

Forging ahead

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White Paper

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CMU Update

The EC's new action plan is giving securities finance participants fresh optimism that their regulatory headaches may soon be soothed

Panel Discussion

Members of ISLA's ESG working group describe how responsible investing has taken centre stage in the fightback against COVID-19

 **SWAPTIMIZATION**

Automating Swaps Work Flow

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Reporting data integrity undermined by LEI lapses

As much as 30 percent (500,000) of legal entity identifiers globally are out of date and in need of renewal, according to LEI Worldwide, a GLEIF-registration agent and LEI provider.

LEIs are a 20-character alphanumeric code that, as the name suggests, allows regulators to identify individual counterparties in a transaction.

They are currently required under several rules frameworks including the Securities Financing Transactions Regulation and the European Market Infrastructure Regulation, among others.

LEIs require annual renewal. When an LEI

has been renewed within the last year the status shows as 'active' if it has not been renewed it will show as 'lapsed'.

"Having a lapsed LEI can have profound consequences," explains LEI Worldwide director Darragh Hayes. "It means the data may be out of date, and therefore cannot be relied upon by regulators."

With regulations in place, it should be standard procedure to check on the status of your LEI before submitting any transfers or purchases, he argues.

Hayes adds: "In the event of a lapsed LEI intermediaries and regulators can block your

transaction. This would cause unnecessary delays and unwanted disruption."

In response, LEI Worldwide has launched a new search tool to allow users to more-efficiently validate the LEIs of their firm and its counterparties.

The search tool is an application programming interface which feeds into a database housing more than 1.7 million LEIs and provides a real time searchable index for every entity.

LEI Worldwide has also implemented a programme that conducts a spell check upon search.

Continued on page 6

Reporting data integrity undermined by LEI lapses

continued from page 3

This allows the programme to pick up on any spelling errors or typos and provide a list of suggested results which can allow you to find what you are looking for more easily.

With this tool, any company can search for their LEI and renew it immediately by clicking the renew button which appears in the search results, which is a unique feature, according to Hayes.

The LEI search tool is publicly available and free to use. It is most commonly used by both regulators and the owners of LEIs, says Hayes.

Before the new LEI search tool, LEI Worldwide would manually respond to customers requests about an entity or an LEI.

It had a notification on its website that any LEI checks or entity checks could be conducted by contacting its support team who would look into it for them. They would also suggest renewing the LEI if needed.

Last week, the Commodity Futures Trading

Commission fined Morgan Stanley \$5 million for a range of swaps reporting failures between 2013 and 2018, including incomplete LEIs.

“Upon further investigation, we realised that Morgan Stanley Capital Services had a lapsed LEI between 2013 and 2018. It is quite simple to renew the LEI, and it is possible they did not realise it had lapsed,” says Hayes.

Global securities lending revenue continues to underwhelm

The top-five revenue-generating securities in the global securities lending market for Q3 generated less than half the income for lenders compared the top five securities in the same period last year, according to DataLend, the market data division of fintech EquiLend.

Varta AG, Nikola Corp, Carnival Corp, Canopy Growth Corp, and Inovio Pharmaceuticals generated \$106 million for the global securities lending market in Q3, compared to \$284 million earned by the top-five securities in the same period in 2019.

This figure represents a significant decline from

Q3 last year when loans revenue for Beyond Meat, 2019’s top earner, brought in \$120 million over the three-month period on its own.

In total, the global securities finance industry generated \$1.77 billion in revenue in the lender-to-broker market in Q3, equaling a 17 percent year-over-year decrease from the \$2.13 billion generated for lenders in Q3 2019. Year-to-date, lender-to-broker revenue has totalled \$5.67 billion, a 14.7 percent decrease over the \$6.65 billion generated for lenders in the first three quarters of 2019, says DataLend.

Revenue in the broker-to-broker market has totalled \$1.58 billion in 2020 through the end of Q3, a 4.6 percent increase from the same time period in 2019.

The downturn in revenue for Q3 was largely driven by American and Asian equities, which declined 28 percent and 26 percent respectively, DataLend notes.

These declines were offset slightly by equities in Europe, the Middle East and Africa, where revenue increased 9.8 percent year on year in Q3, and fixed income in the Americas, where revenue increased 4.7 percent.

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