



## Regulatory Reporting Newsletter



## INTRODUCTION

Hello and welcome to the latest edition of the Quorsus Regulatory Reporting Newsletter. In this issue we take a look back at what has happened since the last Newsletter where we have seen EMIR and SFTR Data Quality report from ESMA, Canada released a consultation paper, CFTC issued a letter on Swap Data Errors and EMIR refit was adopted by the EC. We also have reports from in person events as they come back into full swing.

### Newsletter Terminology

- ANE Arranged, Negotiated or Executed
- APAC Asia-Pacific
- ASIC Australian Securities and Investments Commission
- CDE Critical Data Elements
- CFTC Commodity Futures Trading Commission
- CPMI Committee on Payments & Market Infrastructure
- IOSCO International Organization of Securities Commissions
- DSB Derivative Services Bureau
- EMIR European Market Infrastructure Regulation
- ESMA European Securities & Markets Authority
- FCA Financial Conduct Authority
- HKMA Hong Kong Monetary Authority
- ISO International Organisation of Standardisation
- NCAs National Competent Authorities
- ESMA European Securities and Markets Authority
- EMIR European Market Infrastructure Regulation
- EC European Council
- ITS Implementing Technical Standards
- JFSA Japan Financial Services Agency
- LEI Legal Entity Identifier
- MAS Monetary Authority of Singapore
- MiFIR Markets in Financial Investment Regulation
- PPD Public Price Dissemination
- REFIT Regulatory Fitness & Performance Program
- RTS Regulatory Technical Standards
- SDR Swap Data Repository
- SEC Securities Exchange Commission
- TRACE Treat Relief & Compliance Enhancement
- UPI Unique Product Identifier
- XML Extensible Mark-up Language
- SFTR Securities Financing Transaction Regulation
- SFTs Securities Financing Transactions
- TR Trade Repository
- EU European Union

## WHAT'S INSIDE THIS ISSUE:

*Report on the in person industry events, FIA BOCA in Florida, FIA Law & Compliance in Washington D.C., FIA IDX in London and ISDA AGM in Madrid*

*Details of key events since the last newsletter*

*A detailed look at the ESMA Data Quality report*

*Analysis of the CFTC Rewrite changes to the notional amount*

## WHO WE ARE

Quorsus provides consultancy services to financial institutions facing a range of challenges and constraints across the post-trade landscape. We offer **unparalleled expertise in post-trade technologies, operations, regulatory solutions, and market infrastructure, helping our clients to achieve their goals through intelligent reengineering of platforms and process.** We pride ourselves on the strength and character of our consultants. This, combined with decades of industry expertise, ensures that our clients meet their objectives, however steep the challenge.

# Global Regulatory Roadmap

## 2021

- APR Korea Go-Live
- OCT MAS Final Phase
- NOV SEC Go-Live

## 2022

- JAN EU SFTR schema
- APR UK SFTR schema
- Dec CFTC Re-Write

## 2023

- TBC HKMA Re-Write
- TBC JFSA Re-Write
- Q2 MAS Re-Write
- Q3 EU EMIR REFIT
- Q4 UK EMIR REFIT
- Q4 ASIC
- TBC ISO 2022
- TBC UPI

- Global ●
- APAC ●
- NA ●
- UK & EU ●

**QUORSUS WAS PLEASED TO ATTEND FOUR INDUSTRY CONFERENCES SINCE THE PUBLICATION OF OUR LAST NEWSLETTER!**

## WELCOME BACK TO IN PERSON EVENTS!

With the world reopening and people gathering once again, it was refreshing and exciting to see our clients, peers, competitors and friends at **FIA Boca** in March, **FIA Law & Compliance** in April, the **ISDA AGM** in May and the **FIA IDX** in June. We attend these conferences not only for networking, but also to ensure that our consultants are keeping informed of hot industry topics and the common challenges faced by our clients.

FIA Boca is the flagship annual conference for the **Futures Industry Association**. At the conference, there was a large turnout from the leaders of the exchanges, clearing houses, service providers and counterparties. Whilst the ongoing **turmoil in Ukraine** and its impact on markets was a major topic of discussion amongst the attendees, a few other topics stole the show, such as the **proliferation of digital assets**, the proposal currently under review by the CFTC for ‘non-intermediated’ crypto derivatives trading and the **extreme volatility of the nickel market**. However, outside of the panels, the main focus of the conference was reconnecting with old colleagues and making new relationships.

Following Boca, Quorsus attended the FIA Law & Compliance (“L&C”) conference in **Washington D.C.** This industry event is attended by North America’s best and brightest derivatives lawyers and compliance professionals who represent traders, market infrastructure firms and regulators such as the **CFTC**, the **Department of Justice** and the **National Futures Association**, among others. It was interesting to hear that the regulators’ primary **focus for enforcement** in 2022 and beyond will be for **non-compliance** with the relevant **swap data reporting rules** as well as for their traditional areas of expertise, such as market manipulation.

## INDUSTRY EVENTS (CONT.)

Additionally, panellists focused on how firms can ensure they have proper controls in place that go beyond good policies and procedures to avoid regulatory scrutiny.

There was also the **FIA IDX in London** where not only did we have a fair few of the Quorsus team there meeting our clients (in between enjoying the excellent sausage rolls), we also had our own Andrew Pinnington-Mannan as a speaker on the “What is Keeping Compliance Officers Awake at Night?” session.

There was quite a lot of focus in **divergence** and a range of views were available however most agreed there would be some divergence which will be a key area for firms to monitor going forward. Beefing up horizon scanning activities, internally or engaging someone external, would be highly beneficial to mitigate these risks.

Finally, Quorsus enjoyed the sunshine and good networking in **Madrid** for **ISDA's** infamous **AGM**.

Sunny (and hot) Madrid played host to this year's ISDA AGM, the first held since the onset of the COVID-19 pandemic. There was a clear excitement amongst market participants to be interacting in person again, with the **rooftop bar** of the conference venue becoming a key “networking” area! Quorsus were delighted to be represented at the ISDA AGM by **Andrew** and **Stephanie**, alongside **Ryan**, **Simon** and **Jeff**.

Whilst work was clearly on the agenda- there was a clear focus on **regulatory reporting** throughout the event, particularly in the excellent panel discussion on **Digital Reg Reporting**- it gave us an excellent opportunity to strengthen relationships with our existing client base and build new ones. The event officially opened on Tuesday afternoon, followed by a glitzy reception at the **Casino de Madrid**. However we decided to arrive on Monday and host a client dinner that evening (and of course celebrate **Andrew's birthday**). Thanks to the amazing efforts of Lou and Steph we found a superb restaurant and managed to cram 30 of our clients and friends into our reservation for 15... A wonderful evening and a good reminder of the **importance** of these **in-person events**.

The auditorium was packed for the opening remarks from the new **Chairman of the CFTC, Rostin Benham**, who put the market on notice of the Commission's continued **focus on data quality** and desire to stop having to wade through the “mud” of inaccurate or incomplete reporting data. This is something our clients continue to **focus on** ahead of this year's **Rewrite**. Similarly, the focus on **ESG** and **cryptocurrency** continues at these conferences as firms adjust their portfolios to account for likely regulatory change in both of these areas.

It was fantastic to catch up with other exhibitors over tapas and wine but perhaps most importantly it was great to receive such **positive feedback** from our existing clients on the work we have been doing for them. These clients are our best advocates and we continue to put client experience and our ability to deliver their priorities at the heart of everything we do.



**IT WAS GREAT  
TO FINALLY  
CATCH-UP WITH  
OUR CLIENTS  
AFTER A  
CHALLENGING  
COUPLE OF  
YEARS**

# KEY UPDATES SINCE LAST NEWSLETTER

## JUNE

**EMIR Refit** has been adopted by the European Council for implementation sometime between **November 2023** and **February 2024** assuming it is approved by the Parliament in the next 3 months.

**CFTC** issued a letter on **Swap Data Errors** and related **Error Correction Notification Form**.

In it the CFTC advised parties to correct swap data errors as soon as technologically practicable following discovery and within **seven business days**. Parties **must notify the CFTC** if it determines that it will not correct a swap data error in time. Included are instructions and a form for **submitting error correction notifications**. Firms should put in place processes and procedures to cover this requirement as it appears to be one of the more impactful requirements and it is causing a high level of consternation in the industry because of the increased pressure it places on exception management as well as an additional new reporting requirement.

The letter also specifically emphasises the **significance** of a **specific error where swaps that appear as open at the TR that have actually been terminated**. Rectifying this will require good reconciliation controls and re-submission processes to be in place.

**ASIC** release of the latest ASIC consultation paper ahead of expected go-live in **Oct 2023** and **April 2024**. The main point of note is that ASIC have split the new rules across **two go-live dates**, the 'Remade ASIC Rules' estimated to commence on 1st October 2023 and the 'Further amended ASIC Rules' thought to commence 1st April 2024. As of **April 2024**, firms will have **6 months** to update the **relevant data** of any trade that **does not mature in the 12 months** following 1st April 2024. On **1st Oct 2023**, ASIC are aiming to **go-live** with all **UTI** and **LEI** requirements, implement lifecycle reporting for all products, as well as some other exemptions and partial data revisions. 1st April 2024 represents the estimated go-live for the remaining proposed changes, most notably UPI requirements, additional data elements and the re-reporting requirement mentioned in the introduction.

Firms will need to **ensure their UTI and LEI data flows are updated**, this is another case of the globalisation of regulatory reporting and the adoption of these standards across regimes.

**Canada** released consultation paper with an effective date **after December 2022** exact time to be confirmed. Published by members of the Canadian Securities Administrators (CSA), the Proposed Trade Reporting Amendments' key aim is to **harmonise OTC derivatives** reporting standards globally thereby **reducing the complexity** of market participants' reporting systems, and the associated operational and compliance costs, as well as improving data quality shared with the public and regulators. **Canada/SEC** have **agreed** to update their reportable field **validations** per the CFTC tech spec for December 5th. All changes coming out of the consultation (e.g. monthly verification requirement) will be **effective at a later date** once confirmed.

## APRIL

**UK SFTR** Reporting **Legal Entity Identifiers** (LEIs) of non-EEA third country issuers under UK SFTR relief extended to October 2022.

**UK SFTR** updated validation rules published in October 2021 went live on 11th April 2022.

**EMIR** and **EU SFTR Data Quality Review** published by ESMA, main story was much improvement still to be done and an across the board **50% drop due of activity to Brexit**. Pairing and matching was identified particularly and it is clear firms will have to improve their inter counterparty communications to improve these figures.



**JUNE HAD UPDATES FOR THE EMIR REFIT, CFTC ISSUED A LETTER ON SWAP DATA ERRORS AND THE NEW 7 DAY TIMELINES AND CANADA RELEASED A CONSULTATION PAPER APRIL HAD UK SFTR UPDATES AND ESMA DATA QUALITY REVIEW**

# EMIR & SFTR DATA QUALITY REVIEW

## ESMA 2021

The report, published **April 2022**, aims to provide a holistic view of the current data quality being reported under **EMIR** and **SFTR**, and the actions that NCAs and ESMA are taking to improve this. This data plays a critical role in allowing these bodies to supervise the market effectively.

### Key EMIR Takeaways

**Misreporting of valuations** was **significantly reduced**, as compared to the previous year, by around **50%** of the targeted entities. Similarly, in a dedicated exercise on timeliness of reporting, most of the targeted entities improved their reporting practices and eliminated or significantly reduced late reports.

Brexit has had an impact on the EU supervisory data reporting landscape as volumes of reported derivatives fell by approximately 50%:

- In terms of data reporting volumes, equities and futures contracts continue to be the most prominent asset class and contract type respectively.
- While less than **10% of reported derivatives tend to be reported late** by the counterparties, more than **20% do not receive updated valuation daily** as required by EMIR.
- **TR rejections** continue to be low at around **2%**. Furthermore, only 1% of records in TR regulatory reports seem to not comply with the applicable validation rules.
- As regards reconciliation, pairing rate continues to be relatively low at 60% while there is on average 5% difference between the number of open derivatives reported between a pair of counterparties.

### Key SFTR Takeaways

Overall, it can be noted that use of the **ISO20022 XML** end-to-end reporting has brought **important benefits** in terms of the quality and accessibility of the data from the very beginning of the reporting.

Much like EMIR, data reporting volumes dropped approximately by 50% following Brexit:

- **Securities lending** and borrowing is the largest SFT type reported with around 70% share at the end of 2021.
- Around 10% of SFTs are reported late (after T+1). On the contrary, rejections have been low (around 2%) and duplicated reporting does not pose major issues.

### Conclusion

In its report, ESMA stated that they believe the supervisory pressure and close monitoring of the implementation of remedial actions are needed to ensure improvement in the quality of data by all relevant entities. ESMA considers targeted actions on data quality constitutes an efficient approach to resolve data quality problems: recent fines by ESMA for data quality failure include €186,000 for a European Trade Repository.

This is a **wake-up call** for the industry and a concerted effort is needed to **improve data quality**. Firms should be looking to **implement stronger pre-submission validation**, particular attention to **controls** around **stateful validation** but a whole host of validation checks, ideally replicating the TRs own validation but also looking at business validation around checking for trades that pass the TR validation but are still incorrect.

Understanding ESMA's position and their long-term focus on this topic, we at Quorsus are supporting our clients to implement robust control frameworks and therefore ensure high data quality in their reporting.



**DATA QUALITY  
REVIEW SHOWS  
SOME KEY AREAS  
FOR FIRMS TO  
FOCUS ON, PRE-  
VALIDATION AS  
WELL AS  
CONTROLS  
AROUND  
STATEFUL  
VALIDATION  
MAKE A GOOD  
START**



# CFTC REWRITE – CHANGES TO REPORTING OF NOTIONAL AMOUNT

## US

The postponed **CFTC rewrite compliance date of 5th December** is now less than 6 months away, and firms are in the final stages of sourcing the **128 data elements** to be reported to Swap Data Repositories (SDRs). As expected, interpreting the new field-level requirements for hundreds of unique trading scenarios has been a challenging exercise for regulatory change teams and compliance.

Industry working groups have been seemingly meeting around the clock to align on particularly disruptive or complex field categories, two notable examples being packages and collateral/margin. **Industry UAT** with the SDRs is anticipated to open during **Q3**, so firms are nearing a cut-off point for when requirements need to be confirmed with compliance and provided for build.

One of the highest priority discussions in the industry recently has been the reporting of **notional amount changes** for lifecycle events for **Part 43** real-time reporting:

- The CFTC Rewrite technical specification requires reporting the **outstanding notional** after a lifecycle event for both Part 43 and Part 45.
- This requirement comes from the **CPMI-IOSCO** technical guidance for notional amount, which is expected to be adopted by other **G20** transaction reporting jurisdictions including **EMIR**.
- Various firms in the working groups have indicated they currently report the transactional (or “delta”) notional for events for Part 43, as well as for **MiFIR’s** post trade transparency requirement.
- SDRs (and firms if they choose to do it themselves) use the reported notional amount to calculate whether the trade qualifies for **Part 43 dissemination delays** for large trades and events, which allows counterparties sufficient time to hedge their positions before the trade data is made available to the market.
- **Currently** a partial termination of **\$50,000,000** (on an original notional of **\$60,000,000**) is reported and might qualify for time delay.
- In the **new rules** a **far lower** outstanding **\$10,000,000** is reported and might not qualify for the same delay.

The CFTC recently confirmed to working groups that they have reviewed industry concerns with their technical specification. The **CFTC** does **not plan** to make any **changes to version 3.0** of their technical specification, but will allow SDRs to update their validation rules to address issues confirmed during their review. One SDR has already introduced a new reportable field for the transactional (or “delta”) notional.

This discussion highlights the potential that detailed analysis performed by regulatory change teams identify disruptive consequences for other areas of the business, even if the specific topic is not identified early on by the industry as being potentially problematic. **Proactive industry engagement** and ongoing **communication** between internal stakeholders is **highly advisable** to mitigate this risk.

**TIMELINES FOR  
FOR EUROPEAN  
AND UK REFITS  
LOOK LATE  
ENOUGH TO  
ACCOMMODATE  
ISO20022 & UPI**

**UNDERSTANDING  
DIVERGENCES  
BETWEEN ESMA  
AND THE FCA WILL  
BE KEY**

# If you would like to discuss more, please reach out to our regulatory reporting leads:



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