

Securities financing transactions: Council agrees transparency rules

The Permanent Representatives Committee agreed, on behalf of the Council, its negotiating stance on a draft regulation aimed at improving the transparency of securities lending and repurchase transactions.

The regulation would enhance financial stability by ensuring that information on so-called securities financing transactions is efficiently reported to trade repositories and investors in collective investment undertakings.

Securities financing transactions, often carried out by the shadow banking sector, rely on assets belonging to the counterparty to generate financing. They mostly involve lending or borrowing of securities and commodities, repurchase (repo) or reverse repurchase transactions, or buy-back/sell-back transactions.

The Council's agreement enables negotiations to start as soon as the negotiating team of the European Parliament will be entrusted with a mandate. The aim is to adopt the regulation at first reading.

The Commission presented its proposal in January 2014, together with a draft regulation on structural reform of EU banks. The latter, which is currently being negotiated in the Council, would ban and/or put structural constraints on certain trading activities of banks.

According to the Commission, reinforcing banking regulation could drive a substantial part of banking activities beyond the regulated banking system and towards shadow banking. To counter this risk, it proposes binding transparency and reporting requirements for securities financing transactions to complement structural reform measures.

Improved transparency would prevent financial intermediaries, including banks, from attempting to circumvent regulation by shifting parts of their activities to the less-regulated shadow banking sector.

The draft regulation introduces measures to improve transparency in three main areas:

- the monitoring of the build-up of systemic risks in the financial system related to securities financing transactions;
 - the disclosure of information on such transactions to investors whose assets are employed in the transactions;
 - rehypothecation activities, a practice by banks or brokers of reusing for their own purposes collateral pledged by their clients.
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