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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

under Article 29(3) of Regulation (EU) 2015/2365 of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012

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1. Introduction

Regulation (EU) 2015/2365 on the transparency of securities financing transactions and of reuse (SFTR) aims to get a better understanding of the effects of shadow banking (non-bank credit intermediation) and to address the risks posed by securities financing transactions (SFTs).

SFTs are secured funding or lending transactions that imply a temporary exchange of assets with one leg of the transaction serving as a guarantee (collateral). Repurchase agreements (repos) constitute the most important category of SFTs in terms of outstanding amounts and turnover. They are generally motivated by the need to borrow cash. From the borrower's point of view, the transaction consists of selling securities against cash, while agreeing in advance to buy back the securities at a predetermined price. The sold securities serve as collateral for the buyer (provider of cash) in the repo. Securities lending, the second largest category of SFTs, is primarily driven by market demand for specific securities, e.g. for short selling or settlement purposes. In this type of transaction, one counterparty lends securities for a fee against collateral in the form of cash or other securities given by another counterparty.

SFTs allow banks and non-bank market participants to access secured funding/lending on a short term, thereby creating low-risk investment and financing opportunities. Consequently, SFTs are an integral element of the current financial ecosystem. Well-functioning SFT markets are crucial for moving cash and securities between market participants, i.e. financial and non-financial institutions. They also support price discovery and secondary market liquidity for a variety of securities and facilitate the implementation of risk management and collateral management strategies.[1] Furthermore, repo markets in particular play an integral role in the monetary policy operations of European central banks. Nevertheless, SFTs can allow the build-up of leverage and pro-cyclicality as shown during the emergence of the financial crisis in 2007-2008. SFTs also enhance the interconnectedness between different kinds of market participants and can therefore increase the risk of financial contagion.

At the global level, the Financial Stability Board (FSB) is responsible for identifying such risks and developing recommendations to address them in an internationally coordinated manner. In August 2013, the FSB adopted a policy framework[2] for addressing shadow banking risks in securities lending and repos. The framework includes a set of policy

[1] FSB, Strengthening Oversight and Regulation of Shadow Banking, 29 August 2013 http://www.fsb.org/2013/08/r_130829c/
[2] Ibid.

recommendations and was endorsed by the G20 Leaders in September 2013. A number of the recommendations aim at enhancing the transparency of SFT markets through frequent and granular regulatory reporting. SFTR responds to these recommendations at EU level.

In November 2015, the FSB extended its policy recommendations[3] with a regulatory framework for so called haircuts on non-centrally cleared SFTs. A haircut is a discount applied to the value of collateral provided, in order to account for market risk. Haircuts aim at preventing excessive leverage as well as mitigating concentration and default risk.

2. Purpose of the report and Stakeholder input

Under Article 29(3) of SFTR, the Commission is required to produce a report "*on progress in international efforts to mitigate the risks associated with SFTs, including the FSB recommendations for haircuts on non-centrally cleared SFTs, and on the appropriateness of those recommendations for Union markets*".

In order to put the FSB recommendations in context and to respond to a commitment of the Commission in its Call for Evidence Communication[4], this report will also provide a brief assessment of European SFT markets.

As required under SFTR, the European Securities and Markets Authority (ESMA) produced a report[5], in cooperation with the European Banking Authority (EBA) and the European Systemic Risk Board (ESRB), assessing:

- whether the use of SFTs leads to the build-up of significant leverage that is not addressed by existing regulation;
- where appropriate, the options available to tackle such a build-up;
- whether further measures to reduce the pro-cyclicality of that leverage are required.

Furthermore, a number of other policy documents and contributions have been taken into account for the preparation of this report, in particular the aforementioned FSB documents as well as reports from the ESRB[6][7] and the Bank for International Settlements (BIS)[8].

3. SFT markets

3.1. Functioning of European SFT markets

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[3] FSB, Transforming Shadow Banking into Resilient Market-based Finance, 12 November 2015 http://www.fsb.org/2015/11/regulatory-framework-for-haircuts-on-non-centrally-cleared-securities-financing-transactions-2/

[4] COM(2016) 855 final

[5] ESMA, Report on securities financing transactions and leverage in the EU, 4 October 2016 https://www.esma.europa.eu/press-news/esma-news/esma-reports-shadow-banking-leverage-and-pro-cyclicality

[6] ESRB, Opinion to ESMA on securities financing and leverage, 4 October 2016 https://www.esrb.europa.eu/pub/pdf/other/20161004_esrbopinion.en.pdf?

[7] ESRB, The macroprudential use of margins and haircuts, 16 February 2017 https://www.esrb.europa.eu/pub/pdf/reports/170216_macroprudential_use_of_margins_and_haircuts.en.pdf?8115a0e7c89b631df250abdcf9ad008a

[8] BIS, CGFS Papers No 59 Repo market functioning, 12 April 2017 https://www.bis.org/publ/cgfs59.pdf

SFT markets play an essential role in today's financial system by supporting market participants in their secured funding and collateralisation needs. Repos are particularly important for the functioning of interbank markets, offering an alternative to unsecured interbank lending and time deposit, to cover reserve requirements and manage liquidity needs.

The importance of mitigating counterparty risk has increased since the financial crisis, leading to a growing demand for collateral by market participants. Hence, there has been strong shift from unsecured to secured lending markets. Turnover of the secured lending market was 10 times higher than that of unsecured lending in 2015, compared to a factor of 1.6 still in 2008.[9] In terms of market volume, outstanding amounts on European repo markets were EUR 5.6 trillion, corresponding to roughly 13% of EU banks' total assets or 25% of outstanding euro-denominated bonds and listed shares.[10]

Repos not only help obtain secured funding. Institutional investors and non-financial counterparties tap repo markets to store cash and earn an interest. Moreover, banks and non-bank market participants often seek to obtain securities that can be used as collateral to support financial transactions beyond cash borrowing / lending. This can be achieved through reverse repos, which imply a genuine sale and re-sale of financial assets, or securities lending transactions, another important class of SFTs. SFTs have long been used as a source of securities, e.g. to undertake short selling. Increased collateralisation of over-the-counter (OTC) derivatives transactions, including the shift to central counterparty (CCP) clearing, has tied the use of OTC derivative contracts more closely to the availability of collateral. Market participants entering into OTC derivatives transactions will often repo out securities to obtain cash to meet their margin requirements, while CCPs may make use of reverse repos to store cash collateral, resulting in additional demand on both sides of the repo market.

More recently, significant changes have been observed in repo markets. The demand for securities as collateral has significantly increased while, according to stakeholders, the supply in high-quality collateral has tightened, at least during certain periods. This has become evident in higher outstanding amounts of reverse repos than normal repos and notably in higher premiums for special collateral.[11]

The sovereign debt crisis may have affected the supply of assets because of the credit deterioration of certain government bonds, which market participants no longer consider as high quality collateral. Market participants also perceive the ESCB's asset purchase programme, in particular of government bonds, as contributing to a shortage of high quality collateral and to the low cost of EUR funding relative to USD funding. The latter may have an indirect effect on the demand for securities by making it profitable to swap USD for EUR, and investing the proceeds in EUR-denominated assets. Market positioning at a specific point in time matters too: an increase in short positions also raises demand for securities.

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[9] ECB money market survey https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/money_market/html/index.en.html

[10] ICMA market survey https://www.icmagroup.org/assets/documents/Market-Info/Repo-Market-Surveys/No.-32-December-2016/RepoSurvey-140217.pdf

[11] Ibid.

Moreover, stakeholders claim that in addition to macroeconomic policy, regulation may have had an impact on activity on collateral markets as well. Beyond central clearing requirements which led to a general increase in the demand for collateral, Basel III is noted frequently by market participants as transforming and reshaping the structure and dynamics of repo markets. The leverage ratio, risk capital requirements, liquid coverage ratio, and net stable funding ratio are regarded to have a cumulative impact on liquidity in repo markets. Each of these components is seen to place constraints on or increase the cost of repo activity.

Signs of tensions in repo markets have recently become apparent especially around regulatory reporting dates: some financial institutions reduced temporarily or withdrew from activity on repo markets at 2016 year end and to a more limited extent at quarter ends. In some cases, the shortfalls in supply of high quality collateral, though anticipated by market participants, were so pronounced that they led to sharp increases in the premium on scarce collateral at specific dates. Whether this had an impact on wider bond market prices and liquidity is difficult to establish, so far it seems the effect was very limited and short-lived.

3.2. LEVERAGE AND OPTIONS TO TACKLE ITS BUILD-UP

By facilitating credit growth, SFTs create leverage[12] beyond the banking system with its prudential regulation. Furthermore, the reinvestment of cash collateral and the re-use of non-cash collateral potentially enables market participants to recursively leverage their positions.[13] In some situations, this could lead to a build-up of excessive leverage which in turn could pose a risk to financial stability, in particular due to the implicit procyclical effects: Generally, leverage contributes to balance sheet growth during strong economic phases and deleveraging pressure during economic downswings.[14]

The specific contribution of SFTs to the build-up of leverage is difficult to assess due to a lack of granular data (e.g. the volume of margin lending transactions, data on the reinvestment and reuse of collateral) and the potentially different purposes for which SFTs are undertaken. The transaction-level reporting obligation introduced with SFTR will enable authorities to generate this data in the future and better analyse the implications of SFTs in terms of creating leverage.

When it comes to tackling the build-up of leverage, it should first be noted that different measures of leverage exist. For example, the differences between gross and net leverage are relevant to understand the implications of leverage for financial stability. Work is ongoing in this area to develop consistent measures of leverage across jurisdictions and sectors.[15]

A number of elements in the EU regulatory financial services framework aim at limiting leverage and procyclicality. This applies especially in the banking sector with its Basel III framework[16] even if some of the measures under this framework have only been introduced

[12] Leverage refers to the use of borrowed funds for the purchase of assets.
[13] ESRB (2016), p.5
[14] ESMA (2016), p.48
[15] ESMA (2016), p.49
[16] ESMA (2016), p.25, mentions a number of instruments implemented under the Basel III framework through the Capital Requirements Directive (Directive (EU) No 2013/36 - CRD) and Regulation (Regulation (EU) No

recently and are not fully implemented yet. Certain measures and requirements with the objective to address leverage also apply to insurance companies, central counterparties (CCPs) and investment funds. There are currently no EU-wide instruments that aim at curbing the build-up of leverage across all financial sectors.

Beyond the sectoral measures mentioned above, margins and haircuts can, in the specific context of SFTs, be suitable tools to limit the build-up of leverage and especially the recursive application of leverage. The FSB has issued recommendations with respect to collateral haircuts which are covered in more detail later in the report (see 4.6).

While the setting of haircuts can constrain the build-up of leverage, the practice in itself may potentially generate procyclical effects. In periods of upswing, market participants may decrease haircut levels as they expect lower collateral liquidation risk. In downturn periods, market participants could tend to increase haircuts to account for higher expected volatility in collateral liquidation.[17] However, at this stage, there is no clear evidence how and to what extent such haircut movements affect asset prices, leverage and financial cycles.[18]

4. International efforts to mitigate SFT risks

4.1. Background

In August 2013[19] and November 2015[20], the FSB published reports that set out recommendations for addressing financial stability risks in relation to SFTs. These recommendations broadly aim at:

- enhancing the transparency of securities financing markets via frequent and granular regulatory reporting and disclosure;
- introducing regulatory standards for cash collateral reinvestment;
- introducing principles for the re-hypothecation of client assets;
- introducing regulatory standards for collateral valuation / management; and
- introducing qualitative standards for methodologies to calculate collateral haircuts and implementing a framework for numerical haircut floors.

The following sections briefly describe the recommendations and assess their state of implementation both at EU and international level. Possible ways forward are suggested, where appropriate.

4.2. Transparency of SFT markets (FSB Recommendations 1-5)

2013 / 575 – CRR). These measures include higher requirements for loss absorption and high quality capital; stronger capital requirements for counterparty credit risk exposures arising from derivatives and SFTs; the introduction of the Leverage Ratio (LR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR); and better risk-management, governance and compensation structures.

[17] ESRB (2016), p.10

[18] ESRB (2017), p.35

[19] FSB (2013)

[20] FSB (2015)

Authorities should be enabled to capture comprehensive and timely information on SFT exposures between financial institutions, including on the composition and evolution of the underlying collateral. For that purpose, SFT trade-level and position data should be gathered frequently and with a high level of granularity. Consistency in the data gathering process through the definition and application of standards should enable the regional and global aggregation of the collected data. Finally, since SFTs are used extensively by investment funds, managers of such funds should be required to report appropriate information on SFT activities to their end-investors.

SFTR, which was adopted in November 2015, responds to these recommendations. It has three main elements:

- Requirements for counterparties to SFTs to report all SFTs to central trade repositories;
- Requirements for investment funds to disclose the use of SFTs to investors in their regular reports and pre-contractual documents;
- Minimum transparency conditions for the reuse of collateral received in a SFT, such as the disclosure of the resulting risks and consequences as well as prior consent by the counterparty providing collateral (addresses FSB recommendation 7 on re-hypothecation, see 4.4).

SFTR fully addresses the FSB recommendations on transparency. The position and trade-level data to be reported under SFTR is also in line with the FSB requirements. The European Securities and Markets Authority (ESMA), responsible for developing the technical standards for the implementation of SFTR, took the FSB work into account and included the required data elements in the proposed reporting framework. The Commission and ESMA continue to cooperate closely with the FSB, and the FSB's work is taken into account in the current finalisation of SFTR's implementing measures. Actual reporting is expected to start as of 2019. The Commission will assess the effectiveness of SFTR, two years after the start of reporting.

4.3. Cash collateral reinvestment (FSB Recommendation 6)

Authorities responsible for non-bank entities engaging in securities lending (principal lenders and lending agents) should implement regulatory regimes in their jurisdictions which meet FSB minimum standards for cash collateral reinvestment to limit liquidity risks arising from such activities. The minimum standards contain high level principles and measures addressing liquidity risk, maturity transformation, as well as concentration and credit risk.

In August 2014, ESMA adopted *Guidelines on ETFs and other UCITS (Undertakings for Collective Investment in Transferable Securities) issues*[21] providing rules for cash collateral reinvestment by UCITS asset managers that engaging in securities lending transactions. The rules address liquidity, valuation, diversification, eligibility, correlation and other criteria for re-invested cash collateral. While the guidelines are not mandatory, competent authorities and

[21] https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00_en_0.pdf

financial market participants must make every effort to comply with those guidelines and recommendations or explain why they do not intend to comply with them.

Furthermore, the EU Regulation on money market funds (MMF)[22] specifically prohibits such funds to enter into securities lending agreements.

4.4. RE-HYPOTHECATION[23] OF CLIENT ASSETS (FSB RECOMMENDATIONS 7 AND 8)

The FSB made several recommendations in relation to the rehypothecation of client assets. First, financial intermediaries should provide sufficient disclosure to clients in relation to the re-hypothecation of their assets so that clients can understand their exposures in the event of a failure of the intermediary. Second, client assets may be re-hypothecated by an intermediary for the purpose of financing client long positions and covering short positions, but they should not be re-hypothecated for the purpose of financing the intermediary's own-account activities. Third, only entities subject to adequate regulation of liquidity risk should be allowed to engage in the re-hypothecation of client assets.

As regards disclosures to clients, Article 15 of SFTR stipulates that the right to reuse collateral is subject to informing the collateral provider of the risks and consequences that may be involved in granting the right of use of collateral. Furthermore, the right to reuse collateral is subject to the collateral provider granting prior express consent.

Concerning the use of client assets for own account activities, MiFID I[24] provides that investment firms and credit institutions must safeguard the ownership rights of clients and prevent the use of a client instrument on own account except with the client's express consent. These requirements will be further strengthened as of January 2018 under MiFID II[25] which prohibits the conclusion of title transfer collateral arrangements (TTCA) with retail clients and imposes conditions on concluding TTCA with professional clients, in particular highlighting the risks involved and the effect on the client's financial instruments and funds. Finally, as regards UCITS, the ESMA Guidelines on ETFs and other UCITS issues and the MMF Regulation provide that non-cash collateral received should not be sold, re-invested or pledged.

The financial institutions (i.e. investment firms and credit institutions) allowed to re-hypothecate client assets under the conditions described above are in any event subject to regulation of liquidity risk under the capital requirements framework of the EU.

4.5. COLLATERAL VALUATION AND MANAGEMENT (FSB RECOMMENDATION 9)

SFT counterparties receiving collateral should only take collateral types that - following a counterparty failure - they are able to hold for a period without breaching laws or regulations,

[22] Regulation (EU) 2017/1131 of 14 June 2017
[23] In the terminology of the FSB, 'reuse' is defined as any use of securities delivered in one transaction in order to collateralise another transaction. 'Re-hypothecation' is more narrowly defined as the reuse of client assets.
[24] Market in Financial Instruments Directive 2004/39/EC of 21 April 2004
[25] Directive 2014/65/EU of 15 May 2014

value and risk manage appropriately. They should also have contingency plans for the failure of their largest market counterparties, including in times of market stress.

Collateral and lent securities should be marked to market at least daily and variation margin collected at least daily where amounts exceed a minimum acceptable threshold.

Minimum regulatory standards for collateral valuation and management have been introduced for UCITS and MMF, certain credit institutions and investment firms as well as insurance companies and occupational pension funds.

For UCITS, rules on collateral management are provided in ESMA's Guidelines on ETFs and other UCITS issues. Collateral received should be highly liquid and traded on regulated markets or multilateral trading facilities with transparent pricing so that it can be sold quickly. It should be valued at least daily and assets with high price volatility should not be accepted unless suitably conservative haircuts are applied. In addition, the MMF Regulation foresees stricter rules on collateral management especially due to the specific nature of MMF. The Commission is empowered to adopt delegated acts specifying requirements on quantitative and qualitative liquidity and credit quality applicable to the collateral received.

For credit institutions and investment firms that use internal model methods to calculate the minimum capital requirement of SFTs, the EU capital requirements framework stipulates the establishment of a collateral management unit. MIFID II requires investment firms and credit institutions to (i) ensure for all clients that the borrower of client financial instruments provides the appropriate collateral and (ii) monitor the continued appropriateness of collateral and take the necessary steps to maintain the balance with the value of client instruments.

For insurance and reinsurance undertakings, the Solvency II Directive[26] introduced the "prudent person principle", meaning that insurance undertakings only invest in assets and instruments whose risks they can properly identify, measure, monitor and control. Insurers can engage in SFTs if the prudent person principle is satisfied. In this case, collateral must be valued in accordance with the Solvency II Directive and its delegated act. For occupational pension funds, a similar prudent person principle is included in the IORP2 Directive[27]. In addition, a proper risk management system is introduced in order to balance freedom of investment. As for insurers, if the prudent person principle is satisfied, pension funds can engage in SFTs.

4.6. Collateral haircuts (FSB Recommendations 12-18)

The FSB framework on haircuts recommends a two-prong approach:

1. qualitative standards for methodologies used by market participants to calculate collateral haircuts, and
2. numerical haircut floors on non-centrally cleared SFTs, in which financing against collateral other than government debt securities is provided to non-banks, according to the table below.

[26] Directive 2009/138/EC of 25 November 2009
[27] Directive (EU) 2016/2341 of 14 December 2016

Numerical haircut floors for securities-against-cash transactions

Residual maturity of collateral	Haircut level	
	Corporate and other issuers	Securitised products
≤ 1 year debt securities, and Floating Rate Notes (FRNs)	0.5%	1%
> 1 year, ≤ 5 years debt securities	1.5%	4%
> 5 years, ≤ 10 years debt securities	3%	6%
> 10 years debt securities	4%	7%
Main index equities	6%	
Other assets within the scope of the framework	10%	

Source: FSB regulatory framework for haircuts on non-centrally cleared SFTs.

Recommendations on methodology

The minimum standards for the methodology used to calculate haircuts complement the existing entity-based regulation of leverage (for credit institutions and investment firms) and specifically address pro-cyclicality. Notably, the scope of this recommendation is broad and it applies to all market participants that receive collateral when providing securities financing.

There are currently no such standards applying to all market participants in the EU. However, ESMA's Guidelines on ETFs and other UCITS issues contain such standards for UCITS. More specifically, UCITS should have a clear haircut policy for each asset class received as collateral, taking into account asset characteristics, such as credit standing, volatility and the outcome of regular stress tests.

Recommendations on minimum numerical haircut floors

The numerical haircut floors seek to address the build-up of system-wide leverage outside the banking system. The scope of the numerical haircut floor recommendation is narrower (i.e. non-centrally cleared SFTs, in which financing against collateral other than government debt securities is provided to non-banks) than the one of the recommendation on the methodology to calculate haircuts. The haircut floor recommendations are complementary to the Basel III framework and apply to bank to non-bank and non-bank to non-bank SFTs. Securities financing received by banks and investment firms subject to adequate capital and liquidity regulation on a consolidated basis (bank to bank SFTs) is excluded from the scope of application of the numerical haircut floors, because the FSB considers that applying haircut floors to those transactions may duplicate existing requirements. The FSB recommendations foresee that numerical haircut floors for bank to non-bank SFTs should first be incorporated into the Basel III framework. Authorities should then implement the framework by requiring market participants to conduct transactions above the haircut floors. The framework could be implemented either through entity-based regulation (i.e. on the basis of the Basel III framework), or through market regulation, which would capture a broader set of entities potentially providing securities financing to non-banks, or through a combination of these methods.

Currently, there are no regulatory requirements at EU level as regards numerical haircut floors for the bank / non-bank to non-bank SFTs in the scope of the FSB recommendation.

Way forward on haircut recommendations

There are a number of important considerations when reflecting on potential regulatory action on haircuts.

First, while haircuts can help to restrict leverage, their effects on pro-cyclicality are not entirely clear (as described in 3.1) and may depend on their implementation (e.g. static vs. dynamic haircut floors). A decision on potential qualitative or quantitative rules on haircuts would benefit from a better understanding of the mutual relationship between haircuts and procyclicality. Second, discussions between ESMA and market participants as well as data revealed in that context suggest that the haircuts actually applied by market participants tend to be higher or at the level of the haircut floors recommended by the FSB, even in the current relatively benign market environment. It is, therefore, not clear to which degree implementing the FSB recommendations would have an impact on the market in practice. Third, the SFTs in scope of the FSB recommendation on numerical haircut floors represent a limited share of the overall market[28], and it could be useful to re-assess the scope of possible action on the basis of comprehensive data. Fourth, the incorporation of numerical haircut floors for bank to non-bank SFTs into the Basel III framework which was originally recommended by the FSB for the end of 2015 as a prerequisite for authorities introducing the haircut floors is still delayed. Finally, other important jurisdictions (e.g. the US and Japan) are also in the early phases of their assessments and have not taken a decision on haircut floors yet.

The aforementioned ESMA report supports this rationale and provides additional information on several of the points above, in particular in relation to numerical haircut floors.[29] In conclusion, it seems beneficial to assess the potential introduction of qualitative standards and numerical haircut floors on the basis of more granular SFT data which will be available once the comprehensive reporting obligations of SFTR become effective (according to the current planning as of 2019).

5. OVERALL CONCLUSIONS

To a large extent, the FSB recommendations on SFTs have been addressed in the EU through the adoption of SFTR and specific provisions in sectoral financial services

[28] Estimates range from 8% to 35% of the EU repo market and up to 25% of the EU securities lending market, according to ESMA (2016). These are upper limits, given that the numbers include bank to bank transactions.

[29] An opinion by the European Systemic Risk Board (ESRB) in contribution to the ESMA report takes a more conservative view and recommends the implementation of the FSB framework on numerical haircut floors before further data is available. It acknowledges however that there is indeed a general lack of data and that further empirical and conceptual analysis is needed.

legislation and guidelines. As such, there does not seem to be a need for further regulatory action at this stage.

As regards the cross-sector qualitative standards for the calculation of haircuts and the introduction of numerical haircut floors, an assessment of the need for and the scope of a potential regulatory action in this field should be based on comprehensive and detailed data on SFT markets which will be available once the SFTR reporting obligation becomes effective. Moreover, the current market dynamics (as described in section 3) reinforce the need for a certain degree of caution and robust evidence when reflecting on regulatory action implying quantitative requirements. Progress at international level is comparable to the EU (i.e. in the early assessment phase) and no other region has taken a decision on regulatory action on haircut floors at this stage. If applicable, the introduction of numerical haircut floors should ideally happen in a globally coordinated manner to avoid compromising a level playing field or putting market participants in the 'first-moving' jurisdiction at a competitive disadvantage.

The Commission will continue to thoroughly monitor developments in SFT markets and the international regulatory space. The Commission will reassess the added value of qualitative standards and haircut floors on the basis of a report to be prepared by ESMA once comprehensive SFT data is available.