**Emily: Hello and welcome to a DerivSource podcast. I'm Emily Fraser Voigt, the acting editor of DerivSource.com.**

**Today we're talking about Legal Entity Identifiers, or LEIs for short. LEIs help financial firms and regulators aggregate and better understand counterparty exposures, providing enhanced market transparency and improved analysis of systemic risk.**

**Soon, all entities involved in European trade on both the buy and the sell-side will be required to supply LEIs in their trade reporting, thanks to updates to MiFID II.**

**In this podcast we're speaking to Ron Jordan, Managing Director of Data Services at The Depository Trust and Clearing Corporation (DTCC) about current LEI uptake, the challenges institutions might face in using them, and what impact these regulatory changes will have.**

**Thank you Ron for joining us today.**

Ron: Thank you Emily, it's my pleasure to join you.

**Emily: Can you start by offering an update to our audience on the status of LEIs? How many LEIs have been issued, and across how many jurisdictions?**

Ron: Sure. The LEI system really has several different components, and let me just start there. The LEI system is managed by the Global Legal Entity Identifier Foundation, or GLEIF, which is the operating arm for the global system. Sitting underneath the GLEIF are about thirty LEI operating units, or LOUs, of which DTCC is one. The operating units issue LEIs, validate the legal entity information and maintain LEIs on behalf of the registrants, those in the industry, or those in the financial services world, that are required to get LEIs for regulatory reporting.

The system as it is now has been operational for several years. There are approximately 500,000 LEIs that have been issued to financial institutions and corporates across the globe, in over 200 jurisdictions worldwide. The Global Markets Entity Identifier (GMEI) utility, which is a DTCC wholly-owned subsidiary, is an accredited LOU. We've issued approximately 240,000 of the 500,000 global LEIs, in about 200 jurisdictions.

The LEI system is maturing, and it continues to expand. I would note that as of May 1st, the LEI system has been experiencing a fairly fundamental change, and rather than just requiring LEIs to be registered for core baseline information, beginning of May, all of the LEI operating units will start to collect information from LEI registrants not for only themselves but for their direct and ultimate parents. This requirement will be mandatory for all LEI registrants and anybody renewing an LEI.

**Emily: There have been some comments on LEIs being expensive for market participants who may not have high use for such identifiers; what would your response be to this concern?**

Ron: I think there are several responses. First of all, there are thirty LEI operating units and we all compete with each other, like most other companies: we compete on quality of product, user functionality, and on price. With 30 LOUs, there are almost 30 different prices for registration and renewal, and lots of different types of services that are being offered.

To register a corporate entity to get an LEI, the price is generally between $150 and $200 USD, and that is a one-time registration fee. And then there is an annual renewal requirement, which is generally between $75 and $100 Dollars per year, for each LEI. I don't believe that the pricing is too expensive. The LEI operating units take the information, and we not only assign unique LEI codes to the data, but we also validate the information to make sure it can be validated against publicly available sources, business registries and the like. So there is a service that is provided, the cost of which the funding covers.

Also I would say, very important that all 500,000 LEIs and all of the reference data associated with those LEIs, is freely available. There is no charge to receive the information. So the model here is quite different than most market data models, which require a user of the database to pay. Here, the information is in the public domain, and the way that the cost of the validation is sustained is through these '*taxes'* on the registrants, much like any new driver's license and renewing your driver's license. Every entity pays a small amount to keep the system as accurate as it can possibly be.

Again, I would argue that the prices are very reasonable, and they are subject to competition, and therefore I think the system as a whole has a very sound operating model.

**Emily: What are the challenges or obstacles that impede wider adoption of LEIs?**

Ron: LEIs generally are required today for certain regulatory reporting, and in the OTC derivatives markets. Specifically the requirement started with the CTFC in the United States, and then ESMA in Europe, and there have been other regulatory bodies around the globe, who have mandated LEIs for reporting. There is still a lack of uniform requirement of LEIs amongst global regulators, so one of the major obstacles is that unless LEIs are required, registrants are reluctant to get them. Currently they are only required in some derivatives asset classes in the United States and Europe, and a few other jurisdictions. They're not currently required widely, which is a major obstacle, although that will be changing shortly with MiFID II.

The other ongoing issue is the need for compliance or making sure that the entities renew their LEIs on an annual basis. The renewal is important because it helps fund the system, and if a registrant gets an LEI and fails to renew, the LEI is still valid for regulatory reporting purposes (at least for now). However, it does go into a status called '*lapsed*', and that lapsed status just indicates that the registrant has not come back and renewed its LEI. That's important, because without a regulatory enforcement of the annual renewal, the system funding and its efficiency are challenged. Given the importance of LEIs, making sure that the operating model can survive is one of the regulatory imperatives.

So it's not just the rules of requiring LEIs, but it's also the rules of requiring the annual renewals of the LEIs, which are important.

**Emily: Can you update our audience on the planned revision to MiFID II? What's the motivation behind this revision?**

Ron: From the beginning of January, MiFID II will be implemented and will require reporting of LEIs across all asset classes, not just derivatives, to European regulators, for the first time. So equities, fixed income, etc, anything that's being reported to a European regulator will have to be reported, identifying the party and counterparty with an LEI. That's a fairly significant expansion of the use of LEIs for reporting purposes.

While I can't comment on the motivation of the European regulators, I can say that the use of LEIs, generally speaking, is required to help the regulators understand the build-up of systemic risk, and risk of counterparties. So by having LEIs reported, regulators can uniquely and unambiguously identify parties to transactions regardless of the broker dealer, or entity that may be reporting to the regulator.

So, if a firm is trading with three different broker dealers, this firm will be reported using the exact same LEI, regardless of who's reporting. That helps regulators to better understand systemic risk, or whether there's any concentration of risk for any entity. That is also the reason behind the reporting of direct and ultimate parent, which is also known as Level 2 information, so that regulators can get an understanding not only of who/what entity is conducting a trade, but who that entity's ultimate or direct parent may be. So if there are other entities, there are other 'children' of parent companies transacting, and the regulators can better aggregate the risk of the parent company using LEIs.

All of this has started with systemic risk analysis, and the LEI system continues to evolve both in Level 2, whereby the regulators aggregate the parent information, and now with MiFID II coming in January, to move LEIs across derivatives into other asset classes.

**Emily: Lastly, how will this revision impact market participants and LEI utilities such as GMEI?**

Ron: Beginning on January 2018, or leading up to January, we do expect that there will be a dramatic increase in the number of registrants for LEIs, and that volume will need to be handled on a timely basis by the LEI operating units, like DTCC GMEI Utility, as well as all of the others.

We don't know how big the rush to the door will be. We did see that when EMIR was released several years ago, where LEIs were required for derivatives reporting, there was a very large concentration of registrations just prior to the rule going into effect. We expect that to happen as well in January. As I mentioned, it's hard to anticipate how big it will be; the estimates range from a 50% increase in the velocity of LEI registrants, to potentially a 500% increase.

All LEI operating units right now are preparing for the change. We are determining how best to increase our staffing to be able to accept the registrations and turn them around in a timely manner. We are looking at ways to try to incentivise registrants who may need LEIs for MiFID II to get those LEIs sooner than in December 2017, not wait until the last minute. And we're working with the GLEIF as well to figure out how best to get the word out, to make sure that those entities affected by MiFID II understand the need for LEIs as soon as possible.

So all of those things are happening. We do think it will have a volume impact on the system, but we do believe that the LEI operating units will have the ability to handle that volume.

**Emily: Thank you Ron for sharing your insight with us.**

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**Thank you for listening, and join us next time.**