EU EMIR Refit deadline looms, firms face two-speed regime until UK's goes live in September

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Firms required to report under the European Market Infrastructure Regime's (EMIR) Refit, face a looming deadline of April 29 to implement several vital changes. Those operating in the European Union and the UK will run a two-speed reporting regime until the UK's EMIR revamp goes live on Sept. 30.

"Many firms will have an obligation in both the EU and the UK. This introduces new challenges for them in that they've probably got one reporting system, but it now needs to be separated. One will go live for the new format on the 29th of April, and the other catches up to that new format on the 30th of September. Having two dates is quite tough from a technical point of view," said Tim Hartley, EMIR Reporting Director at Kaizen in London.

The UK EMIR Refit is expected to be largely like the EU's, Hartley said. The Financial Conduct Authority (FCA) is running joint working groups with the Bank of England to address certain EMIR topics and give clarity to reporting firms as well as solicit feedback. Those working groups are creating guidance in the form of a question-and-answer (Q&A) document. The FCA and the Bank consulted on a draft UK EMIR Q&A earlier this year.

"Monday's European implementation will plant another victory flag for global regulators as they align to standards that enable true transparency. It will also be a big test for industry practitioners who have worked hard to establish an open-source and digital approach. Though it has taken a lot of work to get here, in many ways this is only the beginning. We will have plenty of fine-tuning to get right with thousands of pages of detailed guidance to come," said PJ Di Giammarino, chief executive at regulatory think tank JWG.

In the weeds

"Firms are in the weeds getting everything changed. Almost all the reportable fields change, whether that be what goes into them, or how they're described, or written and formatted. That's a lot of change and firms are doing that work now, to get ready for the 29th of April," Hartley said.

The number of reportable fields will rise from 129 to 203, and there are substantial changes including inter-trade repository reconciliation will be pulled into regulatory documentation, new data elements added to Unique Product Identifiers (UPI), Unique Trade Identifiers (UTI) must link to subsequent and prior trades as well as positions reports. An "event type" field, which is similar and in addition to "action type", was added.

"Firms are also required to amend all outstanding derivatives to adhere to the new technical standards and to do this within a six-month timeframe. This will be hugely challenging and could present problems for firms that may not have all the required data points for historically executed derivatives," Hartley said.

Firms will be required to report trades in Extensible Markup Language (XML) using the ISO 20022 format instead of a CSV format, which is a spreadsheet. That is another substantial change because not only are the submissions in XML format but also the reports firms get back from the trade repository. Firms must be able to read XML or translate it back into a spreadsheet to read the trade report and perform accuracy checks.

Data quality

The European Securities and Markets Authority's (ESMA) recent data quality report noted an improvement and said data quality will be "a key area of attention for supervisors".

"[National Competent Authorities (NCAs)] and ESMA should continue working on enhancing EMIR data quality and on using the appropriate tools - including enforcement when needed — to drive up standards and ensure that [counterparties] submit information in an accurate, complete, consistent and timely manner," ESMA said.

EU NCAs have made a handful of fines since EMIR reporting started in 2014. The FCA has not issued an EMIR penalty since 2017 when it hit Merrill Lynch with a £34.5 million fine for failing to report 68.5 million trades.

"Regulators will have little patience for poor data quality and will be quick to ask firms for explicit ownership and control over their data lineage," Di Giammarino said.

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