

CUSIP and LEI: Two Standards, One Stop



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Call Participants

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Presentation

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Good morning, everyone, and thanks for joining today's webinar on 'CUSIP and LEI: Two Standards, One Stop'. My name is Matt Bastian. I'm a Senior Director with CUSIP Global Services, and I will be your host for today. The standard disclaimer is the CUSIP System is owned by the American Bankers Association and operated on their behalf by S&P Global Market Intelligence.

Joining me today is Gerard Faulkner, Director of Operations for CGS. And let us just start in saying that we hope everyone is sheltering well and staying healthy during these difficult times. We recognize that we are all deluged with video calls and webinars these days, and we really appreciate you taking the time to join us.

First, some housekeeping items. This webinar is designed to be interactive. The console you are looking at can be completely customized. You can resize or move any of the windows that you have open. And at the bottom of the page, there are a number of widget you can access. If you have any questions during the webinar, you can use the Q&A widget. We should have plenty of time for Q&A. This tends to be a quick session, and we will likely not need the full time allotted, hopefully giving you 10, 15 minutes back of your day.

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So that said, here's our agenda for today. I will cover the history, structure and current status of the LEI initiative before handing off to Gerard to discuss our collaboration with the LEI arm at DTCC, which is also known as the GMEI utility, so get ready for a lot of acronyms this morning. Disclaimer, this isn't meant to be an exhaustive overview of LEI but more of a primer, especially for CUSIP requesters and other market participants who may not have exposure to some of the other standards being introduced to the market and how they are being used.

So first: how we got to where we are today. In the wake of the credit crunch, the conventional wisdom was that regulators and market authorities didn't have the right tools at their disposal to either prevent or mitigate the crisis, namely that they didn't have a comprehensive picture of how firms like Lehman Brothers were exposed to each other through ownership, loans, securities transactions, any other relationships. And so the idea of a standardized entity identifier and financial services took on a great sense of urgency.

For those of you who have been around long enough, you know that this wasn't a novel concept. The industry has been wrestling with the problem for years, and here is just the condensed history. We had and still have codes like the BIC and the DUNS, and these have their place, but the scope and purpose of each is very different. Then around 2003, 2004, the industry through ISO started work on the IBEI, which was ultimately judged to be too wide-ranging in scope, and so that draft was scuttled. The concept was resurrected in 2008 as the IGI, which was narrower in scope for issuers and guarantors but without regulatory pressures and a registration authority to step forward and manage the standard and never quite crossed the finish line. The LEI, however, did.

So what was different this time? Most importantly, it was a collaboration between the industry and regulators, SIFMA and its global sister organizations, combined under the vendor of the GFMA, and the FSB came out of a G20 Summit in 2009. In May 2011, the requirements document was published. And that summer, the GFMA hosted a few days of

presentations from a variety of market participants proposing a solution. And thus, the LEI system was created. There are 3 legs to the stool, if you will. The local operating units register the codes, follow-up for annual maintenance and feed the data to the central operating unit. The COU is also known as the GLEIF, or the Global LEI Foundation, and that manages the central hub of LEI data and accredits the local operating units. And then the ROC oversees the whole thing and sets policy requirements for the GLEIF to implement.

So now that we've talked about how it was created, what is it? The LEI is a 20-character random code based on ISO-17442. The original scope was that any unique entity with a touch point in the financial transaction is eligible. So this could be banks, funds, pension plans, issuers, obligors, again, any legal entity involved in financial services. That scope has since grown to include things like international branches, so the standard is evolving, but that was the purpose out of the gate. There is no embedded intelligence in the code, with the exception being that the first 4 digits can but don't always indicate the local operating unit of origin. So in this case, 5-4-9-3 means it comes from the GMEI utility that we referenced, and Gerard will discuss in more detail. You'll see that the basic information includes state of fields like address and legal form. I'm not sure what LEI role the Philadelphia Cheesesteak Steak Company fulfills, but I'm a Philly guy, and I get to pick the examples.

So here are some current statistics in a directly small font, I know. There are over 1.6 million LEIs issued. And of those, 463,000 are from the LOU operated by DTCC, again, the GMEI utility. These statistics and others are available on the GLEIF website, gleif.org, which is a great source of information for all things related to LEI.

So the Level 1, the 'who is who' was just the first step. If you think about the purpose of the LEI to provide a holistic view of systemic risk in the markets, the code itself is just a piece of the puzzle. The ownership and capital structures of issuers are where we start to see the real value of LEI, and that concept leads us to Level 2 or who owns whom? Who's the direct parent? Who's the ultimate parent? What are the subsidiaries? Are there subsidiaries of those subsidiaries? So building out that picture is part of the initiative as well.

So here's how the Level 2 data are represented on the GLEIF website, in this example for Mirabaud, the Swiss Financial Group, but 2 international subsidiaries. And if you click on those, it'll drill you down to the Level 1, the business card information for those unique entities as well.

And then finally, we have the capital structure or linking securities to the LEI of issuing entities. This collaboration is between the GLEIF and ANNA, the Association of National Numbering Agencies of which CGS is a founding member. ANNA is the registration authority for ISIN and is asking its members to link ISIN to LEIs. ISIN is the 12-character standard used for cross-border trading. And for U.S. ISINs, the CUSIP will be embedded therein. This content is made available to the markets through both ANNA and the GLEIF. And in September of last year, which is the press release you're looking at, CGS announced its intention to contribute to the ANNA initiative. And thus far, we have linked over 1.4 million issuer LEIs to active U.S. ISINs. And obviously, that can be a many-to-one relationship in terms of ISIN to LEI.

And here's an example of how this is represented on the GLEIF site. Again, ANNA distributes the content as well via the ANNA Service Bureau, which is a hub of global ISIN data. But on the GLEIF site, the screenshot, in this case, we have 183 ISINs linked to the new Residential Mortgage Loan Trust 2018-2. So again, just an example of how the original concept of that Level 1 LEI data is really starting to build out and create a useful picture for regulators, market authorities and really all market participants.

So now I will pause there and hand it over to Gerard to talk about CGS' role in the LEI initiative. Gerard?

Gerard M. Faulkner
CUSIP Global Services

Thank you, Matt. Hello, everyone. Thank you for joining the webinar. I'll discuss the CUSIP operational aspects of LEI requests and assignments.

On the slide now is the press release from January of 2016, announcing that CUSIP and DTCC extended their original 2013 agreement to provide LEI identifiers for the industry. CUSIP has collaborated with DTCC on the LEI since 2011 when the financial industry was discussing the development of an entity identifier standard. The collaboration culminated in February 2013, with the announcement that CGS, in its role as a National Numbering Agency, would partner with DTCC's GMEI Utility in providing CUSIP requesters with an option for LEI registration as part of the CUSIP application process. The following month, on March 18, 2013, CGS started providing the LEI registration option on CUSIP online application forms.

In its role as a National Numbering Agency covering the U.S., Canada and the Americas, CGS is well-positioned to provide wide coverage and access to legal entities across the world involved in financial transactions, in particular, issuers of new securities, including corporations, mutual funds, municipalities that are eligible for, or are required to have LEIs. Since the start of our alliance with DTCC in 2013, a total of 14,182 LEIs and counting have been requested and assigned through the CUSIP registration process.

Now I'll just quickly show this slide here, which is the workflow chart that provides an overview of the CUSIP registration and assignment process. CUSIP requests for new security offerings are usually submitted by the underwriter or counsel directly involved with an offering. A request is also sometimes submitted by the issuer itself. The requester has the option to apply for an LEI, along with the CUSIP. The CUSIP request must include a prospectus or similar offering document that provides the legal description of the securities for CUSIP assignment and the issuer name or legal entity used for LEI assignment. After the CUSIP assignment has been processed, the LEI request is sent to our LEI team, who verifies the legal entity name and information are correct before submitting the request to DTCC for GMEI LEI assignment. CUSIP and LEI confirmations are e-mailed to the requester, and the CUSIP and LEI are disseminated on GSP services and the ANNA Service Bureau or ASB, which is a global repository of ISINs assigned by CGS and other numbering agencies throughout the world. The CGS LEI team also maps or links the LEI with any ISINs of the issuer that Matt had discussed earlier. The GMEI is also added to the GMEI Utility database by DTCC.

This slide here shows one of the online CUSIP application forms on the cusip.com website. At the very top of the form is the option to request a GMEI LEI when completing the CUSIP application form. This provides one-stop shopping or a seamless process to request both a CUSIP and LEI in a timely manner to meet any regulatory requirements such as trading or transaction reporting. A separate LEI-only form is also available to requesters who are only applying for an LEI without a CUSIP request. The application form defaults to requesting the LEI unless the requester opts out of the LEI. Since last August, an LEI authorization letter is also required to be completed and signed when requesting an LEI to certify that the requester is authorized to request the LEI on behalf of the issuer in accordance with new GLEIF requirements.

The next slide is an example of the LEI confirmation letter that is sent out to the requester. The confirmation includes the basic information, the LEI identifier, the legal entity name and its registered address and headquarters address. The confirmation also indicates the renewal date for annual LEI maintenance that starts one year after LEI registration. An issuer is required to certify that its legal entity name and information are still current and active on DTCC's GMEI Utility database as required by GLEIF.

I will now turn it back over to Matt.

Matthew Bastian

Okay. Thanks, Gerard.

To close things out, we just wanted to share some rules of U.S. regulators when it comes to LEI. The uptake of the new standard has varied globally, as you might imagine, and much of that depends on the regulatory requirements in each jurisdiction. The European Union, with the advent of MiFID II, famously has no LEI, no trade policy as of 2018, and that's probably the strongest and widest mandate right now. Closer to home, here is Kara Stein in 2016, talking about the

value of the standard in monitoring counterparty risk, so, always good to see the SEC stepping up for promoting new standards, and definitely the case here.

Here's Richard Berner of the OFR, the Office of Financial Research, which was creation of the Dodd-Frank Act, and he's talking about the need to get behind the LEI and stop mandating the use of other codes. We've always been of the mind that having multiple standards is the equivalent of having no standard, and that sentiment is captured here quite nicely.

And here's just a small sample of the rules and reg's that reference LEI or call for its use. The ones in red make it a requirement as opposed to just requested. This list is far from exhaustive, it's continually expanding year to year, but for the sheer sake of keeping the font legible, some of the more recent additions from 2018, 2019 are not on the list. And again, the GLEIF website has a comprehensive global list of all rules and reg's that include the LEI, whether mandatory or requested.

And then to close out the visuals section of the MSRB registration form, where LEI is part of the information, and again, the overall message here is that slowly but surely, market authorities and regulators are recognizing the value of LEI and calling for it to use, a trend that will only grow over time.

I think we're going to pause now to push out a quick poll question, and then we will circle back to the Q&A. And simply, would you like to be contacted by CUSIP Global Services to learn more about its offerings and data and receive complementary research on the capital markets, simple yes or no. A few seconds for everyone to respond.

Questions and Answers

Matthew Bastian

Okay. All right. Onto the Q&A. We had a few that have come in already. One is, if nothing has changed, why should I reaffirm my LEI each year? So I guess the question here is, if the information is consistent, the entity hasn't moved, hasn't changed names, what's the value in reaffirming it? And the simple answer there is if the reaffirmation process isn't carried out, the record will lapse within the GLEIF database, so it will be marked as not current. And there is a challenge with the number of lapsed records, and all LOUs are working to address that, but it is important for entities that did request an LEI to do their part to keep it refreshed on an annual basis.

Another one is, are funds eligible for LEIs and at what level of granularity? Gerard, do you want to take that one?

Gerard M. Faulkner

Sure. Yes, Matt. Thank you. Now we do receive a lot of requests for funds or investment companies for LEIs. Perhaps if they invest in swaps, there is a requirement to report with an LEI any swaps transaction reporting to the Commodity Futures Trading Commission. As far as the LEI assignment for funds, it is actually assigned on a very granular level. If there are funds that are series of a trust, each particular series or portfolio, if it is a separate legal entity, it would be assigned its own unique GMEI or LEI. Thank you for the question.

Matthew Bastian

Thanks, Gerard. Another one is, do you build connection mapping between CUSIP and LEI? So the focus right now is on ISIN to LEI because again, it was an ANNA-driven initiative, and our contributions to the ANNA Service Bureau are the U.S. ISINs that are relevant to a global audience. So that's where the mapping effort takes place, and please understand that it is a lot of work to make the connection. And again, we've mapped 1.4 million LEIs to ISINs at this point. Not to say that we won't expand that program, but still plenty of work just getting the ISINs and LEIs linked as it is now. Although now that I think about it, we do have linkage products that we offer from CGS that link CUSIP and SINs, which is our 9-character international variant to ISINs. So in and concatenating those 2 files, the CUSIP and ISIN linkage, with the ISIN to LEI mapping, you could get the linkage through that two-step process.

What's the best source channel of LEI data for consumers? That is an interesting question. Again, the GLEIF website is really comprehensive, and there are individual searches, files you can download, so that would be a good place to start. But going back to one of the earlier slides, one of the LEI principles is freely available, so most market data vendors will have taken in LEI data and incorporate it into their offerings. So it's really kind of users' choice at this point in terms of where you want to go. But I think the GLEIF website is a good place to start.

Is there a possibility of a discrepancy between registered names for CUSIP and LOU for the same entity? Gerard, can I toss that one at you? Gerard, are you on mute?

Gerard M. Faulkner

Yes. I'm here, Matt. I'm sorry. I was on mute. Thank you. No. As far as the CUSIP, it should be the same because when we receive an LEI request, we do provide the registered name in the CUSIP. Again, we do receive the actual offering document, the legal supporting document. So the name -- we take the exact legal entity name of the issuer from the document, so it should be consistent from what we have or what would be seen on the GLEIF or the GMEI Utility database.

Matthew Bastian

All right. Thanks, Gerard. We had another one. What do you mean by real-time web in the earlier slide? So I believe that's a reference to the slide where we had the CUSIP request process and the workflow. Real-time web is the CUSIP access product, so that's available through our website, but that's our real-time lookup service. If you need to confirm individual CUSIPs, there's also download capability for small amounts of data. So if you need a full-bore data feed, that would be a different product, but we do have a web facing tool for lookups, and that's CUSIP Access.

What's the process of creating the hierarchy structure? And what's the accuracy of this process? That's an excellent one. So the Level 2 data is really part of the requester for the LEI, so it's incumbent upon them to include the subsidiaries and the parents. And then the LOU taking that request would run some sort of validation. But as far as what's the accuracy, it's a fair, general question. And I would say if there are any challenges, there is a tool through the GLEIF website where one can challenge the accuracy of information, whether it's the Level 1 data or Level 2.

Another one's come in. Are all bank branches -- sorry.

Gerard M. Faulkner

No, that's fine, Matt. Yes. I actually just saw that question, and I was about to answer it.

Matthew Bastian

Oh, thanks. Okay.

Gerard M. Faulkner

Yes. So thank you. Yes. Just to repeat the question, are all bank branches issued separate LEIs? Yes, this is a good question because we also receive a lot of requests for bank branches. So yes, it's the bank branch. And as is normally the case, they are considered a separate legal entity from the parent bank, so international bank branches would receive their own separate and unique LEI from the parent bank.

Matthew Bastian

And then another one's come in. Why are all the new issued ISINs not having LEIs if the issuer is already registered with LEI? So without a concrete example, I think the concept here is: keep in mind that it's still two separate databases. So an entity could be registered with an LEI, it could also be an issuer with CUSIPs and ISINs. But we still have to make that linkage between the two, and there is a lot of backfilling that we still need to conduct as well as trying to capture all the new ones going forward. So the simplest answer there would be, even though it does have ISINs and it does have an LEI, we still need to make the connection between the two.

And we've got one more minute. Did we have any other questions come in? No? Okay. Well, we are at the bottom of the hour. Again, promise to try to give everyone 10 or 15 minutes back, and we're living up to that. Thank you again for joining us. Again, please stay safe and healthy, and hope you can enjoy the holiday weekend coming up. See you all next time. Thanks.

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