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More transparency for securities financing transactions: Council and Parliament agree new rules

On 17 June 2015, the Council presidency and the European Parliament reached an agreement on a regulation to **improve the transparency of securities lending and repurchase transactions**.

The regulation will **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. Improved transparency will prevent banks and other financial intermediaries from attempting to circumvent regulation by shifting parts of their activities to the less-regulated shadow banking sector.

Securities financing transactions, often carried out by the **shadow banking sector**, consist of any transaction that uses 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.

A package of measures

The Commission presented its proposal in January 2014, together with a draft regulation on structural reform of the EU banking sector. The regulation on securities financing transactions is in particular intended to **counter the risk of trading activities based on securities financing transactions further developing without proper oversight**, including outside the regulated banking system. To this end, it proposes binding transparency and reporting requirements for securities financing transactions.

Transparency

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.

Next steps

The agreement was reached during a trilogue meeting in Brussels. Trilogues started on 28 April 2015, after the Council and Parliament agreed their respective negotiating stances in December 2014 and March 2015.

The agreement will be confirmed within a few days by the Permanent Representatives Committee, on behalf of the Council. The regulation will then be submitted, following legal-linguistic revision, to the European Parliament for a vote at first reading, and to the Council for adoption.

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