



SWIFT's response to the European Commission's Consultation Document on "Fitness check on supervisory reporting"

SWIFT

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Confidentiality: Public

SWIFT thanks the European Commission for the opportunity to provide comments on the consultation document on “Fitness check on supervisory reporting”.

SWIFT is a member-owned cooperative headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholders, comprising more than 2,000 financial institutions. We connect more than 11,000 institutions in more than 200 countries and territories. A fundamental tenet of SWIFT’s governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

If you wish to discuss any aspect of our response please do not hesitate to let us know.



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Question 1.4: To what extent are supervisory reporting requirements across different EU level reporting frameworks coherent (e.g. in terms of scope, content, methodology, timing/frequency of submission, etc.)?

- o Fully coherent**
- o Mostly coherent (a few or minor inconsistencies)**
- o Somewhat coherent (numerous inconsistencies)**
- o Not coherent (mostly or totally inconsistent)**
- o Don't know**

Please provide specific examples of reporting requirements which in your view are inconsistent and explain why you believe they are inconsistent

The regulatory reforms in Europe over the last several years have introduced a number of supervisory reporting requirements. There have been important direct and indirect implications for many businesses throughout Europe. While significant efforts have been made to ensure coherence in the new supervisory reporting regimes, inconsistencies and overlaps remain.

Scope

Typically the financial instrument and transaction scope of the reporting regimes do not overlap (EMIR for OTC derivatives, MiFID2/R for centrally cleared derivatives, fixed income and equities, SFTR for securities financing transactions). There are, however, some overlapping reporting requirements when one takes into account the separate regimes put in place by central banks. For example, the Money Market Statistical Reporting (MMSR) from the European Central Bank and the Sterling Money Market Daily (SMMD) from the Bank of England require all money market transactions to be reported. These two latter regimes require entities to report repo and reverse repo transactions, even though these are also reported by firms under the SFTR (albeit to different supervisors, and for different supervisory purposes).

Content

In 2014 ESMA implemented ISO 20022 as the data standard for a number of reporting regimes (MiFID2/R, CSDR, SFTR, EMIR2, Securitisation). This move was largely welcomed by the market, as the use of a common standard across the reporting regimes eases implementation and reduces costs. Even so, there are still a number of reporting regimes that require the use of local standards as defined by the NCAs – for example reporting under UCITS & AIFMD.

Methodology

There are also important differences in the various players involved in each reporting regime. Sometimes financial institutions are supposed to directly address the NCA (UCITS, AIFMD and MiFID2/R), but in other cases specific providers can be used (Approved Reporting Mechanisms and Trade Venues under MiFID2/R, Trade repositories under EMIR and SFTR). Finally, in other regimes the recipient is the local central bank (Money Market Reporting).

These different “recipients” each have their own technology solutions for transferring the data. Each channel comes with its own specific mechanism to ensure proper transmission, to secure data, to ensure resilience, to monitor and to audit transmissions. Each link requires financial institutions to implement, run and maintain these various transfer solutions.

Timing/frequency of submission

Finally, there are notable differences in the timing of reporting requirements in the different regimes. Some require data to be transmitted as soon as possible (within 15 mins), some the day after early morning (T+1 at 7AM), some the day after at the end of the business day (T+1 at 5PM).

Question 1.5: To what extent is supervisory reporting in its current form efficient?

Very efficient

Quite efficient

Rather inefficient

Very inefficient

Don't know

If you think that supervisory reporting is not fully efficient, please provide specific examples and explain why you believe it is not efficient.

See answer question 1.4

The overlaps in reporting obligations – for instance the overlap between the Money Markets and Securities Financial Transactions reporting regimes – lead to double reporting. Clearly there would be realisable efficiency gains if the regimes were combined in some way (obviously while still allowing for the totality of the information requirements to be met, and still allowing for the different supervisors to analyse the data). Additionally, the use of multiple communication mechanisms (each of which need to be implemented, run and maintained) could be streamlined.

Concerning the development of a common financial language (i.e. a set of harmonised definitions of the terms used in supervisory reporting):

Question 3.2: To what extent would the development of a common financial language help reduce the compliance cost of supervisory reporting?

Very significantly

Significantly

Moderately

Marginally

Not at all

Don't know

Please elaborate.

In our view it is essential that progress is made to align reporting requirements, and it would be desirable to reduce duplication in reporting requirements where possible. Additionally reporting requirements should be standardised, leveraging appropriate existing industry standardisation tools. Such standardisation tools include identifiers and financial messaging standards which are open and free to use and which are available today.

We note that this fitness check on supervisory reporting consultation looks at the situation at the end 2016. Since then, to reduce implementation effort and improve the consistency of reports, European Supervisory Authorities (ECB and ESMA) as well as the Bank of England, have led the way with the adoption of the ISO 20022 standard for reporting across a number of different regulatory initiatives (i.e. EMIR, MiFID2/MiFIR, SFTR, CSDR, MMSR, CCP Supervision, SMMD).

The consistent application of ISO 20022 across all regimes would significantly reduce the compliance costs by avoiding the costly implementation and maintenance of local standards. It would additionally ease the burden on supervisors and allow for the better analysis *across* reporting regimes, as well as *within* reporting regimes (where appropriate).

We believe that ISO 20022 can deliver the common financial language referred to in the question. EU Supervisory reporting would benefit therefore from a consideration of how standards such as ISO 20022 could be further leveraged.

Some brief details on ISO 20022 are provided below, but more extensive and detailed documentation is available. ISO 20022 – “Universal financial industry message scheme” is the open methodology for developing new financial messaging standards and for harmonising existing financial messaging standards. ISO 20022 is an initiative of the International Organisation for Standardisation (ISO). The standard was conceived to harmonise the fragmented financial standards landscape, and can best be described as a ‘recipe’ for developing financial messaging standards. The main ingredients of this recipe are a development methodology, a registration process, and a centralised, machine-processable “e-Repository”. In addition, ISO is also helping to develop the interoperable semantic framework which can be used to help guide the interpretation whether of a particular business, of a particular product or a particular geography.

ISO 20022 is an open standard. It is not controlled by a single interest and is open to anyone in the industry who wants to participate. It is free for anyone to implement in any business or software environment, or on any network.

ISO 20022 uses a data dictionary with well-defined terms and definitions for financial services represented in a standardised way, independent of any syntax. This common, open, well-defined and well-used set of data terms developed in ISO 20022 supports the implementation of regulatory reporting requirements and ensures the level of interoperability that is necessary. Thanks to this central dictionary, all the ISO 20022 messages share a common understanding and representation of business concepts which helps the business information to flow smoothly from one message to the other along the transaction life cycles.

The ISO 20022 governance process, led by the Registration Management Group and the Registration Authority, allows for open, requirements-led development and maintenance of ISO 20022 messages and message components. It provides a framework for any organisation in the world to submit a ‘change request’ and/or a ‘business justification’ for a new or revised application. It also provides mechanisms for advising on implementing the standard in new technologies, for instance with standardised Application Programming Interfaces (APIs).

This process can ensure that any additional elements that are required can be proposed for addition in the ISO 20022 repository and common use within the financial services industry.

Question 3.3: To what extent would the development of a common financial language help improve the management (i.e. reporting or processing) of supervisory data required to be reported?

Very significantly

Significantly

Moderately

Marginally

Not at all

Don't know

Please elaborate.

Standards have a very important role to play in facilitating efficiencies and understanding between market participants – and also play a key role in financial regulation. To be effective, regulation needs to be implemented consistently. When regulation considers financial data, consistency can only be achieved if all stakeholders share the same understanding of the meaning and purpose of that data.

This is particularly true when data from multiple entities needs to be aggregated: without consistency at the source it is impossible to guarantee the validity of data when combined, and somewhat unsafe to infer conclusions from it.

Not only does the use of global standards remove the need (and cost) of developing new standards, when possible it also minimises cost to those already familiar with, and using, the standards in question (e.g. ISO 20022).

Today's business standards fall into three broad categories: reference data and transactional standards.

- Reference data standards define universal codes for key data elements such as currencies, legal entities, securities, etc. They define both the format of the data (e.g. the length and format of a currency code; the attributes required to describe a currency) and the data itself (e.g. the list of agreed currency codes, 'EUR', 'GBP', etc.). Reference data standards ensure consistency for important business data. Authorities have already clearly recognised the importance of such standards and have moved to incorporate standards like the LEI (ISO 17442) into much (but not all) EU regulatory reporting. We note also the global initiative currently in play to agree upon a Unique Product Identifier for OTC derivatives reporting. These are important developments which should be further leveraged.
- Transactional standards formally describe the content of business information exchanged by industry participants to execute business processes, such as payment initiation, securities settlement and now also regulatory reporting. They also describe the roles played by different participants in a business process, and the information flows required to achieve a particular automation goal. Transactional standards specify data elements using reference data standards wherever possible to minimise ambiguity. There are many transactional standards but the most modern in terms of architecture, and the broadest in terms of business coverage and adoption, is ISO 20022.

Beyond the EU, many non-EU jurisdictions have their own distinct initiatives which, although often guided by global regulatory recommendations (e.g. CPMI-IOSCO), vary significantly in the way information needs to be formatted, packaged and delivered. We believe these different requirements represent a great burden on the industry and may eventually compromise regulators' efforts to analyse the reported data.

It would make sense to have a single globally-accepted approach to regulatory reporting based on common standards and standardised communication technology.

In a global economy of rapidly emerging new technologies, standards help ensure a level of ubiquity and can help set a baseline framework that can act as a springboard for quick innovation and commercialisation. Standards can also improve the industry's ability and agility to implement change and innovate with less cost and risk.

If implemented well, standards can improve interoperability between counterparties both within a particular jurisdiction as well as cross-border. Standards also reduce the complexity, cost and risk of data manipulation and conversion in the financial industry, not only between financial institutions, but also between FIs, their customers, supervisory authorities and other involved parties.

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