



LEI Readiness

Instant IntegrationSM with Alacra Concordance

January 2012



As a content-neutral solution provider, Alacra seamlessly aggregates, aligns, and delivers entity data from disparate sources.

For Reference Data departments, Alacra maps entity identifiers from dozens of data sources and delivers daily alerts on counterparties.

Customer Identification (CIP), Know Your Client (KYC), and Enhanced Due Diligence (EDD) compliance teams use Alacra solutions to vet entities during the onboarding and rolling review process.

For 15+ years, Alacra has leveraged proprietary entity matching software, and over 100 business & financial publisher partnerships, to deliver front- and back-office workflow solutions for more than 400 financial institutions, professional services firms, and corporations.

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While implementation of the LEI (Legal Entity Identifier) for financial market participants is still several months away, and benefits from the LEI may not be seen until 2013 or later, Alacra believes that the LEI will become an essential and integral part of every financial institution's reference data operation. Alacra is preparing for the release and adoption of the LEI, and we plan to integrate the LEI into our Concordance services immediately upon release. Our clients will benefit from Instant IntegrationSM, a compelling solution that maps the LEI to dozens of entity, industry, and internal identifiers.

LEI Background

The idea of an LEI pre-dates the 2008 financial crisis by several decades. The ISO (International Organization for Standardization) had advocated an LEI (at one time called the IBEI – International Business Entity Identifier) for many years, but was unable to pinpoint an organization ready to build and maintain such a directory. For many securities industry participants, existing identifiers, such as the Bank Identifier Code (BIC), met most of the market's needs.

The collapse of Lehman Brothers revealed the problems firms faced in readily identifying their counterparty exposure. With critical data residing in multiple, unconnected silos, many firms had no way to calculate their counterparty risk across front, middle, and back office systems. This damaged reputations, led to tremendous financial losses, unleashed law suits, and brought into focus the dire need for a system to uniquely identify entities.

The financial crisis in 2008 led to a wide range of new regulatory proposals by the world's financial market regulators. In the US, the Dodd-Frank Wall Street Reform and Consumer Protection Act established the Office of Financial Research (OFR) within the Treasury Department to improve the quality of financial data available to policymakers, and to facilitate more robust and sophisticated analysis of the financial system. The OFR was given the authority to collect data to support the Financial Stability Oversight Council (FSOC) and to set standards for reporting such data. To support the FSOC in identifying connections among market participants and monitoring systemic risk, the OFR wanted to standardize how parties to financial contracts are identified in the data it collects on behalf of the Council.

From the OFR's Statement on Legal Entity Identification for Financial Contracts:

Precise and accurate identification of legal entities engaged in financial transactions is important to private markets and government regulation. In the private sector, data identifying counterparties support communication between systems, facilitate transaction processing, and allow for accurate aggregation of positions vis-à-vis individual or classes of counterparties, which is necessary for effective risk management and calculation of margin. Sales, compliance, and due diligence functions also rely on unique identification of counterparties. In the public sphere, correctly identifying parties to financial contracts is critical to assessing the connections among financial firms and to monitoring systemic risk.

Although Dodd-Frank was the key catalyst for the LEI concept coming back to life, the determination of how and by whom the LEI was going to be built and maintained involved a long, public process over a two year period with market participants, trade associations, and regulators from around the world. Ultimately, SWIFT and DTCC won the industry recommendation for the establishment of the LEI.

The LEI initiative was led by a group of over a dozen trade associations from around the world, in coordination with the Global Financial Markets Association (GFMA) composed of the Securities Industry and Financial Markets Association (SIFMA), the Association for Financial Markets in Europe (AFME), and the Asia Securities Industry & Financial Markets Association (ASIFMA). This coalition's recommendation is a first step in developing a global industry consensus on the requirements and standards for a viable, uniform and global LEI solution.

SWIFT and DTCC, along with DTCC's Avox subsidiary, partnered on a joint proposal with ISO, which was recommended as the LEI standards body. As indicated in the trade associations' recommendation, the organizations are looking to extend the collaboration to additional partners such as the national numbering agencies, which can provide local expertise to the LEI solution in their home markets for the registration of issuers and obligors. The trade associations also indicated that they expect several of the other organizations that responded to the proposal to participate in complementary roles.

What's Next?

Although the recommendation has been made as to who will provide the LEI utility, many questions remain as to global buy-in, initial and extended coverage, launch date, adoption, funding and governance, and the registration process. So while a significant number of hurdles have been cleared, many more must still be jumped before the benefits of the LEI will be realized by the market and the regulatory bodies.

From a statement made by the G-20 after its November 2011 Summit in Cannes:

We call on the Financial Stability Board (FSB) to take the lead in helping 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.

The involvement of the G-20 and the FSB has been welcomed by the industry, but there is still a lot of work to do in a short time. The FSB has until June 2012, when the G-20 holds its next summit in Mexico, to develop a governance framework for the LEI. In addition, it is still unclear who is going to fund the establishment of the LEI, what the registration process will be, and how the ongoing maintenance of the database will be managed. Ensuring that the funding model for the LEI does not give rise to monopoly profits is an issue still under discussion.

Initially, LEIs will be required only for entities participating in the swaps market and regulated by the US Commodity Futures Trading Commission (CFTC); it may subsequently be required by other financial market participants. There is support for the LEI in the US and among many European countries, but wide adoption and usefulness will only come with broader coverage. Currently, there is no timetable set that outlines when coverage either by type of market participant or by geography will reach critical mass.

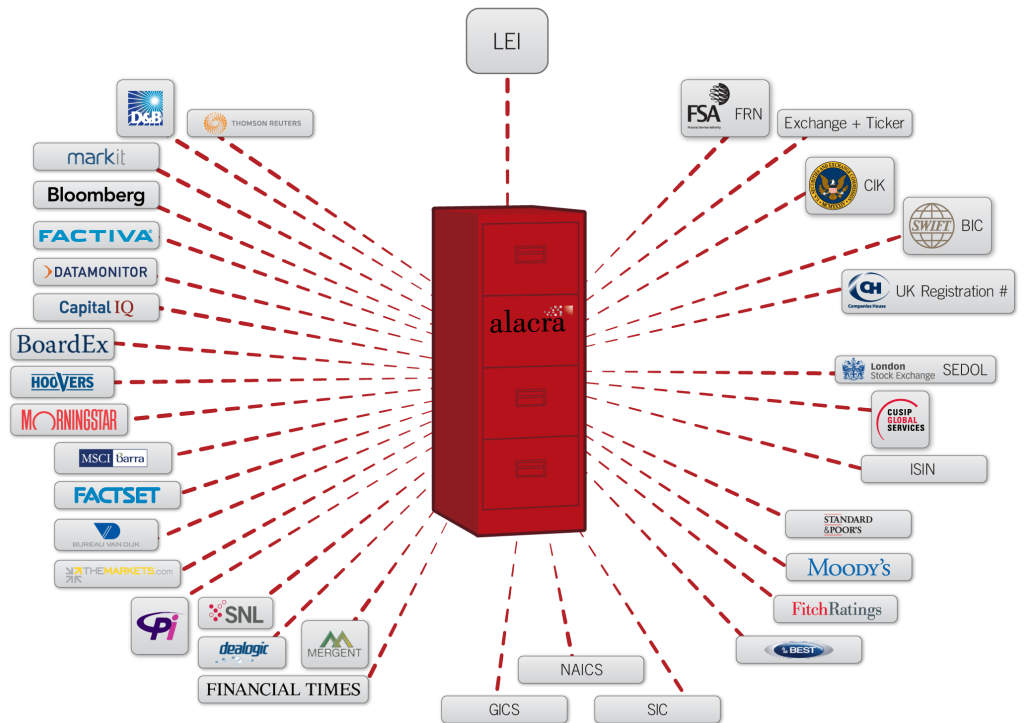
Many industry participants will adopt the LEI without complete coverage or a specific regulatory requirement. Many others, however, will not adopt unless there is a regulatory requirement. Currently there is not a critical mass of regulators who are pushing as hard as the CFTC.

Alacra and the LEI

Alacra fully supports the development of the LEI as an industry utility as we believe it will reduce risk and increase efficiencies throughout financial markets.

As a solutions provider to the reference data departments of major global financial institutions, Alacra maintains a database of hundreds of thousands of global public and private entities with over 20 reference data attributes and a mapping of 50+ third-party entity identifiers from major financial information publishers to an Alacra ID, which facilitates translation to any other proprietary or internal ID.

ALACRA MAPS ENTITY, INDUSTRY, AND SECURITY IDENTIFIERS, FACILITATING INSTANT INTEGRATION



Each entity's database record also includes information useful for entity risk-rating such as whether and where the entity has listed securities, who regulates the entity, applicable rating agency coverage, and whether it is state-owned – all verified and updated daily. This entity data alignment, mapping, and monitoring service is called Alacra Concordance. The data is available via a daily feed, an API, and an online lookup service called the Alacra Counterparty Intelligence Application (CIA).

Alacra can help clients prepare for the LEI by aiding in the data cleansing exercise that many organizations are contemplating to prepare their own systems for adding the LEI and mapping it to their internal IDs.

Our intention is to map the Alacra ID to the LEI as soon as it is available. This will in turn immediately provide our Alacra Concordance clients with – “Instant IntegrationSM” – a map from the LEI to many other commonly used entity identifiers including, but not limited to: issuer IDs from Moody's, S&P, Fitch and A.M. Best; Markit RED Codes; FSA FRNs; D-U-N-S Numbers and SWIFT BICs.

Integrating the LEI into the Alacra Concordance service will provide clients increased value in the following ways:

- Improved accuracy in mapping financial counterparties to public and proprietary entity identifiers.
- Improved roll-ups of securities to their legal entity.
- An immediate answer to the question, “Does this entity have an LEI?”
- Translation of the LEI into any other identifier, and resolution of any other identifier into an LEI.
- Instant determination of whether entity with an LEI is rated by a ratings agency and/or if it is regulated and by whom.
- Integration of the LEI into downstream applications currently receiving Alacra Concordance information.

In addition, Alacra's more robust set of reference data attributes will add value to customers over and above the name, registered address, ISO country code, and ultimate parent information contained in the LEI record.