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'Congestion' looms for EU trade reporting

A likely deadline of January 1, 2014 for the start of mandatory trade reporting for equities, commodities and foreign exchange in Europe could result in year-end 'congestion' as market participants struggle to meet their obligations under the European Market Infrastructure Regulation (Emir), market participants have warned.

Speaking during a live webinar hosted by *FX Week* on June 5, industry participants highlighted the challenges of beginning to report FX trades in January, given reporting is expected to begin in November for credit and rates, followed closely by the second batch of asset classes, which would include FX.

"Congestion is a good word for it," said Louise Goddard, vice-president and market initiatives lead for global finance and foreign exchange at Deutsche Bank in London. "If we consider we may be implementing European reporting for rates and credit in November or December; we've got Hong Kong reporting possibly in November or December as well; and on top of that we will all be working on year-end accounting and client statements. Clearly January 1 is a difficult date to meet with all that going on, and there is a feeling across the industry of whether we perhaps should reconsider that date."

US trade reporting for FX under the Dodd-Frank Act was originally due to begin in January this year, but was pushed back to February 28 – for trades involving swap dealers and major swap participants – due to delays caused by Hurricane Sandy in October 2012.

Under Emir, rules laid down by the European Securities and Markets Authority (Esma) mandate that trade reporting should begin 90 calendar days after the first repository is officially registered. Would-be repositories, including the DTCC, are now going through the registration process with Esma, and as long as at least one repository is registered by October 1, participants expect the reporting deadline to be January 1, 2014.

But there are a number of differences between the reporting rules in Europe and the US, the most significant of which is that European reporting requirements fall on all market participants, including both financial and non-financial counterparties. That means a single trade needs to be reported by both parties and buy-side firms cannot leave it up to the banks to do the reporting (*www.fxweek.com/2270398*). That is something many firms are still not fully aware of, warned David Thomas, London-based trade repository programme manager at DTCC Deriv/Serv, which submitted its repository application to Esma in March.

David Thomas, DTCC Deriv/Serv

"I have spoken to a number of firms that do not have clarity about what their obligations are – it sounds obvious and trite, but that's the first thing they need to do. There are some aspirational desires that some aspects of this will go away, but in reality there is no reason they will. Be clear-minded about what your obligations are. Following that, there are questions of looking at which paths are open to you – do it yourself, work with your dealers to use a delegated reporting model, or use a third-party provider to assist you," said Thomas.

Patrick Philpott, president of post-trade technology provider DealHub in New York, echoed the warning, adding that participants need to clearly establish how they are classified under Emir and, by extension, what their reporting obligations are.

"Whether they report or someone reports on their behalf, they are going to have to start recording and communicating information on why they did the deal, as well as their counterparty classification. Read the regulations, look at the data requirements and particularly look at counterparty requirements, because you need to figure out how you are storing the information and how to make it available to regulators, repositories, or someone who reports for you," said Philpott. FX

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To watch the full recording of the webinar, visit http://tinyurl.com/k3fatvk.