

Financial Services Authority Transaction Reporting Forum

April 2012

Agenda



- **Introduction**
- **Firm visits**
- **MiFIR/MiFID II**
- **Derivatives & Reference Data**
- **TRUP V3**
- **Q&A**

Transaction Monitoring Unit

Firm visit programme

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Firm visits programme: introduction



Why firm visits?

- Supervision of the transaction reporting regime
- Authorised firms, what this means to you?

Firm visits programme: objectives



- Improve data quality
- Education
- MiFID obligations
- Increase our surveillance capabilities

Firm visits programme: approach

- Thematic sector
- Notification before the visit
- Random selection to include firms that have potentially good and bad SYSC
(including previously fined or warned firms)
- Continuous liaison with other areas of supervision
- Visits last around half a day, depending on the firm's complexity and size

Firm visits programme: what will we investigate?



- Review a sample of trading records before the visit
- Ensure that transaction reports match the trading book
- Check the accuracy of data quality
- Review transaction reporting training procedures
- Ensure documentation is adequate

Firm visits programme: what will we investigate? (cont.)



- Assess internal validation procedures
- Check accuracy of reference data
- Review change management procedures
- Assess SYSC

Firm visits programme: implication for the firm



- Post-visit report
(shared with other areas of supervision)
- Possible remediation action
- Possible regulatory action

Firm visits programme: benefit to firm



- Post-visit feedback provided
- Opportunity to engage directly with the FSA
- First-hand transaction reporting review by FSA specialist



Questions?

Markets in Financial Instruments Regulation (MiFIR)

Transaction Reporting aspects

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- **Why this review?**
- **EU decision-making process**
- **MiFID II /MiFIR timelines**
- **Main changes proposed**

Why this review?

- **Harmonisation of TR regimes in Europe**
 - TR aspects have been introduced in the Regulation (MiFIR) and not the Directive (MiFID)
- **Align TR requirements with Market Abuse Regulation**
- **Avoid double reporting, namely to trade repositories**

EU decision-making process

European Commission (EC) Consultation



EC proposal published



Council/Parliament Discussions



Trilogues (Council + EP + EC)



Political Agreement (EP vote / Council vote)

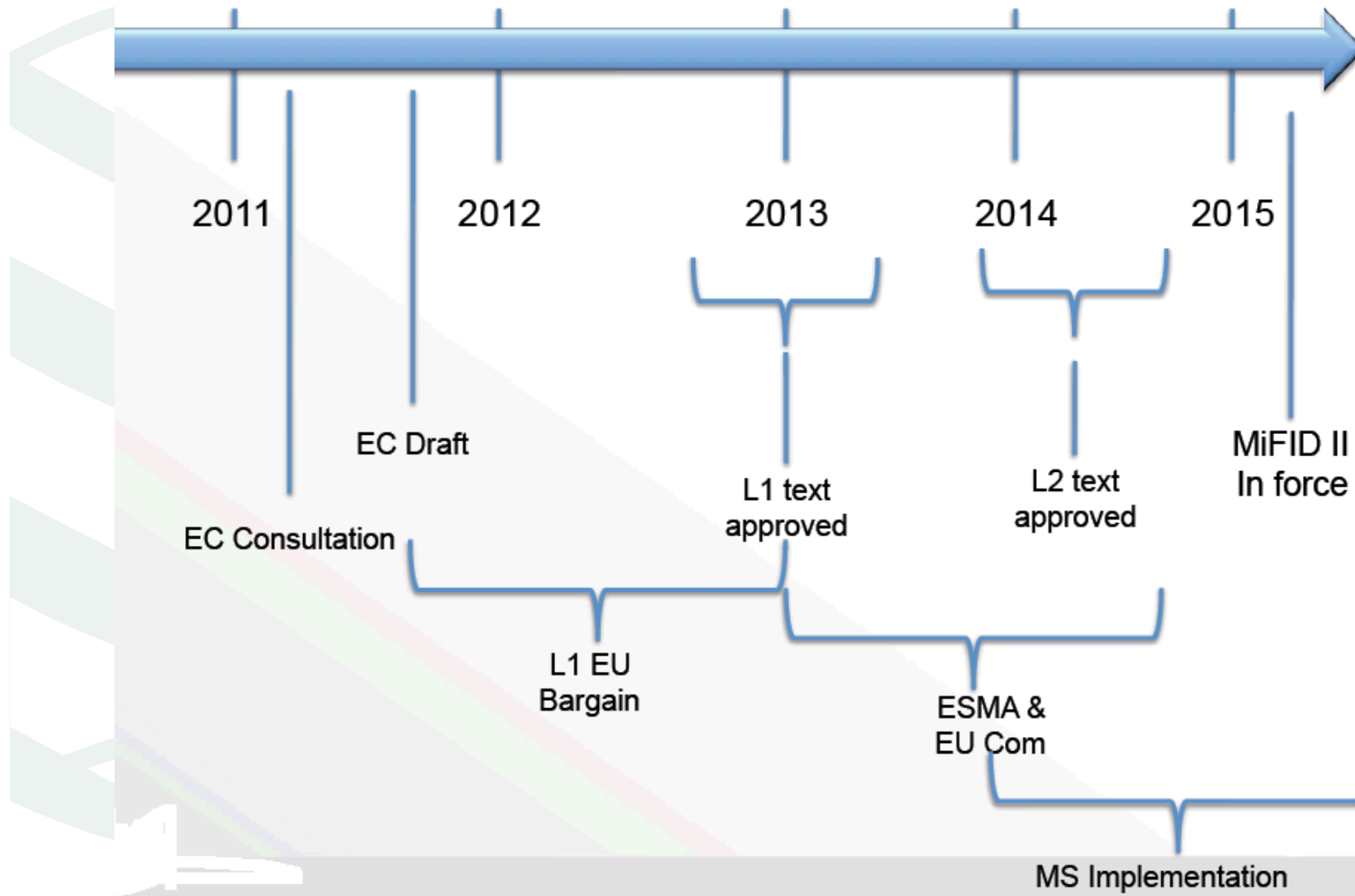


Level 2 - ESMA Binding Regulatory or Technical standards (24 months to draft with ongoing national transposition efforts undertaken simultaneously)



Implementation

MiFID/MiFIR timelines



Main changes proposed

- **Extension of the scope**

- Financial instruments traded on an MTF and an OTF
- Instruments whose value depends on that of an FI admitted to trading on a RM, MTF and OTF
- Instruments which have an impact or are likely to have an impact on instruments which are admitted to trading a RM, MTF and OTF

- **Non-Securities derivatives**

Main changes proposed (cont.)

- **Order book data**

- RMs, MTFs and OTFs to store order book data and keep it at the disposal of the CA, for at least 5 years
- Allow CAs to obtain order book data whether in their own jurisdiction or elsewhere in the EU
- Order Book data has to contain same information as transaction reports (e.g. identification of the client)

Main changes proposed (cont.)

- **Client Identifiers**
 - This is already a UK requirement
 - ESMA BTS will define the standard
- **Identification of Trader ID and Algo ID**
- **Receipt and transmission of orders**
 - Exemption if they transmit Client ID
 - If no transmission of the Client ID → TR obligation
- **Obligation for trading venues to report transactions on behalf of non-authorised members**

Main changes proposed (cont.)



- **Avoid double reporting**

- Reports submitted to trade repositories that contain all the information for TR purposes do not need to be reported to CAs, but should be transmitted to the CAs by the trade repositories

- **Trade repositories - ARMs**

- **EU Level mechanism**

- **Introduction of an ARMs regime (MiFID II)**



Questions?

Derivatives & Reference Data

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Derivatives & reference data - schedule



1. Aii – reference data issues
2. Flex derivatives reminder
3. Reporting exchange traded derivative cancellations and partial cancellations
4. LEI – Legal entity identifier

Aii – Alternative Instrument Identifier



Since November 2011, it has been obligatory to report ETDs on Aii exchanges with the Aii combination of fields.

1 Exchange MIC

There are currently only 7 Aii exchanges that have reportable products (N.B. there are others that trade commodity and interest rate futures which may become reportable under MiFIR).

- XADE Greece, Athens Exchange Derivatives
- XLIF UK, Liffe London
- XMON France, Liffe Paris Monep
- XEUE Netherlands, Liffe Amsterdam EQF
- XEUR Germany, Eurex Deutschland
- XBRD Belgium, Liffe Brussels
- MFOX Portugal, NYSE Euronext Mercado de Futuros e Opcoes

XOFF is not allowed. None of the above exchanges can be used to report an ISIN transaction and obversely no ISIN-based MIC can be used to report an Aii transaction.

Aii – exchange product code



- This must be a valid code for the particular exchange.
- Remember, only equity and debt related derivatives are reportable.
- We are seeing a large number of interest rate derivatives being reported. Please stop.
- Some option EPCs are being used for futures contracts and vice versa.

Aii – maturity dates

- We received a lot of unrecognised maturity dates for Aii derivatives. This was mainly due to problems with the reference data – timeliness of receipt of reference data.
- The FSA has removed its validation on maturity date. Transaction reports with ‘unrecognised’ maturity dates will be put in a holding queue until we can be assured reference data is available.
- We check holding queues – reports with incorrect reference data will be considered as breaches of the transaction reporting regime. We will follow up to ensure these are corrected and there will be a potential for regulatory action.
- There may be an issue with the exact definition of maturity date. Rather than try to interpret the contract details on the exchange websites it is better to take the reference data direct from the exchanges or via a third party.

Aii – Strike prices

- Like maturity dates, we have decided not to validate on strike price due to reference data issues and additional strike being created intra-day.
- Similarly, we will follow up on errors to ensure these are corrected and there will be a potential for regulatory action.

Some errors identified:

- Strikes incorrectly quoted in minor currency (this mainly affects GBP quoted stocks because the market convention in minor currency but the major currency is required for transaction reporting).
- Bond and index options which are incorrect by an order of magnitude of a hundred. These options strikes are not currency based so should not be converted to 'major' currency.
- Prices out by a factor of 10,000.

Flex derivatives reminder

Since 31 March 2012, (equity and debt related) Flex derivatives on regulated markets must be reported as ETDs.

ISIN Markets

- Flex derivatives must be reported with the correct ISIN.
- Where Reference Data is not available, use the *equivalent* standardised ISIN.

Aii Markets

- Flex derivatives must be reported with the correct EPC.
- Where Reference Data is not available, use the *equivalent* exchange product code of the standardised product (all other Aii fields should be populated as per the flex contract).
- Reference data for Eurex, Liffe and Turquoise flex instruments is available and we expect it to be used.
- Meff flex derivatives – no ISIN reference data is available for flex contracts on this exchange and these instruments aren't considered to be exchange traded – i.e. they should be reported as OTC derivatives.

ETD cancellations & partial cancellations



- We are aware that there have been issues with reporting partial cancellations and cancellations following purchase and sale close outs of ETDs.
- The FSA has been tolerant of these issues as they are low volume and result from constraints relating to the infrastructure providers.
- It appears that the infrastructure providers are now able to accommodate these cancellations and partial cancellations.
- As a result, we expect firms to report these cancellations and partial cancellations correctly.

LEI – Legal Entity Identifier



**** Note: this is only a heads-up and a potential future change****

- It has long been recognised that the BIC does not meet the industry's requirements as an entity identifier.
- Numerous attempts over the years have failed to introduce an acceptable alternative to the BIC.
- The regulators are now really serious in demanding an identifier that is fit for purpose – LEI.
- Key attributes are persistence and singularity.
- The exact coverage is still to be determined, but will start with derivative market participants.
- Probable that it will be adopted by ESMA, in place of the BIC (with a long lead time).

Questions?

Transaction Reporting User Pack (TRUP) Version 3

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TRUP V3 - introduction

- **Reasons for TRUP V3**
- **New structure**
 - Purpose of transaction reports
 - Reportable instruments
 - Who has to report?
 - How to send the reports to the FSA
 - Reporting guidelines
 - Data integrity
 - FAQs
- **New version: provides further clarifications and consolidates existing guidance**

TRUP V3 – reportable instruments

- **SUP 17.1.4 R of the FSA Handbook**
- **Non-securities derivatives not reportable**
 - ... However, securitised instruments admitted to trading on a regulated market or a prescribed market that track commodities, interest rates and FX are reportable (e.g. ETCs).
- **Over-reporting (≠ duplicate reporting)**
 - Executing vs. clearing
 - Reporting to multiple competent authorities
 - Over-reported transactions must be accurate

TRUP V3 – obligation to report



‘Firms must report to us when they execute a reportable transaction in a principal or agency capacity.’

‘... this includes not just the market side of the transaction but any subsequent client leg of the transaction.’

Receipt and transmission of orders – firms receiving and transmitting orders that do not pass the client identity along the chain have transaction reporting obligations since they play a role in the execution of the transaction.

TRUP V3 – obligation to report (cont.)



- **Submitting firm vs. reporting firm**
 - Responsibility?
- **Completeness and accuracy**
- **Transactions executed and reported through a regulated market or an MTF**
 - Liffe feed

TRUP V3 – reporting guidelines (highlights)



- **CP1 needs to be populated (business rule)**
- **Instrument type for OTC derivatives**
 - Should be the ultimate underlying
 - Should not use O, F or X
- **In OTC derivatives, the identification of the ultimate underlying instrument should be provided**
- **Portfolio management**
 - ‘Exemption’ (SUP 17.2.2 G)
 - Reliance on a third party’s own reporting obligations
 - Advisory transactions
 - Dealing with non-EEA brokers

TRUP V3 – reporting guidelines (highlights)



- **Direct Electronic Access (DEA)**
- **Use of 'INTERNAL' in agency transactions**
- **Additional clarifications:**
 - Quantity definition for bonds (nominal value)
 - Unit price clarification
 - Strike price clarification (populated for certain OTC derivatives; major currency)
- **Total return swaps**
- **Reporting transactions in derivatives conducted through clearing platforms of derivatives markets**
- **CDS pricing**

- **Outsourcing – responsibility remains with the reporting firm**
- **Systems and controls need to be extended to outsourcing arrangements**
- **Reminder: request data extracts**
- **Failures and errors to be communicated to the FSA**

TRUP V3 – miscellaneous



- **Gateway issues**
- **Closure of TRS (24 April 2012)**
- **Strategy trades update**
- **Business events**



FSA Transaction Reporting Forum Q&A

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