



Data reporting deadlines: proceed with caution

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The closer regulators think we are to getting to the desired result, the more issues surface. Just this past week in the yet to be fully implemented global rethink of data reporting we had the CFTC and SEC make consequential announcements. The CFTC fined Citibank subsidiaries \$1/2 million for not updating their swaps continuation data properly; three US Swaps Data Repositories (SDRs) pushed back on regulations that require them to validate data from non-reporting counterparties; the SEC stated they are looking to eliminate unnecessary data in their Computer Audit Trail system; and the CFTC announced it is proceeding on a path to use Distributed Ledger Technology to capture trade data, something it has failed so far to do. Earlier the CFTC fined Deutsche Bank \$2.5 million for failing to identify trade cancellations previously reported to SDRs.

To top it all off, at the start of 2018 the Markets in Financial Instruments Directive (MiFid II) will go into effect across the EU in a single Big Bang moment, requiring US firms who do business within the EU or with EU clients to adhere to MiFid II's data reporting rules. Those rules cover data reporting of all instrument and contract types. MiFid II has new data reporting obligations such as trading venues providing instrument and contract reference data; investment companies having to obtain legal entity identifiers (LEIs) before they can trade (the No LEI No Trade rule); all trade reporting must adhere to standard data formats; and all financial market participants having to supply information on their immediate and ultimate parent.

Lest we forget there are billions of swaps transactions already sent and continuing to be sent to SDRs with no way to access or aggregate them. They lack standard data formats and identifiers. Not that regulators, global standards bodies and industry members aren't trying - unique identifiers (the LEI, UPI and UTI) are in various stages of completion; data harmonization of swaps transactions is proceeding; and a whole new infrastructure is being put in place to support transaction reporting globally. It is that regulators, in attempting to give truth to politicians' pronouncements that they have resolved the issues that plagued the plumbing of finance for a half century, no global data standards, are not speaking up now that the regulatory rubber is about to encounter a pock-marked data road.

First politicians, reacting to the financial crisis, hurriedly created a framework for regulating and reporting of swaps, then proceeded to encompass other financial products in these new regulations. Industry members went along to get along. Frameworks were imbedded in legislation. Then regulators, tasked with interpreting the legislation into rules admitted they did not understand the business and began modifying the rules incrementally after recognizing dysfunctional data was being reported. The inevitable is now happening, regulators blaming industry members, industry members being fined for misreporting data and members pushing back on regulations that are impossible to implement.

Frameworks are what politicians do well. Regulators are somewhat good at rule writing....eventually getting it right. Financial industry members and their customers are then on a perpetual leash to consider process, procedures and controls in implementing these ever changing regulations. Digital engineers then design the technology and data infrastructure to implement these evolving regulations, perpetually within a short time frame and on a money leash, adding incremental components across previous generations of legacy systems. Data managers have to rapidly source or create existing or new data. Programmers have to interpret all this into business applications that do all of the above and that operates through communications networks and on computers.

Ultimately it is here where the code level and the framework meet that will prove the viability of the exercise. That all of these issues identified above surfaced from the technical data implementation of these regulations is not surprising, that's where the rubber of regulation hits the data road.

The current unrealistic implementation time tables, the unresolved procedural issues and the incomplete nature of the standards are testing the reasonableness, practicality, and credibility of this heroic but necessary global initiative. We are fast approaching a 'do ability' test in swaps data reporting. Pulling the switch on a single day of such a globally impacting initiative which is, at its core, a massive systems undertaking like no other, can lead to 'unintended consequences' in the best of circumstances and, at its worst, a runaway failed systems project. Best to follow good systems design and testing protocol and wait until the essential components at the data level are finalized, tested and placed in production.