

## Purpose

The information below sets out the key issues Financial Intermediaries (FIs) need to consider in relation to the transaction reporting obligations which apply under MiFID II.

## Introduction

MiFID I, which came into force in 2007, represented the European Union's (EU) first attempt to regulate financial markets and it introduced, for the first time, a harmonised transaction reporting regime across the EU. In MiFID II, the European Commission (EC) takes the current objective of transaction reporting - the detection and investigation of potential market abuse – and expands it into supporting “market integrity”.

## What type of account, and who, is reportable?

Legal entities including most trusts, companies, pension funds, charities and unincorporated bodies will be documented with a Legal Entity Identifier (LEI) for transaction reporting, unless they are only trading in unit trusts or OEIC's where trading will take place outside of a trading venue (this is also the same for QROP and QNUP type structures).

Individual, Joint (e.g. in the name of Mr and Mrs) and SIPP accounts will require their Natural Person Identifiers (NPI) to be reported.

## What type of transaction is reported?

Historically, it was a case of just reporting buys and sales post trade, however additional reportable transactions now include:

- Off market transactions
- Some primary market transactions
- Asset transfers where there is a change in ownership or beneficiary, for example from an individual to a joint portfolio

The scope of reportable asset classes has also changed under MiFID II:

- Reportable Asset Classes include:
  - Company Shares
  - Close-Ended Investment Companies
  - Exchange Traded Funds
  - Investment Trusts
  - VCT's and bonds executed on a trading venue
  - Structured products where the underlying asset is an instrument traded on a traded venue
- Non – Reportable Asset Classes include mainly Unit Trusts and OEIC's (provided these are not traded on a trading venue)

## Credo Approach

### **HOUSE ACCOUNT**

When opening an FI's House Account, Credo will require the FI to obtain an LEI, irrespective of the intention to only trade in non-reportable asset classes. The reason for this is that the FI's investment profile may change over time and this approach would ensure regulatory compliance in terms of transaction reporting.

### **EXECUTING ENTITY**

Credo regard all orders received on FI Investor accounts as having met the requirements for transmission under MiFID II, with the FI therefore being the transmitter. As per Article 26(4) of the MiFID II regulation, firms who are considered to have transmitted an order cannot also be considered to have executed that order. To that end, for all FI orders Credo will be reported as the executing entity.

### **DISCRETIONARY MANDATES**

When an FI grants Credo a discretionary mandate over an Investor's portfolio, any orders on that portfolio will be reported as if the Investor was a direct client of Credo, i.e. Credo will be both the executing entity and the decision maker. In such cases, the criteria for transmission are deemed not to have been met, and therefore no transmitting firm will be reported.

### **PRINCIPAL / APPROVED REPRESENTATIVE RELATIONSHIPS**

Where an FI is an Approved Representative, it is the Principal who should be reported as the decision maker and transmitter. Credo will therefore require the LEI of the Principal firm in order to report correctly. As per the above, Credo will remain the executing entity in such cases.

## Legal Entity Identifier Guide

Certain Investors who are deemed to be legal entities must obtain a LEI in order to trade. This is required by the Financial Conduct Authority (FCA) rules which are based on the EU legislation commonly referred to as MiFID II.

Further information on the legislation can be found on the FCA's website:

<https://www.fca.org.uk/markets/mifid-ii/legal-entity-identifier-lei-update>.

## What is an LEI?

An LEI is a 20-character alphanumeric reference code that is unique to each Legal Entity, and is used for identifying companies or entities involved in financial transactions.

## Who will need to obtain an LEI?

All FIs that have a direct relationship with Credo, where Credo (as a MiFID reporting firm) is required to transaction report on orders received and executed on behalf of the FI.

Trusts, companies, limited liability partnerships, most pension funds, charities and unincorporated bodies, which have a direct relationship with a company required to undertake transaction reporting under MiFID II. This excludes those entities whose only trading is the purchasing and redeeming of units in collective investment undertakings (in the UK these would usually be unit trusts or OEICs).

## What is a Legal Entity and do they all need LEIs?

Although not specifically defined in the legislation, legal entities include most trusts, all companies, most pension funds, charities and unincorporated bodies.

However, in certain circumstances, legal entities will not require an LEI in order to trade. These include bare trusts and self-invested personal pensions (SIPP), where the regulation stipulates we are required to 'look through' to the beneficiary, and so will require their NPI instead.

Legal entities who undertake only certain types of trading will not require an LEI as the trades themselves are not reportable. In particular, legal entities whose only trading is the purchasing and redeeming of units in collective investment undertakings (in the UK these would usually be unit trusts or OEICs) do not require an LEI. Note that if a unit is ever transferred other than by redeeming it then an LEI will be needed.

## Why do legal entities require an LEI?

The LEI is used as the identifier for the legal entity whenever it undertakes investment activity, or an investment firm undertakes investment activity on its behalf, in a reportable financial instrument. The LEI enables regulatory authorities in the UK and the rest of Europe to monitor trading activity, with the aim of identifying and preventing market abuse and market manipulation.

The Global Legal Entity Identifier Foundation (GLEIF) has overall responsibility for the LEI system (please refer to the [GLEIF website](#) for more information).

## Who is responsible for obtaining an LEI?

The legal entity itself, not its investment firm(s), is ultimately responsible for obtaining an LEI.

## What happens if a Legal Entity fails to obtain an LEI?

The timely and accurate reporting of in-scope transactions is at the very heart of the MiFID II regulation, as such, investment firms will not be able to action any trade instructions, or make investment decisions, in reportable instruments from Legal Entities who do not have an LEI on record.

## Where can a legal entity obtain an LEI?

There are a number of LEI issuing organisations available:

- London Stock Exchange (<http://www.lseg.com/LEI>)
  - Their website outlines the process to be followed and the documentation to be submitted. The User guide can be accessed [here](#)
- Bloomberg (<https://www.lei.bloomberg.com>)

Note that there are a number of other LEI issuing organisations and we are not recommending or endorsing either the London Stock Exchange or Bloomberg. The information provided here is for convenience only and ultimately it is for you to decide which LEI issuing organisation to use.

## Is there a cost for obtaining an LEI?

Yes - the cost of purchasing an LEI will be available from the issuing organisation.

## How do I check if a valid LEI has already been obtained?

A search can be carried out using the following link: <https://www.gleif.org/en/lei/search/>. This will show if an LEI has been issued and is currently valid. To check validity, "Entity Status" will need to show as "Active" and "Registration status" as "Issued".

## Does a legal entity have to renew its LEI?

Investment firms who are required to undertake transaction reporting under MiFID II are required to have a current LEI. Currently, legal entities who do not have these reporting obligations can still trade even if their LEI has expired, though this may change in the future.

## What should I do next?

Where required, you should apply for an LEI through an LEI issuing organisation as soon as possible. Once the LEI is obtained, please email the 20-digit code to Client Services ([clientservices@credogroup.com](mailto:clientservices@credogroup.com)).

## Natural Person Identifier Guide

Regulatory changes focus on transparency and identification of individuals to deter illegal activity and prevent market abuse. MiFID reporting firms placing trades on behalf of Investors will be required to identify all individual persons/decision makers involved, whereas non-MiFID reporting firms are excluded from this requirement.

Under MiFID II, identifiers have been created to track each underlying trade placed in the market back to an individual person/decision maker. Every person has a unique Natural Person Identifier (NPI) which is dependent on their nationality.

Each EU member state has published a list of acceptable NPI's and their associated priorities. These may include passport number, personal identification number, national insurance number, tax identification number or CONCAT. The list of acceptable NPIs is detailed in the table below.

By default, the first priority identifier in the table must always be applied as the first choice. If the first priority identifier is not obtainable, the second priority identifier must be selected. If the second priority identifier is not obtainable, the third priority must be selected.

As an example, if an Investor's nationality is British, the primary NPI should be their UK national insurance number. If however, the Investor is unable to obtain their UK national insurance number, CONCAT (18 digit alphanumerical code) must be used as the NPI.

A CONCAT is the concatenation of the following three pieces of information:

- BIRTHDATE, is the birth date of the person in format YYYYMMDD (e.g. for 24th August 1970, use 19700824)
- FIRST NAME, is the first five letters of the first name (e.g. for Alexander, use ALEXA)
- SURNAME, is the first five letters of the surname (e.g. for Johnson, use JOHNS)

Using the example above, CONCAT would be 19700824ALEXAJOHNS.

If the first name or surname is less than five characters, then a “#” needs to be used as replacement for each of the missing five characters. For example, if your name was Sam Ash and your birthdate is 18th November 1968 then the CONCAT would be recorded as: 19681118SAM###ASH##

For individuals with more than one nationality, the regulation stipulates such individuals should be reported using the nationality that comes first alphabetically using the ISO-3166 alpha-2 code.

The below table is issued by ESMA and is to establish how to document the relevant NPI for each individual.

| Country Name   | 1st Priority Identifier  | 2nd Priority Identifier                        | 3rd Priority Identifier |
|----------------|--|--|-------------------------|
| Austria        | CONCAT   |  |                         |
| Belgium        | Belgian National Number<br>(Numéro de Registre National – Rijksregisternummer) | CONCAT   |                         |
| Bulgaria       | Bulgarian Personal Number  | CONCAT   |                         |
| Cyprus         | National Passport Number   | CONCAT   |                         |
| Czech Republic | National Identification Number<br>(Rodné číslo)                                | Passport Number                                | CONCAT                  |
| Germany        | CONCAT   |  |                         |
| Denmark        | Personal Identity Code 10 digits<br>alphanumeric: DDMMYYXXXX                   | CONCAT   |                         |
| Estonia        | Estonian Personal Identification Code<br>(Isikukood)                           |  |                         |
| Spain          | Tax Identification Number<br>(Código de identificación fiscal)                 |  |                         |
| Finland        | Personal Identity Code   | CONCAT   |                         |
| France         | CONCAT   |  |                         |
| United Kingdom | UK National Insurance Number   | CONCAT   |                         |
| Greece         | 10 DSS Digit Investor Share  | CONCAT   |                         |
| Croatia        | Personal Identification Number<br>(OIB – Osobni identifikacijski broj)         | CONCAT   |                         |
| Hungary        | CONCAT   |  |                         |
| Ireland        | CONCAT   |  |                         |
| Iceland        | Personal Identity Code (Kennitala)   |  | CONCAT                  |
| Italy          | Fiscal Code (Codice Fiscale)   |  | CONCAT                  |
| Liechtenstein  | National Passport Number   | National Identity<br>Card Number               |                         |
| Lithuania      | Personal code (Asmens Kodas)   | National Passport Number                       |                         |
| Luxembourg     | CONCAT   |  |                         |
| Latvia         | Personal Code (Personas Kods)  | CONCAT   |                         |
| Malta          | National Identification Number   | National Passport Number                       |                         |
| Netherlands    | National Passport Number   | National Identity<br>Card Number               | CONCAT                  |
| Norway         | 11-digit Personal id (Foedselsnummer)  | CONCAT   |                         |
| Poland         | National Identification Number (PESEL)   | Tax Number (Numer<br>Identyfikacji Podatkowej) |                         |
| Portugal       | Tax Number<br>(Número de Identificação Fiscal)                                 | National Passport Number                       | CONCAT                  |
| Romania        | National Identification Number<br>(Cod Numeric Personal)                       | National Passport Number                       | CONCAT                  |

|                                |  |                          |        |
|--------------------------------|--|--------------------------|--------|
| Sweden                         | Personal Identity Number   | CONCAT                   |        |
| Slovenia                       | Personal Identification Number (EMŠO:<br>Enotna Matična Številka Občana) | CONCAT                   |        |
| Slovakia                       | Personal Number (Rodné číslo)  | National Passport Number | CONCAT |
| <b>All other<br/>countries</b> | <b>National Passport Number</b>  | <b>CONCAT</b>            |        |