Factsheet

The European Markets and Infrastructure (EMIR) REFIT: now is the time for banks to prepare

After delays caused by the pandemic and the need to encompass global standards, the European Markets and Infrastructure (EMIR) REFIT is due to be introduced on 29th April 2024.

"The focus for EMIR REFIT is a global set of rewrites of the regulation that are looking at data standardization and harmonization, as well as interoperability. Using some of the data elements that are common to all transaction reporting will become more and more prevalent as we move forward."

Paul Rennison
Director, Product Management, deltaconX

In preparation for the introduction of EMIR REFIT banks need to implement a number of tasks and processes to ensure they are ready to comply with the new rules.

The implementation of EMIR REFIT aims to improve reporting data quality and increase regulatory scrutiny on institutions. This, coupled with a Q2 2024 go-live, is placing considerable pressure on banks.

So with time running out before the deadline, it's worth ensuring that banks are completely up to speed with the additional data that will be required from organizations involved in the OTC derivatives sector.

There are also operational questions to consider, such as whether banks have the resources in-house to achieve compliance, or whether they should be working in partnership with a trusted third party.

In this document, we present the key questions (and answers) that banks should be working through today.

What is EMIR and when was it introduced?

EMIR on OTC derivatives, central counterparties and trade repositories entered into force on 16 August 2012 and implemented in 2014. EMIR introduced new regulatory requirements on all types and sizes of entities that enter into any form of derivative contracts. EMIR was introduced by the European Union (EU) as part of the implementation of the G20 commitment to reduce systemic, counterparty and operational risk following the global financial crisis, and to increase transparency in the OTC derivatives market.

What is EMIR REFIT?

The European Commission carried out an extensive assessment of EMIR, which resulted in a report published in 2016 with the conclusion that changes would be required to be made to the EMIR.

This led to EMIR being included within the Commission's 2016 Regulatory Fitness and Performance (REFIT) programme. EMIR REFIT introduces change in the remit of EMIR, especially in the area of new data and formatting requirements. Additional data requirements include 89 new data fields, so an increase from 129 to 203, while data can only be provided in XML format rather than as CSV data.

What's happening in the UK?

Following Brexit, banks are obliged to report both to the Financial Conduct Authority (FCA) in the UK and to the EU National Competent Authorities (NCAs). In the case of EMIR, the FCA has stated that it has been onshored into UK legislation via a number of statutory instruments (SIs) and Binding Technical Standards (BTS).

It's likely that EMIR REFIT will be rolled out in the UK slightly later than in EU countries, at some point in Q3 2024. Technical divergence between EU and UK regulation is not likely to be a significant issue, but the later introduction of the UK element of the changes will require adherence to separate regimes for a short period of time.

"Two words for the whole EMIR REFIT program are completeness and accuracy. And transaction reporting is very different to just doing monthly or quarterly reporting. My advice is to focus on what you are good at, and not what you think you are good at. Partnering seems like the right choice for us."

Peter Rasmussen
Chief Specialist, Controlling Regulatory Reporting, Nykredit

Standardisation and data harmonisation will bring benefits to banks, but there are some obstacles along the way.

What are the obstacles that banks face in preparing for the introduction of EMIR REFIT?
Banks are already dealing with evolving financial regulations, which are becoming increasingly complex. This is adding to the cost of compliance, which in turn is forcing banks to improve regulatory productivity through automation, requiring further investment. Overall, banks need to have full control of their regulatory processes and data so that can adopt a harmonised approach rather than silos.

In terms of the specific challenges introduced by EMIR REFIT, banks will need to implement additional data requirements including 89 new data fields. They will also need to standardize on XML formatting and ensure that there are no data gaps, inconsistencies or incorrect formatting as they transition to the new reporting regime. This will be particularly important for banks with a fragmented internal process for managing compliance.

What are the risks that banks are exposed to by not being fully prepared for EMIR REFIT?
Banks will need to be ready for increased regulatory scrutiny as the focus of EMIR REFIT will be firmly on data quality. This is despite having only a short period of time to ensure reporting data is complete and in the right format. Non-compliance is not an option, however, as it could introduce the risks of regulatory fines and reputational damage, as well as increased operational risks stemming from disjointed reporting systems.

How have banks approached these challenges?
Approaches have varied as banks had been waiting for the detail of EMIR REFIT to be finalised. Some have adopted simple transaction reporting as a stop-gap, but these basic systems now need to be updated to take account of new formatting and data rules.

Tactical workarounds may have provided low-cost, short-term solutions, but have also created time-intensive manual work. New regulatory updates are also disruptive in these scenarios and result in higher costs. Many banks are now considering partnering with dedicated transaction reporting specialists in view of the fact that they don't have the in-house skills or resources to build IT solutions at the scale or speed required.

Banks will need to carry out a detailed audit on the data that they are reporting in line with EMIR REFIT.

What do banks need to know about EMIR REFIT?
If banks are not already familiar with the detail of EMIR REFIT, they should get up to speed as quickly as possible. Paul Rennison, Director, Product Management at deltaconX, says that some of the key elements to be aware of include the following:

- The number of reportable fields will grow, increasing from 129 to 203, with the addition of 89 new fields and the withdrawal of 15.
- The concept of event types will be added and these will include more details of the underlying action and include events of a corporate event, exercise, allocation and early termination.
- The number of reconcilable fields will increase three-fold over a two-year period from the go-live date.
- More prescriptive rules will mandate who creates and disseminates Unique Transaction Identifiers (UTIs), so that the approach is standardised across the market.
- ISO 20022 XML will be mandated across trade repositories (TRs), along with more rigorous requirements for data validation and data reconciliation to avoid mismatched trades.
- The level of communication between the delegated party and client will have to increase in timeliness and efficiency as part of the changes in terms of more counterparty specific data that needs to be reported. There will also be new responsibility on the delegated party to inform their clients whenever data quality issues occur.
- Sell-side firms are often the delegated party that is faced with the onerous task of updating the reconciliation fields. In addition to this, they are faced with the deadline of resolving reconciliation breaks within seven days. Banks should make sure to scope this early to handle the increase in overhead.

What steps should banks be taking now to prepare for EMIR REFIT?
The regulator will ask banks to have a strict framework and timeline to reconcile with their counterparty, and to have procedures and processes in place to ensure that can happen.

There are some fundamental elements to work through and on top of that, the regulator is also looking at events and actions. Within the lifecycle of a trade, banks will have to address not just what has happened, but also why something has happened - and be able to communicate all of that to the regulator or regulators. The best way to prepare for the new regime will be to do a full audit of the bank's data reporting capabilities to ensure they are fit for purpose.

> ***"If you report currently, you've basically got to do a full review of what you report and how you report it. I think that some of the elements are going to be relatively straightforward, but other elements may be a lot more complex."***
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> **Peter Rasmussen**
> Chief Specialist, Controlling Regulatory Reporting, Nykredit

Finastra is partnering with deltaconX to provide an overall solution that meets banks' current needs

"ESMA and many of the other European regulators out there will be looking at key issues that they have noticed, such as non-reporting or incorrect reporting of collateral valuations. Banks will need to show they have a plan for how data is collected and reported."

Francesco Angelini
Senior Regulatory Reporting Specialist,
Kaizen Reporting

How is Finastra supporting banks with EMIR and EMIR REFIT?
As part of the wider FusionFabric.Cloud and parallel Global Partnership program, Finastra has identified a specialist market expert in reporting with whom to develop a partnership and deliver a cross-system compatible reporting solution, which is agnostic to both jurisdiction and regulatory environments.

What are the benefits of Finastra's approach to EMIR REFIT?
Finastra provides a cloud-based software-as-a-service solution that is used by many of the world's biggest banks. FusionFabric.Cloud is a low maintenance platform which reduces total cost of ownership and is constantly updated to support regulatory changes.

Banks can consolidate their regulatory processes for multiple regimes in one platform, and standardize across jurisdictions. Finastra is responsible for keeping Treasury and Capital Markets software, including Kondor, Summit and Opics, evergreen and compliant. The platform has open application programming interfaces (APIs) which approved third party specialists use to integrate their systems with FusionFabric.Cloud.

Which systems are available for managing EMIR REFIT?
Finastra is partnering with deltaconX, which provides banks with the tools they need to meet all their regulatory obligations. deltaconX integrates with Finastra's core treasury service to ensure fast onboarding. It ensures that banks always have up-to-date compliance across all regimes, including EMIR REFIT, MiFID and SFTR with one central solution.

In addition, banks have access to ReportShield Assurance from Kaizen Reporting. This system tests data accuracy and reference data, and provides advanced regulatory reconciliation.

Regulators will not only be focused on whether the data being reported under EMIR REFIT is delivered, but also what banks are doing to ensure that the data they are providing is completely accurate and up-to-date. Partnering with deltaconX and Kaizen Reporting is the most effective way to help banks using FusionFabric.Cloud to demonstrate that they have taken all of the right steps towards achieving these aims.

The deadline for achieving compliance with EMIR REFIT is approaching fast. The revised regulation will usher in a new era in transactional reporting on OTC trades, with more scrutiny being devoted by regulators onto the accuracy and quality of data.

As Iain Scott, Global Lead, Capital Markets at Finastra observes: "A lot of data has been delivered under EMIR, but the quality of that data has had to change. The impact on a bank's business can be significant, but the good news is that solutions are available from our partners to ensure banks are ready for the change."

Research undertaken by Acuiti and Broadridge demonstrates that the biggest challenge for organizations preparing for EMIR REFIT are resource and capacity restraints, followed by matching, reconciliations and exception management, then sourcing data for new fields.

Given these restrictions, it's clear that it would be a major challenge to build an all-encompassing reporting system from scratch, or to attempt to pull together disparate siloed systems introduced over time as new regulation has emerged.

The advice from the experts to take action today. And as is so often the case with regulatory change, EMIR REFIT could be viewed as a reason to bring integrated reporting up to date across the board, making it easier to respond to changes further down the line.

"For those firms who made the decision to implement tactical, rather than strategic solutions for their regulatory programmes when the regulations were originally implemented — and who have made do and mended with each subsequent iteration — it may be time to review how best to comply in the world of rewrites," concludes Paul Rennison. "Ask yourself: 'Do I want to do it all over again and again and again?'"

To find out more about how the combination of Finastra, deltaconX and Kaizen Reporting could make a difference to your financial institution, contact us on **capitalmarkets.treasury@finastra.com.**

About Finastra

Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (digital, retail and commercial banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by ~8,600 institutions, including 90 of the world's top 100 banks. For more information, **finastra.com**

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