The CFTC Rewrite – Avoid a Rocky End to a Long Journey.

With its long-expected Rewrite (DFA Parts 43 and 45), the CFTC aims to bring the US market into alignment with harmonized critical OTC derivatives data elements. Where this Rewrite is heading, so follows the EMIR Refit, and it is anticipated that the rest of the global regimes will follow suit, quickly reflecting CFTC and EMIR changes.

CFTC Phase 1 comes into force on December 5, 2022. Firms in scope must incorporate new CDEs (critical data elements), UTIs (unique trade identifiers), validations, action types with event types, collateral reporting fields, and meet more stringent reconciliation requirements. To add to the complexity, the CFTC is still issuing updates as the deadline approaches. For example, on September 15, 2022, it announced a limited format change to the technical specifications. Participants, including trade repositories (TRs), must be prepared to react swiftly to changes that occur in the run-up to December 5th, and afterward.

- **Reporting counterparties are most impacted by Phase 1**
- **Phase 2, expected at the end of 2023 and still subject to change, brings more challenges**
- **Firms will need to strengthen their reporting approach to achieve the Rewrite's data-quality demands**

Reporting counterparties are most impacted by Phase 1. It is particularly challenging for them to adapt to the new action/event-type matrix and, most significantly, to meet the requirement to accurately distinguish between amendments and corrections. The general lack of transparency in upstream trading systems compounds this problem, especially if the firm lacks an efficient means of handling adjustments.

Phase 2, expected at the end of 2023 and still subject to change, brings more challenges. Firms need to include the UPI (unique product identifier), meet ISO 20022 Standards, submit in XML format, and possibly incorporate updated reconciliation requirements. In the second phase, all participants are affected. Their greatest concerns are around populating the correct UPI according to ISDA's OTC Derivatives Taxonomy v2.0, and handling reconciliation while meeting strict data-quality standards. Even today most firms are finding it difficult to populate the classification of financial instrument (CFI) codes. Thus, they will certainly need to strengthen their approach to achieve the Rewrite's data-quality demands.

The CFTC Rewrite and ensuing regime changes (EMIR Refit, ASIC, HKMA, MAS, etc.) necessitate thinking through processes and developing an architecture to integrate data, reporting, and analytics into a single platform with strong error handling and reconciliation capabilities.

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Months vs. minutes.

Indeed, firms can expect to feel this heightened regulatory scrutiny in a number of areas, and certainly regarding the new requirement for correcting historical data by back-reporting; this is something most firms do not have the capability to do. What happens? After identifying an error, the regulator requests the institution to make amends and present a mitigation plan. It may seem easy to correct an historical error in swap terms, for example, but the process can actually take months. The steps to permanently correct the error and/or similar errors would typically involve the business analysis (BA) team identifying the issue, the technology team fixing it, the change-management team confirming the error resolution, and finally obtaining approvals for deployment into production. Because the Rewrite requires errors to be corrected rapidly (within a seven-business-day window), such tactical fixes are not scalable. Therefore, firms need an approach that enables users to:

- **Prevent such errors from happening by having the ability to test data completeness and validity as a standard operating process, and,**
- **Should an error occur, have the ability to address it within a strong change-management and audit control environment and correct it within minutes, not months.**

Stepped-up reconciliation.

In addition, the standard trade and transaction reconciliation approaches currently taking place will not be adequate for the Rewrite. Firms must now to do a three-way reconciliation across front-office data (Books and Records), the reporting data, and the TRs' records. To successfully reconcile, firms need to think of this as a massive data-quality content validation exercise. The regulator will expect that the firm has verified that its swap data is complete and accurate throughout the process, and that all logged breaks and adjustments have been corrected and properly governed.

Streamline your journey.

The CFTC Rewrite and ensuing regime changes (EMIR Refit, ASIC, HKMA, MAS, etc.) necessitate thinking through processes and developing an architecture to integrate data, reporting, and analytics into a single platform with strong error handling and reconciliation capabilities. At this critical juncture in global reporting harmonization, we invite you to talk to us about the CFTC Rewrite and your overall trade and transaction reporting needs.

Contact Adenza to learn more about a range of end-to-end and integrated trade and transaction solutions that address your firm's present and future global regulatory compliance needs.

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