

Comments paper on the proposal for the reporting and transparency of SFTs

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In light of the ongoing dialogue discussions on the European Commission's (EC) proposal for a Regulation on Reporting and Transparency of Securities Financing Transactions (SFTs), Insurance Europe would like to take this opportunity to reiterate four elements of the discussions that are key to the insurance sector.

Avoiding duplication of requirements

The EC proposal rightly stresses the importance of existing reporting channels. Insurance Europe believes that reporting requirements should be harmonised with those in the European Market Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Directive (MiFID), to minimise costs of compliance and related administrative expenses. Furthermore, the information required and reported under the SFT Regulation, EMIR and MiFID should be used by all possible authorities, including by the European Central Bank (ECB), to avoid double reporting. For these reasons, Insurance Europe supports recital 8 in any of the proposed wordings.

Scope of the proposal (Article 2)

Overnight and reverse overnight repurchasing transactions (and in general any transactions with extremely short cut-offs) should be exempted from the scope of the regulation. Given that the potential risk associated with these transactions disappears by the due date of reporting, this requirement would serve no purpose.

Furthermore, Insurance Europe believes that under the SFT Regulation, there should be no reporting obligations for intra-group SFTs. Large insurance companies use intra-group SFTs to aggregate and manage their exposure to securities. These transactions do not create or enhance systemic risk. Similarly, securities lending with other purposes than financing should be exempted.

Reporting obligations should not cover all entities. Requirements could be placed on the most active users of SFTs. A disproportionate reporting burden could result in participants being driven out of the market. In particular, reporting requirements for Exchange Traded Funds (ETFs) and other Undertakings for Collective Investment in Transferable Securities (UCITS) are redundant given the already-existing European Securities and Markets Authority (ESMA) guideline 2012/832. This guideline stipulates that institutional investors should receive all necessary information from funds managers. The reporting obligation in the EC proposal would not result in a higher level of investor protection.

Reporting timeline (Article 4)

The EC and Council positions require that a transaction should be reported no later than the working day that follows its conclusion. Insurance Europe would like to point out that:

- In many situations this is not possible. For example, it is often the case that trade and value date (when the settlement amount is calculated) are different and that the information which should be reported is only available at the value date.
- The timeline for reporting could be longer than the one proposed, due to the fact that SFTs have a different nature than derivatives contracts.
- The reporting frequency should not compromise trade execution quality by prematurely sharing information that could affect pricing.

Insurance Europe supports the wording in the European Parliament proposal which would require that transactions be reported as soon as possible and no later than the third working day following the conclusion of the transaction.

Haircuts on collateral

The Parliament's position makes reference to the need for adopting a common methodology for the calculation of haircuts on collateral in SFTs (article 26).

While Insurance Europe supports the application of numerical haircut floors to transactions where potential for risk is present, the implementation of such a rule could potentially result in excessive regulation. To avoid that, Insurance Europe believes that intra-group transactions and transactions in which the financing is received by regulated entities subject to regulatory capital and liquidity requirements (such as insurance companies) should be exempted. In Insurance Europe's view, these two types of transactions do not pose any significant risk.

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