The devil is in the data

Incoming EMIR Refit mandates will shake up the way firms report derivatives contracts to trade repositories. Linda Coffman, EVP, of SmartStream Reference Data Services (RDS), asks whether derivatives traders are truly prepared for the scale of change – especially the new levels of complex reference detail that will be required when reporting on energy and commodities-related deals.

The incoming European Market Infrastructure Regulation (EMIR) Regulatory Fitness and Performance (Refit) programme aims at improving the transparency and stability of the Derivatives market in the European Union. As part of the programme, the European Securities and Markets Authority (ESMA) has updated regulatory and implementation technical standards on reporting. New rules are due to go live in the EU on 29th April 2024, while the UK EMIR Refit will be introduced in the United Kingdom on 30th September 2024.

Companies are, of course, already reporting for EMIR. Yet the upcoming refit is not simply "version 2.0" of EMIR. The scale of change will, in fact, be significant. Reportable attributes will rise sharply in number to 203 – or an extra 74 fields. Of these 203 attributes, some sixty relate to reference data. Commodity and energy deals are a particular focus for regulators, and accessing the reference information required for compliance purposes may prove trickier than some firms have anticipated. In addition, there will be changes to the format and content of existing fields. A further twist is the introduction of ISO20022 XML for EMIR reporting, meaning all messaging must be done according to a standardised XML structure.

EMIR reporting is two-sided (except for mandatory reporting of OTC derivatives by a financial counterparty on behalf of a non-financial counterparty, under certain circumstances) and reports must match. Buy-side market participants can, however, enter delegated reporting arrangements (DRAs), although the delegator remains responsible and legally liable for the reports. Some buy-side firms may, instead, choose to self-report.

It is essential that firms do not underestimate the challenges of the EMIR Refit. Those that opt for self-reporting may have to update systems and processes to accommodate the new and modified fields, while those with DRAs will need to provide extra information to the reporting party. Another headache could arise if firms providing delegated reporting are late in notifying clients of changes, and so the buy side needs to be proactive.

Recent years have seen regulators invest considerably in their own technology. Financial authorities now take a far more sophisticated approach and can look closely at firms' data. Trade repositories collect huge amounts of data for regulators to tap into, should they wish, right down to rejection statistics which show where corrections have needed to be made. Regulators have made it plain they expect high quality data, which has been internally validated, be sent to trade repositories They have greater capabilities than ever to pick up on poor practices in this area.

Many of the new reportable fields introduced by the EMIR Refit relate to commodities and energy, and gathering the reference data needed will prove challenging. Commodities, by nature,

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are complex and variable – they simply do not fall into a structured world. The field is diverse, encompassing metals, agriculture, energy and so forth, and each individual area abounds with its own subtle nuances. A lack of standardisation creates further difficulties. Gold, for instance, is represented differently depending on jurisdiction. Good quality data providers are scarce.

Firms reporting commodity and energy derivatives are going to have to come up with a good deal of information once the EMIR Refit comes into force. Simply consider the following required attributes: delivery point or zone, interconnection point, load type, delivery interval start and end times, delivery start and end data, duration, days of the week, delivery capacity.

So how do companies reliably go about gathering this data? At present, the only real means of handling such complexity is through manual intervention, for example, by looking at a contract specification, and then transcribing the necessary details – using the required XML format – into the EMIR Refit provisions.

SmartStream RDS has created a convenient alternative to the traditional, laborious, manual trawl for information, with the development of its EMIR Refit data management service. The service helps firms comply with EMIR Refit reporting through the provision of accurate, validated reference data.

The RDS gathers reference information from multiple sources, including direct exchange feeds, contract specifications, ESMA (FIRDS, FITRS), FCA (FIRDS, FITRS), and ANNA DSB. Data is carefully sourced, reviewed by experts, and checked regularly for updates. The service covers exchange traded derivatives, as well as supporting attributes for listed securities traded over the counter. Information is provided in standard XML format, while a REST API suite offers the convenience of on-demand access to reference data.

Importantly, the RDS already offers a great depth of information on commodity underliers which we leverage. Take shipping, for example, where derivatives relate to the route a vessel is following and data reflects the course taken e.g. the Pacific or Atlantic and so on. Uniquely, the RDS can provide clients with such a level of granularity.

Consider other areas, for instance, electricity derivatives, where data relating to pricing e.g., peak hours, off-peak hours, will be required under the Refit. Here again, the RDS can provide a degree of detail and accuracy that firms might otherwise struggle to attain easily.

Delivery dates of the physical underlying asset represent another challenge. These can be difficult to maintain, particularly where different time zones are involved. The RDS, through its existing ETD service, already solved this challenge, enabling it to further assist clients.

Under the EMIR Refit, firms will have to report transactions that have taken place outside the EU/UK but on markets considered equivalent from a regulatory perspective, as defined by ESMA. Clients consistently say equivalent market reporting is likely to prove challenging, particularly as ESMA only provides a list of market names. The RDS service gets around this difficulty by translating market names into their corresponding market identifier codes (MIC) and producing a distribution file that streamlines market identification. The RDS actively tracks changes in ESMA's list and publishes updates to clients.

One final but important consideration is that while ESMA rules apply to the EU, it is the Financial Conduct Authority that is responsible for handling the EMIR Refit in the United Kingdom. The EU and UK EMIR Refit rulebooks are already beginning to diverge, and it is probable that they will do so even more in the future. The RDS keeps fully abreast of the points of divergence, helping clients that report both in the UK and EU to do so accurately.

In conclusion, the EMIR Refit is not simply an EMIR upgrade – it is a far bigger beast. If firms are to avoid falling foul of regulators, and incurring fines or reputational damage, they must review their processes and practices now. SmartStream RDS is in a strong position to assist and is already sending sample data to clients in relation to exchange traded and OTC derivatives, as well as third country equivalent markets – with a very positive response from our buy-side client base. ■