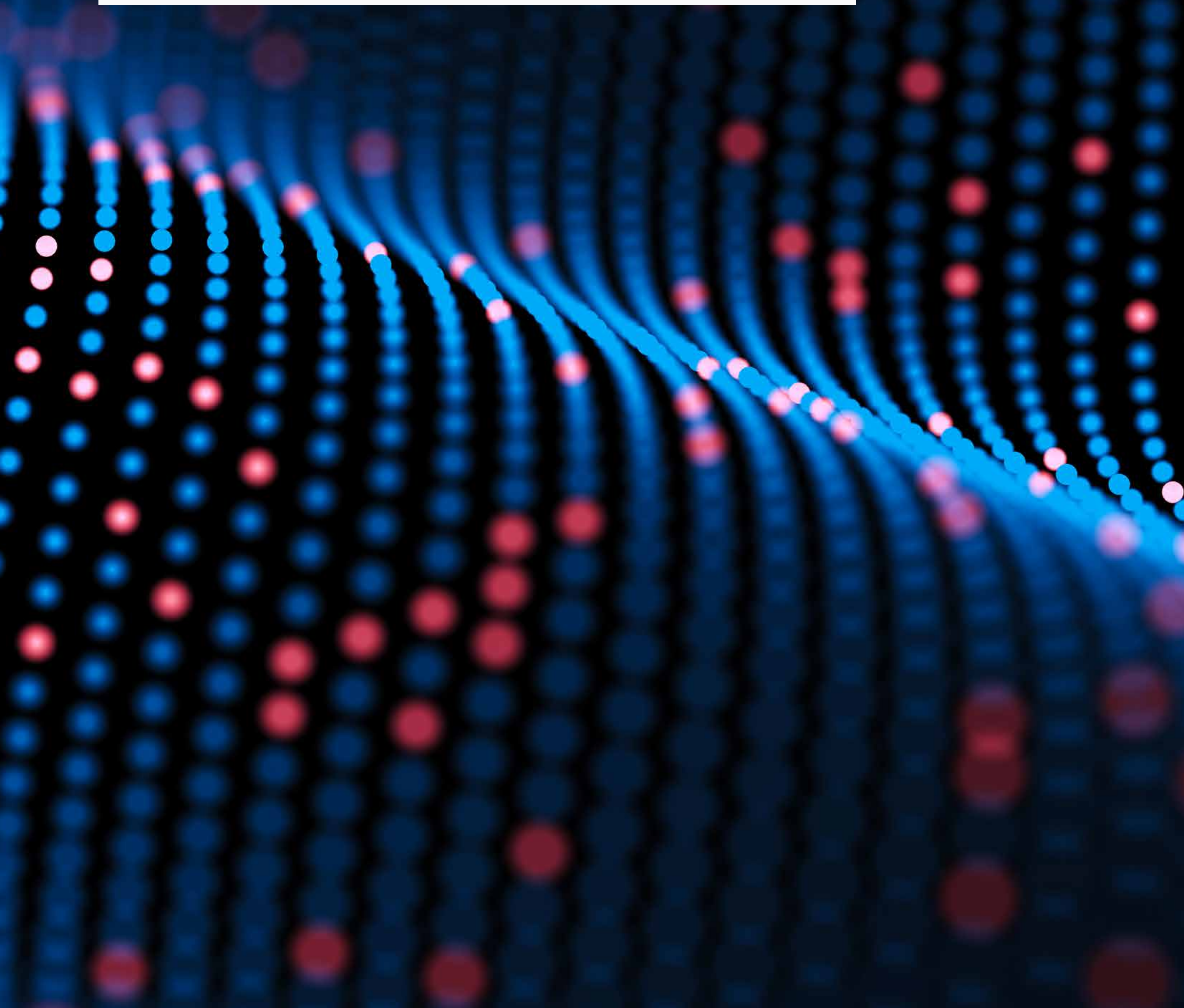
Global Regulatory Reporting Survey 2021



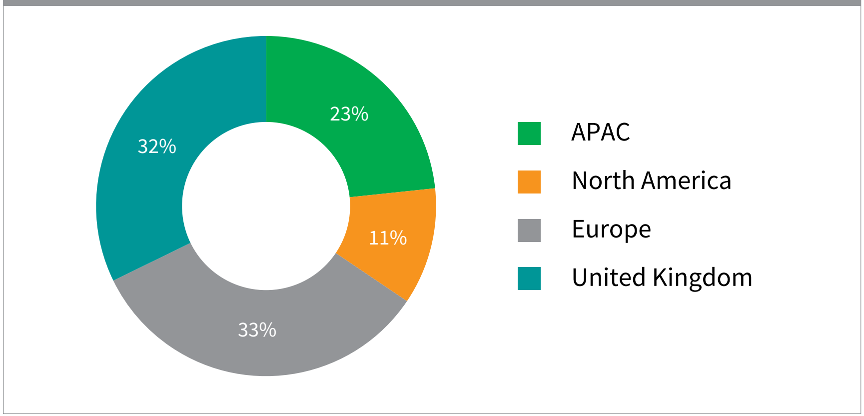
Introduction

As the focus on the pandemic continues to wane, regulatory reporting professionals are turning their attention back to the host of issues driving change, including industry consolidation and updates to regulatory requirements. As regulators increase their demands, it is more important than ever to consider the most efficient way to meet obligations.

The IHS Markit Global Regulatory Reporting Survey 2021 examines the global environment for the trade & transaction reporting community. The annual survey, now in its fourth year, identifies the themes that have had the most impact over the past year and considers the challenges that lie ahead. It covers all major reporting regimes: EMIR, MiFID II, SFTR and CFTC among others.

IHS Markit gathered data from 90 respondents during October 2021. Banks were the most numerous respondent type, accounting for 39%, of which almost half were Tier 1 institutions (19% of the total). Asset managers made up 33% and brokers 10%, with the remaining 18% split between various financial and non-financial institutions.

Respondent breakdown by Country



The sample captured a global snapshot, with a wide geographical spread of respondents: 33% have headquarters in Europe, 32% in the UK, 23% in Asia-Pacific and 11% in North America.

Key findings:

The year of the hybrid reporting structure

57% of survey respondents are using a combined vendor/in-house approach to regulatory reporting, with over half of these being large Tier 1 banks and asset managers.

The financial industry in Europe has learnt from past mistakes and is preparing for the EMIR REFIT

Despite this only coming into play in 2022/3, **68%** of respondents already have it on their radar, with **44%** in the discovery stage and **24%** actively preparing for it.

Improving reporting is still high on the agenda

Close to a third of those obligated to report said they had made changes to their reporting over the last year, while over a third of respondents intended to make changes over the next 12 months. This is lower than in previous years (in 2020 **65%** had made changes to their reporting in the previous 12 months), most likely reflecting the fact that no major regulatory changes were implemented during the time period under review.

CFTC readiness is still lacking

The impending rewrite date is set for May 2022, although it may be pushed out. However, alarmingly **60%+** of survey respondents who have a CFTC obligation, have yet to start to plan or are only in the beginning stages. This lack of preparation in the US may be seen as an underestimation of the work involved in ushering in this new rewrite.

Market shifts

71% of respondents stated there was a ‘significant impact’ on their business from TRs/ARMs withdrawing their services from the industry, and just over a third anticipate other providers leaving the market.

Accuracy above all

93% of survey respondents agree that the regulators’ #1 reporting focus is on accuracy. This means the reporting community is laser focused on ensuring their reporting is accurate above all else, with half of respondents focused on improving inefficiency and errors, and how to interpret and implement new regulations and updates to regulations to ensure reduced errors in the future.

Firms are seeking a streamlined approach to compliance

Financial institutions can build in-house reporting solutions or buy vendor products – or combine the two approaches. Overall, a clear majority of respondents, 86%, use a vendor in some way, with 60% using a vendor in combination with in-house solutions. Large organisations, due to their greater complexity, are more likely to use a combination; tier 1 banks and asset managers account for 56% of the total taking this approach. Vendor-only reporting was predominantly used by brokers and asset managers.

In the past, large and complex organisations had opted to build entirely in-house reporting solutions. They did so due to concerns around inaccurate reporting and losing control of sensitive data, but as the use of third party technology becomes more prevalent, this worry has lessened. In addition, as regulatory burdens have multiplied legacy systems are becoming unfit for purpose and expensive to upgrade.

By contrast, smaller and less complex organisations had always tended to take the best-of-breed approach of buying in a vendor solution to meet specific requirements.

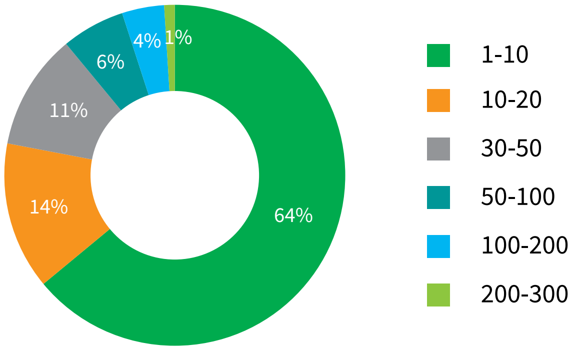
Now, large firms are increasingly also looking at vendor solutions that secure benefits such as the ability to redeploy internal resources for strategic purposes rather than tactical reporting. They also see the benefit of shared solutions that gives them an element of "safety in numbers".

The scale and focus of vendor solutions also mean they have the resources to stay up to date with changing specifications, as well as offer improved reporting tools, peer comparison tools, verification of pairing and matching and enhancements such as SFTR pre-reporting (a trend also coming for EMIR).

"Firms of all sizes are looking to streamline their reporting by seeking out vendor solutions that offer a one-stop shop for all of their regulatory requirements. Increasingly, large organisations with complex processes and legacy reporting structures are moving to a hybrid structure – outsourcing their reporting solution to vendors, while internal teams focus on strategic priorities."

Ronen Kertis
Head of Global Regulatory Reporting Solutions, IHS Markit

Team size by number of people



Both larger and smaller players have increasingly been looking to vendor solutions to cover the entire range of their regulatory obligations, to simplify the burden and to ensure interoperability.

The growth in vendor solutions has relatively recently fueled a trend for third-party reporting assurance from providers such as Kaizen Reporting. More than a third (36%) of those opting to involve vendor solutions felt the need to contract third-party reporting assurance services to make sure their expectations of the relationship were being met. Assurance checks should uncover potential errors and ensures the vendor providing reporting services cannot 'mark its own homework'.

Perfecting reporting never gets old: Firms seize the opportunity for change

For most firms, regulatory changes this year were light. Only the the Monetary Authority of Singapore (MAS) implemented notable changes, and there was also the introduction of the Securities and Exchange Commission (SEC) securities-based swaps reporting regulations coming into effect on November 8, 2021 (after this survey was conducted). Nonetheless, 26% of respondents said they had made changes to their reporting over the last 12 months. This shows that financial institutions continue to take the opportunity to improve regulatory reporting, including technology and processes, even when not directly required to do so. The top three changes made by respondents included moving to a new vendor, a required change of trade repository (TR) and in-house maintenance.

More than a third, 36%, said they plan to make changes over the next 12 months. Of those planning changes, 41% said they were moving to vendor reporting, 6% were changing to a new TR, and 10% were onboarding new regulations. The remainder of the

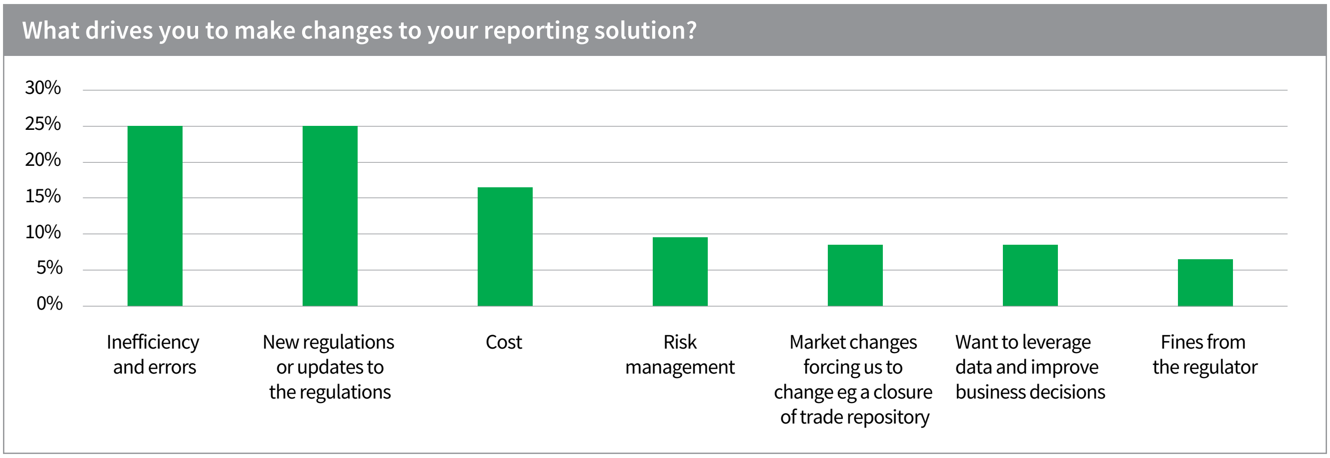
Firms cannot delegate the legal responsibility for regulatory reporting, only outsource its operation. This impacts how firms manage their reporting and decision making:

some **70%** of respondents maintain a dedicated reporting operations team, including all tier 1 and large regional banks. The remainder use a mix of shared resources and back-office functions. Tier 1 banks have the largest teams, often with more than **100** people. Asset managers have smaller teams than banks.

changes respondents cited were around automating reporting, cost and efficiency improvements and system upgrades.

Accuracy above all

Survey respondents were asked to identify the main drivers leading them to make changes to their reporting solution (they could select more than one). The two most important drivers by far were new regulations and inefficiency and errors, which each made up a quarter of the responses.



The reporting community is highly focused on the accuracy of reporting. Respondents were asked what they see as regulators' top three key expectations for their submission of transaction reports: the most cited factor was accuracy (by 93% of respondents), followed by completeness (84%), timeliness (63%) and control framework (52%).

Respondents identified the factors that most affect their ability to control reporting errors and increase accuracy (respondents could select more than one). The most widely cited factor, accounting for 35% of mentions, was process automation, which entails less reliance on manual processes and spreadsheets. The next most cited factor, 26%, was the clarity of interpretation of a regulation. The other factors identified were increased consolidation of data into a central database (21%,) and single reporting solutions, with less reliance on disparate back-office systems (18%).

Some 41% of respondents stated they had received feedback from the regulators about their transaction reporting. This is a decrease from over half in last year's survey, which may be a positive sign that the regulation is bedding down and fewer mistakes are occurring. Asset managers were the most likely to have received feedback (representing 32% of those that had been in contact with the regulators), followed by tier 1 banks (24%) and then brokers (16%). MiFID was the subject of a slight majority of the feedback; as asset managers have greater MiFID responsibilities than other institutions, it stands to reason that they receive more attention.

Our observation in the market suggests that when a major new financial regulations come into effect, first the regulator provides feedback on practices and then, after fair warning has been given, fines start to be issued. As MiFID matures through the feedback stage, it is likely that we will start to see fines.

Solution selection causing headaches

The biggest decision facing many reporting firms is choosing the right reporting solution. Firms considering a vendor solution need to be confident they can mitigate or reduce the chances of external mistakes and that their chosen vendor has the correct experience to reduce the pain points and risks of handling reporting in-house. They also consider the risk of the vendor leaving the market, especially given the exits in the last 12 months.

When choosing a transaction reporting solution, financial institutions take many factors into consideration. Three factors stood out in the survey as 'very important', with 36% of respondents identifying one of the following: reputation; pricing; and the provision of a single platform for multiple jurisdictions. Likewise, 40% of respondents described another three factors as 'quite important': tech stack and scalability; breadth of regulatory regimes covered; and workflow management (exception handling, tasks assignment).

Respondents were also asked about the challenges they are facing with their current reporting arrangements. Three areas were on average considered 'very challenging': constant changes to keep up with; control framework for picking up errors; and complying with new regulations introduced. A further three areas were considered on average 'rather challenging': reference data around reportable instruments; reconciliation; and national client identifiers (NCIs).

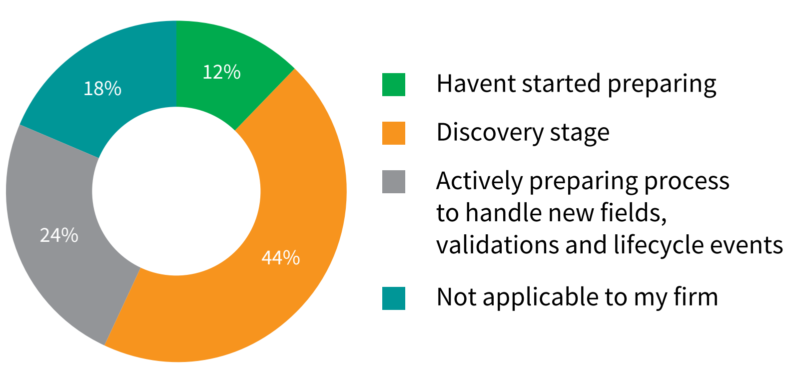
The survey also asked firms specifically about how they would approach their next reporting obligation: 78% of respondents said they would extend their current reporting solution, rather than undergoing the disruption of selecting a new standalone vendor solution. The percentages increased to 79% for asset managers, 82% for tier 1 banks and 100% for brokers.

Looming challenges are varied

EMIR came into force in 2014 and implemented reforms in the derivatives space covering clearing, reporting, risk mitigation as well as margin and collateral exchange. The intention of the upcoming EMIR REFIT is to amend and simplify the regime. It will address disproportionate compliance costs, transparency, and insufficient access to clearing for certain counterparties among other issues.

Firms will need to consider their approach to EMIR REFIT with regards to data, technology and processing ahead of the possible implementation date in Q3 2023. Concerns remain around cost as substantial work will be required to achieve readiness for EMIR REFIT amid an already regulation-heavy environment. At the same time, the regulation can also be seen as an opportunity to enhance data efficiency.

EMIR REFIT readiness



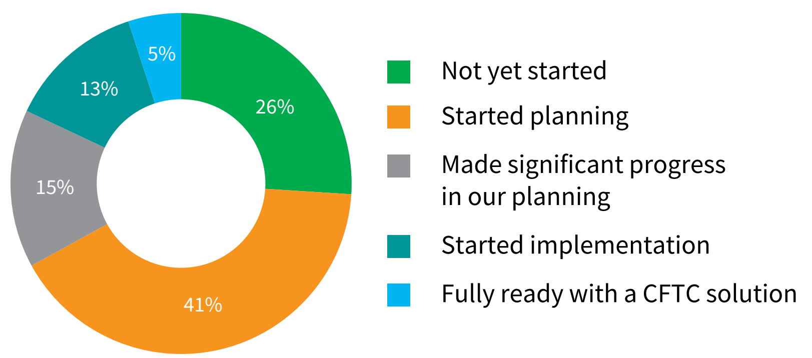
Some 82% of survey respondents have EMIR reporting obligations. In terms of readiness for the new requirements under the EMIR REFIT, 44% of respondents with obligations are at the discovery stage, another 24% are actively preparing and 12% have not started their preparations (14% do not have EMIR reporting obligations).

CFTC readiness still lacking

The US CFTC finalised rules to amend the Dodd-Frank Act's swap data recordkeeping and reporting requirements in November 2020 with an 18 month implementation timeline of May 25, 2022.

More than a third of respondents (36%) have a reporting obligation to CFTC and 21% have an SEC obligation. Of those with CFTC obligation: 26% have not yet started preparing, 41% have started planning and 15% have made significant progress in planning. Just 5% had a fully ready solution and a further 13% have started implementation. When asked what method they would use, 41% stated they would report directly to a swap data repository (SDR); 28% would use a third party; and 31% are still undecided.

CFTC readiness



> "The CFTC re-write is the most significant change to the US reporting rules since their introduction in 2012 and presents firms with many challenges for complying with the new requirements, particularly considering the short implementation period. However, this is also an opportunity to reassess the current reporting solutions firms are using and whether they can support the next wave of changes that surely will come with the CFTC, SEC and the Canadian Regulators."
>
> **Igor Kaplun**
> Head of North America, Business Development, Global Regulatory Reporting Solutions, IHS Markit.

Cryptocurrency reporting will be required… at some point

Cryptocurrency valuations have surged during the pandemic and have attracted increasing interest from banks and asset managers. The first Bitcoin ETF was launched by Purpose Investments in Canada in February 2021 and Proshares followed it with the first US launch in October. Cryptocurrencies remain largely unregulated around the world but if their importance continues to grow at pace they are sure to attract regulatory scrutiny.

A slim majority of survey respondents (**51%**) expect post-trade transaction reporting regulation for cryptocurrencies (actual coins, not derivatives) to be introduced in the next three years. Just over half of those that expected regulation (**26%**) thought it would be introduced in the US, with the EU (**13%**), UK (**6%**), Switzerland (**3%**) and Singapore (**1%**) the next most likely regions.

Consolidation causing concern

There has been a disruptive wave of consolidation and exits across the regulatory reporting market over the past 18 months. CME Group announced in May 2020 that it would be winding down its large regulatory reporting and TR businesses by the end of 2020, with a similar announcement from Deutsche Borse later that year and a July 2021 announcement from UnaVista that it would close its SFTR trade reporting service. Providers such as IHS Markit have expanded to provide solutions to many customers impacted by those closures.

This was not previously an issue but has become a major concern, leaving firms unsettled about their reporting arrangements. Fully 71% of respondents stated there was a 'significant impact' on their business from TRs/ARMs withdrawing their services from the industry.

The survey found the impact was most acutely felt negatively in terms of higher pricing, as fewer players result in less competition. However, there were significant positives as well, with respondents identifying improved endpoint selection and the opportunity to reevaluate regulatory reporting solutions in particular. Overall, it appears firms see the benefits of using

"Consolidation among regulatory reporting solution providers has caused significant disruption for many players. Fortunately, those firms that have remained committed to supporting clients in the regulatory reporting space have stepped up to make the transition as painless as possible."

Ron Finberg
Business Development Director at Global Regulatory Reporting Solutions, IHS Markit

market change as an opportunity to assess options and experience the benefits of solutions that will future proof them against further disruptions.

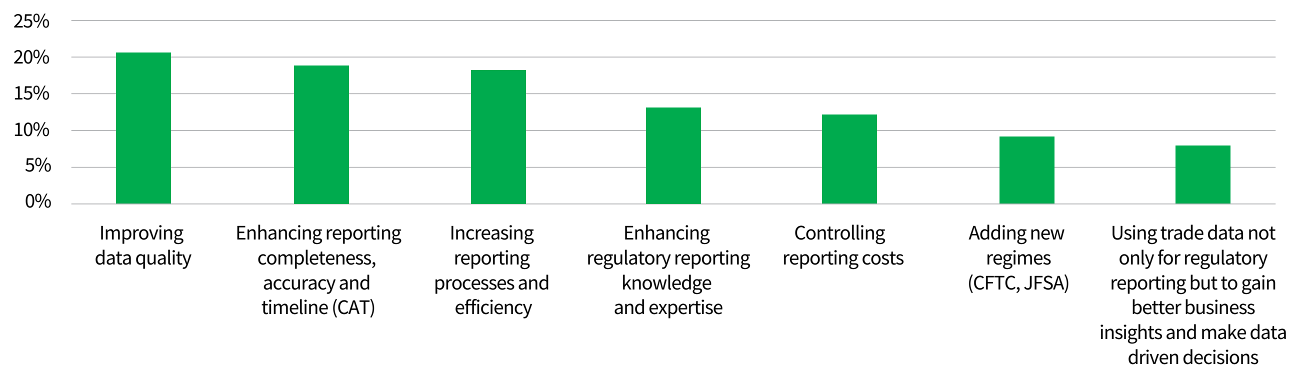
The impact of vendor exits on service levels was a relatively minor concern. Finally, respondents only weakly agreed that exits would motivate them to future-proof their business by putting safeguards in place to guard against similar future events.

Fortunately, the situation may be improving with 45% not foreseeing further exits and just under a third (31%) of the market anticipating other providers leaving the market.

Workflows determine strategic objectives

Looking to 2022, the strategic priorities for regulatory reporting were split across a range of priorities (respondents could indicate several). Improving data quality was the most cited priority (as it was in the previous year), followed by enhancing reporting completeness and then increasing reporting processes and efficiency, which were respectively 3rd and 4th priorities in 2020. The only meaningful shift in priorities has been the move to 4th place for enhancing regulatory reporting knowledge and expertise, most likely as a result of ongoing successful efforts by financial institutions and their service providers to plug this gap.

2022 strategic priorities in reg reporting



The respondents plan to achieve those goals through a variety of means: most commonly through an increase to in-house resources (35%), then implementing technology to override manual processes (28%), outsourcing reporting (17%), entering partnerships (12%) and finally reporting directly to an ARM/TR (8%).

Only a small minority of respondents (under 10%) believed that they could derive insights from reporting data to improve their business, which is surprising. However, we do see firms requesting better tools for reviewing and monitoring their reporting, including assurance. The data shows that firms are using analysis tools to set key performance indicators (KPIs) to improve their reporting, by providing information about problematic products, venues and counterparties.

For more information, please contact

Regreporting@ihsmarkit.com

UNITED KINGDOM

T +44 808 189 1177

AMERICAS

T +1 857 869 0881

FRANCE

T +33 7 55 54 92 98

ISRAEL

T +972 9 9702700

ASIA PACIFIC

T +604 291 3600

About GRRS

At IHS Markit we help over 500 clients globally to manage, automate and future proof their regulatory reporting obligations. We offer a multi-jurisdictional trade and transaction solution across EMIR, MiFID II, SFTR, CFTC, SEC, MAS, ASIC, JFSA and other regimes. Join the network of clients that rely on our regulatory expertise, award-winning technology and around the clock support.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.