Transactions and Trade Regulatory Reporting
A changing landscape

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The implementation of the EMIR reporting, contrary to expectations, has probably been one of the most challenging reporting issues faced by market participants over the last years.

Buy side and sell side financial participants, as well as corporate participants, have had to take on an additional operational burden mainly due to the unexpected complexity of transposing roughly 80 transaction fields into Trade Repositories on a daily basis.

The market players were not accustomed to these daily reporting obligations, which were further impeded by the grey area around key reporting fields. The possibility of delegating the reporting to sell side brokers was therefore welcomed by the buy side. However, for those using multiple brokers and venues, delegating the reporting is not a silver bullet for solving all reporting requirements.

For more and more financial counterparties, the question is now how to put a long-term strategic transaction reporting solution in place

Furthermore, in EMIR - contrary to the Dodd-Frank Act (DFA) - each counterparty remains responsible to their regulator for ensuring timely reporting and accuracy of the data. Accuracy still remains a key issue when it comes to EMIR, partly because of the poor quality of some of the basic data being reported - namely the 'I' trio, i.e. the LEI, UTI, UPI fields. These challenges explain most of the reconciliation issues and the difficulties faced by reporting entities.

The European Securities and Markets Authority (ESMA) has decided to address the reporting issues with new validation rules which entered into force in November 2015 and are being applied by the Trade Repository.

ESMA is also addressing the need for clarification on some data fields and introducing a set of new fields related to collateral, Credit Default Swap (CDS) and new energy data in order to be aligned with the recent REMIT regulation for the energy market (Regulation on Wholesale Energy Markets Integrity and Transparency), which entered into force in October 2015.

Hand in hand with other future regulatory reporting requirements

In addition to the EMIR-related changes, the transaction reporting requirements will continue to pave the regulatory reporting highway in Europe and beyond within the next coming months and years.

MiFID II and MiFIR will extend the scope of EMIR with additional product types in the reporting scope. Transactions will be sent on a daily basis to the National Competent Authority (NCA) by the investment firms via the regulated trading venues or appointed reporting mechanism (ARM). MiFID II will also bring trade transparency to a wide range of financial instruments. ESMA estimates that the current data collection under MiFID I represents 10 percent of the volume that will have to be collected under MiFID II.

The Securities Financing Transactions (SFT) Regulation was adopted in November 2015. The financing transactions including repurchase agreements, securities or commodities lending/borrowing and buy-sell back or collateral swap transactions are to become reportable by financial and non-financial counterparties to the trade repository as from 2017.

Firms need to define a proper and long-term strategic trade transaction reporting model

For more and more financial counterparties, the question is now how to put a long-term strategic transaction reporting solution in place. EMIR and the upcoming transaction reporting regulations such as MiFIR and SFTR are seen as catalysts for reshaping the regulatory reporting processes. Indeed, these pre- and post- trade and transactions reporting requirements will be embedded in day-to-day operations and need to be properly supported by an efficient, reliable and scalable reporting IT infrastructure, operational processes and resources.

The design of the regulatory reporting model should not be organized as a set of different interfaces built around each regulation. Rather, it should be built around your trade and post-trade value chain, extracting the data from different applications and centrally consolidating it.

A well-designed transaction reporting model is the only way to achieve proper efficiency and consistency in data reporting and will furthermore give an organization a holistic view of the reporting compliance duties and will help establish a data repository infrastructure that meets multiple regulatory requirements.

New internal or outsourced reporting solutions will need to act as integrated platforms. These platforms should help regulated entities to achieve compliance on a cross regulation and cross-jurisdiction basis. According to recent studies, managed transaction reporting services can provide substantial cost savings and could be a valid alternative to in-house development.

The new transaction and trade reporting regulations (MiFID II and MiFIR) offer a unique opportunity for financial institutions to take a step back and review their current reporting strategies. It is time for regulated entities to question whether or not it makes financial sense to continue to adjust and adapt internal infrastructures, operations and resources, or if it would now make more sense to outsource trade reporting services.

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