

Legal Entity Identifier (LEI) and its implications on business information

BIIA`s 10th Anniversary Business information Conference

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Michael Ritter, Deutsche Bundesbank, Head of Central Credit Register

What is the LEI

The LEI is...

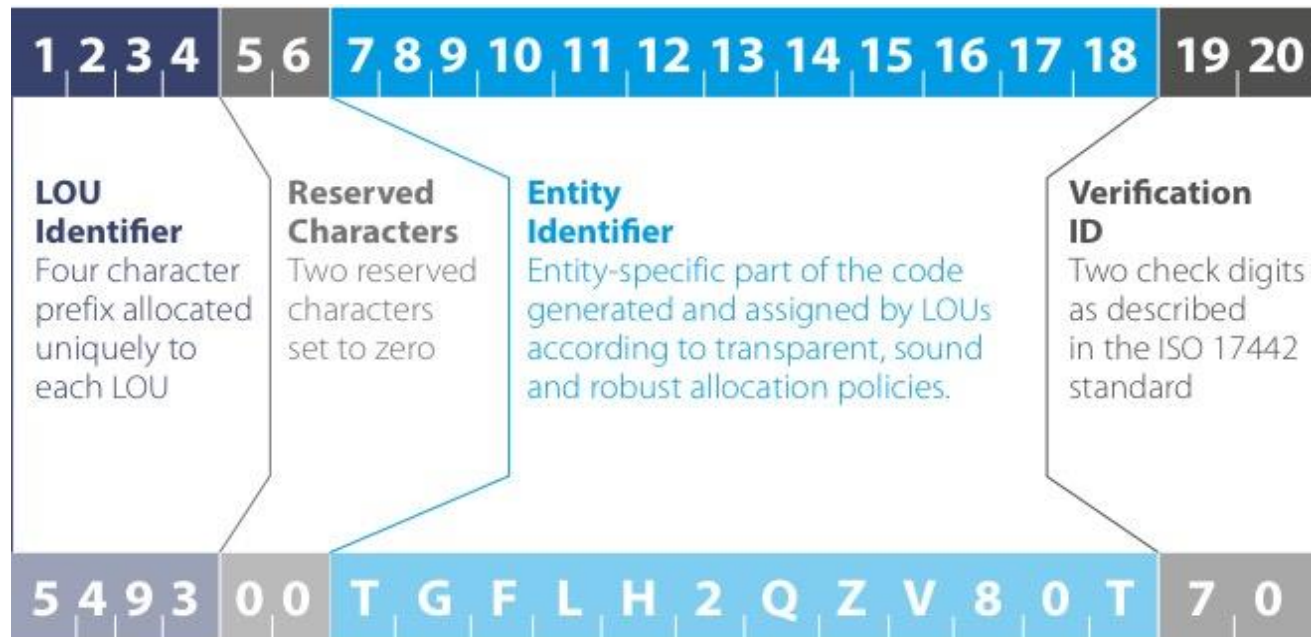
- ... a 20 digit dump number to globally identify legal entities
- ... a global public good
- ... free of charge for data users.

LEI data:

- Level 1: who is who: reference data, business card information (done)
- Level 2: who owns whom: relationship data (in preparation)
- Level 3: who owns what: financial data (a vision)

The LEI is based on the ISO 17442 standard

- Unique 20 digit alphanumeric code based on ISO 17442 standard assigned to legal entities
- LEIs are issued by local operating units (LOUs)
- LOUs supply registration, renewal and other services, and act as the primary interface for registrants for LEIs



Example: ABB Sécheron S.A., Switzerland

The LEI – eligible entities

- Not limited to incorporated entities
 - legal person or structure organised under the laws of any jurisdiction. Legal entities include, but are not limited to, unique parties that are legally responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual, etc).
 - Examples of eligible entities: all financial intermediaries; banks and finance companies; all entities that issue equity, debt or other securities for other capital structures; all entities under the purview of a financial regulator and their affiliates, subsidiaries and holding companies.
- Excludes natural persons (boundary to be clarified)
- Public consultation by year end on extension to branches.

Legal Entity Identifier (LEI)

CURRENT LEI REFERENCE DATA

- Legal entity name (e.g.: The Royal Bank of Scotland)
- Other entity names (e.g.: transliteration)
- Address of the headquarters
- Address of legal formation
- Business registry ID (where applicable)
- Business registry name (where applicable)
- Legal jurisdiction
- Legal form of the entity
- Associated entity (fund manager/umbrella fund)
- Entity status (active/inactive; if inactive, also expiration date and reason; successor entity if any)
- Initial registration date; last update; next update
- Registration status (“lapsed” if last update >1 year)
- Local Operating Unit (LOU) managing the record
- Validation sources

LEGAL ENTITY IDENTIFIER

213800KUD8LAJWSQ9D15

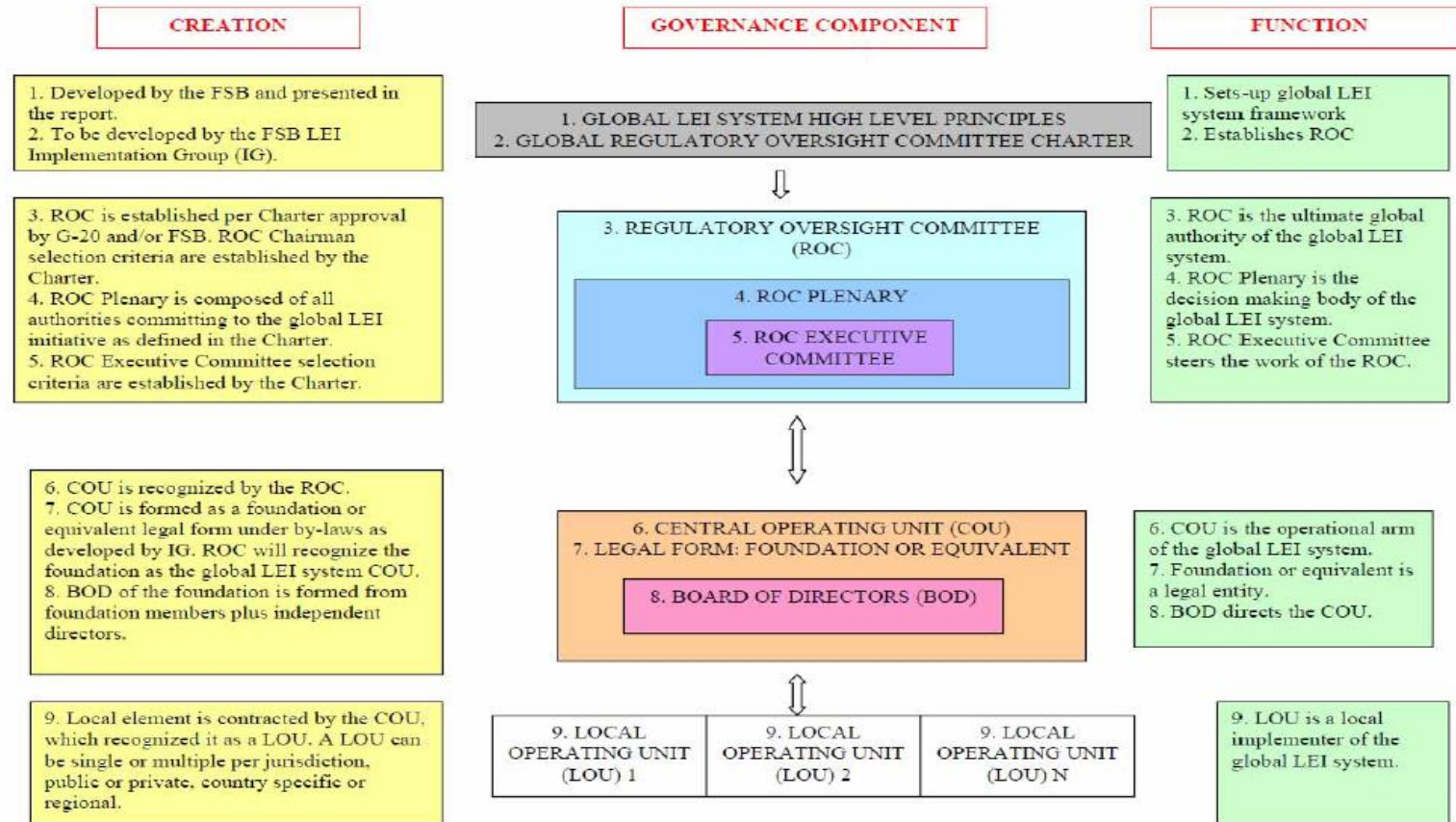
- No embedded meaning
- 2 last characters are check digits
- 4 first characters: prefix of LOU that first issued the LEI, to support decentralised issuance, but LEI stays the same if ported to a different LOU

In the future:

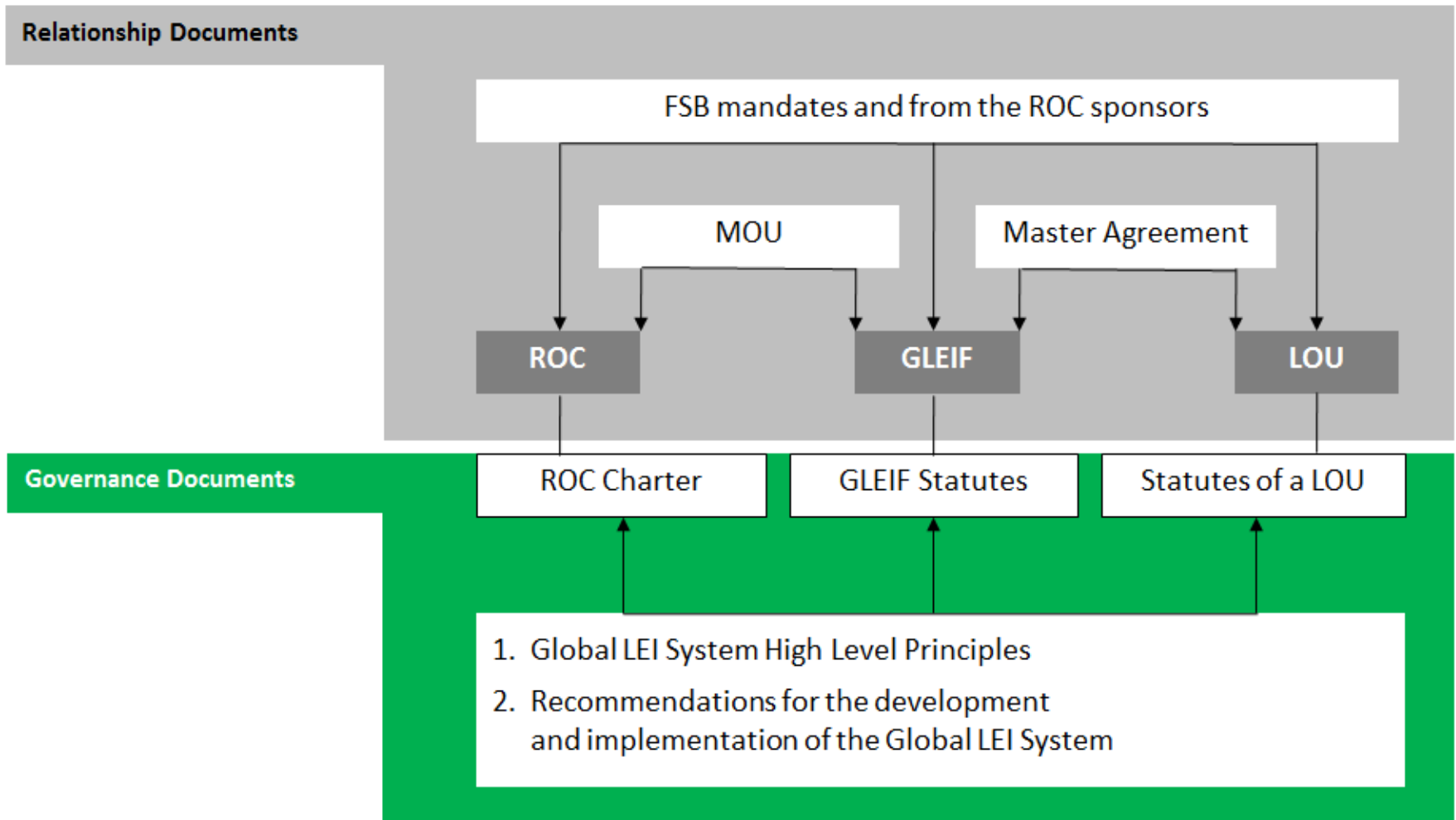
- Relationship data (e.g.: parent entities; sector)

Creation of the Global Legal Entity Identifier System (GLEIS)

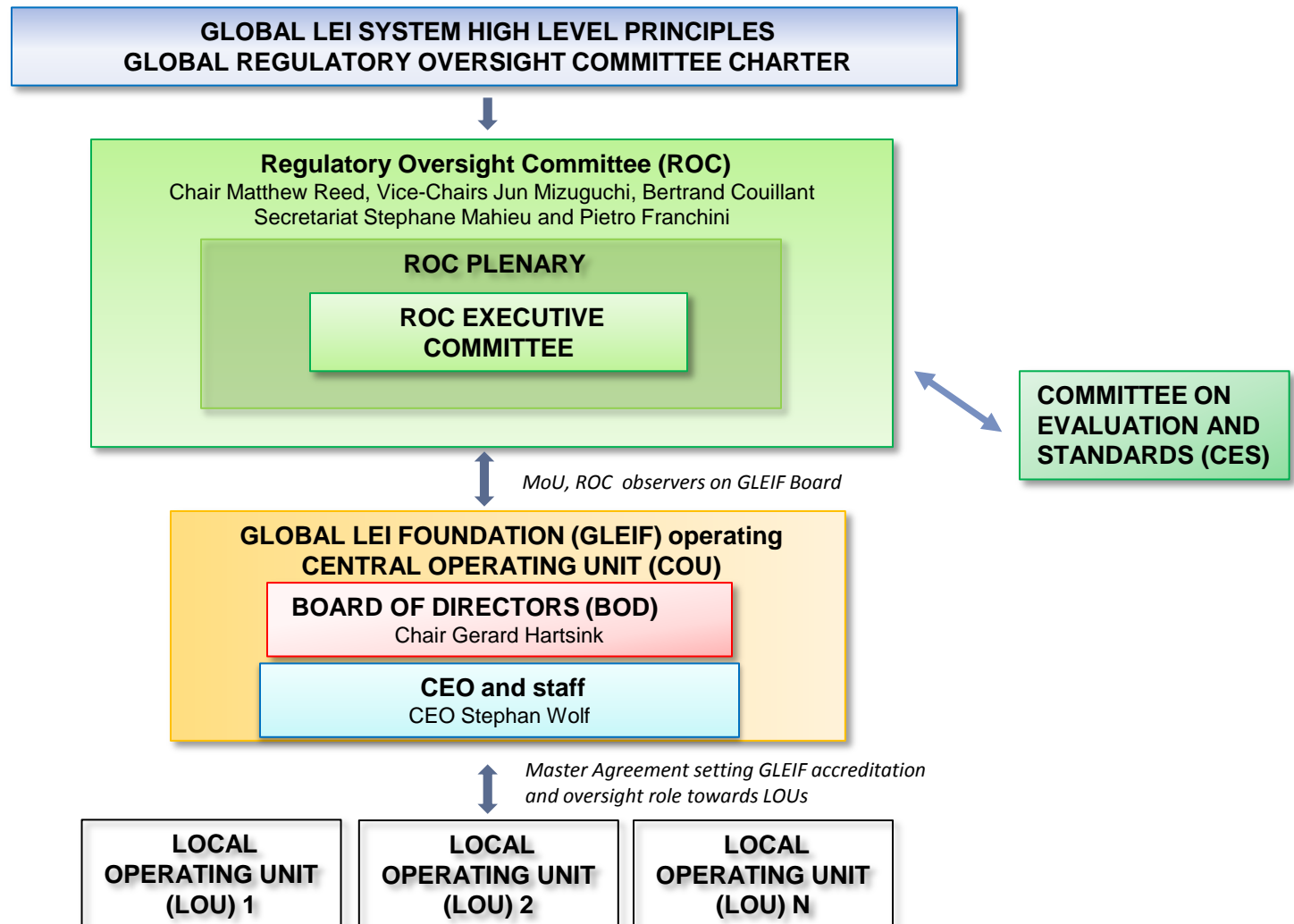
Annex 1: Global LEI system diagram



GLEIS relationship and governance documents



Current GLEIS architecture



LEI Governance – the Regulatory Oversight Committee (ROC)

Fully Functioning ROC established in January 2013:

- 69 members and 20 observers from over 50 jurisdictions
- Open to any public sector authority, international financial institutions international public sector bodies (e.g. Central Banks, Regulators, ...)
- Chairs, Executive Committee (regionally balanced)
- Task Forces (e.g. Relationship data)
- Committee on Evaluation and Standards (CES) fully operational (currently various workstreams: e.g. GLEIF accreditation process, corporate actions,...)
- Private Sector Preparatory Group
- Website: www.leiroc.org

LEI Governance - the Global LEI Foundation (GLEIF)

- Established by the FSB as a non-for-profit organisation in Switzerland (June 2014)
- Statutes and business plan approved by the ROC and FSB
- Board of 15 members (BoD) appointed by the ROC with balanced representation of industry participants from different geographic areas and sectors of the economy
- CEO of the GLEIF appointed by the BoD
- Funded by fee of \$20 per LEI, expected to decrease with LEI numbers

LEI Governance - the role of the GLEIF

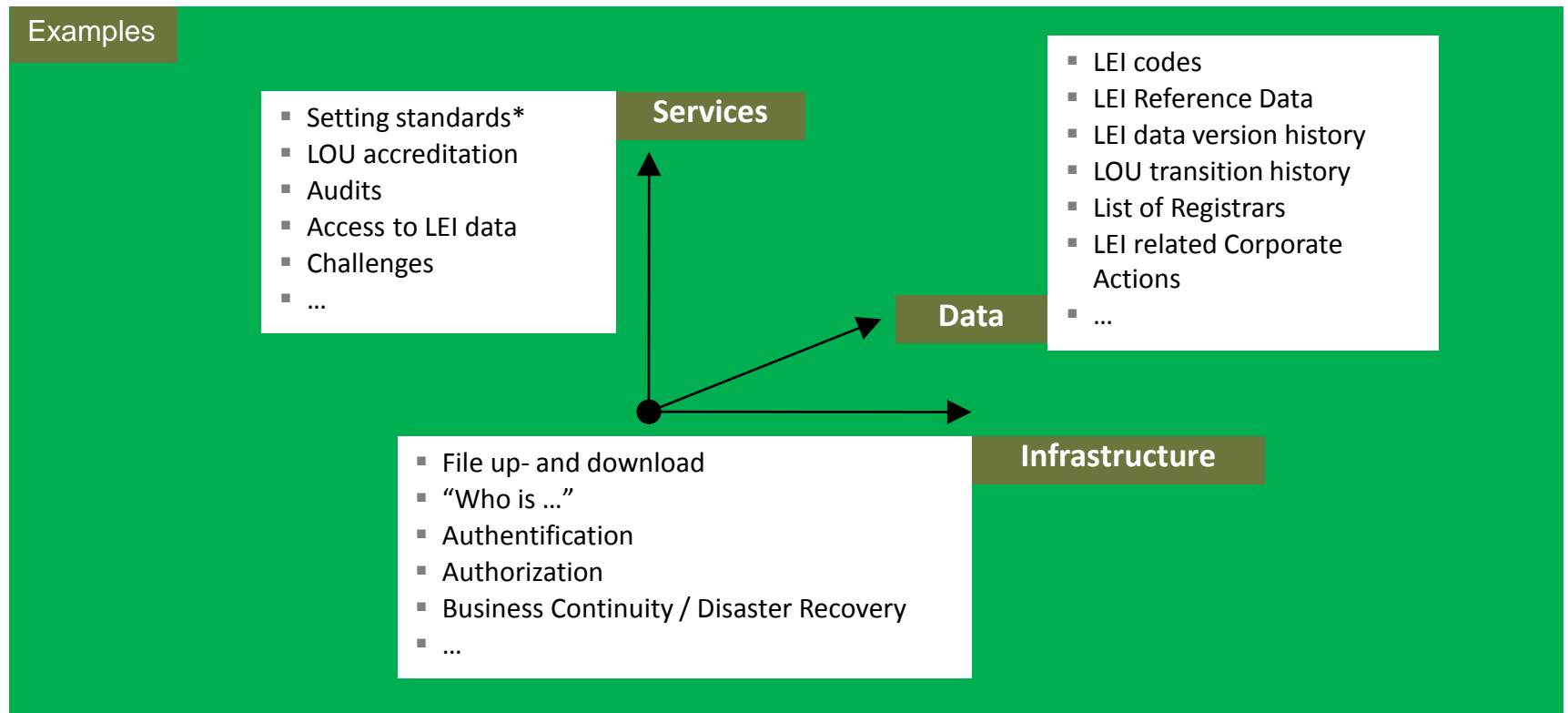
Main functions of the GLEIF:

- 1) **Rulemaking**: proposes, defines, issues and enforces worldwide uniform operational and technical standards and protocols for LEIs and LEI Reference Data
- 2) **Operations**: provides the technical infrastructure necessary to unite and to make publicly available at www.gleif.org the LEI information (LEIs and related LEI reference data) published by Local Operating Units (LOUs)
- 3) **Monitoring**: accredits LOUs and monitors compliance of LOUs and users with the operational and technical standards and protocols
- 4) **Communication**: makes all relevant documentation available at www.gleif.org

LEI Governance - the role of the GLEIF

GLEIF is accountable and responsible for setting up the GLEIS in three dimensions (Services, Data, Infrastructure).

Business and technical process design will follow these dimensions.



LEI Governance - GLEIF service

GLEIF collects daily the LEI data from the LOUs

- LOUs deliver the data to GLEIF in the CDF (Common Data File) format
- GLEIF publishes daily the concatenated file with all individual files of the LOUs
- The GLEIF concatenated file is available at www.gleif.org

This daily GLEIF unique service is available free of charge to any user

LEI Governance - GLEIF service

Common Data File Format (CDF)

LEI Data Record		[1..*]
LEI	LEI	[0,1]
Entity		[1]
LegalName	Name	[1]
OtherEntityNames	OtherEntityName	[0..n]
LegalAddress	Address	[1]
HeadquartersAddress	Address	[1]
OtherAddresses	OtherAddress	[0..n]
BusinessRegisterEntityID	BusinessRegisterEntity ID	[0,1]
LegalJurisdiction	JurisdictionCode	[0,1]
LegalForm	Name	[0,1]
AssociatedEntity	Associated	[*]
EntityStatus	EntityStatusEnum	[1]
EntityExpirationDate	DateTime	[0,1]
EntityExpirationReason	EntityExpirationReasonEnum	[0,1]
SuccessorEntity	Successor	[0,1]
Registration		[1]
InitialRegistrationDate	DateTime	[1]
LastUpdateDate	DateTime	[1]
RegistrationStatus	RegistrationStatusEnum	[1]
NextRenewalDate	DateTime	[1]
ManagingLOU	LEI	[1]
ValidationSources	ValidationSourcesEnum	[1]
Extention		[0,1]

Michael Ritter, Deutsche Bundesbank, Head of Central Credit Register

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LEI Governance - GLEIF service

Under development! (starting in the course of October)



GLEIF service: daily golden copy

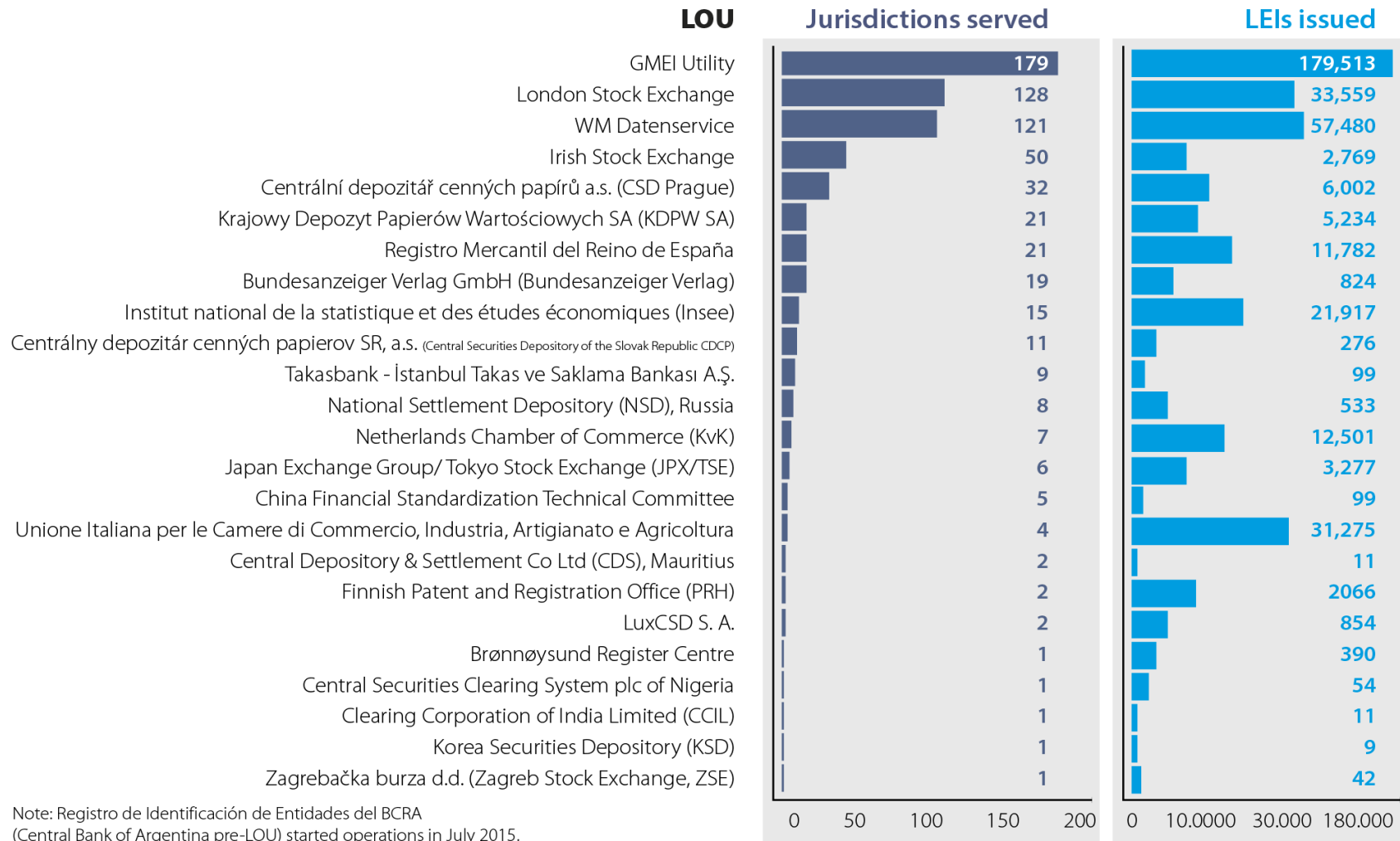
- Search engine allows database search with multiple search criteria
- Search results will be displayed
- Search results will also be available for download in various formats
- Availability of a golden copy generated out of the database with always up to date LEI records

LEI Governance - the LOUs

- The **Local Operating Units** (LOUs) of the LEI System:
 - **Issue LEIs** at the request of the authorised representative of the entity;
 - Collect and **validate LEI reference data** against reliable sources;
 - Ensure that reference **data is certified by the entity**, which has the primary responsibility for the accuracy of its data;
 - Entities are requested to **periodically verify the continued accuracy** of their reference data (e.g., at least through yearly certification)
 - LOUs generally charge a fee for first issuance and yearly certification
 - The entity can port its LEI free of charge from one LOU to another
- **27 endorsed LOUs as of September 2015:**
 - Various types: business registries, stock exchanges, trade repositories, custodians of financial instruments, central banks or numbering agencies issuing International Securities Identification Numbers
 - Some serve a given country; others offer services to entities worldwide

LEI Governance - the LOUs

27 ROC-endorsed pre-LOUs => **approx. 390,000 LEIs issued in 195 countries** (source:<http://openleis.com>)



Why LEI? Financial Stability Board press release (30 June 2014)

- **“Unique identification of parties to financial transactions underpins multiple financial stability objectives.”**
 - Better risk assessment through micro and macro prudential analyses
 - Facilitation of orderly resolution (promoting market integrity and containing market abuse and financial fraud; and supporting higher quality and accuracy of financial data overall)
 - Improved risk management in firms

- **“It also provides many benefits to the private sector.”**
 - Lowering operational risks
 - Facilitating straight through processing
 - Contributes to “Know Your Customer”

Why LEI? Mark Carney and Bertrand Badré in the Financial Times (3 June 2015)

- “Authorities must ensure that they provide a clear and consistent interpretation and enforcement of international standards.”
- **“They should work with the financial industry to pursue technical measures, such as the global Legal Entity Identifier system, which standardizes identification, and Know Your Customer platforms that help avoid duplicating due diligence work.”**
- “Both solutions are already being implemented, but they need regulators’ support to reach the scale needed to achieve more reliable due diligence.”

Mark Carney is the Chairman of the Financial Stability Board. Bertrand Badré is Chief Financial Officer of the World Bank.

Why LEI? For what (financial) transactions

Required by public authorities in the following areas:
(see also 'Rulemaking' initiatives page at www.gleif.org)

- **Risk assessment, market surveillance and enforcement**
 - Reporting to derivatives regulators
 - Reporting to securities regulators
 - Reporting to central banks
 - Reporting to insurance regulators
 - Reporting to pension funds regulators
 - Balance of payments reporting
 - AML (anti money laundering),
 - CFT (combating the financing of terrorism) and sanction regimes

- **Other needs of the public sector**
 - Provision of statistical market research
 - Collateral management in central banks
 - Public procurement

Why LEI? Benefits of LEI adoption for users in the private sector

➤ Global Financial Markets Association (GFMA)*:

- “LEIs allow for consistent identification of parties to financial transactions, facilitating a **consistent and integrated view of exposures.**”
- “A global, standardized LEI will enable organizations to more effectively measure and **manage counterparty exposure, while providing substantial operational efficiencies and customer service improvements** to the industry.”

*GFMA represents the common interests of the world's leading financial and capital market participants, and speaks for the industry on the most important global market issues. GFMA's mission is to provide a forum for global systemically important banks to develop policies and strategies on issues of global concern within the regulatory environment. (www.gfma.org)

Why LEI? Benefits of LEI adoption for users in the private sector

➤ LEI adoption responds to business needs with regard to identification management in the following areas

- Correspondent banking
- Trade finance
- Cash management corporates
- Asset management for (pension) funds
- Payment schemes
- Card payment schemes
- E-invoicing schemes
- OTC (over-the-counter) trading
- Trading, clearing and settlement rulebooks
- Data management
- Credit rating
- Market research

Use cases – application of the LEI in the private sector

- LEI data are free of charge downloadable from www.gleif.org
- **Example: data management**
 - Easier mapping of legal entity reference data from multiple suppliers by using the LEI
 - Identification management of legal entities possible with reference data only, e.g. mapping of legal company names across various systems
 - Higher data quality across operational systems leads to reduced data management cost, since LEI data is quality-assured via annual renewal cycles
 - Increased reporting capabilities at a lower cost

Existing regulatory uses

- Some 40 national or regional rules and regulations covering:
 - Argentina, Australia, Canada, 31 members of the European Union and European Economic Area, Hong Kong (OTC Derivatives Trade Repository Reporting), Russia, Singapore, US
 - Drafts in preparation in several other jurisdictions
- In half the cases, entities are required to acquire an LEI; in most other cases LEI requested to be reported or used only if the entity already has an LEI
- Many areas:
 - **Derivative contract** reporting (Australia; 7 Canadian provinces; EU; Hong Kong; Russia; Singapore; US for both the CFTC and the SEC),
 - **Banking supervision** (Argentina; EU; US: draft)
 - **Insurance supervision** (US; EU: draft)
 - **Entities rated by CRAs**: requested if available in US; required in EU (from March 2016, with transition period),
 - **Issuers of listed financial instruments, of securitised assets**

Development and next steps

- More LOU candidates seeking endorsement (currently Slovenia, South Africa, Portugal)
- Further development of standards and policies (ongoing process by ROC and CES)
 - Policies for adding Business Register and Legal Form to the Common Data File
 - Policies for **branches and sole traders**
 - Consultation paper within the GLEIS on direct and ultimate parents of legal entities
- Further development of Business Operations, Business Administration, General Counsel, Technical infrastructure, Communications, Conflicts of interest policy etc. mainly by GLEIF BoD and CEO / future staff

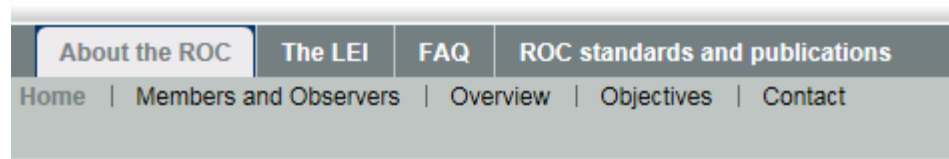
Development and next steps – ROC Press release (7th October)

- Readiness of the GLEIF to be the COU of the GLEIS
- Prepared MA considered adequate to support implementation of the Governance Principles of the GLEIS (also with regard to provide the flexibility for the system to expand, evolve / adapt to changes in financial markets as well as new regulatory or industry requirements)
- Launch of accreditation and monitoring processes. Expanded lookup and download database (Golden Copy) available in the course of October 2015
- The signed MoU between ROC and GLEIF organises cooperation in developing standards as well as the coordination of the promotion of the GLEIS and the use of the LEI
- MoU organises also the termination of the interim system (expected transition time for endorsed pre-LOUs for “new accreditation” by the GLEIF approx. 6 months)

Useful links for up-to-date information

1) <http://www.leiroc.org/index.htm>

LEI ROC



2) <https://www.gleif.org/en/about>



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Thank you for your attention!

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