Ladies and Gentlemen,

- It is my pleasure to be with you today at AFME’s 5th Annual European Compliance and Legal Virtual Conference. Thank you for the invitation to speak.
- Today I would like to share with you ESMA’s key priorities in relation to data.
- Market participants often complain that the data requested by authorities is too costly and not properly or sufficiently used by the supervisory community.
- I want to demonstrate to you that in the EU, and at ESMA, we are committed to making the best use of available data and to facilitate harmonisation and data quality enhancements to the benefit of all – reporting entities and supervisors. However, before that, allow me to give you a quick overview of ESMA’s priorities for 2022, published last week.

**ESMA’s 2022 priorities**

- For 2022 we have put together an ambitious work programme that aims to respond to the challenges faced by the EU, its capital markets, and its investors.
- Among our key priorities, we will support the Commission’s efforts in three major cross sectoral projects: the Capital Markets Union, the Sustainable Finance agenda and the Digital Finance package.
- An essential element is the support to the development of European capital markets, notably through our work on the retail investment strategy and our contribution to initiatives aimed at facilitating access to public markets.
- ESMA will contribute to building a comprehensive sustainable finance framework across the entire value chain with a focus on promoting investor protection, financial stability and the orderly transition to a more sustainable economy.
- And we will continue to prioritise analytical work around innovation to keep up with market developments and assess their impact, with a view to realising the underlying
opportunities offered by digitalisation and innovation to the financial sector, while containing any potential risks.

- 2022 will also be a year of change for ESMA as a supervisor. From January next year ESMA, in addition to credit rating agencies, trade and securitisation repositories, and systemic third country CCPs, will become the supervisor of critical benchmarks administrators and data reporting service providers (DRSPs).

- ESMA will continue building up its role as an EU capital markets data hub. The use of a Big Data solution and data analytics will leverage on the standardised data collected and will further enhance cooperation, coordination of priorities and timely follow up on identified supervisory issues.

- We will of course actively contribute to the EU’s policy agenda on financial services through single rulebook and supervisory convergence work. Specifically in the context of the MIFID II review that you will be discussing later, ESMA has published a series of detailed review reports to inform the European Commission, and the co-legislators, on the legislation’s actual impact and where we think it can be improved.

- One of the key findings around market structure is that MiFID II would benefit from less complex and more effective rules. In particular, we have identified three main areas for improvement:
  - Firstly, we recommended to simplify the complex waiver and deferral regime for non-equity instruments to improve the level of transparency;
  - Second, we aim to address some of the data quality deficiencies, in particular with respect to the reporting of non-price forming transactions, in the RTS 1 and 2 review;
  - Third, and this is closely connected to the two previous points, we recommended the establishment of a real-time post-trade consolidated tape for equities and bonds. High data quality and an effective trade transparency regime are the preconditions for the successful establishment of a consolidated tape; and
  - In addition, further centralisation of transaction reporting to ESMA with the supervision of data reporting service providers will increase the efficiency of data sharing among National Competent Authorities (NCAs). It will reduce duplication of reporting processes and increase consistency in the data format and validations performed across the EU, enhancing the overall quality of data reported by ARMs and published by APAs.

**Data standardisation supports effective supervision and reduces costs**

- Let me now turn more specifically to the topic of data. Data and digitalisation bring many opportunities for consumers, financial institutions and regulators. They also pose many challenges.
• I would like to shed some light on how ESMA is addressing these challenges, and to outline how we seek to contribute to more efficient capital markets and enhanced supervision through data.

• In recent years, data has become a central element to financial regulation and supervision. Detailed reporting requirements now constitute a key component of financial sector legislation. MiFID, EMIR and SFTR, among others, have set the basis for more granular transaction reporting. Data is now key to regulators in fulfilling their mission of maintaining financial stability and orderly markets as well as ensuring investor protection.

• However, this remains a journey. ESMA intends to play its part. As I mentioned earlier, several entities have raised valid concerns about the increase in reporting requirements and corresponding compliance costs. We acknowledge the costs and implementation challenges faced by market participants, but we believe that ultimately EU wide high-quality data will benefit all stakeholders (market participants, regulators, policy makers, academics and investors).

• One important way to reduce compliance costs, and to ensure effectiveness of the reporting framework, is to engage early in the process with industry participants to identify and address potential implementation concerns. In our discussions with market participants, implementation costs are a recurring theme, although in very few instances were those clearly specified.

• Moreover, we continue observing a siloed approach at industry level. A few years ago, ESMA established a single Standing Committee covering all data reporting issues. Together with the NCAs, this committee has started to work towards the standardisation and harmonisation of reporting requirements. This has a clear objective – to allow entities to report the same information in the same way no matter which regulation they need to comply with.

• The use of globally agreed standards for identifiers such as LEI, UTI, ISIN and UPI is an essential part of it.

• An important qualitative improvement has come also from the use of ISO 20022. It contributed to increased quality of data through standardisation of data formats, data flows and automation of exchanges between all the involved entities.

• ESMA thus encourages firms to take a company-wide, rather than a regime-specific approach to reporting. ESMA is committed to further engage with market participants to discuss ways to streamline and simplify the reporting flows and requirements. ESMA is also willing to work together with relevant market participants to leverage on new technologies to develop alternative cost-effective ways in which data can be made available to authorities, as I will explain later.

• To give you an example on streamlined regimes, the SFTR reporting go-live in July 2020, although taking place during the pandemic, was seamless and showed the benefits that the standardisation and harmonisation of reporting flows and requirements can bring for counterparties, authorities and the market.
• The experience gathered so far also helped us in shaping the amended EMIR reporting requirements which set up a consistent, seamless and straight-through reporting of derivatives.

Data Quality remains a high priority

• At this point it is important to emphasise the extensive data quality work undertaken by ESMA.

• Quality is a precondition for the data to be used by ESMA and national authorities and has been identified as one of the two Union Strategic Supervisory Priorities.

• Allow me to mention a few examples of how the data collected is used:
  – Data-driven policy making e.g., the MIFID review reports, clearing obligation, position limits, transparency calculations, etc;
  – Monitoring of risks to financial stability in the EU e.g., EMIR and SFTR data are an integral part of ESMA’s and NCAs toolboxes to monitor markets and support markets stability and integrity;
  – Market abuse/market integrity monitoring;
  – Assessing risks at macro levels – sectors, products, etc;
  – Assessing risks at micro levels – build-up of leverage, exposures and interconnectedness;
  – Analysing close links between derivatives and securities financing transactions (repo and IRS); and
  – Looking into collateral transformation and velocity

• It is crucial that the outcomes and decisions based on the relevant data are not negatively impacted by their poor quality.

• Ensuring data quality is a project which requires contribution from all key stakeholders. Reporting participants need to ensure that the data they report is correct and complete. Trade Repositories (TRs) need to ensure that the data is appropriately stored, maintained and reported to the users of the data. Finally, ESMA and the NCAs need to proactively monitor the quality of the reported data and follow up with their supervised firms.

• ESMA and the NCAs have in place data quality engagement frameworks and action plans for EMIR, MiFID II/MIFIR, SFTR and AIFMD.

• There has been a notable improvement in the quality of the data over the years. For example, TRs have been providing more stable service to users and the pairing rate\(^1\) of reporting participant data has been increasing. However, more effort is required.

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\(^1\) Pairing refers to the part of the reconciliation process where 3 key fields (IDs of the two counterparties and a trade ID) are successfully reconciled for both legs of the reported derivative.
• ESMA’s recent EMIR and SFTR data quality report highlighted several persisting issues in areas such as data not reported by counterparties, timeliness of reporting, reporting of valuations and reconciliation. The issues that have been highlighted in the report will be among ESMA’s and NCAs future key areas of focus.

• In addition, ESMA brings value to other authorities in data processing. Since EMIR’s go-live, ESMA has significantly automated the monitoring and detection of supervisory issues and has built extensive analytical tools and experience as part of its TR supervisory mandate and has begun leveraging those tools to provide support to NCAs via execution of data quality tests on their behalf. This provides several advantages:
  – It allows NCAs to reap benefits from the data without having to build those tests themselves in their systems;
  – it enhances the sharing of experience with those NCAs that have not developed extensive expertise in this area; and
  – it allows NCAs to free time and resources to follow up with their counterparties to remediate observed issues.

New technologies bring new potential

• Looking ahead, it is clear that new technologies bring new potential.

• Financial markets have been significantly affected by new technologies in recent years. The use of digital channels in financial services has been increasing, financial institutions have been deploying new technologies and business models are evolving.

• New technological trends, particularly RegTech and SupTech, will have an important impact on the way supervisory data is generated by reporting entities, provided to the authorities and used by them.

• ESMA follows these developments closely. These technologies may well help address the concerns I referred to earlier related to the cost and the complexity of implementing new supervisory reporting systems.

Machine readable and executable regulation

• One of the ideas that is being closely looked at by market participants and authorities is the concept of machine readable and executable reporting. The underlying idea of this technology is to describe regulatory reporting requirements using a computer code which, unlike legal text which regulators use now, can be easily implemented in the reporting systems.

• While there are still many aspects to be assessed further, this could bring down the cost for reporting entities, reduce mistakes related to misinterpretation of regulatory needs and, consequently, improve the quality of data for the authorities.

Distributed ledger technology (DLT)

• Another development we closely follow is the Blockchain and distributed ledgers (DLT).
• The DLT pilot regime proposed by the European Commission last year introduces a common EU-wide approach to crypto-assets. It also envisages that market participants could operate DLT-based market infrastructures. The DLT can bring significant benefits by modernising trading and settlement processes. It can also become an enabler of a new approach to supervisory reporting.

• Today, supervisory data is being sent by market participants to authorities. With the DLT, it could be possible to change this process in a way that authorities, like ESMA, could have direct access to the distributed ledgers and could monitor transactions data in real time. This would reduce the compliance cost for market participants and, at the same time, give more flexibility for the authorities with respect to what data and when they would like to see it.

**Big Data and Artificial Intelligence**

• A trend we have been observing recently is the exponential growth of data.

• Authorities have been gaining access to new data sources either through the new reporting regimes or by directly accessing it on the internet. With the growing volumes and complexity of data from different sources, new technologies, like Big Data and Artificial Intelligence, are becoming necessary to derive actionable information from the data.

• At ESMA, we also develop our competences and tools. Last year, we started the implementation of a new Big Data IT platform and we will use it to analyse, among others, transaction data which we will receive for the supervision of data reporting services providers. We believe that the new tools will allow us to get the most value out of data we have available.

**ESMA data strategy**

• The Commission has been working on a supervisory data strategy for EU financial services, following its fitness check exercise. We welcome this initiative and expect this strategy to provide more details and specific actions to drive supervisory reporting in the future.

• Currently, ESMA is also starting the work on its new data strategy. We want to thoroughly consider what objectives we need to set, what actions we need to undertake and what capabilities we need to improve to ensure that we can explore the full potential of data reported to authorities in an efficient manner. Efficient not only from our perspective, but also for market participants and national authorities.

**Closing remarks**

• Ladies and gentlemen, as you will have heard, data is a key priority for ESMA in 2022 and beyond, and we are putting every effort into enhancing data-driven policy making and supervision in the EU. I must also highlight that these efforts are conducted in close coordination with NCAs, who are key to achieving high quality data delivery.
• ESMA believes in a proactive and holistic approach to standardise data reporting, to streamline the existing processes and to ensure the highest standards of transparency and data quality in the EU, while reducing the reporting burden for market participants.

• I hope that you now have a better view of our data priorities for 2022. This concludes my introductory remarks. Thank you for your attention.