

LEGAL ENTITY IDENTIFIERS



Introduction

UK investment management firms currently have to comply with a piece of legislation known as The Markets in Financial Instruments Directive (MiFID). Introduced in November 2007, it sought to improve the competitiveness of financial markets within the European Union by creating a single market for investment services and activities, and to ensure a high degree of protection for investors in financial instruments such as shares, bonds and derivatives.

At the start of next year, The Markets in Financial Instruments Directive II (MiFID II) will come into force and this represents a wide-ranging overhaul of the existing directive with a particular focus on market transparency.

A key impact of the new regulations is that from 3 January 2018, an investment management firm will only be able to continue trading in financial markets on behalf of certain clients if those clients have obtained a Legal Entity Identifier (LEI).

What is an LEI and who needs one?

A LEI is a 20-character alphanumeric code that is unique to each legal entity investing in financial markets.

Investors falling within the category of a 'legal entity' will need to obtain an LEI and these include:

- Trusts (but not bare trusts);
- Companies (public and private);
- Pension Funds (but not self-invested personal pensions);
- Charities; and
- Unincorporated Bodies

Natural persons cannot obtain an LEI.

What is the purpose of an LEI?

From 3 January 2018, UK investment management firms will be obliged to report significantly more information to the Financial Conduct Authority about trades they execute on behalf of a legal entity, including that entity's LEI. The unique LEI has been introduced so that all counterparties to transactions on financial markets can be quickly identified and will therefore serve as a useful tool for the regulatory authorities in monitoring trading activity and detecting market abuse.

The Global Legal Entity Identifier Foundation (GLEIF), a not-for-profit organisation created in 2014 to support the implementation of the

LEI, maintains a database of all LEI numbers. This database, available on their website, will be continually updated as and when new LEIs are issued and can be accessed by anyone free of charge. As it stands, the database discloses the following details about an entity:

- Name;
- Address; and
- LEI number.

However, the GLEIF has confirmed that the amount of information publicly disclosed will increase in the future and include details about the direct and ultimate parents of a legal entity. How this will apply to a trust is currently unclear and so we are awaiting further clarification on this point.

How do you obtain an LEI?

The LEI can be obtained directly from the London Stock Exchange (LSE) for an initial fee of £115+VAT and there is an annual renewal fee of £70+VAT.

While the responsibility for obtaining the LEI rests with the legal entity, it is hoped that investment management firms will assist with what otherwise could potentially be an onerous process for their clients. Several firms

have already confirmed that they will be offering a service whereby they will apply for the LEI on their clients' behalf for a fee similar to that charged by the LSE.

A legal entity can only be issued with one LEI. So for a trust that has say two investment managers, only one of these would need to apply for the LEI. The trustees would then share this code with the other manager.

What about Brexit?

The government formally notified the European Council of the United Kingdom's intention to withdraw from the European Union in March 2017 and we have now entered a two-year period where the terms and conditions of the withdrawal will be negotiated. The MiFID II is set to come into force early next year, well in advance of the negotiation period reaching its conclusion. With that in mind, the requirement for legal entities investing in financial markets to obtain an LEI by 3 January 2018 remains unaltered by Brexit.

What to do next?

For any legal entities with a portfolio of listed investments, it would be sensible to contact the relevant investment manager as soon as possible to establish whether they will be providing any assistance in obtaining the LEI.

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