Grant Thornton

Treasury Regulatory Solutions

Specialized solutions to help you address the challenges stemming from forthcoming regulatory developments affecting primarily your Treasury activities



Regulatory developments affecting Treasury

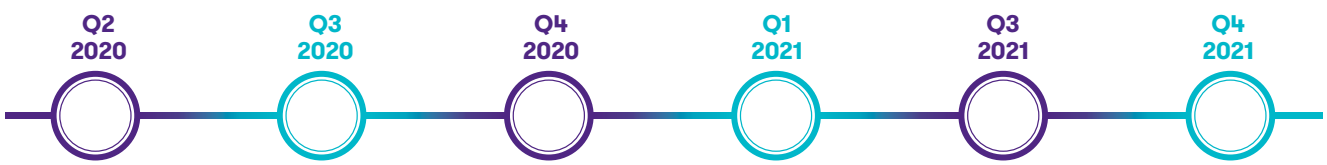
Forthcoming regulatory developments in the areas of margining for non-centrally cleared OTC derivatives, the IBOR reform and the reporting requirements for securities financing transactions will bring about significant changes primarily to the financial institutions' Treasury operations. At the same time, these changes will affect other critical functions of your organization including the IT and Legal operations.

The table below presents an overview of the regulatory developments:

01 **Margin requirements for non-centrally cleared OTC derivatives**	Under the European Markets Infrastructure Regulation (EMIR), financial counterparties and certain non-financial counterparties have to exchange Initial Margin (IM) for non-centrally cleared OTC derivatives transactions.
02 **IBOR Reform**	The EU Benchmarks Regulation (BMR) as well as UK's initiative on LIBOR transition will result in firms moving away from the use of IBORs. This shift, which is expected to be implemented in the course of the following two years, entails significant implementation effort from financial institutions currently using these benchmarks.
03 **Reporting requirements for securities financing transactions**	Under the Securities Financing Transactions Regulation (SFTR), financial counterparties have to report securities financing transactions (SFTs). This will capture credit institutions and investment firms, UCITS funds, alternative investment funds (AIFs), AIF managers and UCITS management companies.

Regulatory timeline

A timeline of the forthcoming changes is presented below:



Q2 2020

SFTR: Reporting requirements for credit institutions and investment firms from April.

Q3 2020

SFTR: Reporting requirements for CCPs & CSDs*
EMIR: Margin requirements for counterparties >€50bn of uncleared OTC derivatives.**

Q4 2020

SFTR: Reporting requirements for Insurance Companies, Investment Funds and Pension Funds.

Q1 2021

SFTR: Reporting requirements for non-financial counterparties.

Q3 2021

EMIR: Margin requirements for counterparties with over €8bn of uncleared OTC derivatives.**

Q4 2021

IBOR reform: LIBOR stops being produced BMR enters into force.

* Central Counterparties (CCPs), Central Securities Depository (CSDs)
** The EU proposed extending the timeline for implementation of the margin requirements, because of the covid-19 outbreak, by one year.

Margin Requirements for non-cleared derivatives

Initial Margin (IM) implementation is operationally complex due to counterparty scale, custodian choice and application of technology; successful implementation requires a consistent and co-ordinated approach across the organization.

The IM implementation will have an impact on the following areas:

Documentation

- Contracts between counterparties used for the exchange of initial margin will have to be re-negotiated and updated.
- International Swaps and Derivatives Association (ISDA) standard documentation is used for this purpose, although increased number of counterparties in scope will increase the operational burden of this process

Internal Models

- Selection of the Initial Margin calculation model.
- ISDA has developed the Standardised Initial Margin Model (SIMM) which has been adopted by the majority of the in-scope entities.
- Assistance with the model implementation and validation will be part of the implementation process

Technology

- Getting operational and contractual data right early on will increase overall programme execution speed, reduce overall cost, and provide a benefit for future initiatives
- Technology can be used as an accelerator for contract scoping and contract automation activities

Custody

- The in-scope counterparties will have to put in place custodian arrangements since collateral has to be segregated and held with a third-party custodian entity.
- Putting in place these arrangements and the associated documentation can be an operationally burdensome process

The IM implementation will have an impact on the following areas:

- The IM requirements implementation will also bring about changes to existing policies, procedures and controls. Changes to policies and procedures will be dictated, for instance, by the new requirements on collateral eligibility criteria.
- A holistic control framework integrating all relevant business functions is also critical.

How can Grant Thornton help you



Health Check

- Review the readiness of the organization to implement the requirements
- Evaluate the current state and identify any gaps towards achieving compliance
- Recommend solutions and areas for improvement in order to enhance compliance arrangements
- Draw on best practices and “lessons learnt” from similar EU organizations which have already implemented the requirements



Scoping Exercise/Impact Assessment

- Assess the impact of the rules for the Treasury and other functions of your organization
- Perform scoping exercises in order to assess the counterparties in-scope and the contracts affected
- The scoping exercise can be conducted in conjunction with other regulatory-driven projects (i.e. the IBOR reform) with a view to complementing these parallel regulatory activities



Implementation Support

- Provide support during implementation.
- - Assistance with contract re-papering
  - Model validation
  - Draft/Update relevant policies and procedures
  - Design Controls Programme
- Provide PMO services during the project lifecycle since different functions of your organizations will be affected. Regular reporting, stakeholder management, and robust workflow management will be key to ensuring project success.

IBOR Reform

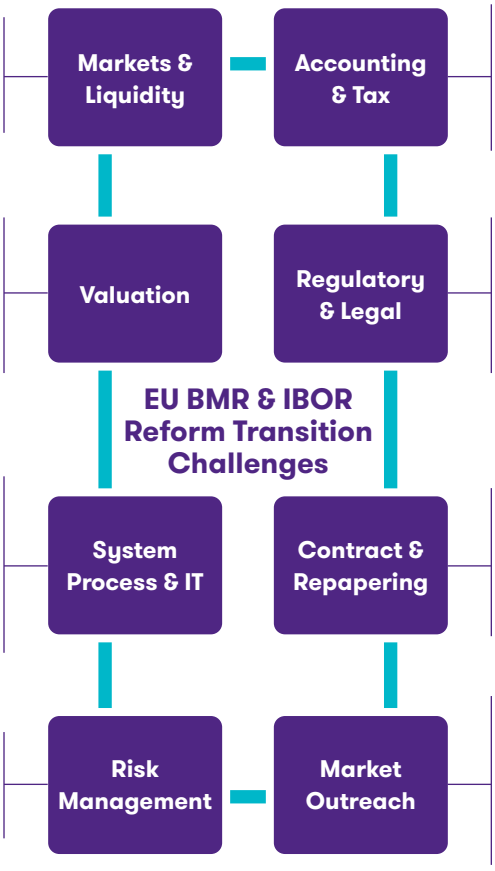
The EU Benchmarks Regulation as well as UK's initiative on LIBOR transition will result in firms moving away from the use of IBORs in their contracts and start using risk free rates. This shift, which is expected to be implemented in the course of the following two years, entails significant effort from financial institutions currently using these benchmarks.

- Different fallback rates could increase liquidity risks.
- Update cash-flow models and risk management frameworks.

- Review existing fair value and cash flow hedges
- Analyze books to identify IBOR-linked positions maturing after 2021.

- Internal and external systems, especially those for interest calculation, would need update.
- Engage with platform vendors to understand required changes and limitations in existing platforms.

- Pricing gaps and volatility arising form change in reference rates.
- Develop time series of data for risk and capital models.



- Identify criteria that would trigger evaluation or derecognition of hedges under IFRS 9.
- Examine tax impact triggered by the change in interest calculation.

- Create an inventory of Bank's trading/derivative /repo agreements.
- Establish a Legal Action Plan to ensure compliance and smooth transition.

- Digitize all relevant contracts and leverage industry efforts for consistent contract remediation.
- Assess and replace fallback language in contracts for new Business.

- Prepare a communication strategy to be able to respond to requests from customers.
- Ensure active participation within industry working groups and consultations.

How can Grant Thornton help you

Perform scoping activities

- Assess the impact of the transition. Assess the scope of the affected contracts and transactions and help you understand the impact of the forthcoming changes for your activities, business model and operations.
- Understand the customer base affected from the transition and design a market outreach strategy

- **Design an effective IBOR Reform Programme** within your organization that will take into account the affected Units and services to help you achieve a smooth transition.
- After we have assessed the impact of the transition for your organization through the scoping exercise, design an efficient Action Plan with key milestones and performed activities

Assist with implementation including

- Support with re-papering exercise
- Provide accounting and tax advisory services
- Perform market outreach and implement your communication strategy with your customers
- Update models and risk management framework
- Changes to relevant policies and processes
- IT systems update

PMO services

- The implementation requires the co-ordination of different Divisions within your organization and with external stakeholders
- Provide you with strong programme management to ensure all activities are co-ordinated and are in line with the Programme's objectives
- Provide you with insights through our interaction with regulators and industry bodies

Securities Financing Transactions Regulation (SFTR)

Under the SFTR, financial and non-financial counterparties that enter into securities financing transactions have to report, for the first time, these transactions to a trade repository. The large number of data fields and the detailed information to be reported pose significant challenges.

Overview

What Data	• Up to 153 data fields, depending on product and report type • Unique Transaction Identifier (UTI) required
What Products	• Repos or reverse repos; securities or commodities lending; securities or commodities borrowing; buy-sell back; sell-buy back; margin lending transactions
Who Reports	• Financial and non-financial firms • European entities and their branches • European branches of non-European entities • Both sides to a transaction report (if in scope)
What's reported	• Minimum details: currency, asset type used as collateral, collateral value, method used to provide collateral, reuse allowed, collateral reused, repo/lending/margin lending rate, haircut, maturity, callable date, market segment
When Reported	• All transactions which are concluded, modified or terminated must be reported on T+1

Challenges

1. **Extensive Data Requirements:** Firms will be obliged to report a huge amount of information on an every-day basis.

2. **Timeline of Reporting:** It is expected that many companies will face difficulties in meeting the reporting timescales. Manual processing needs to become automated, for companies to save time and reduce significantly the possibility of errors

3. **Implementation of IT infrastructure:** Firms need to be very careful when planning their technology strategy as implementation errors increase significantly the risk of non-compliance.

4. **Data quality** will be at the heart of the ability to report and you may want to consider your approach to reporting across the various regimes: MiFIR, EMIR and, now, SFTR.

How can Grant Thornton help you

Perform scoping activities

- Perform health check assessment in order to evaluate your compliance progress by assessing current policies and procedures as well readiness of IT systems and operations.
- Benchmark your current arrangements against the identified best practices, identify areas for remediation and suggest solutions to improve compliance.

Optimization Solution

- Perform a holistic assessment of the current reporting requirements in place including MiFIR, EMIR and SFTR.
- Streamline policies and processes by identifying synergies between current reporting practices.
- Recommend not tactical but strategic solutions to reduce the regulatory burden and increase efficiency.

Compliance Testing and Validation

- Take samples of submitted SFT reports, review them against the requirements and perform compliance testing.
- Perform data validation, in advance of your submitting the reports to trade repositories.
- Our benchmark will be ESMA's RTS and Q&As on the details that have to be reported and the data format.

Implementation

- Provide support with implementing the findings of the previous exercises.
- Provide co-sourcing services to achieve effective compliance with the new requirements.
- Review, comment, draft and update the necessary policies and procedures.
- Provide advisory services during implementation.

What defines our unparalleled edge

- Grant Thornton has established a specific Financial Services Department which combines expertise from all Assurance, Advisory and Tax Business Lines. This Department consists of over 220 dedicated and well trained and experienced executives who provide services to several Institutions in Financial Sector.
- Through our involvement in large banking projects in all 4 Systemic Banks, we have built a versatile team with an extended skillset in different areas that are of high importance for these large organizations.
- Our client portfolio also includes, among others, most of the Regulators of the Financial Sector, all Systemic Greek Banks, most of the Bad Banks' Liquidators and International Investment Funds.
- We have a strong presence and influence within the market to ensure that the challenges that our clients face are being represented. We are valued for our deep technical expertise and insights into the banking sector and its regulatory landscape.



Contact details



Konstantinos Kazas
Partner, Advisory Leader

T +30 210 72 80 000
E konstantinos.kazas@gr.gt.com



Panagiotis Gkioumes
Partner, Head of Financial Services

T +30 210 72 80 000
E panagiotis.gkioumes@gr.gt.com



Katerina Stefanidou
Partner, Financial Services

T +30 210 7280 000
E katerina.stefanidou@gr.gt.com



Konstantinos Noulas
Partner, Financial Services

T +30 210 7280 000
E konstantinos.noulas@gr.gt.com

Grant Thornton

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