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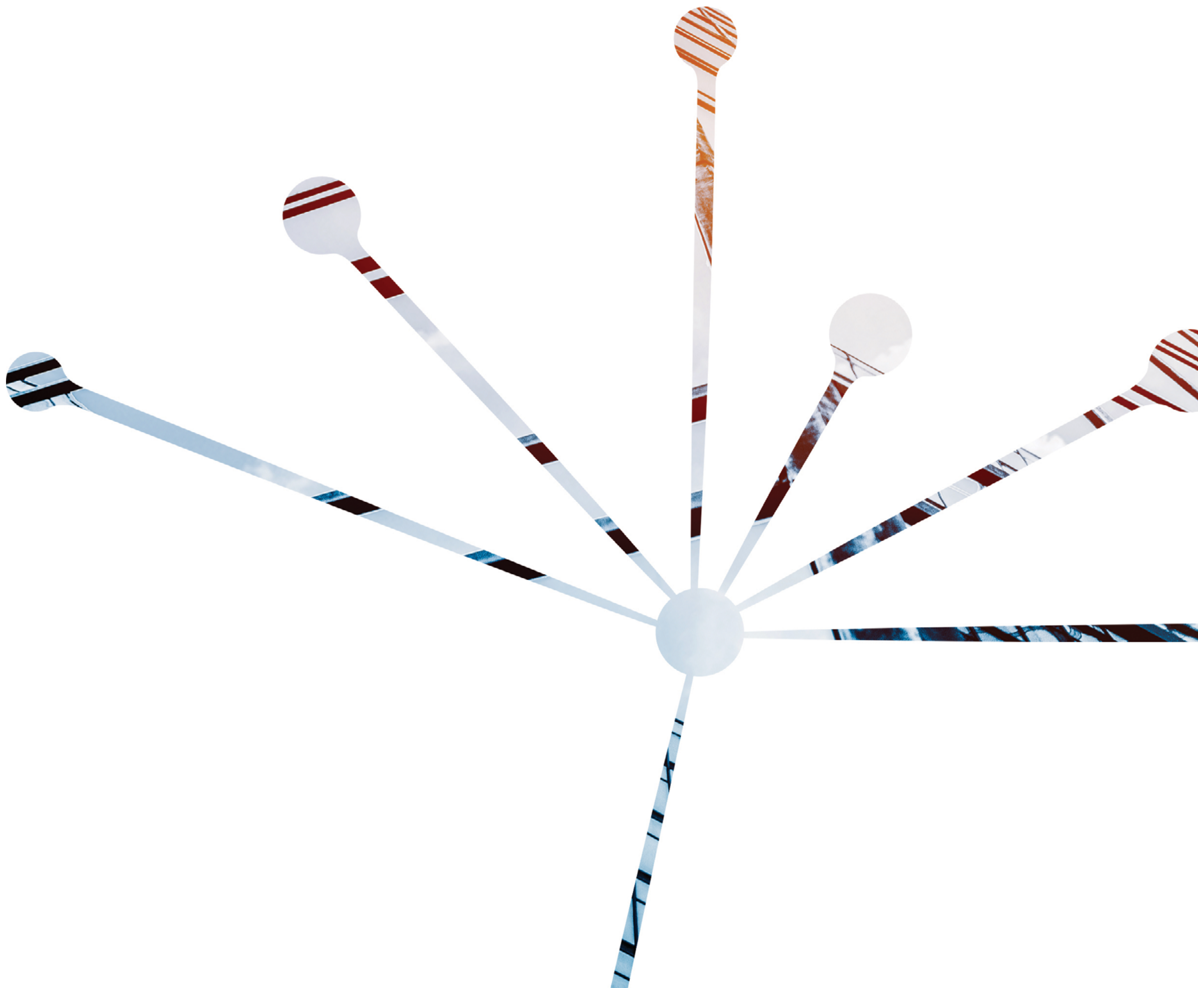
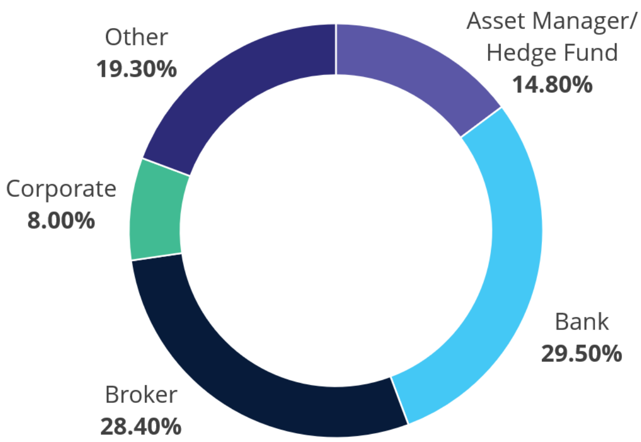
Cappitech Global Regulatory Reporting Survey 2020



Global Regulatory Reporting Survey 2020

The last year has seen an upheaval in transaction reporting, inspired by regulation, consolidation following changes in the industry and by the onset of the Coronavirus pandemic. While few challenges are universal, it is clear that most companies are battling with elements of their reporting and that the impact of Coronavirus and the withdrawal of the major firms in the market are having an additional, unexpected effect.

Cappitech's third, annual global regulatory reporting survey gathered data from **89** respondents, represented by banks (**30%** of respondents) brokerages (**28%**), asset managers and hedge funds (**15%**), corporates (**8%**) and other financial and non-financial institutions.



Survey respondents by company type

Fifty-seven percent of the companies surveyed are headquartered in Europe, including the UK, and **22%** are in the US.

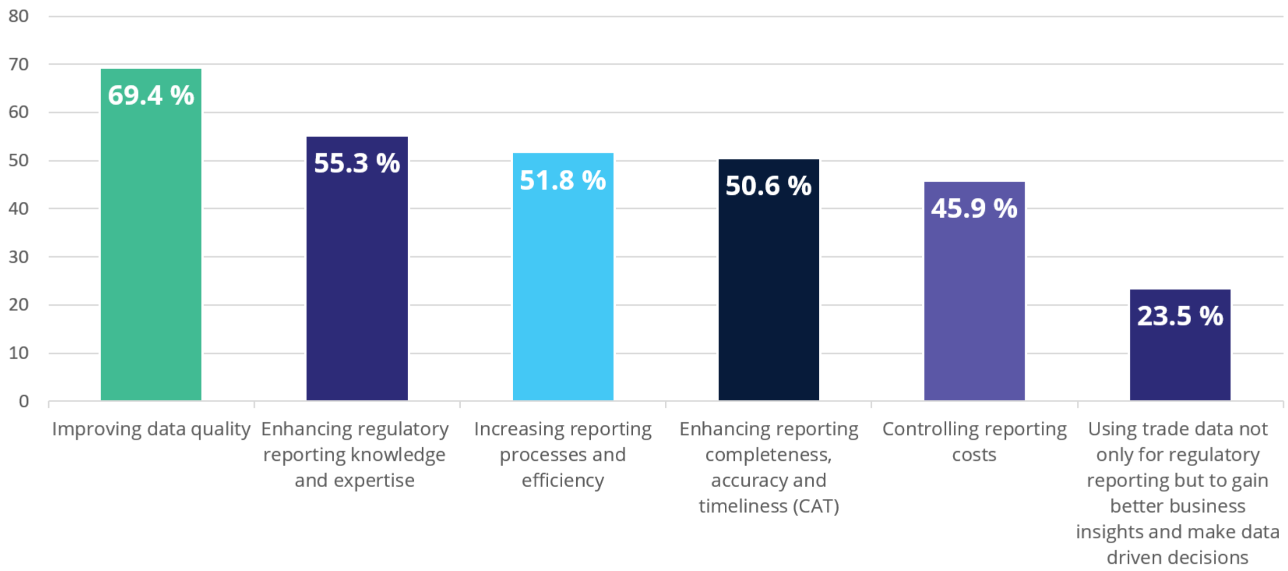
Key findings:

- Four key issues are affecting regulatory reporting: New regulations (**48%**), changing regulations (**43%**), CME's decision to exit the transaction and regulatory reporting market (**36%**) and Coronavirus (**35%**) are the issues most highlighted by respondents.
- The majority of firms (**65%**) have had to change their reporting over the last 12 months due to inefficiencies and errors, notably in timing and granularity for reporting but also because of the regulators' expectations of routine, periodic checking.
- Lack of understanding of the SFTR regulation and a lack of expertise remain high on the list of concerns. Bedding down SFTR will be greatest challenge over the next 12 months.
- The Coronavirus has, unsurprisingly, had a large impact on reporting in 2020. **34%** of respondents said the need for client support during the Coronavirus was a major feature
- While over half of respondents have not received any feedback from regulators, this is an improvement from the two thirds recorded in last year's survey.
- Two-thirds of firms are ready for Brexit with a third still unsure
- Reconciliation has seen significant improvement with **67%** doing this now vs. just **55%** last year.
- In 2021, firms plan to continue to improve reporting despite the intention to cut costs:
  - » **69%** say that an improvement in data quality is a priority
  - » **55%** plan to enhance their reporting knowledge and expertise.
  - » Firms see support from regulatory reporting vendors, TRs, ARMs and regulators as key to this.

More expertise, better data, please

Just over two thirds of respondents to Cappitech's third, annual Global Regulatory Reporting Survey have made changes to their regulatory reporting over the last year because of inefficiencies and errors, demonstrating that the challenges facing firms as they implement their reporting requirements remain high.

What are your strategic priorities for 2021 in regulatory reporting *(More than one answer acceptable)*



The most pressing challenge facing survey respondents remains transaction reporting, which was cited as a concern by more than **57%** of respondents, up from the **46%** recorded in last year's survey. The greatest increase in worry relates to the lack of industry expertise, rising from last year's **21%** to **36%**, and concerns over lack of budget, which nearly tripled, from **25%** to this year's **66%**, and will likely have an effect on data quality as well as the spend on expert support.

The impact of the Coronavirus on budgets and the implementation of SFTR, which has been challenging for many firms, may be driving these concerns.

What does the future hold...?

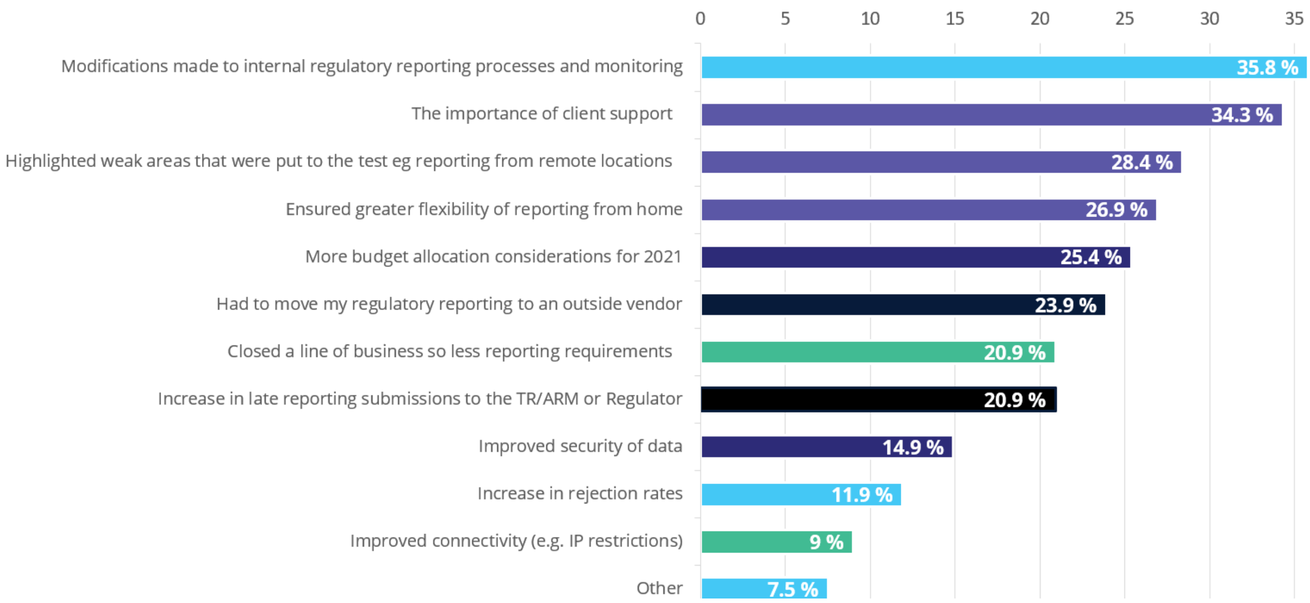
When it comes to future plans, the improvement of data quality (**69%**) and the enhancement of reporting knowledge and expertise (**55%**) are two of the most important strategic priorities for 2021, in line with the struggles faced this year. Not far behind, with **52%** and **51%**, respectively, are prioritising increased reporting processes and efficiency and enhanced Completeness, Accuracy and Timeliness (CAT) reporting.

The resolution most have made to assist in the improvement of reporting objectives is an increase in in-house capabilities and expertise, according to nearly **50%** of respondents.

Quite how this will happen is unclear, given that **44%** of those answering the survey have slimmed down their budgets and **28%** are concerned about operating with reduced resources due to smaller businesses since the onset of the Coronavirus pandemic.

The impact of the Coronavirus

What impact has COVID-19 had on your regulatory reporting or what insights have emerged during this time? *(More than one answer acceptable)*



The Coronavirus has had a large effect on regulatory reporting, with **34%** highlighting it as important and **25%** of respondents identifying the impact of the pandemic as the reason they expect increased costs in 2021. While Coronavirus may only be third in the list of elements that will affect regulatory reporting (behind changing regulations and market consolidation), it adds additional complexity alongside new and unexpected challenges.

Unsurprisingly, as most respondents have to report under this regulation, MiFID was at the head of the list of rules most affected by the pandemic, not least because reference data is the most likely to need to be updated on an ongoing basis. Furthermore, the European directive governs almost all areas in which survey respondents have noted reporting errors. What that means for regulatory reporting is a huge acknowledgement of the need for additional support, in the form of expertise and training also to support modifications to internal processes and monitoring, as well as greater flexibility in working from home.

On the plus side, the pandemic and its impact on how firms manage their reporting has led to increased engagement from senior management.

The worry around the pandemic, reflected the sentiment of the market, which was acknowledged by regulators when postponing the first phase of SFTR and delaying the introduction of RTS 27 and RTS 28, moves that met with the approval of 100% of the 36 respondents who have to report on SFTR and 75% of the 32 that have to report RTS 27 & RTS 28. Given that this was the launch year for SFTR, this relief measure in the face of COVID-19 was met with resounding appreciation.

> "The days of the old-fashioned, figure-it-out-yourself reporting are over. Clients want to be supported and guided throughout the complex reporting process as highlighted by survey respondents. This has always been a priority for us and glad that we were able to deliver as usual, but especially during COVID-19."
>
> **Ronen Kertis**
> **Founder and CEO, Cappitech**

In the dark on changing regulations and SFTR

Forty-six percent of respondents view changing regulation, particularly SFTR, as the main challenge for the next 12 months. For SFTR specifically, the market was extremely grateful for the postponement of phase 1 to July (**100%**), although many remain in the dark about how to interpret the new rules or are concerned about the practicalities and quality of the data that they will be asked to provide. The greatest challenges in SFTR reporting lie in a lack of expertise (**66%**), according to survey respondents, together with lack of understanding of the regulation. Technical concerns include data quality and data fragmentation as well as the number of data fields. Surprisingly, cost and conversion of csv files are relatively minor concerns.

"There aren't that many people familiar with both reporting and the underlying products," said Ronen Kertis, chief executive officer and founder of Cappitech. "Also, even if you know repos, you may not be familiar with the mechanics of stock lending or margin lending, which could mean we will be seeing firms make fixes in the future as a result of lack of knowledge and little practicale experience in the market for SFTs reg reporting."

Now you CME, now you don't

Despite respondents' lack of concerns about vendor stability, CME's announcement, in May, that it would close its European and Australian trade repositories and reporting operations by 20 November 2020 was the reason for nearly half of those surveyed making changes to their regulatory reporting. Furthermore, **48%** of respondents said their regulatory reporting in 2020 was affected by the closure of market players, such as CME, and uncertainty about the long-term role of others, such as Deutsche Börse.

The reduction in the number of regulatory reporting services is expected to increase pricing, a likelihood that has increased with the news that Deutsche Börse was selling its Regulatory Reporting Hub, a pan-European reporting and compliance platform.

Further catalysts to the changes made included the lack of ability to report all regulations on one platform, which was relevant for 41% of respondents to the survey, with risk management cited by more than 57% as their motivation. CME's withdrawal, and the need to search out new vendors, may be an opportunity for market participants to consolidate reporting on a single platform.

Consolidation, cost and consistency

Consolidation also introduces opportunities for market operators to increase their offering by providing services they do not currently have. As these players explore opportunities to enter new markets, the industry may benefit from increased competition, enhanced service quality and the introduction of new technologies.

Forty-six percent of respondents stated that controlling reporting costs was a strategic priority for their 2021 regulatory reporting, while **17%** noted that the biggest regulatory reporting challenge over the next 12 months would be keeping costs down or operating with lower budgets.

Combining the need for education with costs, respondents said, "[We would like to see] more training material on how to use [TR/ARMs] services in particular and on the regulations themselves that aren't so costly [ie non-expensive training]" and "[to get] better support [from the regulators/TR/ARM] and have their own help desks and other support staff better trained in Regulatory Reporting; there is a surprising lack of regulatory knowledge amongst those staff."

One suggestion for improving consistency would be, "getting similar funds together to discuss reporting consistency", according to another respondent. "The regulation covers all different finance companies which makes reporting different but, if there's consensus on how to report for specific product or source of information among similar funds (say macro hedge fund), then it can apply pressure to the industry to provide consistent set of data."

"For many years, Cappitech has answered this need by running quarterly compliance forum events to bring the buy-side and sell-side firms together to discuss the latest trends in the compliance world and provide updates on regulations. I am pleased to see that once again we are ahead of the market need and look forward to continuing to provide this service to the regulatory reporting community," said Ronen Kertis, CEO at Cappitech.

Inefficiencies and errors

As ever, regulatory vigilance has been one of the main ways of drawing attention to the inefficiencies and mistakes that are being made. And more people are listening, now that feedback from regulators has increased: **54%** of respondents received a response from law enforcers over the last

Best execution – positive on planning but negative on implementation

Sixty-six percent of survey respondents have not implemented a systematic method to monitor best execution of their trades or their brokers, despite this being a requirement. This also represents a slight drop in those implementing best execution compared to last year in which 61.4% were not doing so. This is concerning and reflects a general problem with the current Best Execution regulation, especially given all the many distractions this year - market participants did not see this as the ripest of environments for pursuing this obligation. Encouragingly however, 28% stated they had plans to implement best execution over the next 12 months.

Adding together the number of firms desiring to and planning to make this change, there's clearly a distinct awareness of the need for a best execution solution. Hopefully the next 12 months will allow market participants to implement their best execution solutions without the distraction of a global pandemic, fulfiling their obligations as called for under any rigorous reading of the Systems and Controls (SYSC) portion of the FCA Handbook.

12 months, a significant increase on the **32%** recorded in last year's survey.

Around **40%** of respondents had experienced MiFID reporting errors, ranging from inconsistency of trading capacity versus buyer/ seller fields (**30%**), lack of any recon or periodic testing process (**33%**), use of default concat format for individual identification (**30%**), price and price multiplier inconsistencies for retail derivative products (**29%**), to incorrect prices – failure to convert UK pounds to pence on report submissions (**29%**), with **20%** recording other, non-specific errors.

Feedback within the survey makes it clear that finding ways to overcome these errors and to drive consistency in reporting across the industry is a key focus for market participants who hope to reduce their errors and improve the quality of their reporting.

EMIR: The challenge of backreporting

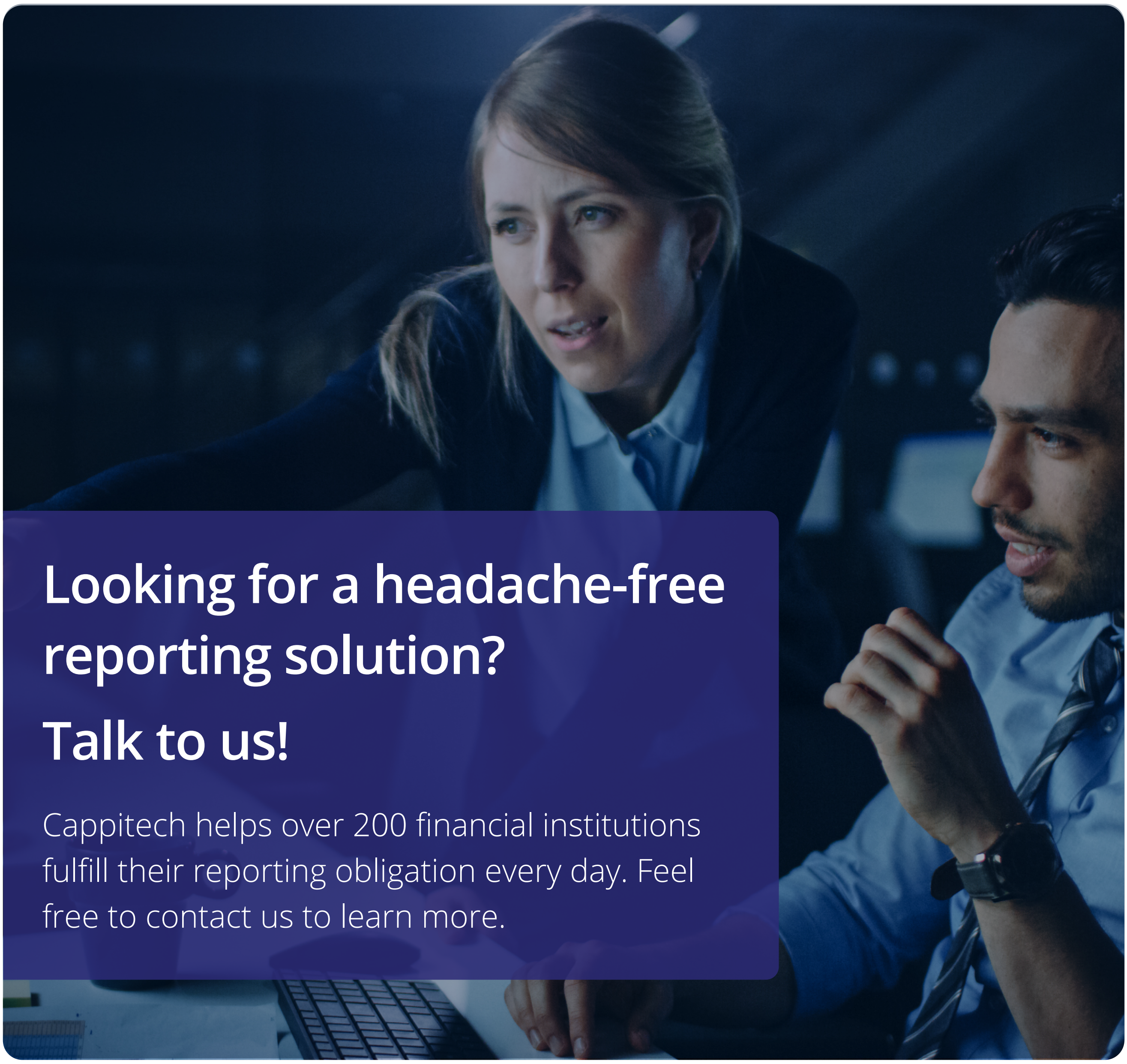
Backreporting challenges lead the way in EMIR reporting errors recorded by survey participants, according to **55%** of respondents, along with failure to terminate open positions (**45%**), Incorrect Notional Amount calculations related to lack of factoring price multiplier, quantity and contract sizes (**46%**) and confused population of notion currency **1&2** for foreign exchange products (**35%**).

A feel for no-deal

As a necessary aside, attention should also be drawn to the two questions in the survey that served to confirm firms are ready but also planning for a no-deal Brexit: **68%** of respondents said they understood the effect of a no-deal on their marketing and client activities, while **71%** have already decided on mitigation measures, including local licensing and a reliance on reverse solicitation; **21%** cited the managing of Brexit preparations as the biggest regulatory challenge over the next 12 months.

BCP passes the test

Regulators will be reassured to know that the Coronavirus ensured BCP plans were thoroughly tested and that **72%** of respondents had incorporated regulatory compliance and reporting into existing plans, with the majority (**71%**) finding these to be effective during the pandemic. In particular, the use of technology and organisation of staff working from home performed well. Areas for improvement include team alignment and communication, the need for regular reviews, the availability of resources and the establishment of functional risk committees and frameworks.



About Us

Cappitech is a leading provider of regulatory reporting, best execution analysis and business intelligence solutions for the financial services industry. Cappitech's cross-jurisdiction compliance platform, fully automates the reporting process and provides a comprehensive view on a single, intuitive dashboard for reporting regimes in Europe such as EMIR, MiFID, SFTR, RTS 27/8 as well as global regimes such as Canadian reporting, ASIC, MAS.

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