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Post-MiFID II / MiFIR
Review, Data Quality, Accuracy and Readiness

Background

The implementation of MiFID II (Directive 2014/65/EU) / MiFIR (Regulation (EU) No 600/2014) in January 2018 marked a significant overhaul of the regulatory framework governing European financial markets. While the directive aimed to enhance transparency, investor protection, and market integrity, financial institutions continue to face substantial challenges in ensuring data quality, accuracy and robust internal control frameworks.

This whitepaper explores these ongoing issues, evaluates whether firms are prepared for the changes proposed by ESMA in their consultation paper on RTS 22 as a part of the MiFIR Review (Regulation (EU) 2024/791 of 28 February 2024 amending MiFIR) and potential changes discussed by the FCA in their discussion paper on transaction reporting, examines the resolution of data issues that have arisen since MiFIR, and references the Financial Conduct Authority's (FCA) Market Watch 65[1] (Market Watch 65) and Market Watch 74[2] (Market Watch 74 | FCA) publications, highlighting that transaction reporting field validations alone cannot identify all potential errors and omissions.

Additionally, it discusses the value of having a strong quality assurance process to facilitate the accuracy of a firm's reporting process, the importance of peer benchmarking in achieving industry standards, and the necessity of paying attention to data alerts and warnings.

Market Watch 79[3] (Market Watch 79 | FCA) emphasised the role of effective market surveillance and regular reviews of governance and data quality testing in addressing tooling limitations. Building on this, Market Watch 81[4] (Market Watch 81 | FCA) highlighted the critical need for robust data governance and reconciliation processes to ensure reporting accuracy, noting that fragmented and outdated data sources remain a persistent challenge. These publications collectively underscore the need for enhanced oversight and control frameworks to mitigate compliance risks effectively and improve the overall integrity of transaction reporting.

Introduction

MiFIR has undoubtedly improved the functioning of financial markets within the EU. However, the complexity and breadth of its requirements have introduced significant compliance challenges. Among these, issues related to data quality and accuracy, as well as the adequacy of internal control frameworks, remain particularly pressing. As the industry prepares for the significant reporting changes proposed by ESMA in their MiFIR Review, and potential changes discussed by the FCA in their discussion paper on the UK transaction reporting regime, it is crucial to assess whether firms are adequately prepared from a data quality perspective.

Data Quality and Accuracy

Key Challenges Post-MiFID II

Despite the extensive preparation, many firms found themselves grappling with the volume and complexity of data required by MiFIR. Some recalled how their systems struggled to integrate data from multiple sources, leading to inconsistencies. Others faced challenges with real-time reporting required for APA submissions, finding that their data was often outdated by the time it was reported.

> "*LSEG's Regulatory Reporting Solutions Data Analytics solutions have been vital for enabling us to improve the data quality of our reporting. The alerts functionality has enabled us to focus on errors and identify issues with transactions that had initially passed the ARM validations.*
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> *We've also been able to create a 'baseline' of the reporting quality and create a backlog of MiFIR issues to address, which has led to a significant reduction in the number of alerts and transactions affected by inaccurate data. As we continue to partner with LSEG Post Trade, we look forward to incorporating additional monitoring into our operational routines to spot new anomalies and stay in control of our MiFIR/MiFID II reporting.*"
>
> **Tier 1 Bank Regulatory management**

Evaluating the Accuracy of Reported Data

There lies a fundamental question: do firms truly understand the accuracy of the data they report?

Even if transaction reports are successfully accepted by regulators, the accuracy and correctness of the reported data are paramount. Errors, omissions, and inaccuracies in transaction reporting can have serious repercussions. The FCA's Market Watch 65[1] acknowledged that the transaction reporting field validations alone cannot identify all potential errors and omissions in transaction reporting, emphasising the importance of firms taking primary responsibility for ensuring data accuracy. This is important to note as the later Market Watch 74[2] not only highlighted to firms' inaccuracies in reporting but also indicated the FCA monitors who is undertaking reconciliations via MDP extracts and how frequently they are utilising the extract process. The FCA is not the only authority who regularly reviews data quality, with publications from a number of authorities including ESMA's annual data quality report and a report from the AMF[5] in February 2024 highlighting issues related to personal data fields.

One firm shared their experience with internal audits and validation processes, discovering that these were not exhaustive enough to catch all errors and omissions. Another institution lacked the capability to perform comprehensive root cause analyses on data errors, leading to recurring issues.

Inaccurate reporting can have severe consequences. Systematic data errors can result in significant fines and lead to reputational damage. An already inefficient operational framework can result in constant corrections and adjustments to reported data, diverting valuable resources away from core activities. Regulators can distinguish between first time right reporting and multiple correction activity, giving a view of the accuracy and completeness of transaction submissions.

Quality Assurance & Warnings

As outlined above, a strong quality assurance process is essential for ensuring the accuracy and reliability of a firm's reporting process. Proactive error identification, through regular quality checks and audits, will significantly reduce compliance issues. Enhanced data accuracy and validation improves overall reporting reliability to help meet regulatory requirements and operate more efficiently.

If a firm is able to adopt technology to trigger data alerts and warnings, they should not ignore these metrics as they are critical indicators of potential inaccuracies and misreporting. These alerts, although not always representing explicit reporting errors, can point to underlying issues that require attention. It is very easy to initially dismiss data alerts as minor glitches, only to discover significant inaccuracies related to the alerts later on. Early identification and resolution of issues will mitigate the need for longer, time-consuming remediation programmes that can span many years of data to re-report.

Thanks to insights provided by the FCA's Market Watch publications and National Competent Authorities (NCA) focus areas, there are opportunities to seek guidance on common reporting errors and data accuracy checks. Through the variety of technology solutions in the world today, these enhanced data validation checks are available, allowing firms to proactively identify and address data quality issues before they result in significant compliance risks.

Firm versus Firm

Understanding how other firms are performing and having a peer-to-peer view allows firms to measure up against each other and set industry standards. Peer benchmarking allows firms to identify areas where they were lagging and prioritise improvements in those areas. Conversely, if a company is already leading the charge in certain reporting areas, it may want to focus its resources on more critical gaps.

Pairing and matching of reported data highlights inconsistencies in the booking models between both firms reporting. This should be a key control, highlighting data quality disparities that are beyond the validations applied by authorities.

Readiness for MiFIR Review

While significant strides have been made to improve data management systems and processes since MiFIR, many institutions are still struggling with data quality issues. Investment in advanced data management systems and industry-wide standardisation initiatives have yielded improvements, yet challenges persist, particularly in ensuring real-time data accuracy and integration across diverse systems.

As firms brace for the MiFIR Review, the readiness from a data quality perspective is mixed. Some firms are investing in more robust data governance frameworks, while others highlight the benefits of leveraging advanced analytics to enhance data accuracy. Collaborative efforts among industry professionals to establish and adhere to standardised data practices are equally emphasised as essential for achieving regulatory compliance and operational efficiency.

Conclusion

While MiFIR has brought about significant advancements in the regulation of financial markets, firms continue to struggle with challenges related to data quality, accuracy, and internal control frameworks. Addressing these issues requires a strategic approach that encompasses technological investment, industry collaboration, and a commitment to continuous improvement. As the industry looks ahead to the MiFIR Review, it is evident that while progress has been made, further efforts are needed to ensure firms are fully prepared.

What can you do

1. **Invest in Technology:** Prioritise investments in advanced data management and analytics tools to improve data quality and reporting accuracy. Using technologies that enable automated data reconciliation and validation can help streamline complex reporting processes and reduce errors.

2. **Foster Industry Collaboration:** Engage in industry initiatives aimed at standardising data formats and definitions. Achieving consistency in reporting standards across platforms helps improve data quality and ensures compliance with evolving regulations.

3. **Enhance Internal Controls:** Strengthen internal control frameworks through regular risk assessments and training. By integrating comprehensive control systems, you can proactively address reporting gaps and ensure that your organisation is consistently compliant with the regulatory requirements.

4. **Commit to Continuous Improvement:** Stay ahead of regulatory changes by adopting a proactive approach to refining your control processes. Keeping up with emerging risks and updating practices ensures that your reporting remains accurate and compliant as regulations evolve.

5. **Regular Data Audits:** Conduct frequent and thorough data audits to verify the completeness and accuracy of your reporting. By identifying and addressing discrepancies early, you can avoid costly compliance issues and ensure timely, error-free submissions.

6. **Transparent Reporting Practices:** Develop and maintain transparent reporting practices, ensuring that all reported data is both accurate and verifiable. Adopting best practices in data transparency fosters trust and mitigates the risks of non-compliance.

7. **Implement Strong Quality Assurance Processes:** Establish strong quality assurance processes to proactively identify and rectify data errors before they escalate into significant compliance issues. This can include the use of tools for continuous monitoring and data validation to ensure reporting remains consistent and accurate.

First Derivative has partnered with LSEG to leverage Regulatory Reporting Solutions (formerly UnaVista) and its Data Analytics package, providing firms enhanced capabilities to address data quality challenges.

Please contact us if you are keen to understand how we can help effectively implement additional controls into your transactional data workflows, streamline reporting processes and reinforce data quality assessments for improved accuracy and compliance.

> *"Regulatory Reporting Solutions has given us the ability to create alerts, perform next-level reconciliations and monitor for potential errors in reports submitted to trade repositories. The functional interface is interactive and user-friendly, and as it's based on the ARM, it ensures continuity between the two and works well together."*

References

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