

13 December 2024

Dear chief executive,

This is the second FCA portfolio letter to firms providing the data reporting services of Approved Reporting Mechanisms (“ARMs”) and Approved Publication Arrangements (“APAs”). These firms are Data Reporting Services Providers (“DRSPs”) within the meaning of the Data Reporting Services Regulations 2024 (SI 2024/107).

DRSPs continue to play a key role in market transparency and integrity. ARMs provide the service of reporting details of transactions to the FCA on behalf of investment firms. APAs provide the service of publishing post-trade transparency reports on behalf of investment firms. These services enhance transparency and facilitate our effective oversight of financial markets.

In our first [letter of May 2022](#), we outlined our view of the key risks of harm in the DRSP portfolio. We outlined our expectations for how DRSPs should address these risks and set out the key elements of what we would do to supervise DRSPs. We have seen improvement in some areas such as within firms’ data quality system and controls and more bespoke DRSP documentation. However, there remain risks of harm that DRSPs need to address to ensure market transparency and integrity.

In this letter we outline our latest supervisory priorities for DRSPs, including the key risks of harm we have identified in the portfolio. We also highlight what we expect from DRSPs to mitigate these risks of harm.

You should review and discuss this letter with your Board and DRSP management body to agree any actions that may be needed to ensure compliance with the recently updated [DRSP regulatory framework](#).

Our supervisory priorities:

1. Operational resilience

Our view of the risks

Operational resilience is a critical aspect of your firm's ability to support the integrity of financial markets and ensure continuity of service to market participants. It is essential that firms are equipped to prevent or limit operational disruptions. Additionally, they should be able to respond, recover, and learn from these challenges to ensure long-term resilience.

We have observed a low number of operational resilience-related incidents being reported by DRSPs. While this could reflect strong operational resilience, we are concerned that it may indicate that firms have not set appropriate thresholds for reporting incidents.

What we expect from you

MAR 9.2B.(4)(5)(6) outlines the requirements regarding operational resilience capabilities, particularly in relation to cyber incidents, system failures, and external threats. We expect you to assess your systems and processes and implement any necessary enhancements to meet these requirements. You should develop and maintain robust contingency plans that are regularly tested and updated to ensure continuity of critical services with minimal disruption to clients and the broader market. We also expect firms to minimise the risk of market disruption arising from operational outages. Where outages do occur, we expect DRSPs to manage them, and ensure that root causes are identified and remediated quickly. We also expect any changes to systems, software or processes to be thoroughly tested before implementation.

We expect you to establish clear and effective incident management protocols to minimise the impact of any disruptions, including maintaining open lines of communication with the FCA for timely notification of significant incidents. Additionally, firms should review their incident management frameworks to determine if the current thresholds for reporting incidents need to be improved.

What we will do

We will closely monitor the incidents reported to us and work with you to review the adequacy and compliance of your incident management and response procedures. Where necessary, we will work directly with you to address any deficiencies identified. In addition, we will also look to utilise data and statistics from your firm, including information on service uptime and its correlation with reported incidents, to gain a clearer understanding of your operational performance. This will enable us to assess the impact of incidents on your services more effectively. We may also conduct an additional review of your operational resilience to evaluate whether any improvements are needed.

2. Data quality systems and controls

Our view of the risks

The completeness and accuracy of data submitted by DRSPs is vital for maintaining market transparency and integrity. Poor data quality can have significant consequences for market participants and hinder our ability to detect and investigate potential market abuse.

Although we have seen improvements in data quality, we consider that DRSP systems and controls could be strengthened. There have been several instances where obvious errors have gone undetected, confidential information has been inappropriately disclosed, and reporting has been delayed. These indicate that further enhancements to data management and control frameworks may be necessary.

What we expect from you

You must have appropriate systems in place to manage incomplete or potentially erroneous information, whether caused by your clients or the DRSP itself. We expect you to prioritise enhancing your data quality systems and controls to ensure all reported data is complete, accurate, and submitted on time. Your data reporting processes must comply with relevant requirements, specifically those outlined for ARMs in MAR9.2B9(3) and MAR 9.2B.10, and in MAR 9.2B.15 for APAs. A key focus should be on reviewing these systems, identifying and addressing any weaknesses, and conducting reconciliations between the data received from clients and the data reported to the FCA or published to the market. The frequency and scope of these reconciliations should be proportional to the volume of data your firm processes.

What we will do

We will use a range of information sources, including management information provided by DRSPs, along with supervisory tools to assess the effectiveness and compliance of the systems and controls you have in place to ensure data quality. Where we identify gaps, we will provide targeted feedback and work with you to strengthen your processes.

3. Communication with the FCA and the Notification Regime

Our view of the risks

Open, cooperative and effective communication with the FCA is crucial for maintaining a transparent and constructive regulatory relationship.

We have observed inconsistent frequency and quality of notifications from DRSPs, and we are concerned that poor-quality or late submissions can delay our ability to address issues effectively. Submissions that lack clarity or context, include irrelevant information, or use overly technical language without explanation can hinder our ability to fully understand issues. Furthermore, delays in providing follow-up information or updates can extend the time needed to resolve concerns, potentially impacting market transparency or our ability to detect and investigate market abuse.

What we expect from you

Firms are required to provide prompt and accurate notifications to the FCA. This includes promptly informing us of any significant changes to your operations, material incidents, or other events that could impact your ability to provide services using the forms located in the annex of MAR 9. We also expect proactive engagement with the FCA, particularly when facing potential issues or uncertainties that could impact your firm's operations or regulatory compliance. Early engagement allows us to collaborate on mitigating risks and preventing issues from escalating. Consistency in reporting is essential, and you should maintain clear internal procedures to manage your obligations under the notification regime.

What we will do

We will conduct a review to assess DRSPs' procedures for submitting notifications to the FCA. The review will focus on ensuring that firms have clearly established and appropriate thresholds for determining when a notification is required. In cases where we find that these procedures and thresholds are not aligned with our expectations, we will work with firms to make necessary enhancements.

4. Other risks impacting the portfolio

We have identified other risks within the DRSP portfolio related to firms' policies and procedures for adapting to regulatory changes. As the regulatory landscape evolves, DRSPs must be equipped to respond effectively to these changes.

We have also noted instances where the absence of key personnel has led to delays in notifications or in completing work and remediation tasks set by us. We expect firms to have measures in place to sufficiently mitigate the impact of these absences.

We expect DRSPs to:

- **Review and update policies:** Regularly review and update your internal policies and procedures to ensure they remain aligned with the latest regulatory requirements. This includes staying informed of upcoming regulatory changes and preparing your firm to meet these new obligations.
- **Implementation of regulatory changes:** Develop clear strategies for implementing new regulatory requirements, including setting timelines and responsibilities. We expect a proactive approach to regulatory change management to minimise the risk of non-compliance. APA firms should prepare for upcoming changes to the bond and derivatives transparency regime. APA firms should also consider how to develop infrastructure to enable the forthcoming bond CTP to integrate their data under the new transparency regime.
- **Staff training and awareness:** Ensure that your staff are adequately trained on existing requirements and prepared for upcoming regulatory changes. Ongoing education and resources should be provided to keep them up to date on

changes that may impact your operations. Ensure that you have appropriate controls in place to ensure continuity and promptness of responses to the FCA.

The DRSP market remains highly concentrated, presenting potential risks. We will continue to monitor the portfolio for any adverse outcomes related to this concentration and assess if any further action is required to mitigate the potential impact on DRSP clients.

We hope you will engage with us on [DP24/2](#) which was published on 15 November 2024. This paper aims to improve the UK transaction reporting regime.

Our overall expectations

We will continue to monitor your firm's performance in the areas covered in this letter as part of our supervisory strategy. We expect all DRSPs to take necessary steps to meet these expectations and engage constructively with the FCA to support the integrity and resilience of our financial markets.

We will explore these issues in more detail during our engagements with your firm. It is your responsibility to understand and continue to comply with the DRSP Regulatory Framework.

Next steps

Should you have any questions regarding the contents of this letter or require further clarification, please contact us at MDIS@fca.org.uk. This is the primary contact for your firm's day-to-day interactions with the FCA.

Yours sincerely,

Dominic Holland

Director of Market Oversight
Financial Conduct Authority