

## **KELER's Announcement No. 5/2018.**

**On The Detailed Rules Of The KELER Trade Reporting Service To The Competent Authority (ARM) And Transparency Reporting (APA) Under MiFID II. /MiFIR**

**Effective from: 5 January 2018**

This Depository Announcement gives details on the rules of the services covered by Points 8.8. and 8.9. of the General Business Rules of KELER Ltd. (KELER), i.e. the services to meet the obligation of disclosure stipulated in Articles 20-21. of Regulation (EU) 600/2014 (MiFIR), and the trade reporting requirement stated in MiFIR Article 26.

## **Rules on the ARM role - Process of ARM reporting**

KELER offers to its clients the service of forwarding to the MNB (Magyar Nemzeti Bank = the central bank of Hungary) the report stated in MiFIR Article 26. (ARM reporting).

The process ensures that the necessary reports are sent to KELER either automatically (web-service) or by manual upload (through the KELER Trade Reporting system). KELER will perform first level format and logic validation of the reports submitted.

Format validation includes some content validation also, for example, not only the length, but the actual value of the LEI codes stated in the report is checked, i.e. reports can contain LEI codes that are actually issued. ARM reports can be sent to KELER in XML or XLSX format. KELER forwards to the MNB the reports in XML format complying with the ISO standard.

The license to be acquired by KELER is valid in all European countries, and thus it is possible to send transaction reports not only to the MNB, but to the competent authority of other countries also. However, it is highlighted that the condition of sending reports to the competent authorities of other countries is the creation of the appropriate communication relationship between KELER and the authority concerned, which requires both time and development. Therefore, sending transaction reports to authorities other than the MNB is subject to individual analysis.

The status of reports sent to KELER is available continuously in the KELER Trade Reporting system, i.e. it can be monitored whether the MNB accepted the reports. Erroneous report confirmations include the error cause also.

The ARM reporting submitted to KELER can include several trades. KELER validates reports and forwards to the MNB the reports that meet format and certain content requirements, erroneous reports are rejected.

Once errors are corrected, instead of the earlier full package only the corrected files need to be submitted to KELER, otherwise the reports already accepted would be rejected as duplicates if they were submitted again.

## **Process of report correction, modification**

Two message types can be sent for ARM reports: new report (New) or cancellation (Cancel).

An earlier submitted report can be amended also, but there is no separate message type for modification: first a cancellation message needs to be sent for the earlier submitted trade, and then a new report is to be sent to submit the necessary amendments.

It is important that in the new report submitted for amendment purposes the transaction reference number originally stated can be used again.

For cancellation, instead of resending the entire report, it is sufficient to state the following data:

- Transaction reference number;
- LEI of the executing legal person and;
- LEI of the submitting legal person.

The transaction reference number and the LEI of the executing legal person clearly identify the trade to be cancelled.

In addition to the reports already accepted by the competent authorities, the reports in pending status can also be cancelled, and thus, if a trade is pending for several days due to the ISIN Code validation, a cancellation message can be submitted for this trade, the cancellation will be executed immediately, and the trade status will change from pending to cancelled.

However, no cancellation message can be sent for the report rejected by the competent authority.

In the case of modification, if no cancellation message was uploaded earlier for the trade concerned, the new report submitted as modification will be rejected as a duplicate message, as the transaction reference number stated in the report is already in the system.

A message including several reports can include new and cancellation messages also. In the interest of successful report processing, the new and cancellation messages for the same trade are not recommended to be submitted in the same file. In this case, our Clients are requested to submit separate messages to KELER.

### Use of ISIN Code

ISIN Code as a key product identifier for ARM reports is checked by the competent authority prior to accepting the trade report.

The ISIN codes stated in the reports are checked against the so-called Financial Instruments Reference Data System (FIRDS) database maintained by ESMA. FIRDS is updated daily with the data submitted by trading venues and systematic internalizers (new product ISIN Code).

If an ISIN Code is not included in the ESMA system, the report is not rejected immediately, but will be checked continuously against the FIRDS database in the following 7 days. If the ISIN in the report gets into the FIRDS in this period of seven days, the report is accepted, however, if the ISIN is not added to the database during these 7 days, the report will be rejected.

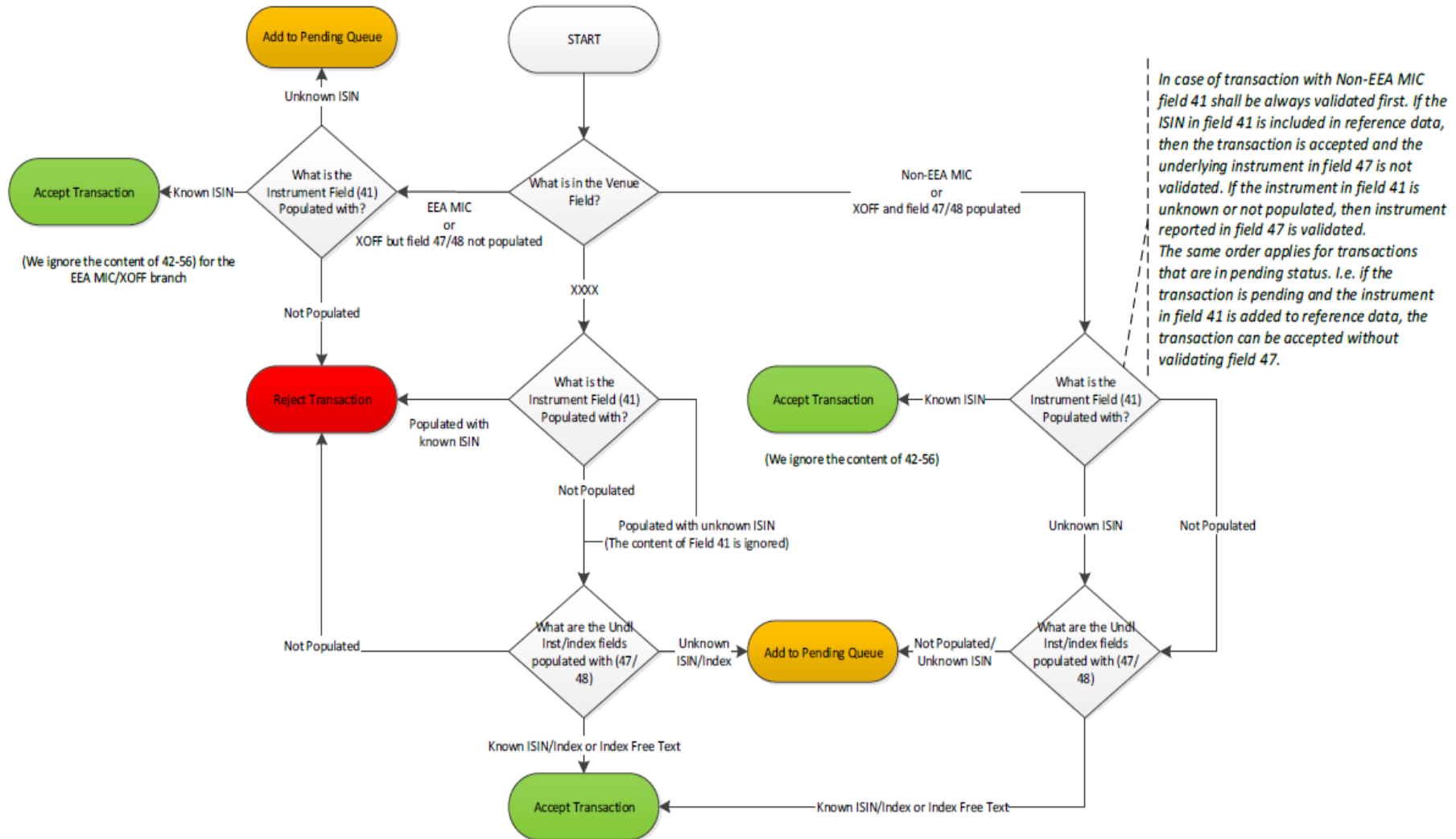
ESMA defined the following rules on the use of ISIN Codes:

- a) When a trade is executed on an EU trading venue, SI or off-market (XOFF\*), the ISIN of the instrument (field 41) is checked against the FIRDS database.
- b) When a trade is executed on an organized trading venue outside the EU, the ISIN Code of both the instrument and the underlying instrument (fields 41, 47) are checked, one of them must be included in the FIRDS database.
- c) For OTC transactions (Venue field value XXXX\*), the ISIN Code of the underlying instrument (field 47) is checked against the FIRDS database;
- d) For OTC trades and trades on regulated markets outside the EU (Venue field value XXXX, if the underlying instrument (field 47) is an index, the ISIN Code in the report is not checked.

If the venue field value is not a MIC Code, then:

- \*XOFF if the instrument is listed on a regulated market, but the trade is made outside that market
- \*XXXX if the instrument is not listed on a regulated market (it has no ISIN Code), but the underlying instrument is traded on a regulated market)

The chart published by ESMA illustrates the above:



## **Submitting KELER trade reports**

The KELER Trade Reporting system receives the transaction reports submitted to KELER. Regarding ARM reports, the KELER TR system receives the reports between 8:30 and 18:00 on business days.

In this period, reports can be submitted to KELER either manually or via web-service, and the confirmations of the reports uploaded and sent to KELER are also available in this period, in accordance with the cut-offs to receive and confirm messages.

Outside the above operating hours, the KELER Trade Reporting system is not available, i.e. new reports cannot be uploaded, and the monitoring functions related to the earlier sent reports cannot be viewed either.

In the case of normal operation (reporting services are available, processing and communication processes run properly) the confirmation messages by KELER on the result of format-logic validation of the reports submitted to the KELER Trade Reporting system and the confirmations received from the competent authorities are sent to the report submitting party within 30 minutes.

When reports are uploaded manually, confirmations are available on the web interface of the Trade Reporting system. The confirmations of web-service uploads are also available on the web interface.

If operation is disrupted (in the case of technical and communication issues), KELER ensures that normal operation is restored within 4 hours of the time the issue arises. If issues arise that are expected to be resolved outside the daily operating hours of the KELER Trade Reporting system, the business continuity procedure finalized by KELER will be activated.

If due to an error (either technical or communication error) of the KELER Trade Reporting system the clients cannot submit reports in the system, KELER Service Desk informs the clients concerned without delay. The notice includes the description of the error cause and the expected correction time. If the error is not expected to be corrected during the same day operating hours of the KELER Trade Reporting system, as part of the related BCP process, the notice by KELER Service Desk will describe how reports can be forwarded to KELER. E-mail is the primary channel to submit reports in such cases, the e-mail address to be used will be sent in the notice by the Service Desk. KELER processes the e-mailed reports without delay and forwards them to the competent authority.

If a communication error arises between KELER and the competent authority, the clients can forward reports to KELER as per the normal operation, and reports will be managed in line with the BCP process finalized between KELER and the competent authority.

KELER does not assume any liability for delays caused by errors arising at the competent authority.

## **FORMAT REQUIREMENTS OF REPORT FILES**

At request the clients will be sent the KELER specifications that define the format requirements of report files.

## Rules on the APA role - APA reporting process

As an APA, KELER offers the planned service to meet the following requirement:

- post-trade transparency;

Regarding post-trade transparency, trades in “equity like” and “non-equity like” financial instruments need to be differentiated. In case of “equity like” trades data is to be made public within 1 minute after trading, while in the latter trade data is to be published within 15 minutes after trading. The fields to be populated will also differ depending upon the instrument type.

### Data to be published related to post-trade transparency

The related regulatory technical standards (Commission Delegated Regulations (EU) 2017/583 and 2017/587, RTS 1 and RTS 2) summarize the data to be forwarded to and published by APAs. In terms of the data to be published, equity like and non-equity like instruments need to be differentiated but KELER created one reporting template and thus our Clients can use the same format to publish the data of both instrument groups. The KELER’s system validates in each reports that the required fields were filled out related to the instrument. If the expected fields are not populated, KELER rejects to report the trade and sends an error message on the reason of rejection.

The KELER post-trade transparency template and the detailed message descriptions will be sent to clients at request.

### Publication of the post-trade transparency report

#### USE OF THE „ACTION TYPE” FIELD - STATUS MANAGEMENT

All the first post-trade transparency report submitted, the value of „Action type” must be N.

KELER validates the reports submitted in terms of format and also performs logic, content validation for certain fields. The KELER’s system accepts (and publishes) only the reports that are successfully validated.

Once accepted, the system publishes the report and after publication allows clients to query statuses (on web-service and on the TR system interface also). The status messages by KELER include all the data provided by the client, supplemented with the TIC generated by KELER (unique trade reference by KELER) and the time of publication.

**In line with the applicable regulations, when the above status is reached - i.e. the investment firm receives confirmation from the APA including all data it submitted, the TIC generated by the APA and the time of publication - the investment firm meets the post-trade transparency requirement.** If the system rejects the report during validation, it will not generate the TIC either, and the reporting party will receive an error message. For erroneous reports, all the errors in the report will be included in the confirmation message.

### Modification, cancellation of the published reports

Only the already successfully published report (*the client received the related confirmation including TIC and the time of publication*) can be modified or cancelled.

If a message is to be cancelled, a new message is to be sent with all the earlier stated fields, the time of publication stated in the APA confirmation, and the TIC also. In this case, the value of the „Action type” field will be „C” instead of „N”. KELER will publish the cancellation message also,

with „CANC” value stated in the FLAG field.

In the case of cancellation („C”) message no new TIC is generated, the TIC received in the earlier report is to be stated.

An earlier reported and published trade can be modified also („M” message). In this case, the reporting party first sends a cancellation („C”) message.

The APA will publish this cancellation as described above, and then it is possible to send the modification message that is required to include all earlier stated data, with the modifications to be made. In this case it may occur that a field was populated earlier, but the same field is left blank due to the correction (this does not generate an error in validation if otherwise the business logic rules are met). KELER states the value „AMND” in the „FLAG” field when the modification message is published.

It is important that no new TIC is generated for the new message („C” then „M”) submitted for amendment purposes, i.e. the reporting party is required to state the original TIC in both the „C” and the „M” message.

**There is only one exception to the above rule: when the value of the „Instrument identifier” field changes during the modification. In this case, the earlier report is to be cancelled with a „C” message, and then a new „N” message is to be submitted once the cancellation message is published. The reporting party is required to leave blank the TIC field, as for all „N” messages, and KELER will generate a new TIC for the report that will exist in the system as a report independent from the earlier corrected report.**

Possible scenarios:

	Event	Value of Action type field	Value of FLAG field published	Is the TIC stated in the report to be sent to KELER?	Note
1	Submitting new report	N	blank	No	
2	Cancellation of earlier published report	C	CANC	Yes	Condition: an earlier published new report must exist, publication means the client received from KELER in the status message the time of publication and the PUBLISHED status.
3	Modification of earlier published report (Instrument ID field does not change)	M	AMND	Yes	Condition: a cancellation message for the trade concerned (based on TIC) must exist - in the status message the client received the CANCELLED status.
4	Modification of earlier published report (Instrument ID field changes)	N	blank	No	If the Instrument ID changes, it is not amendment but a new trade: condition - first the report to be corrected is to be cancelled with a “C” message, and then cancellation must be published.

### Stating the party required to publish - Validation

MiFIR requires that only one of the counterparties to the trade is required to meet the post-trade transparency requirement through an APA.

The following rules determine which counterparty is to meet this requirement:

- 1) If one of the counterparties is an investment firm and the other counterparty is not, the investment firm is to meet the requirement;

- 2) If both counterparties are investment firms, the seller is to meet the requirement;
- 3) If one of the counterparties is a systematic internalizer, and the other is an investment firm, the systematic internalizer is to meet the requirement;
- 4) If both counterparties are systematic internalizers, the seller is to meet the requirement.

If the reporting party fills out the relevant fields, the KELER's system validates which counterparty is required to publish the report. If based on the data populated in the relevant fields, it is not the party submitting the report that is required to publish the report, KELER sends a confirmation message to the submitting party accordingly, and the report will not be published. In other words, if the investment firm fills out the relevant fields, KELER will not automatically publish all reports, only the reports that the client is required to publish based on the above rules.

If the „COD” (Client code) value is stated in the ”Counterparty ID type” field, the code itself is not to be stated in the „Counterparty ID” field, as in such a case it is always the party submitting the report that is required to publish trade data.

ESMA will keep a separate database on the investment firms that are considered systematic internalizers in certain instruments. KELER will be able to validate in this database, based on the LEI code provided, the type of the counterparty and the investment firm submitting the report. KELER will be able to perform such validations once the mentioned SI database is published by ESMA.

## Outsourcing

In line with the applicable regulations, the above validation by KELER is considered outsourcing of an important operative function of the Client, therefore KELER and the Client are required to comply with the provisions of the applicable regulations. These provisions are stated in Article 31 of Commission Delegated Regulation (EU) 2017/565 and Sections 79-80. of Act CXXXVIII of 2007 (Bsz.), where the provisions of the latter apply only to our Clients residing in Hungary.

The service contract between KELER and the Client includes the most important provisions related to outsourcing. In addition to these provisions, KELER and the Client make the following statements and assume the following obligations related to outsourcing:

The Client takes note that the outsourcing cannot result in the delegation of responsibility between the Client and its clients, and in relation to the granting and existence of the license by the supervisory authority, and cannot result in the transfer of the powers of the persons in management positions of the Client.

The Client is entitled to review outsourcing. As part of the review, the Client is entitled to request data from KELER and perform on-site reviews. The Client is entitled to perform the right to request data and perform on-site review once a year, unless justified.

In order to perform the on-site review, the Client sends the relevant request to KELER in writing. Within thirty days of receipt of the request, KELER offers to the Client at least three occasions of one hour each between 9:00 and 17:00 on business days, and the Client can select the most convenient time. During the review, the Client can request data from KELER on the KELER APA service only, and can ascertain that KELER complies with the terms stated in the applicable regulations. Once the reviews are performed, the parties prepare joint records on the review. If the Client detects compliance shortcomings, it is required to highlight them in the records. KELER investigates the shortcomings stated in the records within 30 days and informs the Client on the measures KELER plans to take.



When the above right to review is exercised, the Client cannot become aware of third party business, securities or bank secrets.

KELER states that

- a) it has the ability, capacity, sufficient resources, appropriate organizational structure supporting the performance of the outsourced functions, and any authorization required by law to perform the outsourced functions, reliably and professionally;
- b) it carries out the outsourced services effectively and in compliance with applicable law and regulatory requirements, and to this end the firm has established methods and procedures for assessing the standard of performance of the service provider and for reviewing on an ongoing basis the services provided by the service provider;
- c) it properly supervises the carrying out of the outsourced functions, and adequately manages the risks associated with the outsourcing;
- d) it discloses to the Client any development that may have a material impact on its ability to carry out the outsourced functions effectively and in compliance with applicable laws and regulatory requirements.

### **Reporting beyond the time limit vs. deferred reporting**

APA service providers are expected to publish the reports received as soon as possible. In line with the legal requirement, APAs have to publish transactions in equity like instruments within 1 minute after trade execution, and transactions in non-equity like instruments in 15 minutes.

KELER will not reject or assign any negative sign („FLAG”) to reports for exceeding the time limit; we will publish these reports as necessary.

If a market participant fails regularly, even several times a day, to meet the reporting time limit stated in law, KELER, as APA will consult the participant, in line with the applicable legal requirements, on the need and possibility to terminate or at least decrease the extent of late reporting.

The applicable regulations allow trade publication beyond the above time limit in some cases, subject to prior approval by the competent authority. At the beginning, KELER will publish all received reports without checking whether the possibility of deferred publication exists in relation to the trade concerned.

As stated in the KELER message specification, clients can indicate the intention of deferred publication in the „Trade Publication indicator” field at the time the report is submitted to KELER.

### **Modification of data by the APA**

Legal regulations expect that at the request of clients APA service providers are able to modify the content of already published reports. For this reason, the rights management system allows KELER to cancel/modify submitted and already published reports on behalf of clients, at the request of clients (in justified cases, when the client is not able to act).

This would be the basis of BCP processes also to ensure that reports e-mailed by clients can be modified if communication is disrupted between the KELER TR system and the Client.

### **Possibilities to meet the post-trade transparency requirement**

Post-trade transparency reports can be sent to KELER in two ways:

1. manually uploading into the KELER TR system the report submitted in the expected XML format;
2. automatically uploading the report via the web-service.

In light of the required publication time limits (1 and 15 minutes), the best solution would be to submit reports via the web-service, meaning the creation of automated communication between KELER and the Client.

Based on its legal interpretation, KELER expects the reporting party to report separately all trades that are subject to trade transparency. This is because the short time limit of publication would result in delays if Clients stated in one report several trades made at different times (except for the rules on aggregation). Furthermore, KELER as APA is required to perform various validations before report publication, also within the time limit stated.

### Fields in the KELER TR system

In the case of both uploading possibilities, report status, confirmations, any error notices will be available in the KELER Trade Reporting system.

Post-trade transparency reports and basic information (upload ID, channel of submission, time of upload, uploading person and report status) will be available in the „**Transaction monitoring**” menu item.

The „**Trade monitoring**” interface will show detailed report data.

Basic data:

- Upload ID (KELER TR system upload ID - i.e. the serial number of the uploaded trade),
- TIC,
- Original trade reference
- Time of trading
- Time of publication
- ISIN
- FLAGS
- Status

Additional optional data (in addition to basic data):

- Product type (values stated in the Product type fields);
- Product subtype (for derivatives);
- Price and unit;
- Quantity and unit;
- Counterparty ID;
- Total quantity.

The result of the above filtering can be downloaded in MS Excel spreadsheet format.

Furthermore, related to post-trade transparency, an interface with key statistics will be available. The query time period can be stated there. Then the following data will be listed:

**Number of submitted reports:** The total number of submitted and accepted post-trade reports during the period concerned. It is important to note that the KELER TR system performs logic and content validation also, but format validation is completed before the report is received in the system. Thus, if a submitted report has format error, KELER does not receive the report, and the

report will not get to the TR system, it will not be included in this report either.

**Number of erroneous reports:** The number of reports that the KELER TR system accepted in terms of format but rejected for logic error.

**Number of corrected reports:** The total number of originally erroneous but then corrected reports.

**Number of trades not reported based on regulation:** The reports that KELER accepted, are correct in terms of logic and format, but are not published.

This can be due to two reasons:

- the client stated value “0” in the „Trade Publication indicator” field, or
- based on the provisions of regulations, it is not the market participant but the counterparty that is required to disclose trade data.

**Number of published reports:** The number of reports that KELER published during the period concerned. The total number of reports accepted by KELER minus the reports rejected for errors, the reports not published based on regulation, plus the corrected items will result in the number of published reports.

Detailed reports and related data will be listed when the numerical values are clicked. The list can be exported into MS Excel.

## Report validation

Regulations require APA service providers to perform content validation in addition to format validation. If service providers find that the submitted report is likely to be erroneous, the report cannot be published.

The requirement related to validations is stated in the applicable RTS (RTS 13):

*“An APA shall set up and maintain appropriate arrangements to identify on receipt trade reports that are incomplete or contain information that is likely to be erroneous. These arrangements shall include automated price and volume alerts, taking into account*

- a) the sector and the segment in which the financial instrument is traded;*
- b) liquidity levels, including historical trading levels;*
- c) appropriate price and volume benchmarks;*
- d) if needed, other parameters according to the characteristics of the financial instrument.*

*Where an APA determines that a trade report it receives is incomplete or contains information that is likely to be erroneous, it shall not publish that trade report and shall promptly alert the investment firm submitting the trade report.”*

In light of the above, KELER validates the content of the following fields also related to the post-trade reports submitted into its system:

- in the **Instrument ID** field the ISIN Code is validated. No validation is performed if content other than ISIN Code is stated.
- in the **Price** field the value stated is validated. Comparison with the price data available at the time the reported trade is made. Price data validation is not always performed: for example price is not validated for a special or complex derivative product.
- in the **Quantity** field the free float of the ISIN Code stated and the quantity stated in the report are checked.

In addition to the above, the submitted report will be validated in terms of format also before getting into the KELER TR system.

### **Operating hours**

KELER publishes reports submitted for post-trade transparency purposes between 8:00 and 20:00 on business days. Post-trade reports submitted outside this period are received, but published on the following business day only.

If any error (either technical or communication error) arises during report submission, KELER Service Desk informs the clients concerned without delay. The notification describes the error reason and the expected resolution time. If the error is not expected to be corrected during the daily operating hours of the KELER Trade Reporting system, as part of the related BCP process, the KELER Service Desk notification will describe how reports can be submitted to KELER. E-mail is the primary channel of communication in such cases; the related e-mail address will be stated in the Service Desk notification.

If any error arises during the performance of the publication obligation, clients can forward reports to KELER as usual. KELER will inform clients on failed publication in the appropriate channels (e.g. website, e-mail).

Reports submitted by market participants will remain in pending status until the existing error is corrected, and then the submitted transaction data are published.