

25th Meeting of the Wiesbaden Group on Business Registers
- International Roundtable on Business Survey Frames

Tokyo, 8 – 11 November 2016

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Session No. 7

Globalisation and Profiling

***The Legal Entity Identifier: An industry standard providing open and reliable data for unique
identification management***

1. Introduction

The Legal Entity Identifier (LEI) is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.

In 2011, the Group of Twenty (G20) called on the Financial Stability Board (FSB) to provide recommendations for a global LEI and a supporting governance structure. This led to the development of the Global LEI System which, through the issuance of LEIs, now provides unique identification of legal entities participating in financial transactions across the globe. The Global LEI System is designed to help answer three basic questions: Who is who? Who owns whom? And who owns what? The information available with the LEI to date is referred to as ‘Level 1’ data. It provides the answer to the question of ‘who is who’. In a next step, the LEI reference data will be enhanced to include information on ‘who owns whom’ or ‘Level 2’ data.

This article updates on the current usage of the LEI in regulatory reporting and the status of the Level 2 data collection implementation. It also covers other relevant initiatives now in the pipeline such as the standardization of reported legal forms and the consolidation of a listing of worldwide authoritative sources for legal entity information. In addition, the article elaborates on the definition of a legal entity

and the different types of legal entities participating in financial markets. Last but not least, the article highlights the main benefits of LEI adoption to statistical users with a focus on how the LEI complements other existing local or regional systems.

2. Understanding the LEI

The ISO 17442 standard identifies the reference data to be collected and associated with each LEI. Formally this reference data is specified in the LEI Common Data File Format¹. This data collection is referred to as Level 1 data and contains public "business card" information (see figure 1).

Figure 1: Common Data File Format of the LEI Record

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	BusinessRegisterEntityID	[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	[0,1]
Extension		[0,1]

¹ See <https://www.gleif.org/en/lei-focus/about-the-lei/common-data-file-format#>

3. Current Usage of the LEI for regulatory reporting

The Global LEI System is structured in 3 layers (see figure 2). Overseeing the entire system is a group of public regulators from around the world participating in the Regulatory Oversight Committee (LEI ROC). Members are public sector authorities including regulatory and supervisory authorities and central banks, public international financial institutions, and international public sector standard setting and supranational authorities. Members commit to support the introduction of the Global LEI System for official or international identification purposes.

Figure 2: Global LEI System Structure



The Financial Stability Board (FSB) and the Group of Twenty (G20) have endorsed the LEI, Global LEI System and GLEIF.

Regulators participating in the LEI ROC first focused on introducing the LEI for counterparties to derivatives transactions. This was largely to fulfill the mandate of G20 leaders who agreed in 2009 that all over-the-counter derivatives contracts should be reported to trade repositories. With the introduction of trade repositories and new supervisory reporting, regulators participating in the LEI ROC identified the LEI as the key identifier to allow for aggregation of data reported across trade repositories². This has led to the use of the LEI as an aggregation tool for trade repository reporting in Asia, North America, Europe, and Oceania.³

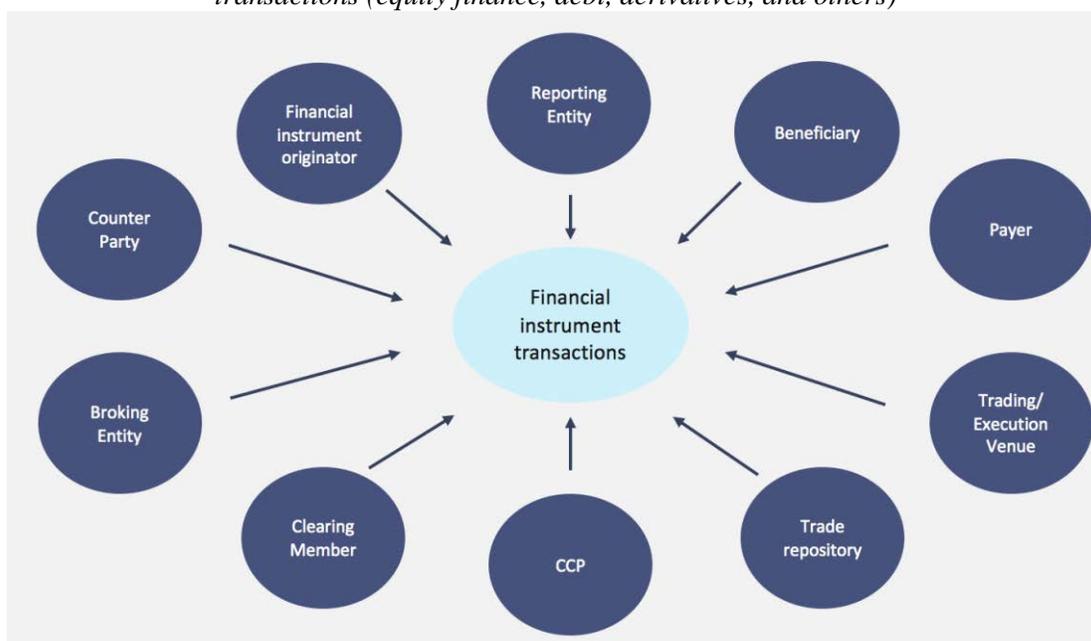
² See LEI ROC Progress report by the Legal Entity identifier Regulatory Oversight Committee (LEI ROC) of 5 November 2015: http://www.leiroc.org/publications/gls/lou_20151105-1.pdf

³ As of June 2015, authorities in 15 FSB member jurisdictions had mandated or suggested the use of the global LEI in OTC derivatives transaction reporting. For more detail see the FSB's Thematic Review on OTC Derivatives Trade Reporting of 4 November 2015: <http://www.fsb.org/wp-content/uploads/Peer-review-on-trade-reporting.pdf>

However, in order to maximize the utility of the LEI within the finance sector, the LEI must be applied consistently across financial markets. The Global LEI System has made significant progress towards this goal within the European Union Member States. Already within European Union Member States the LEI is required for trade repository reporting of counterparties to derivative transactions and for reporting to insurance and occupational pensions regulators. Starting 1 January 2018 the Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR) will require the LEI for financial transaction reporting across equity, debt, derivative, and other financial markets within Member States. Together these regulations will necessitate the LEI for all parties involved in financial instruments transactions within European Union Member States (see figure 3).

Figure 3: LEI for all participants in financial instrument transactions

The below diagram provides a general overview of different parties involved in financial instrument transactions (equity finance, debt, derivatives, and others)



Other interesting applications being considered for the LEI include:

- *Anacredit (European Union)*: On 18 November 2015 the Governing Council of the ECB agreed to publish the draft Regulation on the collection of granular credit and credit risk data (“AnaCredit”) on the ECB website. The objective of this is to collect granular loan-by-loan credit risk information from Europe’s financial institutions. The reporting requirement initially pertains

exclusively to loans granted to legal entities. The reporting threshold is set at EUR 25.000. The LEI is suggested as an identifier of counterparties.

- *FERC (United States)*: The Federal Energy Regulatory Commission proposes new data collection for electricity market surveillance. The LEI is proposed for the identification of market participants and for market participants connected entities.
- *CPMI Correspondent banking (International)*: The Committee of Payments and Market Infrastructures identifies the LEI as a means to identify parties involved in payment processing so as to improve consolidation of information about entities involved in correspondent banking transactions.

4. Definition of a legal entity

According to the ISO 17442 standard, a legal entity is a unique party that is legally or financially responsible for the performance of financial transactions or has the legal right in its jurisdiction to enter independently into legal contracts. It excludes natural persons, but includes governmental organizations and supranationals. This definition is more specific than definitions currently used by many international institutions. For example, the System of National Accounts framework defines a legal or social entity as one whose existence is recognized by law or society independently of the persons, or other entities, that may own or control it.⁴

The Global LEI System also seeks to evolve to meet the needs of regulators to use the LEI as an aggregation tool. For example, the LEI ROC determined that data on international branches may also be necessary for micro- as well as macro-prudential supervision. As such the LEI ROC has proposed a policy standard that would allow LEI issuance to branches by linking international branches to their head offices within the LEI reference data.⁵

⁴ See System of National Accounts 2008: <http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

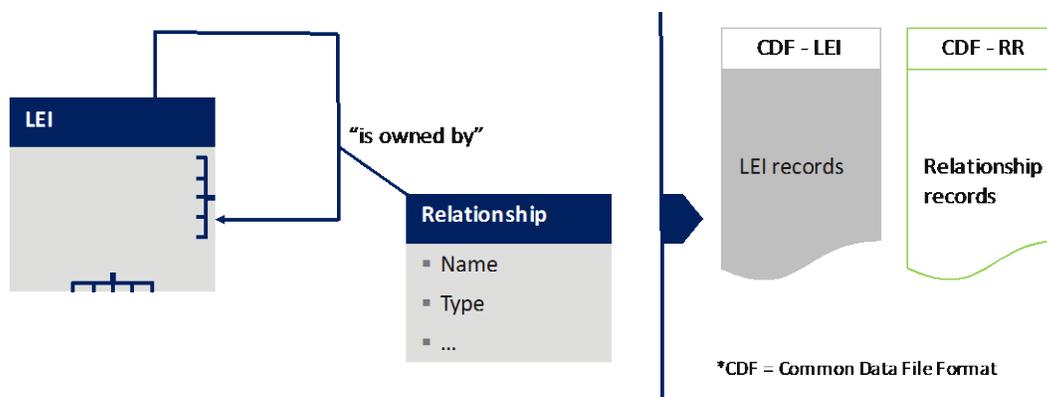
⁵ See https://www.leiroc.org/publications/gls/lou_20151019-1.pdf

5. Status of Level 2 data collection implementation

On 10 March 2016 the LEI ROC published a document, entitled ‘Collecting data on direct and ultimate parents of legal entities in the Global LEI System – Phase 1’.⁶ The paper sets forth the policy design of a process for collecting Level 2 data to complement the existing Level 1 LEI reference data. Relationships are determined based on accounting consolidation in the parent balance sheet. Each child entity will report its ultimate accounting consolidating parent and its direct accounting consolidating parent. The implementation of Level 2 reporting is planned for second quarter 2017.

Relationship information will be collected separate from the Level 1 data collection. This will allow introduction of Level 2 data collection with no interruption to the collection and maintenance of Level 1 data (see figure 4).

Figure 4: LEI record and Relationship Record data collection



6. LEI reference data – enhancing standardization

In order to enhance the usability of the Level 1 data collection, the LEI Common Data File Format reporting has two important remaining items for standardization:

- a) *Legal Form*: currently the legal entity's legal form is reported as a free form text field. In cooperation with ISO, this reporting will be adjusted to a standardized scheme that identifies distinct legal forms in a jurisdiction. This will allow classification of legal entities by their legal form.

⁶ See https://www.leiroc.org/publications/gls/lou_20161003-1.pdf

b) *Registration Authority*: On 31 August 2016, the Global Legal Entity Identifier Foundation (GLEIF) published the ‘Registration Authorities List’. It contains 652 business registers and other relevant registration authority sources and assigns a unique code to each register on the list. This standardizes the cross reference provided by the legal entity to its local authoritative source and enables users of the LEI data to more easily link the LEI to other data sources.

7. Benefits to statistical business registers for LEI application

Indeed, a statistical business register is an essential support for a nation's economic statistics program⁷. It provides a structured listing of establishments registered within a jurisdiction and a standardized set of attributes to describe those establishments. This data collection is essential for aggregated national statistics on economic processes such as production and financing by providing the real number of units operating in the economy.

However, complications arise when entities registered in other jurisdictions also contribute to economic activity as national statistics are by definition restricted to their respective boundaries. Given multinational companies are an important part of the local and global economies, it becomes more complex to consider a domestic part of a multinational unit operating independent and autonomously. The LEI is an important aggregation tool that can ensure interoperability across local registration systems and aid identification management. As a global identifier, the LEI may act as a bridge to connect local identification systems and provide a standardized set of reference data.

Additionally, the publicly available LEI data pool is a free online source that provides open, standardized and high quality legal entity reference data. Utilizing this publicly available data can reduce redundancies in data collection or difficulties in deciphering differences when referencing several different data sources. Take for example the AnaCredit initiative mentioned above. This data collection initiative includes several attributes that are already components of the LEI reference data (see Figure 5). Application of the LEI would reduce redundancies in data collection, thereby saving costs.

⁷ See the United Nations Economic Commission for Europe Guidelines on Statistical Business Registers: http://www.unecce.org:8080/fileadmin/DAM/stats/publications/2015/ECE_CES_39_WEB.pdf

Figure 5: Reference data comparison

ECB Attributes list_AnaCredit

- Counterparty reference data**
- 7 Legal Entity Identifier (LEI)
 - 8 National identifier
 - 9 Head office undertaking identifier
 - 10 Immediate parent undertaking identifier
 - 11 Ultimate parent undertaking identifier
 - 12 Name
 - 13 Address: street
 - 14 Address: city/town/village
 - 15 Address: county/administrative division
 - 16 Address: postal code
 - 17 Address: country
 - 18 Legal form
 - 19 Institutional sector
 - 20 Economic activity
 - 21 Status of legal proceedings
 - 22 Date of initiation of legal proceedings
 - 23 Enterprise size
 - 24 Date of enterprise size
 - 25 Number of employees
 - 26 Balance sheet total
 - 27 Annual turnover
 - 28 Accounting standard

LEI Common Data File Format

The screenshot shows the structure of the LEI Common Data File format, organized into several sections:

- LEI File Header** (0..1): Contains fields like ContentDate, Originator, FileContent, DeltaStart, RecordCount, and Extension.
- LEI Data Record** (1..*): Contains the LEI field.
- Entity** (1): Contains fields like LegalName, OtherEntityNames, LegalAddress, HeadquartersAddress, OtherAddresses, BusinessRegisterEntityID, LegalJurisdiction, LegalForm, AssociatedEntity, EntityStatus, EntityExpirationDate, EntityExpirationReason, and SuccessorEntity.
- Registration** (1): Contains fields like InitialRegistrationDate, LastUpdateDate, RegistrationStatus, NextRenewalDate, ManagingLOU, and ValidationSources.
- Extension** (0..1): A final extension field.

The LEI already covers 7 – 18 reference data

Lastly, GLEIF will notably expand the standardized set of reference data through the introduction of Level 2 data collection. This will establish a global relationship hierarchy database that is free of charge to the end user. Such a source will eventually facilitate local initiatives that aim to better understand ownership structures across jurisdictions.

In conclusion, the importance of the national statistical business register is clear. The further development of the Global LEI System can complement existing national data collection and validation procedures such that statistical users can receive a comprehensive listing of local and international legal entity reference data.