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Understanding the Global Legal Entity Identifier (LEI) System

MAY 2015

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Agenda

1. **Industry Objectives and Benefits**
 - a. Regulatory Compliance – Reporting
 - b. Improved Risk Management, KYC, etc.
2. **Inside the Global LEI Foundation**
 - a. Understanding the GLEIF
 - b. Milestones
3. **The Mechanics of Getting a Code**
4. **Next Steps**



Industry Objectives and Benefits



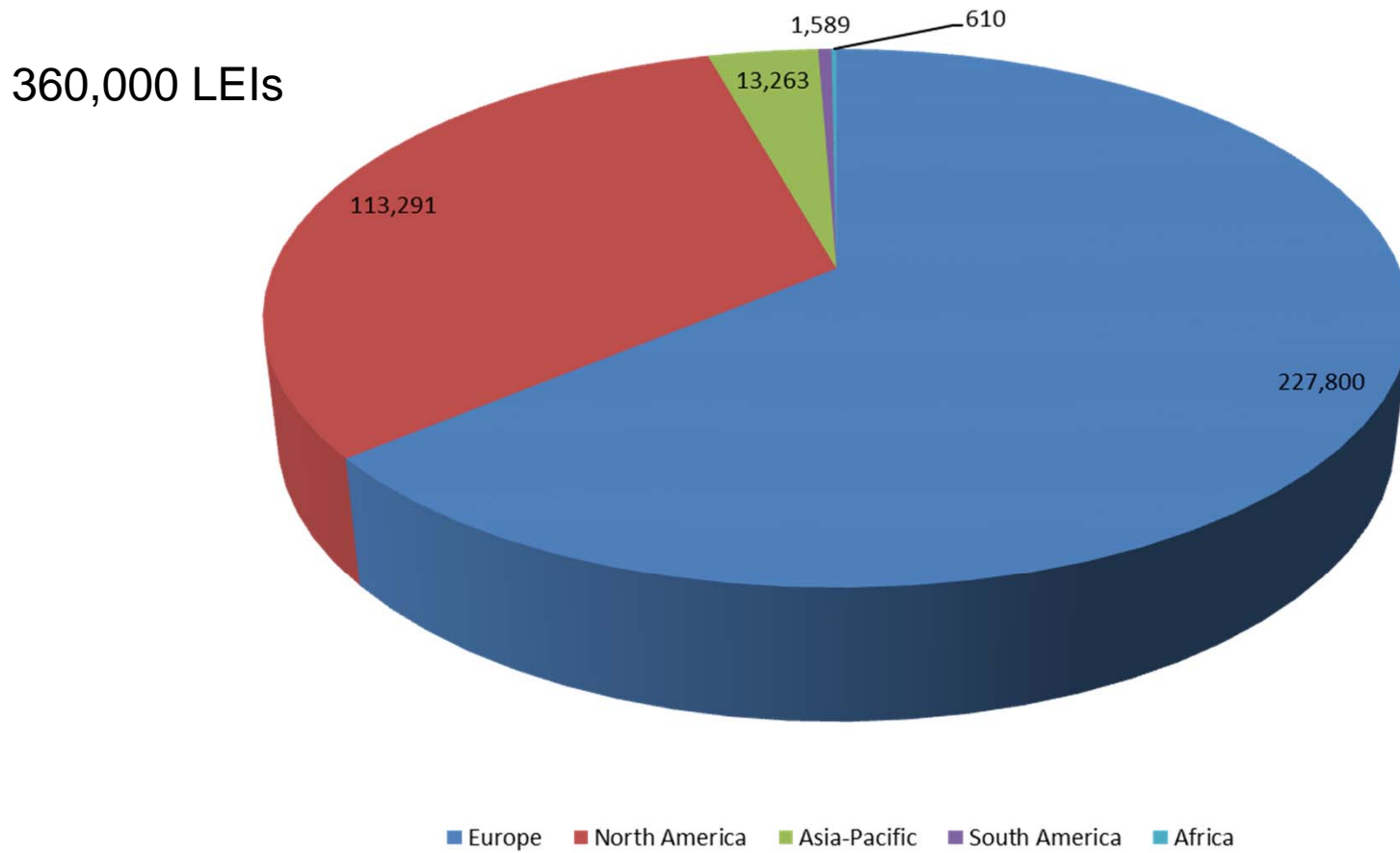
LEI – Key Public Policy Objective

Strengthen systemic risk capabilities of regulators to analyze positions and transactions of firms they oversee on a globally integrated basis

- Regulators in the U.S. and abroad have identified LEI as a critical enabler of systemic risk analysis.
- The industry met the challenge of setting up the LEI system, working with regulators to develop and implement a federated operating model based on self-registration.



Total LEIs Issued by Region



Non-Confidential - White



Industry Objectives and Benefits and Regulatory Compliance

Regulatory Mandate

- **LEI is currently mandatory for swaps transaction reporting (CFTC, SEC, ESMA, Canada) and US future reporting**
 - See list of examples in Appendix
- **EU has mandated future LEI usage widely**
 - AIFMD and Solvency II in 2016
 - MiFIR in 2017
 - LEIs for Financial Conglomerates Directive, Market Abuse
 - Extending LEIs to issuers, payments/settlement activity, underlyings, structured finance

Compliance

- EU proposes to reject trades without LEIs; firm KPIs will reflect compliance publicly
- MiFIR will require investment firms to have appropriate arrangements in place to collect and verify the LEI provided by clients prior to providing investment service under Article 26
- Verification includes validation of the format and the content of the identifier provided by the client against global LEI database

Impact of Not Having an LEI

- Noncompliance with regulatory requirements
- Increased regulatory scrutiny, this is a field that is closely monitored and continually flagged under current swaps reporting
- Inability to meet client needs
- Increased operational burden



LEI Mandates

Need for a Mandate

Mandate clearly needed to ensure all financial transaction counterparties obtain LEIs and their transactions can be aggregated and analyzed.

Full benefits can only be achieved when large majority of companies have LEIs.

Current Progress

Mandates have taken hold in OTC derivatives reporting around the world.

European regulators are moving forcefully to mandate LEIs in reporting across asset classes.

US Rulemaking

US regulators seem to be hesitating on mandating LEI more broadly, and as a result the US is falling behind in total LEI issuance.

But the US market supports LEI mandates, has a scalable LEI solution, and unit costs of the system will fall as more entities acquire LEIs.

Benefits to the Industry

Better Information

- Creates capability to “link” through products and businesses to quickly summarize client exposure; supports compliance with BCBS risk aggregation principles
- Support ability to create custom sales hierarchies for sales MI, cross-product / service selling, customer profitability
- Allows linkage to underlying and external exposures

Operational Efficiency

- Efficiency is achieved having a single identifier rather than several proprietary identifiers for different regulators
- Facilitates linkage of entities/counterparties within internal operations platforms improving internal data alignment and quality
- Facilitates hierarchy mastering and maintenance by allowing for cross-checking a reliable industry standard with internal conclusions
 - Provides opportunities for efficient compliance through linkages to KYC and reference data utilities being offered by vendors; better AML screening results

Client Services

- LEI required as part of global asset servicing, accounting, compliance, risk and financial reporting, and trust & fiduciary services for trade and issuer clients including asset managers, pension and institutional clients
 - Meet current client contractual service obligations
 - Develop/enhance product offerings
 - Meet client demand for increased transaction transparency reporting
 - Support client needs to meet existing and developing regulatory reporting needs

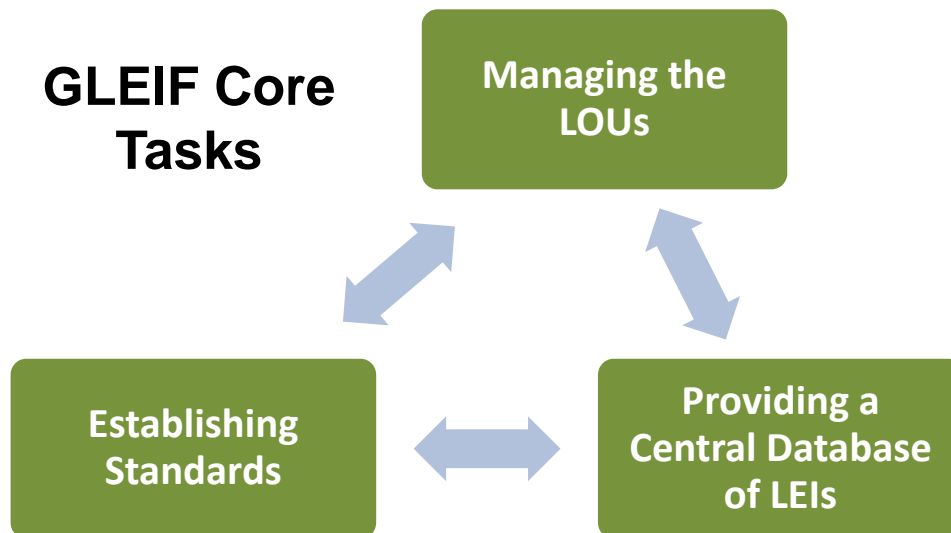
Inside the Global LEI Foundation



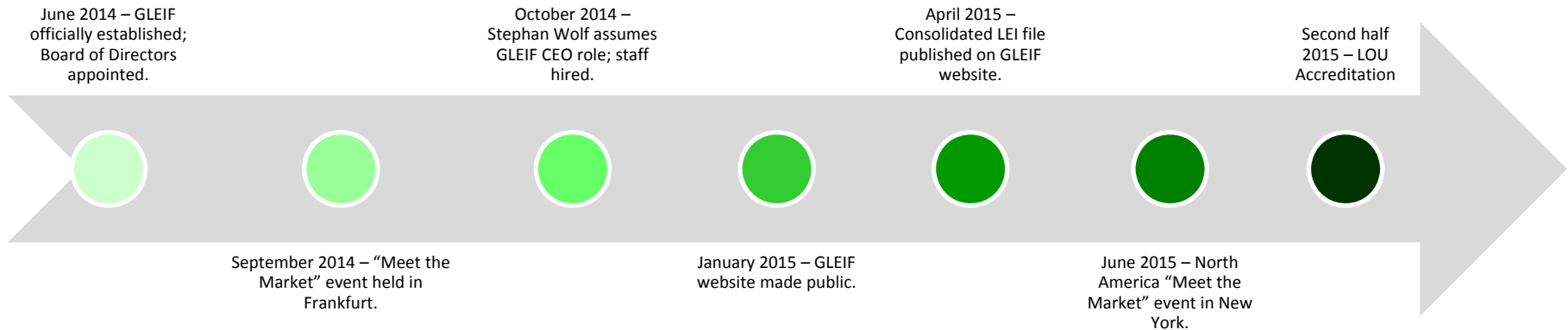
The Global LEI Foundation

Understanding the GLEIF

- The Global Legal Entity Identifier Foundation (GLEIF) was created to act in the public and private interest as the operational arm of the LEI system. The foundation is supervised by the Regulatory Oversight Committee (ROC).
- It held its inaugural meeting on June 26, 2014.
- The GLEIF is working to establish the central operations of the LEI system.



GLEIF Milestones



The Mechanics of Getting a Code



GMEI Utility Operational Principles



GMEI Utility Functionality

Registration

- Self-registration
- Assisted registration
- Web vs. Bulk file registration

Number Assignment

- SWIFT assignment of ISO 17442 standard
- “5493” prefix

Validation

- All registrations validated against publicly available sources
- Result of validation published

Publication

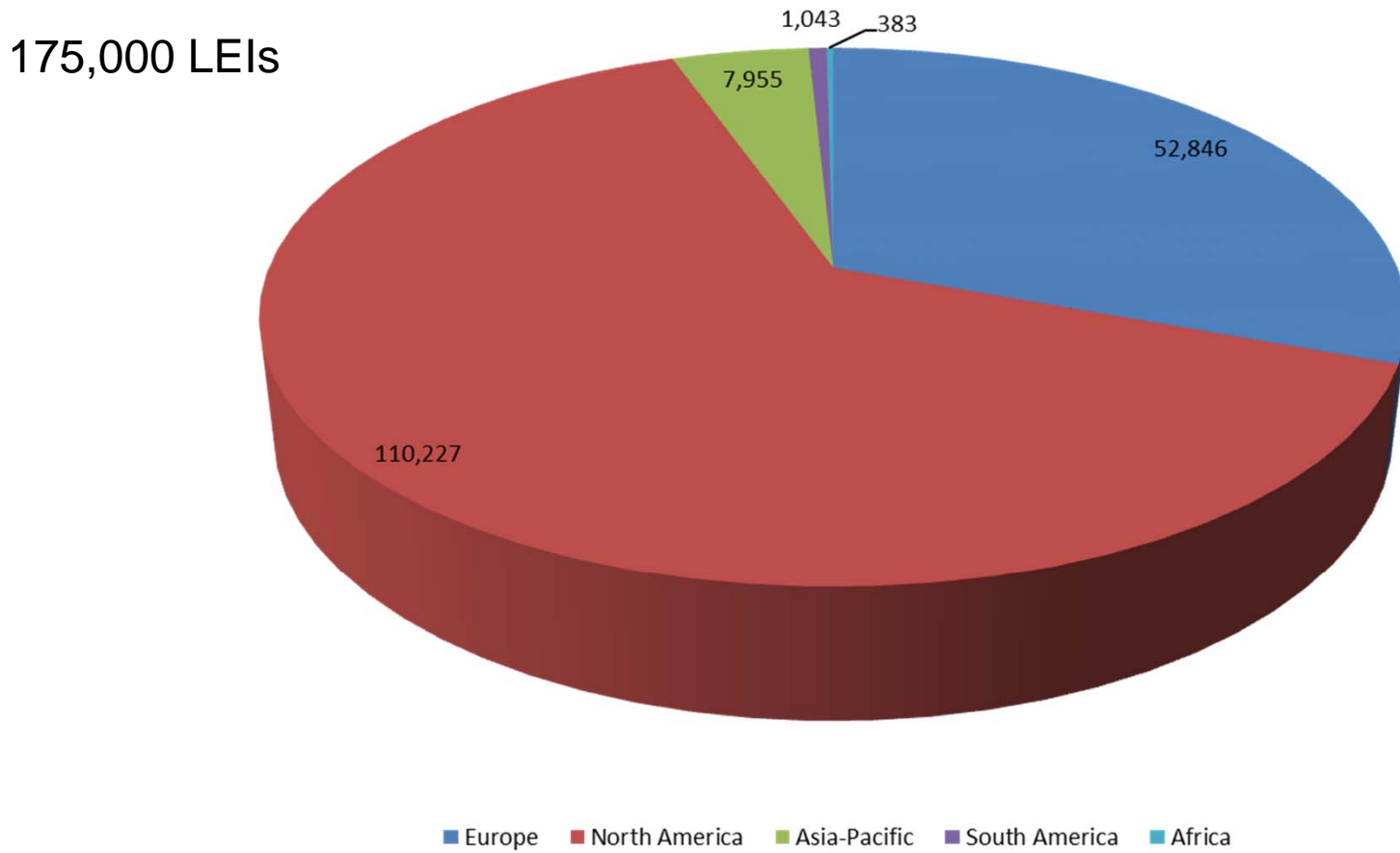
- Free full and delta files published daily
- Free internet search/User Dashboard

Data Quality/Maintenance

- Public challenge process
- Ongoing maintenance/annual renewals



GMEI Issued LEIs by Region



Non-Confidential - White



Next Steps



Next Steps

- Strongly encourage regulators around the globe to make use of the LEI wherever a legal entity needs to be identified.
- Ensure all industry participants are aware of the status of the GLEIS and the benefits of having the LEI fully adopted for entity identification.
- Firms integrate LEIs into their strategic systems, e.g., risk, finance systems, reporting systems, etc.

Appendix

Examples of Implemented Rules

Implemented Rules (examples)

- CFTC Swap Record Keeping and Reporting Rule (Part 45) - April 2013 - **Required**
- ESMA Trade Reporting Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) - February 2014 - **Required**
- OTC Trade Repository (HKMA) - November 2013 - **Primary identifier**
- Guidance on ASIC Market Integrity Rules for Competition in Exchange Markets (Australia)
- Derivative Transaction Rules (Reporting) (ASIC) - August 2013 - **Requested**
- Securities and Futures (Amendment) Act (MAS) Singapore - April 2014 - **Required**
- European Banking Authority (EBA) - EU FIs Technical Standards (ITS) reporters - **Required**
- AIFMD((EU) No 61 /2011):24 AIFMD (Commission Delegated Regulation) - **Required**
- SEC Form PF - Investment Advisors - 2013 - **Requested**
- SEC Statistical Rating Organization (NRSRO) obligor LEI - 2014 - **Requested**
- SEC Money Market Fund Reform Rules - July 2015 and April 2016 - **Requested**
- OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting (Canada) October 2014 - **Required**
- BIS G-SIB Reporting on Funding Dependencies - Pilot - January 2015 - **Requested**

Examples of Current Proposals

Proposals

- EU's Markets in Financial Investments Regulation (MiFIR) Article 23 Transaction Reporting - **Required**
- EIOPA consultation using LEIs as the unique identification code for supervisory purposes for every credit and financial institution in the EU - **Required**
- EU Market Abuse Regulation (MAR) Consultation Paper (closing date for comment 15th October 2014) - **Requested**
- CFPB Home Mortgage Disclosure Act consultation - use of LEIs as the identifier for mortgage servicers and originators in revised HMDA reporting - **Required**
- Canada Debt Securities Transaction Reporting (IIROC) - **Required**
- FSB Standards and Processes for Global Securities Financing Data Collection and Aggregation - **Required**

