REGULATORY REPORTING: TIME FOR A RETHINK?

A 2019 approach for Capital Markets

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Executive Summary

A decade on from the financial crisis, the thirst for more market transparency via complex and detailed trade and transaction reports continues – the result is that firms are struggling to comply with the requirements. Sub-optimal approaches to compliance are common, and firms face high levels of execution risk resulting in significant operating costs and data quality issues. In a previous study entitled ‘Dirty windows: regulating a clearer view’, JWG detailed how firms have allocated billions of ‘change the bank’ budget to regulatory reporting compliance since the crisis. Six years later, firms are still working towards a new target operating model for regulatory reporting, albeit more strategically.

This shift towards a more proactive and strategic approach to regulatory change is being driven by a number of factors. With MiFID II now 10 months into its implementation, EMIR currently being rewritten, FINRA TRACE increasing the scope of reportable instruments, and CAT and SFTR due to go-live in Q4 2019 - Q1 2020; firms need to ensure that their current reporting capabilities are ‘fit-for-purpose’ - or else they might have to write cheques to the regulator for potential fines and suffer reputational damage.

That said, complying with these reporting requirements is by no means an easy feat. Siloed and disconnected data flows, age-old reporting systems, and the manual processing of compliant eligibility rules, are operational shortfalls all firms must overcome. Thankfully, global regulators have taken note, and have increased their collaborative efforts with the industry through reporting ‘TechSprints’ and the continual shift towards reference data standards.

During Q4 2018, JWG conducted in-depth interviews with senior executives from 12 global financial institutions to collate insight into how firms are reacting to these regulatory drivers. Our research shows that firms have started to reconsider the successes and failures of how they have historically approached trade and transaction reporting; and they are now taking a more proactive and strategic approach to regulatory change. We find that the reduction in operational costs through straight-through-processing and automation, and increased transparency and visibility of data via a ‘centralised data hub’, are investment decisions which play well in boardrooms, especially in the context of new accountability and data requirements stemming from the SMCR and GDPR, respectively.

Firms have started to reconsider the successes and failures of how they have historically approached trade and transaction reporting and are now taking a more pro-active and strategic approach to regulatory change. These ‘change-the-bank’ strategies typically fall within three strategies: build on-top of existing; buy new and more advanced technological capabilities from specialised RegTech firms; or partner with others to develop a collaborative solution. It was encouraging to see how most firms we interviewed have started to allocate a portion of their resources into one of these strategies, and that many are strongly considering moving beyond just doing the bare minimum in terms of data management and complying to trade and transaction reporting requirements.

Ultimately, we find that the amount of investment going into retooling internal capabilities and increasing engagement with the regulator to develop industry-accepted standards will determine the extent to which these projects shift firms into more efficient, data-driven businesses. As always, collaboration within the industry will be critical to this happening, as is management’s vision of how their regulatory reporting capabilities fit within the wider IT strategy of the firm. Furthermore, managers should look to align their current reporting projects to the firms' future IT strategy for increased backing from the Board.
Regulatory reporting: time for a rethink?  
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2 The reporting landscape: past, present, and future

With increasingly complex and intrusive policies spread across multiple jurisdictions, and regulators requesting large amounts of granular data for monitoring and transparency purposes, major financial institutions are struggling to comply with the requirements. Firms, in collaboration with regulators, have started to consider a new model for reporting.

Trade and transaction regulatory reporting requirements predominantly come in the form of EMIR (European Market Infrastructure Regulation), MiFID II (Markets in Financial Instruments and Amending Regulation), and SFTR (Securities Financing Transactions Regulation) in the European Union; and TRACE (Trade Reporting and Compliance Engine), Dodd-Frank (The Dodd-Frank Wall Street Reform and Consumer Protection Act), and CAT (Consolidated Audit Trail) in the United States.

Exhibit 1: A cross-comparison of MiFID II, EMIR, and SFTR

<table>
<thead>
<tr>
<th></th>
<th>MiFID 2</th>
<th>EMIR</th>
<th>SFTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of fields</td>
<td>65</td>
<td>129</td>
<td>153 (Product and report dependent)</td>
</tr>
<tr>
<td>Product scope</td>
<td>All “financial instruments” Broadly meaning cost derivates and cash products and including SFTs not covered by SFTR</td>
<td>Derivations (OTC &amp; ET)</td>
<td>Securities financing transactions</td>
</tr>
<tr>
<td>Reporting type</td>
<td>Transaction</td>
<td>Trade/Position</td>
<td>Trade/Position/ Collateral/Reuse</td>
</tr>
<tr>
<td>Regulatory objective</td>
<td>Market Abuse/Market Surveillance</td>
<td>Systemic Risk Monitoring</td>
<td>Systemic Risk Monitoring</td>
</tr>
<tr>
<td>Reporting to</td>
<td>National Competent Authority (NCA) either directly or via an Authorised Reporting Mechanism (ARM)</td>
<td>Trade Repository (TR)</td>
<td>Trade Repository (TR)</td>
</tr>
<tr>
<td>TR/ARM</td>
<td>NCA (e.g. FCA)</td>
<td>ESMA</td>
<td>ESMA</td>
</tr>
<tr>
<td>Daily valuation reports</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Daily collateral</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Action type</td>
<td>No, each execution event is distinct</td>
<td>Yes, reporting of a UTI with updates to each position with Action Type choreography</td>
<td>Yes, reporting of a UTI with updates to each position with Action Type choreography</td>
</tr>
<tr>
<td>Inter-TR reconciliation</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Messaging standards</td>
<td>None specified</td>
<td>None specified</td>
<td>ISO 20022</td>
</tr>
</tbody>
</table>

A breakdown of the differences between the major European transaction reporting obligations can be found in Table 1 above.

When all these regulatory obligations are fully implemented, virtually all financial instruments executed between counterparties will have to be reported to the respective competent authorities within 24 hours. From cash equities and fixed income, to commodity and interest rate derivatives, all the way to collateral and liquidity swaps, the definition of “reportable transactions” has been significantly widened across these existing and in-coming regulations.

Under this current framework, some trade or transaction data must be reported as many as three or four times through different channels, such as an Approved Reporting Mechanism (ARM) or a Trade Repository (TR), increasing the risk of non-compliance. Furthermore, misaligned interpretations across several layers of regulatory obligations ultimately leads to a reduction in the quality of data for systemic risk monitoring purposes, negating the fundamental intent behind the rules.

Exhibit 2: A disconnected trade and transaction reporting landscape

Across the pond, the Consolidated Audit Trail (CAT) is now sprinting towards its reporting go-live date after six years of discussion, planning, delays, and more planning. Similar to the EU’s trade and transaction reporting requirements, CAT will capture customer and order event information for orders in NMS Securities and OTC Equity Securities, across all markets, from the time of order inception through routing, cancellation, modification and execution. When complete, the CAT will be the world’s largest data repository for securities transactions tracking approximately 58 billion records of orders, executions, and quote life-cycles for equities and options markets on a daily basis.

Trying to navigate this complex environment across jurisdictions significantly increases the risk of non-compliance and has historically, under less complex and wide-ranging regimes, resulted in millions of pounds in regulatory fines.
Expect significant reporting fines during 2019

The Financial Conduct Authority (FCA) has previously charged a £1.50 fine per line of incorrect or non-reported data. Now consider how every day, millions of transactions, reported by hundreds of trading entities, for thousands of different instruments (amounting to the 32 million data records currently on the Financial Instrument Reference Database (FIRDS)) have to tally across 65 reportable fields under MiFID II (this increases into the hundred when accounting for EMIR and SFTR)⁹.

Exhibit 3: Trade and transaction reporting fines 2009 – 2017¹⁰

<table>
<thead>
<tr>
<th>Year</th>
<th>Firm</th>
<th>Fine Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Barclays</td>
<td>£2.45 million</td>
</tr>
<tr>
<td>2010</td>
<td>Société Générale</td>
<td>£1.6 million</td>
</tr>
<tr>
<td>2010</td>
<td>Credit Suisse</td>
<td>£1.75 million</td>
</tr>
<tr>
<td>2013</td>
<td>Royal Bank of Scotland</td>
<td>£5.6 million</td>
</tr>
<tr>
<td>2014</td>
<td>Deutsche Bank</td>
<td>£4.7 million</td>
</tr>
<tr>
<td>2015</td>
<td>Merrill Lynch</td>
<td>£13.3 million</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>£34.5 million</td>
</tr>
</tbody>
</table>

Source: JWG Reporting and Reference Data Special Interest Group (RRDS 9), 14 May 2018.

With this staggering amount of data and the probability for error so high, it is easy to see how fines have historically resulted in cheques being written for several millions of pounds.

Notably, the risk of trade and transaction reporting fines was not explicitly raised as a major concern during our interviews. It seems that many in the industry have taken the view that regulators are treating 2018 as a bedding year for MiFID II, and that they will take a harder stance on reporting errors in the coming years.

All of the firms we interviewed have used this breathing space to critically assess their reporting capabilities and are currently in the process of defining a retooling strategy to make their reporting systems cheaper, faster, and safer. Whilst the specific reasons for retooling vary by individual firm, all are attempting to resolve the challenges of trade and transaction reporting.

Unbundling these challenges reveals that there are a variety of pain-points across the entire life-cycle of the reporting process – from sourcing and interpreting the obligations, to data aggregation and enrichments, to the application of regulatory validation rules, monitoring and oversight, reporting, and finally, reconciliation.

That said, several recurring themes emerged as we questioned interviewees about their biggest reporting pain-points.
Siloed data, legacy systems, and manual processes have made trade and transaction reporting a lot more expensive than it should be. The increase in these costs and underlying risks has forced institutions to look inwards and consider alternative, more efficient approaches via centralised data hubs, automation, and straight-through-processing.

Transforming regulation into executable business rules

The challenges of getting to the correct interpretation of the requirements and how to translate them into compliant and executable business rules was mentioned in every interview we conducted. Complex legal obligations are typically captured from different sources which are updated frequently, making it very difficult for large organisations to keep track of what transaction reporting business logic or code needs to be updated to correctly reflect the law. Firms noted how this process of having to manually review and update multiple systems to deal with new or amended rule interpretations from different jurisdictions has ultimately increased costs and the risk of non-compliance - whilst producing little upside.

The firms we interviewed took different approaches to this problem. Many noted how they typically attend internal and external working groups - such as Trade Associations and JWG’s Special Interest Groups - to develop an ‘industry-accepted’ interpretation of the rules. However, many rely on consultants to do the job:

“Sometimes we encounter something odd and have no other option other than to use a consultant to understand what we need to provide. This was especially true for MiFID II which was nothing like what we have had to deal with in the past”.

Head of European Markets Technology, Global Bank

“By using the same vendor as my counter-party and another bank down the street, I know that we’re using the same business rules and reporting logic to process these reports. This is good, as it provides an additional risk buffer”.

Head of Regulatory Strategy, Global Bank

The firms we interviewed took different approaches to this problem. Many noted how they typically attend internal and external working groups - such as Trade Associations and JWG’s Special Interest Groups - to develop an ‘industry-accepted’ interpretation of the rules. However, many rely on consultants to do the job:

Other firms would prefer to ‘outsource’ this process to their reporting vendor. That said, it is important to note that the legal obligation to report data correctly is with the firm and that it would be a “snowy day in hell before legal and compliance completely give it - the disambiguation and eligibility process - up”, said one Manager we interviewed.

Interestingly, the same Manager went on to say that ‘safety in numbers’ is critical when choosing a vendor which has its own executable interpretations of the rules, and that size, scale, and specifically, connectivity and consensus with the rest of the industry, is key. It was implied that well-connected vendors servicing trade and transaction reporting enjoy an additional competitive advantage due to a ‘follow the herd’ or ‘safety in numbers’ approach that has been adopted to by firms.

This challenge has received significant attention from the UK’s regulator, the Financial Conduct Authority (FCA), and has served as the premise for their most recent TechSprint on Digital Regulatory Reporting, which explored ways by which the process could be automated. A recent ‘Feedback Statement’ by the FCA reinstates the gravity of this challenge and highlights the process of having to disambiguate legal text and then transform the results into business rules as one of the biggest cost drivers in the industry.
The retooling challenge for legacy systems

Firms noted how there is a universal desire to improve interoperability at a significantly improved price to performance ratio in terms of reporting systems. The issue is that of modernisation. Firms have historically taken a piecemeal approach to their reporting capabilities, bolting on new applications to existing systems—EMIR reporting engines on top of Dodd-Frank, and now SFTR engines on top of EMIR.

As new regulations have been implemented incrementally, many firms now have a number of systems executing components within a much larger reporting solution. There was uncertainty amongst the firms as to whether these systems will stand the test of time as new requirements continue to laden these systems with additional lines of code and logic.

Every single firm we spoke to has a system retooling strategy in the pipeline. Firms noted that a significant amount of capital has been allocated to the transformation and recalibration of reporting technology stacks. However, the timing, success, and RoI from this capital allocation varies significantly by firm and is highly dependent on the level of success firms have had with their current solutions. For instance, when asked about the state of their current capabilities, one manager said that his reporting system is "slow and not-fit-for-purpose," another noted that "consolidation and rationalising of the existing platforms" is a priority moving forward and that the bank would like to "re-platform in the medium term". Alternatively, a manager from a global asset manager responded, "we're happy with what we have, although we are still considering ways by which we can make it [the reporting technology stack] better".

Data is king

The duplication of processes and sourcing, slicing, and dicing, of data which is "not used anywhere else in the bank" is another major concern for firms— and has had a significant impact on data quality. Interviewees noted the lack of visibility across front, middle, and back-office functions, and the costly process of having to manually source, transform, and reconcile multiple data points for several asset classes.

One firm we spoke to, for instance, still has some existing bedding issues around MiFID II, and is currently in the process of implementing data quality checks to remove warning notifications:

"We are sending data which, for some asset classes, is not required— for example, ISINs for ARM reporting— and for every report we receive a warning notification, not an exception, which we are trying to tidy up. Since our reporting system currently has no specific tool for data quality, most of the time this falls on me to investigate or repair manually via Excel. It is part of daily activity."

Trade and Transaction Reporting Manager, Global Bank.
Another firm noted how they source all their trade and transaction reporting data from 12 different upstream systems, and that using excel to transform that data has created several data quality issues.

There are inherent risks in this approach to data management in a large organisation. When risk managers and compliance officers cannot see how activities in one silo are related to activities in another, the chances of mis-reported data or trade data manipulation are high. Managers are therefore incentivised to break down these siloes and develop a clear line of sight into how data from their booking systems travels downstream into their confirmation systems and finally their trade reporting engine.

That said, not all trades and transactions are created equal. This is especially true for OTC derivatives which have garnered significant attention from firms and regulators as being particularly challenging to manage from a data point of view. Factor-in misspecified reference data, such as the use of ISINs to fill in Maturity Date in transaction reports into the equation, and the challenge keeps on compounding.

On this point, the use of ISINs to specify the maturity date of certain instruments like an interest rate swap exemplifies the data quality challenges faced by firms. ESMA were clear in the level 2 text of MIFID II that it wanted the maturity date to be part of an instrument’s definition. This means that a 10-year interest rate swap would need a new ISIN every day that it’s traded, because the following day it’s technically a 10-year-plus-one-day interest rate swap. This means the volume of ISINs is far bigger than the market - which tends to view it as the same instrument regardless - would have expected.

The changes to EMIR FX swaps reporting, as outlined in this report by Thomson Reuters, is another example of the data challenge faced by firms. ESMA has given firms 12 months from September 26th to comply with the latest EMIR Q&A update, which mandates firms to report both legs of FX swaps under the same Trade ID. Banks have typically reported swaps as two forwards, so this is a significant change. The changes are logical; however, they add an additional layer of complexity into reporting simple products. Firms may seek to book trades differently now, and for some the need to adhere to multiple reporting regimes will mean two separate processes need to be created to report the same FX trades. That will be where the costs start to mount and quality faulters.

The overriding point here is that robust, transparent, and linear data flows are fundamental to having the ability to work efficiently and effectively with data, increasing confidence in the quality of that data and what is reported. All of the firms interviewed have this goal on the top of their agendas, with some firms looking to architect automated control frameworks and centralised ‘data hubs’ for data across the organisation.
A new reporting model backed by the regulator

Encouragingly, these issues have garnered significant attention from global regulators who have acknowledged the challenges of having to report this trade and transaction reporting data for regulatory purposes - the aforementioned TechSprint by the FCA is one such example, as is the Commodity Futures Trading Commission (CFTC) LabCFTC Science Prize competition. In the CFTC’s Chairman, Christopher Giancarlo’s own words, “we launched the LabCFTC initiative to stimulate and promote market-enhancing FinTech solutions. By soliciting feedback from innovators on how the CFTC can best encourage innovation and leverage FinTech and RegTech solutions for the marketplace, we are not only fulfilling the mission of this initiative, we are moving the CFTC closer to my ultimate goal of making the agency a 21st Century regulator.”

This collaborative sentiment between regulators and firms will play a critical role in streamlining these reporting processes and increasing efficiency across the industry. For instance, in their paper entitled “Revision of the European Market Infrastructure”, the European Systemic Risk Board (ESRB) acknowledges the considerable obstacles to generating high quality data which, “can only be ensured if a fully-fledged and functional data quality framework is put in place along the whole chain of data collection.” Their research shows how data provided by TRs under EMIR requirements is not harmonised and, in some cases, is not suited to macroprudential analysis.

Standards are being created to help, such as CPMI-IOSCO’s recently published Technical Guidance on the Harmonisation of the Unique Product Identifier (UPI). Five years in the making, the institution envisions a system in which a unique UPI code would be assigned to each distinct OTC derivative product. Global in scope and jurisdiction-agnostic, this latest guidance covers the technical principles of the UPI, the UPI data elements required for each OTC derivative asset class, the identification of underliers and the UPI code structure.

Similarly, the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC) is also engaged in harmonising the standard across jurisdictions. Although the international work on the development and maintenance of global data standards would help reduce the reporting burden, regulators must keep in the mind the business impact of their proposals.

From an American perspective, the US Department of the Treasury’s report to President Trump gives clear indication as to the direction of Swap Data Repositories (SDRs) and the trade reporting requirements under Dodd-Frank. Similar to ESMA, the Treasury strongly supports multilateral regulatory coordination with non-US jurisdictions in order to avoid market fragmentation, redundancies, undue complexity and legal contradictions. It also recommends that the CFTC standardises reporting fields across SDRs and harmonises requirements between the SEC and the CFTC, as well as between the US and the EU. Committing adequate resources and time to the CFTC’s “Roadmap” review, will be critical in this regard. The Treasury also acknowledges concerns regarding the numerous types of reporting required for each transaction and the burdens that such requirements have imposed on market participants.

In reaction to such developments, firms will need to take into consideration how their current thinking on future reporting strategies fits this new collaborative model currently being driven by global regulators.
Regulatory reporting: time for a rethink?
A 2019 approach for Capital Markets

4 Retooling strategies for regulatory reporting

Firms have started to reconsider the successes and failures of how they have historically approached trade and transaction reporting; and are now taking a more pro-active and strategic approach to regulatory change. These ‘change-the-bank’ strategies typically fall within three strategy buckets: build on-top of existing systems and capabilities; buy new and more advanced technological capabilities from specialised RegTech firms; or partner in a collaborative solution.

Recognise the costs

The challenges of trade and transaction reporting have ultimately had two significant material impacts on firms - an increase in costs and risk. A report by the Bain & Co estimated that Governance Risk and Compliance spend accounts for 15%-20% of “run the bank cost”, and 40% of “change the bank cost” - with total compliance cost set to double by 2022.

As noted by one Chief Data Officer of a large global bank, the business “needs to get cheaper to survive”. In their view, the high operational and maintenance costs could have a spill-over effects to front-office activities and ultimately, trading volumes. The CDO went on to argue that “trading a listed derivative in the US is much cheaper than trading the same derivative in the EU” and that business is being driven away as banks find cheaper ways to trade. Such concerns are well founded. With the costs of trading venues, CCPs, trade repositories charging real time fees, plus vendors charging for professional services and licenses, it is easy to see how costs add up very quickly.

So, what can be practically done to mitigate risk and reduce costs? How can financial firms change their approach to regulation and generate a sizable RoI in the process? And finally, how can this be done for the benefit of all stakeholders in the firm, regulators, and ultimately customers?

As suggested throughout this paper, the short answer is firms need to continue to evaluate their current capabilities, assess the gaps, and take a proactive approach to understanding how trade and transaction reporting could benefit the organisation as a whole.

“Business is fed up with investing in regulation! We need to be able to slash costs. A business case that would deliver cost reduction would fly.”

Senior Compliance Manager, Global Bank.
The path forward

We find that firms’ retooling strategies have broadly taken three competing approaches – building new capabilities on existing systems, buying reporting services from specialised vendors, and collaborating with the industry to develop utilities. The advantages and disadvantages of these individual approaches are given in Exhibit 4 below:

Exhibit 4: Retooling strategies for firms

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Build</strong></td>
<td></td>
</tr>
<tr>
<td>• Lower short-term cost associated with building on-top of existing platforms and systems</td>
<td>• No significant savings made in the long term</td>
</tr>
<tr>
<td>• Lower disruption to existing processes and policies</td>
<td>• The risk of failure is high</td>
</tr>
<tr>
<td>• Shorter roll-out process</td>
<td>• No strategic advantage</td>
</tr>
<tr>
<td><strong>Buy</strong></td>
<td></td>
</tr>
<tr>
<td>• Ability to leverage of advanced technological capabilities</td>
<td>• A portion of risk is shifted outside of the firm, yet the firm is still liable to report good data</td>
</tr>
<tr>
<td>• Long term cost savings are brought forward</td>
<td>• Potential higher cost to purchase and integrate</td>
</tr>
<tr>
<td>• Allows firm to dedicate precious resource to other, more critical projects</td>
<td></td>
</tr>
<tr>
<td><strong>Collaborate</strong></td>
<td></td>
</tr>
<tr>
<td>• ‘Safety in numbers’ approach to regulatory risk</td>
<td>• Lower short-term return-on-investment</td>
</tr>
<tr>
<td>• Allows for firms to contribute towards the development of standards which will eventually increase efficiency.</td>
<td>• Collaboration risks</td>
</tr>
<tr>
<td></td>
<td>• Slow to implement</td>
</tr>
</tbody>
</table>

Source: JWG Analysis, ‘Interviews with 12 financial institutions’ October 2018

Many of the firms we interviewed stated that they have historically chosen to build internal systems to comply with each new reporting requirement, others have chosen to partner with a vendor in order to plug the gaps in their capabilities. Interestingly, all interviewees made reference to their desire for a collaborative industry effort which would look to establish a ‘industry utility’ for all market participants in-scope of trade and transaction reporting requirements.

Regardless of the approach taken by firms, the end-design of the new regulatory reporting model started to look increasingly similar as we progressed with the interview process. Here are the common components.

“We have taken a proactive approach to this problem and view it as an opportunity for growth and change. The difficulty is convincing others to see it the same way.”

Global Data Officer, French Bank
Data lineage

Data lineage and transparency across different functions and systems of the firms is key. It also emerged as the over-arching goal of any future change project within the organisations we interviewed.

This concept of a 360-degree view of banks is not new, especially in large retail banks that want to use more data from more sources across multiple business units to understand how to effectively and efficiently engage customers for greater loyalty and new selling opportunities. However, a broad, informed, real-time view of the business should not be limited to customer happiness and marketing metrics. Combining related or even disparate data sets can reveal patterns, correlations, or causal relationships that, when translated into opportunity or risk, can provide investment banks with a valuable head start over other firms.

Transparency and accountability

Accountability is another important factor to consider. In the UK, accountability is mandated by the SMCR, which became law on 7 March 2016 and outlines the requirement for firms to establish clear governance arrangements with defined lines of reporting and responsibility - evidenced by a management responsibilities map and individual statements of responsibility. Speaking on culture in financial institutions, Andrew Bailey, Chief Executive of the FCA, described “a firm’s culture will emerge in large part from inputs that are its responsibility” and “it is for firms to ensure that their desired culture is consistent with appropriate conduct outcomes, to identify the drivers of behaviour within the firm and control the risks that these drivers create.” It seems clear that embedding this notion with good, transparent data will be key to effective monitoring and oversight of behaviour within the bank.

Centralised data hub for reporting

Streamlined data flows and better transparency and accountability are features which lend themselves well to the creation of a centralised data hub for better trade and transaction reporting.

The centralised data hub would need to be an object store that could scale beyond the limitations of existing systems, ingest data from different sources, cleanse that data, provide secure multi-tenancy, and be able to provide an audit trail across private and public clouds.

“One trade and transaction reporting manager described such a hub as a “virtual data room” - built on the principles of “data governance, profiling, lineage, and transparency”. Another interviewee we spoke to is currently sketching out plans to invest capital in an enterprise wide data management hub, which would look to connect prudential data to trade and transaction data, providing lineage and oversight across systems, ledgers, and ultimately, the bank’s balance sheet on their CFO’s desk.

Many other firms are considering iterations of this model and are currently in the process of publishing RFPs to onboard RegTech firms to help build this kind of centralised architecture.
Furthermore, many interviewees were keen to extend this concept of a ‘centralised data hub’ for reporting beyond their individual firms – with many noting that an independent, shared central utility, which is regulated, and regulator driven, is the best solution to the issues raised in this paper. Different market participants, including clearing agents, counterparties, and most importantly the regulator, would have permissioned access to such a utility, allowing them to clear, match, and monitor market abuse and systemic risk from a central source.

Whilst this may seem like a utopian end-state, it is technologically feasible. Several existing data management firms like Inforalgo provide this level of connectivity amongst different systems and standards; and are able to provide an agnostic approach to the data source and reporting service requirements of clients across asset classes via:

- **Direct Real Time reporting using a single regulatory hub for different market regulations**
- **Pre-validation of reporting to enhance the quality of reported data**
- **2/3-way reconciliation between reporting venues, trading venues OMS/Data warehouse**
- **Intelligent business rules to understand trading scenarios prior to reporting**

As technological capabilities continue to grow and RegTech firms mature, the quality of these reporting solutions, and the benefits they could provide in terms of automation and straight through processing, is significant. In our view, the most effective retooling strategy for firms considering these capabilities would be to partner with a firm like Inforalgo in order to validate, transform, and automate the reporting process across asset class and requirements – decreasing long-term costs and regulatory risk.
5 Conclusion

The stakes for getting this cornerstone of global regulatory reform right are large, and the challenges and pain-points discussed in this paper should make senior managers sit up and re-consider how their reporting strategy fits with the broader IT strategy of the firm. The question is what now? With many voids to fill, it is encouraging to note that many firms are taking a proactive approach to their retooling strategy. As always, time is of the essence, and so we have developed a 10-point plan for firms in the process of determining next steps:

**Collaborating in the right areas** has been, and will continue to be crucial to success:

1. Collaborate with your peers on non-competitive issues to come to a common view, pool implementation resource and reduce the risk of misalignment
2. Leverage work that has already been done in industry working groups and trade associations to catch up with the herd
3. Work with the regulator in order to understand the connections across regulations to reduce the risk of misalignment across sectors and asset-classes.

**Establish a vision of how the firm’s regulatory reporting infrastructure fits the firm’s IT strategy**

4. Identify how reporting requirements impact existing operating model - people, process and technology - and determine the gaps between current and desired target state
5. Ensure the final push towards implementation is resourced properly to cut down on further spend down the line on remediation and fines
6. Leverage existing data to increase the analytical functionality of current reporting capabilities
7. Focus on the interdependencies with other regimes in order to reduce the chances of redoing work.

**Ensure new reporting projects align with future IT strategies**

8. Utilise smart RegTech to manage the 300+ data points contained in MiFID II, EMIR, SFTR, CAT, and FINRA TRACE
9. Know when to outsource and when to keep solutions in house and leverage the right options in the right way.
10. Expect to continue your programme through 2019 as further guidance is published and industry standards and practices develop.

Ultimately, the extent to which these actions will result in a smarter, cheaper, and safer trade and transaction reporting strategy heavily depends on the efficient allocation of resources and commitment to getting this work done.
About this study

During Q4 2018, JWG conducted in-depth interviews with senior executives from 12 global financial institutions to develop the insight and forward-looking recommendations found in this whitepaper. Study participants were asked about their challenges with current and future trade and transaction reporting obligations, their near-term technology strategy, and what capabilities need to be adopted by the industry to reduce risk and costs across market participants. A sample list of the questions asked is given below:

Challenges with current and near-term reporting

- Which trade and transaction reporting regulations are most impacting your business right now and why?
- What is your current approach to dealing with these regulations?
- Is the overall reporting BAU budget increasing/decreasing over the next year and by what amount?
- Is there a low/medium/high level of reporting change investment in the budget?
- Is your current approach to MIFID II reporting fit-for-purpose?

Near-term technology strategy

- What capabilities are you looking to retain in-house and why?
- How effective are these capabilities and are there any gaps?
- To what extent are you relying on ARMs/TRs to validate your data submissions?

Current and future demand for next generation capabilities

- If you had £10 pounds to spend on your regulatory reporting function, what would you prioritise? (2019, 2020)
- Do you use or plan to use third-party data quality services?
- Do you use or plan to use third-party eligibility rules?

A sample of the Executive Titles of the interviewees is also given:

- Chief Data Officer (CDO) for Prime Services
- Executive Director - Asset Management IT
- Managing Director; Regulatory reporting
- Head, Operations, FM Compliance
- Program Manager
- Project Manager - SFTR
About

JWG

We are operations and technology professionals, trusted by the global financial services industry as experts in regulatory change management. We pride ourselves on capturing every financial services regulation published the world over and are the only organisation to set ourselves this global challenge.

For the past decade, our team of independent analysts has helped the industry interpret large quantities of regulatory reform and action it in a smart and intelligent way. JWG work with trade bodies and regulators to facilitate the understanding of regulatory change and its impact on financial institutions, both sell and buy-side, market infrastructure and the vendors that serve them all. Facing the ever-pressing challenge of understanding, enacting, complying with and facilitating regulation, respectively, JWG play a crucial role, bringing together a wide variety of stakeholders and pooling their knowledge and understanding to provide invaluable insight, context and feedback.

We do this in three ways. Firstly, we track the totality of the FS reform across the globe in order to educate the market via our publications, events and training programmes. In parallel, we run collaborative special interest groups to crowdsource the impact from legal, compliance and operational perspectives. Finally, we offer the world’s first regulatory change management platform, RegDelta.

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Inforalgo’s solutions and services are built on more than 30 years’ rich experience in providing smart data management solutions and services to Capital Markets clients globally. Our team is made up of some of the most experienced talent in financial data science, who specialise in helping institutional investors and prime brokerage firms automate the flow of their pre- and post-trade data. Our next-generation data automation platform connects any combination of trading venues, market data feeds, front- and back-office systems. Our solutions are trusted by 18 of the world’s top 20 financial institutions.

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8 Endnotes

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