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EMIR Refit ‘data quality’ issues causing concern, says Coffman

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EMIR Refit is causing concern in the industry, with participants identifying unexpected data quality issues in the final stages while preparing for the upcoming regulation, says Linda Coffman, executive vice president at SmartStream.

EMIR Refit aims to improve the transparency and stability of the over-the-counter (OTC) derivatives market in the European Union.

The market is currently preparing for its implementation, which is set to go-live on 29 April 2024 in Europe and five months later on 30 September 2024 in the UK.

The number of reporting fields under EMIR Refit will increase to 203, which is causing distress for market participants who are finding it difficult to provide for each field, especially in terms of commodity derivatives.

Speaking to SFT, Coffman — who is responsible for overseeing the SmartStream Reference Data Utility — explains: “Participants are missing a number of fields which are not readily available and not covered by any industry standards. Consequently, some data attributes will need to be managed through manual processes.

“Furthermore, for the data fields that firms do have, participants are realising that they will have to transform the data to meet reporting requirements and adhere to the imposed validation criteria.”

In addition, Coffman indicates that firms in scope for these new rules found there are “attributes in the commodities space” that they are struggling to source and that more work is required to ensure the data reported is fit for purpose.

In terms of scope, firms need to account for third-party equivalent markets when reporting for a specific jurisdiction. Coffman notes that this makes it difficult for participants to determine which instruments are in scope.

She adds: “In addition to sorting out where to source the necessary data and how to format the data to meet reporting requirements, clarity is still needed from the regulator on a number of outstanding questions — when the regulator intends to provide answers for the market is unclear.”

Discussing whether the upcoming rules are likely to achieve the intended aim — of improving transparency and stability in the OTC derivatives market — Coffman says this will all come down to the implementation.

If executed well, and firms can do what they are being asked to do, this regulatory package will provide that level of transparency. “The transparency will only be as good as the data is,” she explains.

Larger sell-side firms are typically in favour of self-reporting, notes Coffman, since they have the infrastructure in place. In contrast, some of the smaller firms and buy-side firms are delegating the reporting.

SmartStream specialises in derivatives and provides an infrastructure that allows firms to process data that is available in exchange feeds, as well as to capture required data from contract specifications.

Coffman says: “We aim to fill the gaps on the more complex reporting fields and cut down on integration time and cost for our clients by doing the translations on their behalf to ensure the data is fit for purpose.”

Concluding, Coffman believes that, despite the challenges, firms will be ready to report on the implementation dates. However, they will not be ready in terms of “completeness and accuracy” of reporting fields.

She continues: “With the exhaustion of handling other incoming regulations, firms’ first priority is to ensure that they are able to send the report for EMIR Refit. The second point of focus will be whether firms can reconcile the reporting. The third priority will be the quality and the accuracy of reporting.

“There will be a lot of defaulting at first,” says Coffman “These organisations will be able to meet the minimum requirements, but the data will not be accurate.”