The heightened focus on data quality for transaction reporting

By Catherine Ahnoff

Transaction reporting and data quality have evolved over the years. In the initial years of EMIR and MiFIR reporting, there was less focus on data quality and what constitutes correct, accurate reporting. Firms were more focused on meeting validation rules rather than checking if reports were contextually correct and met their organisation's trading scenario.

Updates to existing reporting regulations and the introduction of new ones are a necessary part of maintaining and strengthening the integrity, resilience, and efficiency of financial markets, as the macro environment constantly evolves. With the additional compliance and data management challenges this creates for reporting firms, along with improvements in regulators' ability to spot incorrect data, being able to submit accurate, timely, and comprehensive reports is more critical than ever and presents an opportunity for firms to assess how they can derive greater value from their reporting.

Data quality under increasing scrutiny for MiFIR reporting

Recently, there has been increasing oversight regarding data quality, which can be seen in various publications from regulators and reporting firms, including the FCA's Market Watch 74 newsletter and ESMA's annual Report on Quality and Use of Transaction Data. Several national competent authorities (NCAs) also publish data quality reports highlighting the findings of data quality studies to the market, alongside market insights.

Recent Market Watch newsletters have revealed that the number of firms undertaking reconciliations increased by nearly 300 between 2018 and 2022. However, the FCA noted that not all firms are undertaking reconciliations, despite the fact that "firms are required to reconcile front-office records with data samples provided by the FCA under Article 15(3) of RTS 22."

It was identified that complex trades are not always completed in accordance with the reporting guidelines and that when the underlying fields 42-56 are populated, there are "variable data quality issues." There are also issues around the provision of FIRDS data by some venues, which we discussed here.

Additionally, the FCA published a Market Watch update (number 79) related to the Market Abuse Regulation (MAR), surveillance, governance, and surveillance failures.

Recent Market Watch newsletters have revealed that the number of firms undertaking reconciliations increased by nearly 300 between 2018 and 2022.

> It was noted in the MiFIR section that the number of rejections has decreased “by 46% compared to 2022.”

Targeted monitoring of data quality

The ESMA data quality report specifically calls out some of the targeted ways data quality is being monitored in the EU, identifying “that at national level the NCAs have introduced data quality dashboards, undertook more granular EMIR data quality checks and made use of their enforcement powers by taking actions against counterparties in relation to data quality issues”. ESMA has a number of dashboards highlighting specific issues that have occurred in EMIR reporting (such as late or incorrect valuation reports), or erroneous reporting when both counterparties to the report are compared, with discrepancies fluctuating, “reaching a peak of 26.1% in September 2021.”

It was noted in the MiFIR section that the number of rejections has decreased “by 46% compared to 2022”; however, ESMA will be using aggregate statistics to cross-check with other datasets, which support ESMA “in the identification and execution of its data monitoring activities, which consist of periodic activities and ad-hoc reviews. ESMA monitors on an ongoing basis the completeness, availability, integrity, and timeliness of transactions reported by ARMs (approved reporting mechanisms).”

The MiFIR Review (Regulation (EU) 2024/791) has a review point for data quality in 2028 to assess the feasibility of more integration in transaction reporting and streamlining of data flows to “reduce duplicative or inconsistent requirements for transaction data reporting, and in particular duplicative or inconsistent requirements laid down in this Regulation and Regulations (EU) No 648/2012 (EMIR) and (EU) 2015/2365 (SFTR), and in other relevant Union legal acts.”

The drive for improved data quality goes beyond a single reporting obligation and extends to data governance standards within organisations. For example, the Digital Operational Resilience Act (DORA), which will apply from 17 January 2025, has been designed to improve data governance and quality.

We are now observing what appears to be a tightening of regulatory oversight over the past few years, with the FCA consulting on a new approach to investigations. If the recent record-level fine is any indication, then we could see more consideration from firms in relation to trading and reporting controls.

As the regulatory focus on data quality intensifies, we have seen a shift within reporting firms, which are now analysing the quality of their data and building or strengthening their control frameworks. This is important, especially given the level of regulatory change on the horizon for both existing and new regulations.

Data quality in EMIR Refit

There have also been some interesting trends with EMIR Refit rejections to date. Many of these relate to XML schema issues (the structure of reports and providing correct data elements) and to lifecycle workflow.

In the first few weeks following the implementation in April, many market participants experienced a notable increase in rejections due to schema errors, with data revealing nearly a quarter (24%) of these rejections stemmed from technical difficulties firms faced in adhering to the new ISO 20022 XML standards. Additionally, 21% of rejections were linked to issues arising from lifecycle transitions, which impacted workflows and added to the complexity of compliance. We also observed that, while day one rejections were well above 40%, this figure is now down to single digits.

Although the schema is a new requirement, reporting in XML is not a unique challenge to EMIR Refit, as the prior EMIR reporting and SFTR reporting regulations already required submissions to the trade repository in XML.

Despite rejection rates returning to normal, it only proves that submissions are now valid, not that they are correct – a report may pass validations, but this does not guarantee it is correct in terms of content or context. With rejection rates still in single digits, there is still some way to go before firms are reporting accurate and correct data within their submissions. It is therefore important that firms assess their business and trading scenarios and ensure these are replicated in the transaction reporting flow.

Creating an effective and robust data quality control framework

When looking to improve data quality, firms should review their control framework and ensure they build adequate checks and controls around the reporting flow. As transaction reporting flows are often separate from trading flows, errors can slip in unnoticed. It is therefore important for firms to establish a strong data governance framework with data lineage between systems and an understanding of all data transformation points.

When looking to improve data quality, firms should review their control framework and ensure they build adequate checks and controls around the reporting flow.

Reconciliations are another key control. By having regular reconciliations from front office systems to the trade repository or, for MiFIR, front office systems to the ARM and then to the NCA, firms will be able to capture errors that are introduced during the reporting lifecycle. At Regulatory Reporting, we undertake regular checks across the reported flow to ensure the integrity of reporting, and we have also built tools to assist firms in this periodic checking.

Enhanced data quality checks and contextual validations are also important control items. Good indicators of errors within the reporting flow include flagging if the transaction report does not fit within certain trading scenarios; is outside of venue operating hours; or is just erroneous when compared to the submissions of other reporting firms within your peer group.

MiFIR data quality controls

Under MiFIR, CON-412 (ISIN eligibility check) is one of the top three reasons for rejections in all jurisdictions. We are working to create a new rejection dashboard that will indicate to firms the cause that triggers CON-412, enabling the investigation and resolution of this key data quality issue within the market. In addition, we are creating a new and enhanced eligibility module to pre-check submissions for firms before they are sent to an ARM. This will flag reports that may be causing these rejections before they are sent to an authority.

While exploring pairing and matching of MiFIR trades at LSEG Post Trade's Regulatory Reporting, we have made several interesting discoveries, such as observing prices regularly breaking to a decimal place or apparent discrepancies between counterparties in CFI codes. These are all indicators of data quality concerns that could be occurring through the transaction reporting process, with regular, persistent errors potentially indicating an error in the submitting firms' transactions.

Our Regulatory Reporting analytics package highlights these errors on transaction reports, allowing firms to focus on capturing and resolving potential data quality issues. The package will be further extended to encompass EMIR reporting and offers an array of controls, including checks for trading against sanctioned parties, and pairing and matching alongside peer analysis. These are crucial for understanding if your reports indicate an outlier in submission information.

MiFIR reports are a key data point in the regulator's toolbox for monitoring market abuse, which makes checking transaction reports a key control.

As we continue to explore data quality controls, we are currently building a tool that will use transaction reports to monitor for surveillance concerns. MiFIR reports are a key data point in the regulator's toolbox for monitoring market abuse, which makes checking transaction reports a key control. Our solution allows firms to review the same dataset that the authorities use to observe markets and apply a broad range of available data to check for potential abuse failings on data quality issues within the transactional reporting flow.

The solution will also allow firms to replay market conditions, enabling them to analyse the trading activity within their organisation at any point in time. To do this, we are using data from an array of venues, data vendors, and order data from APAs (and in the future, CTPs). As the solution will use MiFIR reports sent to LSEG Post Trade's Regulatory Reporting ARM, firms will not need to provide any additional data sources.

Conclusion

Having a clear understanding of your business and trading activities to build scenarios for reporting and testing is the first step for a robust control framework. The next is understanding your data, transformation points, and data lineage. The final step involves deploying a range of different post-reporting controls to ensure accuracy and completeness, which is critical to assessing the quality of reporting. At LSEG Post Trade, we can assist firms in exploring and resolving data quality issues through a range of tools developed to utilise transactional reports.

To learn more about our reconciliation and analytics packages, and how they assist with managing data quality, contact us or visit LSEG Post Trade's Regulatory Reporting | LSEG.

LSEG POST TRADE

Contact us

Email regreportingsales@lseg.com
Phone +44 (0)20 7797 1122
Website www.lseg.com/en/post-trade/regulatory-reporting