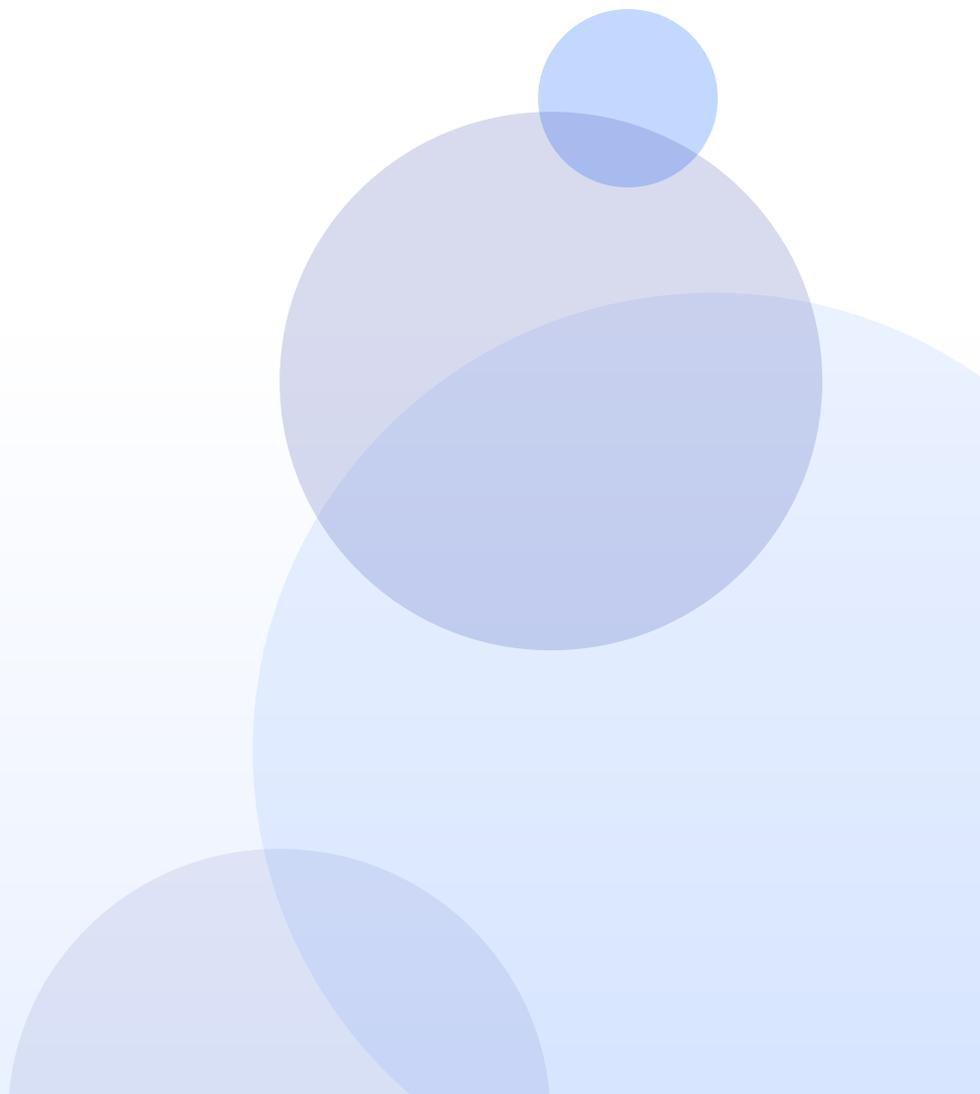




MiFID II data reconciliation

A practical guide



Reconciliation is mandatory under MiFID II

Duco Cube is live in 24 hours with
MiFID II recs up and running in a
week. Just bring your data.

Under MiFID II there is a requirement for all firms to carry out regular reconciliations of their front office records against data reported to the regulator. Due to the wide-ranging obligations of MiFID II, there is also significant data risk inherent in the process of reporting.

The consequence is that all firms need a robust, flexible solution for data validation and reconciliation. Duco Cube, with its immediate implementation and unrivalled time to market is the ideal solution to mitigate these impending data risks.

This whitepaper summarises the major reconciliation challenges of MiFID II, what firms need to do, and why Duco Cube is fast becoming the only practical solution to implement independent checks ahead of the deadline.

Basic requirements

Duco Cube is used by tier one institutions globally for MiFID, MiFID II, EMIR & Dodd-Frank.

MiFID II, or technically MiFIR, is clear on the subject of reconciliation. According to article 15, transacting firms need to take reasonable steps to ensure that what is being reported accurately reflects their own activity.

While this in itself poses a challenge, it does not tell the whole story. There are many other complexities firms need to negotiate in order to remain compliant.

At a minimum this means all firms need to carry out a 'bookend' rec to check that the original data is in line with the final submission. Firms in scope include:

- Buy-side institutions either reporting themselves, or delegating to their sell-side service providers
- Sell-side institutions reporting through an ARM or on their own behalf
- Exchanges and ARMs reporting on behalf of their members

“ Investment firms shall have arrangements in place to ensure that their transaction reports are complete and accurate. Those arrangements shall include testing of their reporting process and regular reconciliation of their front-office trading records against data samples provided to them by their competent authorities to that effect. ”

*The Markets in Financial Instruments Regulation (EU)
No 600/2014, Article 15, Clause 3*

Key challenges

Under MiFID II the scope of reportable instruments, trading venues and amount of information required is increasing dramatically. Reporting will become much more onerous for market participants, while the penalties for non-compliance will increase

Due to these complexities, existing reporting mechanisms will be replaced by more widespread use of Approved Reporting Mechanisms (ARMs) for transaction reporting and Approved Publication Arrangements (APAs) for trade reporting.

In the following pages we will explore the practical implications these factors will have on your business, and how Duco's approach to quick and accurate data reconciliation can help.

1

Managing data risk

Firms face a complex web of reporting requirements

2

Hitting the deadline

Time is extremely tight before 3 January 2018

3

Ensuring data quality

There are far more reportable fields and instruments in scope

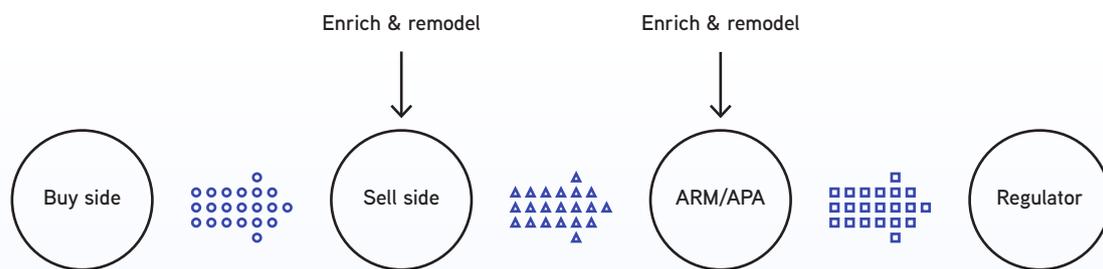
Managing data risk

Data risk is an increasing problem in the financial industry, due to the number of processes data needs to go through between its source and its destination. Under MiFID II, reporting data may need to pass through a number of external firms before it gets to the regulator. Each step may include transformation and enrichment layers, potentially introducing errors and mismatches.

Legacy systems and processes in the chain will increase the probability of error, particularly considering the amount of supporting reference information required: LEIs, HR records, MICs, ISINs, ESMA eligibility checking, etc. This data will often arrive at different stages of the process, potentially causing systems to fall out of sync.

The problem may be exacerbated for buy side firms delegating reporting to their sell-side service providers. If service providers are required to enrich the data, the report to the regulator cannot help but differ from the view of the transaction held by the originating firm.

Ultimately, the further removed a transaction is from the regulator, the more likely it is that errors will occur. Furthermore, it becomes increasingly difficult to track these errors back to the source. The consequence is higher costs through manual work, and the potential for fines due to inadequate controls.



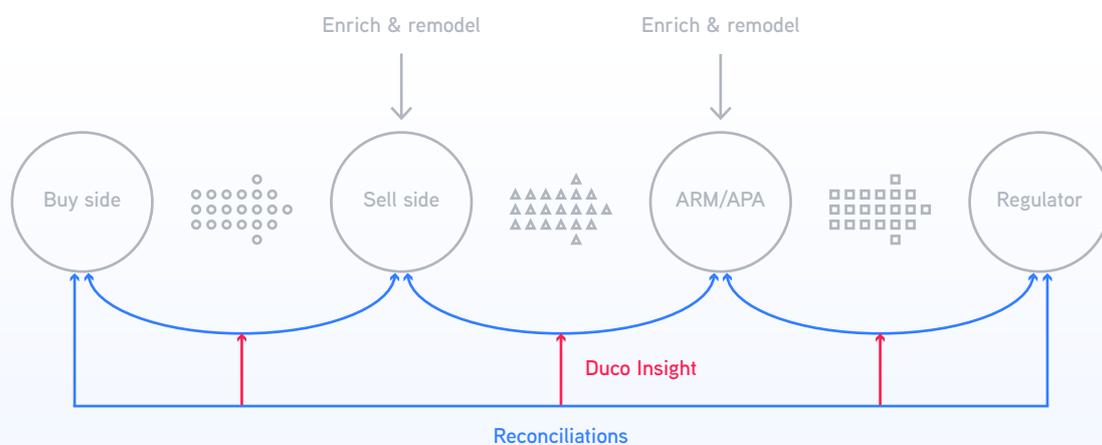
How MiFID II data can change during the reporting process

Managing data risk

Duco Cube is the market's leading self-service reconciliation platform

Duco Cube is a powerful and flexible reconciliation platform that can easily perform the bookend reconciliation between the trading firm and regulator. This process can be built in a fraction of the time required by legacy systems.

The platform can also be quickly configured to reconcile data between the transitions in the reporting lifecycle, ensuring the data remains consistent throughout. With Duco Cube's Insight module, firms can then link the outputs of each reconciliation, enabling users to navigate directly to any underlying issues if and when they occur.



Duco Cube ensures data consistency at every step

Key challenge 2

Hitting the deadline

With the January 2018 deadline fast approaching, it's clear that any firms not fully prepared for MiFID II are running very short of time. Achieving compliance means getting a long list of things ready, including:

Setting up trading systems and CRMs to cater for new venues and customer classifications

Sourcing and integrating the additional data required for reporting

Identifying responsibilities to clients and the regulator

Signing up to an ARM if necessary. If reporting without an ARM, putting in place an extensive checking and routing infrastructure

3 January 2018

Depending on a firm's existing setup, it may be that the mandated bookend reconciliation is just the tip of the iceberg. At Duco some of our clients need upwards of 60 new reconciliations to be built and tested by January.

Firms will then need to factor in procurement cycles and the large amount of analysis / preparatory work needed before the reconciliations can go live. For many firms the deadline is going to be extremely tight – and potentially impossible to achieve with their current tools.

Hitting the deadline

The industry average time to set up a reconciliation is 64.4 days*. With Duco Cube it's under 3 hours.

*Source: "Reconciliation Trends in 2016: Regulation and Nervous Recs", Aite Group

Duco Cube enables operations teams to build and test reconciliations iteratively, by leveraging our intelligent processing technology and unique 'natural rule' language. Reconciliation processes are up and running in a fraction of the time required by traditional solutions.

The platform also promotes flexibility and agility within the firm. Business users can build processes immediately to the current MiFID II specifications. Then, as the deadline nears, any new requirements can be incorporated, tested and published into production with minimal risk.



Ensuring data quality

The number of fields for transaction reporting is growing from 24 to 65, while the asset classes in scope are expanding to nearly the entire universe of financial instruments.

For many of the new fields the format and structure of the data will vary depending on the instrument traded. This is particularly true of the 'instrument details' in fields 41-56. These will need to have their own requirements for validation and potentially their own reconciliations.

With traditional systems, setting up reconciliations for each asset class in scope will be a long and laborious process. Any changes – such as an extension of the business, a new client, or an amendment to the regulation – will exacerbate the problem. Furthermore, most systems have fixed or inflexible data schemas requiring, for example, cleansed and consistent primary keys in order to perform the match.

Another requirement is the need to include confidential data in reports, such as the name, date of birth and ID number of all relevant individuals ('natural persons') involved in the trade. Potentially exposing this information would be extremely serious from a privacy point of view.

This sensitive data will need to be sourced from both the trading entity and the ARM on a regular basis. Reconciling it introduces a significant level of risk, particularly for firms who have not previously had to deal with such information in this way before.

Fields that vary by instrument type

- 32. Derivative notional increase/decrease
- 40. Complex trade component ID
- 41. Instrument ID code
- 42. Instrument full name
- 43. Instrument classification
- 44. Notional currency 1
- 45. Notional currency 2
- 46. Price multiplier
- 47. Underlying instrument
- 48. Underlying index
- 49. Term of underlying index
- 50. Option type
- 51. Strike price
- 52. Strike price currency
- 53. Option exercise style
- 54. Maturity date
- 55. Expiry date
- 56. Delivery type
- 63. OTC post-trade indicator
- 64. Commodity derivative indicator
- 65. Securities financing transaction

Ensuring data quality

Duco Cube is data agnostic.
You can load your data as it is,
without transformation projects.

With Duco Cube firms are not constrained by restrictive data models or the need for lengthy ETL processes to transform and pre-process the data.

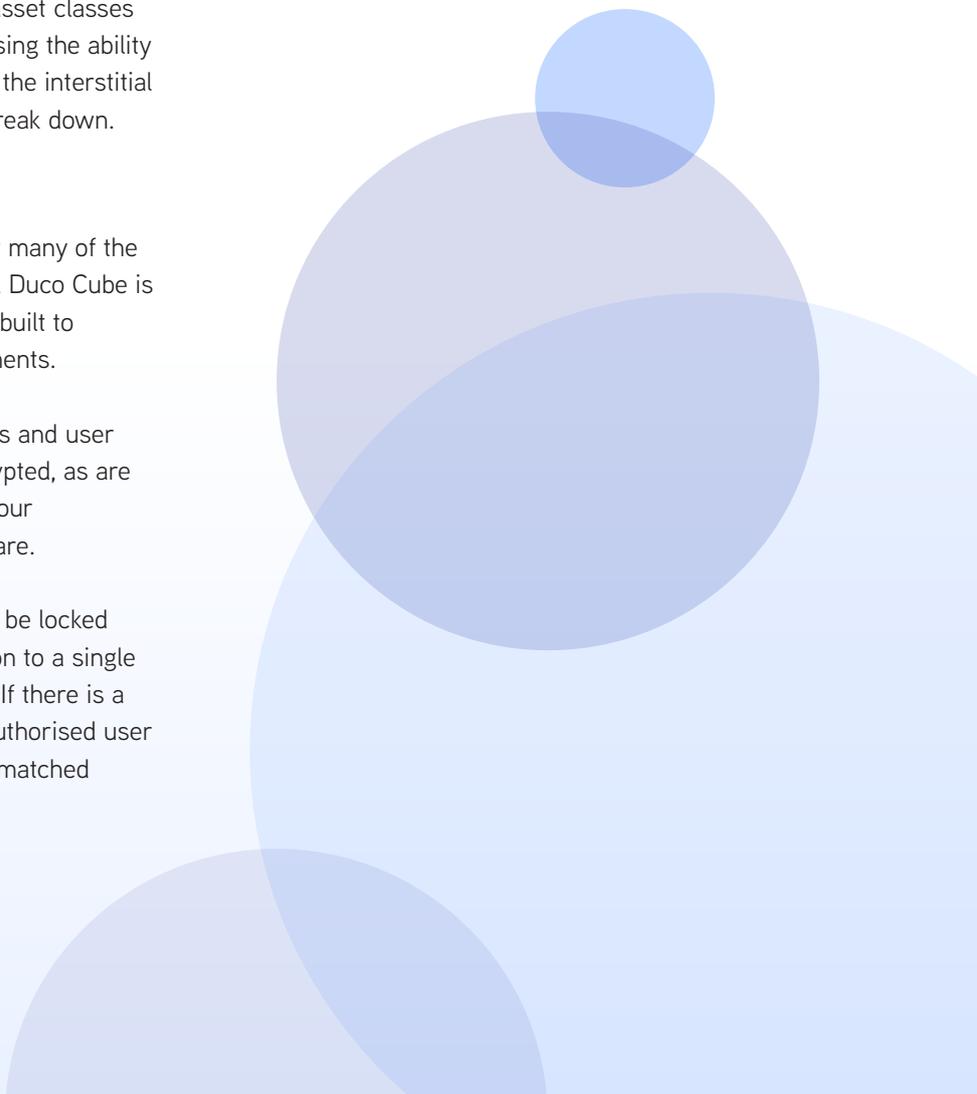
Instead, they can quickly take new asset classes or market segments live, without losing the ability to monitor output, or losing sight of the interstitial processes where their data could break down.

Duco Cube is fully secure

As a hosted service in operation for many of the world's largest financial institutions, Duco Cube is ISO 27001 compliant and has been built to support strict data privacy requirements.

All transmissions, file transfers, APIs and user browser connections are fully encrypted, as are the securely hosted file systems in our privately-provisioned rented hardware.

In the platform, individual fields can be locked down using 2048 bit RSA encryption to a single authorised user who holds the key. If there is a mismatch on a sensitive field, the authorised user can unmask the field to see the mismatched values and resolve the exception.



Act now to ensure compliance

Even though there are just months to go before the deadline, no-one yet holds all the keys to MiFID II. There is no panacea for the upheaval the regulation will cause. With that harsh truth notwithstanding, there is a great deal firms can do to ease their path to compliance. In particular, firms should look to ensure the accuracy and consistency of data throughout the many phases they will go through between now and the 3rd of January deadline.

Duco Cube can support this process from beginning to end with a range of powerful and intuitive functions which can be deployed in 24 hours. It has the scalability to work for your business, whether you are a niche asset manager trying to ensure the accuracy of your own transaction reports, or a sell side institution or ARM responsible for the accuracy of thousands of client submissions.

Contact us

To learn more about what Duco Cube can do for you, email us at info@du.co or contact us at one of our offices.

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