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SFT market data --- when you try to buy apples, do you have to take apples, oranges, lemons and potatoes?

There's a great article in Securities Finance Times by Martin Walker and Valarie Thorgerson of Broadridge about SEC Rule 10c-1a ("Transparency works both ways --- is 10c-1a the wrong type of transparency?"). But Rule 10c-1a is not the most interesting topic in the article. The real insight is into the integrity of data.

"Different loans for the same security booked at the same time can have significantly different rates for a variety of reasons. These include the credit rating of the lender, the type of collateral provided, the stability of supply … and efficiency of the parties' operational processes. Context is very important to make sense of market data in an area such as securities lending."

At London Reporting House (LRH), when we analyse SFTR data from our clients, we see wide variations in prices and collateral haircuts for repos, even after extensive data scrubbing and repairs. This has not been a surprise, for the reasons given by the Broadridge authors. The terms of a transaction critically affect price and haircut. And repo (outside CCP-cleared electronic trading) is one of the most customized types of transaction.

The beauty of that ugly data duckling called SFTR is the granularity of the data (provided you clean it up). There are up to 90 fields for a repo. Add a little bit of LRH magic in the form of proprietary counterparty and collateral taxonomies and you can drill deep down into the terms of each trade. This means you can precisely specify the risk/return characteristics of the information you extract. For example, on the LRH platform, you could view Euro reverse repos against Sovereign, Supranational or Agency (SSA) collateral of between EUR 1 million and EUR 5 million by investment-grade broker-dealers based in the core eurozone to hedge funds in the UK and EU during morning sessions over the last month.

Compare that with current market data sources. As the Broadridge authors say of securities lending:

"...currently available data on the securities lending market are incomplete… This, in part, reflects the voluntary submission of transaction information by subscribers to vendors and is compounded by the uncertain comparability of data due to, among other things, the variability of the transaction terms disseminated, as well as how those terms are defined."

Let's finish with an example of data that is so egregiously general as to be an utterly useless piece of market intelligence (it's apples, oranges, lemons and potatoes). This is what one data vendor said of December 2023. "… *global repo volumes increased whilst reverse repo volumes declined. Average haircuts remained unchanged and heading into year end, average terms across both repo and reverse repo increased."*

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