

NSA response to European Commission consultation on Fitness Check on Supervisory Reporting

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This document includes the opinions provided by NSA on the EU Commission consultation. However the answers to the commission have been provided in the special survey format required by it.

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Comments in short

- In general, reporting serves a good purpose.
- There are no simple solutions to limit the high costs for reporting. The experience of reporting under EMIR and MiFID I is, unfortunately, that we cannot see any major benefits from the investments that these regulations require. We still lack reports, compilations, analyses, etc. that show that the authorities can use the information as intended.
- It can be questioned whether the scope of the reporting requirements need to be so broad. One example is EMIR which require that all derivative transactions are reported. It would have been preferable if a cost benefit analysis and a risk assessment had been made in advance with respect to different sectors and actors on where the risks are the largest.
- From the point of view of the society, there must be a reasonable balance between the cost of the problem and the cost of the industry to solve the problem by the companies concerned having to invest in hardware and software.
- Despite our doubts about the benefit of reporting, we would still like to emphasize that the investment in reporting routines have contributed to an increased degree of order among investment firms which cannot be ignored.
- Finally, it should be recalled that today's reporting systems have created an effective fence for new players wishing to establish themselves in the securities market. It has become too expensive. This degrades competition, creativity in the industry and is ultimately detrimental to the clients and the society.

Developed summary and conclusions

This response to the Commission's consultation on reporting to authorities is mainly limited to transaction reporting under MiFID I and MiFID II / MiFIR and reporting to trade repositories under EMIR.

1. Reporting tasks to authorities is an extensive activity for investment firms, takes a lot of focus and costs a lot of money. At the same time, we see few, if any, examples that the information is regarded as useful for the authorities.
2. That reporting serves a good purpose do probably all agree upon. It is therefore worth noting that we do not get more feedback or expressed value of the reporting. One example is the reporting under MiFID I that has taken place since November 2007, where we have not yet seen any significant compilations that reinforce the benefit. Another example is reporting under EMIR, which covers open positions since August 2012. The purpose of the reporting is to give authorities a better overview of risks in the financial sector. Here too we call for descriptions, summaries and conclusions.
3. Examples of what reporting costs investment firms has been proved difficult to obtain because reporting is only a part of a larger project. However, there are some examples. A major bank estimates investments in reporting systems to trade repositories under EMIR to approximately 4,000,000 euros. A similar system for reporting transactions to competent authorities under MiFID II / MiFIR is also estimated to cost about 4,000,000 euros. A major investment company can spread its investments on multiple transactions. Consequently, a smaller investment company has more manual elements in its reporting. In return, reporting for this investment firm is expected to cost more than 20 euros per transaction.
4. What can then be done to lower the cost of reporting to the authorities. With many years of reporting to competent authorities, the experiences can be summarized:
There are no simple solutions to limit the increasing reporting costs. To start with, and probably the most important aspect is that the problem must be analysed and described in detail by individuals who are aware of the problem, understand the infrastructure, the market and are well aware of how it works today. To do this thoroughly from the beginning facilitates and speeds up the following steps in the process. Ultimately, you save both time, resources, money and get a better result more in line with what has been expected.

5. Which information is needed to solve the problem? The analysis must be done thoroughly, and you must ensure that the retrieved information really is the information that fills the information gap and gives the desired support for what was requested. A work that significantly facilitates the following process.

The experience of reporting under EMIR and MiFIDI is, unfortunately, that we cannot see any major illustrated benefits from these investments. We still lack reports, compilations, analyses, etc. that show that the authorities have taken the information and are able to use it as intended.

6. If you then have concluded that you need a new reporting system for activities, you still must ask if you can limit the target group? Must really everything be reported? One example is reporting under EMIR where you could have asked the question if all derivative transactions really need to be reported? Is it equally important to include information about private individuals' small trades as giant systemically important players' huge trades? And is it necessary to include every kind of derivative? The highly ambitious level has probably delayed the project significantly and delayed the day when the authorities receive the desired transparency - which is regrettable from a risk point of view. At the same time, the costs are likely to be significantly higher than if the focus had been on sectors and actors where the risks are the highest.
7. When considering new reporting rules, there is a transparency issue that needs to be solved. However, to our understanding, there is seldom any interest in what the costs will become for the reporting investment firm for the investment and the ongoing costs.
8. We are aware of that it can be difficult to make an estimate of what the identified problem costs the society. From the point of view of the society, there must however be a reasonable balance between the cost of the problem and the cost of the society to solve the problem by the companies concerned having to invest in hardware and software. That's why you must look at companies' costs to implement the system.
9. In the long term, the introduction of technical standards and unified terms will reduce development costs. Unfortunately, the regulations in recent years have had deviant definitions, which complicated and proliferated different reporting projects. At the same time, we want to point out that changing definitions, for example connecting to a new or changed standard, in itself entails additional costs, in any case in the short perspective.

10. Despite our doubts about the benefit of reporting, we still want to emphasize that the investment in reporting routines have contributed to an increased degree of order among investment firms which you cannot ignore.
11. Finally, it should be recalled that today's reporting systems have created an effective fence for new players wishing to establish themselves in the securities market. It has become too expensive. This degrades competition, creativity in the industry and is ultimately detrimental to the clients and the society.

Responses to the raised questions

Taken together, to what extent have EU level supervisory reporting requirements contributed to improving the following:

1.1.i Financial stability:

Marginally

It should be noted that we primarily refer to the securities market and reporting to trade repositories under EMIR and to Competent Authorities under MiFID I and sometimes MiFID II.

According to the instruction for responding to this consultation the answer should be based on the conditions at the end of 2016. However, we believe it would be of great value to include the experiences of the implementation of MiFIDII / MiFIR as well. We have therefore chosen to, where applicable, include experiences from 2017 and the expectations for 2018 in our response. Regarding the question now raised, we believe that it should be addressed to the relevant authorities.

Investment firms have made huge investments in the reporting systems that report directly or indirectly to the competent authorities. We hope that the reporting has contributed or will contribute to a higher degree of financial stability. However, we cannot yet point to any evidence that indicate that the regulations have had such effect. At the same time, we would like to stress that implementing new reporting requirements has contributed to internal reviews of rules and procedures that in turn has had a positive impact on the efficiency and operations of the investment firms as a whole.

At the same time, we lack feedback from the competent authorities referring to reported data and leading to specific actions in one way or another. It is also noteworthy that reporting, for example, under MiFID I, has been ongoing for over ten years without any specific statements on the benefits from the authorities.

Reporting to trade repositories according to EMIR has been ongoing since February 2014, including with respect to open positions since August 2012. The reporting is well motivated and important. It is therefore remarkable that the collected data has not, to our understanding, led to any deeper analysis or conclusions.

We would also like to take the opportunity to point out that the extensive reporting requirements have put a great focus among investment firms on compliance with the reporting rules at the expense of other important projects where the clients and their needs and interests are in focus.

1.1.ii market integrity (i.e. surveillance of market abuse and orderly functioning of the markets):

Moderately

All transactions in financial instrument shall be reported to the competent authority under MiFID I. According to a survey among investment firms, there have been extremely little feedback (less than once per year and investment firm) on this in spite of more than ten years of reporting. Therefore, the value of the reporting can be questioned.

However, the possibility for the competent authorities to review all transactions is well known and positive for the securities trading as it reduces the risk of violating of the rules.

We would also like to take the opportunity to declare that MiFID I has contributed to better transparency in trading which is good for the integrity of the market, for the function of the market and thus for the clients.

1.1. iii) investor protection (i.e. ensuring proper conduct by firms to ensure that investors are not disadvantaged/negatively impacted)

Moderately

MiFID II and PRIIPS imposes heavily increased demands on different forms of reporting and information to clients as well. It is important that this is followed up and evaluated. The production of this new information has been very expensive, and it could be questioned if the clients really make use of the additional information. We have concerns that the retail client might not be able to understand and grasp all the information that needs to be offered according to the new regimes.

1.2 Are all of the existing supervisory reporting requirements relevant for maintaining financial stability and upholding market integrity and investor protection?

Some of them are relevant

Some of the most important reporting requirements in the securities market have been made under EMIR and MiFID I.

We hope that the reporting has contributed or will contribute to a higher degree of financial stability. However, we cannot yet point to any clear evidence

that show that this is the case. At the same time, we would like to underline that the reporting routines have contributed to an increased degree of order among investment firms that should not be underestimated.

At the same time, we lack feedback from the competent authorities referring to reported data and leading to specific actions in one way or another. It is also noteworthy that reporting under MiFID I, has been ongoing for over ten years without any specific statements made by the competent authorities on the expressed benefits.

Reporting to trade repositories under EMIR has been made with respect to open positions as of August 2012. The reporting is well motivated and important. It is therefore remarkable that this has not yet led to any deeper analysis or conclusions.

1.3 Is there information that should be reported but which currently is not (i.e. there are reporting requirements that should be added)?

No

1.4 To what extent are supervisory reporting requirements across different EU level reporting frameworks coherent (e.g. in terms of scope, content, methodology, timing/frequency of submission, etc.)?

Not coherent

One major problem in reporting is that different regulations have different definitions for the same concept - which is confusing, costly and which deteriorate the quality of reported information.

One example is that transaction reporting under MiFID I is implemented differently in different countries. This is one of several examples where different rules cause problems. Some cross-border transactions need to be reported in several countries simultaneously, which is a violation of the rules as the reporting investment firm is required to report just once. MiFID II/MiFIR for transaction reporting is one example of fully harmonized regulations which is leading to clearer and simpler rules. The effect is also that it will be easier to provide cross-border services and compete cross-border.

1.5 To what extent is supervisory reporting in its current form efficient?

Very inefficient

As mentioned above, the effectiveness, relevance and efficiency of reporting to competent authorities can be questioned. There are several reasons why we believe this is the case.

An explanation would be the process of developing reporting rules, underestimating the complexity of the problem, and too quickly believing that only one gets certain information, the problems are solved. Below are some important steps that have proved to be invaluable when launching a successful and well working reporting project.

1) To start with, the problem must be analysed and described in detail by individuals who are aware of the problem, understand the infrastructure, the market and are well aware of how it works today. To do this thoroughly from the beginning facilitates and speeds up the following steps in the process. Therefore, we stress the importance of setting high standards for regulatory impact assessments and offering enough time and resources to legislators to fulfil this task. Ultimately, you save both time, resources, money and get a better result more in line with what has been expected.

2) Which information is needed to solve the problem? The analysis must be done thoroughly, and you must ensure that the retrieved information really is the information that fills the information gap and gives the desired support for what was requested. A work that significantly facilitates the following process. (The experience of reporting under EMIR and MiFID I is unfortunately, despite major and costly investments in reporting systems, that the authorities in practice do not see any greater value in the reported information.)

3) How would a reporting system that provides the desired information look and how would it work? What do you expect to achieve? Is the requested information already available in other reporting? The conformity with the information that is already available may resolve most of the problems. The problem could then be solved both faster and cheaper.

An alternative to precious reporting systems may also be to ask for information when needed. This information together with the use of Artificial Intelligence may also be a way to carry out the desired analysis.

4) If you then have concluded that you need a new reporting system for activities, you still must ask if you can limit the target group? Must really everything be reported? One example is reporting under EMIR where it can be questioned if all derivative transactions really need to be reported. Is it as important to include information about private individuals' trades as systemically important institutions' trades?

Everyone is confident that reporting to trade repositories under EMIR is important for authorities to get a better overview of the risks in the financial sector. But is it necessary to include every kind of derivative?

The highly ambitious level has probably delayed the project significantly and delayed the day when the authorities received the desired transparency - which is regrettable from a risk perspective. At the same time, the costs are likely to be significantly higher than if the focus had been on sectors and actors where the risks are the highest.

We are aware that it can be difficult to make an estimate of what the identified problems cost the society. From the point of view of the society, there must however be a reasonable balance between this cost and the cost of the companies having to invest in hardware and software. Such an analysis should have been done both before and after the project was completed.

At the same time, it should be recalled that today's reporting systems have created an effective fence for new players wishing to establish themselves in the securities market. In other words, it has become too expensive. It is not good for competition and creativity in the industry and is ultimately detrimental to the clients and the society.

1.6 How well are the supervisory reporting requirements adapted to developments in the fields of modern information and communication technologies (ICT) and digital processes?

Not very well

The ongoing transition to ISO20022 XML is quite good. It is based on standards that are generally very good. On the other hand, the actual implementation of MiFID II / MiFIR TRS 2 feedback management is worrying since it unfortunately is designed in communication and based on the fact that everyone uses exactly the same databases. However, if investment firms doesn't get information which database that is in use, which is the case, it doesn't work sufficient

Reporting to trade repositories under EMIR does not work sufficiently enough. The reason is that the interfaces to and between trade repositories are not standardised enough to get a well-functioning reporting, pairing and matching.

1.7 To what extent has the adoption of supervisory reporting requirements at EU level facilitated supervisory reporting in areas where previously only national requirements existed?

Moderately

On the other hand, cross-border business operators can see clear benefits of reporting at EU level - and avoid contradictions when national rules govern. It is also an advantage when developed IT systems can be used in several countries. System costs are expected to become lower. With the possibility of using the same IT systems in several countries, it is as well likely that more system vendors will offer systems in competition.

1.8 To what extent have options left to Member States in terms of implementing EU level supervisory reporting requirements (e.g. due to their adoption as Directives rather than Regulations) increased the compliance cost?

Significantly.

There is an advantage of such EU-wide harmonized rules as possible especially when conducting cross-border activities. The more equal demands on IT-systems, the more potential providers of IT system. With the same requirements in several countries, investment costs can also be spread across multiple transactions and more clients. With larger volumes, more compliance activities can also be automated. In total, the costs per trade and clients can be minimized.

1.9 Are there any challenges in terms of processing the data, either prior to (i.e. within the reporting entity) or subsequent to (i.e. within the receiving/processing entity) it being reported?

There are several challenges:

It is often difficult to know exactly what information is requested. A large part of the implementation work is based on uncertainty about what information is to be reported.

One example is swaps (MiFID II/MiFIR) where there is great uncertainty whether they are considered as a means of payment (and should not be reported) or if they are to be regarded as financial instruments with their own ISIN numbers.

Another example is the reporting of transactions under MiFID II / MiFIR where, in some cases, we understand that you should not report the buyer as a buyer without the underlying person as a buyer. This did not appear at level 1 or level 2 but was clarified just a couple of days before launch.

An additional example is reporting of swaps under EMIR where you should report buyer and sellers. Buyer and seller are terms that do not fit for reporting swaps. The uncertainty regarding how this information should be reported has created many discussions over a long period of time. There are, of course, other examples.

With clear conditions in place in good time before the reporting is commenced and the testing environment is in place well ahead of launch, preparation work is facilitated, and costs are kept down.

It can be mentioned that NSA's members in Sweden, i.e. investment firms, have in their preparation work for MiFID II allocated approximately 1800 manhours (I.e. eighteen hundred) just in meetings at the Swedish Securities Dealers Association, SSDA, from 2014 up until now to just interpret the rules of how transaction reporting is to be performed.

1.10 Are there any negative environmental and/or social impacts related to supervisory reporting stemming from EU legislation?

yes both ...

In many cases, the lack of detailed descriptions of what to report and how it should be reported together with major shortcomings and late delivery of test systems from competent authorities combined with knowledge of bad reputation and high fines if firms are not reporting properly is stressing for the staff. It is true that competent authorities sometimes say that it is best effort that applies during the initial period after reporting has commenced. However, this is not taken seriously, as no public statement is issued.

2.1 Yes

2.2 To what extent have the following factors contributed to the excessive cost of supervisory reporting? Please indicate the relevance of the following factors by giving each a rating from 0 to 4 (4: contributed greatly; 0: not contributed at all).

i) Too many requirements

3

- ii) Need to report under several different reporting frameworks **3**
- iii) Need to report to too many different entities
- iv) Lack of interoperability between reporting frameworks and/or between receiving/processing entities or supervisory authorities
- v) Need to report too frequently **1**
- vi) Overlapping requirements **3**
- vii) Redundant requirements
- viii) Inconsistent requirements **3**
- ix) Unclear/vague requirements **4**
- x) Insufficient use of (international) standards Examples of some of the factors that make the reporting costs increase significantly: **4**
- xi) Need to introduce/update IT systems **4**
- xii) Need for additional human resources **4**
- xiii) Too many/too frequent amendments in the relevant legislation **4**
- xiv) Lack of a common financial language **4**
- xv) Insufficient use of ICT2
- xvi) Insufficient level of automation of the reporting process **3**
- xvii) Lack of (adequate) technical guidance/specifications **4**
- xviii) Other (please specify and provide a ranking from 0 to 4)

Examples of some of the factors that make the reporting costs increase significantly:

- Requirements for new tasks, which means that completely new information must be collected from clients and/or marketplaces. **4**
- Lack of clarity about what to report. **4**
- Reporting requirements that require long-established practices to change. **4**
- Changed requirements and/or new conditions that come late in the process. **4**
- Requirements that require contractual relationships with clients, counterparties and marketplaces to be redesigned. **4**
- Absence of standards for reporting to, for example, to trade repositories. **4**

The lack of standards when trade repositories try to match the two legs of a reported trade under EMIR where the reporting entities have reported to different trade repositories have resulted in a very low percentage of matches, just 1,7 %.

- Late test environment. **4**
- Inadequate test environment.
- Too short time between when complete and final requirement specification exists and decided time for launch.

2.3.i 4

2.3.ii 2

2.3.iii 4 TRS reporting under MiFID I has had national features and accompanying complications. For the investment firms that conduct cross-border operations, it became clear that the reporting systems needed to evolve for each market. The effect was increased development costs. National features also contained contradictions because reporting was, in some cases, in accordance with the respective country's rules, made to several competent authorities, which contravenes the principle that only one competent authority should receive reporting for a transaction.

2.3.iv 4

The reporting of positions in commodity derivatives under MiFID II shall be reported to the supervisory authority of the country where the trade took place. This principle differs from the reporting of other financial instruments and is expected to be burdensome because each country's competent authority is expected to provide different specifications. This was worrisome as Swedish investment firms trade commodities on marketplaces in eight different countries within the EU. At a very late stage, when the testing phase normally should take place, the conditions were changed, and the technical interfaces were coordinated.

2.4 –

2.5 Please specify the supervisory reporting frameworks to which you are subject (or, in the case of entities receiving and/or processing the data or supervisory authorities, which you deal with or make use of) and estimate the cost (in monetary terms and as a percentage of operating cost) for your entity of meeting supervisory reporting requirements (or, in the case of entities receiving and processing the data or supervisory authorities, of processing the data).

i) Subject to/deal with/make use of the following supervisory reporting frameworks:

The Nordic Securities Association, NSA, has asked the members, i.e. investment firms, about the costs of a) implementing and b) maintenance and operation of:

- Transaction reporting under MiFID I
- Transaction reporting under MiFID II / MiFIR
- Reporting to Trade Repositories under EMIR

ii) Average initial implementation cost (i.e. one-off cost):

Cost in Euro: The indicated costs for one reporting system (as for transaction reporting under MiFID II or to trade repositories under EMIR) is EUR4,000,000 for a typical Swedish bank.

However, it has proved very difficult to separately report the costs of developing these reporting systems as they are integral parts of other activities. It should also be noted that the question of costs does not follow normal investment decisions. If a firm has decided to provide investment services and

trading in securities, it must build these reporting systems no matter what they cost.

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iii) Average annual running cost (i.e. recurrent cost):

Indicated level of costs for one reporting system is EUR1 m for a typical large Swedish bank with many transactions.

One member firm with relatively few transactions and with a low degree of automation, indicated that the cost for reporting is more than 20 euro per transaction.

2.6 Which reporting frameworks contribute the most to the cost of compliance with supervisory reporting requirements? Please indicate as many frameworks as necessary and explain your answer.

Both reporting to trade repositories under EMIR and reporting to competent authorities under MiFID are costly. The reasons are, among other things:

- reporting requires new tasks that are not already available but must be obtained from, for example, clients or agreed with the counterparty for each trade. That is, firms must rebuild the information infrastructure the whole way to the end clients.
- The reporting rules imply new definitions that deviate from previous definition or accepted market practice.
- Requirements for new reporting tasks often involve very extensive work in interpreting the rules and what to report. Questions to authorities usually do not provide the necessary clarity as the environment firms work in is not always familiar for the authorities. Of course, it is not always easy for the authorities to answer different questions because each country has its specific environment, type of market, tax rules, etc.
- The extensive amount of new data to be reported along with other new and concurrent requirements, such as MiFID, often means that existing systems are insufficient and that new systems must be built to meet the requirements.

2.7 -

2.8 –

2.9 No

Section 3: Identifying possible ways to simplify and streamline supervisory reporting

objectives are achieved. Please select all relevant answers that apply.

Short term Long term Don't know

clarification of the content of the data elements - **long term benefit**

greater alignment of reporting requirements

greater standardisation/use of international standards

- o development of a common financial language
- o ensuring interoperability between reporting frameworks and/or receiving/processing entities or supervisory authorities
- o greater use of ICT
- o greater automation of the reporting process
- o other (please specify):

3.1 The main point of view is that what costs are new reporting facilities, new requirements and information that is not available in the present IT environment. Especially burdensome is information that requires new questions to clients and counterparts, in worst case for every trade. If you have developed a reporting routine, operating costs are relatively limited compared with developing new IT-systems.

Similarly, changing requirements often involve large initial costs. Consequently, in most cases, the request is to change as little as possible as long as this does not alter what should be reported. This also means that introducing a new standard involves a higher cost compared to if the new standard had not been introduced.

However, in the long term, the introduction of a standard should mean lower costs. However, this implies that the introduced standard is not changed over again.

The requirement for a higher precision is also costly, e.g. time stamp with more decimals. Poor precision in conditions also means higher development costs.

Another example is the requirement for a seller and a buyer where no such parties exist.

Definitions regarding financial counterparties are challenging because different regulations have different definitions.

Overlap is troublesome - especially with slightly different definitions (cf EMIR and MiFID).

Matching trades (EMIR) takes a lot of time, resources and thus entail high costs.

The often very short time available for building a new reporting system often means a less successful but expensive quick fix instead of structuring a better, cheaper and more flexible system.

Changes is always expensive even if it involves easier reporting. It is better to do it right from the beginning.

Firms would also like to have better responses to questions when detecting inconsistencies in the reporting routines or getting errors in tests. In many cases, the lack of responses is a major concern and involves higher costs.

As a general principle it would be a good idea that all trades are only reported once with a limited number of data to a central database providing the information the regulators need to ensure the stability of the financial system.

This is a benefit for the investment firms as they only report the trades once, but it could also be a benefit to the regulators as they all have access to the

same data and can get the reports they feel are necessary. It does not matter who the receiver is as long as it is the same party irrespective of the transaction reporting. It would also be good if a specific data is validated in the same way irrespective of the reporting.

EXAMPLE ON INEFFICIENCY: After reporting transactions under EMIR for many years it is unclear what the regulators are using the data for, or if they are using the data at all. We know they do some statistics during specific weeks of the year and address banks if they find it necessary. This seems to be a very modest outcome especially considering the large amounts the sector is spending on this reporting. Given the enormous amounts of information that the counterparties are providing, there should be a basis for some aggregated statistics that both regulators and industry analysts could use for measuring the financial stability in the financial markets.

EXAMPLE ON INEFFICIENCY: Reporting of FX products covered by MiFID II were heavily debated by the Nordic Securities Dealers Associations. The decisions on the scope was decided very late in the process leaving very little time to change the implementation.

EXAMPLE ON INEFFICIENCY: An example is the validation of the LEI code. It needs to be ACTIVE and ISSUED under EMIR but can be LAPSED and ISSUED under MIFID II. It is difficult for clients to understand why they need a LEI code at all, when they have acquired a company ID when registering as a company. And it is even more difficult to understand why market participants need to renew it every year if they trade derivatives, but if they trade plain vanilla products they do not need to renew it. It would be a huge benefit in the long run if these LEI codes were validated in the same way across all regulatory transaction reporting regimes.

3.2 To what extent would the development of a common financial language help reduce the compliance cost of supervisory reporting?

o Significantly

A common financial language and understanding not only of products but also on how to book them would be beneficial for the sector and especially the cost level in the financial sector. It will be a prerequisite for implementing new digital technologies within the trading area that can take care of booking, UTI generation, settling, confirming, reporting etc. in one go. If the regulators put focus on a common financial language between market participants, between receivers of information (Trade Repositories, FSAs, ...) as well as between the regulators and the rest of the value-chain it will make it easier for the financial sector to implement digital solutions.

However, the introduction of a standard must be preceded by an extensive analysis. It is extremely costly to change or adjust an already introduced standard.

3.3 To what extent would the development of a common financial language help improve the management (i.e. reporting or processing) of supervisory data required to be reported?

Significantly

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RECOMMENDATION: We strongly support a common financial language as it would force counterparties to agree on the product / product-characteristics they trade upfront. With regards to transaction reporting it would also mean that the trade repositories would have to agree on how to report them.

EXAMPLE: Reporting of an IRS. In DTCC they demand reporting of both legs in the swap. At RegisTR they only demand reporting of the long leg. The effect of this is that it will never be possible to match this trade if one party reports to DTCC when the other party reports to RegisTR.

3.4 Are there any prerequisites for the development of a common financial language?

Yes

RECOMMENDATION: The regulators should have a much deeper understanding of the sector and its complexities before making new rules. The regulators need to understand the need for a common global language and common global standards for financial products.

3.5 Are there any obstacles to the development of a common financial language in the short term (i.e. 2 years or less)?

Yes

RECOMMENDATION: Developing a common financial language will take more than two years to agree on in case we should have a set-up that is fully reflected in the reporting. The reason is that we currently have local differences, and we have a lot of participants in the financial industry that have made a lot of investments already.

One of the major challenges in recent years has been the short precaution when introducing new reporting requirements. Changing the standards or changing the financial language requires major efforts and analysis to ensure that it is correct in the long term. Different countries have different types of markets, different national laws, different conditions, different market practices, etc. Introducing short-term changes will entail extensive work and involve major investments. If work is done too fast, the risk is that work must be redone in some parts. Any such change involves major investments with the risk that players, especially smaller, no longer see the conditions for continuing their business. For the securities market to be good and adapted to different types of investors and issuers and to function well, it is assumed that large and small players can find the conditions for their long-term survival. For large and frequent changes makes it harder.

3.6 To what extent would ensuring interoperability between reporting frameworks and/or receiving entities help reduce the compliance cost of supervisory reporting?

Very significantly

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RECOMMENDATION: It is a problem that the receiving entities do not always treat products in the same way. This makes e.g. pairing, matching and reconciliation difficult under the EMIR regulation. If trades are booked differently it is difficult to match them. A strict definition of the products and how they should be reported would help immensely.

EXAMPLE: An example is IRS again. If an investment firm reports two legs with two UTIs to DTCC, and the counterparty reports one leg with one UTI to RegisTR, then the investment firm will end up with one trade in DTCC that cannot be matched.

EXAMPLE: It is also a problem that the trade repositories do not have efficient working procedures to ensure handling of mergers. Some Trade Repositories can follow the Q40 procedure irrespective of whether the merged company is a customer or not. Other companies can only perform the merger procedure in case they are directly contacted by the merged entity to fill out all kinds of documents in order to change the LEI codes. It is not all merged companies that have resources to contact all Trade Repositories operating in Europe to ensure that the Q40 procedure is being followed. This is creating a lot of unnecessary reporting problems for customers that just happened to trade with a merged entity.

3.7 To what extent would ensuring interoperability between reporting frameworks and/or receiving entities help improve the management (i.e. reporting or processing) of supervisory data required to be reported?

Very significantly

3.8

3.9

3.10 To what extent would greater use of ICT help reduce the compliance cost of supervisory reporting?

Moderately

RECOMMENDATION: ICT is fundamental in the sector. In the short run (within two years) it will most likely increase the costs of being compliant as the workload on the reporting will increase. BUT in the long run we expect the costs to decrease. In the long run the cost effect will be significant if we book, settle, reconcile and report in one go. We check the product once, we check the customers LEI code once and we check the UTI once. All counterparties to a trade, the trading venue, the clearing house, the local FSA and maybe even the local tax authority can be part of that process. Everybody should agree to the trade's correctness before it is reported.

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3.15**3.16**

3.17 Are there any obstacles to a greater automation of supervisory reporting in the short term (i.e. 2 years or less)?

Yes

The capacity of institutions to make automation investments in the short term is one of the main obstacles to greater automation. Also, the definitions are still not clear enough. This leads to misinterpretations of the regulation.

3.18

3.19 What role can EU regulators play in facilitating or stimulating greater automation of the reporting process?

Crucial role

EU regulators would have to agree and specify a common financial language, interoperable data models and clear transformation rules and an agreed set of coherent and consistent reporting requirements.

3.20 What else could be done to simplify supervisory reporting while ensuring that regulated entities continue to fulfil their supervisory reporting requirements?

Do the authorities really need all the information they request? The reflection is done after more than ten years of reporting experience. The reason is among others that the experiences point out challenges for the authorities to understand the information they get and how to use it.

In addition, with all the material reported, with TRS reporting and EMIR reporting, one could have expected compilation and reports on, for example, a number of market abuse cases filed for prosecution based on TRS reporting or statistics, risk assessments and derivative positions development.

3.21 Can you provide any practical example of improvements to data management processes that could be applied to supervisory reporting with a view to reducing the compliance cost and/or improving the management of supervisory reporting?

YES

There are no simple solutions to make reporting cheaper and more effective. And it's not about technical solutions that solve the big challenges but about proper investigations, analyses etc by experts with deep and long experience in all the areas covered by the proposal before deciding which rules should apply. Early in the process should it also be analysed if the intended information really solves all problems?

In addition, we have observed that developments in recent years have been characterized by not utilizing existing information, but a new directive or regulation arises with new reporting requirements. The result is a new layer of reporting where each new report looks at the same activity as already reported in accordance with other regulations/directives but with a new angle. Sometimes, the new regulation means that certain trades are to be broken out and reported under a different regulation (reporting under SFTR). The effect is boundary issues, new tasks to be generated, higher aggregate reporting costs, and sometimes the insight that it becomes too expensive and that the investment firm refrain to provide the service which is to the detriment of the client.