

## MiFID II - Cyprus paves the way for the “Legal Identifier”

October 26, 2017

The revised EU Markets in Financial Instruments Directive, 2014/65/EU (MiFID II), within the context of the associated legislative provisions of the EU Markets in Financial Instruments Regulation No. 600/2014 (MiFIR) and Market Abuse Regulation No. 596/2014 (MAR), calls for the obligatory implementation of the so-called Legal Entity Identifier (LEI), the nature and purpose of which will be addressed in this article, with due regard as to how this impacts the financial transactions landscape in the Republic of Cyprus.

January 2018, LEI shall be a mandatory requirement for those financial transactions that are reportable under Article 26 of MiFIR. Accordingly, with effect from the applicable date, legal entities engaged in the execution of such transactions shall be obliged to ensure that they have applied for and secured their respective LEI's. This essentially serves as a publicly accessible identifier facility of accurate data, embodied in and represented by a 20-digit alpha numeric reference code, the primary function of which is to reveal key identification particulars pertaining to those legal entities which are actively concerned with the execution of legal transactions. In effect, the LEI concept, which is based on the global standard technical specification ISO 17442 : 2012 of the International Organisation for Standardisation, has the ultimate objective of ensuring enhanced transparency, whilst also serving as a crucial stabilising mechanism in bringing about a tangible diminution of economic risk.

Following the conclusions drawn as to the core root causes of the global financial crisis, it became apparent that a remedial and irregularity-prevention initiative in the form of LEI, would do much to pre-empt and preclude the recurrence of the adverse state of affairs which contributed to its economically catastrophic emergence, and served as a catalyst for market abuse and fraudulent behaviour. Little wonder therefore that the Financial Stability Board's proposals for LEI were readily endorsed by the Group of Twenty, in recognition of the positive implications of bringing to the fore a credible, practical and efficacious cross-border mechanism for the substantive, precise and instantaneous identification of entities executing transactions within the global financial arena.

Reference information stored in the LEI data base comprises, inter alia, key particulars such as the legal entity's official name, head office address, the applicable date of the first LEI assignment (if applicable), the last update etc. The first four of the code's 20 characters relate to the Local Operating Unit (LOU) responsible for the issuance of the LEI (addressed below), whilst digits 5 and 6 in the code chain are inserted as 00 characters, purely for reserve purposes. It is the digital numerical sequence 7 to 18 which in fact represents that unique component of the code that is specifically assigned to a particular legal entity. This is followed by the last two characters 19 and

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20 of the chain which represent so-called checksum digits for the detection of errors in the data transmission stage or storage phase of the LEI process.

As of 20th September 2017, the Chairman of the Cyprus Securities and Exchange Commission (CYSEC) issued a circular duly notifying issuers of financial instruments on the need to obtain an LEI pursuant to satisfying EU transaction reporting requirements. In this regard, CYSEC has drawn due attention to the applicable EU regulations which call for such issuers to secure an LEI for the purpose of enabling the following entities to furnish their competent authorities with relevant identifying reference data in relation to financial instruments traded on their respective systems:

Trading venues, as with a regulated market (Cyprus Stock Exchange), Multilateral Trading Facility (MTF), or Organised Trading Facility (OTF).

Systematic internalisers, as with investment firms dealing on their own account when executing client orders outside a regulated market, MTF or OTF.

In light of the above, and with specific regard to investment firms which are subject to MiFID II reporting obligations (including those firms whose respective head offices are situated in third countries, but whose branches located in Cyprus or other territories within the European Economic Area), will effectively be precluded from executing a trade on behalf of a client who is eligible for LEI and has duly omitted to obtain same.

The Chief Officer of the Cyprus Stock Exchange (CSE), as a Trading Venue, has periodically issued circulars duly notifying legal entities of the MIFID II requirements and its "imminent implementation", with a reminder to recipients of the CSE's obligation to notify the European Securities and Markets Authority (ESMA) on information pertaining to its Market, including the relevant LEI code assigned to and held by each of its listed users.

The Global Legal Entity Identifier Foundation (GLEIF) oversees the operational efficiency of the global LEI system, whilst the competent supervisory authority co-ordinating the issuance of LEI codes is the Legal Entity Regulatory Oversight Committee (LEIROC) which represents public financial market authorities from around the world and is entrusted with designating selected bodies as authorised Local Operating Units (LOU'S) who are responsible for undertaking the issuance of the codes to those legal entities applying for same.

In the context of the foregoing, the Cyprus Stock Exchange (CSE), being a designated key domestic player in relation to the LOU function, has as of 7<sup>th</sup> October 2016, entered into a co-operation agreement with the London Stock Exchange (LSE)/Unavista, for the purpose of issuing the relevant legal entities with LEI'S, through the so-called Assisted Registration Process. This is an exercise which entails the gathering of relevant particulars which, in turn, are duly uploaded on the Unavista platform (in furnishing its application details, it is incumbent on the registering entity concerned to submit accurate reference data which, as part of the LEI issuing process, shall be duly verified with local authoritative sources). Thereafter, and in conformity

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with the LEI applicants' prior authorisation, the CSE thereby undertakes to oversee the ensuing issuing process and assumes responsibility for due notification of the code to the legal entity concerned. Once assigned in this manner, the code, as issued, is regarded for all intents and purposes as being unique to that particular recipient, and shall thereafter be stored in a global data system which effectively serves as the nerve centre of the LEI mechanism.

The above-mentioned procedure for issuance of the LEI code is set in motion with the submission of the "Application for the Issuance of Legal Identifier" which, inter alia, is to be accompanied by the Certificate of Directors, copy of signatory's passport or identity document, and the applicant entity's Certificate of Incorporation. Within two working days of having received the relevant documentation, the CSE will thereby undertake a preliminary evaluation, whereupon it shall notify Unavista accordingly, for due issuance of the relevant LEI code.

It is evident that the LEI concept of a unified identification system, as an effective monitoring device in the narrower context of effecting compliance with the EU's financial transactions reporting requirement will, from a broader perspective, play a tangible role in rectifying the fault lines of the global financial system, and shall serve to accentuate efforts to erode the adverse catalytic factors which indiscriminately fuelled the debilitating economic crisis of 2008. The upshot of these measures is that market stability will be enhanced, consumer protection reinforced and confidence in financial markets restored. In this context Cyprus, on its part, has set in motion efforts to make a relatively humble, but important and tangible contribution to this initiative, by paving the way for the due implementation of the LEI on 3<sup>rd</sup> January 2018.

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