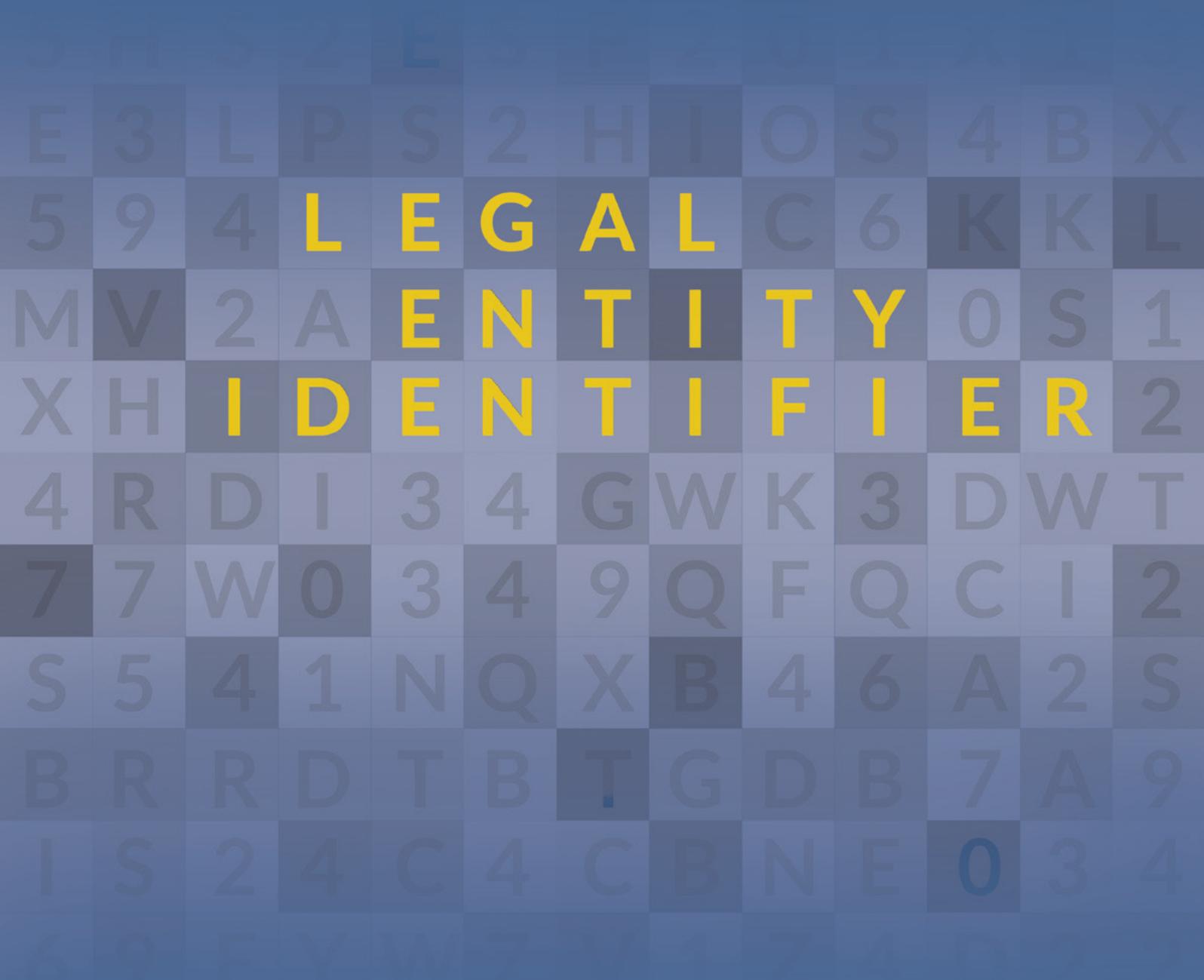


## The LEI & Securities Financing Transaction Regulation (SFTR)



# Background

**Post the 2008/9 global financial crisis, obstacles were highlighted in identifying and tracing financial transactions across the international financial system.**

As a result of this, the Financial Stability Board (FSB) published a report in 2012 entitled “A Global Legal Entity Identifier (LEI) for Financial Markets<sup>1</sup>” under a mandate from the G20 to “coordinate work among the regulatory community to prepare recommendations for the appropriate governance framework, representing the public interest, for such a global LEI by our next Summit”.

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<sup>1</sup> [https://www.fsb.org/wp-content/uploads/r\\_120608.pdf](https://www.fsb.org/wp-content/uploads/r_120608.pdf)

Under the G20 mandate, the following events occurred in the development of a LEI:

**November 2012**

G20 finance ministers, central bank governors and the FSB endorsed the Charter of the LEI Regulatory Oversight Committee (LEI ROC).

**December 2012**

The first Legal Entity Identifier (LEI) was issued.

**January 2013**

LEI Regulatory Oversight Committee (LEI ROC) established.

**January 2014**

The FSB Plenary, in its capacity as the founder of the Global Legal Entity Identifier Foundation (GLEIF), endorsed nominees to the initial GLEIF Board of Directors.

**June 2014**

GLEIF Board held its inaugural meeting in Zurich, Switzerland

## What is a Legal Entity Identifier (LEI)?

The LEI is a unique code that identifies legal entities participating in financial transactions and is required by firms to fulfil their regulatory reporting obligations. LEIs are vital for correctly identifying trading counterparts and asset issuers by not only the recipients of regulatorily mandated data, but also by market participants to measure their exposures accurately. As of 2019, there are more than 1.4 million entities identified by an LEI in more than 200 countries. According to a recent FSB report<sup>2</sup>, “at the global level, more than 70% of securities in terms of outstanding amounts issued may be issued by entities with an LEI (79% for FSB jurisdictions vs 65% in the rest of the world)”. It does note however, that “Coverage varies widely for other sectors and is skewed towards financial sector entities”.

1.4 million  
entities identified  
by LEI in more than  
200 countries

<sup>2</sup> <https://www.fsb.org/2019/05/thematic-review-on-implementation-of-the-legal-entity-identifier/>

## Securities Finance Transaction Reporting (SFTR)

Securities lending is the temporary exchange of a security against receipt of collateral. A lender will receive collateral from the borrower, generally in the form of either cash or other securities.

The Securities Lending industry is, in its preparation for **Article 4 of Securities Finance Transaction Regulation (SFTR)**, analysing the LEI coverage of fields that require its use. The regulation contains more than **10 fields** to be populated with an LEI including not only the trading counterparties but also the reporting party and asset issuer (**fields 54 & 93**). Due to previous regulations such as EMIR, many trading counterparties have already registered for an LEI, however LEI issuance of asset issuers is not as widespread. As the SFTR reporting validation rules call for mandatory population of asset issuer LEI, multiple debates have been triggered which this paper will further detail.

### Lending & Borrowing of Assets

When reporting lending or borrowing activity under SFTR, the **asset issuer's LEI must be reported** as part of the transactional data. For example, if a loan of Adidas shares (ISIN DE000A1EWWW0) were to be reported, that ISIN could be referenced through the GLEIF database to reveal the relevant LEI (549300JSX0Z4CW0V5023). However if the LEI did not exist, the data would be rejected when received by the Trade Repository (TR), the recipient of reported data. Consequently, a trading counterpart with the regulatory reporting obligation will have failed in that obligation. To avoid regulatory breach, a variety of **impacts and risks** have been highlighted by the Securities Lending industry which can be found in the ESMA SFTR consultation paper responses (May 2019).

- Outstanding loans with no associated asset issuer LEI could be recalled from loan.
  - Impact on financial stability by reducing overall market liquidity, creating market squeezes and a global wholesale market unwind via mass recalls.
  - A reduction in the ability to cover short positions in the market.
  - Restricting the ability of businesses to lend their pool of available assets.
  - An inability to hedge positions creating wider spreads and higher costs.
  - A potential movement of businesses and their transactions to non-EU based locations.
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## Collateral Arrangements

To collateralise stock lending activity, the borrower of assets provides collateral to offset risk/exposure to the asset lender. Many collateral arrangements cater for pooling of assets whereby multiple loans are collateralised by a pool of collateral. Under SFTR, these collateral pools are reported as a single data block. This is a data structure mechanism that provides the two counterparts of the collateral (i.e. collateral giver/taker) and repeating rows to detail the collateral assets that have been provided. When this data block is validated under SFTR rules, should the field 'LEI of the issuer' be left blank, the entire data block will be rejected (the data validation rules for that regulation state this is mandatory). This could result in one of two undesirable outcomes; either the data recipients, e.g. National Competent Authority (NCA) will have no visibility of the activity, or collateral takers will reject any asset missing the LEI, reducing the availability pool of acceptable collateral. If we consider the diversification of collateral that many asset lenders require, we can imagine that a missing asset issuer LEI could impact that diversification.

## Gaps in Global LEI Coverage Today

To quantify the potential size of these issues, the coverage of LEIs for asset issuers coverage has been analysed from several perspectives. The first is by a prominent global securities reference data provider, who discovered 70% of asset issuers not yet having an associated LEI. A more relevant study for the Securities Lending markets however relates to assets under custody which discovered that ~34% of assets managed by custodial banks are missing an asset issuer. The most pertinent analysis that the industry is focussed on comes from a large securities lending data aggregator. This dataset relates to actively lent/borrowed assets and it is this last dataset which has been used in the below graphic. It highlights good levels of asset issuer LEI coverage in many EU jurisdictions and notably those locations with lower levels.

It should be noted that the data used in the graphic is unweighted and does not include measures of value/volume. It does however provide a clear indication that some considerable effort is required to improve asset issuer LEI registration.

~34%  
of assets managed by  
custodian banks are  
missing issuer LEI

### Supporting the Wider Adoption of LEIs

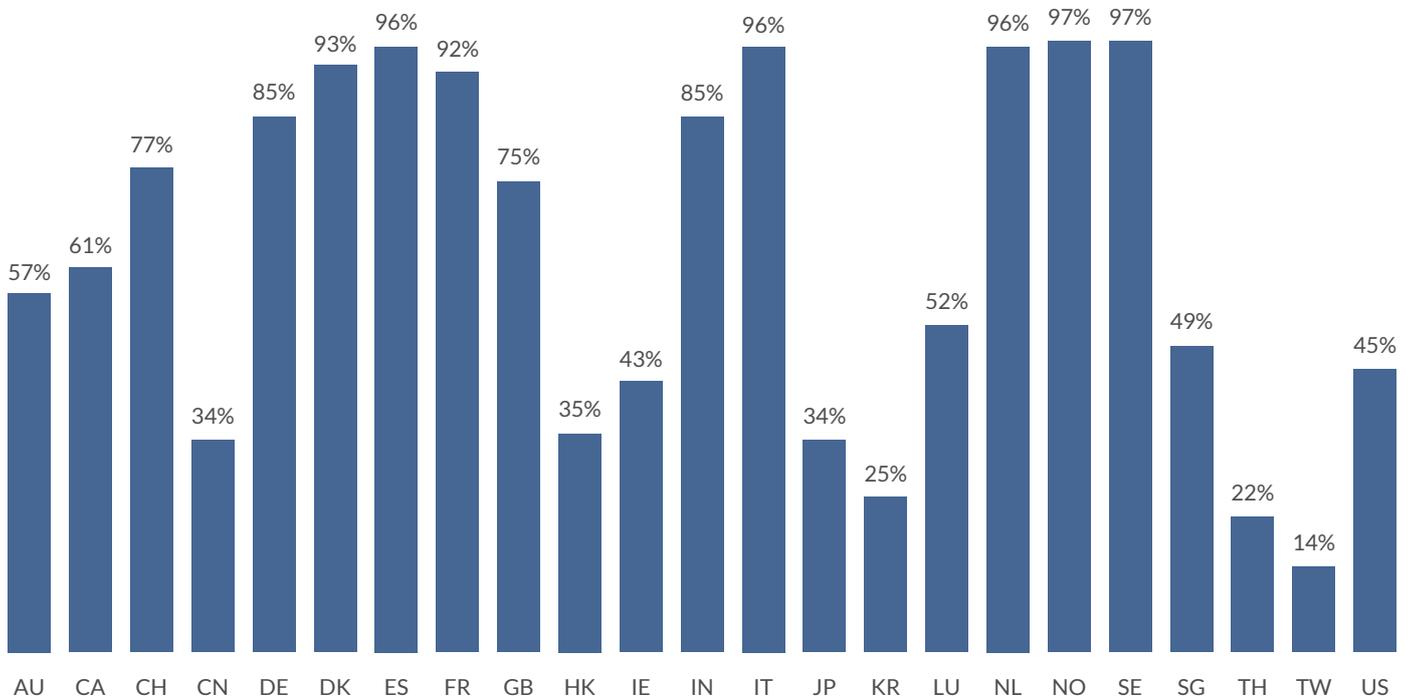
ISLA and securities finance market participants fully support the **increased use of LEIs** and the work undertaken by the **Global Legal Entity Identifier Foundation (GLEIF)**, the **Association of National Numbering Agencies (ANNA)** and the FSB, amongst others. As LEI coverage improves, it not only allows those with regulatory obligations to meet those requirements, but is also a key component of the new technologies that will transform our marketplace.

These **near horizon technologies**, discussed for some years in conference debates under topics like AI and blockchain, are emerging in future planning. As evidenced by surveys like the one published by Business Insider (August 2019): the financial industry's focus is on innovation, regulatory compliance and cost cutting through digital transformation.

<https://www.businessinsider.com/banks-are-prioritizing-cost-cutting-digital-transformation-2019-8?r=US&IR=T>

A key component to realising these objectives is of course data standardisation (e.g. Common Domain Model) of which LEI forms a vital part, neatly dovetailing with the FSB and G20 requirement identified in their 2012 report.

### % of SFT Active Assets with an Issuer LEI



## Resources and Useful Links

### Global Legal Entity Identifier Foundation (GLEIF)

Established by the Financial Stability Board in June 2014, The Global Legal Entity Identifier Foundation (GLEIF) is tasked to support the implementation and use of the Legal Entity Identifier (LEI).

<https://www.gleif.org>

- Located on their website is a list of more than 156 current and proposed regulatory activities.

<https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei>

- To obtain an LEI, search the list of LEI issuing agents to locate an agent in your jurisdiction.

<https://www.gleif.org/en/about-lei/get-an-lei-find-lei-issuing-organisations>

- A presentation on the basics of an LEI

<https://www.gleif.org/en/newsroom/gleif-podcasts/get-an-lei-and-make-it-work-for-you>

- A GFMA webinar with presentations from ESMA and GLEIF

<https://www.youtube.com/watch?v=5baHVFHFie4>

### Association of National Numbering Agencies (ANNA)

- The ANNA website has functions to lookup ISIN and display asset issuer LEI or download over 3 million ISINs and related LEI.

<https://www.anna-web.org/>



## Disclaimer

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