

# Legal Entity Identifiers (LEIs)

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# What is an LEI?

- **Unique identification number for entities**
- **Associated reference data:** variable attributes
- Map the most basic framework of financial world
  - Facilitate linking of data from disparate sources
- **Basic standard defined by ISO 17442**
  - Further elaboration required from the start:
    - Standard requires detailed specification
    - Additional variables for operational purposes
    - “Historical” data
- **Data free and open: no embedded IP rights**

# Scope of assignment

- ISO 17442: “The term legal entities includes, but is not limited to unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into contracts...”
  - Excludes natural persons (acting as natural persons)
- Very broad in principle
  - In practice, proceeding cautiously to avoid confusion

# LEI Code

- 20-digit alphanumeric code without intelligence
  - Variable information captured in reference data
- Persistent (assignment permanent, even if the entity ceases to exist)
  - Records of defunct LEIs contain pointer to successor, where relevant
- Exclusive assignment (only one code per entity)
- Unique assignment of codes
  - No recycling of codes ever

# LEI reference data

- “Level 1”: Most basic information necessary to identify an entity uniquely
  - “Business card” data and supporting information
- “Level 2”: Relationship data currently under development
  - Group relationships
    - Classifications: e.g., major area of business operation
  - Genealogical relationships
    - Time series of evolution of entities
  - Network relationships
    - Cross-sectional connections: e.g., ownership hierarchies

# Data quality

- Highest priority: **Information must be reliable and timely**
- Validation
  - Entity exists, person applying authorized, entity within scope
  - Reference data confirmed
  - Responsibility for accuracy rests primarily with the registrant
  - Annual recertification
- Public challenge facility (“crowd sourcing”)

# Why a new identifier?

- Multiple existing entity identification systems
  - E.g., BIC, ID\_RSSD, CUSIP, SWIFT ID, DUNS, Bloomberg, EIN, GIIN etc.
  - Imperfectly evolved to meet broad global needs today
    - Incomplete
    - Inconsistent
    - Errors
    - Often proprietary
    - Not standardized across systems or jurisdictions
    - Not necessarily stable—imbedded intelligence
  - Incompatible data across users
    - Expensive and error-prone effort to map data across identifiers

# Why didn't it happen before?

- Earlier identification systems arose and spread organically for particular purposes
  - “Good enough” data
    - Problems addressed in ad hoc ways over time
- Resistance to change: self-defended silos
- Collective action problem
  - Everyone would have to cooperate, but initial individual incentives too weak
    - Network effects
    - Fear of emergence of a dominant player

# Why now?

- Financial crisis exposed and intensified stresses
  - When Lehman Brother was allowed to go down, it was not known what “Lehman Brothers” really meant
  - Failure to map out networks of risk effectively
  - Complicated resolution actions
  - Lack of clarity contributed to market paralysis
- Back-office processes breaking down
- Failures of transparency
- Dodd-Frank and EMIR rules provided a spur
- International effort to establish the LEI, following a G20 mandate in Nov. 2011

# Benefits of the LEI

- IP-free information, open and free to all
- Consistent global standard for identification
- Connect disparate data sources
  - Improve risk management
  - Increase regulatory clarity
- Transparency requirements
- Save very large amounts spent on creating/maintaining reference data and mapping identifiers across data systems
- Transformative potential to increase efficiency (like bar codes)
  - Standardizing identification will enable competition by value-added data providers over information quality/variety
  - Tend to break data silos

# Global LEI System (GLEIS)

- Regulatory Oversight Committee (ROC)
  - Established January 2013 by financial regulators (mainly)
  - 62 members, 20 observers
  - Committee on Evaluation and Standards (CES)
- Global LEI Foundation (GLEIF)
  - Central Operating Unit (COU)
- (Federated) Local Operating Units (LOUs)
  - Some “global”, some “national”
  - All under common standards
- Registrants
  - Some registering under regulatory compulsion
  - Costs borne by registration fees
- Users

# Where we are now

- GLEIS is functioning in interim phase under ROC
  - Set necessary standards and protocols
  - Minimize operational interference
  - Support data quality and level playing field
- Foundation to be formally established 6/2014
  - Will take over operational functions
- LOUs fully functional
  - 28 designated LOUs: some private, some public
  - 15 already operational, others starting soon
- Over 280K entities registered, 181 countries

# Thanks!

## Questions?