Regulation on reporting and transparency of securities financing transactions (SFT)

16. June Madrid
ECB - Money Market Contact Group
Agenda

1. Regulatory proposal
2. Potential impact on the money market
Regulatory proposal

Anouncement

18. November 2012
Strengthening Oversight and Regulation of Shadow Banking

29. August 2013
Strengthening Oversight and Regulation of Shadow Banking

05./06. Sept. 2013
„We will have a plan as to how we can regulate shadow banking“
Angela Merkel

29. January 2014
Regulation on reporting and transparency of securities financing transactions (SFT) 2014/0017

objective: Regulation of shadow banks
Topics of the EU proposal

The EU commission refers to the recommendations of the FSB and will follow these recommendations

- The monitoring of the build-up of systemic risks related to SFT transactions in the financial system
- The disclosure of the information on such transactions to the investors whose assets are employed in these or equivalent transactions
- The contractual transparency of rehypothecation activities
Regulations vs. ECB monetary policy

- It is not expected that the selected options such as a structural impact on the market for securities financing transactions have to be.

- We are monitoring developments on money markets closely.
  
  *Mario Draghi, ECB pressconference 6. March 2014*

- Mr. Draghi reiterated the ECB`s keen interest in the efficient functioning of the money market in view of its importance for the ECB`s monetary policy transmission mechanism and for financial stability. With this interest in mind, the ECB was closely monitoring various regulatory initiates and their impact on the money market.
  
  *Mario Draghi, ECB MMCG 03. Sept. 2013*
Agenda

1. Regulatory proposal
2. Potential impact on the money market
The volume traded on the secured money market is a multiple of the unsecured money market

90% of trades have a maturity of less than 1 week

Banks use the repomarkets for the short-term liquidity management
Repos as a link to the ECB monetary policy

- Transmission of the ECB monetary policy via Repo market
- Fragmented repo markets affect monetary policy
- Liquid repo markets are a prerequisite for successful implementation of the ECB's monetary policy
Potential impact on Money Market

- Market loses liquidity
- Intervention in the transmission process of the ECB
- In particular, smaller institutions are increasing the use of ECB open market operations
- Corporates are not participating in the secured money market
- Asset management companies reduce their secured lending business
- A fully transactions-based-reporting requirement would reduce efficiency
Alternatives to increase transparency

- Transparency through targeted trades between banks/shadow banks
- Indiscriminate collection of data blocks the view of the essentials
- Reporting of medium/long term trades
- Increase the use of existing market data (ECB, ICMA, CCP, ATS, CSD)
- Comparison with various other regulatory transparency requirements

Shadow banking regulation should start with the shadow banking
Thank you for your attention!

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