

EU Securities Financing Transactions Regulation

HM Treasury

RPC rating: confirmed as a non-qualifying regulatory provision

Description of proposal

The Securities Financing Transactions Regulation (SFTR) is a directly applicable EU measure that introduces regulatory oversight and helps to increase transparency associated with securities financing transactions. These transactions are when an institution such as a bank or insurer borrows in financial markets by lending or trading assets such as high-grade bonds.

The department proposes to introduce domestic legislation which will designate the Bank of England and the Financial Conduct Authority (FCA) as the designated authorities and give them administrative and enforcement powers to implement the SFTR. The main administrative powers given are to allow the Bank of England and the FCA to gather information and to require a report by a skilled person.

Impacts of proposal

Based on information from the Bank of England and the FCA, the department estimates that, at most, approximately 25 requests for information will be issued each year and each of these will cost financial sector firms up to £500 to respond to. Complying with these requests would therefore cost businesses up to £12,500 per year.

The Bank of England and the FCA only expect to use the power to request a report by a skilled person extremely rarely and, at most, once a year. Based on similar reports for other areas the Bank of England estimates that a report would cost approximately £360,000.

The department states that the Bank of England and FCA have concurrent powers in other policy areas and so the changes it is introducing add tools to the existing domestic supervisory framework, which affected financial firms are already required to be familiar with, instead of introducing a new framework. It therefore expects familiarisation costs to be low, although it has not monetised these costs.

Quality of submission

The department has provided sufficient information to show that this proposal is of European origin and contains no gold-plating so is, therefore, a non-qualifying regulatory provision.

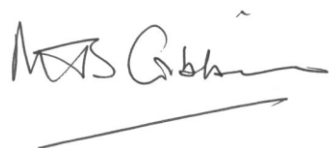
As originally submitted, the department stated that the proposal would not have a material impact on business, as costs to business result from obligations imposed by SFTR itself and not this proposal. However, the Department did not provide sufficient evidence to show that the gross costs are likely to be less than £1 million in any year (the criteria for suitability for the fast track scrutiny as a low cost regulatory measure). As a result of the RPC's initial review, the Department has responded with information showing that the costs imposed on businesses are unlikely to be significantly more than £375,000 in any year. The RPC can therefore confirm the proposal as a low cost non-qualifying regulatory provision. However, the information on costs should have been included in the request for NQRP confirmation.

Departmental assessment

Classification	Non-qualifying regulatory provision (EU)
Equivalent annual net direct cost to business (EANDCB)	Not provided

RPC assessment

Classification	Non-qualifying regulatory provision (EU)
Small and micro business assessment	Not required (EU)
RPC rating (of initial submission)	Not fit for purpose



Michael Gibbons CBE, Chairman