

Insideview

Standards: Key Element for Regulation!

INTERVIEW WITH TORSTEN ULRICH

Currently, several regulations are about to become effective, such as MiFID II / MiFIR, or are under final review, such as the Prospectus Directive. What is the role and importance of international standards for these and other regulations?

In light of the financial crisis, regulators realized that it was difficult to obtain information in a transparent and standardized manner which led to significant delays and risks, for instance in identifying risks that banks were bearing due to their holdings in certain entities. At this stage, it was detected that it was even impossible to identify entities through a standardized mechanism which led finally to the mandate by the G20 to create a Legal Entity Identifier (LEI) according to an ISO Standard (ISO 17442 Standard). This was the signal for the regulators to look deeper into standards. Another lesson learned – even by regulators from earlier regulations – was to use ID standards to minimize mapping efforts and costs.

The LEI seems to become the identifier for entities. What are latest developments of the LEI system?

Indeed the LEI is more and more becoming *the* identifier to be used especially for several regulations. Core of the GLEIS (Global LEI System) is to provide high quality. While focus has been at the beginning on the “business card” information, LEI is now moving to the next phase, the so called Level-2 data, i.e., to the question who owns whom. Entities have to provide upon annual renewal of their LEI information to identify their direct and ultimate parents, and vice versa.

Finally: as of January 3rd, 2018, MiFID II / MiFIR will require also a LEI, e.g., for issuers. Entities should apply as early as possible to avoid delays.

Which other areas in regulations are or need to be covered by standards?

The different areas to be covered in regulations by international standards are related



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to the *identification, classification, and description* of financial instruments. For identification of all asset classes, regulators have chosen the over years proven ISIN according to ISO 6166 Standard as the identifier to be used for the aforesaid regulations as well as in others, like EMIR, MAR, and the Prospectus Directive. This also covers the so-called OTC derivatives. CFI (Classification for financial instruments) according to ISO 10962 is to be used to classify all types of instruments in a six-digit code. Finally, the FISN (Financial Instrument Short Name) according to the ISO 18774 Standard provides in a 35-digits code the issuer short name as well as an abbreviated securities description.

Referring to the identification of OTC instruments by the ISIN: What is the current status and outlook?

ISIN will be ready for all asset classes, especially OTC derivatives. ANNA (Association of National Numbering Agencies) as the Re-

gistration Authority for ISO 6166 has created the Derivatives Service Bureau (DSB), which will provide the technical and organizational frame to allocate and provide the corresponding ISINs for the different OTC asset classes. Currently, user acceptance tests with the industry are taking place and the DSB services will go into production at the beginning of Q4. Current focus is on the regulatory requirements to be met for MiFID II. Further potential enhancements will be focused on afterwards.

Could you briefly explain the CFI?

The latest version of the CFI standard has included the classification of OTC derivatives as well as CIVs (Collective Investment Vehicles) as a separate category. The members of ANNA will start allocating CFIs according to the new standard version as well as FISN as of July 1st, 2017, being mandatory especially for European regulations.

Thank you for this interesting conversation.