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Newsflash: Introduction of Legal Entity Identifier Number for all Participants on the OTC Derivatives Markets

1.0 Background

- 1.1 The Reserve Bank of India had issued a Notification dated 1st of June 2017 ***“Introduction of Legal Entity Identifiers for OTC derivative markets” (RBI/2016-17/314 FMRD.FMID No.14/11.01.007/2016-17)*** which requires creation of LEI (Legal Entity Identifier) number for participating into OTC Derivative market for all entities.
- 1.2 The Reserve Bank of India has mandated the implementation of the Legal Entity Identification (LEI) system for all participants in the Over-the-Counter (OTC) markets for Rupee Interest Rate **derivatives, foreign currency derivatives and credit derivatives in India**, in a phased manner. **Entities without an LEI code would not be eligible to participate in the OTC derivative markets**, after the date specified in the schedule. Accordingly all the current and future participants would be required to obtain the unique LEI code as per the time lines laid out.
- 1.3 The Legal Entity Identifier (LEI) code has been conceived of as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. The LEI is a 20 character unique identity code assigned to entities who are parties to financial transactions.
- 1.4 An entity registered in India needs to apply for LEI code from time to time. The list of entities eligible to apply for LEI codes are Sole Proprietorships, Limited Liability Partnerships, Partnership Firms, Trusts, Private Limited Companies, Public Limited Companies, Government Companies, One Person Company, Insurance Companies, Housing Finance Companies, Non-Banking Finance Companies, Non profit companies, Special Purpose Vehicles – Trusts, Special Purpose Vehicles – Companies, SPV - Partnership Firms, SPV – Co-operative Societies or Multistate Co-operative Societies Mutual Fund, Mutual Funds-Sub Scheme, Alternative Investment Fund (AIF), AIF- Sub Scheme, Nationalised Banks, Scheduled Urban Cooperative Bank, Banking Companies – Others, Stand Alone Primary Dealers, Public Financial Institutions, Unlimited Companies, Cooperative Societies or Multistate Cooperative Societies, Government Organizations, Companies Limited by Guarantee etc. Other entities as may be specified from time to time.
- 1.5 As RBI has mandated the implementation of LEI system for all participants, any entity without LEI code would not be eligible to participate in OTC derivative markets after the dates specified as under:

Phase	Entities	Date by which the LEI code is to be obtained
Phase I	Entities regulated by RBI / SEBI / IRDA / PFRDA and Corporates with Net Worth above Rs. 10,000 millions.	1 August 2017
Phase II	Corporates with Net Worth between Rs. 2,000 millions to Rs. 10,000 millions.	1 October 2017
Phase III	Corporates with Net Worth between Rs. 700 millions to Rs. 2,000 millions.	1 December 2017
Phase IV	Corporates with Net Worth of Rs. 700 millions and below	31 March 2018

We have mentioned some of the relevant FAQs in context of obtaining of LEI by the participants on the OTC derivative markets.

2.0 Why LEI? What is the structure of LEI?

- 2.1 The Global LEI System (GLEIS) has been set up by regulatory authorities [including G20 and the Financial Stability Board (FSB)] to address the global financial crisis. The LEI is designed to enable the identification and linking of parties to financial transactions in order to manage counterparty risk.
- 2.2 Entities are required to obtain LEI from any Local Operating Units (LOUs) accredited by Global LEI Foundation (GLEIF) – the entity tasked to support implementation and use of the LEI. In India, LEI code may be obtained from Legal Entity Identifier India Limited (LEIL).

2.3 The LEI is a 20 character alphanumeric code created using ISO 17442:2012 standard and has the following structure:

- **Characters 1-4:** a four-character prefix assigned by ROC secretariat, unique to each LOU (for LEIL – 3358)
- **Characters 5-6:** 2 reserved characters – 00
- **Characters 7-18:** 12 characters generated and assigned to an entity by the LOU according to transparent and sound allocation policies.
- **Characters 19-20:** 2 check digits under ISO 17442.

3.0 How to register for LEI codes?

A legal entity seeking a LEI code will be required to register as a user on our LEI website (i.e. <http://www.ccilindia-lei.co.in>). The authorized official will select the option “Create An Account” and fill in the required details.

4.0 Who is an authorized official?

A duly authorized person,

- **For companies**, is the one authorized by the Board Resolution,
- **For Trusts**, is the one authorized by the Board of Trustees Resolution,
- **For Societies**, is the one authorized by the Resolution of the Committee of Members,
- **For sole proprietorship concerns**, is the proprietor himself or a duly authorized person appointed through a power of attorney,
- **For partnership firms and limited liability partnerships**, is the partners themselves or an authorized person appointed through a power of attorney
- **For mutual fund/mutual fund sub-schemes/AIF/AIF Sub-Scheme**, is the official authorized to submit a Letter of Authority in terms of the Board Resolution of the AMC.

5.0 What is the validity period of LEI Code? What happens upon non-renewal of LEI?

A LEI is valid for one year from the date of issuance / last renewal date. LEI shall be valid for a term of one year after assignment or renewal. It shall be the duty of the entity to apply for renewal of LEI before expiry of the validity of the LEI. The status of LEI will change to ‘LAPSED’ on the next renewal date.

6.0 What is a Relationship Record?

Relationship Data means collection and reporting of data on Direct and Ultimate Accounting Parent. Data on parent entities is a part of the information that must be provided in order for LEI to be issued or renewed that have or acquire LEI.

“Ultimate Parent” defined as the highest level legal entity preparing consolidated financial statements, as well as their “direct accounting consolidating parent”.

“Direct Parent” defined as the lowest level legal entity that prepares consolidated financial statements that consolidate the entity.

7.0 Is Relationship Data reporting mandatory?

It is mandatory for all Legal Entities to report data along with LEI of Direct and Ultimate Parent (If the LEI is available for the parent) or if the LEI is not available, the basic business card information of the Direct and Ultimate Parent of the entity.

8.0 What happens if an Entity does not want to report data on Direct and Ultimate Parent?

The collection of data on Parent Entity is mandatory for all Legal Entity. Nevertheless, if the Legal Entity declines to report the data on Relationship, the entity has to specify opt out reason for the same which is recorded by the LOU as an Exception.

9.0 What are the exception scenarios?

The following are the reasons for which the entity may opt for exception reporting:

- **No LEI of Direct/Ultimate Parent:** Direct/Ultimate Parent who do not have LEI or the parent does not consent to have a LEI.
- **Legal Obstacles:** Obstacles in the laws or regulations of a jurisdiction prevent providing or publishing this information
- **Consent Not Obtained:** the consent of the parent is necessary under the applicable legal framework and the parent did not consent or could not be contacted.
- **Binding Legal Commitments:** Binding legal commitments (other than the laws or regulations of a jurisdiction, such as articles governing the legal entity or a contract, prevent providing or publishing this information)
- **Detriment Not Excluded:** This reason may be used only when all following cumulative circumstances apply:
 - The parent could not be informed and have the possibility to correct the relationship information before publication.
 - The relationship is not already in the public domain information being in the public domain assumes here that the way the information came into the public domain did not infringe the applicable legal framework.
 - The child entity has reasons to believe that the parent may consider disclosure to be detrimental
 - The child entity has sought to consult the parent entity of the reporting of the parent information to the GLEIS but could not confirm the absence of detriment in a way that can appropriately prevent liability risks for the child entity (or those acting on its behalf) under the applicable legal framework.
- **Disclosure Detrimental:** The disclosure of this information would be detrimental to the legal entity or the relevant parent. You are required to substantiate with a proof/declaration for the exception reason selected.



For further information please contact:

RSM Astute Consulting Pvt. Ltd.

13th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400021.

T: (91-22) 6108 5555 / 6121 4444

F: (91-22) 6108 5556 / 2287 5771

E: emails@rsmindia.in

W: www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham and Jaipur.



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20 July 2017