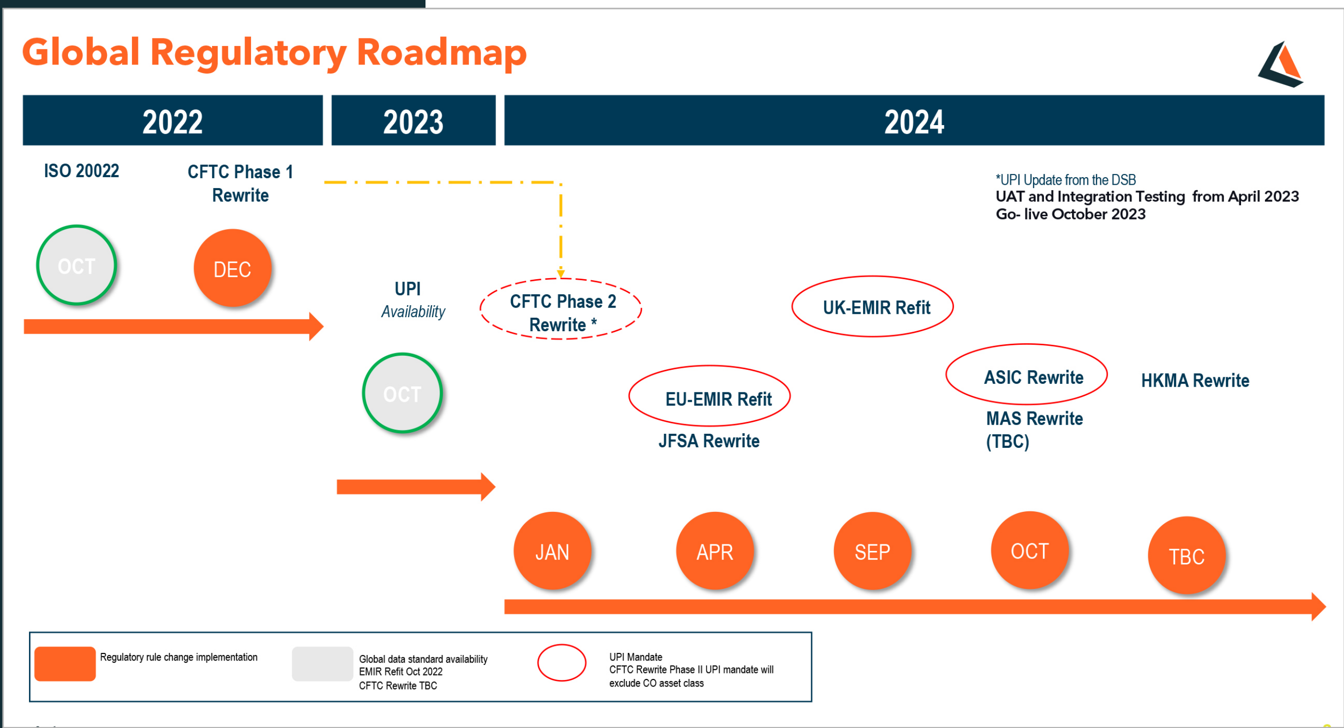
Reg News

EMIR Refit Mandates

ISO 20022 messaging format for both report submitters and TRs by April 2024

Just as financial institutions are getting a handle on a raft of trade and transactions rewrites including the quite challenging CFTC Rewrite and regime changes for ASIC, JFSA, and MAS, here comes ESMA with a bombshell – EMIR Refit. Like the Rewrite, the Refit necessitates processes and architecture that integrate data, reporting, and analytics into a single platform. Unlike the single-sided reporting used for the Rewrite, the Refit covers individual entity regulations and technical requirements around XML schema, identifier fields, reconciliation, and validation rules.

And while smaller institutions will definitely have a more difficult time complying with this avalanche of regulatory requirements, larger institutions are not immune to the limitations of their resources to simultaneously contend with so many – the CFTC Rewrite phase 2, EU ESG Taxonomy, and the Refit. Compliance will be grueling for institutions without the relevant experience, business and maintenance processes, and/or the XML/XSD capabilities – unless they begin planning for roadmaps now.



Adenza

What does EMIR Refit mean for market participants?

With this update, ESMA clarifies its guidelines for financial and non-financial counterparties (NFC), trade repositories (TRs), and competent authorities to comply with the legal provisions on reporting and data management under the amended EMIR rules. It also covers EMIR technical standards for the harmonization, standardization, and high-data quality necessary for effectively monitoring systemic data-integrity risk and consistent implementation.

ESMA is the first regulator to mandate ISO 20200 XML format and unique product identifier (UPI) code usage/validation against ANNA DSB, alongside strict regulatory technical standards (RTS) changes in a non-phased approach. As a result, even tier-1 parties with significant budgets and resources will need help preparing for an April 2024 go-live that includes:

- A reporting format with 74 additional fields, a UPI mandate, link-ID fields for compression activities and package trades, and new lifecycle events with a revised reporting action type matrix.
- An increased data-quality reconciliation requirement and mandate to actively detect, report and correct errors and breaches to regulators within seven days, similar to the Rewrite.
- An additional disclosure obligation for delegated and report-submitting entities regarding their reporting quality and status.

What are the technical challenges created by this regulation?

As usual, sourcing core trade-data across platforms and mapping and validating are the key technical challenges. Additional requirements include:

- Completeness in whether relevant fields are correctly populated and reported for the eligible population.
- Consistent data-quality monitoring and risk and control framework specifically designed to address trade and transaction reporting.

Finally, with the new action and event types, data versioning and regulatory rules will be critical, particularly regarding the backloading of outstanding contracts.

Complex Regime and Reporting Requirements

Unlike the single-sided CFTC Rewrite reporting, the EMIR Refit reporting process requires a thorough understanding of each reporting entity's regulations and revised technical standards and validation rules for EMIR XML messages. There is also the addition of lifecycle events reporting, new fields, and historical and subsequent event and data submissions. As with the Rewrite, firms must upgrade all outstanding derivative contracts to Refit-data quality within first six months of implementation.

Data Quality: Harmonization, Standardization, and Reconciliation

Data quality is essential for ESMA to carry out its supervisory responsibilities to promote stability and transparency in the securities markets. And so it imposes quality and harmonization requirements to ensure that data used for regulatory purposes is accurate, complete, and consistent. To achieve this, it established a new level of data-quality standards to the ISO 20022 – first piloted as part of the SFTR regime – and added most of the critical data elements (CDE, including the UPI) to the EMIR Refit mandate, along with:

- **Inter-TR data reconciliation**
- **Complete and accurate reporting process**
- **Collateral-field expansion**
- **Valuation reconciliation**

With the EMIR Refit, ESMA ensures that the data it receives meets its high-quality standards, requiring firms swiftly act to identify, report, and correct errors as reflected in the focus on "months vs minutes" in our previous article about the CFTC Rewrite https://adenza.com/2022/11/24/cftc-rewriteavoid-a-rocky-end-to-a-long-journey.

Divergent Financial Conduct Authority (FCA) and ESMA Requirements

Because the EU and UK Refits come into force almost six months apart, firms must keep the legacy EMIR format even as they introduce the EMIR Refit formats. In addition to timing differences, schemae also diverge. Although in the big scheme of things, no pun intended, it is a minor difference.

Feature	EU/FCA	UK/ESMA
Timing	29 April 2024	30 September 2024
XML Schema	FCA's versions of the XML schema, includes the Execution Agent field	ESMA has different schemas

ISO 20022

ESMA mandates harmonizing XML messaging for submission, feedback, and TR reporting as part of a global standard. Standardized end-to-end reporting in the ISO 20022 XML format is expected to enhance data quality and consistency, mitigating data integrity risks, as well as ensuring the backward compatibility of the data reporting. This format is used by SFTR reporting regimes and is widely accepted in the financial industry.

ESMA has clear guidelines and validation rules TRs must adopt for submissions. However, repeatable fields in the now-mandated XML blocks not only make trade messages quite large, but they also change the structure of trade-state and reconciliation reports further complicating matters for firms without the expertise or capabilities to handle the new messaging format, particularly with the optional fields.

Simultaneous ISO 20022, UPI, and CFTC Rewrite Phase 2 Implementation

ESMA's "no-phase" approach of simultaneously deploying ISO 20022 and UPI mandates creates an extra burden for multinational organizations when allocating and mobilizing resources across regulatory change programs at the same time as executing successive rollouts around the globe. This burden is made heavier by the fact that SFTR schema updates and validation rules are expected to change soon, as the SEC t+1 settlement changes.

UPI: A New and Potentially Expensive Mandate

ESMA, the first regime to make the UPI part of the law, has provided clear guidance on where and how it needs to be used. Firms must register, source, and verify the UPI for newly traded derivatives within the t+1 transaction reporting timeline. Unlike with the unique transaction identifier (UTI), where regulators could mandate that counterparties exchange or share reference details, there is no such requirement for UPI; therefore, firms must rely on their broker-dealer counterparts or wait and source details with ANNA-DBS end-of-day files unless they do not subscribe for optional services. This will make the whole process costly or difficult, particularly for small-size firms.

What's Next?

To the naked eye, the EMIR Refit appears to be a whole year away. However, anecdotal evidence shows that most of the institutions that will be impacted are unaware of the challenges that await them. In fact, they must start preparing now by conducting the requisite impact analyses. That preparation would include securing a jurisdiction-agnostic trade and transaction reporting solution that natively supports ISO 20022 and provides UPI handling, reconciliation, and simulation tools.

Furthermore, institutions managing new trade-state, transaction activity, and reconciliation reports will need significant expertise and sophisticated tools to handle reconciliation. They will also need to revise their control frameworks to comply with the Refit regulations.

Contact Adenza about how we can help you prepare for the EMIR Refit and many rewrites, regardless of jurisdiction.

For more information, contact
communications@adenza.com
www.adenza.com