

Market Watch 72

This edition in brief

Market Watch 72 details the FCA's recent research on the level of service offered by Data Reporting Services Providers (DRSPs), also known as Approved Publication Arrangements (APAs) and Approved Reporting Mechanisms (ARMs), to clients who employ a DRSP to fulfil their MiFID II regulatory reporting obligations.

Data Reporting Services Providers – Quality of service

Upon sending out a survey to investment firms who use DRSPs (to send transaction reports to the FCA and publish trade reports), the FCA learned that overall client feedback was positive. Despite this, the FCA picked up on a few recurring factors that influenced the quality-of-service DRSPs provide to their clients:

1 - Connectivity

DRSPs offer common access to their service, with investment firms being able to use either Graphical User Interface (GUI) or Application Programming Interface (API) to connect to any APA. Despite very minimal complaints of connection issues, a few firms that did experience such issues found it difficult to access support at DRSP to troubleshoot and resolve the issue.

The FCA states that DRSPs should make the best effort to implement a smooth infrastructure in order to aid investment firms with their technical issues in a prompt and efficient manner (as per onshored RTS 13). The FCA also noted that most firms that faced connectivity issues were able to access quick and helpful support once they had consulted DRSP on the matter.

2 - Data quality

In line with Article 10(5) of onshored RTS 13, APAs should monitor and pick up any incomplete/erroneous trade reports. The FCA has observed that ARMs had normally implemented either the FCA or ESMA transaction reporting validation rules.

The FCA has noted that APAs have exercised additional efforts to spot erroneous reports. Rather than conforming to the list of factors in Article 10(5) of onshored RTS 13, APAs have adopted other practices to further limit errors in reports by checking on whether a trade report is populated with a currency code in the ISO 4217 list, format checks on International Securities Identification Numbers (ISINs), and checks on whether an ISIN relates to an instrument that can be traded on a UK trading venue.

Specific to Article 11(1) of onshored RTS 13, the FCA advises APAs to practice such controls that go beyond the standard validation rules. Overall, the FCA observed good practice in terms of checking/reviewing data to ensure a high quality of reports is achieved.

3 - Fees

The FCA states that upon surveying DRSP clients, 75% of clients indicated that they rate the value-for-money proposition of DRSP services as 3/5 and above. Those who rated value-for-money less were firms with infrequent reporting obligations.

The FCA expects DRSPs to provide clients with services that have the best possible value-for-money proposition. Overall, the FCA has found there has been good value-for-money practice based on client feedback. The FCA further advises DRSP clients to request fee models from other DRSPs in order to compare prices internally and choose the option that offers the best value-for-money.

4 – Unregulated service

The FCA observed that many clients were unaware that were using unregulated ancillary services offered by their DRSP.

This makes the clients vulnerable to regulatory risk of and bear responsibility for any errors or omissions introduced by these unregulated services. Thus, the FCA advises clients to conduct their due diligence on such unregulated services. At the same time, DRSPs should be able to make this distinction in their services to clients. This should include an accurate and comprehensive description of the services.

Overall, the FCA observed good practice in the DRSPs attempts to publish and communicate the unregulated services to clients as well as minimising the effect these unregulated services may have in compromising the data quality of transaction reports.

5 – Barriers to switching

The FCA has learned that the main barrier clients face when switching a DRSP is the cost of project onboarding with a new provider, with onboarding timeframes ranging from 48 hours to 4 months being cited.

In addition, another barrier to switching was the use of wider DRSP group services. This is mainly because the 'one-stop-shop' arrangements offered by DRSPs act as both an incentive to stay and thus a potential barrier to switching DRSP.

The FCA advises DRSPs to review onboarding and offboarding procedures to ensure they do not cause any unnecessary friction, in order to make switching DRSP a smoother process. Further, the FCA encourages DRSPs to disclose information about their onboarding and offboarding procedures in order to promote the degree of transparency.

6 – Overall customer experience

While clients were satisfied with the customer support they received, the FCA noted that a few firms would appreciate more help when it came to preparing for upcoming regulatory changes. The FCA noted good practice with respect to this point, with DRSPs hosting webinars to further help clients with upcoming changes in the regulatory framework. At the same time, the FCA also noted a very small number of formal complaints regarding poor customer service that do not get resolved in a timely manner.

The FCA stresses that DRSPs should attend to and resolve issues raised by clients while maintaining good lines of communication with the client throughout the process of resolving the issues. Overall, the FCA expects DRSPs to hire the right staff, and implement the necessary systems, policies, and procedures to ensure they provide a high-quality service to all clients.