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"FSB Thematic Peer Review on Implementation of the LEI"

BVI reply

BVI¹ is pleased that the Financial Stability Board (FSB) is conducting the thematic peer review of the LEI.

The Global LEI System (GLEIS) has worked very well since 2014 until now. However, to achieve its full potential a mix of regulatory measures and private initiatives are needed to insure further growth. Growth in terms of coverage is necessary so that the GLEIS may become the legal entity identification and reference data repository of choice for both the public and private sectors.

The provision of business card information was only a first but a very important step, adding information on parent relationships and branches a further next pillar. Linking the LEI to other identifiers like BIC and ISIN and providing the information in high quality with up to date technology will help to make GLEIS the global reference data repository of choice and superior to many private sector solutions. Adding LEIs on individuals acting in a business capacity, e.g. regulated traders at exchanges or board members of corporations will be another yardstick for a success of the GLEIS.

BVI supports the aim to extend the LEI system by wider adoption in both the financial and non-financial sectors. There are numerous use cases in all kind of sectors that take the adoption of the LEI way beyond the financial sector for the benefit of the public and the private sector. A McKinsey and GLEIF joint white paper estimates that broader, global adoption of LEIs could yield annual savings of over USD 150 million within the investment banking industry and up to USD 500 million for banks in the issuance of letters of credit². Annual savings in investment banking would include at least 10 percent of total operational costs for the identification and the on-boarding procedure for clients and the trade processing through the use of the LEI. More private sector engagement with corresponding benefits for the economy as whole can be envisaged if the LEI is the standard for client identification (Know Your Customer/Anti-Money Laundering -KYC/AML) within banks, in trade and trade finance and the digital economy.

Widespread acceptance in both private and public sectors will also help to address the current issues of data quality and lapsed LEIs within the GLEIS. This is necessary as given that regulations mandating the use of LEIs often do not include a requirement to renew LEIs, the associated reference data is not re-validated throughout the GLEIS. This leads to quality issues whereby companies that have merged or retired are not appropriately tagged. Changes to the company name or legal form as well as addresses may not be covered in full and updates to direct and ultimate parent information are not gathered.

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Fund companies act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's over 100 members manage assets of more than 3 trillion euros for private investors, insurance companies, pension and retirement schemes, banks, churches and foundations. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

² The white paper is available for download at: <https://www.gleif.org/en/lei-solutions/mckinsey-company-and-gleif-creating-business-value-with-the-lei/>



BVI is concerned with the still high cost of registration of LEIs. Our members which register LEIs for hundreds of investment funds still face considerable cost compared to single LEI corporations. We hope that by expanding the coverage as well as by enabling new ways of registration, e.g. by providing the LEI in the context of a first time business registry entry as we argued for in the context of the recent review of the EU business registry regulation.³ Another possibility which had already been foreseen in the ISO IBEI standard – a predecessor of the LEI standard - is to enable trusted parties in a regulated client identification process to issue LEIs under guidelines from GLEIF which should enable the system to achieve very low or no costs in the medium term.

LEI in regulation

The LEI responds to the critical need for a universal system of identifying entities across markets, products, and jurisdictions. Supervisory Authorities and regulators in many markets require the use of the LEIs to increase transparency across financial markets and financial transactions. On the other hand, in the supervision of non-financial sectors and tax identification, the use of proprietary identifiers is prevalent.

BVI recommends that the mandated use of the LEI must increase globally. The GLEIF and the ROC show the use of the LEI in rules and regulations established in G20 jurisdictions⁴. BVI is aware that several G20 countries do not have regulation in place that mandate the usage of the LEI, or only regulation where the LEI is one of several choices of entity identification. BVI believes that there is an opportunity within the G-20 countries of leveraging the LEI as a global identifier stretching the usage and the benefits beyond the financial sector.

A far reaching legal entity identification system based on the LEI could help not only to identify and mitigate systemic risk in markets, but also to improve supply chain efficiency, benefit aggregation and analysis of data in statistics, and generally be useful in any electronic or analogue government-to-business relationship.

BVI urges the FSB to make all efforts to make valid LEIs mandatory for all legal entities not only in the European Union but in the whole G20 through bulk issuance via business registries.

Finally, even where the use of the LEI is mandated the regulation does not expressly require the use of valid LEI's only. BVI recommends that the G20 regulators should consider to mandate that duly renewed LEIs are required in rules/regulation for reporting and data collections.

Reduce GLEIS cost of operation and increase LEI usage by public and private partnerships

The current Global LEI system is a self-registration system. As a result, the registrants carry the total cost of the Global LEI system. Although benefits accrue to all registrants in terms of more efficient on boarding and other approval processes, the cost savings potential will be more significant for larger corporations and the regulators. The LEI system is also used in other national regulatory requirements for the legal entity validation and verification and in KYC/AML. This results in duplication of effort and high costs for the industry. It seems also that the current federated structure with many LOUs leads to duplication of redundant investments and therefore more expensive coordination requirements at the GLEIF. This leads to still high cost for LEI issuance and maintenance.

³ Cf. Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132.

⁴ GLEIF at : <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei> ROC at :<https://www.leiroc.org/lei/uses.htm>.



We hope that the GLEIS operational cost will come down if the system could become a leader in the global identification management across the industries for both the regulatory mandated usage of the LEI and the private partnerships.

The GLEIS was launched as a public/private partnership. However, the current LEI issuance is largely driven by the financial services regulation. The LEI is not accepted by the regulators as the appropriate and only identification of legal entities by the supervisors still require the complete local data of a legal entity.

Beyond the regulation and the implementation of the LEI in the public sector, the G20 and the FSB should also consider ways to reach out to the private sector to motivate the adoption and usage of the LEI and extend the engagement with the private sector. For example, the G20 and the FSB could promote new ways to leverage the information held in the GLEIS by fostering the use of the LEI reference data links to the business registry and the national number of the legal entity. Using the LEI to link to the business registry, users could access any financial and regulatory filings included in an entity's information on the business registry. Access to such kind of information could help to determine whether a business with a particular entity is possible as well as provide information to potential investors for the evaluation of an investment decision process.

Also digital identity is usually linked to the use of specific computer programs using private/public key schemes, e.g. in digital certificates. The LEI as part of a digital identity would bind the identity to authorized representative(s) of the legal entities involved in financial services or other transactions. For instance, in Europe so-called eIDAS standard digital certificates can be used to secure data in electronic form to ensure the latter's origin and integrity. We argued in the specific EU context that eIDAS certificates which currently contain only a voluntary reference to the LEI should be made mandatory to secure that transactions signed with such a certificate can be tracked back to the originating legal entity and its representative(s). These digital certificates are obviously not limited to the EU but are based on the underlying international standards (ITU X.509/ ISO IEC 9594). The G20/FSB should insist with the responsible standard setters on the mandatory use of the LEI and other digital identification standards.

As explained in the examples above, the G20/FSB should motivate the private sector to benefit more from the usage of the LEI. To this end, BVI would also support regulators from other sectors, especially in the tax industry to join the LEI ROC.

We hope that this peer review leads to a multitude of actions by the G20 members for more mandatory implementation of valid LEIs in all areas of regulation pertaining to legal entity and individuals acting in business capacity identification as well as to increase the adoption of the private sector usage of the LEI.