

The future of regulatory reporting: what do firms need to know?



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With change the only constant in regulatory reporting, what do firms need to know and how can they prepare for future developments? We explore some of the key changes anticipated in the regulatory reporting field over the next few years.

The regulatory reporting space has been constantly evolving since Dodd-Frank and MiFID requirements were originally implemented, requiring firms to adapt and innovate in order to maintain pace with regulatory change. To ensure they make the best investment in new technology or resources to combat rising costs, firms are keen to understand how regulatory requirements are likely to evolve in the future.



The impact of sustainability standards on regulatory reporting

Recent conference of the parties (COP) summits have put climate change and environmental, social and governance (ESG) standards at the forefront of governmental agendas. During the summit, the creation of an international sustainability standards board (ISSB) was announced, with its core aim of providing consistent standards for sustainability and a series of commitments from authorities globally.

Remaining in line with these new standards will require further investments in carbon markets and increasing usage of ESG non-financial factors in the investment process. Many firms will now be required to include ESG metrics as part of disclosures in annual reports via sustainability reporting and suitability obligations. We have witnessed further strengthening of disclosure reporting this year, with a likely crackdown on greenwashing to be expected on the horizon.

With regulators either consulting or executing an ESG implementation plan, the question that comes to mind is: will there be a regulatory reporting obligation? While there is no current ESG reporting to authorities, this could be an area of evolution in the future, especially as ESG disclosures have recently become an EU strategic supervisory priority.

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Reporting on digital resilience

The ever-increasing level of digitalisation in the financial sector remains a primary driver of market innovation. In light of this, firms must understand the European Commission’s (EC) broad digital regulatory framework encompassing the Digital Operational Resilience Act (DORA) – which will be applicable from January 2025 – and the Markets in Crypto Assets (MiCA) regulation.

There is also an extension of the current resilience standards in the UK via the Financial Services and Markets Bill, which will mandate the minimum standards of operational resilience for critical third-party services providers, such as cloud services, to mitigate ICT-related threats.

These standards have the potential to increase costs of business and, as a result, there has been greater interest in data governance and the simplification of internal data management to mitigate these risks.

Reframing regulatory reform as insight-driven

Data insights continue to grow in importance as firms look to improve data quality and gain a better understanding of market conditions. Firms are seeking to simplify their reporting architecture by reducing the number of third-party infrastructure connections and moving to more centralised solutions.

“Data governance remains a top priority for firms in understanding data lineage and implementing data dictionaries that ensure each data point changed or transformed is documented and clearly defined.”

If any errors are made at transformation points, it can propagate downstream through systems. Increasing regulatory obligations will require the enhancement, automation and integration of data quality controls along the chain of transmission: data governance, traceability and executive accountability. Each of these areas is being mandated by regulators as a means of enforcing the importance of effective data management in an increasingly complex digital environment.

In addition, the rising regulatory obligations on data privacy are intended to strengthen data privacy through enhanced data access controls. To be compliant with privacy regulations and meet customers’ needs, firms will need to be transparent about their storage, processing, control and distribution of private data.

Roadmap of regulatory reporting changes



Moving towards greater standardisation

The move towards IOSCO's Common Data Elements (CDE) is another step in the IT and regulatory reporting space. With a common definition for certain data points created and propagated through a multi-jurisdictional reporting framework, firms are able to adopt one unified solution which will assist them in complying with reporting and resilience requirements.

The CDE have been a fundamental regulatory standardisation, with the harmonised data points forming the core of future reporting. The standard format used to transmit data has been solidified as the ISO 2022 XML framework, with CDE comprising a large part of the reporting structure. It is likely that future regulations will also harmonise under the ISO framework, further standardising transaction reporting in the market. Over 110 CDEs have been defined with the review of the derivatives reporting regulations globally (including EMIR/CFTC/ASIC derivatives reporting), adopting different subsets of the master data, along with some additional fields not currently included in the CDE scope.

The move to standard transactional behaviours and definitions along with commonly defined fields will be a large leap towards the standardisation of financial products and reporting. This should, in turn, improve data accuracy and completeness through the reporting chain. The move towards standardisation along with associated data controls, while beneficial, is likely to be a substantial task for firms.

Given the extensive change with the new systemic risk reporting, such as EMIR, some firms are using this as the catalyst for transactional reporting rearchitecture. Subsequently, firms have begun transitioning away from third-party vendors, using CFTC

as a test to monitor the effectiveness of CDE / ISDA's common domain model (CDM) and expanding into digital regulatory reporting (DRR). There are numerous task forces that have signed memoranda of understanding to work together on the new CDM industry standard, giving firms the impetus to adopt these new standards in a move towards DRR.

All eyes on EMIR Refit in 2024

Derivatives reporting rewrites are underway and are at varying stages of implementation. In the US, the first phase of the CFTC rewrite went live in December 2022. The new requirements are expected to come into force from 2024 with global regulators in various stages of implementation (EMIR/UKMIR/ASIC derivatives reporting, etc).

“While addressing many of the challenges faced by the industry, EMIR Refit also introduces new ones. To ensure compliance, firms should review their reporting standards and follow best practices to improve data quality.”

The EU EMIR Refit is due to go live in April 2024, while UKMIR is due to go live in September 2024. Other global variations have not yet been finalised. While addressing many of the challenges faced by the industry, EMIR Refit also introduces new ones. The

number of fields reportable under EMIR has increased, with several of the CDE fields adopted along with other jurisdictional specificities; in EMIR Refit, for example, there are 203 fields with just over 100 fields forming part of the CDE. Data quality concerns regarding the reporting fields remain, as pairing and matching rates remain low and suboptimal. Firms should therefore look to review their reporting standards and ensure that they are following best practices to improve the data quality in compliance with the EMIR Refit.

The global rewrite of derivatives reporting regulations offers firms an opportunity to review their data models, follow best practices and improve data standards. Better data quality ensures that regulators can utilise the data provided to monitor systemic risk more effectively, thus leading to a reduction in breaks in the Trade Repository (TR) matching process and significantly reducing resource and cost assigned to investigating and remediating these issues.

Overcoming the key data challenges

Common areas of long-standing concern among customers include the Unique Trade Identifiers (UTI) generation and dissemination process and reference data standards. There is no single UTI provider and the hierarchy for the generation of the identifier has proved complex for some firms, especially as timely generation and dissemination is required (the identifier must be included correctly on the report on a T+1 basis).

The quality of reference data and the ability to combine the right data at the right time is essential for success. With the introduction of Unique Product Identifiers (UPI) under EMIR Refit, there is an increase in the reference data firms need to adopt. This can be

managed either through direct consumption and management or by using vendors to assist in record generation.

Reporting of digital assets

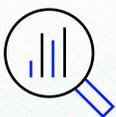
The crypto space has been under additional regulatory scrutiny over the past year. Crypto assets that do not qualify as MiFID financial instruments will be regulated under MiCA. Alongside MiCA, and as part of the same Digital Finance Package, the European Commission has introduced a pilot regime for market infrastructures based on Distributed Ledger Technology (“DLT Pilot Regime”), applicable from March 2023.

ESMA also published a report on the DLT Pilot Regime, focusing on pre- and post-trade regulatory reporting and transparency requirements under MiFIR. While the DLT Pilot Regime may provide some exemptions to specific operators of DLT MTFs from transaction reporting obligations and introduce a specific DLT instrument identifier, more clarity is expected in additional guidance from ESMA to be published later this year.

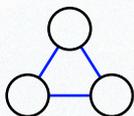
Practical steps to stay ahead

With the regulatory agenda as busy as ever, 2023 will be a year of change. A number of regulatory reporting requirements currently being finalised – including DORA, MiCA and the EMIR Refit – will impact many firms over the coming months. It is important that firms endeavour to engage and understand the impact of these changes on their reporting practices, and review their data governance models and controls to ensure regulatory compliance. This will require innovative reporting solutions that alleviate the operational burden of compliance and mitigate regulatory reporting risk.

Stay ahead of future regulatory reporting developments



Review your data governance models, accuracy and controls



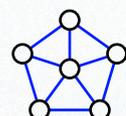
Follow industry best practices for improving data quality



Evaluate your reporting automation and data integration



Identify where you can enhance your reporting automation and standardisation



Invest in innovative technology that reduces the operational burden of compliance and regulatory reporting risk that allows you to future-proof your business and reduce regulatory reporting risk

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