Last orders for LEIs before SFTR go-live next week

Natalie Turner reports

Darragh Hayes, director of LEI Worldwide, a GLEIF Registration Agent that provides LEIs to firms globally, discusses the state of LEI issuance across the EU ahead of the SFTR go-live

The requirement for an LEI is a central pillar SFTR that was borrowed from EMIR. Has the LEI requirement evolved since EMIR and Why is it important for regulators?

The Securities Financing Transactions Regulation (SFTR) is certainly using the experience gained from other regulations such as the European Market Infrastructure Regulation (EMIR) and Markets in Financial Instruments Regulation (MiFIR), and it is clear the European Securities and Markets Authority (ESMA) has pulled elements from both.

Many firms will already be prepared for the legal entity identifier (LEI) requirement having past experience in dealing other regulations. Like EMIR, SFTR utilises the LEI system to identify parties in a transaction.

As of 13 July, the SFTR LEI requirement will become a mandatory reporting obligation extended to entities like investment firms, creditors and central securities depositories (CSDs).

The ‘increased transparency objective’ of SFTR is reliant on the use of LEIs. Transparency is important for regulators as it provides the information necessary to develop effective policy tools to prevent systemic risks.

Accurate reporting of LEIs enhances the visibility of securities transactions which allow for better surveillance of market stability and potential risks.

To summarise, the LEI system makes the regulators role more accurate and efficient.

How difficult is it to meet SFTR's LEI requirement?

Article 4(10) (A) of SFTR prescribes the use of an LEI code. It is just one of 155 transaction reporting fields which need to be completed under SFTR. So, we understand firms are under pressure to complete all sorts of data fields. This is why we have made it our mission is to reduce the regulatory burden and provide fast, accurate and simple LEI management tools for the buy and sell side of SFTR.

The process of obtaining an LEI is actually quick and relatively simple. The application can be made by a third-party on behalf of the applying entity. They will need to provide basic company details along with supporting documentation to validate the accuracy of the registered name, address, and date of incorporation. The data is then corroborated and cross-checked with the company's registry data, and if it is accurate - an LEI is issued.

This process is quick in most cases, especially within the EU. LEIs can be issued anywhere in the space of 10 minutes to a few hours.

Over 50 percent of firms agree that data collection is one of the biggest challenges of SFTR, so it is a good idea to get the LEI box ticked right away.

To answer the question, it is not very difficult, and a quick google search will provide multiple options for LEI providers and information on how to obtain one.

When ESMA released its level-three guidelines in January, it noted that only 80 percent of EU counterparts had their LEIs sorted. Has that figure changed since then?

Since March, the major EU countries have been issued 47,000 LEIs, and there have been 83,000 LEIs issued globally since then. So, the bulk of LEI applications in recent months have been coming out of the EU.

As we know, the SFTR was originally set to go live in April, and this was reflected in a 64 percent increase in LEI applications in March as firms prepared for the apparent deadline.

Now that it has been extended to July because of COVID-19. This means June has also been a big month with over 15,000 LEIs being issued globally.

In relation to the numbers of LEIs sorted, according to ESMA, the EU has 88 percent LEI coverage as of January but recent estimations have been over 90 percent.

But this still means up to 10 percent of EU issuers are yet to put LEIs in place, it is looking likely that a few will have impacted future security issuances.

The good news is that ESMA has shown to be lenient, and firms have had a reprieve as ESMA have extended the original deadline in April until July, due to added pressures firms have been placed under with COVID-19.

Once firms are seen to be making an effort the fallout should be minimal. For those who are behind schedule, it is advisable to apply for an LEI immediately, as it is a relatively quick process.

Certain EU countries, such as Ireland, have stood out as having firms that are slower to clear the LEI hurdle than their peers in other EU member states. Why and how has this happened? Is this a problem?

The issue is that LEI coverage in the EU is over 90 percent moving into July, but recent data compiled by London Stock Exchange Group shows that 55 percent of buy-side entities have only just started with SFTR preparations. Most of these would have already had an existing LEI.

COVID-19 has definitely impacted the workflow of firms falling under SFTR, and we have seen this cause setbacks as firms prepare for SFTR.

But the trend looks positive from our point of view as we have had a spike of enquiries about SFTR LEI requirements in the last couple of weeks.

Enquiries now tend to be from EU firms such as fund administration companies, asset managers and investment firms. We view our role as raising awareness and to continue providing informative content that will help firms become aware of the LEI process.

Registrations have been high and more than 1,000 LEIs have been issued in Ireland since January this year, hopefully more to come before the mid-July deadline.

issuers to ensure meet the new deadline. Is this a challenge?

Our role is to provide the highest quality LEI data. So, we don't have much of an insight as to the inner relationships of each firm and their non-EU counterparties. When providing LEIs, we try to educate and inform firms on the LEI requirement as best we can and encourage the message be passed on to EU and third-country issuers alike.

We will have to wait and see how the coverage rate develops over the coming months, and what trends begin to emerge in the lead up to the deadline in April next year.

> ***Up to 10 percent of EU issuers are yet to put LEIs in place, it is looking likely that a few will have impacted future security issuances***

Also in January, ESMA warned that only 30 percent of non-EU counterparts had an LEI and as a result offered 12-month grace period on reporting of LEIs from these firms. Has the situation improved and what challenges does this situation bring?

Third-country issuers do have an extension and we view this decision as a net positive. With just 30 percent of third-country issuers having an LEI, if it were to go live now it would disrupt the markets.

In the meantime, EU issuers should make their non-EU counterparties aware of the deadline this time next year and we should do our part to educate and inform so we can raise this coverage to near 100 percent by this time next year.

We will have to see in the coming months as we monitor LEI issuance rates before we can determine the position and readiness of third country issuers.

As you mention, a condition for allowing the reprieve was that EU counterparties are expected to liaise with their third-country

As an EU-driven regulation, what happens if, in the event of a no-deal Brexit, securities issued by UK issuers serve as a collateral buffer but, there is no obligation to provide an LEI?

The SFTR deadline is in place for EU country issuers including the UK beginning next month so there is very high adoption rates with 155,720 UK LEIs already in existence.

UK firms are familiar with the LEI by now, as it is the second-largest user of the LEI after the US, and also will be familiar with previous European regulations.

It is hard to say, but in the case that a no-deal Brexit goes through and UK entities are not reporting an LEI, it may need to be re-examined by a UK authority or joint EU/UK collaboration. The EU will still retain a strong influence over UK firms trading within the EU.

Most UK firms we have spoken to recognise that they would still comply with SFTR and EU regulations as they would want to show that they still wish to trade cross borders and not minimise their potential customer base.