



ACT for SFTR

Dean Bruyns of Broadridge runs through the pillars of ACT: three guiding principles to help with firm's regulatory reporting

Regulators demand that reporting be accurate, complete, and timely. This conveniently lends itself to an easily remembered acronym: ACT. When determining your regulatory reporting strategy, ACT is short, simple and significant, and should be your guiding principle.

However, unlike other regulations, ACT for the Securities Financing Transactions Regulation (SFTR) is often a side conversation, with most of the airtime given to daily operational functions like matching and reconciliation.

These activities are of course important. However, regulators have indicated that they want reporting to reflect what is in firms' books and records, rather than have data copied or manufactured in an attempt to improve matching rates.

Market participants should adopt a generic reporting strategy and process that can be implemented

universally across client bases and that can cover all trade scenarios. Once you have established this base, you can then adapt the support services to cater for the different flavours of counterparty and trade flows.

It is equally important to build an all-inclusive and robust reporting infrastructure around the business, which follows ACT principles as its pillars for compliance. You can then use specialist service providers to complement the function, not determine it.

Accuracy

Accuracy means reporting your books and records, including imperfections, even if they don't match your counterparty's version of events.

From a regulatory perspective, a fully matched report is not necessarily an accurate or compliant one.

Accuracy first, matching and reconciliation second

When you create too much pressure on matching and reconciliation and that becomes the primary focus, you run the risk of forcing a match, when in reality it may not exist. The regulator has made it very clear that they want to see your book, as you genuinely see it. You cannot fudge, fix or fit it into a report that doesn't represent the truth.

Completeness

Completeness is a principle upon which the industry is spending significant time and focus. The data field analysis market participants and industry associations are undertaking is yielding informative results. This analysis is raising further questions and prompting discussion on where gaps exist and where enrichment and derivation is required. The progress and direction in this principle are sound and should continue along this vein.

A recent example of completeness under discussion is the backloading obligation. This requires the firm to manage most open pre-go-live trades as a separate trade population and exclude them from reporting. The exception to this is when they meet the criteria for the 180 day rule. For convenience, some counterparties are tempted to report their entire book at go-live, rather than manage the back loaded trade population separately. Aside from unnecessarily enlarging the exception queue, this takes completeness a step too far and would constitute over-reporting.

A first-rate regulatory reporting specialist, with experience of helping clients report accurate, timely and complete data across multiple jurisdictions, will help you to effectively manage your backloaded trade population.

Timeliness

Last but not least, is the principle of timeliness.

Efficiently managing the relentless waves of data will require a dialled-in reporting infrastructure, collaboration between service providers and no time wasted on superfluous tasks.

Time and resources are scarce, so it is vital to carry out a detailed analysis to assess the level of reporting effort the firm can perform within the restraints imposed. This is particularly true for those considering additional workflows that are not required by the regulator. You must not allow these superfluous factors to impede your progress or delay your counterparty in meeting their reporting obligation.

Those mandated by the regulator to generate and share Unique Transaction Identifiers should also do so quickly and freely, while those under contractual obligation should adopt the same sense of urgency.

Demand timely collaboration from your service providers and insist on trading with responsible counterparties who are proactive in their approach to reporting so that no time is lost and the wheels keep on turning.

Use ACT for guidance whenever regulatory reporting decisions have to be made and the consequences evaluated. Follow your intended roles and responsibilities as determined by the regulator and let others fulfil theirs.

Don't overcomplicate

The ability to create a consistent and universal reporting methodology which does not compromise on accuracy, ensures completeness and meets time constraints, will be a core competence in the new era. It is important to keep it simple, avoid getting side-tracked and follow the principles of ACT to keep you compliant. **SLT**



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