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The demands of EMIR Refit

SmartStream's Scott Kaffl highlights the challenges of EMIR Refit, and how the industry is progressing in the wake of the regulatory go-live

Is data accuracy meeting the demands of EMIR Refit?

Scott Kaffl, consultant at SmartStream, highlights the challenges the company's clients have faced with EMIR Refit, and considers how the industry is progressing in the wake of the regulatory go-live

What changes has EMIR Refit brought with it to reporting requirements?

The purpose of the European Market Infrastructure Regulation (EMIR) Refit is to enhance transparency and stability in the OTC derivatives trading market. It has brought with it a number of revisions in reporting practices, including the compulsory use of ISO 20022 XML for trade reporting, a move aimed at standardising the format in which information is submitted to regulators. EMIR Refit has also introduced the use of unique product identifiers (UPIs) for OTC derivatives, a change which has entailed additional effort for financial institutions, as accessing the correct UPI for OTC transactions involves firms creating an integration with UPI provider ANNA DSB.

Perhaps the greatest headache for the industry, however, has been the increase in the number of reporting fields. This has risen in the European Economic Area (EEA) from 129 to 203 — of which 60 are reference data-related. In the UK, where financial authorities have diverged slightly from their European counterparts, the total number of reportable fields has gone up to 204.

How are clients approaching the new regulatory requirements as part of the EMIR Refit mandate?

The challenge for customers has been assessing what they were reporting for EMIR versus the new obligations under EMIR Refit. We are seeing firms investing more heavily in regulatory reporting systems and a significant focus is the actual data itself. The EMIR Refit creates 72 additional reportable fields, so if institutions were not previously gathering that information, new processes will have had to be introduced into their reference data repositories.

Early evidence, such as rejection and acceptance rates of submissions to trade repositories, suggests that organisations have got off to a positive start in the post-go-live phase, but they still have plenty of work to do if they want to inject greater efficiency into their reporting processes.

It is also worth remembering that EMIR Refit imposes a six-month window for businesses to convert legacy derivatives into the new reporting format. Where the UK is concerned, firms will have to update legacy contracts to the new standards by the end of March 2025, and therefore companies will be looking to tackle that additional administrative burden.

Is there a divergence between the FCA and ESMA mandates?

The overarching aim of EMIR Refit is to create transparency in the marketplace, and both the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA) are keen to see transparency levels enhanced. Clearly, within the mandates for those jurisdictions there is a lot of overlap, but some divergence also exists — for example, in the data fields that are required, in certain validation points that a client will have to look at, as well as the third-party equivalent markets that are deemed regulated markets.

Are there particular areas that the industry is struggling with when it comes to obtaining reference data?

We work with a broad range of firms, and what we have noticed across our customer base, and the industry more generally, are specific concerns around reference data relating to commodity and energy markets. Some of the information needed to support EMIR Refit is very hard to find and access. In our engagement with clients, we regularly hear of 15 to 20 fields where their reference data processes do not capture the material demanded by the new regulation.

Specifically, financial institutions trading commodity and energy derivatives must now provide specialised information relating to elements of the derivative transaction, such as delivery types and intervals. Typically, this data is not readily available and can only be provided manually — generally after a long search through contract specifications, and the transcription of the data, in the new XML format, into the Refit provisions. To counteract these difficulties, we help clients by bringing in these new domain values, enabling them to create efficiencies in their reporting mandate.

How does SmartStream meet the demands of EMIR Refit?

Inaccurate reference data can disrupt EMIR reporting workflow, and no one wants to endure compliance nightmares such as rejected trade reports. Identifying unexpected data quality issues and navigating the complexities of reporting fields, particularly in relation to commodity and energy derivatives, is a major industry concern, and firms want reliable, efficient ways of meeting these requirements, as well as protection from poor-quality and inaccessible data.

To help firms navigate the complexities of EMIR Refit, and to provide the accurate and complete data necessary for successful reporting, SmartStream Reference Data Services (RDS) has expanded its derivatives data offering. This move sees the integration of additional attributes into the RDS's Listed Derivatives Service, and the creation of a standalone OTC Derivatives Service which supports the full range of reference data required for commodity transactions under the new regulatory initiative.

Now that the UK go-live date has passed, where do you see firms focusing?

Clients typically have focused on getting over the initial compliance challenge, but they are now looking to optimise and create efficiencies in the way they automate the reporting process, with the ultimate objective being the digitisation of the entire reporting process to trade repositories. Until now, obtaining data from different parts of the organisation has been a fragmented operation, but this must change if firms want to ensure accuracy and timeliness. Personally, I think there will be a tremendous focus on data quality. Consistently reporting low-quality data could be taken to be an infringement of EMIR Refit, and so clients want to make sure their data is pristine before it goes to trade repositories, mitigating the risk of fines and reputational damage.