



ESRB Secretariat staff's response to ESMA's consultation paper

on technical standards on reporting, data quality, data access
and registration of trade repositories under EMIR Refit

The staff of the European Systemic Risk Board (ESRB) Secretariat welcome the consultation launched by the European Securities and Markets Authority (ESMA) on technical standards on reporting, data quality, data access and registration of trade repositories under EMIR Refit.¹ The ESRB, in partnership with the ECB, ESMA and all of its member institutions, has worked on the analysis of data collected under EMIR since the early stages of that reporting mandate, later developing the technological infrastructure and analytical frameworks which have enabled the ESRB to monitor the EU derivatives market with daily frequency. On the basis of the experience they have gained through their joint work with the ECB in developing common IT and statistical infrastructures, the staff of the ESRB Secretariat contributed technical input and views to the ECB staff's response to the consultation.

With this reply, the ESRB Secretariat aims to highlight how the elements and principles in ESMA's proposal will improve the reporting regime and enhance the ability to monitor and detect risks, thereby contributing to financial stability. While the ESRB's Advisory Technical Committee has contributed to this reply, the views set out herein do not constitute a formal ESRB response and remain the responsibility of the ESRB Secretariat.

The amendments proposed by ESMA in this consultation represent a remarkable step forward in terms of the enhancement of the reporting framework. The ESRB Secretariat strongly supports both the scope of those amendments and the technical principles highlighted in the paper. The breadth and depth of the proposed amendments will help to significantly improve the reporting framework, the usefulness of data for authorities and the quality of data. The ESRB Secretariat particularly welcomes the following:

- The further standardisation of the reporting framework, including global standards such as the Unique Product Identifier (UPI), and the adoption of ISO 20022 XML along the whole of the reporting chain. This will support and streamline the reporting process, not only by increasing efficiency, but also by reducing the likelihood of data quality issues.
- The higher level of granularity in the information provided, which will, in turn, provide policymakers with a richer set of information, thereby enabling more accurate monitoring of developments.

¹ See: <https://www.esma.europa.eu/press-news/esma-news/esma-consults-technical-standards-trade-repositories-under-emir-refit>

- The data quality requirements that are to be put in place by trade repositories, including logical validation, plausibility checks and regular trade reconciliation, as well as the provision of feedback to reporting entities. This will help reporting entities to promptly assess the quality of the information they report to the authorities.

It is important to stress that analysis of transaction-level data represents a turning point in terms of enhancing the transparency of derivatives markets for policymakers and monitoring developments across sectors and markets. ESRB member institutions have made great progress in the use of EMIR data over the last few years. Importantly, those data have repeatedly proven to be fundamental for the ESRB in monitoring developments from a systemic risk perspective. Two examples are worth mentioning in this regard. The first relates to the monitoring of financial stability risks associated with the United Kingdom withdrawing from the European Union without an agreement (a “no-deal Brexit”). In the course of 2019, the ESRB Secretariat provided its member institutions with daily analysis, combined with regular dissemination of a set of aggregates which captured key aggregate developments between the United Kingdom and the EU, including developments in central clearing and margins.² The second example relates to the daily monitoring of liquidity risks arising from margin calls in the context of the coronavirus (COVID-19) crisis – one of the five priority areas identified by the ESRB’s General Board at its meeting on 2 April 2020 in light of the heightened volatility and declines in asset prices.³ It is important to emphasise that granularity and standardisation were key elements in the ESRB’s ability to promptly “convert” its daily monitoring tools into a COVID-19 monitor, providing the analytical basis for its monitoring of developments.⁴ This, in turn, enabled the General Board to discuss policy options within a matter of weeks.⁵ These experiences have confirmed that timely data with high levels of granularity and frequency are the best way of supporting policymakers’ analysis and decision-making processes, as they allow more precise, prompt and flexible quantifications of developments in a complex and interconnected financial system.

While these experiences have proven the value of granular, transaction-level information, they have also shown that substantial data quality issues, which have affected the data collected under EMIR since the beginning of the reporting regime, are still present. While ESMA’s proposed amendments to the reporting framework will result in substantial improvements and help both authorities and reporting entities to interpret and apply the reporting requirements, the staff of the ESRB Secretariat believe that it is now time for both reporting

² See, for example, Box 4 of “A Review of Macroprudential Policy in the EU in 2019”, available at: https://www.esrb.europa.eu/pub/pdf/reports/review_macroprudential_policy/esrb.report200429_reviewofmacroprudentialpolicy~13aab65584.en.pdf

³ For further details, see the ESRB’s press release of 9 April 2020, available at: <https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200409~a26cc93c59.en.html>

⁴ See the ESRB’s June 2020 report entitled “Liquidity risks arising from margin calls”, available at: https://www.esrb.europa.eu/pub/pdf/reports/esrb.report200608_on_Liquidity_risks_arising_from_margin_calls_3~08542993cf.en.pdf

⁵ For further details, see the ESRB’s press release of 14 May 2020, available at: <https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200514~bb1f96a327.en.html>

entities and trade repositories to make substantial progress on this front. Data quality is of fundamental importance in order to provide policymakers with reliable and up-to-date information about the financial system, enabling them to promptly identify risks and select the best policy responses.

Data quality should therefore be regarded as a common good – one which results in key benefits for the stability of the financial system (and thus also for reporting entities themselves). It is important to note that financial and non-financial institutions engaging in derivatives transactions should already be collecting and processing high-quality granular data, primarily for risk management purposes. (This should include confirmation and reconciliation with counterparties.) Consequently, the reporting of this information to the authorities should not give rise to significant data quality issues, and the data in question should not be incomplete, inaccurate or out of date. Unfortunately, data quality issues are equally prevalent across reporting entities (including both central counterparties and large financial institutions) and trade repositories. By streamlining the transmission of such data to the authorities and carrying out appropriate quality checks, reporting entities and trade repositories can improve the quality of the information they submit to the authorities, thereby contributing to financial stability. It is also important to note that the average amount of information to be reported under EMIR is manageable for reporting entities: with slightly less than 100 million transactions per day and around 180,000 reporting entities, the average number of daily transactions per entity is less than 600. Naturally, reporting is concentrated in a small set of counterparties, with large financial groups and central counterparties accounting for the lion's share of total transactions. If those entities improve their compliance with reporting obligations by improving the quality of data, keeping the information they report up to date and reconciling such information with the relevant counterparties (including clearing members), the overall quality of data will improve greatly.

Finally, the improvements proposed by ESMA in this consultation paper are fully in line with the “key pillars” identified by the ESRB Secretariat in its response to the European Commission’s consultation document “Fitness check on supervisory reporting”.⁶ In that response, the ESRB Secretariat outlined four key pillars of supervisory reporting from the perspective of the macroprudential oversight of the EU’s financial system: (i) the importance of having access to granular, timely and high-quality data; (ii) the need to support the process of data standardisation; (iii) the need to continue the adoption of existing and new technologies to improve efficiency; and (iv) the importance of enhancing the ability to monitor developments across markets, instruments and sectors. The ESRB Secretariat firmly believes that ESMA’s proposed amendments to EMIR’s technical standards will support progress across all four pillars.

⁶ For further details, see:

https://www.esrb.europa.eu/pub/pdf/other/esrb.response180313_fitnesschecksupervisoryreporting.pdf?ae538ae0a37588549425532bcc862e1a