**Business Justification**

**for the development of new ISO 20022 financial repository items**

# Name of the request:

Financial instruments and transactions regulatory reporting

# Submitting organisation:

European Securities and Markets Authority (ESMA)

103, rue de Grenelle

75007 Paris

France

# Scope of the new development:

The Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II) and the Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR) require ESMA to develop Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) detailing data reporting requirements.

The Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR) requires ESMA to develop Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS), in particular on operational standards for the access to information by relevant authorities.

The main objectives related to regulatory reporting and disclosure requirements defined in the Markets in Financial Instruments Directive (MiFID II), the Markets in Financial Instruments Regulation (MiFIR) and the European Market Infrastructure Regulation (EMIR) are to:

1. Define transparency requirements in respect of shares, depositary receipts, exchange-traded funds, certificates and other similar financial instruments, bonds, structured finance products, emission allowances and derivatives;
2. Define organisational requirements and the publication of transactions for data reporting service providers;
3. Define requirements applying on and to trading venues related to admission, suspension and removal of financial instruments to trading on regulated markets;
4. Define the methodology for the calculation and application of position limits for commodity derivatives traded on trading venues and economically equivalent OTC contracts;
5. Define the data standards and formats for the information to be reported with respect to financial transactions and instrument reference data, including the methods and arrangements for reporting and the form and content of such reports;
6. Define the details for the publication of reference data relating to orders in financial instruments;
7. Define the frequency and details of the information to be provided with respect to over-the-counter and exchange traded derivatives transactions by the authorized trade repositories as well as operational standards required in order to aggregate and compare data across repositories;
8. Determine the specific content, the format and the periodicity of data relating to the quality of execution to be published taking into account the type of execution venue and the type of financial instrument concerned; as well as determine the content and the format of information to be published by investment firms.

Further details on the definitions and legal aspects of the reporting are specified in the Regulatory Technical Standards (RTS) and related Annex which can be accessed through the following link for MiFID II / MiFIR https://ec.europa.eu/info/sites/info/files/mifid-mifir-its-rts-overview-table\_en.pdf and through the following link for EMIR https://eur-lex.europa.eu/eli/reg\_del/2017/1800/oj.

As of 3 January 2018, ESMA and the national competent authorities started collecting transaction level data from the investment firms and the trading venues as well as the reference data on financial instruments as defined above.

EMIR entered into force on 16 August 2012 and financial institutions and non-financial corporations started reporting derivatives transactions to authorized trade repositories on 12 February 2014. After the reporting go-live it has become evident that the lack of a common format for data access by authorities hampers the consolidation and processing of data received from various TRs.

Taking into account the large data volumes and the daily frequency of the data collection, the aim is to establish a full automation of the data flows between investment firms, trading venues, the trade repositories, ESMA and the national competent authorities (NCAs). In this regard, it is intended to prepare a full standardisation of the underlying taxonomy and data transmission format based on the ISO 20022 standard.

To facilitate the reporting required by MiFID II / MiFIR and EMIR as specified in the Regulatory Technical Standard, ESMA aims at adopting a set of ISO 20022 reporting messages, that the reporting institutions will implement to provide the required information by sending separate files for each type of reporting:

* Reference data information for all financial instruments traded or admitted to trading on the trading venues;
* Transparency data information for equities and non-equities instruments;
* Transaction data, in the scope of the regulation, to be reported by investment firms, trading venues and Approved Reporting Mechanisms (ARMs);
* Weekly reporting of positions in commodity derivatives;
* Data on volumes of trading of equity instruments for the purpose of the volume cap mechanism;
* Derivatives transactions data, in the scope of the regulation, stored by the trade repositories, including statistics on data quality and reconciliation;
* Aggregated positions in derivatives calculated by the trade repositories.

The new messages will use the ISO 20022 Business Application Header (BAH) without repeating header elements within the message.

The submitting organisation wants to deploy the future messages in the default ISO 20022 XML syntax only.

The submitting organisation expects to develop two sets of messages:

* One set composed of 16 messages for MiFID II / MiFIR regulatory reporting
* One set composed of 6 messages for EMIR regulatory reporting

The proposed business area for the two sets of messages is “auth”.

Based on the scope, the submitting organisation proposes to assign the Securities Standards Evaluation Group(s) (SEG) for the evaluation of the candidate ISO 20022 messages, once developed.

# Purpose of the new development:

As MiFID II and MiFIR constitute a new data collection, there are no existing ISO 20022 messages containing a comparable set of information as the intended new messages for the transmission of the respective data required for regulatory reporting purposes. Where existing ISO 20022 messages are used for the transmission of information about the settlement and reconciliation of transactions between the market agents; the proposed new messages will take this into account by using existing ISO 20022 business concepts and by registering additional business concepts whenever required to address the MiFID II and MiFIR requirements.

Although the EMIR reporting has been in place since February 2014, no common standard has been set and trade repositories were free to choose any existing standard or develop their proprietary solutions. Therefore, similarly to MiFID II / MiFIR reporting, there are no existing ISO 20022 messages that could be used for the EMIR data. Moreover, as part of the revision of specific rules of the EMIR in 2017, ESMA has proposed to extend the scope of information to be reported to trade repositories, and then to authorities.

Rather than modifying the existing messages used for business purposes to comply with the requirements for the regulatory reporting, it is proposed to develop specific regulatory reporting messages complying with the regulation requirements. By adopting the ISO 20022 methodology the new messages will also bring significant gains in efficiency for processing of the data which will provide a further incentive for a prompt implementation.

Building on the adoption of the ISO 20022 standard by the European System of Central Banks for the Money Market Statistical Reporting and the Bank of England for the Sterling Money Market Daily reporting obligations, the adoption of the ISO 20022 standard for the MiFID II, MiFIR and EMIR reporting obligations continues to develop and promote adoption of the ISO 20022 standard in the regulatory reporting business space.

# Community of users and benefits:

The community of users for these new messages is represented by the investment firms, ARMs, the trading venues, systematic internalisers, trade repositories, that are subject to reporting requirements; and the NCAs (as regards the EMIR data, it also includes the European Systemic Risk Board (ESRB), Agency for the Cooperation of Energy Regulators (ACER), central banks and other relevant institutions) and ESMA.



1. Benefits/savings:

The proposed messages will improve the efficiency of the internal data processing of the reporting institutions as it will make use of existing ISO 20022 business concepts. In this way reporting institutions which are already using ISO 20022 will be able to apply consistent definitions of the information to be reported and re-use the existing data from their internal systems for the regulatory reporting. At the same time ESMA will profit from the adoption of these messages as the usage of business concepts from the ISO 20022 standard will allow to apply consistent definitions and automate processing of the received data. It will make possible to collect the data at a daily frequency and to process the data in a very timely manner. Additionally, the usage of standards is likely to improve data quality and ensure global semantic interoperability with all other ISO 20022 based systems.

1. Adoption scenario:

The adoption of the new messages will take place as soon as the investment firms, the approved reporting mechanisms, the trading venues and the systematic internalisers are mandated to use the developed messages for the reporting of the data, following the implementation of MiFID II and MiFIR in January 2018.

As per regulation (EU) No 2017/1800[[1]](#footnote-2), the trade repositories shall use the ISO 20022 messages to provide derivatives data to relevant authorities. This obligation applies from November 2017. The draft versions of the ISO 20022 messages have been used by the trade repositories and the competent authorities since 2016.

1. Volumes:

With the start of the reporting obligation a few thousands of investment firms and approved reporting mechanisms will start reporting their transactions to the National Competent Authorities on a daily basis using the proposed messages. Therefore, if reporting institutions transmit only one file with all transactions per transaction type and per day (as currently envisaged), a total of more than 5,000 messages would be sent per day. For each data message there will be a status advice message and in case of error some additional messages for the resubmission of corrected data; therefore, the total number of messages exchanged daily will likely be higher. The total number of transaction records exchanged may amount to more than 50,000,000 daily.

ESMA and the NCAs expect more than 300 trading venues to submit at least one message daily containing instrument reference data. The total number of instruments being subject to this reporting may amount to 8,000,000.

The EMIR trade data can be currently reported to 8 trade repositories registered by ESMA and shall be made available by them to over 100 authorities. On average, over 60 million reports are submitted to trade repositories every day.

1. Sponsors and adopters:

Once endorsed by the European Commission, the new Regulatory Technical Standard (RTS) for MiFID II and MiFIR will enforce the adoption of the new messages by all reporting institutions for the reporting obligation which is expected to start in January 2017 as indicated in the regulation and in the adoption scenario. Furthermore, ESMA and the national competent authorities will implement the processing of the new messages before the start of the reporting.

The EMIR messages will be used by ESMA and certain NCAs in a new system that will provide a single access point to trade repositories data. This system was launched in 2016 and has been using draft versions of the messages so far. The system will be extended to accommodate additional messages by mid-2019. The existing draft messages have been also adopted by some other authorities entitled to access the trade repositories, in particular the ESRB, central banks and other specified in the relevant regulation.

# Timing and development:

The submitting organisation submitted the two sets of messages, for EMIR and MiFIR, in 2016. The messages set for MiFIR reporting was registered in 2017 whereas the messages set for EMIR reporting has not been registered yet.

The submitting organisation expects to resubmit to the RA the EMIR messages set including updates to the existing draft messages as well as new candidate messages by Q4 2018.

# Commitments of the submitting organisations:

The submitting organisation confirms that it can and will:

* undertake the development of the candidate ISO 20022 business and message models that it will submit to the RA for compliance review and evaluation. The submission will be compliant with the [ISO 20022 Master Rules](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) and include a draft Part 1 of the Message Definition Report (MDR) compliant with the [template for MDR part 1](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) provided by the RA, the [ISO 20022 Message Transport Mode](http://www.iso20022.org/documents/general/MessageTransportModes.xls) (MTM) that the submitting organization recommends to consider with the submitted message set
* address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.
* promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

The submitting organisation confirms that:

* it will inform and consult the market on the transaction reporting messages but it does not intend to organize any testing of the candidate messages once they have been reviewed and qualified by the RA and before their submission to the SEG(s) for approval.
* It is committed to undertake the future message maintenance.

The submitting organisation confirms the knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows:

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free license to use the published information”.

# Contact persons:

Lukasz Popko

lukasz.popko@esma.europa.eu

Tel: + 33 1 58 36 65 19

Cyril Minoux

cyril.minoux@esma.europa.eu

Tel: +33 1 58 36 51 47

# Comments from the RMG members and disposition of comments by the submitting organisation:

* **Comments from Canada:**

Comments on Business Justification (BJ): Financial Instruments and Transactions Regulatory Reporting

Supported.

The Securities SEG should be considered to undertake the work effort.

It will need to create a specific ET (evaluation team).

Charles-Raymond Boniver is available to represent Canada.

**Disposition of Canadian comments by ESMA:**

*ESMA welcomes this positive feedback and wishes for close cooperation in the following phases of the messages registration process*

* **Comments from European Central Bank (ECB):**

The ECB welcomes and supports ESMA’s Business Justification for the development of MIFIR/ MIFIDII and EMIR reporting messages following ISO20022 standard.

ECB representatives are ready to actively participate in the message evaluation team.

**Disposition of ECB comments by ESMA:**

*ESMA welcomes this positive feedback and wishes for close cooperation in the following phases of the messages registration process.*

* **Comments from ISDA/FpML:**

ISDA/FpML has the following questions and comments regarding the above mentioned BJ:

Why does the submitting organization want to deploy the future messages in the ISO 200022 XML syntax only? This seems an unnecessary limitation and not in line with the ESMA decision in the draft technical standards which state “a common XML format and in accordance with ISO 20022 methodology”.

**Disposition of FpML comment by ESMA:**

*The decision to use only the ISO 20022 XML syntax has been made after the analysis of different requirements and criteria, where the most important were the following:*

* *As per the regulatory reporting requirements of MiFID II / MiFIR and EMIR the relevant information shall be provided to numerous competent authorities, i.e. more than 30 authorities in the case of MiFIR II / MiFIR requirements and more than 60 authorities in the case of EMIR requirements;*
* *The reporting solution shall ensure that the reported information is of high quality, can be easily aggregated and exchanged at the European level.*

*Taking into account the above criteria, ESMA considers that it is necessary to introduce strict requirements with regards to the syntax to be used for the provision of the required information to different competent authorities. Allowing many alternative syntaxes would seriously hinder the quality, the comparability and the easiness to exchange the information at the European level as well as would also multiply the development and running costs to be borne by the regulatory community. The ISO 20022 XML syntax satisfies these requirements as it has been already successfully implemented in pan-European projects related to the exchange of financial information (e.g. MMSR, T2S, SEPA).*

*ESMA is also aware of the commitment of organisations governing different standards (e.g. FIX, FpML and others) to incorporate these standards in the ISO 20022 business and logical layers. ESMA however understands that this coordination effort has not produced any concrete deliverable yet since the transformation rules from the logical layer to the physical layer in these alternatives have not been defined. Therefore, ESMA considers that the only available syntax that is compliant with the legal requirements stated in the relevant MiFIR and EMIR draft technical standards is the ISO 20022 XML syntax.*

Given the scope of the messages and following the discussion in the RMG regarding the formation of a derivatives sub-SEG, the derivatives sub-SEG seems the right place for the evaluation of the candidate ISO 20022 messages, once developed.

**Disposition of FpML comment by ESMA:**

*ESMA welcomes the proposal to establish a specific derivatives sub-SEG and will follow the ISO 20022 procedures. In addition, we expect that based on the scope of the legal requirements and the messages included in this BJ the RMG will also propose to involve other relevant SEG(s) in the review of the messages.*

While we acknowledge the mandate to develop the 20022 messages once the draft RTS is endorsed by the EC, we question the benefits/savings mentioned on page 5 for reporting institutions. None of the reporting institutions are using ISO 20022 in the area of derivatives reporting (but might well be in other areas). The reuse of existing business concepts in the case of derivatives will be limited, the reuse of data non existent. We are concerned that, based on this assessment, ESMA is underestimating the efforts that will be involved and the time required for reporting parties to use the new message set.

**Disposition of FpML comment by ESMA:**

*The MiFIR and EMIR reporting requirements apply to a very broad community of market participants, different types of transactions and different instruments (far beyond just the derivatives). Many of the European financial institutions have already implemented the ISO 20022 standard in their business processes and IT systems. Even if the use of ISO 20022 standard in certain areas may require increased development costs, globally, taking into account the previously explained specific requirements of the European regulations and the complexity of the regulatory environment as well as the fact that many financial institutions are subject to many different reporting requirements, it will be more beneficial to develop one standard supporting all the regulatory requirements rather than use different standards for different regulations and subsets of information (e.g. one standard for information on equity instruments and another for information on derivatives).*

*Having performed an initial analysis of the scope of the ISO 20022 business dictionary, ESMA also considers that the MiFID II / MiFIR and EMIR reporting requirements are already supported by ISO 20022 to large extent.*

Given the scale of adoption that is required and the strict timelines for reporting parties to be in compliance with the RTS, can the submitting organization specify how it plans to inform and consult the market on the transaction reporting messages as stated on page 7?

**Disposition of FpML comment by ESMA:**

*ESMA shares the concerns regarding the limited time for the implementation of the reporting requirements. Although the formal procedure assumes that the ISO 20022 registration process is sequential and the development of the messages starts after the approval of the business justification, ESMA has already initiated the detailed analysis and the development of messages and is also conducting consultations with respective groups of the future users of the messages.*

*In particular, an early draft of the message for transaction reporting under article 26 of MiFIR has been published as an annex to the Consultation Paper on Guidelines on transaction reporting, reference data, order record keeping & clock synchronisation (*[*https://www.esma.europa.eu/press-news/consultations/guidelines-transaction-reporting-reference-data-order-record-keeping-clock*](https://www.esma.europa.eu/press-news/consultations/guidelines-transaction-reporting-reference-data-order-record-keeping-clock)*). Following the consultation period which ends on 23 March 2016, ESMA plans to finalise the Guidelines later this year. Per the ISO 20022 methodology and governance, the messages will also be reviewed by the market representatives in the Standards Evaluation Group.*

Has the submitting organization considered reporting requirements in other jurisdictions and whether those should be in scope for these regulatory reporting messages or whether the scope is limited to the specific ESMA requirements?

**Disposition of FpML comment by ESMA:**

*ESMA would like to clarify that in all its developments it shall strictly follow the legal empowerment of the respective legislation. Therefore, ESMA cannot extend the scope of its reporting requirement to requirements from other jurisdictions.*

*However, we would like to underline that the messages covered by this business justification are not labelled ESMA specific and, in case it is justified, they can be reused in other reporting processes.*

**Comments from Switzerland:**

The Swiss RMG delegation welcomes the opportunity to request further clarifications on the following topics:

1. Applicable regulation and applicable authority

The business processes and message flows proposed to be standardised by this BJ are specific to EU regulation, actors and their roles and, in particular, are centred around an EU authority (ESMA).

It may be that equivalent processes exist in financial markets outside of the EU, independently of whether or not such markets have business interactions with actors in the EU and whether or not such markets are influenced by EU regulation.

The submitter of the BJ should therefore ensure that requirements of communities outside of the EU are taken into consideration, independently of whether or not such markets have business interactions with actors in the EU and whether or not such markets are influenced by EU regulation.

**Disposition of Swiss comment by ESMA:**

*ESMA would like to clarify that in all its developments it shall strictly follow the legal empowerment of the respective legislation. Therefore, ESMA cannot extend the scope of its reporting requirement to requirements from other jurisdictions.*

*However, we would like to underline that the messages covered by this business justification are not labelled ESMA specific and, in case it is justified, they can be reused in other reporting processes.*

2. Message flows proposed

The BJ stipulates two separate message sets with 16 and 5 messages, for MiFID II/MiFIR and EMIR regulatory reporting, respectively. Based on the information provided with the BJ, it does not become clear why the two message sets with exactly the stated number of messages are required.

The business processes and the messages required should be the outcome of the modelling exercise. Therefore, the definitive number of messages should be determined at a later stage.

**Disposition of Swiss comment by ESMA:**

*ESMA has already initiated the detailed analysis of the requirements and expects the number of new messages as indicated in the business justification. This estimation may however change when the detailed modelling is completed.*

3. Physical syntax

The BJ proposes to develop the messages in the XML physical syntax only.

It is believed that, for some parts of the business processes covered by the BJ, the FIX protocol and syntax is a more widely used physical syntax. This applies, amongst others, to reporting processes.

As the FIX syntax has previously been accepted as an ISO 20022 domain-specific syntax, it is suggested that the submitter consider, for those flows for which FIX is a common physical syntax, to support, in addition to the XML syntax, FIX as an ISO 20022 domain-specific syntax and to provide the pertinent transformation rules. This flexibility in relation to the applicable physical syntax is expected to ease adoption of the proposed business processes and message flows by more closely responding to requirements of the financial markets regarding messaging technologies already in place.

**Disposition of Swiss comment by ESMA:**

*The decision to use only the ISO 20022 XML syntax has been made after the analysis of different requirements and criteria, where the most important were the following:*

* *As per the regulatory reporting requirements of MiFID II / MiFIR and EMIR the relevant information shall be provided to numerous competent authorities, i.e. more than 30 authorities in the case of MiFIR II / MiFIR requirements and more than 60 authorities in the case of EMIR requirements;*
* *The reporting solution shall ensure that the reported information is of high quality, can be easily aggregated and exchanged at the European level.*

*Taking into account the above criteria, ESMA considers that it is necessary to introduce strict requirements with regards to the syntax to be used for the provision of the required information to different competent authorities. Allowing many alternative syntaxes would seriously hinder the quality, the comparability and the easiness to exchange the information at the European level as well as would also multiply the development and running costs to be borne by the regulatory community. The ISO 20022 XML syntax satisfies these requirements as it has been already successfully implemented in pan-European projects related to the exchange of financial information (e.g. MMSR, T2S, SEPA).*

*ESMA is also aware of the commitment of organisations governing different standards (e.g. FIX, FpML and others) to incorporate these standards in the ISO 20022 business and logical layers. ESMA however understands that this coordination effort has not produced any concrete deliverable yet since the transformation rules from the logical layer to the physical layer in these alternatives have not been defined. Therefore, ESMA considers that the only available syntax that is compliant with the legal requirements stated in the relevant MiFIR and EMIR draft technical standards is the ISO 20022 XML syntax.*

1. <https://eur-lex.europa.eu/eli/reg_del/2017/1800/oj> [↑](#footnote-ref-2)