Transaction Reporting Developments

Of particular interest to: Firms subject to UK MiFID Transaction Reporting Requirements and to Collective Portfolio Management Investment Firms (CPMI)

In brief

The latest iteration of the FCA's Market Watch discusses recent observations from the FCA's supervision of the UK MiFID transaction reporting regime. This includes the FCA's assessment of findings from skilled person reviews issued under section 166 FSMA to address transaction reporting failings. The FCA has also issued a Discussion Paper (DP) on "Improving the UK transaction reporting regime" that invites comments from the industry with the aim of informing Firms on their consultative position on the development of a new transaction reporting regime that will remove unnecessary burdens while maintaining high regulatory standards within the markets. It also looks at whether CPMI firms should be subject to UK MiFIR transaction reporting requirements for their MiFID activities.

Summary

Market Watch 81 identifies incomplete and inaccurate transaction reports and data quality issues which the FCA claims persist and reoccur even after the issue has been identified and allegedly remediated by a firm. In addition, the FCA examined the root cause of this and identified that reporting issues are often caused by weaknesses in 5 areas:

- Change management
- Reporting process and logic design
- Data governance
- Control framework
- Governance, oversight and resourcing

Change management

The FCA identified examples where data quality issues were introduced by a firm following change management activities. These activities include business analysis, systems and data mapping, development of new business and functional requirements, and implementation of new reporting systems, including pre- and post-deployment testing and sign-off. Some of the observations made by the FCA with regards to change management include:

- Incorrect sourcing of information from clearing systems leading to discrepancies in RTS 22 field 28 (trading date time) and other fields.
- Knowledge gaps created by insufficient change related documentation, including records of key decisions which has resulted in complexity for firms when they are later required to remediate data quality issues, including back reporting.
- Emergence of data quality issues in cases where change processes are outsourced to third parties, and there is inadequate oversight over the scope of deliverables. This can be worsened by the absence of transaction reporting subject matter expertise within the firm.
- Data quality issues caused by staff turnover and absences. The FCA identified issues such as failure to report transactions where key staff dependencies exist, and there are not clear policies and procedures to manage reporting in their absence.

Reporting process and logic design

The FCA reiterates the significance of effective transaction reporting systems and controls and why it is important that it is supported by clear reporting processes and logic design documents. There should be evidence of how reporting processes have been designed to meet business and functional requirements. Some of the observations made by the FCA with regards to reporting process and logic design include:

- Misreporting by firms due to improper interpretation of regulatory requirements and the inability to develop reporting logic independently from the firm's business context.
- Late reporting, backlog in exception management, and difficulties when transaction reports need to be cancelled and amended caused by a lack of clarity in implementing the transaction reporting process.

Data Governance

The FCA identified events that led to misreporting caused by a disconnect between data management and regulatory reporting has resulted in misreporting. Some of the observations made by the FCA with regards to data governance include:

- Inadequate security or change management for personal data can result in unauthorised or untracked data modifications, introducing inaccuracies in transaction reports.
- Poor record keeping can undermine a firm’s ability to audit its records and correct historic transactions where errors are identified.
- Inadequate data lineage documentation can undermine the integrity of data used in transaction reports which may result in ineffective data management and data flow breaks.

Control Framework

It is imperative that Firms have arrangements to ensure accuracy and completeness to their transaction reporting. These arrangements often include a control framework informed by a firm’s end-to-end transaction reporting process. Some of the observations made by the FCA with regards to control framework include:

- Instances where controls have not been reviewed or updated when reporting processes evolve which may not align with Article 21(5) of the MiFID Org Regs
- Exclusion of services and data provided by third parties from a Firms control and reconciliation framework. This can create gaps in monitoring and prevent firms from identifying issues originating outside the firm.
- Inability of Firms to identify data quality issues due to poorly designed reconciliation processes.

Governance, oversight and resourcing

The FCA highlighted the importance of Firms having effective governance in their transaction reporting process as this plays a key role in upholding operational integrity of the transaction reporting process, managing risks, and maintaining trust through accountability. In addition, the implementation of efficient management oversight allows for timely identification of process and data related issues through monitoring. Finally, the FCA touched on the benefits of having effective resourcing as this supports the implementation and delivery of compliance measures through adequately skilled staff, and effective tools. Some of the observations made by the FCA with regards to Governance, oversight and resourcing include:

- Ineffective oversight of transaction reporting risks and reporting issues caused by deficiencies in organisational structures as well as failure to clearly outline roles and responsibilities
- A lack of accountability over the transaction reporting process can result in ineffective process assessment, policies and procedures. This may disincentivise a firm from addressing emerging deficiencies. This may not align with the requirements in Article 25(1) of the MiFID Org Regs.
- Unclear terms of reference across governance bodies may mean relevant persons are unaware of the procedures that apply to the proper discharge of their responsibilities. This may not align with the requirements in Article 21(1)(b) of the MiFID Org Regs.

CPMI Firms

The FCA issued a DP that aims to remove unnecessary burdens for firms while maintaining high regulatory standards. The DP poses a total of 41 questions, with one of them specifically concerning whether CPMI Firms should be subject to UK MiFIR transaction reporting requirements for their MiFID activity. The FCA confirmed that CPMI firms are not subject to transaction reporting requirements for activity that would be reportable if conducted by a MiFID authorised firm. The FCA further acknowledged their limitations when it comes to monitoring the activities of CPMI firms at transaction levels citing instances where this gap in the regime has made their enquiries more complex. The FCA has also considered whether to address this limitation by bringing CPMI firms into scope of the transaction reporting regime in respect of their MiFID activities but at this stage, are unclear whether the additional cost of reporting imposed on these firms would be justified by the benefit of the data we would receive.

Useful Links
Market Watch 81
DP24/2: Improving the UK transaction reporting regime

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126 / 128 Buckingham Palace Road, 2nd Floor, London SW1W 9SA