# Is your regulatory reporting valid but wrong?

**Firms that rely on validations only for confirmation that their trade and transaction reporting is correct are increasing their risk of inaccurate reporting. This can lead to significant remedial costs and the threat of regulatory censure and sometimes, fines.**

Regulators expect higher levels of reporting compliance than ever before. Firms' senior executives face an increasing challenge – how to manage the reporting risks they face while keeping up-to-date with the latest ever-more complex reporting obligations and keeping costs in check. Failure to do so leaves firms and individuals exposed to severe financial penalties, significant remedial costs and reputational damage.

## Why transaction reporting exists and why data quality is so important

Trade and transaction reporting is essentially communication between firms and their regulators on matters relating to market abuse, price transparency and systemic risk. Poor data quality means these communication channels are less effective. This has a direct impact on the ability of regulators, national competent authorities and other regulatory bodies to detect market abuse and carry out their supervisory responsibilities. This can in turn, lead to material issues within the industry such as increased systemic risk, undetected market abuse and financial instability.

## What do we mean by 'valid'?

In an effort to improve data quality, regulators have introduced validations – often syntax rules that apply to specific data fields. If only one of these validation rules is broken, the whole message is rejected from the regulator or the intermediary entity (Approved Reporting Mechanism (ARM), Trade Repository (TR)). This results in a reporting breach and needs to be fixed and replayed by the firm.

For example, if an LEI is reported and is not in the correct format (the ISO standard 20 digit alphanumeric) then the message will be rejected.

ESMA has invested significant time and resources in their "validation" regime, introducing 240-plus validations under MiFID II and the boosting of validations under EMIR in November 2017, now on its third iteration. Suffice to say, if a firm sends a message to an ARM or TR and this message passes the validations, it has reported a valid message, but is the data reported actually accurate?

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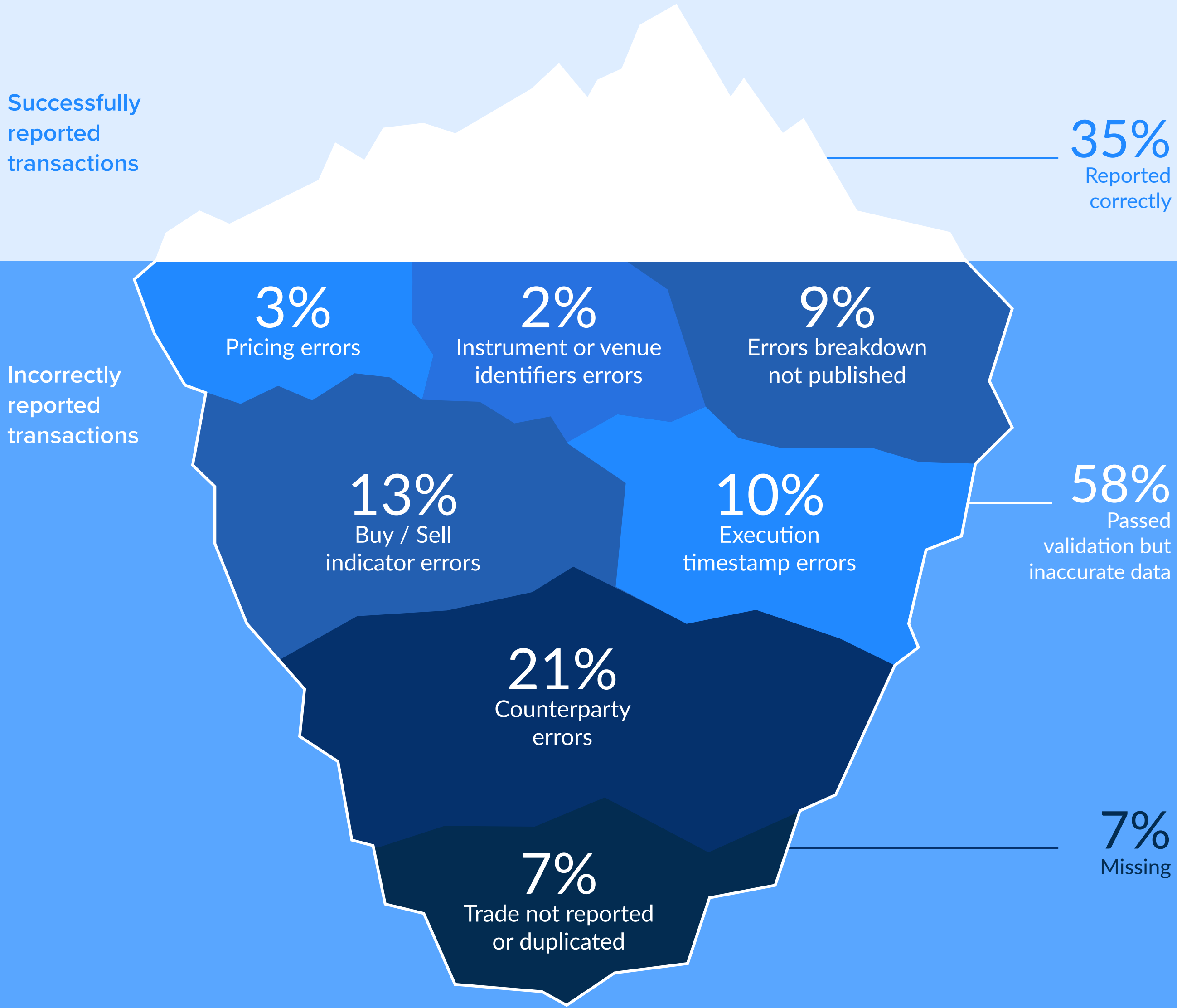
## What do we mean by 'valid but wrong'?




The 'valid but wrong' scenario occurs when messages pass the validation rules, but the data reported is inaccurate. Examples to illustrate the valid but wrong problem include the following:

- The ISIN is a valid ISIN, but the wrong ISIN for that instrument;
- The price reported is in the correct format but it is the wrong price for that transaction
- Execution time and date is reported in the right format but it is the wrong execution time for that transaction.

A picture can paint a thousand words. The above graphic demonstrates this valid but wrong issue. We see the results of the 180 million transactions that the UK regulator, the FCA, investigated when they fined 12 firms under the MiFID I regime. The headline point is that only 35% of the 180 million transactions reviewed were both valid and correct – **the majority of the remaining transactions reviewed were valid but wrong.**

## Remediation and fines

The consequences of not identifying the 'valid but wrong' universe of transactions can be costly in terms of fines, remediation and reputational damage. Under MiFID I, we estimate that nearly half of all the transactions reported were correcting 'valid but wrong' errors.

Even though the risk of incurring a fine is low, the threat of large scale remediation is a real, present and persistent danger. With the advent of MiFID II, Regulatory Technical Standards (RTS) 22, Article 15, firms are now mandated to carry out regular testing and reconciliations to identify the types of issues highlighted in the iceberg. Not only this, but firms are also mandated to remediate and replay any errors identified. It is therefore in the firm's interest to detect issues as soon as possible to reduce the cost and effort of any remediation projects.

> *Investment firms shall have arrangements in place to ensure that their transaction reports are complete and accurate. Those arrangements shall include testing of their reporting process and regular reconciliation of their front-office trading records against data samples provided to them by their competent authorities.*
>
> **MiFIR Regulatory and Technical Standards (RTS) 22, Article 15.**

## Identify your valid but wrong issues

Kaizen exists to provide assurance around regulatory reporting.

Our ReportShield™ testing and reconciliation services work across multiple jurisdictions, to give our clients confidence that they have identified their 'valid but wrong' issues.

Kaizen's unique approach to testing every field on every transaction reported prevents the false confidence often proffered by the sample testing approach traditionally used by firms and consultancies alike.

## Contact us

If you're worried your regulatory reporting is valid but wrong or for any other regulatory reporting challenges, please contact us.

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**About Kaizen Reporting**
Kaizen Reporting is a specialist regulatory reporting assurance company. Founded by former regulator Dario Crispini, we've combined our deep knowledge of regulation with data science and analytics to develop ReportShield™ an award-winning suite of automated testing and controls that address the ever-growing challenges that regulations present. Whether it's MiFID II, EMIR, DFA, SFTR or another regulation, we can give you confidence and peace of mind in the quality of your regulatory reporting.

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