

# LEI matching services driven by EMIR and MiFID II

2015-09-15



**NordLEI**

LEI issuer in the Nordic and Baltic region

*“Is your organisation among the credit institutions which will have established robust processes for consistently maintaining internal counterparty registers with respect to LEI data, to a degree where you will fulfil what is considered “with reasonable effort” by regulators, before January 3, 2017?”*

Following recent regulatory changes, the need to establish internal processes for consistent LEI counterparty data will increase substantially. In order to support the market in its master data challenges, NordLEI offers a unique service for LEI matching and quality assurance. Through the service, clients are guaranteed correct LEI identifiers matched to each internal counterparty record, as well as the status of such LEI records.

This is the proactive approach for ensuring submission of adequate counterparty data in the transaction reporting related to EMIR and MiFID II / MiFIR.

There is a misconception that publicly available LEI data solves the challenge of achieving consistent internal counterparty registers with respect to counterparty LEI data and LEI record status.

The truth is, it doesn't on its own....

LEI data enrichment of counterparty records is complex since no common primary keys exist across internal counterparty registers and the GLEIS (the Global Legal Entity Identifier System). Hence, the necessary data record matching must follow a finding-of-best-candidate approach, requiring powerful data matching algorithms.

This is particularly challenging due to the following:

- The GLEIS still lacks Business Registry Numbers for a surprisingly large proportion of its almost 400,000 records
- Inconsistencies in Legal Names are common (both spelling and structure).
- Duplicate LEIs are not uncommon and continuously identified by LOUs (Local Operating Units, i.e. issuers of LEIs).
- The increasing number of GLEIS records require an almost immense number of iterations in order to adequately find “most fitting data pairs” in large internal counterparty registers
- Internal address data structures will differ from the GLEIS.

## Our track record lends credibility...

NordLEI is the largest provider of LEI related services in the Nordic and Baltic region. Our broad experience and deep expertise, together with our close strategic partnership with DTCC / the GMEI Utility, guarantees long term solutions and services for the Nordic and Baltic financial community.

## The NordLEI data services offering

### NordLEI pre-configured LEI-matching engine

- Updated daily with data from the GLEIS, consisting of all globally issued LEIs, including record validity status.
- Integrated powerful matching engine (NordLEI EasyMatch)
- Installed locally or cloud-based delivery
- Several levels of service provision
- Simple interface to client's internal counterparty registers

### NordLEI API

- Simple methods for integrating NordLEI EasyMatch lookup-and-compare services into customer's existing operational processes

### NordLEI Consultancy Services

- Ensuring success in excellent internal record maintenance is a complicated task. NordLEI offers professional services to ensure organisational success related to the use of LEIs in regulatory reporting under EMIR, MiFID II/MiFIR and BCBS 239.

## Background – Mandatory use of LEIs

The LEI is becoming the mandated identifier prescribed by regulators and authorities.

For their own identifier obligations, financial institutions and investment managers/fund companies must continue to maintain their LEI data.

In addition, regulations require financial institutions to maintain up-to-date client master data including LEIs because of the following regulations:

- EMIR Transaction Reporting since 12 Feb 2014 for all derivatives activity. Delegated reporting is the norm.
- EBA recommends use of LEI for CRD reporting from 31 Dec 2014.
- MiFID II/MiFIR from 3 January 2017 investment firms and credit institutions must do Transaction Reporting including LEI.
- From 2016 BCBS 239 Risk Data Aggregation for systemically important banks (D-SIBs)

## More on the LEI data challenge...

The Global LEI System is still in an interim phase

- 26 Pre-LOUs are operational. In addition 5 Pre-LOUs are registered but not yet operational.
- The Central Operating Unit (COU) is still not operational. There is a COU surcharge of \$20 per issued and maintained LEI item collected and paid by the Pre-LOUs
- There is no golden standard for Pre-LOU data yet. Normalisation and cleansing of 26 Pre-LOUs' data is a big task. Concentrators like c-lei.org do a good, but not perfect, job of it.

Individual LEI codes

- Still a lot of legal entities miss an LEI code. From a Nordic perspective the registration peak was handled Q1 2014, but there is a steady trickle of activity. The second half of 2016 is expected to contain a MiFID II/MiFIR related peak.
- The 12-month maintenance data peak is happening now. Working well operationally but several LEI holders still remain unclear as to why they have been asked to hold an LEI and who should pay

## The additional complexity in Transaction Reporting caused by MiFID II/MiFIR

ESMA sets out in the draft RTS, the details of what needs to be contained in transaction reports. The detail contained in such reports will significantly increase - with the number of fields within the reports increasing from the current **23 fields to 81 fields**. Among the new demands are

- Clients need to be identified using **LEI (if a legal entity)**.
- Identifying the persons and the computer algorithms within the investment firm responsible for the **investment decision** and the execution of the transaction.
- Reporting of financial instruments where the **underlying** is a financial instrument traded on a trading venue should be reported as well.
- The requirement of branch codes and designators so that the Transaction Reporting reaches:
  - ✓ The home regulator
  - ✓ The authority regulating the “most relevant market” for a financial instrument
  - ✓ The host-state regulator for branch trading

## Other LEI challenges for financial institutions due to MiFID II and EMIR

### Referring clients to LEI issuers

- New and existing clients without LEI
- Questions about 'why', 'who pays' and 'recurring process and cost'
- Sometimes confusion around subsidiary/branch status, business registry numbers and invoicing

### Collection of data from client

- LEI codes are long and prone to input errors
- Some clients have LEIs but are not aware – 'organisational memory is short and fragmented'

## Other LEI challenges for financial institutions due to MiFID II and EMIR (cont.)

### Maintaining and validating data

- Matching LEI to the correct client master entries can be complex, due to branch and subsidiary legal status
- LEI codes “expire” if clients do not keep them maintained
- Change of ownership leads to duplicate, update and matching challenges
- From 2016 LEIs are expected to contain details of parent company, which will need to be matched to internal “company group trees”

### Why does LEI quality matter?

- EMIR requires it, and Trade Repositories are about to start controlling LEI data from October 2015
- MiFID II / MiFIR requires national law to regulate sanctions for infringements. Transaction Reporting especially mentioned.
- It is more economical to address data quality issues continuously rather than after-the-fact

## NordLEI project and operations services

### LEI client master data service

- Systems-supported client referral for new LEI applicants/clients
- Completion and cleaning of your existing LEI client data
  - Find missing LEIs
  - Identify erroneous LEIs
  - Completion and cleaning of data
- The service can be performed in a project mode or as a continued service

### Transaction Reporting

- Hands-on experience of EMIR and MiFID Transaction Reporting
- Business project management or support

## NordLEI's business focus and track record

### Markets and scope of services offered:

- NordLEI is the de facto preferred LEI agent for the Nordics. In excess of 8100 LEIs have been handled
- NordLEI has a strategic partnership with the GMEI Utility, DTCC and SWIFT
- NordLEI is active in shaping the Global LEI System through the industry-body PSPG and is in the process of becoming a Local Operating Unit (LOU)
- NordLEI provides:
  - Assisted LEI issuance to legal entities
  - Expertise in the LEI and counterparty identifier space
  - Stream-lined bulk LEI processing for banks
  - **Data services for clients to ensure compliance of regulatory requirements related to EMIR, MiFID II and other regulations.**

## NordLEI contact information

### Business address:

- ❑ Kungsgatan 56, 5tr  
SE-111 22 Stockholm  
Sweden

### Internet portal:

- ❑ [www.nordlei.org](http://www.nordlei.org)

### Contacts:

- ❑ Jonas Hedlund, Senior Advisor  
[jonas.hedlund@nordlei.org](mailto:jonas.hedlund@nordlei.org)
- ❑ Anders Åström, Co-founder and CEO  
[anders.astrom@nordlei.org](mailto:anders.astrom@nordlei.org)