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QUORSUS
Part of Capgemini

Regulatory Reporting Newsletter

INTRODUCTION

In this edition of our Regulatory Reporting Newsletter, our experts examine the way forward for the new Unique Product Identifier for swap data reporting, including its timeline and key considerations such as technology and costs. We also look at the importance of Data Quality in Regulatory Reporting with reference to ESMA's Data Quality Report, and provide firms with an overview of the main areas they can address to improve their data.

In addition to this; using examples, we illustrate the importance of less prominent regulation and emphasize the need to remain up to date in a range of areas beyond those where regulatory activity has been most concentrated. This includes changes to reference data driven reporting from the Bank of England, as well as expansion and enforcement of requirements by the European Central Bank.

Finally, as global rulesets harmonize, we look at how and why many firms are moving away from the in-house reporting capability model, instead choosing to partner with managed service providers to supplement their regulatory operations and technology needs.

Newsletter Terminology

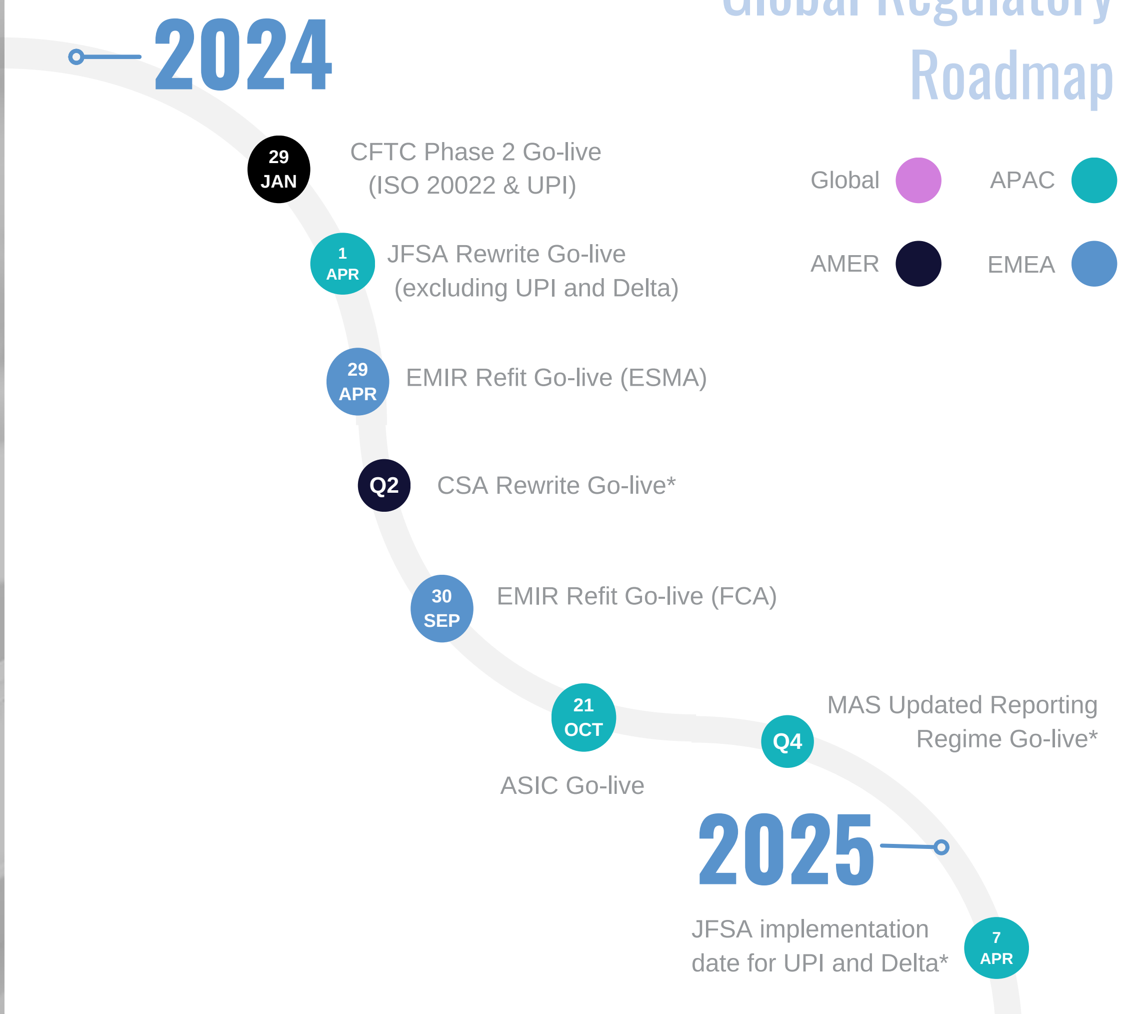
- **APAC** Asia-Pacific
- **ASIC** Australian Securities and Investments Commission
- **CDE** Critical Data Elements
- **CFTC** Commodity Futures Trading Commission
- **CORRA** Canadian Overnight Repo Rate Average
- **CSA** Canadian Securities Administrators
- **DRR** Digital Regulatory Reporting
- **DSB** Derivative Services Bureau
- **ECB** European Central Bank
- **EMIR** European Market Infrastructure Regulation
- **EONIA** Euro Overnight Index Average
- **ESMA** European Securities & Markets Authority
- **EU** European Union
- **FCA** Financial Conduct Authority
- **FinFRAG** Financial Markets Infrastructure Act
- **HKMA** Hong Kong Monetary Authority
- **JFSA** Japan Financial Services Agency
- **KPI** Key Performance Indicator
- **ISDA** International Swaps and Derivatives Association
- **ISIN** International Securities Identification Number
- **ISO** International Organisation of Standardisation
- **LIBOR** London Inter-bank offered rate
- **MAS** Monetary Authority of Singapore
- **MMSR** Money-Market Statistical Reporting
- **MSP** Managed Service Provider
- **QA** Quality Assurance
- **SMMD** Sterling Money Market Daily Reporting
- **SLA** Service Level Agreement
- **SONIA** Sterling Overnight Index Average
- **TR** Trade Repository
- **UAT** User Acceptance Testing
- **UPI** Unique Product Identifier
- **UTI** Unique Transaction Identifier
- **XML** eXtensible Markup Language

WHAT'S INSIDE THIS ISSUE:

WHO WE ARE

Part of Capgemini's Financial Services Strategic Business Unit since October 2022, 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



*Tentative date of go-live/publication

UPI: THE WAY FORWARD

THE UPI IN CONJUNCTION WITH THE UTI AND CRITICAL DATA ELEMENTS (CDE) IS ANOTHER STEP TOWARDS STANDARDIZATION & HARMONIZATION OF DATA ACROSS GLOBAL REGULATIONS

In February 2023, CFTC confirmed that 29th January 2024 would be the go-live date for using the new ISO 4914 Unique Product Identifier (UPI) for swap data reporting, which will be facilitated by ANNA DSB. This will be the first major regulatory reporting mandate for UPI, ahead of EMIR and other G20 global jurisdictions in 2024.

The UPI is a unique code assigned to each distinct OTC derivative product and maps reference data elements with specific values that together describe the underlying product, allowing aggregation of OTC derivative transactions reported on a globally consistent basis. The UPI in conjunction with the UTI and Critical Data Elements (CDE) is another step towards standardization and harmonization of data across global regulations.

CFTC will require UPI for credit, equity, foreign exchange, and interest rate asset classes to comply with Part 43 and Part 45 swap data reporting requirements; implementation of the commodities asset class has been postponed to a later phase due to the complex nature of the underlying products, however commodities will be required later in the year for EMIR.

UPI: THE WAY FORWARD (CONT.)

Table 1: UPI timelines

17 April 2023	DSB's UPI User Acceptance Test (UAT)
16 October 2023	DSB's UPI Production opens
27 October 2023	Active swap ISIN pre-population for UPI
2 December 2023	Active non-swap ISIN pre-population for UPI
29 January 2024	CFTC compliance date for UPI
29 April 2024	EU-EMIR Refit Go-Live
30 September 2024	UK-EMIR Refit Go-Live
October 2024	ASIC Re-Write & MAS Re-Write Go-Live
7 April 2025	JFSA UPI Implementation

KEY CONSIDERATIONS

To adhere to the new regulatory requirements, firms will need to consider the following:

Technology Upgrades

Firms will need to enhance their technology architecture and connectivity to enable UPI reporting:

- Connections should be established with ANNA DSB, with firms ensuring they have registered and received all applicable existing UPI details before the compliance date.
- Firms will simultaneously need to determine where the UPI will be consumed, this could range from booking systems to regulatory reporting solutions. Firms run the risk of impacting how quickly the UPI can be added to reports if they do not select the optimal location for their system.
- Manage the extra obligation to remediate trades that are rejected if there are discrepancies between firms obtaining a new UPI and submitting a report, and these new UPIs being registered with TRs. This will be particularly relevant for obligations with short reporting deadlines, such as CFTC Part 43 reporting.
- Synchronization between different teams; technology, compliance and front office. Compliance should review UPI assignments for all products, and Ops will need controls to ensure accurate reporting and timely verification of data quality. There will need to be a strong focus on reportable fields that are also UPI attributes to ensure values are reported consistently.
- Firms with multi-jurisdictional reporting obligations will need to update their reporting infrastructures and processes to accommodate UPI reporting for all OTC asset classes and will also need to consider if distribution channels are required with their clients to confirm UPI details, this is especially important for dual sided regulations such as EMIR.

Cost Analysis and Resourcing Requirements

Firms will need to analyze how the new regulatory requirements will change their fee structure and carry out a cost analysis before the compliance date:

- Firms should review and select the ANNA DSB account that best meets their requirements, details are published in the UPI Fee Model Final Report Update 2023 with ANNA DSB publishing their final fee structure in Q3 2023.
- Firms should consider if a 'build' or a 'buy' solution best meets their regulatory obligations and timelines.
- Firms should also review their staffing requirements for rule interpretation, design, build, testing and BAU management to ensure sufficient coverage.

COMPLIANCE SHOULD REVIEW UPI ASSIGNMENTS FOR ALL PRODUCTS, AND OPS WILL NEED CONTROLS TO ENSURE ACCURATE REPORTING AND TIMELY VERIFICATION OF DATA QUALITY

Backreporting of UPI

CFTC has stated that UPI will need to be reported on new transactions, with all existing open positions required to be enriched with UPI. It is advised that reporting firms should ensure UPIs are assigned to existing trades before the compliance date of 29th January 2024, which provides a relatively short window for firms to perform the necessary updates. There have been recent calls in the industry for a softer go live however, the CFTC have indicated that there will be no transition period.

We would recommend that early and thorough testing is critical for successful implementation of all regulatory changes.

THE TREES WITHIN THE FOREST - LESS PROMINENT BUT EQUALLY IMPORTANT REGULATORY OBLIGATIONS

As we near year-end, market participants and observers will have no doubt been inundated with directives, plans, and projects to comply with regulatory obligations, predominantly from major national regulators.

Many firms have focussed intense efforts on EMIR Refit, CFTC Rewrite, FinFraG, JFSA, HKMA, ASIC, MAS, the list goes on. Firms have prioritised these directives as it is here that regulators have been most active, however outside of the more prominent rules there are numerous requirements across jurisdictions with which firms must comply.

The effects of these will differ from organisation to organisation and as such it is important that compliance and operations teams across all firms develop sufficient knowledge and horizon scanning capabilities in order to recognise and react to less prominent regulation which may apply to them.

In Europe for example, the MMSR dataset upon which the euro short term rate €STR is based, and which provides transaction data to the ECB on various euro money market segments, continues to evolve both in its stipulation, reach and enforcement.

Its latest guidance “Reporting Instructions for the Electronic Transmission of MMSR” was published in August 2023, following an April 2023 ECB directive to increase the scope of the obligation by adding 24 new firms.

These firms will now be subject to the same low-tolerance enforcement we have seen thus far, where even comparatively small non-compliant volume has conferred attention from regulators due to the inclusion of data in the collation of benchmarks such as SONIA and €STR.

In the UK, following the transition from LIBOR to SONIA after Brexit, in-scope UK firms are now required to submit data daily for its calculation. The mechanism for this is the SMMD requirement comprised of up to 33 fields to be reported by 7am each UK business day.

FIRMS WILL NOW BE SUBJECT TO THE SAME LOW-TOLERANCE ENFORCEMENT WE HAVE SEEN THUS FAR, WHERE EVEN COMPARATIVELY SMALL NON-COMPLIANT VOLUME HAS CONFERRED ATTENTION FROM REGULATORS

THE TREES WITHIN THE FOREST (CONT.)

The requirement also includes strict error handling stipulations: notified to the Bank of England within 10 minutes of discovery. This process, at a minimum, is to be undertaken daily at 10:30am. For SONIA transactions, every effort should be made to resolve the errors by 11am, while non-SONIA transactions should be amended within the subsequent daily report. Furthermore, the Bank of England itself carries out plausibility checks each morning, and similar procedures to those for firms' error handling must be in place to respond and remediate where plausibility queries have been raised.

Whether or not a firm is in scope is determined through submission to the Bank of England which must be refreshed and repeated annually. As such, it is important that firms remain abreast of their requirements in this area. Similar changes have also taken place in European markets with the replacement EONIA & EUR LIBOR with €STR, bringing with it parallel reporting requirements, and in Canada with the enhanced CORRA.

Overlapping and in some cases driving the examples above, are the various global rewrites which are either at the planning stage, in progress, or at the point of implementation. Firms should look closely not just at the regulatory texts themselves, but also follow the activity of related regulatory bodies such as national banks and administrators in geographies which may impact them.

THE IMPORTANCE OF DATA QUALITY IN REGULATORY REPORTING

The introduction of the mandatory requirement for firms to report financial transactions has increased regulatory scrutiny around data quality. Firms deemed in scope for regulatory reporting are required to submit complete, accurate and timely data to relevant data repositories. Failure to comply has significant consequences for firms, such as unfavourable media coverage, regulator pressure and large penalties.

Over the last five years, the FCA have fined three major banks over £25 million each for their failures to meet their regulatory reporting data quality standards. Meanwhile in the US, three banks were recently fined a total of $50m by the CFTC for swap reporting failures, both examples proving the importance of data quality in regulatory reporting.

ESMA Data Quality Report

The 2023 ESMA Data Quality Report emphasises the role of high-quality regulatory reporting data on effective regulatory supervision. Regulatory bodies including ESMA, NCAs and central banks use regulatory reporting data such as the Trade State Report and Trade Activity Report to monitor and identify risks to integrity, market trends, and the market exposure of specific market participants and financial instruments.

ESMA's new data quality and data sharing framework signals their ongoing efforts to improve regulatory reporting data quality. The new data quality framework introduces 19 Key Data Quality Indicators for EMIR which are used to assess and highlight incidents of misreporting, underreporting and overreporting, in addition to pairing and matching inconsistencies.

THE NEW DATA QUALITY FRAMEWORK INTRODUCES 19 KEY DATA QUALITY INDICATORS FOR EMIR WHICH ARE USED TO ASSESS AND HIGHLIGHT INCIDENTS OF MISREPORTING, UNDERREPORTING AND OVERREPORTING, IN ADDITION TO PAIRING AND MATCHING INCONSISTENCIES

TO IMPROVE DATA QUALITY AND MITIGATE RISK, FIRMS NEED A STRATEGIC APPROACH TO MANAGE THEIR REGULATORY REPORTING DATA QUALITY

THE IMPORTANCE OF DATA QUALITY IN REGULATORY REPORTING (CONT.)

ESMA Data Quality Report (cont.)

The data sharing framework outlines the permissions of authorities, and the processes authorities must use to detect and follow up with firms in their jurisdiction who have significant data quality issues.

The new methodology reinforces the importance of completeness, accuracy and timeliness of data for regulators. Firms therefore need to ensure they have controls to actively monitor regulatory compliance and processes in place to effectively engage with regulators.

Improving Data Quality

Maintaining high quality data proves to be a challenge for many firms due to the complexity of regulatory reporting data. The major G20 regulations have a large number of reportable fields and a wide product scope.

Firms usually have complicated system infrastructure, with multiple data sources which require aggregation and data transformation. These challenges are often highlighted during periods of regulatory change and remediation.

To improve data quality and mitigate risk, firms need a strategic approach to manage their regulatory reporting data quality. There should be a focus on implementing an appropriate governance and control framework to ensure regulatory reporting data quality requirements are being met.

The key components of an effective control framework are strong governance, data traceability, robust internal controls, an agile change programme and independent and comprehensive quality assurance.

- **Governance:** Governance documentation should capture the three lines of defence within the organisation and corresponding roles and responsibilities and senior management accountability. There should be clear ownership and governance of data from each source with appropriate escalation protocols. A designated Chief Data Officer can oversee the governance structures for data across the firm. Issue tracking and remediation should be documented in a central and auditable location with a documented process for regulator notification and engagement.

- **Traceability:** Data lineage documentation should map end to end system flows and processes, tracing critical data elements and data inputs from front office bookings to reporting content and outputs in the reporting system. This document should be frequently reviewed and kept up to date in response to any regulatory amendments or changes within the organisation, including process enhancements, new product launches or new systems. Firms may utilise data dictionaries for consistency in data definitions across various data points.

THE IMPORTANCE OF DATA QUALITY IN REGULATORY REPORTING (CONT.)

Improving Data Quality (cont.)

- **Controls:** Firms should have internal controls in place to monitor the completeness and accuracy of their source system data across all asset classes, products, counterparty reference data and report submissions. For report submissions, internal controls should exist to ensure the correct version of the trade and/or lifecycle is being reported and any relevant accompanying data such as collateral and valuation is also reported. Any issues identified during these processes should be tracked, escalated and remediated in line with the governance structure.

- **Quality Assurance:** Firms need an independent quality assurance function which tests front to back data flows and transactions submitted to data repositories. The test should be representative of the volumes and products traded. Any anomalies detected during the QA process should be monitored and remediated accordingly.

- **Change management:** Firms should have a strategy in place for implementing regulatory changes or remediation programmes. An impact assessment should be carried out across systems, products and clients. An appropriate testing strategy and UAT environment is required to minimise the data quality impact of regulatory reporting outputs and post-production data should be carefully analysed to identify any defects in reporting.

The future of regulatory reporting

High-quality transaction reporting data remains essential to ESMA's ongoing commitment to promote effective data driven regulatory supervision. The upcoming changes documented in EMIR Refit, demonstrates ESMA's persistent focus in this area. EMIR Refit introduces a new requirement for Trade Repositories to publish warning reports on abnormal values and missing valuation and margin data.

Enhancements have been made to the existing pairing and matching process which increases the number of reconcilable fields and the timing of resolution and remediation.

This builds upon the existing requirement for firms to report not just accurately, but also consistently with their counterparties. Initiatives such as ISDA's Digital DRR solution, which uses the open-source Common Domain Model, allows a scalable implementation of regulations by using one standardised representation of reportable data, which will inevitably help drive forward both consistency and data quality.

Additionally, ESMA has documented the process for firms to notify the regulator of any significant reporting issues. The outcome of these changes should provide regulatory authorities with greater oversight over transaction reporting data quality.

INITIATIVES SUCH AS ISDA'S DIGITAL REGULATORY REPORTING (DRR) SOLUTION, WHICH USES THE OPEN-SOURCE COMMON DOMAIN MODEL, ALLOWS A SCALABLE IMPLEMENTATION OF REGULATIONS

IS NOW THE TIME FOR MANAGED SERVICES IN REGULATORY REPORTING?

FIRMS BENEFIT FROM IN-DEPTH SUBJECT MATTER EXPERTISE, REDUCED OPERATIONAL COSTS AND TO ENSURE COMPLIANCE WITH EVOLVING REGULATORY FRAMEWORKS

As we reach the 10-year anniversary of the first CFTC reporting obligations, many firms now view their regulatory operations and technology divisions as more mature functions. With this maturity comes the age-old requirement to reduce costs, rationalise the team footprint and increase efficiency.

However, as we approach yet another period of regulatory upheaval, we are seeing a growing trend of firms looking at alternative options to the traditional in-house capability – one of these options is to partner with a MSP to deliver regulatory operations and technology functions.

Managed services encompass a range of outsourced solutions designed to enhance operational efficiency, security, and strategic focus for financial institutions. These services are typically provided by specialised third-party providers and can include a variety of offerings tailored to meet the unique needs of the financial sector.

Firms opt for managed services to benefit from in-depth subject matter expertise, reduced operational costs and to ensure compliance with evolving regulatory frameworks. Furthermore, compliance with regulatory requirements is currently a critical focus for firms during this period of significant regulatory change.

There are a substantial number of global rewrites occurring over the next 18 months which has resulted in firms needing to ensure they fully understand the impact of these changes and are adequately resourced to deal with the ongoing post-implementation requirements .

This global harmonisation of reporting standards combined with the additional challenges of hiring and retaining experienced and knowledgeable staff makes it more feasible for organisations to consider leveraging managed service solutions as a viable alternative to maintaining internal reporting capabilities.

Benefits

Cost Efficiency:
Utilising managed services can often lead to cost savings by shifting from capital expenses to predictable operational expenses. This can include reduced in-house staff, infrastructure costs, and overall maintenance expenses of complex reporting solutions.

Expertise and Specialisation:
MSPs offer specialised expertise, ensuring that firms have access to professionals with in-depth knowledge and experience in global regulatory obligations. This can include specific regional expertise as well as providing firms with access to broader horizon scanning facilities.

Focus on Core Business:
Outsourcing non-core functions such as IT and exception management enables firms to concentrate on their primary objectives and strategic initiatives, enhancing efficiency and productivity in their core business.

IS NOW THE TIME FOR MANAGED SERVICES IN REGULATORY REPORTING? (CONT.)

Benefits (cont.)

Scalability and Flexibility:
Managed services provide scalability, allowing firms to easily adjust their resources based on fluctuating demands, whether due to market changes or in response to periods of regulatory change where firms are likely to require additional capability.

Access to Advanced Technology:
MSPs often invest in cutting-edge technologies, granting financial firms access to advanced tools and solutions without the substantial upfront investments that would otherwise be required. This allows firms to report in the multiple formats required, ranging from XML and FpML to CSV, without the need to develop bespoke solutions.

Considerations

Perceived Loss of Control:
Outsourcing functions means relinquishing some control over operations, which may lead to concerns regarding the day-to-day management of key tasks. Firms should ensure that there are clear boundaries defined with their MSP, with appropriate escalation channels in place should issues need to be reported and resolved.

Dependency on Third Parties:
Relying on external service providers can introduce vulnerability, as the firm's operations become dependent on the performance and reliability of third-party entities – when engaging an MSP, it is always important that key metrics are agreed so that performance can be measured in the form of KPIs and SLAs.

Potential Communication Challenges:
Coordinating with an external party may pose communication challenges, leading to misunderstandings, delays or inefficiencies in service delivery and resolution of issues – it is critical to introduce robust governance procedures on both sides to ensure that objectives are understood and regular checkpoint discussions are held to facilitate effective communication.

Customisation Limitations:
Managed services often follow standardised solutions, limiting the ability to tailor services to the specific needs and unique requirements of the financial institution. However, with the ongoing global harmonisation of reporting standards this can also provide the tangible benefit of aligning firms with their peers from both an operations and technology perspective.

Integration Complexities:
Integrating managed services with existing systems and processes can be complex and time-consuming, but the impact can be mitigated with careful planning, coordination, and potential adjustments to current operations.

In conclusion, managed services in the regulatory reporting space represents a holistic approach to the management of IT and operations functions. There are many complex decisions to be made in the domain of regulatory change but by outsourcing these specialised functions to experts, firms can optimise their operations, enhance their regulatory adherence, and remain agile and compliant in an ever-evolving environment.

IT IS CRITICAL TO INTRODUCE ROBUST GOVERNANCE PROCEDURES ON BOTH SIDES TO ENSURE THAT OBJECTIVES ARE UNDERSTOOD

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

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WHO WE ARE

Part of Capgemini's Financial Services Strategic Business Unit since October 2022, 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.

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