Global Foreign Exchange Division
39th Floor
25 Canada Square
London
E14 5LQ

Directorate General for Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels
Belgium

Submitted via online form

28 February 2018

Re: Consultation Document – Fitness Check on Supervisory Reporting

Dear Sir, Madam

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to provide feedback on the European Commission's consultation document – fitness check on supervisory reporting (the "Consultation"), released on 1 December 2017.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 25 global foreign exchange (FX) market participants,[1] collectively representing over 80% of the FX inter-dealer market.[2] Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

Introduction

The FX market is the world's largest financial market. Effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will

[1] Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

[2] According to Euromoney league tables.

continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for globally co-ordinated regulation which we believe will be of benefit to both regulators and market participants alike.

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SECTION 1: ASSESSING WHETHER THE SUPERVISORY REPORTING REQUIREMENTS ARE FIT-FOR-PURPOSE

Q1.1: Taken together, to what extent have EU level supervisory reporting requirements contributed to improving the following: (very significantly / significantly / moderately / marginally / not at all / don't know - Please elaborate and provide examples to justify your answer)

- **i)** **financial stability (i.e. monitoring systemic risk)**
- **ii)** **market integrity (i.e. surveillance of market abuse and orderly functioning of the markets)**
- iii) **investor protection (i.e. ensuring proper conduct by firms to ensure that investors are not disadvantaged/negatively impacted)**)

Don't know:

The GFXD believes that this is for regulators to assess.

Q1.2: Are all of the existing supervisory reporting requirements relevant for maintaining financial stability and upholding market integrity and investor protection? (yes / most of them / some of them / very few / don't know). If you do not think that all of the requirements are relevant, please provide specific examples of any requirements which in your view are superfluous and explain why you believe they are not necessary.

The GFXD has no comments in response to this question.

Q1.3: Is there information that should be reported but which currently is not (i.e. there are reporting requirements that should be added)? (yes / no / don't know). If you answered yes, please provide specific examples of reporting requirement which in your view should be added and explain why you believe they are needed.

Yes:

From the perspective of derivatives reporting, we encourage regulators to work together to create a 'common data set' to form the basis of all reporting obligations. In order to produce a comprehensive set of guidelines, CPMI-IOSCO have consulted on the definition and format of well over 100 individual data fields. This far exceeds the needs of most regulators in their aims of risk oversight and detection of market abuse, and includes many fields that are only applicable in certain situations or to certain transactions. If regulators can agree a subset of these fields to be used across jurisdictions as a single 'common data set' for each reporting requirement, it will allow market participants to streamline their reporting and provide a data set that can easily be aggregated cross-border for effective market oversight.

Q1.4 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.)? (fully coherent / mostly coherent / somewhat coherent / don't know). Please provide specific examples of reporting requirements which in your view are inconsistent and explain why you believe they are inconsistent.

Somewhat coherent:

From the perspective of FX derivatives reporting, GFXD members are subject to multiple competing requirements. To illustrate the challenges this creates for the industry, the GFXD has performed an analysis (see Annex I) which demonstrates the multiple reporting obligations faced in complying with US and EU reporting regulations.

We identify that an eligible trade could be required to be reported more than 14 separate times in Europe and the US (noting that this could increase if that trade has an Asian nexus too). We have also identified the reportable 'risk' fields for FX trades; again it is clear that these too are duplicated across each of those reporting obligations and not standardised in exact format and content. More broadly we note that, even for just the EMIR (Regulation 648/2012) trade reporting, MiFIR post-trade transparency (Delegated Regulation 2017/583) and transaction reporting (Delegated Regulation 2017/590), more than 120 separate fields are required.

Finally, the data must be reported to different bodies (e.g. trade repositories, competent authorities, public data feeds) using different channels. This increases the complexity and cost for reporting firms, with each recipient body putting in place its own requirements and interpretations, and also makes firms reliant on external providers for reporting, for example Approved Publication Arrangements (APAs) and Approved Reporting Mechanisms (ARMs) under MiFIR.

Q1.5: 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.

Rather inefficient:

As noted in our response to Q1.4, from the perspective of FX derivatives reporting firms are subject to multiple obligations on the same trade, both within the EU and cross-border. This increases cost and complexity since the fields and formats required for each obligation are different and the reports must be submitted in different time frames to different recipient bodies. Taking a holistic view, the reporting landscape is therefore highly fragmented, both for reporting parties and for supervisors attempting to collate and use the data.

1.6 How well are the supervisory reporting requirements adapted to developments in the fields of modern information and communication technologies (ICT) and digital processes? (very well / fairly well / not at all well / not at all / don't know). Please elaborate and provide specific examples.

Fairly well:

From the perspective of FX derivatives reporting, processes are largely automated, although as note in our responses above, the fragmentation of reporting rules requires complex and costly builds.

However, new technological developments, such as Distributed Ledger Technology (DLT), have great potential for positive impacts on post-trade services in FX. As noted in the Association for Financial Markets in Europe's (AFME's) response to the Commission's 2017 consultation on Fintech, DLT could bring benefits such as the following:

a. Efficient information propagation: latest data can be updated and replicated in close to real time;
b. Full traceability of information: new information can be added to the ledger but not deleted, creating an immutable chain of data where information is fully traceable;
c. Simplified reconciliation: mutualised information can reduce reconciliation efforts;
d. Trusted disseminated system: data authenticity can be completed by participants of the network rather than a central body;
e. High resiliency: the distributed nature of the information can allow data to be recovered directly from any participant in case of local system failures.

In particular, DLT offers the opportunity for regulators to be granted participant status on the shared ledger, with direct, real-time access to the data, thereby eliminating reporting processes.

In order to realise these benefits, EU policies should neither stifle innovation nor prevent sound and safe competition. We believe that the EU should therefore foster an agile, proportionate and effectiveness-oriented regulation of Fintech and financial innovation, working in conjunction with other regulators worldwide to ensure consistency:

a. Agile regulation: regarding the emergence of new technologies and new business models, regulatory adjustments could be contemplated (including regulatory simplifications) and new status could be introduced, focusing on the main risks raised by the activity (e.g. crowdfunding regulation in France: http://www.amf-france.org/en_US/Acteurs-et-produits/Prestataires-financiers/Financement-participatif---crowdfunding/Cadre-reglementaire). Agile regulation could also be promoted by "test and learn" initiatives. For example, the French law acknowledges blockchain technology for the register on non-listed equities. Based on that first live experiment, blockchain technology could later be acknowledged for an extended scope of services;
b. Proportionality: regulation and supervision should always be proportionate and driven by considerations of risk scale (consumer protection and money-laundering/countering financing of terrorism mainly, and financial stability if FinTechs eventually gain significant market share). This philosophy allows softening regulatory scope entry.

c. Oriented towards effectiveness: rather than being too prescriptive or detailed, principle-based regulation is likely to be more effective and more adequate in very innovative environments.

Q1.7: To what extent has the adoption of supervisory reporting requirements at EU level facilitated supervisory reporting in areas where previously only national requirements existed? (very significantly / significantly / moderately / marginally / not at all / it has made supervisory reporting more complicated / don't know). Please elaborate and provide specific examples.

Don't know

Q1.8: To what extent have options left to Member States in terms of implementing EU level supervisory reporting requirements (e.g. due to their adoption as Directives rather than Regulations) increased the compliance cost? (very significantly / significantly / moderately / marginally / not at all / don't know). If you think divergent Member State implementation has increased the compliance cost, please provide specific examples of reporting frameworks or requirements where you believe this to be the case and explain your suggestions.

Significantly:

From the perspective of FX derivatives reporting, a fragmented landscape of multiple regulations, formats and timeframes, together with a lack of explicit, harmonised requirements, has greatly increased the cost for market participants.

For example, only with MiFID II (Directive 2014/65) go-live, has the delineation between FX spot and FX forward trades been harmonised across Europe. Until 2017, there was divergence between Member States as to which FX products were 'financial instruments' for the purposes of EU regulation, and in particular where the delineation lay between FX spot and FX forward trades. This led to firms having to implement EU requirements differently across Member States.

Even under MiFID II and MiFIR (Regulation 600/2014), some reporting is required at Member State level rather than centrally, for example the transaction reporting requirements (RTS 22 – Delegated Regulation 2017/590). This means that firms operating on a cross-border basis must set up reporting lines to multiple Member States, using different reporting channels, further increasing costs.

Q1.9: Are there any challenges in terms of processing the data, either prior to (i.e. within the reporting entity) or subsequent to (i.e. within the receiving/processing entity) it being reported? (yes / no / don't know). If you answered 'yes', please elaborate and provide specific examples.

Yes:

From the perspective of FX derivatives reporting, a fragmented landscape and lack of explicit, harmonised requirements presents significant challenges to reporting parties.

As noted in our response to Q1.4, to illustrate the challenges this creates for the industry, the GFXD has performed an analysis (see Annex I) which demonstrates the multiple reporting obligations faced in complying with US and EU reporting regulations.

We identify that an eligible trade could be required to be reported more than 14 separate times in Europe and the US (noting that this could increase if that trade has an Asian nexus too). We have also identified the reportable 'risk' fields for FX trades; again it is clear that these too are duplicated across each of those reporting obligations and not standardised in exact format and content. More broadly we note that, even for just the EMIR (Regulation 648/2012) trade reporting, MiFIR post-trade transparency (Delegated Regulation 2017/583) and transaction reporting (Delegated Regulation 2017/590), more than 120 separate fields are required.

Finally, the data must be reported to different bodies (e.g. trade repositories, competent authorities, public data feeds) using different channels. This increases the complexity and cost for reporting firms, with each recipient body putting in place its own requirements and interpretations.

Q1.10: Are there any negative environmental and/or social impacts related to supervisory reporting stemming from EU legislation? (yes, both environmental and social / yes, environmental only / yes, social only / no / don't know). If you answered 'yes' for either or both types of impacts, please elaborate and provide specific examples.

Don't know.

SECTION 2: QUANTIFYING THE COST OF COMPLIANCE WITH SUPERVISORY REPORTING REQUIREMENTS

Q2.1: Is supervisory reporting in its current form unnecessarily costly for its intended purposes (i.e. ensuring financial stability, market integrity, and investor protection)? (yes / no, it is at an appropriate level / don't know)

Yes.

Q2.2: To what extent have the following factors contributed to the excessive cost of supervisory reporting? Please indicate the relevance of the following factors by giving each a rating from 0 to 4 (4: contributed greatly; 0: not contributed at all).

i) **Too many requirements** - 4

ii) **<u>Need to report under several different reporting frameworks</u>** - 4
iii) **<u>Need to report to too many different entities</u>** - 4
iv) **<u>Lack of interoperability between reporting frameworks and/or between receiving/processing entities or supervisory authorities</u>** - 4
v) **<u>Need to report too frequently</u>**
vi) **<u>Overlapping requirements</u>** - 4
vii) **<u>Redundant requirements</u>**
viii) **<u>Inconsistent requirements</u>** - 4
ix) **<u>Unclear/vague requirements</u>** - 4
x) **<u>Insufficient use of (international) standards</u>**
xi) **<u>Need to introduce/update IT systems</u>**
xii) **<u>Need for additional human resources</u>**
xiii) **<u>Too many/too frequent amendments in the relevant legislation</u>** - 3
xiv) **<u>Lack of a common financial language</u>** - 4
xv) **<u>Insufficient use of ICT</u>**
xvi) **<u>Insufficient level of automation of the reporting process</u>** -4
xvii) **<u>Lack of (adequate) technical guidance/specifications</u>** - 4
xviii) **<u>Other (please specify and provide a ranking from 0 to 4)</u>**

<u>Q2.3: To what extent have the following types of legislative/regulatory requirements been a source of excessive compliance costs in terms of supervisory reporting? Please indicate the relevance of the following types of legislative/regulatory requirements by giving each a rating from 0 to 4 (4: very significant source of costs; 0: not at all a source of costs). Please elaborate and provide examples.</u>

i) **<u>Supervisory reporting requirements imposed by EU Regulations and/or Directives</u>** - 4
ii) **<u>Different Member State implementation of EU financial legislation, resulting in diverse national supervisory reporting requirements for the same financial entity/product</u>**
iii) **<u>National supervisory reporting requirements in addition to those in EU legislation for a specific financial entity/product</u>**
iv) **<u>Other supervisory reporting requirements in addition to those in EU legislation for a specific financial entity/product (please specify)</u>**

EU Regulations and/or Directives:

The FX market is the basis of the global payments system, and the BIS 2016 FX survey (http://www.bis.org/publ/rpfx16fx.pdf) showed that 65% of the market is cross-border. To illustrate the challenges this creates for the industry, the GFXD has performed an analysis (see Annex I) which demonstrates the multiple reporting obligations faced in complying with US and EU reporting regulations. We identify that an eligible trade could be required to be reported more than 14 separate times in Europe and the US (noting that this could increase if that trade has an Asian nexus too). We have also identified the reportable 'risk' fields for FX trades; again it is clear that these too are duplicated across each of those reporting obligations and not standardised in exact format and content. More broadly we note that, even for just the EMIR (Regulation 648/2012) trade reporting, MiFIR post-trade transparency (Delegated Regulation 2017/583) and transaction reporting (Delegated Regulation 2017/590), more than 120 separate fields are required. Given this multiplicity of reporting obligations, it is important that any eventual revisions to the EU reporting framework are considered in the context of an international market.

We believe that there are significant benefits to be gained for regulators and market participants globally in streamlining the relevant requirements. For instance, the complex and often overlapping regulations are extremely costly to build for and maintain, both for market participants and for regulators. In 2015, Sapient estimated that complying with the Commission Regulations in the US and EMIR in the EU reporting regulations cost firms $25 million on average, part of the cost being attributed to the difficulty of implementing a single business-wide solution to account for both regulations (study available here: [http://www.sapient.com/content/dam/sapient/sapientglobalmarkets/pdf/thought-leadership/Crossings_Spring2015_TradeReport.pdf)](http://www.sapient.com/content/dam/sapient/sapientglobalmarkets/pdf/thought-leadership/Crossings_Spring2015_TradeReport.pdf). With numerous other reporting regulations now in force globally, the costs for market participants continue to increase.

Q2.4: Does the obligation to use structured reporting (i.e. templates or forms in which specific data elements to be reported are listed) and/or predetermined data and file formats (i.e. (i) the exact way in which the individual data elements are to be encoded or (ii) the file format in which the information to be reported is exchanged/submitted) for supervisory reporting increase or decrease the compliance cost of supervisory reporting? (increases the compliance cost / decreases the compliance cost / does not impact the compliance cost / don't know). Please elaborate and provide specific examples to substantiate your answer.

Increases the cost:

Use of structured reporting and predetermined formats has the potential to greatly decrease reporting costs, if used in a standardised way between reporting obligations and across borders. However, currently the obligations on the industry often require differing fields and formats, and it is incredibly costly for firms to produce. In addition, the obligations often require that data is reported to different bodies, such as trade repositories, approved reporting mechanisms (ARMs) and regulators. Each recipient uses its own reporting channels and may make different interpretations of the requirements where there is a lack of specificity.

Therefore, we strongly support greater international coherence in this area, notably in conjunction with the current work being undertaken by the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commission (IOSCO) to define the meaning, formal and allowable values of reporting data fields. The work is focusing on the Unique Product Identifier (UPI), Unique Transaction Identifier (UTI) and over 100 other key data elements for derivatives. This will involve a commitment from regulators, including ESMA, that they will adhere to the CPMI-IOSCO Guidance that is due to be published in early 2018 whenever they require any of these data elements in their reporting rules.

Q2.5: Please specify the supervisory reporting frameworks to which you are subject (or, in the case of entities receiving and/or processing the data or supervisory authorities, which you deal with or make

use of) and estimate the cost (in monetary terms and as a percentage of operating cost) for your entity of meeting supervisory reporting requirements (or, in the case of entities receiving and processing the data or supervisory authorities, of processing the data). Please indicate whether the figures concern your entity as a whole or only a part thereof (i.e. a department, a subsidiary, a branch, a regional division, etc.).

i) **Subject to/deal with/make use of the following supervisory reporting frameworks**
ii) **Average initial implementation cost (i.e. one-off cost)**
iii) **Average annual running cost (i.e. recurrent cost)**

From the perspective of FX trading, GFXD members are required to report under MiFIR (Regulation 600/2014), MiFID II (Directive 2014/65) and EMIR (Regulation 648/2012). However, we are aware that firms as a whole are subject to far more requirements.

As a membership organisation, GFXD is unable to provide cost estimates for compliance, as these will vary by firm. However, as previously mentioned, in 2015, Sapient estimated that complying with the Commission Regulations in the US and EMIR in the EU reporting regulations cost firms $25 million on average, part of the cost being attributed to the difficulty of implementing a single business-wide solution to account for both regulations (study available here: http://www.sapient.com/content/dam/sapient/sapientglobalmarkets/pdf/thought-leadership/Crossings_Spring2015_TradeReport.pdf). With numerous other reporting regulations now in force globally, the costs for market participants continue to increase.

Q2.6: Which reporting frameworks contribute the most to the cost of compliance with supervisory reporting requirements? Please indicate as many frameworks as necessary and explain your answer.

The GFXD has no comments in response to this question.

Q2.7: Does your entity deal with supervisory reporting directly in-house or has this task been outsourced to an external provider?

The GFXD is a trade association and as such has no response to this question.

Q2.8: Please indicate the size of your entity's department dealing with supervisory reporting.

The GFXD is a trade association and as such has no response to this question.

Q2.9: Have any of the EU level reporting frameworks brought (or partially brought) cost-saving benefits (e.g. simplified regulatory reporting, facilitated internal data management processes, improved risk management, increased operational efficiencies, etc.)? (yes / no / don't know). If you answered 'yes', please indicate which frameworks, explain in what way they have contributed to cost-savings, and if possible quantify the savings (with respect to previous or other similar reporting frameworks).

No.

SECTION 3: IDENTIFYING POSSIBLE WAYS TO SIMPLIFY AND STREAMLINE SUPERVISORY REPORTING

Q3.1: Please indicate which of the following could reduce the compliance cost while maintaining a sufficient level of supervisory reporting to ensure that the intended objectives are achieved. Please select all relevant answers that apply. Please elaborate, in particular explaining how you believe the answer(s) you selected could be achieved in practice.

- **iv) Reduction of the number of data elements** - Yes
- **v) Clarification of the content of the data elements** - Yes
- **vi) Greater alignment of reporting requirements** - Yes
- **vii) Greater standardisation/use of international standards** - Yes
- **viii) Development of a common financial language** - Yes
- **ix) Ensuring interoperability between reporting frameworks and/or receiving/processing entities or supervisory authorities** - Yes
- **x) Greater use of ICT**
- **xi) Greater automation of the reporting process** - Yes
- **xii) Other (please specify)**

The GFXD strongly supports the Commission's decision to look at supervisory reporting from a holistic perspective in order to consider ways to simplify and streamline requirements.

We encourage the Commission, as a first step, to map out across EU financial markets exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors.

Once the full set of information requirements has been mapped out, it will be much easier to determine how this information can be gathered in the most efficient, accurate and cost-effective manner for both reporting parties and data participants.

Where possible, the GFXD would support a framework with a single, EU-wide data entry channel for the reporting of FX derivatives, with the intention that each data point is only reported once, in an explicitly defined and globally harmonised manner and format. This single data set should be combined with a regulatory process for allowing all relevant regulatory and supervisory bodies access to that data, to fulfil all the purposes the Commission has determined in the first step.

In order to work towards this single framework for FX derivatives, we recommend the following:

- Firstly, we would like to reiterate our support for an Entity-Based Framework – one in which sole responsibility for the accuracy of the reported data is assigned to one counterparty via an automated hierarchy system. This was outlined in our February 2017 joint association letter to the Commission (available at http://www.gfma.org/correspondence/item.aspx?id=887), following an earlier joint association letter in April 2016 (available at: http://www.gfma.org/correspondence/item.aspx?id=802). We believe that an Entity-Based Reporting framework is the optimal solution for reducing the burden on end-users and improving data quality.

  Data quality issues are often attributed to different interpretations of how the information should be represented. However, data quality issues are not generally due to inconsistencies between counterparties as to the material economic terms of trades. For mitigating the risk of such inconsistencies, there are already many well established and regulatory supported industry processes, such as trade confirmation and portfolio reconciliation. These processes show significantly lower levels of discrepancies than dual-sided reporting. They are also already regulatory requirements under EMIR. Industry best practices drive trade confirmation processes to take place as soon as possible after execution, whilst regulatory obligations require that trade confirmations must occur before the end of the business day following the date of execution of the derivative contract, and portfolio reconciliation is to occur up to each business day, depending on the number of contracts outstanding between the counterparties.

  Trade confirmation is a highly automated process and anecdotal feedback suggests that the vast majority of FX contracts are confirmed as soon as technologically practicable; the material terms are therefore agreed at this stage. This means that discrepancies between the counterparties' reports in a dual-sided system must be attributable so something other than disagreement over material economic terms, and we suggest that this is the lack of common, explicitly defined data fields as outlined below. An Entity-Based Reporting System should not, therefore, be held back by concerns of this kind relating to data quality.

  The move to an Entity-Based Reporting system would also have a positive impact on the ability of regulators to interpret data on a global level. If all trades were reported only once, there would be no discrepancies between different representations of a single trade. Combined with greater harmonisation of data standards on a global level (as outlined below), this would increase the ability of regulators to combine data sets and create a more accurate picture of global liabilities and trends.

- Secondly, we support global efforts to agree explicit definitions, formats and allowable values for all the data fields. A key challenge for global market participants and regulators is that the reporting obligations across regulations and jurisdictions are not consistent or explicitly defined, making it extremely difficult for regulators to aggregate and interpret, hampering efforts to oversee trading practices and counterparty exposures.

This lack of consistent and explicit definitions ranges from the fundamental (e.g. differences between regulations as to what constitutes a reportable event) to the detailed (e.g. the precise format of each data field). The latter is particularly challenging for market participants, who must interpret each set of requirements, resulting in data sets that are inconsistent, sometimes even down to how the same trade is represented by each counterparty. In some jurisdictions, efforts have been made to standardise data sets at the trade repository level. This is not a satisfactory solution as it adds cost and process when the problem could be solved at a regulatory level with explicit, globally harmonised requirements.

The FX market is the basis of the global payments system, and the BIS 2016 FX survey (http://www.bis.org/publ/rpfx16fx.pdf) showed that 65% of the market is cross-border. Therefore, we strongly support greater international coherence in data attribute definition, notably in conjunction with the current work being undertaken by the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commission (IOSCO) to define the meaning, formal and allowable values of reporting data fields. The work is focusing on the Unique Product Identifier (UPI), Unique Transaction Identifier (UTI) and over 100 other key data elements for derivatives. This will involve a commitment from regulators, including ESMA, that they will adhere to the CPMI-IOSCO Guidance that is due to be published in early 2018 whenever they require any of these data elements in their reporting rules.

- Thirdly, we encourage regulatory to work together to create a 'common data set' to form the basis of all reporting obligations. In order to produce a comprehensive set of guidelines, CPMI-IOSCO have consulted on the definition and format of well over 100 individual data fields. This far exceeds the needs of most regulators in their aims of risk oversight and detection of market abuse, and includes many fields that are only applicable in certain situations or to certain transactions. If regulators can agree a subset of these fields to be used across jurisdictions as a single 'common data set' for each reporting requirement, it will allow market participants to streamline their reporting and provide a data set that can easily be aggregated cross-border for effective market oversight.

  We note that this will require careful consideration of which fields are applicable to different asset classes, according to the characteristics of individual instruments and how they are traded in the market. For example, the latest CPMI-IOSCO consultation (available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD565.pdf) contains many different fields relating to the 'price' of a transaction and attempts to distinguish which will be applicable to different asset classes. It is more useful to mandate the 'exchange rate' field for a FX forward or the 'premium' field for FX option, than to have a single 'price' field with many allowable formats and values, as this may lead to different interpretations by market participants or inaccurate data due to a lack of stringent validation rules.

- Fourthly, where individual jurisdictions do require additional data beyond the global common data set, we suggest that these fields are carefully considered and in line with CPMI-IOSCO where possible. We understand that there will be instances where a regulator specifies additional fields for reporting that are not in line with other regulators. Where these have been standardised by CPMI-IOSCO, that Guidance, should be used. Where these fields are region-specific, we request that they are carefully chosen to add value without creating additional burden on market participants, and are only those necessary for meeting the regulator's statutory aims. This would also be an important area for market consultation.

- <u>Finally, we encourage the Commission to consider where there are opportunities to leverage other existing processes or data sets to improve global reporting</u>. For instance, we suggest that the global Legal Entity Identifier (LEI) framework should be developed as a central repository to improve overall data quality. Each reporting party has to gather and report a certain amount of data regarding each of its trading counterparties to meet various reporting obligations, for example their country of origin and status in relation to individual legislation, e.g., swap dealer. As a global database of entities, the LEI framework has the potential to be developed to store a common data set of basic counterparty information, incorporating these elements. Increasing the data elements linked to the LEI would allow the number of reportable fields to be reduced without impacting regulatory oversight, and would also reduce discrepancies between reports, with each entity responsible for maintaining their own data.

<u>Q3.2: 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.</u>

Very significantly:

As noted above in our response to Q2.1, a key challenge for global market participants and regulators is that the reporting obligations across regulations and jurisdictions are not consistent or explicitly defined, making it extremely difficult for regulators to aggregate and interpret, hampering efforts oversee trading practices and counterparty exposures.

The adoption of a global, common financial language would be extremely useful in this regard. For instance, the language generally used by the industry for trading derivatives is Financial Products MarkUp Language (FpML), whereas the standard generally used for reporting is ISO 20022. Currently, careful mapping is required between the two, and developments in each must be taken into account by the other. Moving towards a single financial language, developed in conjunction with the industry and existing standards, would prevent the need for mapping and reduce the capacity for individual interpretation of reporting requirements.

<u>Q3.3: 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.</u>

Very significantly:

As noted above in our response to Q3.2, development of a common financial language would prevent the need for mapping and reduce the capacity for individual interpretation of reporting requirements. This would reduce the need for additional processing of data and improve the quality of reports available to regulators.

Q3.4: Are there any prerequisites for the development of a common financial language? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

A common financial language must be developed in conjunction with the industry, and should build on existing industry developments, such as FpML, which is the language generally used by the industry for trading derivatives.

Q3.5: Are there any obstacles to the development of a common financial language in the short term (i.e. 2 years or less)? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. In particular, we note to the need to globally agree explicit definitions, formats and allowable values for all the data fields, leveraging existing industry developments where possible.

Q3.6: To what extent would ensuring interoperability between reporting frameworks and/or receiving entities help reduce the compliance cost of supervisory reporting? (very significantly / significantly / moderately / marginally / not at all / don't know). Please elaborate.

Very significantly:

For derivatives reporting, interoperability between reporting frameworks and receiving entities could be developed to the extent where firms could submit a single report which could then be used for different purposes and shared amongst relevant supervisors. This should be considered on a cross-border basis.

Q3.7: To what extent would ensuring interoperability between reporting frameworks and/or receiving entities 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.

Very significantly:

For derivatives reporting, use of an entity-based reporting system (as outlined in our response to Q3.1), combined with a single report for multiple purposes, would significantly improve data quality. As stated above, current data quality issues are often the result of the lack of common, explicitly defined data fields, and confusion between what is required for different reports. Were these issued to be addressed as we propose above, on a global scale, data management would be significantly improved, providing supervisors with much better quality data that could be more easily aggregated cross-border.

Q3.8: Are there any prerequisites for introducing greater interoperability between reporting frameworks and/or receiving entities? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors.

Q3.9: Are there any obstacles to introducing greater interoperability between reporting frameworks and/or receiving entities in the short term (i.e. 2 years or less)? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors. This may well be more of a medium-term project, given the scale and holistic view required, but would be more effective than short-term fixes to individual requirements.

Q3.10: To what extent would greater use of ICT help reduce the compliance cost of supervisory reporting? (very significantly / significantly / moderately / marginally / not at all / don't know). Please elaborate.

Very significantly:

This question is extremely broad, and as such is difficult to answer. New technological developments, such as Distributed Ledger Technology (DLT), have great potential for positive impacts on post-trade services in FX. For further detail, we refer to AFME's response to the Commission's 2017 consultation on Fintech (https://www.afme.eu/globalassets/downloads/consultation-responses/afme-tao--response-to-ec-consultation-on-fintech.pdf). However, as noted in our response to Q3.1, the greatest benefits would come from a holistic approach to supervisory reporting, which seeks to identify the most efficient, accurate and cost-effective approach. Where possible, the GFXD would support a framework with a single, EU-wide data entry channel for the reporting of FX derivatives, with the intention that each data point is only reported once, in an explicitly defined and globally harmonised manner and format.

Q3.11: To what extent would greater use of ICT 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.

Very significantly:

As noted above in our response to Q2.10, this question is extremely broad, and as such is difficult to answer. New technological developments, such as Distributed Ledger Technology (DLT), have great potential for positive impacts on post-trade services in FX. For further detail, we refer to AFME's response to the Commission's 2017 consultation on Fintech (https://www.afme.eu/globalassets/downloads/consultation-responses/afme-tao--response-to-ec-consultation-on-fintech.pdf).

Q3.12: Are there any prerequisites for the greater use of ICT in supervisory reporting? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

As noted above in our response to Q2.10, this question is extremely broad, and as such is difficult to answer. New technological developments, such as Distributed Ledger Technology (DLT), have great potential for positive impacts on post-trade services in FX. For further detail, we refer to AFME's response to the Commission's 2017 consultation on Fintech (https://www.afme.eu/globalassets/downloads/consultation-responses/afme-tao--response-to-ec-consultation-on-fintech.pdf).

Q3.13: Are there any obstacles to the greater use of ICT in supervisory reporting in the short term (i.e. 2 years or less)? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

In our response to the Commission's consultation on post-trade services (http://www.gfma.org/correspondence/item.aspx?id=970), we noted that the greatest benefits from the introduction of new technologies to post-trade services will be realised over the next 10 years, rather than as short-term fixes. This fits with our view, outlined in Q3.1 above, that the greatest benefits would come from a holistic approach to supervisory reporting, rather than shorter-term fixes.

Q3.14: To what extent would greater automation of the reporting process help reduce the compliance cost supervisory reporting? (very significantly / significantly / moderately / marginally / not at all / don't know). Please elaborate.

Very significantly:

GFXD members are subject to many different reporting obligations and have implemented automated solutions where possible, in order to preserve data quality and increase efficiency. However, challenges arise where firms are reliant on other sources for data. A particular concern for GFXD members at present is the lack of availability of certain 'golden sources' for reporting. For example, under MiFID/R, while ESMA maintains a list of Systematic Internalisers, it does not go down to individual product level, meaning that firms have to manually compile their own lists in order to implement logic for which counterparty has the responsibility to report a trade. Additionally, at MiFID go-live, ESMA was still compiling its list of trading venues and Systematic Internalisers, meaning that firms did not have access to a single list. Requiring each firm to produce their own reference data is an inefficient process which imposes an additional cost on each market participant.

Q3.15: To what extent would greater automation of the reporting process help improve the management (i.e. reporting and/or processing) of supervisory data required to be reported? (very significantly / significantly / moderately / marginally / not at all / don't know). Please elaborate.

Very significantly.

As outlined in our response to Q3.14, automation of certain remaining manual processes, such as the centralised production of 'golden sources' for certain attributes, would assist with data management. It would become easier for market participants to compile reports, and would reduce discrepancies between firms' data.

Q3.16: Are there any prerequisites for a greater automation of supervisory reporting? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors. This may well be more of a medium-term project, given the scale and holistic view required, but would be more effective than short-term fixes to individual requirements.

Q3.17: Are there any obstacles to a greater automation of supervisory reporting in the short term (i.e. 2 years or less)? (yes / no / don't know). If you answered yes, please elaborate and provide specific examples.

Yes:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors. This may well be more of a medium-term project, given the scale and holistic view required, but would be more effective than short-term fixes to individual requirements.

Q3.18: What role can EU regulators play in facilitating or stimulating greater use of ICT in supervisory reporting? (crucial / important / moderate / limited / no role / don't know). Please elaborate and provide specific examples of where and how you believe EU regulators could help.

Crucial:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors. This may well be more of a medium-term project, given the scale and holistic view required, but would be more effective than short-term fixes to individual requirements.

Q3.19: What role can EU regulators play in facilitating or stimulating greater automation of the reporting process? (crucial / important / moderate / limited / no role / don't know). Please elaborate and provide specific examples of where and how you believe EU regulators could help.

Crucial:

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors.

<u>Q3.20: What else could be done to simplify supervisory reporting while ensuring that regulated entities continue to fulfil their supervisory reporting requirements?</u>

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors.

<u>Q3.21: Can you provide any practical example of improvements to data management processes that could be applied to supervisory reporting with a view to reducing the compliance cost and/or improving the management of supervisory reporting? (yes / no). If you answered yes, please specify and explain your suggestions.</u>

Yes.

We refer to our response to Q3.1 above, which outlines our overall suggestions for improving supervisory reporting. We encourage the Commission to take a holistic view of reporting, mapping out exactly what information it requires from market participants, and for what purposes. This holistic perspective should be used to inform any review of reporting going forward, rather than looking at individual regulations, instruments and sectors.

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We appreciate the opportunity to share our views on this subject. Please do not hesitate to contact Andrew Harvey on +44 (0) 203 828 2694, email aharvey@gfma.org, or Fiona Willis on +44 (0) 203 828 2739, email fwillis@gfma.org, should you wish to discuss any of the above.

Yours faithfully

James Kemp
Managing Director
Global Foreign Exchange Division, GFMA