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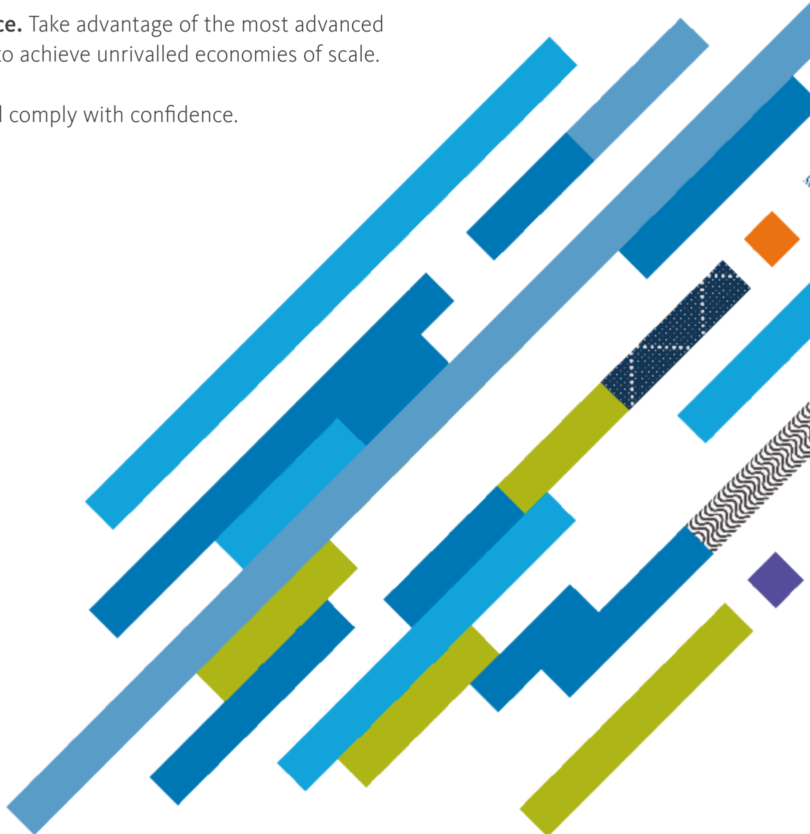

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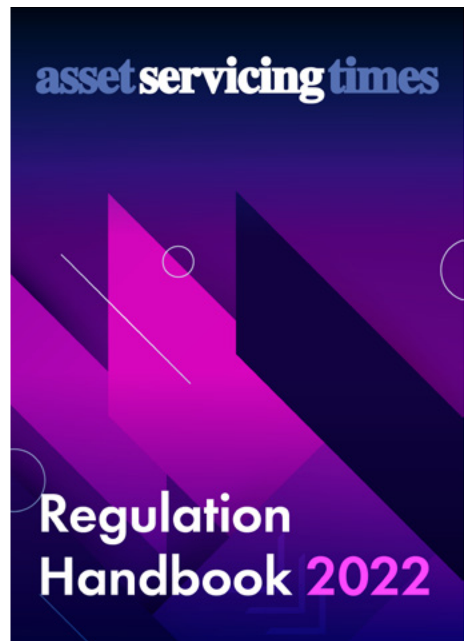

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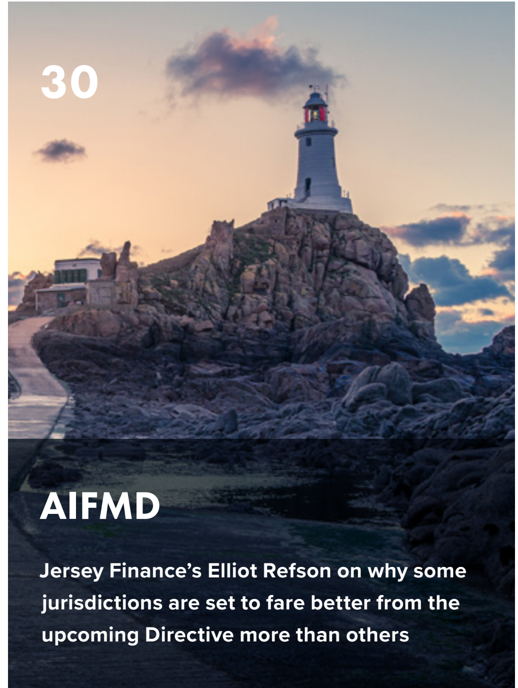

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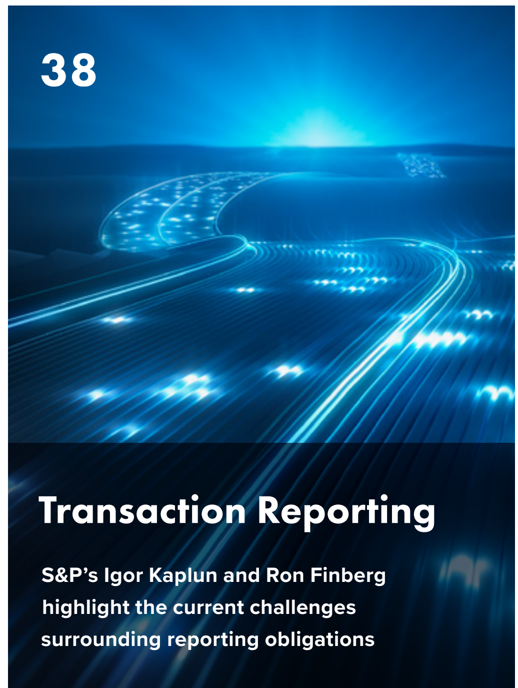

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Clearstream selects Proxymity's Shareholder Disclosure Solution

Clearstream has selected Proxymity's Shareholder Disclosure Solution to further digitise its disclosure services, in compliance with the EU's Shareholder Rights Directive II (SRD II).

The mandate will allow Clearstream clients to validate and automate shareholder ID requests from trusted sources in industry compliant formats, eliminating the need for manual intervention.

In recent months, the Shareholder Disclosure Solution has also been adopted by several banks, including HSBC.

Proxymity's solutions ensure that investors receive "golden source" meeting announcements in real-time and are able to vote up until the market deadline.

SRD II has been implemented to strengthen the position of shareholders and to reduce short termism and excessive risk-taking within companies traded on EU-regulated markets.

Sam Riley, head of investor services and financing, Clearstream, comments: "At Clearstream, we always seek to optimise our clients' experience throughout the whole securities lifecycle. Together with our partner Proxymity, we are providing the best in digital disclosure solutions, driving transparency and efficiency in the European capital markets."

Jonathan Smalley, co-founder and chief operating officer at Proxymity, says: "The launch of this service is a specific example of how we are working together to deliver services that improve the speed and quality of shareholder disclosure systems."

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Transaction reporting still not a priority for firms despite recent ESMA fine, finds ACA Group

Compliance advisor, ACA Group, has found that transaction reporting is still not a priority for firms, despite the European Securities and Markets Authority's (ESMA's) fine handed out to REGIS-TR last year. ACA Group's findings outlined that though concerns around inaccurate regulatory reporting are leading to fears of undetected market abuse and an inability to monitor for systemic risks, firms are still continuing to de-prioritise improving their reporting obligations.

The findings come 16 months after REGIS-TR, the EU's second-largest trade repository (TR) was fined €186,000 for eight breaches of EMIR for failing to provide "direct and immediate access" to details for derivative contracts, as required by the regulation.

Despite the considerable fine for REGIS-TR, ACA Group found that only 19 per cent of firms identified trade and transaction reporting as a "top compliance" challenge for firms in 2022.

In addition, the same survey found 65 per cent of those asked were confident in the quality of their own reports, though the results for this same question stood at 87 per cent in 2021.

The findings, derived from a survey conducted at ACA's Regulatory Horizon virtual conference in April, come off the back of a 2021 analysis by the firm which showed 97 per cent of reports under Markets in Financial Instruments Regulation (MiFIR) and EMIR contain inaccuracies.

The report warned that errors could lead to undetected market abuse and a lack of transparency into systemic risk, while also posing significant financial, reputational and compliance risks for reporting firms.

It also warned that a regulatory crackdown from the UK Financial Conduct Authority and ESMA was likely imminent, with ESMA's penalty to REGIS-TR indicating a continued focus on data quality.

Matt Chapman, managing director and co-lead of the ACA's regulatory reporting monitoring and assurance (ARRMA) service at ACA Group, comments: "It is good to see a downturn in the overconfidence that so concerned us in last year's report. But there remains a dangerous lack of understanding or prioritisation around the current processes required to meet MiFIR and EMIR standards."

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Jersey Finance welcomes Limited Partnership amendments

Jersey Finance has welcomed a further series of amendments to Jersey's Limited Partnership Law, which aims to provide fund managers with greater flexibility in their international fund structuring.

The amendments, which are subject to Privy Council approval, are expected to come into force in the third quarter of this year. They are designed to modernise the jurisdiction's regulatory framework, recognising trends and developments in the international funds environment. The amendments include introducing wider protections for the limited liability of limited partners, by expanding "safe harbour" provisions where participation in the management of a limited partnership is concerned.

Further amendments include allowing third-parties to have enforceable rights under the partnership agreement while not being a partner of the Limited Partnership.

The Limited Partnership vehicle is used extensively in cross-border fund structuring, particularly within the private equity and venture capital asset classes.

Other amendments include new reporting obligations to ensure the register is kept up-to-date, the introduction of a clearer termination process, and the initiation of wider amendment powers to facilitate more efficient legislative change in the future.

The last set of amendments to Jersey's Limited Partnership law were made in 2020, when a statutory basis for limited partnerships to be migrated from other jurisdictions was introduced.

The move provided greater legal certainty for managers and investors, and resulted in a significant uptick in Limited Partnership fund structures moving to Jersey.

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EMIR Refit to cause delays and risk of fines, says report

The upcoming European Market Infrastructure Regulation (EMIR) Refit could cause significant delays and run the risk of fines as regulations increase sell-side and investment firms' reporting requirements, says an Acuiti study.

The report, which is sponsored by Broadridge and titled "EMIR Refit: Navigating the mandatory changes", details how regulatory reporting teams face significant challenges in complying with the new regulation.

According to Acuiti, companies have found themselves operating with a lack of clarity on how the new framework will impact their reporting processes. This increases the risk of errors, which adds to the burden for teams when they have to explain breaks to regulators.

Acuiti found that 69 per cent of firms were expecting serious challenges when building up their matching, reconciliation and exception management capabilities.

All 40 sell-side firms surveyed for the study envisioned some level of challenge in correcting errors and resubmissions.

The study also highlights that firms are facing significant resource constraints in amassing the expertise and infrastructure to meet the challenges posed by EMIR Refit.

These constraints have added to the difficulties of controlling the amount of budget devoted to regulatory reporting, which can eat into other investment plans, says the report.

The findings highlight the importance of developing robust systems for trade and transaction reporting, and for the correction of errors.

Commenting on the study's findings, Acuiti's head of research Ross Lancaster says: "Regulatory reporting regimes have long been a slog to implement for firms, creating lots of potential cost with little to gain in competitive edge. EMIR Refit looks set to be no different, with compliance preparations still hindered by a lack of clarity on how the regulation will fit with other jurisdictions' frameworks.

"Nevertheless, there is no alternative to upgrading or replacing systems for compliance. Firms will be well served by increasing their analytical capabilities to continuously assess what causes inevitable reporting errors and how to adjust processes accordingly. This can improve internal functionality while also minimising the risk of fines."

EMIR – MiFIR – SFTR – FinfraG – MAS – US Dodd Frank – REMIT
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Making the right use of regtech has the potential to grow the industry exponentially, says ISLA panellist

"Regulation technology experts that make the right use of technology, have the potential to grow the industry exponentially", said **Ian Sloyan**, senior advisor, data and digital solutions of the International Swaps and Derivatives Association (ISDA) at the 29th Securities Finance and Collateral Management Conference in Vienna.

The conference, organised by the International Securities Lending Association (ISLA), held a regulation-focused panel, entitled “Beyond acks and nacks: The end of regulatory reporting as we know it?”, in which Sloyan made the comment.

The panel, moderated by **Miles Barker** of Credit Suisse, saw industry experts discuss whether regulatory reporting as the industry knows it has reached a new cycle.

Barker questioned the panel on what lessons they and their businesses had learned from being in the industry for more than 10 years, and what they thought would help the industry to move forward in terms of regulation.

Pierre Khemdoudi, senior vice president, network and regulatory solutions at S&P, said: “I am generally very optimistic. The search for quality and for scalability in the regulatory reporting space is moving fast. It is at the centre of strategy for both large and small clients. This optimism is powered by technology adoption. Cloud is at the centre of scalability.

“Generally, there have been many lessons learned along the way. We feel we have come to the end of the cycle after a series of global reporting initiatives that has been deployed over the last decade. Globally, we are now rebuilding to make sure that models are scalable and sustainable' as well as cheap to maintain for many years to come.”

Barker discussed how in the early days of regulation, reporting was sometimes seen as a burden. He then asked DTCC’s **Valentino Wotton**, managing director, product development and strategy, repository and derivatives services, his view on burden versus benefit.

To which Wotton answered: “Firms still mainly see it as a burden because it is not tied to the upstream. We are moving toward the point where firms are looking towards the same data for those flows because it is far more efficient from a data management perspective — it is about having common data models.”

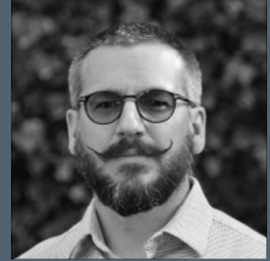
He went on to say: “Though, the real crux when it comes to derivatives, is the implementation of standards. Of fundamental importance is the implementation of the common data elements — if the majority of those are adopted, across jurisdictions and in a standardised way, that is going to be critical. The trouble is that 110 fields under the Securities Financing Transactions Regulation (SFTR), is not realistic. In reality, there are 50 to 60 key economic fields that are needed. If we can get to a stage where we can coalesce all standards — including ISO 20022 — consistently and across the globe, the ability to aggregate data becomes far more viable, and if this can be done in a timely manner, rather than only after a crisis, then we will definitely be moving in the right direction.”

Wotton added: “We need to continue collaboration across the industry to get the right output. The industry has made significant investment in delivering high levels of data and it is envisaged that value will be derived from the aggregation of that data.”

Barker then asked for a vendor's point of view, to which **Jonathan Lee**, senior regulatory reporting specialist at Kaizen Reporting, outlined: "There is a strong need for a thorough restructuring-type project to have full back-to-back flows in a common standard. It is important to keep things simple — in terms of a common domain model — to create a model front-to-back within organisations, which is proven to be a fully functioning product, and then to present it to the regulators who are generally very conservative and very legally-driven. When we achieve that, we will have very good prospects as a means to push away from push reporting."

Barker went on to ask Khemdoudi how he viewed the standardisation of operational data, to which Khemdoudi answered: "I have been working with financial data for a very long time. Every single time there is a new format, we are being asked to translate into that format. Very rarely do financial institutions natively adopt the format because the upstream challenges of that are often too complex and expensive. In addition, the timescale for adoption is long, often taking decades, unless it is mandatory. The work that ISLA is doing for global standards is amazing, but that does not take away from the complexity of standardising operational data."

Barker went on to ask the panellists if the buy-versus-build landscape is changing. Kaizen's Lee said: "I think in many cases there has been a move away from build-versus-buy. The whole concept of having a Fort Knox data warehouse within the bank, in which nothing ever exits the door, and everything needs to be internalised, is an emerging trend, but it has not necessarily changed us as an industry yet. It has been very much about how we limit our operational overhead, and cut costs as much as possible."


Miles Barker (moderator)
Credit Suisse

Ian Sloyan
ISDA

Pierre Khemdoudi
S&P

Valentino Wotton
DTCC

Jonathan Lee
Kaizen Reporting

Khemoudi added: “As much as we would like to have complete certainty from the regulators on when they update regulation, I do not think we will ever get there. That is the reality, these are highly technical reports and highly technical transactions and they are trying to find a one - size-fits-all for this when it is very complex.

“There will always be areas of interpretation and that is where it is interesting to have this mutualisation aspect because using a mutualised solution gives you an industry view."

"For example, if you look at the SFTR and work done by ISLA or the International Capital Market Association to create standards for interpretation, it is huge work. At least have the same interpretation as your peers — that is the idea.”

Lee outlined: “We need to be evangelical here — we need to prove that this is not super complex. It is complex because people have tried to present it that way. There is a lot of data, but I do not agree that it is hugely complex.”

Addressing Lee’s comments, Khemoudi’s said: “The reporting is complex, but it should not be that complex. However, the reality is that the financial markets are complex and when you report, you have to reflect on all the different models — which is where it gets complicated."

"I understand why clients want to make sure that they report in the same way. If they report with the same interpretation as their peers, that means safety is in numbers.”

Khemoudi added: “Where we see greater implementation of standards is when there is a data strategy at bank level. When there is a true strategy around controlling data — making use of the data to have better control, where regulatory reporting is one pillar of it — we see huge success in clean reporting and clean implementation and having a scalable model.”

In his closing comments, DTCC’s Wotton made the point that “collaboration and being invested collectively as an industry is the way forward”.

But he urged the industry to be realistic about time to market and the challenges that it faces.

Khemoudi highlighted: “Every single market participant can do better, but what really matters is that any new reporting regime or update that comes along is in line with what has come previously. It would be awesome to see similarities in regions and globally — some reuse from what we have been building, it makes both vendors and client’s lives much easier.”

Lee said: “You should be adopting the best practices that have been advised by the trade associations. Follow those best practices to adopt the corresponding market standards and always make sure you abide by the contract.”

He highlighted that there are/were too many instances where firms are basically terminating a contract for operational reasons, and then booking a new one, rather than modifying the original transaction which was contractually agreed.

“I recommend going with the standards and best practices and making sure you follow the contracts that you have traded,” he added.

Sloyan concluded the panel by saying: “We want to evolve to see regulators ask for the particular view they would like of a particular activity or market, or data field, and we can layer over that view for them on the underlying systems’ data — that can be on any technology requested, whether it is on the cloud, distributed ledger technology, or an old-fashioned mainframe.

“It is all about the complexities of the technical standards and attempts by regulators in good spirit, and at rapid speed, to build an infrastructure which, in reality, we probably just need to simplify.”

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Of paramount importance

Deep Pool's Roger Woolman looks at why getting anti-money laundering processes right has never been more important

New regulatory demands — not least the ESG-related transparency and disclosure obligations now coming to bear — are adding to the pressure on asset servicers' compliance capabilities. But age-old responsibilities are ramping up too, especially around anti-money laundering (AML).

Authorities around the world are cracking down on dirty money flows, with hefty fines and criminal censure awaiting firms that exhibit AML failures. And any financial institution with an AML/know-your-customer (KYC) responsibility — be it a bank, fund administrator, investment manager, trust company or advisor — is in the regulatory crosshairs.

In the US, the January 2021 introduction of the Anti-Money Laundering Act (2020) represented the most substantial reform of the country's AML and combat the financing of terrorism (CFT) laws since the USA Patriot Act (2001) almost two decades before.

Among its provisions, the new Act requires corporations and limited liability companies to disclose their beneficial owners to the US Treasury Department's Financial Crimes Enforcement Network (FinCEN).

The Act also gives US regulators expanded authority to obtain documents from foreign financial institutions and levy higher penalties for AML violations. Meanwhile, proposed bipartisan legislation seeks to make non-financial businesses and professions subject to the same AML responsibilities as financial institutions.

Laws are tightening in Europe too. The European Commission put forward an extensive package of legislative proposals last year, aimed at strengthening the EU's AML and CFT rules by improving activity detection and closing loopholes used by criminals.

The proposals include a new regulation, plus an update to the Anti-Money Laundering Directive, which will see "aiding and abetting" by money laundering "enablers" become a criminal offence.

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> "Definitions of suspicious activity change over time and across jurisdictions, and monitoring capabilities need to keep pace"

Extending the criminal liability will mean companies can be prosecuted for any involvement in money laundering or terrorist financing, including where they fail to prevent an individual in their organisation from breaching AML rules and regulations.

Bottom line: AML violations, intentional or otherwise, will not be tolerated. So firms will need to ensure their controls and processes are up to the job.

AML pain points

While getting AML controls wrong is expensive, getting them right can be tough. The rules are often complex, with different jurisdictions adding their own spin.

The new EU legislative proposals, for example, make customer due diligence measures more granular. Politically exposed persons (PEPs) in particular will be subject to enhanced due diligence on a risk-based approach.

Beneficial ownership laws will be tightened as well, with new requirements around nominees and foreign entities, and more detailed rules to identify beneficial owners of corporates and other legal entities. This echoes the US AML Act (2020), under which corporations and limited liability companies must now disclose their beneficial owners.

However, identifying and tracking underlying beneficial owners (UBOs) demands levels of transparency and ongoing monitoring that many institutions struggle to meet. Digging into the details of every UBO behind complex structures is often a manually-intensive exercise that takes up significant time and resources.

Detecting unusual or suspicious transaction activity and customer data changes, and issuing Suspicious Activity Reports (SARs) to the relevant regulatory bodies is another challenge. Definitions of suspicious activity change over time and across jurisdictions, and monitoring capabilities need to keep pace.

At many firms, suspicious activity monitoring depends on manual reviews and is conducted in retrospect. SARs must be filed within 30 days of detecting any suspicious activity, so speed of reporting can be critical.

Identifying fraud involves many steps and is prone to manual error too. The risk of false positive alerts is high. Without an efficient way to identify and discount those false positives, firms will be hit by unnecessary delays and costs.

A fit-for-purpose AML framework starts with onboarding

Given the potential fines and reputational risk, robust AML capabilities that span the entire client lifecycle have become a must. AML compliance depends on complete and accurate information, so data needs to be correct from the get-go. That starts with the client onboarding process.

Risk profiling helps institutions perform the initial due diligence on client accounts. By collating and weighting data such as an investor's occupation, country of domicile, or the industry an organisation belongs to, firms can build up a risk-based picture of prospective clients.

Screening to check no sanctions are in force against a prospect, that they are not a PEP, or been flagged for any criminal behaviour, is an essential step in onboarding. Systems able to integrate with third-party watchlists, such as LexisNexis, can check for matches against the database and pull that data in to strengthen the risk profiling.

Identifying UBOs is another priority. With beneficial owner disclosure rules tightening up, tools that can capture and track complex, and multi-level ownership structures identifying and verifying customer and beneficial ownership identities, as well as flagging high-risk relationships will save a lot of pain down the line.

Checking the source of a client's funds is vital. As is getting the right documentary support. Each jurisdiction has its own KYC document checklist that clients need to meet, and those requirements vary by client type and sector. Managing the process manually account by account is both laborious and error-prone, especially when multiplied across thousands of clients. An automated solution able to look across all the accounts, see what documentary evidence is missing against a document checklist, and send automated email chasers requesting any missing documents, can save a huge amount of time and work — allowing staff to focus on less mundane, more value-adding activities.

Client due diligence never stops

Stringent client onboarding processes are essential to a best practice AML framework, but by themselves are no longer sufficient. Client due diligence has become a never-ending obligation, with zero tolerance for error.

> "Stringent client onboarding processes are essential to a best practice AML framework, but by themselves are no longer sufficient"

That means periodically checking each client's profile and documentation to ensure everything is current and in order. The frequency of checks will depend on the assessed risk level. For high-risk clients, the refresh process is typically an annual undertaking. For medium-risk clients it is every three years; for low-risk every five.

Ongoing PEP and sanctions screening provides a further check. The status of people and institutions change, and screening needs to reflect that. A change of circumstance such as a name or address update, or any information modification (revising the name on a bank instruction, for instance) can be a red flag. Automating ongoing screening and risk profiling processes frees end-users to manage by exception.

There is also the need to monitor for suspicious transactions and changes to customer and static data. Real-time activity monitoring capabilities can identify behaviours that breach certain user-defined parameters. They can spot AML risks, trigger automated alerts of suspicious activity, block accounts

or transactions when suspicious events occur, and create comprehensive reports of all the suspicious activity that has taken place at a given point in time.

Monitoring tools can help users deal with potential issues before they become an actual breach and, where required, ensure a SAR is sent to the relevant regulatory body within the stipulated time.

Automation is the only solution

Proper AML control depends on multi-step processes integrated at each stage of the client journey. Nuances based on circumstance and jurisdiction add to the complication. Carrying out the necessary checks for an individual is one thing. Monitoring numerous corporations with complex entity structures, a legion of directors and investments in multiple vehicles, in a range of jurisdictions, takes the challenge to a whole new level.

Without an automated, scalable and customisable AML framework, able to flex to different scenarios and evolving jurisdictional requirements, asset servicers will struggle to combat money laundering risks effectively while fulfilling their own compliance responsibilities, as well as their clients'.

However, undertaking that digital transformation — to get firms from where they are (often reliant on fragmented technologies and complex manual steps) to where they need to be (working off integrated systems and automated processes) — is no easy feat, entailing change across four key areas.

1: Process

A successful digital transformation requires firms to assess and often redefine their AML processes to fit with an automated workflow. The goal should be to eliminate manual steps and, where possible, move to a self-service model for activities such as investor onboarding and trade placement.

Adapting ongoing client due diligence processes is similarly vital. Manually checking for any changes in name, address and updates to bank details is time-consuming and leaves room for oversights and mistakes. Software can automatically flag any change in circumstance or suspicious transactions when they happen, and prompt a review of the account. Freeing staff from manual processes also allows firms to redirect resources to more value-adding compliance activities.

To be effective, automated processes must be scalable and easily customisable to keep pace with regulatory changes. A configurable set-up that enables system administrators or users to tune rules on the fly allows firms to stay abreast of AML/KYC developments without the need for constant vendor involvement.

2: Technology

Demand for device-agnostic, web-based software has been turbocharged by the COVID-19 pandemic. Moving from on-premise to cloud-based AML solutions introduces greater working flexibility and resilience by giving staff access to the applications they need anywhere and at any time, and it is often cheaper. However, people working from home and using their own devices creates a technology risk. Organisations worry about a lack of oversight and potential exposure of sensitive data. Firms will need tight controls to mitigate such risks.

Digital transformation projects also bring build-versus-buy technology questions to the fore. In-house systems offer the prospect of greater control and bespoke development, but they can eat up huge resources and become bogged down in painful delays.

Vendor systems tend to be quicker and easier to implement, while offering built-in scalability. Plus, dedicated AML vendors have extensive experience of the global regulatory environment and will likely employ best-in-class technology.

3: Data

Where data is housed is critical to effective AML. Investor-related data is often siloed across multiple systems, and may be formatted and stored in different ways across different divisions and jurisdictions.

This risks errors, process bottlenecks, and a lack of investor and beneficial owner transparency.

The goal should be a central repository of golden source data that can feed consistent information to all parts of the business.

Applications sit on top, and query and call the cleansed data they need on demand.

Moving databases into the cloud can help, allowing for a centralised data store with unlimited scalability accessible from anywhere. However, location remains a consideration.

Luxembourg laws, for instance, require client data to be held in the country. A private cloud — with the server based in that jurisdiction to house the relevant data — offers one solution.

Another solution is to employ a hybrid model, where the database is kept in a physical server on site, with the application layer deployed in a public or private cloud. Applications can then retrieve the data and display it to the user without storing it.

4: Culture

AML-related activities, such as account opening, that were once conducted face-to-face are moving online. Creating the digital infrastructure to support this shift demands buy-in from key stakeholders across the enterprise. Yet organisations are often slow to change, and some parties may be resistant to the transformations needed. Managing these stakeholders and bringing them along is key.

Keeping system implementations agile is similarly vital. Business demands, workflow requirements and regulatory rules may all diverge from the initial project scope.

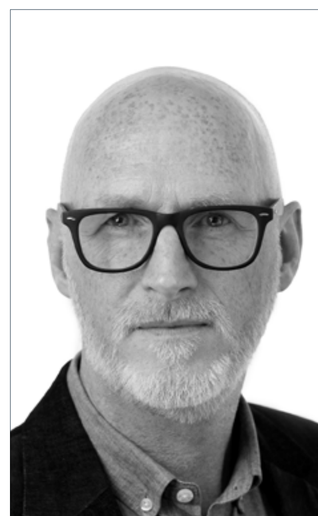
An iterative development approach enables firms to use data and feedback from user pilots to guide the next steps and reach achievable goals.

Software that gives users the flexibility to make updates on the fly can also help firms' meet their evolving AML and KYC responsibilities.

Time to get your AML in shape

Automated AML capabilities are now a must-have. With money laundering schemes becoming ever more sophisticated and regulatory actions stepping up a gear, firms can no longer rely on fragmented, outdated tools.

Moving from haphazard manual processes to a robust, automated environment may be a challenge, but it has never been more important.



Roger Woolman
Chief revenue officer
Deep Pool

The continuing challenge

Philipp Rothermich, principal consultant at Comyno, outlines why SFTR continues to challenge the industry, and why the responsibility of reporting is now given to operations, treasury or middle office departments

Fulfilling the requirements of the Securities Finance Transaction Regulation (SFTR) ties up a lot of internal resources for the broad range of institutions that have to perform SFTR reporting.

Some firms have heavily invested in the development of internal SFTR solutions at great cost, both for implementation and maintenance. For those particular firms, there is little reprieve in sight, with more regulations and investments on the horizon.

Optimising or outsourcing in-house solutions help clients to take pressure off IT departments who, in most cases, have limited resources and are struggling with other infrastructure challenges and initiatives.

The responsibility of reporting is often put on those in operations, treasury or middle office departments. A professional and technical understanding plus IT support is necessary in most cases. The responsible departments are often struggling with manual workarounds, missing validation processes and user-friendly graphical user interfaces (GUIs).

Comyno's best practice

Pre-validation processes help banks to identify potential missing or incorrect data or non-compliance with the European Securities and Markets Authority (ESMA) validation criteria. Therefore, it helps to minimise the manual effort by an internal ex-ante validation of the report to be submitted, while avoiding ex-post-trade corrections. Paired and matched reports in the initial submission can reduce the SFTR-related operational costs by up to 80 per cent.

According to ESMA's data quality report, as of end 2021, matching rates of loan components sat just below 50 per cent, while collateral components were at around 20 per cent.

Given these statistics, GUIs showing and highlighting the breaks are a critical software component, saving operations and IT resources.

Images by who_is_danny/stock.adobe.com

Some SFTR solutions still require a lot of technical understanding when reading the extensible markup language-messages due to the lack of sophisticated technical solutions. A range of different complex reports are sent from the trade repository to the end-user and each needs to be analysed in a specific way.

An automated interpretation and pre-processing of those feedbacks is a mandatory software requirement to increase operational efficiency and to meet the regulatory obligation. This becomes even more important considering an increasing focus of the national competent authorities (NCAs) on the matching of the reports.

Good software solutions help to identify gaps in the data set. While much of an attention has already been put to timely reporting, many more improvements in the area of reconciliation are needed. Those areas will continue to be a point of focus for ESMA and the NCA going forward, according to the aforementioned ESMA data quality report. Achieving improvements in areas where insufficient quality of data is identified is one of the key objectives of ESMA and the NCAs. The low matching rates show that a lot of actions and coordination with other counterparties continues to be done on the firm's side.

Beside missing technical know-how, another drawback is the lack of SFTR business expertise. Even the best tool is useless without knowing how to use it. A lack of expertise around SFTR and recruiting for this expertise is one of the industry's biggest challenges and remains a cause for concern. Firms are still seeking employees with the required skills to improve their internal processes and workflows.

One of the services many banks offer to their counterparties or customers is delegated reporting. To provide evidence that the reporting was done properly, it is best practice for banks to provide their counterparties or clients a report which lists all reports and their reporting status, as the delegating entity remains in charge of the reports provided, and will be the initial contact for their NCAs on reporting issues.

Ongoing releases of the trade repositories and changes in the ESMA reporting schema cause changes in the SFTR reporting. Firms are still facing challenges in dealing with internal SFTR processes, while external influences start to build up. Trade repositories and changes in the reporting schema by ESMA keep firms busy with releases which have to be adopted by each firm while they are still busy optimising their internal operational processes. This is all while they also fix bugs in the software and aim to improve instrument static data.

Make or buy

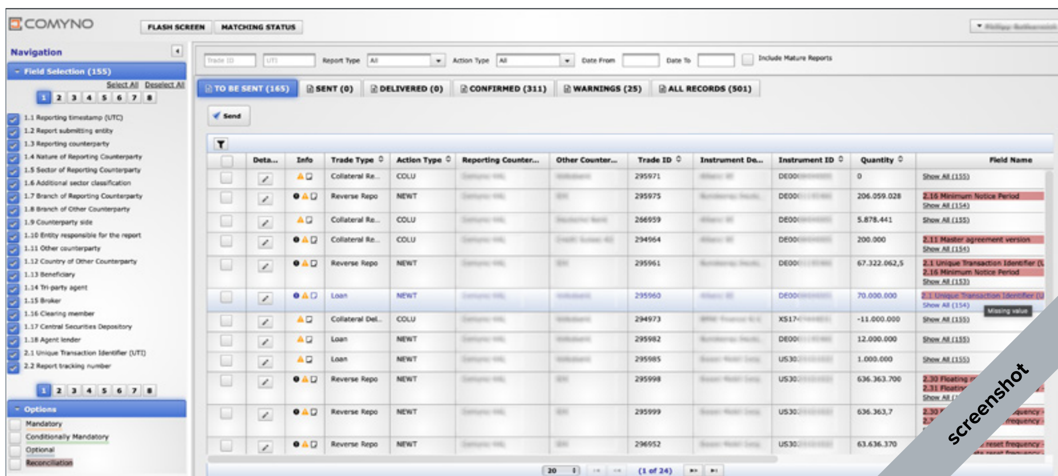
Some solution providers failed before starting, and some trade repositories quit a few months after go-live. SFTR is the "Big Bang" of reporting requirements in the securities finance space. The Big Bang has often morphed into a "data jungle" with costs and efforts getting out of control.

While many firms chose to build their own SFTR solution, others bought an external solution. Many software providers underestimated the continued effort of implementing releases and data quality challenges. Some in-house solutions have even bigger gaps and cannot assemble the best practices of different SFTR users.

It is not too late to review the decision and it is time to rethink it, if the current internal approach is carried out in a sustainable manner. To grapple with a bad SFTR solution for the next decade is costly – whether or not it is an internal or external solution.

Integrate a solution in the existing environment

An in-house development solution may lack flexibility and functionality, resulting in increasing maintenance costs and testing efforts over time. The SFTR reporting will certainly need further adaptations over the coming years. This means that additional costs



arise when the adaptation of the SFTR reporting requirements take place.

Standard software usually offers a large number of predefined interfaces to the peripheral systems.

Normally, these already contain the needed attributes and only need to be adjusted individually.

The provider will supply business and IT resources for implementation and testing of the new functionalities.

If the solution is in place for customers, further positive effects can be gained by the customer.

Comyno, with its business expertise and its SFTR solution, can provide a standard technical solution, implementing releases as part of the software license agreement — giving clients access to business experts.

Our solution allows clients to import all the reports they did before, so that they have all their reports in a single place, from day one. A rich GUI functionality with the required connectivity to a clients' core banking system and the trade repository is also part of the offered solution.

Philipp Rothermich
Principal Consultant
Comyno

To rewrite or not to rewrite is no longer the question

deltaconX's Paul Rennison discusses the ongoing changes to EMIR and the impact for reporting companies and their providers

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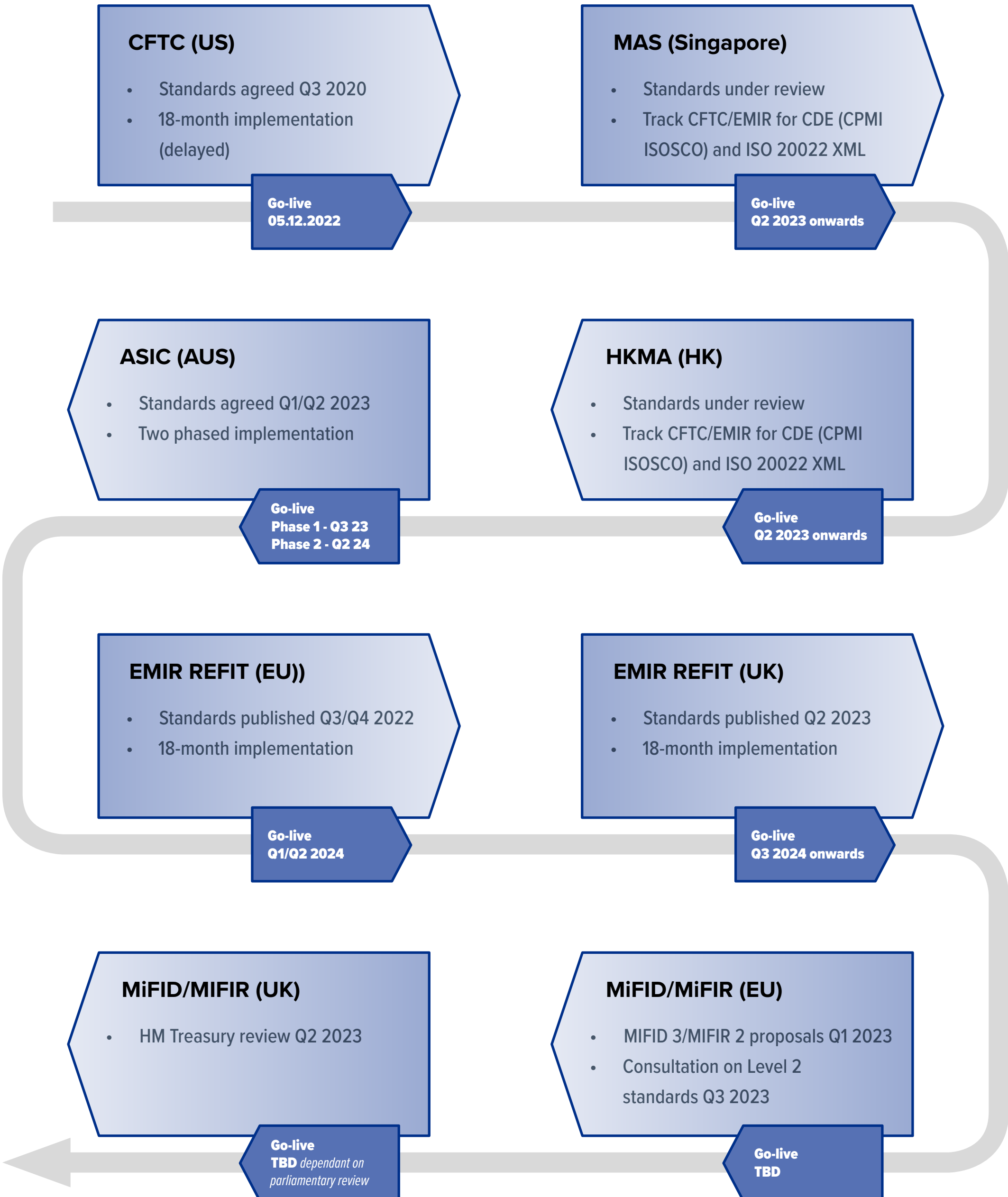
The wait is nearly over, and hard work and planning can eventually start. A slew of major global regulations, lining up to undertake fundamental changes over the next two years, aim to bring harmonisation and standardisation to the financial market, coupled with the goal of improving the quality and data interoperability across all jurisdictions.

The main reason for the delay was not COVID-19 — of course, this did not help. However, it was more the desire to accommodate global standards, primarily driven by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).

It was the aim of regulators and commissions to receive globally harmonised aggregated reporting across jurisdictions, with national competent authorities (NCAs), having to balance introducing implementation timeframes as soon as possible, against the benefits of delaying go-lives to accommodate harmonised requirements and data attributes.

This swathe of REWRITES will now kick off with the Commodity Futures Trading Commission (CFTC) in December of this year, and encompasses the European Market Infrastructure Regulation (EMIR) in the EU and UK, before this cycle is completed sometime in 2024 when the Australian Securities and Investments Commission, the Monetary Authority of Singapore, and the Hong Kong Monetary Authority are expected to be included.

Regulatory Timeline



What will the impact be for reporting companies and their providers?

Firstly, there is a move to incorporate the guidance developed by CPMI-IOSCO regarding the definition, format, and usage of key over-the-counter (OTC) derivatives, which should have massive benefit for those with multi-jurisdictional reporting; it should also reduce the burden of keeping data sets up-to-date as each regulation evolves over time — in theory.

There will be a move to standardise the format the data is transmitted in, defined as ISO 20022 XML format.

This will be mandated for the reporting of the report's entire lifecycle (not just from market participants to third-party repositories, but also for the transmission of data between third-party repositories to NCAs and any combination of the above).

Anything that increases the efficiency of interoperability between market participants, third-party entities and regulators will be beneficial in reducing the cost of operation and increasing the efficiency in data collection for all those involved.

This set of REWRITES is also planned to include the much-anticipated unique product identifier (UPI), which is designed to facilitate effective aggregation of OTC derivatives transaction reports on a global basis.

The role of the UPI is to uniquely identify the product involved in an OTC derivatives transaction, whether it will work in conjunction with unique transaction identifiers (UTIs), and critical data elements (CDE), which are also expected to be reportable to global regulatory authorities.

The timetable for implementation and adoption is still to be fully defined and, given the amount of work required by market participants to incorporate this reference data into multiple systems, it does not look likely to debut in this year's CFTC rewrite.

EMIR REFIT

So closer to home, in addition to what has previously been discussed, what will the next phase of EMIR REFIT require from those market participants under the regime?

At time of writing, the Final Report has not yet been published by the Commission in the Official Journal, so we still do not know the official implementation date, but is expected to be Q2 2024.

However, when it does drop, the main focus will be on data quality and interoperability, as the European Securities and Markets Authority (ESMA) review for EMIR and Securities Financing Transactions Regulation (SFTR) data quality report in 2021 brought sharply into focus, there is, from the regulator's point of view, much work to be done.

What will be in focus?

Huge changes to reportable fields

The number of reportable fields will increase markedly, increasing from 129 to 203, with the addition of 89 new fields and the withdrawal of 15.

This is twice the size of Markets in Financial Instruments Regulation trade and transaction reporting combined, and even more than the weighty SFTR reporting.

In addition, there will be updates to the definition and format of nearly every field.

It is likely that while this may cause a substantial amount of reworking and planning, it will remove some of the ambiguity around certain fields, and lead to higher matching rates and less intervention needed by market participants to reconcile trades with their counterparties.

Addition of event types

It will also require a more two-dimensional concept to the reporting of lifecycle events, currently they are defined by their action type only.

To provide more granularity, a concept of event type is being added. The event types describe more details of the underlying action and include events of a corporate event, exercise, allocation and early termination, so each action type has specific events that can be applied to it.

Increasing number and complexity of reconcilable fields

This is an aspect of the new regulation to plan carefully around, as the number of reconcilable fields is increasing three-fold over a two-year period from the go-live date. Currently there are 56 reconcilable fields, at go-live this will increase to 82, and two years down the line it is expected to increase again by a further 67 fields, bringing the total reconcilable fields to an impressive 149 (out of 203 in total).

This will also grow more complex as it will include repeatable, dynamic and valuation fields.

Changes in the UTI waterfall

Currently the counterparties agree between themselves on who, where, why and how the UTI is created and disseminated. New, more prescriptive rules will mandate who creates and disseminates the UTI, so that the approach is standardised across the market and not simply by local agreement.

Changes to the inter trade repository reconciliations

One of the main aims is to promote the harmonisation of data quality (mandated use of ISO 20022 XML) across trade repositories (TRs), as well as more rigorous requirements for data validation and data reconciliation processes, that take place at the TRs once derivatives are reported. This is seen as a major measure to improve the currently low matching and pairing rates on reported transactions.

Greater responsibility for the delegated party

The level of communication between the delegated party and client will have to increase in timeliness and efficiency as part of the changes, both in terms of more counterparty specific data that needs to be reported. There will also be new responsibility on the delegated party to inform their clients whenever data quality issues occur.

This is a significant departure from the current delegated reporting model, which relies on clients raising issues to their brokers, service providers and counterparties. This is likely to require significant investment from the delegated party (mainly sell-side firms) as they will need to operate a quasi-reporting service to their clients.

EU and UK divergence

The European Commission has committed to an 18-month implementation date from when EMIR REFIT is approved and the UK Financial Conduct Authority (FCA) is expected to align closely to their timeframe.

The biggest concern regarding EMIR REFIT is the possibility that we will see divergence in requirements between ESMA and the FCA.

In the first big test since Brexit, if the FCA decides on even minor changes from the ESMA requirements, firms will need to split their operating model with an inevitable increase in risk and cost.

Currently it would appear that for this round, technical divergence will not be the main issue, however the possible introduction of the UK changes will require adherance to separate regimes for a period of time.

Coming together

Like buses, all of these REWRITES are now coming along together and in a rather concentrated timeframe. However, timing was paramount here. Waiting until the external standards were agreed and established was absolutely key in achieving the underlying goal of standardisation and harmonisation — without pushing too much additional operational burden and expense of further implementation phases on to reporting firms, reporting providers and TRs.

This is all while long delays to compliance dates continue to restrict the ability of the regulators to efficiently monitor systemic risk in the markets.

The move to standardisation and data harmonisation is a sensible idea and will aid both regulators and reporting firms, especially those with a global exposure, to manage their compliance more efficiently across multiple jurisdictions, enabling the provision of more accurate and timely data, and reducing the ongoing cost of maintaining and managing multiple data sources and formats.

That is the goal and in theory it is absolutely the right way to go.

However, given the complex and differing sets of rule books that need to be incorporated, there is a considerable amount of work to be done before Nirvana can be reached.

So, once the starting guns are fired, a juggernaut of regulatory change programmes will be unleashed, and this will continue for the next few years, at least.

For those firms who made the decision to implement tactical, rather than strategic solutions for their regulatory programmes when the regulations were originally implemented — and who have made do and mended with each subsequent iteration — it may be time to review how best to comply in the world of REWRITES.

Ask yourself: "Do I want to do it all over again and again and again?"

Paul Rennison
Director of product management
deltaconX

AIFMD II: The implications for domiciliation

Proposed changes to AIFMD — to be known as AIFMD II — are expected to be approved later this year, having been put forward in draft form last November by the European Commission. Jersey Finance's Elliot Refson highlights why some jurisdictions are set to fare better from the upcoming Directive more than others

On 17 June 2022, the Council of the EU announced that it had agreed its general approach on the Alternative Investment Fund Managers Directive (AIFMD). Members of the European Parliament (MEPs) have now reviewed a draft report prepared by the AIFMD rapporteur and had until 27 June to submit amendments.

MEPs will now consider any amendments proposed and will potentially agree to a final text in the autumn.

Depending on how quickly the European Parliament can agree on its approach, trilogue will then commence in the fourth quarter.

In addition, the European Securities and Markets Authority also published an updated Q&A on the application of the AIFMD in May, as well as a consultation on notifications for the cross-border marketing and management of funds.

That consultation will close in September this year.

There is no doubt that the question around the impact of EU regulation on fund domiciliation has been raised again.

Looking back

It is almost a decade since the AIFMD came into force in the wake of the 2008 Financial Crisis.

As we emerge from an altogether different type of global crisis, AIFMD II is set to recalibrate the requirements for non-EU countries wishing to access EU capital.

What are those changes, and what could they mean for domiciles? There are a number of changes relating to the national private placement regime (NPPR) regime brought about by AIFMD II.

They include new requirements for non-EU alternative investment fund managers (AIFMs) to market EU or

non-EU alternative investment funds (AIFs) through NPPR, and they will be added under Article 42 of AIFMD, as follows:

- The third country where the non-EU AIFM or the non-EU AIF is established is not listed on the EU list of non-cooperative jurisdictions for tax purposes
- The third country has signed a qualifying agreement on the exchange of information in tax matters with the Member State where the marketing takes place
- The third country is not identified as a high-risk country, according to the latest European laws against money laundering.

The same changes have been made to Article 36 (EU AIFMS marketing non-EU AIFs without a passport in the EU).

Clearly, this does not bode well for countries that are at risk of being blacklisted for EU tax or anti-money laundering (AML) purposes.

These requirements mean choosing a domicile with an excellent track record of complying with both EU and international tax, as well as AML standards, will certainly move higher up the checklist.

Domiciling onshore

In terms of domiciling 'onshore', the proposals under AIFMD II could actually have the consequence of adding further cost and complexity to establishing and operating in an EU jurisdiction where the full scope of the Directive applies.

The reality is that few managers actually need blanket access to all EU Member States — the European Commission itself in 2018 published figures that showed only 3 per cent of fund managers market to three or more EU Member States anyway.

Instead, opting for a reputable third country jurisdiction allows cost-effective, flexible access to the investors a manager really wants to target in the EU through NPPR, whilst at the same time enabling access to capital beyond Europe, without adhering to the stipulations of the AIFMD.

What's in store for Jersey?

Jersey is well positioned in light of AIFMD II. Managers have shown faith in the jurisdiction for some time, with some 200 managers now opting to target EU investors via private placement regimes through Jersey — a figure that has grown around 58 per cent over the past five years.

They can, and are doing so, through a range of structuring and operational models from a 'manager of managed entity' approach to full relocation. Optionality has been key.

Jersey's government remains strongly committed to compliance with international standards and as a result there is no expected negative impact on Jersey in relation to the proposed new rules.

Jersey is recognised by the EU as a co-operative jurisdiction for tax purposes, and has signed a qualifying agreement on the exchange of information in tax matters with EU Member States.

In addition, Jersey is not identified as a high-risk country, according to the latest European laws against money laundering.

All of the above should send a clear message of confidence to managers and investors that Jersey's current model should continue to operate seamlessly and effectively under the AIFMD proposals.

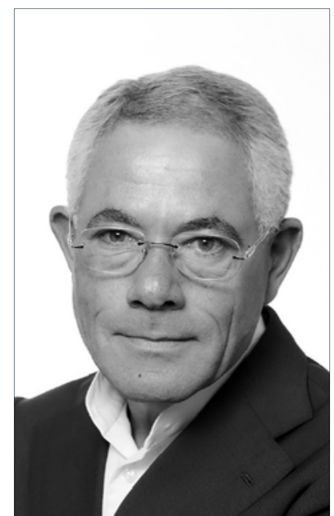
If the proposals are agreed, there will be a two-year period with changes expected to take effect in 2024/25.

"Jersey is well positioned in light of AIFMD II. Managers have shown faith in the jurisdiction for some time, with some 200 managers now opting to target EU investors via private placement regimes through Jersey"

As we approach the tenth anniversary since AIFMD was implemented in the EU — with the European Parliament's draft report and ESMA's updated Q&A fresh in mind — this latest installment will certainly give managers food for thought this year.

Other domiciles, such as Jersey that have shown a commitment to cooperation, good oversight and strong regulation, will be well-placed to continue to support non-EU managers with ongoing access to investors within the EU.

Elliot Refson
Head of funds
Jersey Finance



Re-papering over the cracks

Brian Bollen outlines the rulings behind Phase 6 of the UMR. Who in the industry is well prepared ahead of the September implementation date, and who is still lagging dangerously behind?

Re-paper. This word featured so often in a recent conversation that at one point this writer felt they were listening to a script read-through for a television property refurbishment programme. He was in fact talking to Shaun Murray, CEO of the specialist consultancy firm Margin Reform. The subject under discussion was not the refreshment of internal domestic design, but the readiness of financial markets for Phase 6 of Uncleared Margin Rules (UMR), which is currently due to begin on 1 September this year. This will extend the requirement to comply with UMR to firms whose total notional exposure (measured on a group basis) reaches €8 billion, although if counterparty relationships fall below a €50 million initial margin (IM) threshold, they will continue to be exempt — for now.

"If you do not reach that threshold, you do not have to re-paper," Murray states. "But if you think you will breach it, then you should either be working on it, or have in place a soft trigger to threshold monitor and commence re-papering when you hit that point. Should you breach the threshold without the re-papering completed, you will have to stop trading and get back below the threshold."

It almost goes without saying that there is software available to alert firms pre-trade to a potential breach. "You do not want to be using Excel," Murray cautions.

Over the course of the last few months, many vendors have been doing much more than utilising Excel to ready their clients for Phase 6 of the UMR. For one, SmartStream Technologies has launched Eligibility API, a new solution for faster collateral management optimisation. Eligibility API is a platform for clients to receive eligibility information contained within collateral agreements, such as credit support annex, global master repurchase agreements and overseas securities lenders' agreements, for both pre- and post-trade collateral optimisation.

In April, BNP Paribas Securities Services announced its collaboration with DTCC to provide a solution which aids its clients in preparation for Phase 6 of the UMR. The collaboration will see BNP Paribas' Triparty Collateral Management solution connect with DTCC's Margin Transit Utility service for Phase 6 compliance — in an effort to reduce operational complexity and risk for margin call processing.

BNP Paribas Securities Services has also added IHS Markit as an IM calculation source to its existing service for clients that are in-scope for UMR in derivatives markets. IHS Markit provides sensitivities fed into BNP Paribas' middle-office platform through a Common Risk Interchange Format file, to perform IM calculations and reconciliation.

The right papers

The re-papering which Murray repeatedly referenced is the process by which would-be derivatives traders ensure that their documentation is complete, consistent and coherent.

The typical process can take up to one year from start to finish with people who know and understand the regulations, Murray explains, meaning that anyone who is not already compliant with the regulations and needs to re-paper is clearly already running late. "Not everyone will be ready," he warns. "There will always be a tail of clients where threshold monitoring is acceptable, for now."

While re-papering is the largest issue in this sector, others do need to be taken into consideration. Murray identifies cost as one such consideration. "If you think about collateral historically, costs have gone up. Everyone active on the buy-side has to be aware of the regulations and how they affect ownership."

He specifically cites back testing, benchmarking, auditing, risk management and the existence of 13 or 14 other jurisdictions, with their own version of UMR, as other considerations.

"Regulatory requirements are not going to go away," Murray goes on. "People have to get up to speed with

collateral management and how it works, unless they want to fall foul of regulatory monitors."

A number of other industry specialists volunteered their help in the preparation of this article, amongst them Julie Mostefai, global product manager for over-the-counter (OTC) and collateral services at BNP Paribas Securities Services.

"This is a very active and very special period for our industry, being the final stage of an implementation process that began in 2016 and has been delayed by the outbreak of COVID-19," she says.

"Around 1,000 firms will be among those newly affected, mainly on the buy-side, and they are by definition less experienced and less familiar with the topic than the firms caught by the previous phases, and generally less equipped to deal with it."

Mostefai adds: "Consequently, a significant number of the new firms are looking to outsource the process to asset services providers where they lack the knowledge, experience and technology to calculate margin requirements."

However, on the other hand, she says: "The €50 million threshold is very welcome for Phases 5 and 6 in-scope firms, as it allows a bit of relief — granting them further time to demonstrate full compliance instead of being prevented from trading."

For firms to determine if they are in scope of the UMR, they must first calculate their Average Aggregate Notional Amount (AANA). To calculate a firm's AANA is to sum the total outstanding amount of non-cleared derivative positions during the prescribed observation period on a gross notional basis. All instruments are to be considered when calculating a firm's AANA. Once a firm determines if it is in scope, it should begin the process of disclosing to its counterparty groups.

Phil Slavin, CEO of Taskize, a financial technology firm that helps financial institutions reduce the amount of time firms spend disputing margin calls, comments:

"Those close to the threshold of the €8 billion AANA threshold, particularly those with heavy commodity exposure, will have their hands full over the next 100 days from an operational perspective in preparing for Wave 6 of the UMR regulation."

He identifies the misalignment of margin calculation models as a key reason for disputes in exchanging margin.

In many cases, hedge funds will be using a custom risk model for margin calculation, or one from an external provider, if they are resource-constrained, which will very often be different from the model being used by their counterparty.

"As a result, disputes between parties will arise and operations will fall back to using email for getting to a resolution," Slavin adds.

"When Phase 6 comes into effect, the expected increase in volume of margin disputes and the costs associated will further illustrate the shortcomings of email for post-trade operations. Those affected need to put in place solutions to resolve these disputes more efficiently, ensuring there is effective collaboration across global financial operations staff."

Refining the edges

Phase 6, perhaps more than its predecessors, will be pulling in numerous investment managers — many of whom will be trading on behalf of clients and thus facing reduced regulatory thresholds, surmises Neil Murphy, business manager at TriOptima, OSTTRA.

"While some will have pretty vanilla portfolios, the more sophisticated quant hedge funds will possess more exotic portfolios with associated market data requirements creating new operational challenges," Murphy adds.

"Getting hold of the relevant market data, identifying in-scope trades and correctly assigning trades to

relevant risk buckets in a timely fashion is key to these firms calculating IM."

For its part, CME Group sent out a note with exactly 100 days to go in the final countdown, advising that an all-time record number of market participants are holding large open interest positions in foreign exchange (FX) futures, while interest in equity futures is growing strongly.

"While certain FX instruments, such as forwards, are not in-scope products for UMR, they do contribute to the notional driving the qualification," outlines Paul Houston, global head of FX products at CME Group.

"This is a key factor as to why more asset managers are using FX futures as a replacement for some of their OTC FX forward exposure, as they do not count towards the rules. The final phase of UMR, where the threshold reduces to €8 billion AANA threshold billion, will see many more firms impacted and this activity has increased correspondingly."

"UMR has further increased the appeal of listed futures," adds Paul Woolman, executive director of equity products at CME Group. "The capital-efficient, transparent, liquid nature of these products, along with their ability to help clients mitigate counterparty risk, has led to the adoption of traditional futures."

"Increased demand for listed OTC alternatives, such as adjusted interest rates total return futures, dividend futures, and sector futures, shows that preparations are in full swing 100 days out from the deadline."

Speaking specifically of securities lending, Adrian Dale, head of regulation, digital and market practice at the International Securities Lending Association, says: "Securities lending is a valuable mechanism for the efficient management of assets and collateral that, by extension, may assist with UMR obligations, especially for those firms in Waves 5 and 6 of the margin rules."

"However, and while UMR in itself does not drive any specific documentation or industry practice change within our market, many firms have expressed the view that UMR is increasing the use of securities lending for the specific purpose complying with these obligations," he adds.

What, then, happens next? We turn to Amy Caruso, head of collateral initiatives at the International Swaps and Derivatives Association for a conclusion. "The expected volume in this phase is higher than all the previous phases combined. Everyone needs to be operationally ready," she highlights.

"The tail of Phase 6 will go on into 2023, but will not be the end of the story. It will go on for perpetuity. There will be a need for continual monitoring. Phase 6 is not a one-and-done situation — UMR will become an embedded part of a firm's annual review processes going forward as the industry prepares for a new normal." ■

A UMR guide from the International Securities Lending Association

Firms that may be subject to the requirements include asset managers, banks, corporates, hedge funds and pension funds. In 2016-2018, during the first three phases of implementation, firms initially with an AANA of over €1.5 trillion in derivatives balances, went live under UMR. Industry leaders expect there will be a significant increase in the number of firms captured during Phases 4, 5 and 6, with an estimated number of more than 1,000 additional firms.

Having to post initial margin (IM) will be new to most firms, particularly those on the buy-side. Introduction of the final phases will require firms to not only implement the regulation themselves, but also begin to exchange IM with all firms from previous phases.

The road ahead

S&P's Igor Kaplun and Ron Finberg highlight the current challenges surrounding reporting obligations and the regulatory road the financial services industry will have to travel down in the years to come

Trade and transaction reporting, as part of the G20 regulatory mandate, has been a market feature for 10 years now. No one could have predicted the complexity, cost and resources that would be required by the financial services industry to meet trade and transaction reporting obligations. Though the industry is certainly better prepared, better organised, and has more resources focused on regulatory change, it is still chasing the next new wave of regulatory change that is always just around the corner. Over the next three years, it will see significant changes to reporting requirements in the US, Canada, Europe, Singapore, Australia and Japan.

In the US, the Commodity Futures Trading Commission (CFTC) rewrite is just five months out, due to be implemented by 5 December 2022, with the second phase of the CFTC rewrite due for implementation in Q4 2023.

Australian authorities have issued consultation on changes to their reporting rules, with a target to go-live in two phases – October 2023 and April 2024. Similarly, Canadian and Japanese regulators have changes targeted for H1 2024, while updated technical standards for the European Market Infrastructure Regulation (EMIR) REFIT are expected to go live in H1 2024.

Needless to say, the industry will be busy for the next three years! But why all the changes? Ultimately, it is all about data harmonisation and data quality. Due to the fact that each regulator initially came up with their own rules, technical specifications and data formats, the same trade is currently reported in different ways, depending on the jurisdiction.

There has finally been the realisation that there has to be a better way: standardise the critical data elements (CDE) globally, ensure there is a standard unique product identifier (UPI), and have a common submission format (ISO 20022 XML).

These consultations and rule changes are the result of that realisation with global regulators adopting

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> "It is difficult to say what the next 10 years will hold, but certainly in the next three years, we will see an extremely busy regulatory agenda through rewrites and refits"

similar standards across regimes. Regulators are also speaking with various industry working groups to better understand how they are capturing transaction and lifecycle events in their books and records, and how this information fits into schemas for reporting. In addition, work has been done to adopt similar practices to the logic creation and distribution of unique trade identifiers (UTI) among participants.

However, while the proposed changes mean the unification of transaction reporting formats and processes, it also presents the industry with a massive problem: how to resource for all these regulatory projects, particularly when it appears there is no end in sight.

For example, it is one thing to say that replacing the multiple existing comma-separated values submissions with a more standardised extensible mark-up language format will improve efficiency and data quality, but it is another to uproot how trades are currently being reported and then put in place new systems to support the changes.

Similarly, there are years of bilateral agreements in place that cover responsibilities for delegated reporting and UTI sharing that may need to be updated and agreed upon between counterparties, particularly to comply with new UTI waterfall standards being introduced across multiple derivative reporting regimes such as EMIR.

Down the path

As the industry stares down the runway of projects for the next three years, and the three years after that, many firms are asking the same questions about how to stay compliant and how to manage costs.

Importantly, with numerous costs and requirements the industry needs to meet, there is a growing realisation that now more than ever it may not make sense for individual firms to own every aspect of regulatory reporting processes themselves. Does a firm really need to build its own eligibility and determination engine to know which trades have to be reported to where and why? Does it make sense to manage infrastructure and connectivity to multiple endpoints? Should each company have its own specific interpretations of regulations? The short answer is: "No".

Industry-wide challenges need industry-wide solutions, through a mutualised cost structure that allows a critical mass of clients to satisfy their reporting obligations through the same solution. This model works in trade processing, confirmations, clearing, payments and in many other corners of the capital markets. Trade and transaction reporting is certainly an area where this has been proven to work and it can help to drive reduced costs and lower long-term costs of ownership.

A great example of where this model of industry wide solutions can be effective is with UTI enrichment under Securities Financing Transactions Regulation (SFTR). As a new regulation, many of the largest securities lending and repo dealers worked with IHS Markit (now S&P Global) and other solution providers to create systems to share and match UTIs between counterparties.

Using these matching systems, reporting firms were able to have UTIs automatically enriched to their reports, greatly reducing the time spent populating UTIs and increasing the overall quality of UTI pairing rates. The 2021 EMIR and SFTR data quality report

published by European Securities and Markets Authority shows the EMIR pairing rates at 60 per cent after eight years of reporting. However, SFTR has achieved around 64 per cent after two years of reporting.

The SFTR reconciliation rates for loans, which is the next stage of matching after pairing, ended at 50 per cent, but there is no mention of this for EMIR. Similarly, shared data can be used across EMIR to allow companies to automatically enrich UTIs. Shared industry platforms can also be used to generate consensus opinions on the correct formatting of new lifecycle event fields and enriching UPIs.

In the last 10 years, the industry has worked tirelessly to keep up with the wave of regulatory reforms across all major financial jurisdictions. It is difficult to say what the next 10 years will hold, but certainly in the next three years, we will see an extremely busy regulatory agenda through rewrites and refits as well as new reporting requirement proposals such as the US Securities and Exchange Commission securities reporting requirements (10c-1), and the swap-based position reporting (10b-1).

"While the proposed changes mean the unification of transaction reporting formats and processes, it also presents the industry with a massive problem: how to resource for all these regulatory projects"

Firms are starting to seriously consider whether they should continue operating as they have been doing — building for every new regulation/managing all the regulatory changes in-house — or whether to partner with proven industry solutions providers to help reduce cost and manage regulatory change, allowing them to focus on their core business activities.

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deltaconX AG is a Swiss company based in Lucerne, offering the deltaconX regulatory platform since 2013 to enable market participants to meet reporting obligations under the European Market Infrastructure Regulation (EMIR).

deltaconX is a single, transaction-reporting software solution, that covers EMIR and the future reporting obligations of the Markets in Financial Instruments Regulation/the second Markets in Financial Instruments Directive, the Financial Market Infrastructure Act, Regulation on Wholesale Energy Market Integrity and Transparency, and the Securities Financing Transactions Regulation.

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If you have a question for the authors of our article on page 38 or would like to learn more about your regulatory reporting please contact *regreporting@spglobal.com*

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