EMIR Refit is quickly appoaching: don't underestimate data quality

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Published 27 Feb 2024

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With the EMIR (European Market Infrastructure Regulation) Refit around the corner, completing the many new reportable fields, particularly those relating to commodity and energy derivatives, may prove a tough call for firms hampered by poor quality, hard-to-access data.

The EMIR Refit aims to improve the transparency and stability of Derivatives markets in the EU and the UK. The new regulatory regime, which is handled in the EU by the European Securities and Markets Authority (ESMA) and by the Financial Conduct Authority (FCA) in the UK, will kick off on April 29 2024 in the EU and on September 30 2024 in the UK.

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 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.

Under EMIR, reporting is two-sided. Firms can choose to self-report or to delegate, with the latter option usually preferred by smaller sell-side and buy-side firms. Delegated reporting isn't without its worries, however. Market participants doing so will need to provide a lot of new data to the companies reporting on their behalf, and they'll also remain responsible and legally liable for reports.

Perhaps the most eye-catching change brought by the EMIR Refit is the rise in reportable attributes to 203, or 74 new fields. Of the 203, some 60 cover reference data. And there's another hoop for firms to jump through, the introduction of ISO 20022 XML for reporting, which means that all information will have 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 transactions.

Clients preparing for the incoming regulation are already approaching us, citing difficulties in accessing the data needed to fill the new reportable fields, with commodity and energy derivatives proving a particular headache. Firms are struggling to access the appropriate information with data quality issues regularly cropping up, and extra time and manpower are having to be ploughed into making sure information is fit for purpose – meaning added cost and effort which, for some, was not anticipated.

Where commodities are concerned, firms face a number of difficulties. Firstly, the markets themselves are highly diverse and varied. They lack standardisation and good data providers are thin on the ground, too. Secondly, firms will have to obtain very specialised information describing key components of the derivative transaction such as delivery types and intervals. Much of it is not readily available and can only be provided by manual intervention – usually a lengthy trawl through contract specifications and then transcribing the data, using the required XML format, into the Refit provisions.

Reporting deals struck on Equivalent Markets is turning out to be another pain point. With ESMA currently only providing a list of market names, and further clarity awaited, feedback from our customer base suggests that some organisations are finding it quite challenging to determine what is and isn't in scope.

With the EMIR Refit deadline approaching rapidly, firms really do need to get their houses in order when it comes to data quality. This includes ensuring that they are ready for divergence across jurisdictions.

One important consideration is the regulators themselves. They're far more sophisticated technologically than in the past and can access the 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.

Personally, my feeling is that firms will be ready for implementation but unfortunately will be relying heavily on existing EMIR technology and processes. This means, in plenty of cases, they will only meet baseline requirements. Completeness and high levels of accuracy are likely to be some way off for many. And, if the new regulation is to succeed in its aims, then greater completeness and accuracy are vital – after all, transparency is only as good as the data on which it is based. If data quality is poor, how can the industry possibly achieve transparency?