The Legal Entity Identifier

Should the business information industry rally behind a common legal entity identifier?

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Unrestricted information
Who is GLEIF

- The GLEIF is a Swiss foundation inaugurated in June 2014 and founded by the Financial Stability Board (FSB).

- GLEIF is overseen by 71 regulators and 19 observers in the Regulatory Oversight Committee (ROC) from 50 countries.

- GLEIF Board has 18 independent directors.
Who is GLEIF

GLEIF in Numbers
Budget 2018
9,5 M US$

GLEIF in Numbers
Partners for LEI issuing (LOUs)
33, and growing

GLEIF in Numbers
Number of employees
40 from 24 countries

GLEIF in Numbers
Issued LEIs at end Q3-2019
1,500,000
What is the Legal Entity Identifier (LEI): Who is Who?

- The LEI is a 20-digit, alpha-numeric code based on the ISO 17442 standard of legal entities developed (and maintained) by the ISO Technical Committee 68 Financial Services.

- Connects to key reference information that enables clear and unique identification of legal entities participating in financial and digital transactions.
Information available with the LEI: Who owns Whom?

- Following information on ‘who is who’, the LEI data pool was enhanced to include information on ‘who owns whom’.

- This allows the identification of direct and ultimate parents of a legal entity and, vice versa, so that the entities owned by individual companies can be researched.

- Relationship records available of
  - Ultimate parents
  - Direct parents
  - Direct children
  - Ultimate children
Use of LEI in regulatory space

LEI coverage

- Close to 100% coverage in OTC derivative trades*
- 101 rules published by FSB members referring to the LEI
- 49 rules mandate certain entities to have an LEI
- Around 78% coverage of securities issuers in debt and equity securities*

* Source: *Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report*
1.5 million active LEIs* exist in global LEI index by the end of Q3-2019.

- 224 jurisdictions are covered by LEIs.
- The top 3 markets are the US, the UK, and Germany.
- Focus is now on Asia as well.

*Active LEIs refer to LEIs with Registration Status ISSUED, LAPSED, PENDING TRANSFER and PENDING ARCHIVAL.
Potential use of LEI in Trade Finance
ADB Survey as a case study

- Asian Development Bank (ADB): “The power of the information linked to the LEI could be transformational...Without a unique and globally harmonized identifier, finding information about an SME in a sea of metadata would be difficult, if not impossible. The LEI makes this process workable and helps realize the potential of financial technology to make finance more accessible.”

- ADB conducted a survey for companies including SMEs in a range of small and large developing countries in Asia-Pacific.

- The survey result demonstrates that both large and small companies in large and small relatively easily and at reasonable cost.

- ADB concluded that global adoption of the LEI system would address two challenges: (i) access to finance and (ii) transparency in the economy.
Potential use of LEI
Know-your customer, Anti-Money Laundering and Anti-Terrorist Financing Requirements

- LEI is identified as one of the emerging innovations FOR efficiency and effectiveness of a bank’s efforts at AML/CFT compliance. International Finance Corporation (IFC) of World Bank ‘Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism Requirements in Trade Finance: A Guide for Respondent Banks’

- T20 Argentina Report on ‘A global framework for tracing Beneficial Ownership’ states: “In addition to bringing transparency on entities and their transactions, LEI is being recommended for conducting diligence on borrowers, on-boarding clients in securities and fixed-income markets, and for verifying buyers and sellers in a cross-border trade.”
Mission of Project Program Zero

- Generation of 20+ million LEIs
- Lower the LEI fees and administrative burden for registrants significantly
- Break the link between fees and annual renewal/data quality

Integration of banks, CAs and Public Registries into the Global LEI System
Stimulating growth of issued LEIs

LEI promotion and communications

LEI adoption & growth

Regulation
- Mandates

Voluntary adoption
- LEIs issued by banks
- LEIs issued by certificate authorities

Bulk registration through business registries

Use cases for LEI

Public sector
- Statistics
- Reporting & market surveillance
- RTGS of central banks

Private sector
- Payments
- Trade finance
- Supply-chain
- Digital ID
- E-Commerce

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Possible Operational Models

- **Bank Consortia**
  - Option 1: Become an LOU
    - Prefer to publish LEI under its name

- **Individual Banks**
  - Option 2: Become an RA of an LOU
    - No disclosure of the name of the bank
    - Prefer to share client information only with a private organization
    - No theoretical client exposure to regulators
  - Option 3: Become an RA of GLEIF
    - No disclosure of the name of the bank
    - Enjoy GLEIF’s services and possibly different pricing
Project Zero: Consultation
Interviews conducted in 10 countries, May - September 2019
Project Zero – Consultation
4 strategic actions recommended by McKinsey

- Enhance the value proposition by making the LEI a “data connector”.

- Evolve the operating model to address frictions experienced by banks and/or clients

- Build buy-in for GLEIS 2.0, educating and engaging key stakeholders, especially banks.

- Manage the economics for banks over time, ensuring rational pricing.
Limitations

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