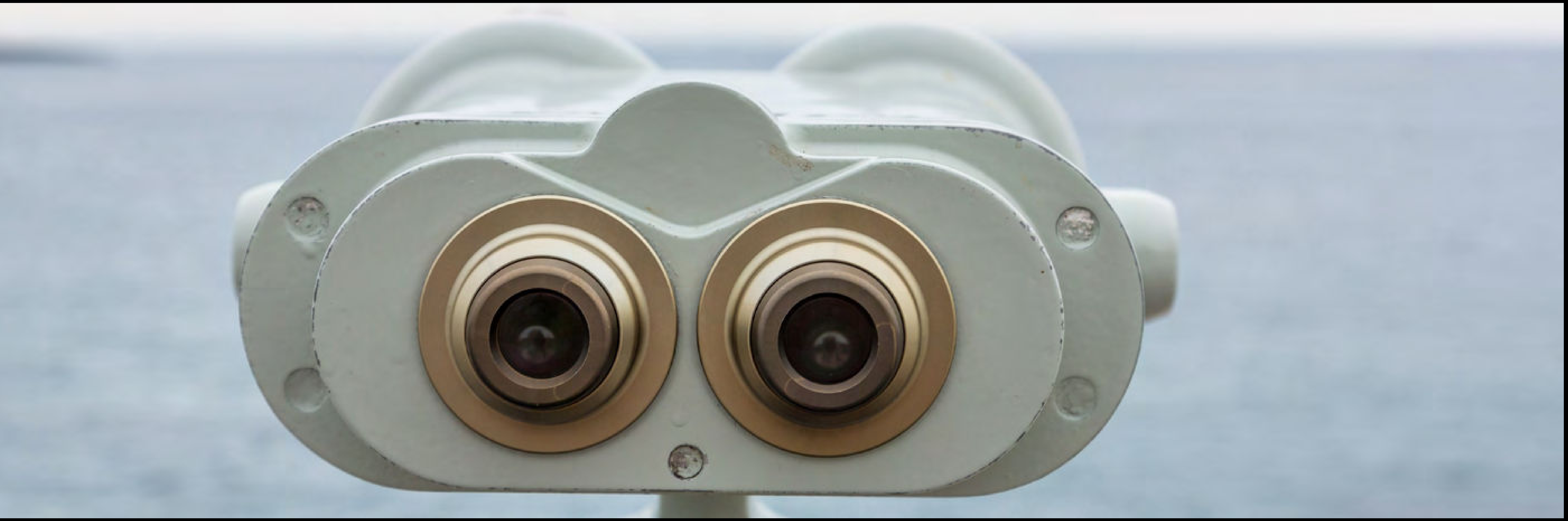
Cappitech Newsletter

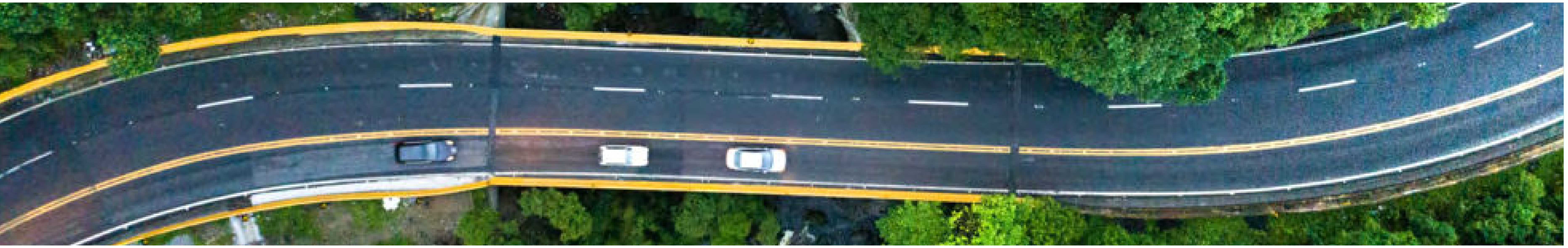
Third Quarter 2023

S&P Global
Market Intelligence

What's inside this issue?



Charting our course: New brand, same priorities



In September we completed our rebrand. As we considered how the market, and our offering, needed to evolve, we are now pleased to share that we will be known as Cappitech, retaining part of our proud heritage, but boosting it with expertise and support of the S&P Global Market Intelligence business. Our rebrand is a result of our efforts to integrate the regulatory reporting businesses of Cappitech and IHS Markit under S&P Global Market Intelligence, while keeping the best of each to provide a premium full suite of products for our large and small customers worldwide. We invite you to watch our latest video that encapsulates our essence.

We are proud of the journey we've undertaken. Our solution is seamless, multi-jurisdictional and intuitive and it is increasingly being used by our customers for multiple regulatory reporting regimes. We will continue this unwavering commitment to best-in-class technology, talent and products to create innovative solutions for our customers and growth for ourselves. Thank you to each one of our customers and partners for your support – none of this would be possible without you!

Looking ahead

Core to our current success has been the creation of a solution that is technologically advanced, user-friendly and unified across our platforms, with constant upgrades and enhancements. However, of equal importance is staying ahead of changing regulations. To recap, in 2024 alone, the market will be implementing regulatory changes such as EMIR REFIT (EU and UK), JFSA Rewrite, CFTC Rewrite Phase 2, SEC 10c-1, and updates to both ASIC and MAS. We cannot emphasize enough how important it is to prepare now to ensure that implementation will be pain-free next year.

We're also constantly thinking about data quality. It's mission critical that regulatory reporting data must be accurate, reliable and relevant. Regulators continue to focus on the importance of data quality as a way to support their efforts to improve financial market stability. This means data quality has become of paramount importance to our customers, and to us. It has driven some of our work, such as our constantly expanded reconciliation options to help our customers to check and validate their data. We will continue to prioritize this.

I'm excited about where we are as a business and the milestones we are meeting. Our team is continually advancing, collaborating closely with our customers to enhance our services. We aim to ensure that we assist them in delivering accurate, timely, and consistently reliable regulatory reporting that suits their needs.

Pierre Khemdoudi
Senior Vice President
and Head of Regulatory Solutions,
Network & Regulatory Solutions,
S&P Global Market Intelligence

North American Regulations

We are about 1 month away from the 2-year anniversary of SEC's security lending transparency proposal titled SEC 10c-1. In our previous publications on this topic, we discussed what the proposal meant, how it could potentially impact the market and what we could learn from the SFTR implementation process. When the proposal came out, the industry still had quite a few questions, and what is clear is that the market will not be able to get any clarity until the final rules are made official. Based on the SEC regulatory agenda, there is an expectation that the final rules will come out before the end of 2023.

As a refresher, the proposal's aim is to enhance transparency in the securities lending market. It includes several key provisions:

- Lenders and lending agents would need to report to FINRA
- Reporting requirements is in Real Time (15 minutes)
- Single sided reporting (unlike SFTR)
- 12 data fields to be reported

As evident from the responses to the proposal, two prevalent themes emerged, to which respondents expressed strong opposition:

- The real time aspect
- Scope of participants that need to report

While the industry waits for a resolution on some of the key open questions and a final rule, Cappitech is actively speaking with trade associations and market participants about the impact of these rules.

Just as IHS Markit's SFTR solution (now part of S&P Global Market Intelligence Cappitech) brought the stock lending and repo communities together to create a customer led reporting solution for SFTR in 2018, we will adopt a similar approach for SEC 10c-1. From collaborating with the agent lenders, brokers and asset managers during the SFTR design and implementation process, we were able to create a solution fit for the industry. Drawing from experience, we believe that the right approach to addressing new regulatory changes is through collaboration with key market participants, while leveraging our expertise. Furthermore, it will be interesting to see how much of SFTR can be leveraged once the final rules are published. Many of the workflows and connections to submit SFT data are already in place between customers and S&P, but further analysis would be needed to bridge the gap to help clients solve for their SEC 10c-1 requirements.

Cappitech today is the largest solution provider in trade and transaction reporting globally serving over 550 customers across 14 different regimes. We are committed to providing the best in case technology, regulatory expertise and customer experience in the regulatory reporting space and will do so for the SEC 10c-1 requirements.

Cappitech's sole mission is to help customers meet their regulatory reporting obligations and ensure the reporting happens in a Complete, Timely and Accurate (CAT) manner.

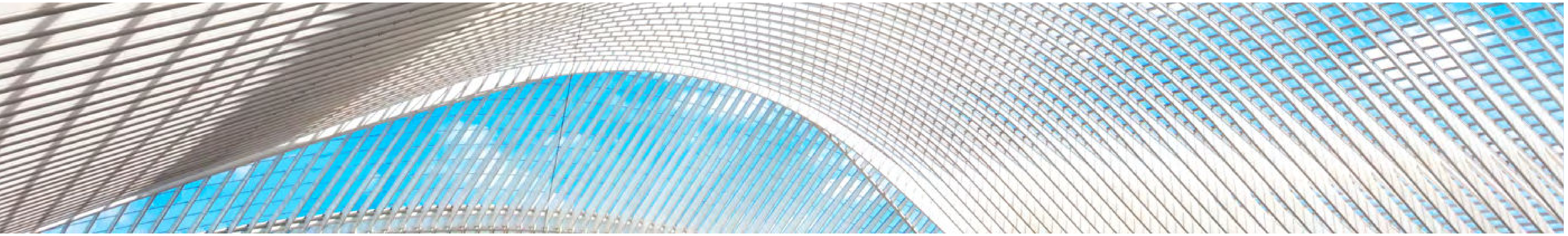
Content Worth Noting

[Blog] SEC Adopts New Rule to Increase Transparency in the Securities Lending Market
READ NOW >

[Blog] US Securities Lending Rules Back in Focus
READ NOW >

Igor Kaplun
Executive Director,
Business Development,
S&P Global Market Intelligence
Cappitech

EMEA Regulations



In the EU/UK transaction reporting industry, validations and schemas were the main news of Q3. In September, updated validations and XML schemas went live for EU SFTR (refer to the Content Worth Noting on the following page). The go-live was a key milestone in SFTR reporting as it set forth the first validation divergence between the EU and UK. Until now, differences were limited to scope and destination of trade repositories (TR) for submissions. ESMA's update now means firms need to maintain different standards and validation rules for their EU and UK reporting.

For their part, the FCA this quarter released in August a consultation paper on their version of upcoming SFTR validation and schema changes. The proposed updates are to go into force in November 2024 and would align the UK version of SFTR more similarly to the current standards for EU SFTR.

EMIR REFIT Schema Updates

Validation rules were also apparent for the EU EMIR REFIT which goes live in April 2024 as ESMA released an updated version of the XML schema and validation rules. The update mostly aimed to fix inconsistencies and missing values that existed in the previous version (refer to content worth noting). Overall, the update was expected and didn't bring any big changes. Perhaps the key news is not what ESMA did but what they didn't do, which is apply any major validation changes this close to the go-live. Nonetheless, despite the minor update, it does mean firms that have built XML submission files will need to take into account the new XML elements and error codes that were added now.

Don’t Forget MIFIR

Elsewhere, in Market Watch 74 that was released in July, the FCA reminded firms that they need to remain proactive in reviewing for errors in their MIFIR submissions and complying with reconciliation and break notification requirements. Within the Market Watch, they highlighted that many firms aren’t yet downloading extracting XML submissions to them from the Market Data Portal. The FCA also raised that they continue to see errors related to inputting wrong and/or inconsistent values for the buyer/seller and Investment and Execution Decision Maker fields. They were also finding errors in the Price, CFI and Timestamp fields that they had flagged in previous Market Watch reports. The FCA’s report reveals that despite being live since 2018, firms should continue to review their MIFIR submissions for possible data quality issues.

Content Worth Noting

[Blog] ESMA Publishes Updated EMIR REFIT Validation Rules and XML Standards
READ NOW >

[Blog] Common Errors Along With New Ones Persist Under MIFID II Reporting
READ NOW >

Ron Finberg
Product Specialist Director
S&P Global Market Intelligence
Cappitech

APAC Regulations

Rewrites 2024: Planning is Key

Since our July customer event in Singapore, we have noticed a notable uptick in customer engagement with Cappitech. More customers are requesting we examine their current operational gaps, reporting accuracy and data lineage in preparation for the upcoming rewrites. Our recent customer meetings in Hong Kong, also highlighted the growing interest in the rewrites, this time from various business stakeholders including front office, risk management, compliance and technology functions.

From a wider perspective, industry associations and regulators are also providing more opportunities to bring the community together. For example, in August, we participated in an ASIC investor working group where Cappitech contributed thought leadership content on the ASIC rewrite.

Finally, on 1st September, Japan's FSA published a draft version of the Revised Guidelines for Recordkeeping and Reporting of Transaction Information, and one important takeaway is that the UPI and Delta, which were not included in the April 2024 rewrite will be expected to be reported the following year – from 7th April 2025 onwards.

In light of the above and the upcoming APAC regulatory changes, the key message to drive home is plan, plan and plan.

– Don't underestimate the importance of scrupulous planning

  Based on our customer / industry feedback, the good news is that more APAC firms are starting to plan for 2024 Rewrites. However, we are observing trends where some of the plans are merely skeletal and may not address the rewrite requirements sufficiently. Read the rules thoroughly because the devil can be in the details! Do speak to our Cappitech specialists to understand how we're helping our customers overcome these hurdles.

– Don't forget about collateral reporting

  More APAC buy-side firms acknowledged the need for them to start reporting margin information with rewrites. Do ensure that your collateral data flow configuration is set up with sufficient UAT performed. Testing early is also strongly recommended.

– Don't ignore the UPI requirements

  UPI enrichment is unfortunately not a simple implementation. There are over 100 product definitions, and each product is associated with specific attributes resulting in different derivation logic for the sake of enrichment. For more details, please read our Product update in this newsletter.

– Do involve your stakeholders early

  From the mindset change of "I don't care" to "I need to care", firms are organizing internal awareness sessions across different functions to drive the importance of what rewrite, or even regulatory reporting, means. It is not surprising that some firms are even incorporating regulatory reporting solutions or future-proofing regulatory changes as one of their RFI requirements during deal making.

Putting all these APAC rewrite requirements under the microscope means that firms do not have much runway until the changes kick in. If you have not started, now is the time to do so!

Content Worth Noting

[Blog] Rewrite of JFSA OTC Derivative Reporting Requirements
READ NOW >

[Webinar] Staying Ahead of the Game: Refreshing Your HKMA OTC Derivatives Reporting Process
WATCH NOW >

Charles Foo
Director, Business Development
S&P Global Market Intelligence
Cappitech

Product

The Unique Product Identifier (UPI) is part of a new group of common data elements (CDE) that are added to CFTC, EMIR, MAS, and ASIC derivative reporting aimed to increase transparency in financial markets, mitigate systemic risk, and protect against market abuse following the 2007–08 financial crisis (GFC).

The Financial Stability Board (FSB) designated the Derivatives Service Bureau (DSB) as the sole service provider for the future UPI System which includes operation of the UPI reference data library.

From a regulatory mandate perspective,

- CFTC has made UPI mandatory for all asset classes except Commodities for Part 45, Part 43 and Part 45 EOD Valuation Reporting effective from 29th January 2024.
- ESMA has made ISIN or UPI to be populated for all asset class effective from 29th April 2024 with some relaxation for trades executed on third-country organized trading platforms.

The UPI is designed to facilitate effective aggregation on a global basis of over-the-counter (OTC) derivatives reported to a Trade Repository, to allow for unique identification of the product involved in an OTC derivatives transaction.

The DSB is responsible for the generation of the CFI, UPI and ISIN for OTC Derivative Products. CFI is much broader and enables a consistent approach to grouping instruments with similar features by providing a common set of classification definitions. The OTC ISIN is at the most granular level and used by regulators for market abuse, price manipulation and spot risks to financial stability across jurisdictions. The UPI, in the middle in terms of granularity, is neither as broad as CFI nor as granular as OTC ISIN, facilitates effective aggregation of OTC Derivatives transaction reports on a global basis.

Moreover, we have heard about common misconceptions that UPI is equivalent to ISDA defined taxonomies. This is not the case as ISDA Taxonomies are more aligned with broad based DSB Product Definitions. UPI, on the other hand, constitutes DSB Product Definition and associated attributes.

From the Regulators perspective, it will be interesting to see how they aggregate risk against same transactions due to difference in UPI reporting mandates. For example, CFTC has made UPI mandatory for all asset classes except Commodities, however, ESMA has made either ISIN or UPI to be populated in EMIR REFIT. For a given transaction, in EMIR REFIT, participants may report OTC ISIN against the same transaction, however for CFTC reporting, participants will report UPI.

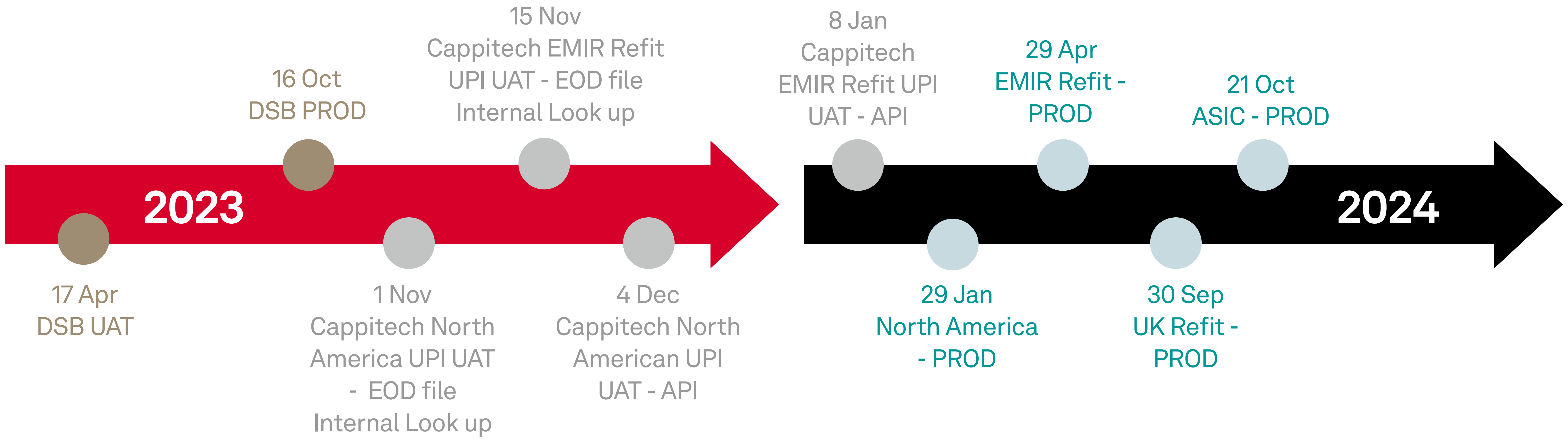
DSB estimates that approximately 4000 new UPIs will be created on a monthly basis compared to 1.8 to 2 million newly created OTC ISINs on a monthly basis.

It is worth mentioning that UPI will be different, for the same product and associated attributes, in DSB UAT and PROD environment.

Additionally, we are anticipating most of the UPI volumes to be skewed towards Equity and the Credit asset class, having circa 80% of the UPI volume. This is expected because, Equity and Credit have single name underliers, which is much larger and a growing data set. As Underliers for Rates, FX and Commodities, i.e. floating or inflation rate, Currency and Commodities reference rate respectively, are sort of static and hence expecting relatively low volume of UPI for the 3 asset classes.

There are 3 main methods enabling access to the UPI data:

- File Download: DSB publishes UPI records on a daily basis grouped by Date and Asset Class. Each file contains all the UPIs for that Asset Class created that day. EOD T+1 file will be made available to fee-paying users only. Registered Users (non-fee-paying users) will have access to EOD file on T+2
- Web Interface: DSB provides users to search or create UPI via GUI
- Programmatic Access: Real-time search and / or create UPIs via API (FIX API or REST API).



Cappitech will enable firms opting for UPI enrichment services. UPI will be enriched firstly based on internal look up based on DSB EOD T+1 files, if UPI is not found then Cappitech will trigger REST API real-time search to DSB. If UPI is newly created then enrich UPI based on API response, else, depending on User Privilege, DSB will create UPI, and respond back in the same API request. The rationale for Cappitech to rely on the EOD T+1 file look up is to minimize the API requests as there is a weekly limit on API request calls to the DSB.

It is important to note that customers opting for the UPI enrichment service will need to ensure that they are subscribed to the correct user type, as this will determine the level of service which Cappitech can offer in its capacity as an intermediary.

As easy as it may sound, UPI enrichment implementation comes with complexity. There are over 100 product definitions based on Asset Class, Instrument Type and Use Case. In addition, each product is associated with specific attributes. In essence, product definition and associated attributes constitutes UPI. Cappitech's specifications are designed in such a way that it captures all data points required per regulation for every product in an asset class. Specifications categorize attributes that are currently regulatory reportable with those that are not. Additionally, Cappitech implemented various derivation logic to alleviate the pain on the customer side by reducing sourcing of additional non regulatory fields, that are required only for UPI enrichment. Cappitech UPI enrichment solution is agnostic of any Regulations, Jurisdictions and Trade Repositories.

Ayelet Har
Executive Director,
Product Management,
S&P Global Market Intelligence

UTI Connect

When we first started talking with customers at the beginning of the year around UTI sharing challenges, it was clear that with the regulatory changes coming down the line both in the EMIR REFIT and JFSA Rewrite, customers would need to consider this in their implementation plans. This was driven by a number of factors:

- ESMA has commented in their guidelines that firms should disseminate UTIs by 10am UTC T+1
- ESMA has stated in their guidelines that temporary UTIs should not be used
- JFSA has introduced dual sided reporting and thus both counterparties are to use the same UTI for their submissions

As part of the UTI waterfall, firms that trade with counterparties that are outside of their jurisdiction and have a sooner reporting deadline obligation should be the UTI receiver – this lays the path to the harmonization of global UTI.

I have just come back from a visit to Tokyo to see our Japanese customers and it is good to see that they have placed a high priority in UTI pairing and sharing in their project plan. From the moment our team in Japan engaged with customers on this pre-pairing concept, they have always been keen to understand how a similar model to our SFTR solution could be adopted in derivatives reporting. Whilst the sharing of UTI within the same jurisdiction is a given, our customers in Japan have been eager to address the sharing of UTIs across jurisdictions sooner rather than later and this shows that customers are taking the global UTI harmonization aspect seriously.

So, what else did we learn from our interactions in Japan around UTI?

The paper confirmation space was where they see the most challenges, considering it is a daily occurrence in their trading activity.

As the practice is quite manual, they see it as a good opportunity to streamline operational processes.

Determination of the UTI generator can be complicated, as some customers have this agreement on a per asset level as opposed to a per LEI level.

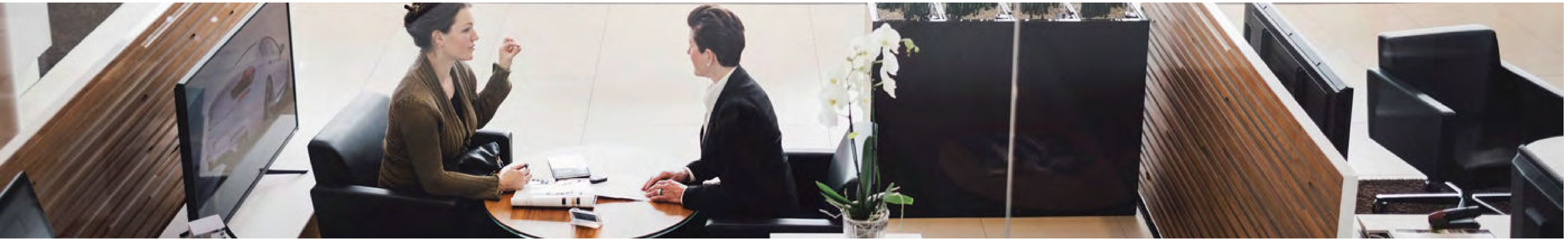
Non standardization in booking practices particularly around TARFs and FX options may potentially result in a mismatch of UTIs being reported by both counterparties.

Suffice to say this is largely in line with what we have been hearing from customers in Europe from our conversations of how we can help with Global UTI Connect. It's pleasing to see whilst this discussion originated from a different product and regulation in Europe, it has transcended to our Japanese customers, and we expect to have further follow up conversations with the rest of APAC as their rewrites go live in late 2024.

We are working with customers to target a launch for Global UTI Connect on April 1st 2024, which is in line with the JFSA rewrite go-live date and this will be shortly followed by EMIR REFIT on April 29th 2024.

Jonathan Tsang
Director Business Development,
S&P Global Market Intelligence
Cappitech

Customer Success



With the midyear months slowly fading in the rear-view mirror, our global teams have taken the opportunity to recharge batteries and prepare for a busy Q4. As mentioned in the last newsletter, the Customer Account Management team remain focused on helping all our existing EMIR reporting customers to ready themselves for EMIR REFIT. With around 100 customers to work alongside there is a great variety in the complexity, readiness and engagement we are seeing. With a decreasing number of months to go before the go-live at the end of April, our advice would be don't leave it too late to get working with us on the new requirements.

Alongside our focus on EMIR, we have equally important projects running for an exciting number of new customers in Japan with our new team in Tokyo supported by our experienced team in Singapore as well as existing CFTC customers who are readying themselves for the changes coming at the end of January 2024, most importantly bringing in the requirement to report UPI to DTCC.

Our engagement is not limited to just these regulatory change programs, we continue to pride ourselves on our proactive and reactive commitments too. The Cappitech dashboard has had a redesign bringing a fresh new look and feel. The Customer Success teams have worked on our user engagement to provide direct messaging to end users via the dashboard pop ups and a new resource centre, which can be found under at the bottom left of the screen, providing a searchable knowledge base of information and access to product documentation.

Through our proactive and reactive engagement with our user community, we are always keen to receive feedback on our services and functionality so that we continue to bring the voice of the customer to our product roadmap, alongside the regulatory driven changes. Our Support and Customer Account Managers are on hand to talk to or indeed meet in person wherever possible.

Meg Francis
Executive Director,
Customer Success,
S&P Global Market Intelligence
Cappitech

Cappitech & the Community

To keep abreast of market developments Cappitech regulatory specialists participate in 30+ industry working groups and round tables globally, which we host or attend via local trade associations.

The subject matter discussed at these forums ranges from the granular to the strategic. While EMIR REFIT dominates the near-term agenda, a global debate is emerging around ISIN or UPI as instrument identifier of choice, which might signal a fundamental shift in how the industry reports instruments in the near future.

Any instrument identifier standard has a trickly balancing act of having the right mix of uniqueness, specificness, availability, and cost. Instrument identifiers are used in all imaginable facets of the industry and within each department of every financial institution: trading, confirmations, settlements, finance (P&L), risk, and of course reporting.

The ISIN has been the European regulators' identifier of choice for several regimes over the last 10 years, namely: MiFID 1, UK SSR, EMIR, MiFID II, SFTR. The global picture is different with the Unique Product Identifier (UPI) which was conceived by CPMI-IOSCO and is managed by the ROC committee being specified in several upcoming regimes: CFTC (Jan 2024), EU EMIR and JFSA (April 2024) ASIC and MAS (Oct 2024).

Len Delicaet
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So why after a decade is our industry exploring ISIN alternatives?

After 5+ years of attempting to exploit MiFID II post-trade transparency (aka RTS 1 and 2) the industry found that due to certain fields which define each ISIN within this dataset, we have both an ISIN population explosion and at the same time insufficient granularity to deliver useful insights. For example, an instrument's specific Maturity Date is imbedded into an ISIN meaning every day the same 5-year IRS trades it requires a new ISIN. When data analysis attempt to track the market price of IRSs they have a monumental task to ensure they capture all relevant ISINs within their time series, running the risk of an incomplete dataset.

In another twist, that same 5-year IRS should be priced slightly differently depending on which CCP clears it due to dissimilar clearing costs, however, this feature is NOT captured within the ISIN and could, again, result in inaccurate price analysis. Where the street is leaning at the moment (Q3 2023) is to seize the opportunity of the new UPI to perhaps develop the concept of a UPI+ (essentially the UPI plus relevant fields) to capture "similar" instruments yet also reflect their different post-trade costs.

It's worth remembering that MiFID, unlike G20 regimes, includes the reporting of securities and derivatives, so while the ISIN works on the whole acceptably for stocks and bonds, derivative idiosyncrasies have triggered this instrument identifier debate.

It is early in the deliberations and there are many questions to tackle before consensus: firms are 'invested' into ISINs and now must adopt UPI, will they also have to adopt UPI+ and maintain 3 related but slightly different instrument ref data sets? Will the ANNA DSB be happy to add the new fields to create the UPI+ or will they have to appeal to CPMI-IOSCO for a proposal to be taken up to the ROC? If MiFID II Post-Trade Transparency adopts UPI+ in the UK, will the EU follow suit? In other words, how would a possible ISIN to UPI or UPI+ migration take place? How does it work with TOTV which is based on an ISIN lookup? Will RTS 23 still be relevant?

In summary, Q3 has been a pivotal time in global reporting where the cascade of REFITs and regime updates is causing the data fabric to stretch to the point where fundamental changes to identifiers might result, affecting all actors in the value chain.

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