UK Finance response to the European Commission Fitness Check on Supervisory Reporting

Introduction

UK Finance represents nearly 300 of the leading firms providing finance, banking, markets and payments related services in or from the UK. UK Finance was created by combining most of the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association. Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-to-day activities. The interests of our members' customers are at the heart of our work.

UK Finance is pleased to respond to the European Commission Fitness Check on Supervisory Reporting.

UK Finance fully supports the fitness check on supervisory reporting

UK Finance supports the regulatory need for increased data to meet critical objectives such as enhancing financial stability, promoting market integrity, and increased investor protection. Reporting obligations vary from firm to firm depending on their size, location and business models, but many firms will be required to comply with a wide number of regulations including the Markets in Financial Instruments Directive/Regulation (MiFID II/MiFIR), European Market Infrastructure Regulation (EMIR), Securities Financing Transactions Regulation (SFTR), Short Selling Regulation (SSR), EU Common Reporting (COREP), and Financial Reporting (FINREP).

Firms also have other reporting commitments including those to the Commodity Futures Trading Commission (CFTC), Securities and Exchange Commission (SEC), Bank for International Settlements Reporting (BIS), as well as liquidity, stress testing, Pillar 1,2 & 3 disclosures, and a variety of other European and domestic requirements.

While UK Finance supports the various regulatory requirements and the objectives they seek to achieve, an inevitable consequence has been to significantly increase the reporting burden on both the firms that collate, cleanse and submit data, and the regulators that receive and analyse the information.

UK Finance welcomes both the objective of the Commission's consultation document, and the timing of the paper, as we are now at an ideal stage in the legislative cycle to analyse the effectiveness of the regulatory reporting framework, and identify how it can be improved.

We have 3 key recommendations in response to the consultation, which are as follows:

1. *Create alignment and efficiencies in the reporting framework*

UK Finance believes it should be a priority for regulators to increase the alignment between the relevant regulations. Resulting benefits would include reducing the reporting burden on firms, and increasing efficiency in the reporting framework. The Commission should also identify current data requests that do not support regulatory objectives, remove superfluous data, and streamline data submissions. Achieving alignment and focusing on key data will increase reporting efficiency without having a negative impact on the data provided to regulators.

2. *Standardise reporting requirements on an international basis*

Many firms operate across a wide number of jurisdictions, trading with international counterparties on behalf of international clients, resulting in obligations to report to a variety of international regulators. In order to achieve the benefits outlined above, regulators should strive for alignment between rule-makers on a cross jurisdictional basis.

The Legal Entity Identifier (LEI) and International Securities Identification Number (ISIN) are good examples of where regulators need to co-ordinate on a global level to develop truly international standards. On a more granular level, it is not unreasonable to aim for consistency in the reporting of products; for example, a derivative transaction should be able to be reported in a homogenous manner under both MiFIR/EMIR and CTFC/SEC rules.

Regulatory approaches should compare local supervisors with other local supervisors, local supervisors and the EU, and the EU with other globally significant supervisors. For example, the U.S is currently reviewing its reporting rules for derivatives as part of the U.S Treasury Report on Capital Markets and the CFTC's "Roadmap to Achieve High Quality Data". Such initiatives should be conducted where possible on a global scale to support the development of internationally standardised reporting requirements.

In addition to the global approach, there should be a comparison between the supervisory approaches of individual NCAs, and their implementation of EU rules. A harmonised and coherent approach by NCAs to EU regulations would facilitate further information sharing between supervisors, improve the comparability of the data, and support the overall objective of increasing international alignment.

3. *Improve the legislative approach to drafting reporting requirements*

Firms have developed invaluable technical knowledge and first-hand by implementing the highly complex regulatory reporting requirements. In order to achieve the objectives and benefits outlined in this response, we believe rule-makers should take full advantage of this knowledge. We therefore strongly recommend that regulators maximise the opportunity for the industry to contribute to the development of future requirements, for example, by ensuring firms have the opportunity to provide input early in drafting process.

Format of UK Finance Response

Our members vary significantly in size, geographical location, and the extent to which they are in scope for various reporting regulations. Given the diversity of our membership we have not provided answers to the individual survey, or estimates on costs or the use of IT.

We have outlined above our support for the Commission's fitness check, and our key messages. We have also provided in the Appendix below a number of examples to illustrate our recommendations, as well as some other comments which we believe could support the improvement of regulatory reporting framework.

UK Finance would be pleased to provide any further assistance on the matters below.

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Appendix

1. Inconsistent reporting requirements and opportunities for alignment

The examples below demonstrate some of the overlaps between the selected reporting requirements. Improving alignment would be realistically achievable, and would deliver consistency and efficiency across the various reporting frameworks.

1.1 COREP/ FINREP/ BIS (country of exposure)/GSIB Data Gaps Phase 3

(i) Balance sheets

There is inconsistency in the main balance sheet headings, which leads to presentational differences. For example, GSIB specifies "*other financial advances and instruments*, whereas FINREP specifies "*other assets*" containing both financial and non-financial assets.

(ii) Loans and advances

FINREP, as part of its main balance sheet component, requires loans and advances to be reported by a measurement basis, and any collateralized loans must be reported as supplementary information. In contrast, the GSIBs report loans split between "collateralised" and "others" in their main balance sheet.

(iii) Debt Securities Issued (DSI) for GSIBs

When reporting Debt Securities Issued (DSI) for GSIBs, Template 1, Table 1, Item 5.1 requires Asset Backed Securities (ABS) to be reported as one of the categories of DSI. However, GSIB guidance provides for an alternative approach, suggesting the exclusion of this item from ABS issued or guaranteed by government agencies or sponsored agencies. The FINREP guidance is silent on this issue, resulting in further inconsistency and a validation break between FINREP template 8.1 row 380 and GSIB Template 1, Table 1, Item 5.1 from Q1 2018 onwards.

(iv) Credit derivatives as part of financial guarantees

FINREP does not consider credit derivatives as part of financial guarantees. In contrast, the GSIB guidance advises reporting the notional amount of credit derivatives that allows one party to transfer the credit risk or a reference asset to another party under financial guarantees.

(v) Country of residence of the counterparty

The EBA has not issued a detailed definition of the country of residence of the counterparty in either the FINREP or the COREP instructions, and the only information is from the Q&A published by EBA quoting "*residence of the obligor*" refers to the "*country of incorporation of the obligor*". In contrast, GSIB determines country of residence of the counterparty as the country of primary operations, for corporate entities, as against its country of incorporation.

(vi) Counterparty sectors

Regulations use inconsistent counterparty sectors. For example, FINREP uses Bank, Non-Financial Corporation (NFC), and Household (HH), whereas COREP uses Institution, Corporate, and Retail.

(vii) Net carrying value

A number of the EBA Pillar 3 templates use the measure "net carrying value", rather than the approaches typically used in other regulatory reporting, for example, exposure value or gross exposure measures.

(viii) Collateral

Collateral is reported inconsistently across the regulatory reporting frameworks. For example, Pillar 3 table CR3 (credit risk mitigation techniques – overview) includes the lower of the exposure that is secured or the value of the security on each loan, however in COREP the market value of security is reported with no capping. PRA stress testing also reports secured amounts capped to the exposure value.

(ix) Write offs

Write offs are reported as the amount since the last reporting date in COREP and PRA stress testing (although these periods are different), whereas the requirement for Pillar 3 is to report lifetime write offs.

(x) Large exposures

The reporting of large exposures has a different scope and definition for COREP, Stress Testing Data Framework (STDF), corporate, sovereigns and institutions returns, and Pillar 2 concentration risk.

1.2 IFRS/GAAP/FINREP

(i) Disclosure of interest

The EBA rules state that all interest should be disclosed in one place i.e. interest can't be reported through both trading and interest, which is inconsistent with the approach under IFRS for certain fair valued items. To meet the FINREP requirements firms need to reclassify amounts from interest to "*held for trading*", which creates an inconsistency with IFRS accounts.

(ii) Negative interest

FINREP requires negative rates on asset items to be reported separately within interest expense, whereas this is reported within interest income for GAAP.

1.3 MiFIR/EMIR

(i) Population of Trading Venue field

EMIR requires the Trading Venue to be populated with a Market Identifier Code (MIC) for regulated markets, multilateral trading facilities, and organised trading facilities, but not for Systematic Internalisers. In contrast, MiFIR transaction reporting does require Systematic Internalisers to be populated with MICs.

(ii) *Reporting of an amended transaction*

An “amended transaction” refers to the scenario where a firm submits a transaction report, which is then amended during the course of the reporting period. Under MiFIR a firm must confirm the transaction has been “cancelled”, and then submit the new transaction. In contrast under EMIR, the original transaction can be reported as an amendment. The different approaches cause complications reconciliations and versioning.

(iii) *Client classification*

MiFIR provides a definition of client classification (see Article 4(9), (10) and (11) of MiFID II that sets out the definition for retail and professional clients) that is different to the EMIR classification of a counterparty (see Article 2(8) and (9) of EMIR for financial and non-financial counterparty definitions). Gathering classifications is a resource intensive process for firms, with some firms having thousands of clients they need to co-ordinate with to decide individual classifications. It would be significantly more efficient if classifications could be applied across multiple regulations.

1.4 Reporting trading and banking book segregations

Banks’ trading book portfolios are subject to gains and losses due to market volatility. In addition, these portfolios are mostly held by financial institutions, which has a considerable direct impact on the financial health of both the institution and the economy (e.g. the impact of mortgage backed securities on the global financial crisis). Currently there is an absence of sufficient regulatory reporting which separates the bank’s portfolio under their trading and banking books (with the exception of some internal management information).

We recommend that current requirements add a distinction between trading and banking book reporting of exposure at default (EAD) as risk weighted assets, rather than developing new reports to identify the information. Most firms already hold the information internally, so we would not envisage this significantly increasing the reporting burden, and it would be an example of tweaking current reports to increase efficiency.

2 Inefficient reporting requirements

Increasing efficiency in the reporting framework will help maximise the resources of both firms and regulators. Firms should only collate and submit data that supports regulators in achieving their objectives. The key priorities that will help achieve this goal include removing superfluous data, ensuring the information submitted is at an appropriate level of granularity, removing duplicative data requests, and streamlining requirements where possible.

2.1 Superfluous reporting

Example: MiFIR short selling flag

The data submitted in the short selling flag in Article 26 MiFIR transaction reports does not yield accurate and reliable information to allow regulators to monitor levels of short selling.

Firstly, the short selling flag does not meet its objective of supporting the monitoring of the short position regime under the SSR. The MiFIR short selling flag requires firms to flag short sale transactions for shares and sovereign debt, but short positions under the SSR are calculated based on different criteria as they require persons to consider economic interests obtained directly or indirectly through other instruments (i.e. it is not just based on shares and sovereign debt). As a result, the short sale flag indicator in transaction reports will not reconcile with the short position reported under SSR.

Secondly, the short selling flag will not produce accurate and reliable information for regulators on the level of short selling in the market. Where the client is the seller, the firm relies on the client to disclose whether or not it is a short sale, but there is no matching legal obligation on the client to disclose accurate information to the firm. Firms have also faced considerable difficulty and expense in calculating whether a sale is a short sale at legal entity level as this is typically determined at trader or desk level.

2.2 Granularity of data requirements

(i) COREP/FINREP calculation of credit and market risk

Data that could be deleted or streamlined include the data points that comprise the components of the calculation in the credit risk/market risk templates (e.g. gross longs/shorts, collateral/CCF data) while still retaining the most important elements of each calculation (for example, EAD and RWA for credit risk; net long/short positions for market risk). A further example is the COREP CR7 SA templates require every step of the standardised calculation to be demonstrated, but it is unclear what benefit this provides to regulators. A potential alternative would be for the EBA to request memorandum items for key information.

(ii) *Rounding of returns*

COREP and FINREP are currently rounded to the nearest Euro/Dollar/Pound etc. Most firms do not present financial information at this level. For example, Group financial statements are typically rounded to the nearest million. Rounding to the nearest million would provide significant benefits including increased ease when reconciling with other reporting requirements, clearer validations prior to submission of final reports, and greater ease for internal reviewers and external users of the information. Rounding to the nearest million would allow for these benefits while still providing regulators with sufficiently accurate information.

(iii) MiFID II quality of execution reporting

We recognise that some of the new reporting requirements in MiFID II/R are intended to improve investor protection. However, there are instances where the granularity of the data that must be reported has potentially detrimental and unintended side effects.

For example, Article 27 of MiFID II sets out the obligation to perform quality of execution reporting, the intention of which is to help investors to assess whether best execution has been achieved by the executing firm. Execution venues are required to publish information about the quality of execution achieved and investment firms must publish information on the identity of execution venues and on the quality of execution on an annual basis.

However, the best execution reporting rules can also have unintended and undesirable consequences on liquidity providers which ultimately impacts on investors. Specifically, members have concerns about the level of granularity that must be reported under quality of execution reporting which requires very granular information about prices, costs and likelihood of execution for individual financial instruments to be made public on a quarterly basis. For example, the publication of intraday ('point in time') information about prices and values of transactions as well as detailed information about number of orders, requests for quotes, number of transactions etc. per trading day.

Requiring such granularity effectively creates another form of post-trade transparency, but without the protections that are afforded under the MiFID II/R post-trade transparency rules (for example, a systematic internaliser's identity will be revealed along with the information about executed trades). A potential consequence is to exposes systematic internalisers, particularly where they are trading in less liquid instruments such as fixed income instruments which are rarely traded. The consequences could be to lead to all SIs' positions being made public in a machine-readable format, exposing market makers to significant risks, as they will not be provided with sufficient time to hedge/exit their positions given that it can often take longer than six months for liquidity providers to exit their positions in illiquid instruments.

Disincentivising liquidity providers from participating in the market is to the ultimate detriment of the end investor and an excessive level of granularity also brings into question the usability of the data from the perspective of an end investor.

2.3 Materiality thresholds

We believe that materiality thresholds should be utilised to a greater extent in reporting. Applying such thresholds will reduce the amount of data that firms will need to submit, and allow regulators to focus their resources on reviewing the key data which will help them meet their monitoring objectives. Examples include:

(i) FINREP templates F7.1 and F18

FINREP templates F7.1 (financial assets that are subject to impairment that are past due) and F18 (performing and non-performing exposures) both provide detailed analysis on the quality of assets such as ageing and analysis of amounts that have been impaired. In cases where impairment is not a material risk to the Group, it benefits neither firm not regulator to report the data.

(ii) FINREP F20.4

FINREP templates F20.4 (geographical breakdown of assets by residence of the counterparty) requires firms to report over 200 countries, many of which will not be of material importance. Applying a simple threshold, for example, only requiring firms to report countries that are greater than 5% of the total assets of the group, would significantly reduce the amount of superfluous data submitted to regulators.

(iii) FINREP unrealised profit and loss

FINREP requires firms to detail "unrealised profit and loss". It is not general practice for firms to produce such a figure, and as such their systems are not built to capture such data. Firms therefore need to derive the figure separately, a complicated calculation which generally involves a multitude of teams across the organisation to develop and then verify the figure. The resource required by firms to produce the data is disproportionate to the value received by the regulators.

(iv) BIS and COREP geographical breakdowns

The BIS Country of Exposure reporting and COREP Geographical Breakdown exposures templates both include information on every country exposure, which also overlaps with the GSIB and PRA stress testing reporting. Providing a materiality threshold for reporting in either absolute or percentage terms could be applied to reduce the number of data points in some of these returns. An alternative solution would be to reduce the frequency of collection of the full scope of reporting.

2.4 Duplicative requirements

(i) Credit and counterparty data

FINREP and GSIB reporting have duplicative requirements for country and counterparty data, which can be seen when comparing residence of country templates (20.4) in FINREP with GSIBs. Cross border positions are collected in both GSIBs and in BIS Country of Exposure, and Country exposure information in COREP CR9 (geographical breakdown) and CE return is also viewed as duplicative.

(ii) Solo vs Group Returns

In some cases, solo reporting does not add any additional information from what is contained in the Group return. For example, the benchmarking of internal models is required at a solo level, but in many cases the models are country specific, so all the relevant information has been included in the Group return.

(iii) *EMIR data provision*

Certain reporting fields (for example, Country of the other Counterparty) require data which should be obtainable via the counterparty ID (i.e. their LEI), or from the product data (i.e. when reporting with an ISIN). Regulations should aim to be able to identify data from readily available sources, rather than requiring it to be generated multiple times.

2.5 Varying interpretations of reporting rules

Example: EMIR trade repositories vs MiFIR trading venues

There are instances where a trade repository (EMIR) or trading venue (MiFIR) has added to the reporting rules, or applied the rules differently, resulting in firms being required to perform a transformation of the data to meet their requirements, and/or their own reporting obligations. The problem is then multiplied when it is necessary to report via multiple intermediaries which each have different requirements.

An example of this issue is the trading venue ID code is required for Article 26 MiFIR transaction reporting. The code is a number that is generated by the trading venue to identify the market side execution of the transaction. The trading venue then provides the number to the buying and selling parties, who in turn must populate their transaction report with the code. Firms therefore wholly depend on the trading venues to provide them with this data to meet their own reporting obligations.

However, trading venues are not generating the trading venue ID code in an acceptable format that enables firms to use the number in their transaction reports. Under the rules, the trading venue ID field must be populated with a code that is up to 52 alphanumeric characters. However, some venues are generating codes that include special characters (such as "/" or "&"), using lower case characters or creating codes that are longer than 52 characters.

As a result, individual firms have had to "transform" the data by stripping out the special characters, converting lower case characters to upper case and truncating codes. Such activities are not only inefficient from a firms' perspective but crucially, it creates a problem from a regulator's perspective because the trading venue ID code is intended to link orders with executed transactions in accordance with Article 25(2) of MiFIR which sets out the order data requirements for trading venues. If firms have been forced to transform the trading venue ID code, then it means that the trading venue ID code that is stored at the trading venue will not be identical to the code reported by the firm. As a result, regulators will not be able to effectively link transaction reports with order data.

2.6 Opportunities to streamline returns

(i) COREP 7 (Standardised Credit Risk)

7a requires credit and counterparty credit risks and free deliveries for the Standardised Approach to capital requirements. 7b requires the same details but specifically for capital requirements arising from Counterparty Credit Risk (CCR), and 7d is a memo item for amounts "in default". It would be straightforward to incorporate 7b and 7d into 7a with an additional '*of which*' column or '*of which*' row or two.

(ii) COREP 8 (IRB Credit and CCR)

COREP 8 is made of two templates (8b relating to specific CCR and off-balance sheet amounts) which could be combined into one report.

3 EU vs local NCA implementation, alignment with third countries

Reporting requirements need to be assessed in terms of both how local NCAs implement EU rules, and the compatibility and implementation of EU rules by third country jurisdictions, in order to achieve in international alignment.

3.1 EU vs local NCA implementation

(i) Stress Testing

The EBA Stress Test provides a consistent lens on the capital adequacy of material financial banking institutions across the EU. However, it is both inconsistent and additive to similar exercises performed within individual jurisdictions. A potential solution could be to set a European-wide framework, but allow local regulators freedom to adapt the rules to meet the idiosyncrasies and priorities of their own individual jurisdictions, providing the Commission was satisfied that specific local exercises were sufficiently robust and provide specific metric outcomes to be leveraged. Such an approach could allow the Commission to achieve its outcome of assessing the stability of the banking sector by utilising results from appropriate local exercises or a common EBA exercise, without mandating duplication where an appropriate equivalence is achieved.

For example, The Bank of England runs an annual concurrent stress test, but a subset of the participating banks must also contribute to the biennial EBA Stress Test. It would be more efficient if the Bank of England exercise could be acknowledged as a mechanism sufficient to assess individual UK bank's capital strength, and as an input into overarching European-wide prudential stability, which would then not require the participating firms to undergo a sperate EBA exercise.

(ii) ESMA Amended Transparency Directive

The ESMA Amended Transparency Directive has been applied by various NCAs across the European Union in a significantly divergent manner. For example, when applying aggregation rules, most NCAs only require the position to be identified in the final entity, but some NCAs require it to be declared for the original entity too. The inconsistent approaches lead to double-counting in the public reporting, difficulties for investors and regulators to compare the data, and the need for the end user to take an interpretative view of the data, which can lead to inaccuracies.

3.2 Alignment with third countries

(i) MiFIR privacy laws

Although UK Finance supports the use of LEIs, we note the initiative has not yet been adopted by all international jurisdictions, which creates difficulties in compelling overseas clients and trading partners to obtain an LEI. There are also privacy laws in some jurisdictions which impact the ability of firms to collect client identifications, and in some cases identifying the LEI at all. Greater international alignment in the rule making process, incorporating initiatives such as the LEI, would be far more likely to identify and address unintended extra-territorial consequences before rules were finalised.

(ii) MiFIR post-trade transparency

According to the ESMA Q&A on Third Country Issues (published in November 2017) requires firms that are using their EU entities or EU branches of non-EU entities for risk management purposes (and as booking entities) to include all these trades in the post-trade transparency requirements. The Q&A will therefore export the MiFID II post-trade transparency rules to locations where business is not carried out in the European Union.

(iii) ISO20022 vs Financial products Markup Language (FpML)

We recommend alignment is also sought where appropriate with third country jurisdictions. For example, while Europe is increasingly mandating the use of the ISO20022 format, the FpML remains the predominant messaging standard for OTC derivatives, electronic confirmation and electronic reporting of transactions. Reporting trades into a different format means firms must translate their files into a format that does not fully represent the structure that they traded, which makes it difficult to reconcile the submitted data

4. Inherent challenges in achieving compliance

When formulating reporting requirements, rule-makers must be aware of (presumably unintended) requirements which firms will not be able to comply with, and support firms in their compliance efforts. We believe that including the industry at an early stage in the drafting of requirements (as discussed in this response) would help eliminate these issues.

(i) Data privacy

MiFIR transaction reporting obligations and order data requirements require the disclosure of counterparty and client identities to a relevant trading venue, Approved Reporting Mechanism (ARM), and/or regulator. However, this may be prohibited if there are blocking statutes and regulations in the counterparty/client's country (regardless of whether a firm has a presence in that country and/or whether the firm has obtained consent from the counterparty/client) which due to confidentiality will prevent firms from obtaining certain data, yet the reporting requirements still require them to provide it.

For example, in the case of clients, where the client has not provided consent, the firm may not disclose their identity to relevant trading venue, ARM, and/or regulator (either directly or, at the firms' discretion, through a third-party service provider engaged by the firm for such reporting). MiFIR requirements that are subject to this issue include the requirement to report the counterparty LEI, individual name, date of birth, and National Identification (e.g. passport number).

We also note that in some cases, employment law can also create a barrier to collection of personal information (e.g. national identifiers) due to rules which prevent the collection of information which could be used to indirectly discriminate against the employee.

(ii) *Personal information*

While the recent adoption of the LEI has helped improve data quality for identifying legal entities in reports, such a solution does not exist for reporting natural persons. Under MiFIR, trading venues, ARMs, and investment firms, are required to collect highly confidential personal information to identify traders and clients in transaction reports. The personal information includes date of birth, surnames, passport numbers, etc. Due to the nature of the transmission and storage of transaction and order-recordkeeping data under MiFIR, this personal information is passed between firms, clients, ARMs, trading venues and regulators, and stored in multiple locations on a daily basis. These processes increase the risk of cyber breaches and identity theft as there are multiple points of access.

It is illegal to share the personal information in some countries. All parties are involved in the process from end-to-end, and are therefore in the undesirable situation of having to be either non-compliant with the MIFIR requirements, or to be limited in the partners they can trade with. The consequence could be to cut off access of such participants to certain markets and transactions.

Due to trading venues being reluctant to hold and transmit this personal data, several have attempted to implement solutions that minimize the number of times personal data is transmitted and stored. The trading venues are using short codes to identify the parties in the daily reporting, and retain a mapping file to the actual personal data in separate data store. While we acknowledge this is a step in the right direction, each venue using its own solution creates significant administrative burden for investment firms and clients to comply with different operational requirements from the multiple venues they deal with.

As a long-term solution, we believe an initiative needs to be taken to develop an anonymous code for identifying natural persons, rather than relying on national identifiers which are subject to change (e.g. passports expire and may be replaced with new numbers). A single central hub could be used to issue and maintain the identifier as well as to map the codes to the underlying person, which regulators could then access (or the regulator could maintain the hub), and would therefore be analogous to the LEI and GLEIF database for legal entities, but for natural persons. We believe this would be a more appropriate approach in a cybersecurity conscious environment, and also given that there are other EU initiatives such as the General Data Protection Regulation (GDPR), which place a significant emphasis on data protection and privacy in the EU.

(iii) Working rather than calendar days

The COREP liquidity returns for the Additional Liquidity Monitoring Metrics (ALMM) and the Liquidity Coverage Ratio (LCR) are to be submitted by firms by the 15th calendar day of each month. Setting a specific calendar day for every month of the year can lead to an undue reporting burden on firms. For example, 2018 firms had to report their year-end returns by 12th February 2018, and the January month returns were due just 3 days later on the 15th February 2018.

We recommend that return deadlines should be based on a set number of working days rather than a fixed date. An additional advantage of this approach would be to take into account days lost for bank holidays, giving firms extra time to ensure their returns are accurate.

5. Additional recommendations for improving regulatory reporting

Please find below some further comments which we believe would improve the functioning of regulatory reporting.

(i) ESA Q&A process

We acknowledge that developing answers to questions is a time intensive and challenging process. Nevertheless, there is usually a very long lead time on the provision of answers to such Q&As and related taxonomies, and when the outcomes are published, firms are often given an unrealistically short time-frame for implementation. Such an approach results in difficulty for firms to comply with the recommendations, and has a negative impact on the quality of data that will be provided back to regulators.

It is also very important that firms are given sufficient notice of the proposals so they can provide input in good time. For example, the November 2017 ESMA Q&A on Third Country Issues (see above) was a significant change at a very late point in the process of MIFID II implementation, and was published without any transparency of opportunity for stakeholders to be consulted on, despite its significant impact on the industry.

We recommend the process around developing Q&As is reviewed, with engaging industry experts at an early stage of their development being a particular priority.

(ii) Implementation timeline for regulatory change

Regulatory reporting is often very technical, complex, requires significant system changes (often across multiple systems), and the sourcing of additional data to give effect to a proposed change in the reporting rules. Firms therefore need a realistic implementation timeframe in order to implement changes to reporting requirements in good time and to have sufficient time to perform testing.

For example, regular changes to the COREP or FINREP taxonomy or templates require changes to XBRL (Extendable Business Reporting Language - the format used to send COREP and FINREP reports) as well as upstream data sourcing and additional calculation requirements.

We believe that implementation timelines for reporting need to be appropriately calibrated to account for the lead time associated with factoring in data dependencies, including setting up new feeds for collecting new data points, and ensuring appropriate time for testing. When timelines are compressed, this increases the need for manual intervention, increasing operational risk and potentially reducing data quality.

UK Finance acknowledges that reporting requirements do need to be improved and updated, but it should be noted that this places a considerable cost on firms, particularly when done in a piecemeal manner. For example, EMIR required significant updates in February 2014, the end of 2015, at the end of 2016, and in November 2017, and January 2018. While we of course support changes that aim to improve the functioning of the regulations, they are nevertheless expensive and time-consuming to implement.

We also believe there is merit in applying phased implementation, particularly where there are data dependencies. For example, to fulfil their MiFIR transaction reporting obligations, firms rely on the Financial Instrument Reference Data System (FIRDS) that is managed by ESMA, and based on data provided by trading venues and systematic internalisers. At the time of writing there are ongoing concerns about the accuracy and availability of the FIRDS file as there has been intermittent availability and concerns about data quality of some of the

entries (e.g. missing characteristics, multiple ISINs for potentially essentially the same product). It would be more appropriate if the reporting of the source data took place first (in this case the instrument reference data), and then provide enough time for this to reach a good level of data quality then phase-in more reporting (e.g. transaction reporting).

Such an approach would not only assist firms in complying in their obligations, but would also help improve data quality which would benefit regulators who are monitoring the data for accuracy and completeness.

(iii) Proportionality

We welcome the EBA's decision to apply a proportionate approach to reporting by small and less complex institutions where those smaller entities will be subject to a reduced reporting burden. We believe the consultation would be a good opportunity to apply greater proportionality across the board by streamlining unnecessary requirements (as demonstrated above), regardless of whether they are applicable to large or small institutions.

(iv) Disclosure of sensitive information

Pillar 3 disclosures have increased to a level where they are now almost at the same as Pillar 1 (private reporting to the regulator), with increased granularity of information for credit risk (CR4, CR6), counterparty credit risk (CCR3, CCR4) and collateral (CCR5). Alongside creating an additional reporting burden, this leads to the possibility of disclosing sensitive information to the public (for example Pillar 2 ratios).

The 2017 EBA guidelines effectively oblige the public disclosure of COREP information and in some cases goes beyond the requirements of the CRR. For example, reporting detailed information on collateral balances and modelled market risk numbers may result in the inadvertent disclosure of business sensitive information. It is not clear that this is outweighed by the benefit to the public in disclosing such granular information.

(v) Standardisation of submitting data

There is minimal standardisation in the approach to submitting data, and technology is applied in varying across the submission, including how the data is submitted to the regulators. For example, FINREP and COREP are submitted through GABRIEL (the UK Prudential Regulatory Authority gateway), but there is no reporting tool for submission of GSIBs. Another example is the use of XBRL; COREP and FINREP mandate its use in reporting, while GSIB reporting does not. In addition, there are some returns that use XML, for example, Pillar 2 returns.

Submission in a standardised, consistent form via a single gateway would be significantly easier for firms to implement and operate, and would also provide the benefit of being able to build in cross validations between different reporting frameworks, taking into account the varying times and details of the data in the various internal reporting systems.

(vi) Common financial language

We would very much support the development of a common financial language. It would allow banks to confidently invest in efficient end-to-end processes that can be applied across multiple jurisdictions, facilitating greater ease in interpreting and managing the results. It would be particularly beneficial if the language could be developed on an international basis, particularly with key regulators outside the EU such as HKMA and US Federal Reserve.

Regulators should establish a catalogue of terms and definitions within the regulations and the ensuing technical standards to harmonise and improve the quality of the constituent components of the reports. For example, EMIR specifies a "*Venue of Execution*" field, but if it was to be aligned with MiFIR, it would be more appropriately described as "*Venue of Trading*".

The practical consequence of this different approach is to create unnecessary reporting difficulties for firms, which arise because they include the systematic internaliser MIC when reporting under MiFIR, as the regulation regards them as execution venues), but it is not included under EMIR, which does not regard them as trading venues.