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Data and reporting

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Good morning Ladies and Gentlemen,

I would like to thank the organisers of this event for inviting me today.

The key themes of this morning's discussion relate to data and the continuous work to improve quality and availability of data in the context of both supervisory reporting and financial reporting, to ensure more transparent and stable financial markets. ESMA has these objectives at the forefront of its work.

In the spirit of this conference, I will first discuss ESMA's data strategy. I will then briefly guide you through the relevant international developments related to data issues to which ESMA is actively contributing. Next, I will present our current work on reporting under SFTR where we are actively working on turning the data into intelligence for authorities and useful information to the public.

Finally, I will outline some practical examples of the use of data by ESMA and the national authorities for supervisory purposes.

ESMA's data strategy and ongoing work on standardisation

Data has become the fuel of today's economy. Most of the decisions made today require data. Data has changed radically our lives compared to one or two decades ago. The advances in information technologies have created a highly data-intensive environment and revolutionised business models, including in the financial sector.

Data is however a fuel which still requires a lot of refining. High data quality has been a purposeful objective for many authorities and private entities.

As a central EU authority for supervisory reporting, ESMA has set out a data strategy to ensure alignment of the different functions and objectives that the EU legislative framework has granted to ESMA.

Let me present you in a nutshell, the different faces of our data strategy.

As a data regulator, ESMA together with national competent authorities, pursues the following objectives:

(i) increased data standardisation, both in terms of contribution to the development and to the implementation of internationally agreed codes such as LEI, UTI and UPI, but also in terms of promotion and adoption of international reporting standards such as ISO 20022 XML and XBRL;

(ii) elimination of duplicate or overlapping reporting; and

(iii) streamlining of data submission.

As a data user, and with a view to ESMA's mandates to monitoring of financial stability in the EU and supervision of trade repositories, ESMA is working towards:

(i) the development of a financial data dictionary;

(ii) the enhancement of the internal data capabilities in terms of staff and systems;

(iii) the growth of data exchange with other EU institutions; and

(iv) the development of EU wide supervisory methodologies for data analysis.

Furthermore, ESMA manages several systems that facilitate the access to or the exchange of data between authorities. ESMA plans to further strengthen these capabilities.

Finally, ESMA's activities as data publisher are probably the most visible ones for stakeholders, as they encompass:

(i) the publication of quarterly risk-monitoring reports, bi-annual financial stability reports, and since last year annual statistical reports using regulatory data;

(ii) the maintenance of multiple EU-wide public registers; and

(iii) the provision of market-wide calculations required to perform transparency and authorisation assessments, to name a few - double-volume cap, ancillary activities, calculations to determine pre-trading transparency requirements, systematic internalisers and credit ratings.

Let me now share with you a specific example of ESMA's approach to data as a publisher. MiFIR establishes that investment firms should test quantitatively whether they qualify as systematic internalisers for some financial instruments when compared to the overall EU trading activity in that instrument. Upon request from market participants and to support these tests, ESMA started publishing EU-wide measures of market activity, based on the information it collects to execute its transparency calculations. Therefore, by reusing data already available in-house, ESMA aimed to improve the compliance of market participants.

Whilst the last few years have been extremely productive and we have seen important advances in enhancing the transparency of EU markets, we are also aware that there is significant room for improvement. While ESMA is and has been giving a high priority to the work on data and there has been considerable progress at EU level, we know that there is still a long road ahead of us towards achieving high-quality data.

International work and application in the EU

A clear example of the efforts to achieve better quality of data are the codes for identification of entities, transactions and products, i.e. the LEI, UTI and UPI. LEI and UTI have become part of the industry jargon and UPI will join them soon.

The EU has been a key global jurisdiction in the development, introduction, implementation and use of those identifiers. This can be easily confirmed by the colossal proportion of LEIs for EU entities compared with the rest of the world. As of the end of May this year, we can praise ourselves that more than 68% of the LEIs (945K out of 1,5M) issued across the globe pertained to EU entities. The flip side of this good European progress is that many major jurisdictions outside the EU are still lagging behind and this hampers the outcome of the joint effort for more transparent financial markets.

SFTR reporting

Now let me move to the Securities Financing Transactions Regulation (SFTR), another example of how our data strategy is being implemented in practice. The implementation of SFTR in the EU is one of the final pieces in the post-crisis efforts by global regulatory authorities to bring what used to be known as “shadow banking activities” into the light and transform these activities into resilient market-based finance. SFTR is the most far-reaching and encompassing legislation, in terms of types of SFTs and counterparties, among all the global jurisdictions committed to contributing to the FSB data collection.

SFTR covers the reporting of repos, buy-sell backs, securities lending and margin lending transactions and it leverages on the pre-existing market infrastructures, such as trade repositories. Based on our data strategy, and on all the experience gathered in recent years in implementing extensive reporting frameworks such as EMIR and MiFIR, we modelled the SFTR data around four major data building blocks – counterparty, loan and collateral, margin and reuse data, sustained by pillars such as LEI, ISIN, UTI and ISO 20022. These building blocks aim at representing the business rationale and underlying economic drivers of the SFTs.

SFTR has been established as the first end-to-end ISO 20022 XML reporting regime. Counterparties reporting, data validations, reconciliation and data access – ISO 20022 XML messages are used to enhance data quality, streamline processing and standardise data access. Stemming from our data strategy, we put much emphasis on data quality and in particular on the multi-step verification of correctness and completeness of the reports. Learning from the EMIR experience, ESMA defined the key operational aspects of the reconciliation process and more specifically the format and timeline of the inter-TR reconciliation process in greater detail under SFTR.

SFTs are also closely related to the banking sector and the implementation of monetary policy. As such, ESMA worked hand in hand with central banks in developing SFTR technical standards, ensuring that their data needs are covered whilst benefiting from their knowledge of SFT markets.

Following the positive experience with MiFIR guidelines on reporting, ESMA has recently published draft guidelines and validation rules on SFT reporting which are available for public consultation until 29 July. The guidelines provide inter alia a large number of use cases covering the relevant sections of the reporting tables. However, detailed use cases, validations and reconciliation only address one part of potential data quality issues. Another part is ensuring that relevant feedback is communicated by Trade Repositories on a timely basis to market participants. The specification by ESMA, in accordance with the ISO methodology, of the feedback messages will facilitate the processing of the responses by the reporting entities, streamline reporting and, we expect, improve the quality of data.

SFTR also entrusts ESMA with the registration and supervision of EU-registered Trade Repositories, and the recognition of third-country ones. This will be done in accordance with enhanced registration requirements, covering aspects also related to cyber risks.

ESMA will organise an open hearing in the afternoon of 15 July to discuss the guidelines. However, I wanted to flag the importance of your input on areas such as the full or partial submissions, the timeliness of reporting, the sequence and dependencies between the action types, the reporting in the phased-in period, the correct identification of issuers and securities, the calculation of haircuts as well as the detailed reporting examples.

SFTR is a multifaceted reporting regime and will require important market preparation. If you have not started yet, you should not further delay. Now is the time to get ready.

Data uses

Let me offer a few examples of how data are being used. The implementation of post-crisis transparency requirements has made a wealth of information available to regulators and central banks. As the authority in charge of implementing many market-wide data standards, ESMA is in a unique position to exploit this information.

First, I would like to draw your attention to our on-going efforts to bring information to the investment community and the broader public. In addition to our regular risk reporting outlets, we have launched a series of annual statistical reports that aim to publish summary information using supervisory data. The first ESMA annual derivatives report highlighted last year that the size of the EU derivatives markets amounted to €660 trillion in gross notional outstanding.

In addition, authorities increasingly rely on EU-wide quantitative information for their supervisory activities. For example, information reported under AIFMD is used to monitor the alternative investment fund market. A recent ESMA annual statistical report based on AIFMD data highlighted a high degree of liquidity mismatch within some real-estate funds. Supervisory cooperation has improved too, as illustrated in ESMA's recent work on "closet indexing", a practice whereby some investment funds replicate an index while charging large fees normally justified by active stock-picking. Through data analysis, ESMA identified a number of potential closet-indexers, leading to supervisory follow-up by the national authorities in charge.

Third, quantitative information is increasingly used as a key input for policy decisions. One example is the derivatives transactions data reported under EMIR, used to determinate which classes of derivatives should fall under the central clearing obligation. In a similar vein, bans on dark pool trading and some of the transparency obligations are now the result of recurring calculations performed by ESMA, using MiFID II supervisory data reported by EU trading venues.

Finally, a wealth of standardised information has enabled cross-border data exchanges between authorities, contributing to supervisory convergence across EU Member States. ESMA systems allowing for encrypted information exchanges on individual transactions across countries (the so-called TREM system) has empowered authorities, allowing them to pursue more effectively market abuse cases.

When it comes to future SFTR data, there are high expectations that this will allow authorities to gain greater insight into SFT markets. In addition to financial stability monitoring, central banks will be able to rely on it to inform their monetary policy decisions. Prudential supervisors will more easily oversee the risks entailed by the liquidity and maturity transformation that can result from SFTs. Regulators will also use the reported information to calibrate future potential regulatory requirements, such as the implementation of the FSB haircut floors on non-centrally cleared SFTs. Moreover, authorities will be able to closely assess the build-up of leverage and interconnectedness in the financial system, as well as monitor the close links between interest rate swaps and repos.

SFTR will also shed light on the reuse of securities and the reinvestment of cash collateral made by market participants and will enable authorities to better monitor the so-called collateral velocity.

As I hope I have made clear, large amounts of data now sit within securities markets regulators. Unfortunately, the development of analytical capabilities has lagged, mainly due to the limited resources available at both EU and national level. This has hampered a more widespread reliance on quantitative information, which has not been exploited so far to its fullest extent.

Hence, building up analytical capabilities both at national and EU level should be a priority in the years ahead.

Conclusion

Ladies and Gentlemen, ESMA truly believes in a proactive and holistic approach to standardise data reporting, streamlining the existing processes and ensure the highest standards of transparency and data quality in the EU, while reducing the reporting burden for market participants.

Moreover, following the continuous engagement and interaction with the reporting community ESMA has established itself as a major EU supervisory reporting standard-setter, as a key global authority in the data reporting arena and as a front-runner in the digitalisation of financial reporting.

I am convinced that the supervisory community, both at a global and EU level, as well as all the stakeholders involved have been and will be actively working towards increasing the value of the data reported, both for the entities and the authorities.

We therefore intend to leverage on fora, as the ISLA Annual Securities Finances and Collateral Management Conference, to continue the dialogue and the exchange of information to improve market transparency, increase the quality and use of data and facilitate the monitoring of financial stability.

Thank you for your attention.