MiFID II transaction reporting

How can firms help ensure reports are complete and accurate? Regulators' tolerance towards MiFID II failings appears to be waning, so ensuring MiFID II transaction reports are complete and accurate becomes all the more important. Jethro MacDonald of SmartStream believes AI-enabled technology, combined with rapid access to specialist reference data, can help firms meet reporting obligations.

MiFID II transaction reporting can pose a significant challenge. Containing sixty-five fields, and submissible on a T+1 basis, a MiFID II transaction report requires extensive information about the deal concerned, including details about the firm undertaking the trade, buyer and seller, the trade date and time, and so on. Firms must also decide whether a transaction is ToTV (Traded on a Trading Venue) and so reportable – creating further complexity.

An added pressure stems from MiFID II RTS 22, Article 15, which stipulates that firms must have in place arrangements to ensure transaction reports are complete and accurate, including testing of their reporting process and regular reconciliation of front office trading records against data samples provided by their competent authorities.

Performing the type of comparison demanded by RTS 22, Article 15 is complex. Firms must reconcile information from their own source systems with that from an Approved Reporting Mechanism (ARM) and from their regulator. A huge amount of data is involved and, while data from national competent authorities (NCAs) and ARMs may be fairly consistent, firms' own information is likely to be in multiple formats, making reconciliations difficult and very time-consuming.

Worryingly for market participants, regulators are increasingly willing to clamp down on MiFID II failings. A July 2021 European Securities and Markets Association (ESMA) report reveals that in 2020, NCAs in 23 out of 30 EU/EEA member states imposed a total of 613 sanctions and measures in relation to MiFID II, with an aggregated value of €8,400,430. In contrast, in 2018, only 12 NCAs applied a total of 117 sanctions and measures, with an aggregated value of €1,263,717. These figures rose in 2019, when 371 sanctions and measures were handed out collectively by 15 NCAs, totalling €1,828,802.

Following Brexit, the UK and EU support individual MiFIR schemes. Firms are now watching to see how the UK's Financial Conduct Authority (FCA) deals with MiFID II transgressions. Where transaction reporting failures are concerned, two large fines imposed by the FCA in 2019, albeit in relation to the pre-MiFID II, 2007 to 2017 period, may be indicative of how the regulator might act in the future.

March 2019 saw a penalty of £34.3m imposed on Goldman Sachs International by the FCA for failure, from November 2007 to March 2017, to provide complete, accurate and timely information in relation to 220.2m transactions. This total included 6.6m erroneously reported transactions which were not reportable. The FCA, in footnotes to the case, stated that it had, at that point, also levied fines on 13 other firms for transaction reporting failures. Notably, it fined

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UBS some £27.6m for shortcomings relating to 135.8m transaction reports, which included 49.1m transactions reported in error. Clearly, the FCA is ready to take tough measures – and particularly where it considers failings have occurred on an extensive, long-term basis, in a way that could potentially compromise its ability to monitor effectively for market abuse.

In response to firms' need to demonstrate to the regulators the completeness and accuracy of their transaction reporting process, SmartStream's has developed its MiFID II Transaction Reporting Reconciliation and Reporting Decision Control framework. At the heart of this lies SmartStream's AI-based application, SmartStream Air.

SmartStream Air handles huge complexity and large volumes of data with ease. It can reconcile the 65 fields firms may need to enter for MiFID II transaction reporting purposes, rapidly marrying up firms' source system feeds with those of the ARM involved and regulator. Offering near real-time matching, SmartStream Air handles almost any data structure, allowing it to cope with the diverse data structures typically found in financial institutions' source systems. For firms wishing to prove the integrity of their data, but without the effort and overheads associated with a traditional three-way reconciliation, SmartStream Air provides a useful way forward.

SmartStream Air is complemented by SmartStream RDU's cloud-based API that allows firms to validate whether a financial instrument is ToTV, and so reportable. SmartStream RDU offers a wealth of data from regulatory and industry bodies, assisting firms with their trade and transaction reporting, including avoiding either under- or over-reporting. The resulting solution is simple to access, making it easy to check for changes to an instrument's status – a useful attribute, given that an instrument may not be ToTV one day, but ToTV and reportable the next.

The solution also provides market participants with the necessary data to support their decision to file a report, or not, should that decision be questioned by regulators. In the future, it may even be possible to make anonymised correlations between users, creating a benchmark so that firms can check whether they are reporting in line with their peers.

SmartStream's technologies are helping firms meet other MiFID II obligations, including assisting trading venues to fulfil MiFID II RTS 2 transparency requirements. Following Brexit, ESMA has increased the data continuity checks trading venues must perform when reporting instrument reference and instrument quantitative data to it. Any irregularities have to be accounted for and mistakes re-reported, so that ESMA can meet its timelines in publishing instrument liquidity, size-specific-to-the-instrument, and large-in-scale calculations.

To alleviate this burden, a trading venue can now submit a single daily file of instrument quantitative data to SmartStream Air as part of SmartStream's Trading Venue Quantitative Reporting Outlier Reconciliation. It then reconciles this with the instrument reference data for the trading venue, consumed directly from ESMA. SmartStream Air also deploys instrument CFI codes from SmartStream RDU, which it uses to check that the instrument included on the instrument reference data report is not one reportable under the quantitative transparency reporting regime. The process is carried out proactively and on a daily basis. The SmartStream approach contrasts with firms' present practice, where trading venues check records retrospectively, on a three-month basis, against massive ESMA data files – a highly complex exercise and a huge operational burden.

In conclusion, financial authorities' appetite for delving into firms' reporting is growing, and they are doing so with an increasingly critical eye. Complying with the demands of MiFID II transaction reporting is complex and proving data integrity to regulators can place a real strain on firms. In response, market participants should take advantage of the sophisticated tools now available, including AI-enhanced reconciliations applications and Regulatory reference data – which it is straightforward to tap into as cloud-based APIs, and offer a very useful means to help alleviate the regulatory burden firms find themselves under. ■