

Update on the progress made with the implementation of Legal Entity Identifiers (LEIs)

The Financial Stability Board (FSB) has recently published a peer review of implementation of the Legal Entity Identifier (LEI) around the world. The LEI, a global standard is intended to enhance the management of information across legal entities, facilitate a comprehensive assessment of risk exposures at the global consolidated level and improve the speed at which information is available to both legal entities and supervisors. The review, titled *Thematic Review on Implementation of the Legal Entity Identifier*, found that adoption of the LEI has been encouraging with over 1.4 million entities in more than 200 countries, there's still plenty of work to be done by regulatory authorities around the world, including in South Africa.

An LEI is a 20-character, alpha-numeric code that was introduced following the financial crisis of 2008 to be adopted globally, to uniquely identify legally distinct entities that engage in financial transactions. They are issued by Local Operating Units (LOU) and accredited by the Global Legal Entity Identifier Foundation (GLEIF). In 2012, the Group of Twenty (G-20) and FSB, endorsed an initiative to develop a universal LEI that could be applied by any legal entity engaging in financial transactions. This was intended to meet G-20's objectives of improved transparency in the financial sector, reduce systemic risk and protect customers against market abuse. It also looked to aid regulatory authorities with enforcement, market surveillance and supervision as well as prepare high quality financial data for regulatory purposes. It also aimed to help reporting of Over the Counter (OTC) derivatives to Trade Repositories while making overall improvements in operational efficiency, risk management and calculations of exposures.

The Financial Sector Conduct Authority (FSCA), has played a pivotal role in this process to date. Initially it acted as a Sponsoring Authority before the GLEIF was formed, responsible for submitting applications by pre-LOUs to the LEI'S Regulatory Oversight Committee (ROC). Currently, the FSCA's Divisional Executive for Market Integrity, Jurgen Boyd serves as the vice chair of the FSB executive committee (EXCO).

The peer review's major findings are:

- Since 2012, over 1.4 million entities uniquely identified by an LEI in more than 200 countries
- Most FSB jurisdictions have implemented LEI use in at least one area

- Several financial institutions and trade associations have called for the mandating of LEI use, citing the need to increase efficiency and lower costs of customer identification, transaction processing and data aggregation
- LEI adoption is concentrated in North America and the European Union (EU)
- LEI is too low to effectively support some regulatory uses and encourage voluntary take-up by market participants

The review also announces recommendations to improve LEI adoption, some of them including:

- The use of LEIs for the identification of all legal entities in the data reported to trade repositories for OTC derivatives as part of the Unique Trade Identifier
- Consider the mandatory the use of the LEI for the identification of a wider set of financial market participants, their infrastructures, counterparties, and related (especially in a cross-border context)
- Promote LEI adoption through a nationwide implementation strategies to maximise the cross-sectoral benefits of the LEI

For a full view of the LEI adoption progress to date, as well as a breakdown of the entire peer review released last week, please refer to this [document](#) prepared by the FSCA.

As the FSCA continues to build a robust regulatory framework that ensures fair customer treatment, it also seeks to strengthen the efficiency and integrity of the South African financial markets. Driving initiatives, such as the global adoption of the LEI, go a long way in achieving this objective.

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Enquiries: Financial Sector Conduct Authority
Email address: Communications@fsca.co.za
Telephone: 0800 203 722

Transitional Management Committee:

AM Sithole (Commissioner) DP Tshidi CD da Silva JA Boyd MM du Toit LP Kekana K Gibson OB Makhubela SE Mmakau