

Shine a light

Data standardisation is a pre-requisite to improving transparency and aggregation.

The drive for transparency and stability in financial markets is supported by a myriad of industry guidance, market rules, and international and national regulations. Harmonisation of data and processes, based on international standards, is also playing a key role in supporting these over-arching objectives.

The regulatory response to the financial crisis has been very far reaching. Overall, we have witnessed a significant increase in the oversight and regulation of financial institutions by national governments as well as the introduction of regional and global regulatory initiatives aimed at increasing transparency and reducing risks in global financial markets. Supervisory and rule-setting bodies ranging from the Financial Stability Board and the Basel Committee on Banking Supervision to the Financial Action Task Force have variously drafted new frameworks governing banks' capital and liquidity levels, derivatives trading, clearing and reporting, the prevention of money laundering and terrorist financing, benchmark-rate setting, and market infrastructure risk and default management, to name but a few.

For regulated financial institutions, the result has been a torrent of requirements to understand, implementation deadlines to meet and data to collect, monitor and report. Both the regulators

and the regulated are in agreement that standards have a critical and very practical role to play in ensuring new rules can be implemented in a timely, comprehensive and effective way. But we are now seven years on from the collapse of Lehman Brothers that precipitated the crisis. Which standards are helping and how? Is it all still talk, or are there tangible results and valuable outcomes?

25 local operating units (LOUs) endorsed by the ROC to issue LEIs and maintain the associated reference data. "The global framework built up around the legal entity identifier is an excellent example of a public and private collaboration on a global scale. Today, the global implementation of a single standard for the LEI, under a single oversight, governance and operating model, is a reality," says William Hodash, managing director for business development at the Depository Trust & Clearing Corporation, the US post-trade utility, who has been instrumental in establishing the Global Markets Entity Identifier (GMEI) utility together with SWIFT. The GMEI utility has issued some 190,000 of the 390,000 LEIs issued so far. "LEIs issued by any of the endorsed LOUs anywhere in the world are issued under the same operating principles and are accepted by all regulators that have recordkeeping and reporting rules requiring reporting parties and counterparties to be identified by LEIs," says Hodash.

GLEIF's Wolf points out that the LEI is being increasingly widely adopted, as a result of national and regional implementations of regulation. He sees two additional dimensions to the future development of the LEI. First, more uses are being found for the existing identifier, way beyond its early adoption in trade



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"A public good"

The publication of ISO 17442: 2012, the standard for the financial services legal entity identifier (LEI), was an early success. For the first time, the industry has a common, internationally agreed standard for identifying legal entities, using a unique 20 digit code. This makes it possible to accurately associate, aggregate and process data based on a legal entity owner, without the need to check name variations. Stephan Wolf, CEO of The Global Legal Entity Identifier Foundation (GLEIF), explains: "The LEI is not the goal in itself, but it helps to get transparency into the market. It's a public good." A governance framework and a Regulatory Oversight Committee (ROC) have been set up under a strictly neutral and federated charter, endorsed by the Financial Stability Board. GLEIF coordinates some

reporting for OTC derivatives. For example, the European Insurance and Occupational Pension Authority has mandated the use of the LEI for all its reporting requirements by end-June 2016. "Another important step currently under consultation is the extension of the LEI to include hierarchical information (direct parent and ultimate parent), ensuring even deeper transparency," he says. This information is sought by regulators and others too. "Risk and compliance managers at banks are also very interested in this information," says Wolf.

Re-using existing standards

Collecting the data needed for market oversight and transparency is only part of the story. Aggregating and analysing the increasing volumes of transaction data now being reported is a challenging task for regulators and others - and international standards are critical to achieving this.

Next year, The European Central Bank (ECB) will start to receive daily reporting of money market transactions, initially from the 53 largest institutions in the euro area. The reporting requirements cover the whole spectrum of money market instruments - secured and unsecured,



FX swaps and overnight index. "Our objectives for this reporting are for the ECB and other euro area central banks to have a clear understanding of the effect of monetary policy transmission mechanisms (for example, how changes in interest rates are feeding through) and to increase the overall transparency in the money markets", explains Jean-Marc Israël, head of division, monetary and financial statistics at the ECB. Until now, the ECB has only had annual reporting of full second-quarter money markets data, published with a three month lag, so this daily reporting closes an important gap.

Re-using existing international standards is fundamental to the project, explains ECB business project manager Josep Puigvert. "The reporting is based on an ISO 20022 XML schema and some 90% of the metadata elements are already in use by the reporting agents," he says, adding that this has greatly eased not only the development of the project, but also its acceptance in the market. "The market will have access to the aggregated data in the future, so there are real benefits for participants in terms of greater visibility and transparency." ■

ESMA backs ISO 20022 for MiFID reporting

The European Securities and Markets Authority (ESMA) has published its final report on regulatory technical standards for the second Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation (MiFIR). With assistance from external consultants, ESMA has conducted a study to assess which technical format is most appropriate for the transaction and reference data reporting under this regulation. Following the results

of the study it has been concluded that ISO 20022 is most suitable due to the high level of compliance with envisaged legal requirements as well as its performance and extensibility capability. Based on the feedback to a public consultation paper, as well as results of the above study, ESMA has decided that transactions and instrument reference data should be reported under MiFIR in a common XML format and in accordance with ISO 20022 methodology.