EMIR Refit: Ready or not?

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How ready is the industry for the EMIR Refit coming up on 29 April, and where are the gaps?
We see varying levels of preparedness across the industry, which is a little surprising given the EMIR Refit deadline is on the horizon. Meeting the new reporting requirements, especially regarding commodity and energy derivatives, will pose challenges for firms with inadequate data accessibility and quality.

Market participants are currently already reporting on EMIR, but no one should be fooled into thinking that the Refit is just a straightforward "version 2.0" of the existing regulation. Major changes are on the way for firms reporting derivatives deals to trade repositories – the greatest shake-up is coming for those trading commodities and energy contracts where financial authorities will be demanding new levels of complex detail.

What new elements does the Refit introduce, and why are they important?
There will be additional hard-to-source data attributes, especially in Energy Commodities, Equivalent Markets classification, adoption of the new OTC derivatives identifier UPI, and ISO 20022 XML format. Firms will have to obtain very specialised information describing key components of the derivative transaction such as delivery types and intervals. Much of this information is not readily available and can only be provided manually – usually a lengthy trawl through contract specifications and then transcribing the data, using the required XML format, into the Refit provisions.

EMIR Refit represents a rise in reportable attributes to 203, or 74 new fields. Of this 203, 60 cover reference data. And there is another hoop for firms to jump through: the introduction of ISO 20022 XML for reporting, which requires all information to be submitted in a standardised XML format.

To meet the new format requirements, many data attributes need to be translated into the new standard domains. Lastly, firms are busy adopting the new identifier called the Unique Product Identifier (UPI). This requires integration with ANNA DSB to create and obtain the correct UPI for their over-the-counter (OTC) transactions.

What should firms be doing to prepare for the April shift, and what are the key pitfalls?
Firms should be evaluating the accuracy and completeness of their data, not just the reporting workflow. Reporting at the ISIN and UPI level makes the risk aggregation easier and regulators will be able to catch errors in reporting more quickly. Firms also need to budget for EMIR Refit changes – relying on the existing reporting framework will be insufficient.

Reporting in ISO 20022 format will require changes from the previous EMIR regime. Building capability to source UPI data from ANNA DSB requires set up and licensing fees, and there will need to be proper resources to handle the exception management as a result of the large number of attributes that need to be reconciled between counterparties.

What are the dangers of poor quality data?
Poor data quality leads to higher operational costs, increased scrutiny from regulators, and strained relationships with your counterparties due to reconciliation breaks. Given commodity data is not standardised (for example, delivery dates and delivery locations) this asset class will most likely cause the most noise and, subsequently, incorrect or missing data. Bad data means incorrect reporting, leading to reputational risk and fines, while remediation requires backdated reporting, which is never easy. Data validation and correction then leads to firms incurring more costs.

One important consideration is the regulators themselves. They are far more sophisticated

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technologically than they were in the past and can access huge quantities of data gathered by trade repositories and understand it at a very granular level. They are also increasingly demanding, and expect high quality, properly validated data – and no company wants to run the risk of a fine or reputational damage.

A lot has been discussed about the challenges of complying with the new Refit, but what benefits could it bring, and how can firms best position themselves to leverage them?
EMIR reporting has already led to advantages such as increased transparency in the industry. Additional reporting obligations will only help increase transparency and reduce risk parameters in the market. This, in turn, will lead to increased confidence in the market and greater business opportunities for firms. Ultimately, a safer environment augurs well for the long term stability of the industry.

How do the Refit changes fit in with the wider direction of travel when it comes to industry use of data – and the regulatory approach to reporting it?
Firms and regulators continue to discover the infinite ways that data can help to both drive business and protect market stability. The Refit changes are a continuation of the industry's hunger to use data to drive predictability and uncover business opportunities.

Is 29 April really going to be the 'Big Bang' for the derivatives industry that everyone expects?
The European Securities and Markets Authority (ESMA) has provided clear – as clear as a regulation can be – guidelines on the EMIR Refit and SmartStream has engaged with regulators to gain clarification on questions in order to enable correct reporting implementations.

There is no reason to believe that the date will get postponed. As with all new/enhanced regulations it is fair to expect that the regulators will not expect one hundred percent accurate reporting from day one. But within a three-month window the regulations are expected to tighten up. ■

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