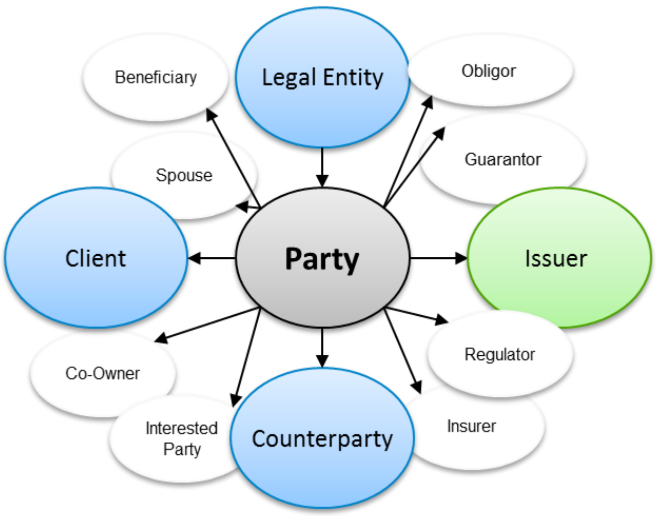
During the 1990's, burned by losses from investments in emerging markets securities, several very smart global investment banks developed processes to manage risk based upon their understanding the legal entity structure of clients, counterparties and issuers.

The new risk management process, known in some firms by the "Standard Party Number" or "Customer Identification Number," helped market participants avoid spectacular losses from an array of emerging markets debt crises, Enron, Orange County and, most recently, during the credit crisis of 2008. Others firms, less well equipped, were sent to the dustbin of market history.



The approaching global implementation of the Legal Entity Identifier (LEI) in 2014 is very real. This is not GSTPA. Regulators and central banks in the major markets have advised banks and brokers in their jurisdictions that this risk management toolkit will be required component for their OTC infrastructure beginning this year.

From what we have seen, Regulators in growth and emerging markets are contemplating adoption, and evaluating the benefits and risks with their constituents.

With the LEI efforts continuing to gain momentum in early 2014, it will be critical for firms to ready themselves to implement a version of the Legal Entity Identifier (LEI). The more enlightened firms have already embraced the initiative.

At Noetic, we think about the adoption of the LEI program in the same way we think about the differences between Traders and Investors. Traders are waiting to see if LEI compliance will really be enforced (and enforceable), and if it adds anything new to the risk management process. Investors have looked past the implementation questions and costs, seen the value of better market transparency, and laid the groundwork for integrated risk and exposure management systems based upon LEI's components, such as the corporate hierarchy and domicile.

The business value is clear. But the technical challenge is more daunting.

We all know the challenges that come with modifications to legacy systems and architectures when new identifiers are required. The objective is always to manage change without major trauma to business processes and data quality, and the change will be difficult for firms which have not understood the key requirements, and have not developed a solid LEI implementation approach.

The Legal Entity Identifier, a.k.a., the LEI, is a 20-digit, alphanumeric reference code that clearly and uniquely identifies each distinct legal entity that wishes to engage in a structured financial transaction.

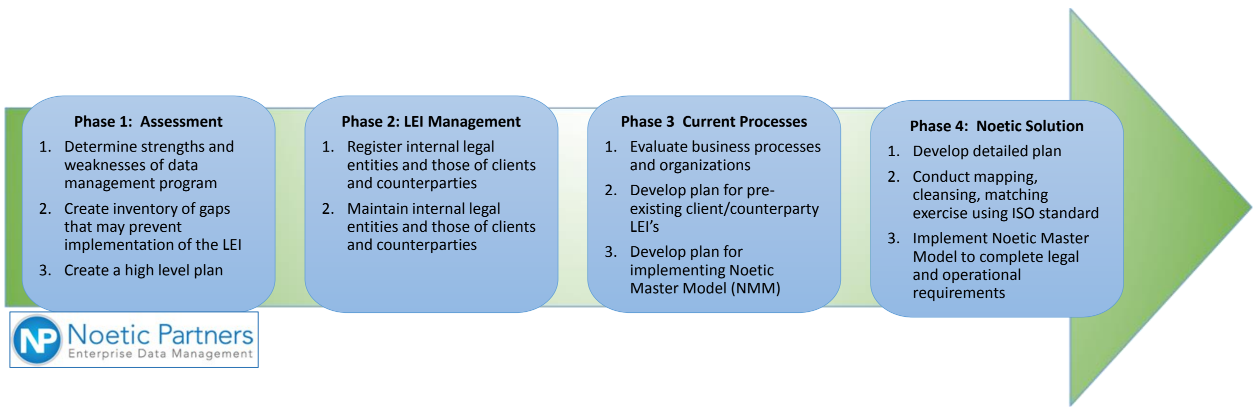
There are currently many ways of identifying entities across different markets and countries, but when the Global LEI System (GLEIS), is fully up and running, there will only be one way. The LEI will enable regulators and risk managers in firms to identify parties to financial transactions instantly and precisely.

Under the system, most parties – whether they are financial or non-financial – will require an LEI, including banks, funds, fund managers, companies, subsidiaries, partnerships, trusts, municipal corporations, government departments and charities. However, certain parties will not need one, including individuals, branch offices and operating divisions; instead, they will use the LEI of their employer or parent organization.

There are a number of challenges firms may face when registering for an LEI and using the LEI in their regulatory reporting.

- Data Architecture and data management changes
- Information Technology (IT) System changes
- Operational processes
- Reporting processes and output
- Organizational Impacts and Training

Most Tier 1 and many Tier 2 firms have already developed centralized data governance structures and data quality programs that will handle the new LEI information. In the generally accepted paradigm, LEI data will be propagated to downstream systems as needed to meet the integrity and quality standards that required by business and regulatory consumers.



Customer on-boarding, know your client and money laundering systems will need to capture and cross-reference LEI with their internal identifiers, so as to be able to handle regulatory alerts and notifications. Additional processes and business rules will need to be established to support this new identifier within the existing systems. Impact analyses will need to be conducted on downstream applications and reporting repositories for their ability to use or store this information, allowing for regulatory, risk and business reporting across the firm.

The Noetic approach to LEI includes an assessment of strengths and weaknesses in enterprise data programs, a process for registration and maintenance of clients and counterparty legal entities, development technical and organizational integration requirements, and a detailed solution approach.

LEI will require considerable planning, commitment, and focus. Organizations will require a solid data management, data quality and reference data program, along with an enterprise model to adhere to regulatory requirements and business needs.