The Global LEI System

Meet the Market, Banque de France, Paris
27 June 2018

Michael Ritter, Chair of the LEI ROC
Gerard Hartsink, Chair of the GLEIF Board
The essentials of LEI
Chair of the LEI ROC, Michael Ritter
1. What is the Global LEI System
## History of the Global LEI System

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>In the wake of financial crisis, regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions.</td>
</tr>
<tr>
<td>2010</td>
<td>U.S. regulators and FINRA hold a workshop, identifying the lack of a standard way to identify parties as a “linchpin” for improving regulation, private risk management, and business processes*.</td>
</tr>
<tr>
<td>2011</td>
<td>The G20 called upon the FSB (Financial Stability Board) to take the lead in developing recommendations for a global LEI and supporting governance structure.</td>
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<tr>
<td>2012</td>
<td>The G20 finance ministers and central bank governors and the FSB endorsed the Charter of the LEI Regulatory Oversight Committee (LEI ROC).</td>
</tr>
<tr>
<td>2014</td>
<td>The Global LEI Foundation (GLEIF) was established as a not-for-profit organization overseen by the LEI ROC to act as the operational arm of the Global LEI System.</td>
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</tbody>
</table>

*See: Creating a Linchpin for Financial Data: The Need for a Legal Entity Identifier
The number of LEIs grew rapidly in the second half of 2017, carried by new regulatory requirements, and now exceeds **1,2 million**.

The LEI covers at least securities with a total value of **EUR 95 trillion** worldwide as of November 2017 (+25% since the end of January 2017)

There are currently **91** regulatory actions using the LEIs globally.

There are at least **45** jurisdictions that have rules referring to the LEI.

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*https://www.leiroc.org/publications/gls/roc_20180502-1.pdf*
LEIs per Country

Over 1,200,000 LEIs Worldwide

LEI Issuance in thousands. Rank per Country

<table>
<thead>
<tr>
<th>Country</th>
<th>LEIs (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>165,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>127,000</td>
</tr>
<tr>
<td>Germany</td>
<td>108,000</td>
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<tr>
<td>Netherlands</td>
<td>95,000</td>
</tr>
<tr>
<td>Italy</td>
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<tr>
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<tr>
<td>France</td>
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<tr>
<td>Sweden</td>
<td>46,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>34,000</td>
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</tbody>
</table>

Data as of 11 June 2018
2. What is the LEI ROC
The LEI Regulatory Oversight Committee (ROC) is a group of 71 member and 19 observer public authorities from 50 countries established in January 2013 to oversee a worldwide framework of legal entity identification, the Global LEI System.
Objectives of the ROC

- In protecting the broad public interest, the objectives of the ROC are to ensure:
  - Open access to obtaining an LEI
  - Open and free access to publicly available data from the Global LEI System
  - No entity involved in the Global LEI System exploits its relationship with the system in a way contrary to the broad public interest
  - The Global LEI System meets broad public and private sector requirements
ROC's strategy to support the LEI expansion

- Increase in the number of rules and regulations requiring the LEI and in the number of jurisdictions adopting such rules
- Adoption of the LEI as an universal identifier by some jurisdictions
- Voluntary adoption of the LEI by market participants

3. The Legal Entity Identifier (LEI)
The Legal Entity Identifier (LEI)

LEI is the linchpin that connects the dots across the universe of entity identification in the digital age

- 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the ISO
- Connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions
Information Available with the LEI:
Data on ‘Who is Who’

Global Legal Entity Identifier Foundation
Basel, Switzerland

<table>
<thead>
<tr>
<th>Entity details</th>
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<tbody>
<tr>
<td>LEI</td>
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<tr>
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</table>

Validation against 600 selected global registration authorities and standardized legal forms

### Addresses

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<tr>
<th>St. Alban-Vorstadt 5</th>
<th>St. Alban-Vorstadt 5</th>
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</thead>
<tbody>
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<tr>
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### Registration Details

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<td>Office fédéral de la statistique Federal Statistical Office</td>
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<td>Valuation Authority Entity ID</td>
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Starting 1 May 2017, the LEI data pool is 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.
4. Benefits of the LEI
LEI Use Cases - Public Sector
Standardization

- LEI allows for the unambiguous, unique identification of entities engaged in financial and digital transactions

“Concrete steps towards standardization include the establishment of mandatory requirements regarding the use of the International Securities Identification Number and the global Legal Entity Identifier.”

Mario Draghi, President of ECB

“The authorities issued regulations ..., and required the use of what is called Legal Entity Identifier for banks and large firms involved in certain transactions.”

Christine Lagarde, Managing Director of IMF

“A mandatory requirement to use the LEI should be extended to all financial instruments. In addition to securities, the LEI and/or ISIN should be used for investment funds, financial derivatives and loans”

Benoît Cœuré, Member of the Executive Board of ECB
LEI Use Cases - Public Sector
Global expansion of LEI in the public sector

Legal Entity Identifier (LEI) for HMDA Compliance

Hong Kong regulators to enhance the OTC derivatives regulatory regime

ESMA HIGHLIGHTS IMPORTANCE OF LEI FOR MIFIDII/MIFIR COMPLIANCE

India: RBI mandates LEI code for large corporate borrowers

Malaysia: Implementation of segregated account structure for RENTAS debt securities

1. Obtention of a Legal Entity Identifier
LEI Use Cases - Private Sector

- Up until now, legal entity reference data has been proprietary, siloed and internationally non-standardized. The LEI addresses these problems.

Various mapping projects with standards organizations (BIC-LEI Mapping publication since Feb 2018)

LEI to improve efficiency and reduce prices for various bank processes (KYC, standardization)

LEI incorporated by major global data vendors as representative entity identifiers

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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 LEI 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)
32, and growing

GLEIF in Numbers
Number of employees
34 from 18 countries

GLEIF in Numbers
Issued LEIs on 1st of June 2018
Over 1.200.000
GLEIF’s Vision and Mission

**GLEIF Vision**
Ultimately, there should be one identity behind every business
Having an LEI will help to achieve this objective

**GLEIF Mission**
GLEIF manages a network of partners, the LEI issuing organizations, to provide trusted services and open, reliable data for unique legal entity identification worldwide

**GLEIF Scope**
Supra-national, non-for-profit organization
GLEIF is, by its statutes, agnostic to any particular commercial or political interests
GLEIF is the recognized and trusted partner in Identification Management for legal entities.

GLEIF supplies a defined and growing range of free Value-added Services to the public and private sector.

GLEIF as Accreditation Agency runs a leading quality management system for its network of LEI issuing partners.
Additionally, challenge to LEI & LE-RD service is available via the GLEIF website. This centralized online facility is part of the GLEIF data quality management program.
Global LEI Index: Creating transparency in financial markets and for financial transactions

Only global free of charge online source that provides open, standardized and high quality legal entity reference data.

- Consists of a file of all past and current LEI records including related reference data in one repository.
- All LEI records can be easily found and accessed on the GLEIF website (also with your smartphone).
- Publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.

Global LEI Index available on the GLEIF website https://www.gleif.org
Next steps
The GLEIF Strategy for the private sector is focused on:

- Capital and Money markets
- Banking Services
- Supply Chain Management
- Digital Economy

The GLEIF has no mandate for the strategy for the use of the LEI by the public sector (art 10 Statutes)
White Paper suggests combined potential savings of at least U.S. $650m annually just in core banking

Two broad areas in which the LEI has business value:

- Reduces transactional and operational friction, both within and among organizations.
- The LEI makes important information about the background of a legal entity in a transaction more accessible and traceable.

Available on https://www.gleif.org
The LEI’s primary value is derived from reducing the cost of onboarding clients and of middle- and back-office activities related to the processing of stocks, bonds and other securities trades. All such activities could be simplified and streamlined if LEI use were more broadly adopted throughout the lifecycle of the client relationship.

The use of LEIs in the onboarding of customers and for client relationship would also reduce the time spent on data correction and reconciliation necessitated by inconsistent identification of legal entities.

### Capital markets

LEIs allow for more robust and efficient Know Your Customer (KYC) diligence on borrowers, as well as better traceability of information on borrowers from multiple sources.

### Commercial transactions

LEIs enable faster processing of letters of credit and better identification for trade finance and for e-invoicing.

### The extension of commercial credit
The LEI in KYC

▪ Better Knowledge, Better Business
▪ McKinsey & Company and GLEIF: Creating Business Value with the LEI
▪ LEI in KYC: A New Future for Legal Entity Identification
▪ Regulatory Use of the LEI
▪ GLEIF Stakeholder Groups

▪ GLEIF has undertaken research with a specialist research agency, Loudhouse, to identify the key challenges of legal entity identification in financial services.
Limitations

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