

Frequently Asked Questions: Global Legal Entity Identifier (LEI)

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What is a global LEI?

The LEI is a reference code to uniquely identify a legally distinct entity that engages in a financial transaction. Currently, there are many ways to identify entities, but there is no unified global identification system for legal entities across markets and jurisdictions. The LEI will be a linchpin for financial data—the first global and unique entity identifier enabling risk managers and regulators to identify parties to financial transactions instantly and precisely. Currently, an international collaborative effort between public and private entities is developing the LEI, with the support of the Financial Stability Board (FSB) and endorsement of the G-20.

Why do we need a global LEI?

The establishment of a global LEI system will be a significant achievement in responding to the vulnerabilities of the global financial system and will provide meaningful long-term benefits for both the public and private sectors. When Lehman Brothers collapsed in 2008, financial regulators and private sector managers were unable to assess quickly the extent of market participants' exposure to Lehman or to explore quickly and fully how the vast network of market participants were connected to one another. Subsequently, the financial crisis exposed the depth of the problem of identifying financial connections and underscored the long-standing need for a global system to identify and link data, which will enable financial regulators and firms to better understand the true nature of risk exposures across the financial system.

When industry adopts the global LEI, data reported both externally to supervisors and internally for risk management purposes will be more reliable. The global LEI will enhance the ability of regulators to monitor and analyze threats to financial stability and the ability of risk managers to evaluate their companies' risks. It will facilitate improved micro-prudential and macro-prudential risk analysis, supervision, and regulation; reduce cost for industry in collecting, cleaning, and aggregating data, and in reporting data to government regulators; reduce private firms' operational risks and improve their internal risk management; and enhance industry's market discipline.

If a global LEI is so useful, why hasn't it already been established?

Private industry has made several attempts over the past 20 years to establish a global entity identification system. However, private sector firms and industry associations have been unable to achieve the level of coordination needed to launch a single global solution. The consistent and coordinated global commitment by members of the FSB and G-20 to act in the public interest after the worldwide financial crisis has helped overcome previous impediments to developing the LEI.

Why did the OFR get involved in establishing the global LEI and what is the OFR's role?

A key element of the OFR's mandate is to improve the quality and scope of financial data by assessing gaps in data standards and helping to fill them for the benefit of market participants, regulators, and research communities. Working to establish a global LEI system is an essential step in fulfilling that mandate.

In November 2010, the OFR issued a [policy statement](#) calling for the establishment of an LEI to provide impetus to efforts by regulators and industry. Representatives from the financial industry welcomed the call for development of an LEI and responded with a proposed solution. Since then, government and industry representatives have been working together through the FSB to develop a global LEI system.

Throughout the FSB process, the OFR has played a key role, leading work streams, and working with other regulators and industry to provide recommendations to the G-20 to guide the governance, development, and implementation of a global LEI system. During the implementation phase, the OFR is serving as a vice-chair on the LEI Implementation Group and will continue to provide leadership and support, working toward the G-20 target of March 2013 for launch of the system.

The OFR has worked with other U.S. regulators to embed the concept of the LEI into rulemakings, and will continue to do so. These mandatory reporting uses of the LEI will facilitate the rapid deployment of the LEI when the global system becomes available.

How will the LEI system work?

The LEI system is an alphanumeric code and associated set of six reference data items to uniquely identify a legally distinct entity that engages in financial market activities. This global standard is endorsed by the G-20 and is consistent with the specifications put forward by the International Organization for Standardization (ISO 17442:2012) in May 2012: a 20-digit code and associated "business card" information.

Successful operation of a global LEI system will require support from the global regulatory community, private sector firms, and industry associations. Thus, the endorsed recommendations define clear roles for the public and private sectors through a "federated" model. Regulators will govern through a Regulatory Oversight Committee (ROC); private industry will participate and consult on the development and operations of a Central Operating Unit (COU); and local implementation will be conducted through Local Operating Units (LOU), which will benefit from local knowledge of infrastructure, corporate organizational frameworks, and business practices. The COU will ensure that all parties that implement the LEI adhere to governing principles and standards, including reliability, quality, and uniqueness, that will result in "one golden standard" for the LEI.

Although the FSB recommendations target March 2013 for operation of the global LEI system, the recommendations allow for some jurisdictions to act as “early adopters.” Before the full global LEI system is established, local jurisdictions may move ahead with identification systems, consistent with the global LEI standard, which will eventually be folded into the global system.

What are the next steps in establishing the global LEI and when will it be up and running?

Following G-20 endorsement of the FSB’s recommendations in June 2012, the FSB established the LEI Implementation Group (IG) to move the global LEI system toward the goal of having the system launched by March 2013. The IG is a time-limited and task-limited group of experts from the global regulatory community, focused on areas such as legal, operations, and technology. Because many design decisions will require the expertise of private industry, the FSB’s published recommendations call for an industry consultative group, the “LEI Private Sector Preparatory Group,” to assist the IG. This next phase will build on the strong working partnership developed over the past year between the international regulatory community and private industry.

The FSB recommendations include several key implementation targets:

- Development of the Regulatory Oversight Committee (ROC) Charter, for proposed endorsement by the FSB or the G-20 in the fall of 2012. When the ROC is established, the IG is to disband.
- Creation of the Central Operating Unit (COU), including determination of its legal structure and the appointment of its initial Board of Directors, by the ROC in collaboration with the Private Sector Preparatory Group.
- Endorsement of the COU by the ROC and launch of the system on a self-standing basis by March 2013.

The FSB report noted that the March 2013 commencement date is ambitious, but the OFR and the international community are committed to it, given the importance of establishing a global LEI system.

What can firms start doing now?

The G-20’s endorsement of the FSB’s recommendations to implement a global LEI, consistent with the specifications of the International Organization for Standardization (ISO 17442:2012), gives firms a standard against which to build and test technology and workflow processes in preparation for the global LEI. Firms can also participate in the preparatory work for the LEI by contributing their time and expertise toward developing a collaborative solution to standing up the COU.

When will the LEI become widely or comprehensively used by market participants and regulators?

The OFR is committed to promoting widespread adoption of the global LEI and we expect that many government agencies across the globe will require its use. The global phase-in of the LEI will be driven by the legislative and rulemaking processes of each jurisdiction requiring the use of the LEI and by the adoption of the LEI by firms for risk management and reporting. Vendors providing add-on services to the LEI will further assist in promoting its use and utility in the marketplace. As noted above, the OFR is working with U.S. regulators to continue to secure requirements in rulemakings that will expand the use of the LEI.

What is the CFTC’s “interim-LEI,” the CICI, and how are regulators assuring it remains consistent with the global LEI?

To support use of the global LEI, the FSB’s recommendations allow for jurisdictions to serve as early adopters of a global LEI. In the United States, the Commodity Futures Trading Commission (CFTC) has issued a [rule](#) requiring swap counterparties to be identified by a legal entity identifier by July 16, 2012. Because the global LEI system would not yet be functioning at that time, the CFTC provided for a CFTC Interim Compliant Identifier (CICI) that conforms to the endorsed global LEI standard, and has made an explicit commitment for the CICI to transition to the global LEI. The U.S. Securities and Exchange Commission has also issued a proposed rule that would require the use of an LEI, if available, for derivatives reporting and a final rule for private fund use of an LEI in meeting reporting requirements.

How will an LEI system benefit industry?

As the global LEI becomes more widely used, we and many industry participants expect the LEI to decrease costs and improve risk management, at the firm level and across the system. These savings would come primarily from operational efficiencies, such as reducing the volume of transaction failures; lowering data reconciliation, cleaning, and aggregation costs; and reducing regulatory reporting costs. In addition, a global LEI would provide long-term benefits by enhancing the ability to perform business functions such as “know your customer” and improving enterprise risk management.

How will quality be assured in such a widespread “federated” model for governing the LEI?

Members of the public-private partnership that developed the FSB recommendations are acutely aware of the need for high-quality data. Thus, the LEI Implementation Group contains members with expertise in fields such as law, operations, and technology, to provide guidance on delivering an efficient and high-quality global LEI system. Also, private industry will provide valuable consultation on the development and operations of the COU. Finally, the COU will

require all parties that implement the LEI to adhere to the LEI governing principles, including reliability and uniqueness, as well as quality standards set by the ROC.

Will the LEI facilitate aggregation of exposures and risks?

By providing a universal, unique, authoritative identifier for each entity in financial transactions, a global LEI will provide a valuable risk management tool for aggregating data on exposures. However, while the LEI is critical on its own, it is not sufficient to provide a complete view on the aggregate exposures of any one entity to another. As noted in the FSB report, information on ownership and corporate hierarchies is also essential for aggregating risks on a broader level (such as the parent-entity level), which is a key objective for the global LEI system. Although this information will not be included in the first phase of the LEI, the FSB report recommends that the FSB LEI Implementation Group develop proposals for such reference data by the end of 2012. That work has begun. Currently, vendors in the marketplace offer aggregation, hierarchy-building, and other services for legal entity data. The ability to provide these services, as well as additional services, will be enhanced by a global LEI solution.

Do the FSB recommendations support the trade associations' proposed solution that was put forth in July 2011?

The FSB's recommendations do not select a solution. Rather, they set out a governance structure and process for developing and implementing a global LEI system. The FSB is supporting an open process; all vendors adhering to guidance set up by the FSB will be considered. The COU and LOUs might use multiple solution providers or a single solution provider. Any combination would be consistent with the FSB recommendations. No vendor is supported or excluded, explicitly or implicitly.

Who will be the registration authority for the LEI?

The FSB's recommendations outline a "federated" model for LEI implementation. Local Operating Units (LOU) will assign LEIs, and validate and maintain reference data. The Central Operating Unit (COU) will ensure that LEIs are unique and of high quality and that parties that implement the LEI adhere to its governing principles and quality standards.

Who is serving in the LEI Implementation Group?

Participants in the LEI Implementation Group (IG) were selected through nominations from FSB members and other public sector stakeholders. For continuity purposes, the IG includes members who participated in the development of the FSB's recommendations for the global LEI system.

How were members appointed to the IG’s industry advisory group, the “LEI Private Sector Preparatory Group”?

The formation of the LEI Private Sector Preparatory Group (PSPG) drew upon the experience from the FSB LEI Industry Advisory Panel, the consultative group to the LEI Expert Group, and was opened to additional members from the financial services industry, as well as other industries. The LEI Implementation Group determined the process for selecting members.

The FSB report calls for the COU to be founded as a not-for-profit foundation, or equivalent structure. Will the global LEI system be run by this foundation?

The FSB’s recommendations for the LEI call for forming the Central Operating Unit (COU) as a not-for-profit foundation, or a body of equivalent legal form, overseen by a Board of Directors that operates under the oversight of the Regulatory Oversight Committee (ROC). The not-for-profit status will facilitate funding to develop and operate the LEI system on a cost-recovery basis. The LEI Implementation Group will identify the specific funding structure.

Who will be members of the ROC, COU, and LOU?

The recommendations provide high-level guidance concerning membership on the Regulatory Oversight Committee (ROC). Regulatory authorities should indicate interest in serving as members, as well as their support for the LEI high-level principles and charter for the ROC. The LEI Implementation Group will develop the ROC charter, covering the details of member appointment.

Membership in the Central Operating Unit (COU) and Local Operating Units (LOU) will be determined after the charter for the ROC has been drafted and adopted. However, the FSB’s recommendations call for the ROC to appoint the initial Board of Directors of the COU and engage industry participants in establishing the COU. The FSB’s recommendations also recognize the value of contributions from members inside and outside the financial industry, including industries, such as retail and health care, that have successfully addressed complex challenges in creating global identification systems. Their inclusion is viewed as strengthening the global LEI system. Finally, the FSB’s recommendations provide leeway for the scope of the LOU. There can be a single LOU or multiple LOUs per jurisdiction; the LOUs can be public or private, country-specific or regional. For example, in the U.S., the supplier of the CFTC Interim Compliant Identifier (CICI) is the first candidate to become an LOU.