

## **Why streamlining of transaction reporting by adoption of Single Sided Reporting will not compromise data integrity**

### **1. Introduction**

ISDA has long advocated for EMIR Article 9 and MiFIR Article 26 reporting to discard the current model requiring both counterparties to a transaction to report that transaction to a trade repository or approved reporting mechanism (dual-sided reporting). We believe that a single counterparty to a transaction should be charged with reporting the transaction (single-sided reporting).

Introducing **true** single-sided reporting would significantly reduce reporting costs and administrative workload in alignment with the European Union’s simplification and burden reduction agenda and would enhance consistency with other global reporting regimes.

Double-sided reporting has not delivered high quality, accurate data to regulators. There should be no decrease in reporting quality if a single-sided reporting approach is adopted. Other more effective regulatory obligations (in particular EMIR Article 11 requirements), commercial imperatives and sophisticated market infrastructure together already deliver higher quality data.

### **2. Dual-sided reporting has not preserved the accuracy of EMIR reporting**

ISDA recognizes that the priority of regulators and supervisors, in any reform of financial transaction reporting in the EU, is to preserve their ability to identify and monitor buildup of systemic risk in the case of EMIR, and to detect market abuse and monitor the fair and orderly functioning of markets in the case of MiFIR. We are aware that some authorities have concerns that these objectives would be compromised by the introduction of single-sided reporting, but we disagree with that view.

It is well known that pairing and matching rates for EMIR reporting have been persistently low. Figures obtained from a leading trade repository show that the success rate for pairing is 92.3%, and that for matching is only 81.2%.

In ESMA’s 2024 Report on Quality and Use of Data, the data quality metric DQI 1a shows that 20.5% of outstanding derivatives have discrepancies between the two counterparties at trade level as of 31 December 2024. Data quality metric DQI 1b shows

#### **About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association’s website: [www.isda.org](http://www.isda.org). Follow us on [LinkedIn](#) and [YouTube](#).

that 22.17% of outstanding derivatives have discrepancies between the two counterparties at position level as of the same date. While (according to ESMA's report) these rates improved somewhat after the implementation of EMIR REFIT, this improvement<sup>1</sup> came at the cost of an increased burden on reporting firms of over 90 reconcilable fields, raising the number of reconcilable fields by almost three times the prior requirement. This rose by a further 61 reconcilable fields two years after the start date of the Refit reporting obligations.

### 3. EMIR bilateral risk mitigation requirements deliver reporting accuracy to a high level

However, this data does not paint a true picture of the consistency of counterparties' respective versions of OTC derivatives transactions, which, particularly when driven by other more effective regulatory obligations, commercial imperatives and sophisticated market infrastructure, are much more consistent than these numbers suggest. These low matching figures demonstrate the flawed logic behind trying to reconcile two versions of an OTC derivatives transaction<sup>2</sup> by comparing aspects of that transaction that are often represented differently in each version without affecting the economics of the transaction.

Under EMIR Article 11(1), counterparties to an OTC derivatives transaction are obligated to confirm that transaction in a timely fashion, and to implement robust

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<sup>1</sup> DQI 1a was 33.91% as of 31 May 2024. DQI 1b was 55.16% as of 31 May 2024.

<sup>2</sup> Utilization of machine-executable reporting logic would also increase reporting quality.

A major problem in regulatory reporting is that firms interpret rules differently, even with initiatives like CDE, UPI and enhanced guidance. Because every product or scenario can't be fully standardised, firms build their own logic, leading to inconsistent reporting and reconciliation issues.

It would be more effective for regulators to publish **clear, machine-executable reporting logic** alongside the legal text. A shared, freely available model would allow firms to benchmark their own rules against an official "golden source" or, should they so wish, implement the regulator's code directly, reducing divergence and improving reporting accuracy.

To make executable rules possible, underlying transaction and reference data must be standardised and freely accessible. ISDA recommends using existing standards such as the **Common Domain Model (CDM)**, already deployed in post-trade processes and ISDA's Digital Regulatory Reporting initiative.

If regulators adopted this model and embedded it in technical standards or level-3 guidance, it would harmonise implementation across firms, significantly raise data quality, and support a single-sided reporting framework.

processes to reconcile their portfolios. These measures (which would continue to be required under a single-sided reporting approach) are observably more effective than the pairing and matching requirements under EMIR reporting, with successful confirmation rates much higher than those for pairing and matching.

The requirement to post margin (either to a CCP for cleared transactions or to a counterparty for uncleared transactions) and the need for successful settlement incentivises counterparties to ensure the details in their respective versions of the transaction are consistent. Observed levels of settlement failures are significantly lower than the failure rates for pairing and matching, illustrating that trade capture is far more consistent between counterparties than pairing and matching data suggests.

It is important to note that the benefits of the risk mitigation measures under EMIR Article 11(1) largely extend to transactions reported under MiFIR, as do the incentives of margining and settlement. Certain transactions are in scope of MiFIR but not EMIR (for example, transactions executed by branches of third country entities), and so may be excluded from portfolio reconciliations or not have reciprocal confirmation obligations. However, analogous mandatory clearing and uncleared margin requirement apply in most jurisdictions, and so margining and settlement imperatives still exist for most such transactions. Nonetheless, ISDA recognises that there should be analysis of these scenarios to determine the materiality of any delta. We are ready and able to assist in this analysis and the development of any necessary solutions.

In the case of cleared transactions (which, in terms of volume, form the vast majority of interest rate (and indeed all) derivatives transactions), the CCP is in possession of fully reconciled data. The CCP should be the reporting party for these transactions.

For uncleared trades, the post-trade environment has evolved such that virtually all derivatives transactions executed under an ISDA Master Agreement are electronically confirmed and reconciled in compliance with EMIR Article 11.

As such, regulatory concern should be confined to those transactions that are both uncleared and manually confirmed. Such transactions form an extremely small part of total market volumes. One counterparty to such a transaction is almost always a bank or broker dealer, while the other is typically an unsophisticated non-financial counterparty that trades very infrequently. The bank or broker dealer counterparty will invariably report these transactions in any case. We therefore believe it would be disproportionate for this set of transactions to drive a continued requirement for dual-sided reporting.

#### **4. Delegated reporting will reduce the benefit of the transaction reporting streamlining exercise without preserving reporting accuracy**

It has been suggested in some quarters that expanding the scope of delegated reporting could achieve some or all of the benefits of single-sided reporting. We assume that this refers to mandatory delegated reporting under EMIR Article 9(1a), which stipulates that when a financial counterparty transacts with a non-financial counterparty that has not breached the clearing threshold of any of the classes of OTC derivatives specified pursuant to EMIR Article 10(4)(b), the financial counterparty shall be solely responsible and legally liable for reporting the details of that transaction.

ISDA does not agree that delegated reporting provides the benefits of single sided reporting.

EMIR Article 9(1a) requires the non-financial counterparty to provide the financial counterparty with the details of OTC derivative contracts concluded between them, where the financial counterparty cannot be reasonably expected to possess these. It places responsibility on the non-financial counterparty to ensure these details are correct.

If the intention is that this obligation would be widened to apply in additional scenarios, such as when a financial counterparty transacts with any non-financial counterparty, or when a sell side institution transacts with a buy side institution, this would require the delegating counterparty to build and maintain systems or processes to transmit such data to the reporting counterparty. Although the delegating counterparty can provide this information as pre-defined values which are then applied consistently on all transaction messages, the counterparty nonetheless has in place a process to monitor whether the value(s) changes and subsequently informs the reporting counterparty. Furthermore, counterparties would need to negotiate delegated reporting agreements for each new delegation relationship. Therefore, significant costs and liabilities remain a consideration for the delegating counterparty, and this approach could increase burdens on the reporting counterparties, rather than reducing them.

Certainly, increasing the scope of mandatory delegated reporting would place an increased burden on reporting counterparties, not least by requiring them to support diverse delegation relationships across the various counterparties delegating to them.

Even if the expansion of delegated reporting would *not* equate to a full allocation of responsibility from the delegating entity to the report submitting entity, the benefit of this change is limited for both counterparties. The delegating entity will remain liable for at least some of the data being reported on its behalf, meaning it must have in place robust control procedures to check and validate such data. The costs and resources required to run these control processes will offset much or all of the benefits of delegated reporting.

For sophisticated delegating counterparties, it is possible that implementing connections to multiple reporting counterparties may be more burdensome than maintaining a single

connection to a trade repository, even with the reduction in the amount of data that it would need to process and transmit.

ISDA also disagrees that delegated reporting provides the *purported* benefit of dual sided reporting (that the two versions of the trade enable the cross checking of the data (as argued above, we dispute the efficacy of this reconciliation)). If the economics of both versions of the trade are provided by the same counterparty, these will naturally always match. Therefore, any supposed benefit of being able to identify discrepancies between the two versions does not apply.

## **5. Key enablers of single-sided reporting**

The transition from a dual-sided to a single-sided reporting regime would present certain inherent challenges, but ISDA believes these can be navigated with careful design and industry input.

There is a fundamental requirement to establish which of the counterparties to a transaction is the reporting party. As mentioned above, in the case of cleared transactions, the CCP should report, as it holds fully reconciled and validated transaction data.

For uncleared transactions, it is essential that unambiguous logic is in place to determine the reporting party across all scenarios. This logic must include initial execution and beyond, such as lifecycle events, novations, back reporting of historic trades, and where applicable, continuation reporting for valuation and collateral purposes. It must also cater for all execution scenarios, such as bilaterally between the counterparties and executed on a trading venue, whether through electronic or voice execution. ISDA can assist with this, as it has done in the past in the context of CFTC Part 45 reporting.

MiFIR Article 26 reporting has the additional challenge of requiring both counterparties to report personally identifiable information (PII) relating to the decision maker and the person executing the trade within each respective firm. At present, should MiFIR Article 26 be converted to single-sided reporting, this would mean that the reporting party would have to receive, store and transmit PII relating to its counterparty's personnel. Firms are likely to have concerns about handling counterparty PII. Should OTC derivatives ultimately be reported solely under EMIR Article 9, as contemplated by ESMA's Call for Evidence on a comprehensive approach to simplifying financial transaction reporting<sup>3</sup>, this issue would also become relevant for EMIR reporting.

ISDA understands that a key concern among supervisors is the need to be able to trace activity by potential bad actors as they move from one firm to another. One potential

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<sup>3</sup> [ESMA12-437499640-3021 Call for evidence on a comprehensive approach for the simplification of financial transaction reporting](#)

approach to address this could be for national competent authorities to maintain registers of authorised traders, each with a unique ID that would be retained as the trader moves between employers. Similar approaches are not without precedent, such as the CFTC Associated Person construct.

While they are complex, ISDA firmly believes it is possible to develop solutions to these issues. It is essential that market participants are involved in the development of those solutions, and ISDA stands ready to assist in that process.