

## BRIEFING

### Legal Entity Identifier (LEI)

The Legal Entity Identifier (LEI) is a 20-digit, alpha-numeric code that enables clear and unique identification of legal entities participating in financial transactions.<sup>1</sup> LEIs, like other identifiers, are needed by firms to fulfil their reporting obligations under financial regulations and directives. LEIs are also key for matching and aggregating market data, both for transparency and regulatory purposes.

The code is linked to a set of key reference information relating to the legal entity in question e.g. name and address<sup>2</sup>. Once a legal entity obtains a LEI code, the code is assigned to that legal entity for its entire life.

#### Who needs it

The use of an LEI is already required under a number of EU regulations and directives such as:

- European Markets Infrastructure Regulation (EMIR) – counterparties to derivatives contracts as well as beneficiaries, brokers, CCPs and clearing members<sup>3</sup>;
- Market Abuse Regulation (MAR) – issuers of financial instruments; entities involved or reporting in suspicious transactions<sup>4</sup>;
- Capital Requirements Regulation (CRR) – credit and financial institutions<sup>5</sup>;
- Alternative Investment Funds Directive (AIFMD) – funds and fund managers<sup>6</sup>;
- Credit Rating Agencies Regulation (CRAR) – credit rating agencies and rated entities<sup>7</sup>;
- Solvency II – pension funds and insurance companies<sup>8</sup>;
- Central Securities Depositories Regulation (CSDR) – CSDs, CSDs' participants<sup>9</sup>;
- Transparency Directive – issuers of financial instruments listed on Regulated Markets<sup>10</sup>;
- Securities Financing Transactions Regulation (SFTR) – parties involved in securities financing transactions and the beneficiaries of the rights and obligations arising from

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<sup>1</sup> Question and Answers-About LEI- What is a Legal Entity Identifier (LEI)? <https://www.gleif.org/en/about-lei/questions-and-answers>

<sup>2</sup> The complete list is available here: <https://www.gleif.org/en/about-lei/common-data-file-format>

<sup>3</sup> EMIR technical standards on reporting are available on [ESMA website](#).

<sup>4</sup> The relevant MAR technical standards are: 1) [Reporting suspicious transactions and orders](#) and 2) [Managers' transactions](#).

<sup>5</sup> For further details, see the [EBA recommendation](#).

<sup>6</sup> The relevant rules are available on [ESMA website](#)

<sup>7</sup> The relevant technical standards are available at this [link](#).

<sup>8</sup> The relevant rules are the following: [Directive 2009/138/EC](#) and [EIOPA Guidelines](#);

<sup>9</sup> The relevant rules are CSDR technical standards at this [link](#) and the CSD Q&As 3(b) and (f) available on [ESMA website](#).

<sup>10</sup> The relevant technical standards are available at this [link](#).

these<sup>11</sup>;

- Prospectus Regulation – issuers of securities offered to the public or admitted to trading on a regulated market situated or operating within a EU member state<sup>12</sup>; and
- Markets in Financial Instruments Directive II (MiFID II)/Markets in Financial Instruments Regulation (MiFIR) – see dedicated section below.

In addition, the use of the LEI is required or are in the process of being implemented by other regulators, including those in the US, Canada and Asia-Pacific<sup>13</sup>.

## Who can apply for it

Any legal entity can apply for an LEI.

The term *legal entity* 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 legal contracts, regardless of whether they are incorporated or constituted in some other way e.g. trust, partnership, contractual. It excludes natural persons, but includes individuals acting in a business capacity<sup>14</sup>. It also includes governmental organisations and supnationals<sup>15</sup>.

## Why is it important

The LEI provides a unique identifier for all entities participating in financial transactions that can also be used on a cross border basis, through a free and open database updated on a daily basis. This common framework is crucial to identifying clearly each exposure for risk management of financial transactions, to create transparency, and conduct market surveillance.

The use of the LEI also generates tangible benefits for businesses including simplified regulatory reporting; database management free of charges; more accurate calculation of counterparty exposures; improved risk management; and increased operational efficiencies.

In this context, the LEI will provide benefits in terms of costs and new business opportunities, as a reliable, open, standardised, and high quality legal entity reference data shared across the market place<sup>16</sup>.

## How to obtain the LEI

Obtaining an LEI is straightforward. An interested entity should contact the preferred LEI issuing organisation (*LEI issuer*, also known as *Local Operating Unit*). The list of LEI issuers is available on the [Global LEI Foundation \(GLEIF\) website](#).

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<sup>11</sup> The relevant technical standards are available at this [link](#).

<sup>12</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A32017R1129&from=EN>.

<sup>13</sup> Overview of all regulatory requirements concerning the LEI is available on the [LEI Regulatory Oversight Committee website](#).

<sup>14</sup> [http://www.lei.org/publications/gls/lou\\_20150930-1.pdf](http://www.lei.org/publications/gls/lou_20150930-1.pdf)

<sup>15</sup> General information about ISO 17442: <https://www.iso.org/standard/59771.html>

<sup>16</sup> Our Vision: One Identity Behind Every Business <https://www.gleif.org/en/about/our-vision>

The LEI data is registered and regularly verified according to protocols and procedures established by the [LEI Regulatory Oversight Committee](#) (LEI ROC), a group of public authorities from around the globe established in January 2013 to coordinate and oversee the framework of legal entity identification. GLEIF acts as the operational arm of the LEI ROC, making available, free of charge, the only global online source that provides the legal entity reference data<sup>17</sup>. A [search function](#) is available where users can check if an entity has an LEI, or access the reference data associated with an LEI<sup>18</sup>.

It should be noted that a legal entity is not obliged to use an LEI issuer from its own country. Legal entities are free to choose their preferred LEI issuer based on their own specific needs and costs considerations. The costs of an LEI vary depending on the LEI issuer; however, each LEI issuer is obliged to operate on a cost recovery basis; the fee charged by the LEI issuer is also limited by competition with all other LEI issuers. Furthermore, to streamline the issuance of LEIs, the GLEIF has introduced the concept of the *Registration Agent*. A Registration Agent helps legal entities to access the network of LEI issuing organisations responsible for performing LEI issuance and related services. More information about this facility is available [here](#).

After having chosen the LEI issuer, the applying entity should submit a request to that issuer, provide the legal entity reference data, including address, name, legal form and ultimate parent owner of the entity (greater than 50% ownership), verify its submission and pay for the LEI code.

After the above steps are completed, an LEI is issued within 24 to 48 hours depending on the LEI issuer.

To ensure that the reference data related to its own LEI code is up-to-date, each legal entity is asked to pay an annual maintenance fee.

## [Requirements under MiFIR](#)

The Markets in Financial Instruments Regulation (MiFIR)<sup>19</sup>, introduces requirements for a number of various entities to be identified through the LEI:

- investment firms that execute transactions in financial instruments;
- the clients (buyer, seller) on whose behalf the investment firm executes transactions, when the client is a legal entity;
- the client of the firm on whose behalf the trading venue is reporting under MiFIR Article 26.5, when the client is a legal entity;
- the person who makes the decision to acquire the financial instrument, when this person is a legal entity e.g. this includes investment managers acting under a

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<sup>17</sup> Link to [Centralised database of LEIs](#)

<sup>18</sup> <https://www.gleif.org/en/lei/search#>

<sup>19</sup> COMMISSION DELEGATED REGULATION (EU) 2017/590 with regard to regulatory technical standards for the reporting of transactions to CAs. Available at the following [link](#); COMMISSION DELEGATED REGULATION (EU) 2017/580 with regard to regulatory technical standards for the maintenance of relevant data relating to orders in financial instruments. Available at the following [link](#); and COMMISSION DELEGATED REGULATION (EU) 2017/586 with regard to regulatory technical standards for the data standards and formats for financial instrument reference data <...>. Available at the following [link](#)

- discretionary mandate on behalf of its underlying clients<sup>20</sup>;
- the firm transmitting the order;
  - the entity submitting a transaction report (i.e. trading venue, ARM, investment firm);  
and
  - the issuer of any financial instrument listed and/or traded on a trading venue

The above entities will need to be identified with an LEI even if they had no previous legal obligation to obtain one and regardless of where they are operating or legally based.

An investment firm reporting under MiFIR Article 26 should have appropriate arrangements in place in order to collect and verify the LEI of its client before the transaction takes place. In particular, investment firms have to ensure that the length and construct of the code are compliant with the ISO 17442 standard, that the code is included in the Global LEI database and that it pertains to the client concerned.

A client who is a legal entity or structure, including a charity or trust, need to make arrangements to obtain an LEI code if it wants the investment firm to continue to act on its instructions or make a decision to trade on its behalf from 3 January 2018 onwards.

An operator of a trading venue reporting under MiFIR Article 27 should have appropriate arrangements in place in order to collect and verify the LEI of the issuer of the financial instrument admitted to trading or traded on its venue. In particular, operators of trading venues have to ensure that the length and construct of the code are compliant with the ISO 17442 standard, that the code is included in the Global LEI database and that it pertains to the issuer concerned.

The LEI of the issuer of the financial instrument is crucial for market surveillance. The LEI code is needed to determine which national supervisor is responsible for monitoring the market activity in relevant instruments such as bonds and derivatives. For these instruments, MiFIR says that the responsible supervisor should be the one where the registered office of the issuer is located; the information about the location of the registered office is only available in the LEI reference data. The lack of the LEI or the incorrect LEI for a given financial instrument would mean that it will not be possible to establish which supervisor is responsible for that instrument or that the instrument will be assigned to the wrong supervisor. For this reason, ESMA does not accept any solution that would waive or mitigate the obligation to report this information.

Both investment firms and operators of Trading Venues are not required under MiFIR to ensure that the reference data pertaining to client's or issuer's LEIs is up-to-date. However, investment firms and operators of trading venues must ensure that their own LEIs reference data are kept up to date.

## Further information

For LEI: <https://www.gleif.org/en> and <https://www.leiroc.org/>

For MiFID II and MiFIR: <https://www.esma.europa.eu/policy-rules/mifid-ii-and-mifir>

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<sup>20</sup> For more practical examples of entities involved in MiFIR reporting the ESMA guidelines on transaction reporting, order record keeping and clock synchronisation should be consulted: [https://www.esma.europa.eu/sites/default/files/library/2016-1452\\_guidelines\\_mifid\\_ii\\_transaction\\_reporting.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-1452_guidelines_mifid_ii_transaction_reporting.pdf)