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Intensifying Global Regulatory Reporting Demands are Prompting a Major Data Rethink Among Financial Firms

Jordan Ambrose

Jordan Ambrose
CEO
Inforalgo

Biography

Jordan Ambrose is the CEO of Inforalgo (www.inforalgo.com) and a technology entrepreneur with an enviable track record in sales, marketing and leadership roles in IT businesses, and an understanding of both data science and its value and impact in financial services.

He specialises in helping companies grow, making him perfectly placed to lead the transformation of Inforalgo as it embarks on an exciting new chapter.

Jordan was appointed as CEO following Astuta's acquisition of Inforalgo in December 2016.

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Abstract

New research by independent financial regulatory think-tank JWG, in partnership with Inforalgo, the Capital Markets data automation specialist, shows that after years of 'making do', financial institutions are now proactively ramping up their regulatory compliance capabilities to cope with intensifying global requirements – and the significant additional demands of MiFID II.

In this article, the author explores the findings which confirm a growing appetite for a more sustainable, repeatable approach to Capital Markets transaction reporting as regulatory demands soar, and considers the successes and failures of historically approached trade and transaction reporting, and debates more proactive and strategic approaches to regulatory change.

Introduction

As if international trade reporting obligations weren't onerous enough, they are about to become considerably more burdensome as a raft of new and updated requirements are rolled out to increase market transparency and provide greater client protection. Confirmed by new research[1] by independent financial regulatory think-tank JWG, in partnership with Inforalgo, many financial institutions are struggling to manage all of the diverse requirements, particularly in the tight timeframes that are often involved (Corporate Bonds trades must be reported within 15 minutes of a transaction).

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Project costs are escalating, as well as the risks of non-compliance. As a result, most financial institutions are now rethinking their approach to transaction data management. Trying to meet increasing – not to mention diverging – international reporting requirements manually, when much of the detail exists in different formats across a whole series of data silos, is no longer sustainable. To compound matters, firms simply don't have the budgets to keep investing in new IT project each time there is a regulatory update.

Compliance frustration is palpable

Between the substantial demands of MiFID II, now almost a year into its implementation; EMIR, which is currently being re-written; Dodd-Frank; FINRA TRACE which is increasing the scope of reportable instruments; CAT and SFTR, which are due to go live in 2019; and MAS, due to be upgraded in 2020, there is no let-up for trading firms keen to maximize global trading opportunities. *(See box for fuller details of the main international trade reporting requirements.)*

Unable to devote unlimited skilled resources to preparing and validating transaction data for reporting purposes, and adapting the detail to fill the required fields for each regulatory body, trading organisations must find a new and more sustainable approach to regulatory compliance.

JWG's in-depth, qualitative research, conducted with senior executives from 12 global financial institutions in October 2018, highlighted firms' growing frustration. "(The) business is fed up with investing in regulation! Instead, we need to slash costs," said one project manager from a major German bank currently grappling with MiFID and MAS (Singapore authority) reporting.

It isn't only the risk of non-compliance and potential fines, and reputational damage that has prompted a review. Firms are also becoming more acutely aware of the amount of information repetition and duplicated effort involved as they collate, prepare and turn around trade data to fulfil each authority's unique set of requirements.

Time pressures are a very real concern too. If firms wait until the end of the day to reconcile all of their transaction data and generate reports, this can cause bottlenecks – especially if exception/query resolution involves input across different time zones. Given the growing reporting workload, it would be beneficial to trading teams to be able to reconcile and validate transaction details more immediately – on the fly, in real time – alleviating at least some of the pressure at the close of trade, and enabling exceptions to be managed ahead of time.

Seeking a smarter way forward

Across the board, though, the challenge firms really want to overcome is to manage their regulatory obligations in a more efficient, reliable and repeatable way. Relying on manual processes and spreadsheets is impractical, burdensome, costly, inefficient and fraught with risk. It prevents a clear line of sight across trade activity, and hinders potential useful insights – for example, into the relative cost of transactions, or where common errors are concentrated.

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A priority then must be to routinely amalgamate data and get it into a robust, readily deployable and centrally viewable format – wherever the constituent information has come from, and in whatever format it originated.

In the JWG research, a senior technology leader at a North American bank admitted that, because his organization still had a lot of manual reference data maintained in spreadsheets, and had many, varied data sources – six in Singapore for trading source data; three for reference data; and 20 connection points in Ireland – its reporting activities were highly complicated and protracted.

Owing to different regulators demanding different data, it isn't a simple case of being able to prepare fields once to meet multiple needs. To avoid having to start from scratch for each different purpose, firms are now looking to rules-driven workflow to automate reporting according to each authority's respective eligibility rules – for instance, the specific detail they want to see included.

As an IT manager at a European investment bank put it, if he had spare budget to spend on regulatory reporting, he would spend it all on central eligibility rules. "Enrichment and transformation of data is easy once the rules are defined, known, agreed and accessible," he said.

These parameters can be met with intelligent workflow automation. Unsurprisingly, a desire to manage reporting requirements more efficiently came out very strongly in JWG's findings – including the ability to complete each set of reporting fields automatically, with the precise information that is eligible for declaration under each set of regulations.

Having a rules engine capable of assessing data's fit, accuracy and completeness, without writing or embedding code each time requirements are revised or added to, was high on interviewees' wish lists – as was being able to re-use rules for other regulations, where there is a close match between requirements from one authority to another.

Beyond reporting: data automation as a means to strategic advantage

In parallel to evolving regulatory drivers, the research found that firms are beginning to take a more holistic look at automation of trading data management. The need to control costs more broadly, and maximize revenues, is turning attention to the concept of a 'centralized data hub' – one that can support multiple trading-related process requirements, and increase visibility of transaction data and activity with scope to reduce the cost of trading and improve yields.

Encouragingly, most of the firms JWG spoke to have already begun to allocate some resources to this kind of strategy, in recognition that a more holistic data automation approach could give them a financial and competitive advantage.

Reference

[1] https://inforalgo.com/regulatory-reporting-time-for-a-rethink/