novatus advisory

Ensuring you reconcile the right way

Reconciliation vs. "Reconciliation"

Reporting accuracy is a key concern for all regulators with failure to comply resulting in significant fines for offending firms. It is a legal requirement for firms to ensure the necessary systems, processes and controls are in place to ensure their transaction reports are reconciled on an ongoing basis.*

The majority of firms are not defining or interpreting reconciliation correctly, and as such, are not meeting the requirements from regulators. In October 2022 the FCA noted "many [firms] are not conducting sufficient checks on their data. Reconciliations should not be limited to certain fields, or to data samples that do not adequately reflect the trading scenarios and asset classes traded by a firm." **

Meeting reconciliation requirements

A firm must be performing the four steps below to ensure reconciliation is correct. There is a common misconception that only steps 2-4 are needed; this is not correct.

If a firm does not undertake the full reconciliation steps it is in breach of regulatory obligations. The firm may be required to back report extensive volumes of transactions, and subject to regulatory sanctions and substantial fines.

Novatus TRA is the only tool available to perform a complete reconciliation.

The Trade Reporting Lifecycle

Insufficient 'reconciliation' being performed and regulatory breach occurring (e.g., exception management erroneously believed to be adequate)

1. Source system data
From Order Management Systems (OMSs)

2. Trade file
Generated from source systems

3. Report submitted to the regulator
Via an Approved Reporting Mechanism

4. Data held by the regulator
(e.g. MDP Portal for the MiFID)

True reconciliation being performed, and all legal obligations being met through the use of the Novatus TRA Tool

**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 - RTS 22, Article 15. ** FCA Market Watch October 2022*

The Novatus TRA Tool

novatus advisory

Our market-leading technology solutions enable firms to meet their most complex regulatory obligations. The Novatus TRA Tool is the only solution that performs a complete reconciliation – tailored to all reporting regimes globally. The tool provides comprehensive control, ensuring that any issues pertaining to accuracy, timeliness and/or completeness are identified and the root cause of these determined.

The Novatus TRA Tool allows a firm to:

- Automate the entire reconciliation process using an independent rules engine based on industry-standard logic
- Identify reporting errors and minimise false positives, ensuring time and effort is focused on true errors
- Generate management information ("MI") and reports for both operations and senior management that facilitate root cause analysis
- Integrate market-leading analytics and reporting capabilities to assess performance and support a risk/volume-based approach to resolving errors

Any necessary remediation can be facilitated by our team of experienced Transaction Reporting advisors

Key Features

Cloud Hosted
All data is stored in a secure cloud environment and meets all relevant data storage requirements. No on-site installation is required

Input and Rules Engine
Full transparency of rules and we will work with you to reduce false positives. Logic is based on ESMA guidance and our extensive industry experience

Strategic MI
Deliver a standard suite of market-leading, ready-to-use reports at senior governance committees. Custom MI can be developed to automate any existing reporting

Exception Management
Drill down on exceptions highlighted within the interactive MI dashboards. Teams can quickly identify the root cause of any issues and resolve these quickly

Automated Testing
Eliminate errors associated with manual in-house solutions. Testing can be conducted more regularly and on larger datasets further reducing the firms' risk

Advanced Analytics
Track the effectiveness of reporting, by analysing trends over specific time periods. Where required, Novatus TRA can be used to manage back reporting

Regulation	Who / what it affects	In scope firms
ASIC	Firms dealing in OTC derivatives must report transactions to an Australian Trade Repository within T+1	Australian registered, formed or incorporated firms. Foreign subsidiaries of Australian Financial Service Licensees
CSDR	Introduces new measures for the supervision of EU Central Security Depositories (CSDs)	All European CSDs and market operators in context of settlement
Dodd Frank	Firms trading OTC Derivatives must report swaps to the CFTC	All Swaps Dealers and Major Swap Participants who trade in the US
EMIR	Firms are required to report all derivatives within T+1 to a Trade Repository	All EU derivatives market participants including non-FS counterparties
MAS	Reporting for financial institutions that operate in Singapore	All financial institutions who trade in Singapore
MiFID II	All eligible trades are required to be reported to the relevant NCA within T+1	All MiFID investment firms who execute trades in financial instruments
SFTR	All SFTs are required to be reported to a recognised TR	All UK counterparties and UK branches of third country CPs

Client Case Study: Manual Reconciliation vs Novatus TRA Reconciliation Comparison (Monthly)

	Manual Reconciliation	Post-Novatus TRA Reconciliation
Exceptions Identified	15 exceptions	1000+ exceptions
Completeness Testing	Unable to quantify	Fully quantified
Sample Size (Data)	5 days of trade data	100% of trades of period assessing
Number of Fields Tested	20 reportable fields	All reportable fields