully 'cracker', 'hum-dinger' or 'beauty' helps]. It contains 120 fields, split into two Levels (Trade or Position), split into the 8 Action Types under Level Trade or the 7 Action Types under Level Position, further split into the 4 different Types of SFT (i.e. Repo, Buy Sell Back, Stock Loan and Margin Lending). Depending on how you do the maths, that's either over 5600 combinations or 3300 (if we don't count the optionals).

Therefore, firms building their reporting solutions and looking at how they are going to populate the data for the various types of SFT they need to report will need to get to grips with the validation tables. They will also need to pay close attention to the various rules around what data is required, under what conditions, and what values are permitted based on various factors including Level and Action Type.

But at least these firms will have more of a head start thanks to Mr Martin and his FOI request, whom we can all thank for making these validations publicly available so early in the cycle.

Steve – on the very remote outside chance that you somehow read this article, please feel free to get in touch and join my SFTR Transaction Reporting group on LinkedIn.

- Alan McIntyre
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