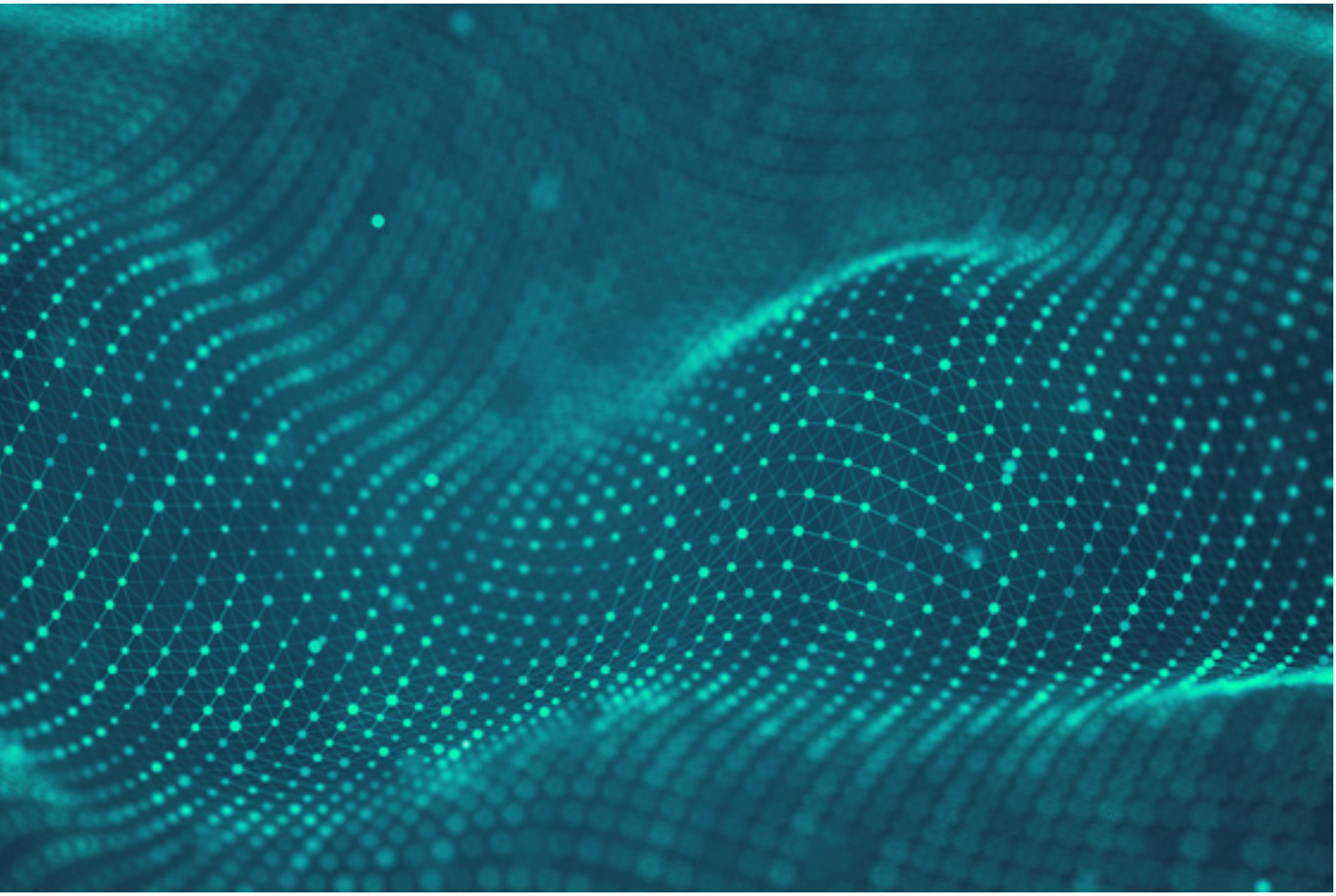
MiFID II Transaction Reporting & Data Control



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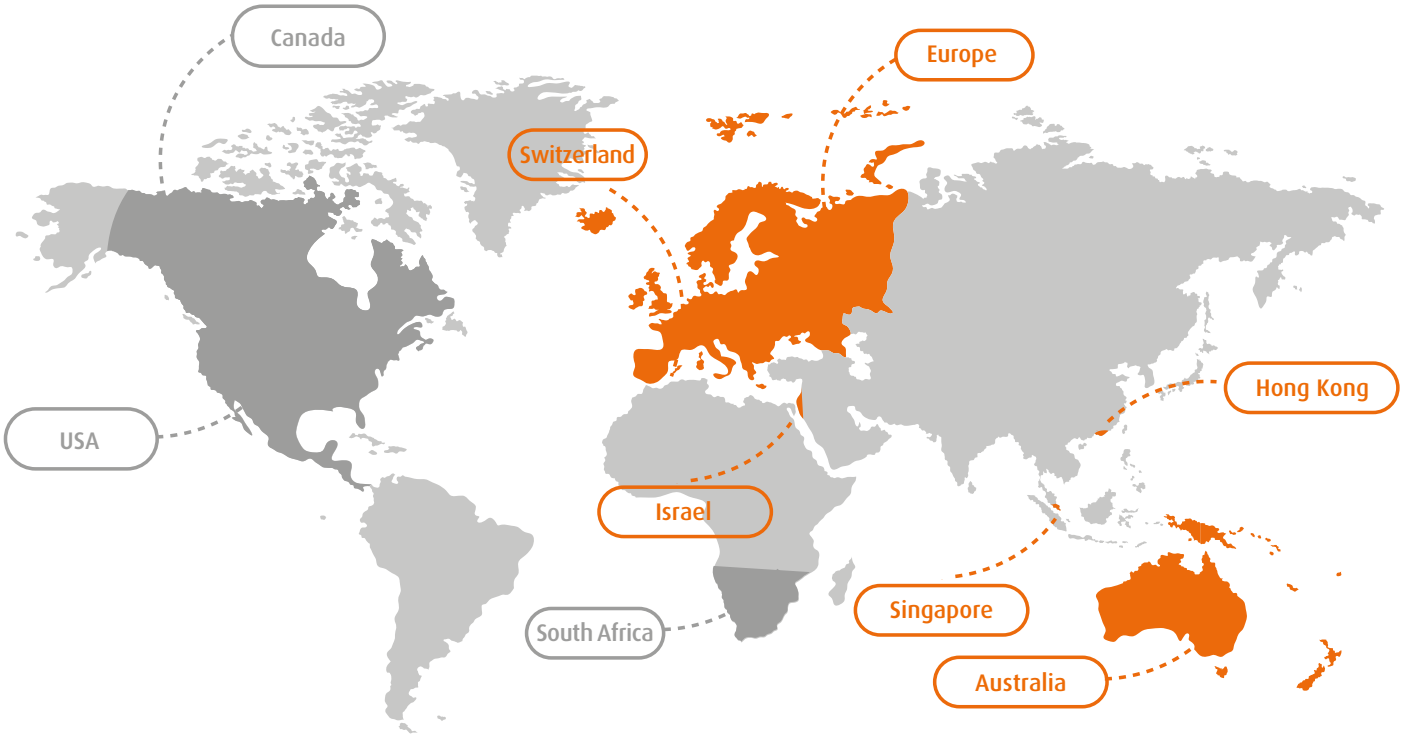
Overview

Following the G20 meeting in 2009, member countries agreed to increase transparency in the global markets through regulation to ensure that OTC derivatives are reported to a trade repository and cleared through a central counterparty.

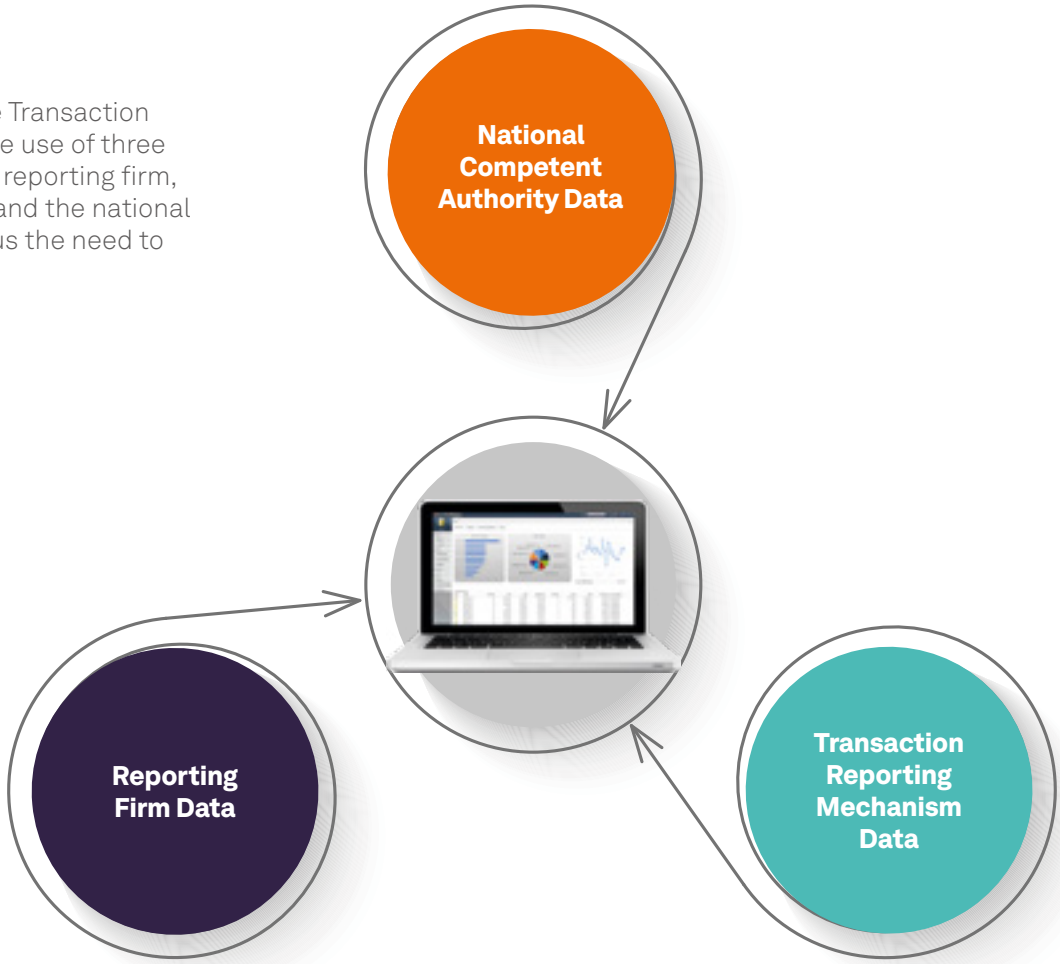
The route to implementation is the responsibility of local regulators, to date many are live but some of the key countries are still in the preparation stage.

- **Europe took a unified approach that delivered EMIR, MiFID II and, in due course, SFTR.**
- **Singapore's Monitory Authority of Singapore has required MAS Reporting under the 'Securities and Futures Act (Reporting of Derivatives Contracts) Regulation' since 2013.**
- **The Australian Securities & Investments Commission (ASIC) introduced a trading repository in 2013 under the 'ASIC Derivative Transaction Rules (Reporting)'.**
- **Switzerland introduced the Swiss Financial Market Infrastructure Act in 2016 and FinfraG came into practice in 2017, requiring firms with a Swiss entity to report derivative transactions.**
- **The Hong Kong Monetary Authority took a two phased approach to complete their Transaction Reporting requirements. HKTR has been fully live since 2017.**
- **Bank of Israel requires firms to report FX transactions and rates derivatives since 2017.**

Transaction Reporting regimes that have yet to be enacted in the United States (CFCT), Canada (OSC, MSC & AMF) and South Africa.



Commonly across all the Transaction Reporting schemes is the use of three elements; data from the reporting firm, a reporting mechanism and the national competent authority. Plus the need to reconcile these.



Quality Control across G20 Reporting Obligations

Transaction Reporting for Over-the-Counter (OTC) derivatives became a key priority for regulators in all countries that make up the G20 following the Global Financial Crisis of 2007-2008. Across the globe it became apparent that there is a demand for financial institutions to become responsible to their customers by adhering to stringent regulations to increase operational efficiencies, controls to mitigate market abuse and safeguard individual and institutional investors. The result is the emergence of the Transaction Reporting regimes EMIR, MiFID II and SFTR in Europe, as well as HKMA in Hong Kong, MAS Reporting in Singapore, Australian Derivatives Reporting in Australia and Bank of Israel Reporting in Israel to name a few.

All of the G20 Transaction Reporting regulations have a common theme: companies have to demonstrate that they have full oversight and control of the trade lifecycle. To do so effectively, a number of reconciliations need to be put in place to ensure completeness and accuracy of the transaction. In addition, the preferred route is to use an automated solution that delivers consistency and has the ability to highlight errors and track their resolution.

For the European regimes EMIR, MiFID II and SFTR, most firms will have chosen an Approved Reporting Mechanism (ARM) to check the eligibility of their transactions prior to the reporting to regulators, but reports suggest that data integrity issues persist even post reporting.

AutoRek assist with reconciling transaction data across all of the G20 Reporting Obligations regimes using a single controls framework that meets the various regulatory requirements and adheres to the individual, jurisdictional data laws.

The Importance of Control

Core to each of the G20 reporting regimes is the requirement for transaction data to be presented to the respective regulators in a timely fashion. A great deal of expense and time has gone into creating eligibility and pre-eligibility checkers but little to nothing has been done by firms to satisfy the regulators requirement for post reporting reconciliations.

Often seen as a nice-to-have or to-be-addressed-later requirement, the reconciliation between firm, ARM/eligibility checker and the regulator has proven to highlight data quality issues for those performing the reconciliation on a regular basis. Under MiFID II for example, it has recently come to light that only a handful of firms have applied for access to their extracts for the post reporting reconciliation process.

The nature of the reconciliation suggests a 'clean' process but the results have been surprising. It cannot be taken for granted that the data sets returned by the reporting mechanism and/or the regulator are in line with expectation.

AutoRek has been working with some of the world's leading asset managers to provide a three-way reconciliation service that serves all the Transaction Reporting regulations across the G20. It delivers a solution that monitors the accuracy of the transaction reporting process and highlights issues as they emerge allowing for upstream remediation.

Control Regime

While the European regimes follow a similar pattern in requirement and data scheme, each Transaction Reporting obligation shares the common theme of requiring reconciliations to be put in place to guarantee that all transactions have been captured, verified and matched on a timely basis. The data sets and matching requirements vary from country to country and regulation to regulation.

For example, a UK asset manager adhering to MiFID II is required is to create a three-way reconciliation between the reporting firm, their respective ARM and the FCA on an ongoing basis. The intent of the regulation is to ensure that there are no gaps in the processing of data between the three parties. The same approach is true for other regimes.

It is important to remember that building a controls framework requires not only the ability to reconcile data, but also the capability to workflow breaks to ensure timely remediation.

Transaction Reporting Reconciliation using AutoRek

Working closely with our clients, AutoRek has created a controls framework suitable for any or all of the G20 Transaction Reporting regimes. Using the system's powerful rules engine and high-volume capability, AutoRek delivers a three-way reconciliation process designed to capture each of the various requirements and data challenges.

The three-way reconciliation module can be applied to any and all of the Transaction Reporting regimes by simply plugging in the data sets and letting the system perform the matching processes. This is done automatically by ingesting data from all three sources: internal data, reporting mechanism data and data from the national competent authority/regulator. Next, AutoRek applies pre-determined matching rules to identify matches and mismatches, transactions that match on the unique reference identifier but have differences in one or more fields. The final step is for the system to highlight unmatched items and categorizing the reason(s) why.

There are a number of reasons why mismatches or breaks occur in the Transaction Reporting three-way reconciliation process, here are the top four:

1. **The eligibility checks done by the reporting mechanism may have caused rejections.**
2. **The national competent authority can reject incomplete or inaccurate transactions.**
3. **Changes or amendments to transactions post reporting might not have been captured by one of the three data sources.**
4. **Timing differences in receipt of the data from each of the sources will lead to short term breaks.**

Available both in the AutoRek cloud or your own, the application can be deployed and made ready to use in short order.

Conclusion

Many of the G20 Transaction Reporting obligations have been in place for a few years but the recent go-live of MiFID II and the upcoming SFTR have given many companies a valid reason to automate and consolidate their post reporting reconciliation processes. It is therefore now, more than ever, essential that the right framework and controls are put in place. AutoRek offers a tried and tested product which is easy to use, intuitive and cost effective.

By implementing a robust, automated operational framework, companies will ensure ongoing compliance and control.

About AutoRek

AutoRek is a global provider of financial controls, data management and regulatory reporting software. Our suite of solutions include:

- **Compliance and regulatory reporting solutions, including CASS and MiFID II Transaction Reporting;**
- **Financial control frameworks;**
- **Balance sheet certification/account attestation;**
- **High-volume data migration; and**
- **Automated cash allocation.**

Key benefits from implementing AutoRek include:

- **Mitigating risk of regulatory breaches;**
- **Real time insight into status and exposure;**
- **Reduced dependency on manual processing;**
- **Single repository for control frameworks and data management;**
- **Automated workflow for governance and audit;**
- **Efficient electronic sign off and record retention; and**
- **Adaptability to meet new regulatory requirements.**

Our solutions are purpose-built to improve the quality and efficiency of financial data management, from cost reduction and process efficiency projects, to improving adherence to regulatory reporting requirements.

For more information please visit **www.AutoRek.com** or call us on **+44 (0) 845 603 3613.**

Arrange an AutoRek Demonstration

To arrange a demonstration or a confidential discussion to explore our methodology and credentials, please contact us:

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