

UPDATE ON THE PROGRESS MADE WITH THE IMPLEMENTATION OF LEGAL ENTITY IDENTIFIERS (LEIs)

The global Legal Entity Identifier (LEI) ¹initiative was introduced by the Financial Stability Board (FSB) and the Group of Twenty (G20) following the global financial crisis of 2008, to create a method that will ensure that all participants and financial institutions/legal entities in the financial system would be easily identifiable in order to facilitate the assessment and monitoring of financial stability.

The Global Legal Entity Identifier Foundation (GLEIF) is tasked with supporting the implementation and use of LEIs. The foundation is backed and overseen by the LEI Regulatory Oversight Committee (ROC), representing public authorities from around the globe that have come together to jointly drive forward transparency within the global financial markets.

National Treasury approached the former Financial Services Board to represent South Africa on the ROC which was established in January 2013 and the then Capital Markets department was tasked with this responsibility by the Financial Services Board Exco.

The Financial Sector Conduct Authority (FSCA) currently serves on the ROC Plenary and Executive Committee, with Divisional Executive for Market Integrity: Jurgen Boyd serving as vice chair of the EXCO.

¹ A 20-digit alpha-numeric code used to uniquely identify legally distinct institutions that engage in financial transactions, were first introduced following the global financial crisis of 2008, to create a method that will ensure all participants and financial institutions/legal entities in the financial system would be easily identifiable in order to facilitate assessment and monitoring of financial stability.

The FSCA has been part of some noteworthy developments regarding the implementation of LEIs in South Africa:

- a) Strate (Pty) Ltd was fully accredited as an Local Operating Unit ²by the GLEIF Accreditation team and has been issuing LEIs since 2016.
- b) In South Africa the use of LEI's by OTC Derivatives Providers to report transactions to a Trade Repository was mandated in Conduct Standard 3 of 2018: Reporting obligations in respect of transactions in over-the counter derivatives which was published on 11 October 2018.
- c) A discussion paper on the implementation ³of LEIs was issued by the FSCA during November 2018, with the aim of promoting awareness of the global use of Legal Entity Identifiers (LEIs), and seek feedback from the market on the proposals for the implementation of LEIs. Positive comments were received from the GLEIF as well as industry and there was general support for the LEI initiative as well as the following projects for LEI implementation that were proposed by the FSCA as a first phase, namely:
 - (i) As part of the policies identified by the Financial Stability Board (FSB) to increase transparency across Securities Financing Transactions (SFTs), the FSCA is in the process of drafting conduct standards for the SFT market in South Africa. It is envisaged that in the reporting of SFT transactions an LEI will be required.
 - (ii) It is envisaged that a reporting and disclosure framework for short sale transactions will be implemented in due course and the use of an LEI when reporting short-sale transactions is currently being considered.

² LEIs are issued by "Local Operating Units

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<https://www.fsc.co.za/Regulatory%20Frameworks/Documents%20for%20Consultation/Discussion%20paper%20on%20the%20implementation%20of%20Legal%20Entity%20Identifiers%20-%202019%20November%202018.pdf>

- (iii) The International Securities Identification Number (ISIN)⁴ to LEI Mapping Initiative of the Association of National Numbering Agencies (ANNA) was created to help improve transparency of exposure by the linking of LEIs to issuers and their financial instruments. The JSE Limited, as the National Numbering Agency in SA, indicated that they are supportive of this initiative and are in the process of implementing it.

On 28 May 2019 the Financial Stability Board published a "[Thematic Review on Implementation of the Legal Entity Identifier](#)", which made the following findings:

- a) Since its endorsement by the G20 in 2012, the LEI System has been successfully brought into operation with over 1.4 million entities uniquely identified by an LEI in more than 200 countries;
- b) Most FSB jurisdictions implementing rules mandating LEI use in at least one area. Adoption has been most successful when the LEI has been mandated as part of an international effort;
- c) The LEI is used by authorities for various regulatory tasks. Several financial institutions and trade associations have called on authorities to mandate the use (and renewal by entities) of the LEI, both to facilitate regulatory reporting and to increase the efficiency and lower the costs of customer identification, transaction processing and data aggregation; and
- d) Notwithstanding this progress, the LEI has far to go to meet the G20's objective. LEI adoption remains uneven, particularly outside securities and derivatives markets, which limits the ability to effectively support many regulatory uses or to capture positive externalities and maximise network effects.

In light of these findings, the following recommendations were made, indicating that FSB member jurisdictions should:

⁴ An international securities identification number (**ISIN**) is a 12-digit code that is used to uniquely identify a security's issue

- a) Require, the use of LEIs for the identification of all legal entities in the data reported to trade repositories for OTC derivatives, including as part of the forthcoming Unique Trade Identifier.
- b) Consider mandating the use of the LEI for the identification of a wider set of financial market participants and infrastructures, their counterparties, and related entities. Explore ways to promote further LEI adoption, by fostering nationwide implementation strategies to maximise the cross-sectoral benefits of the LEI.

The LEI Regulatory Oversight Committee (ROC) and Global LEI Foundation (GLEIF) should:

- a) Consider enhancements to the LEI business model to lower the cost and administrative burden for entities acquiring and maintaining an LEI.
- b) Consider data quality process enhancements to increase the reliability of the LEI data. Work with industry and the public sector to raise awareness of the benefits of the LEI and encourage voluntary adoption by documenting existing uses, or by supporting pilot programs or research projects on promising new uses.
- c) Enhance the scope and usability of Level 2 (relationship) data by considering cost-effective and reliable ways to add relationship data that would increase the value of the LEI expanding the coverage of such data, for instance by conducting targeted LEI adoption campaigns.

The way forward for advancing LEI adoption includes a number of prospective LEI case examples which were identified by jurisdictions and market participants. These include digital authentication, KYC/lifecycle management, payment messaging, trade/supply chain/trade finance efficiencies, e-invoicing and financial institution resolution. It is envisaged that in time the LEI will be rolled out to the insurance and pension fund industries, as well as be implemented for investment funds.

The wide adoption of the LEI in South Africa will not only allow regulators to enhance their risk assessment and supervision capabilities for the entities domiciled in the country, but it will also help regulators to assess risks beyond the borders, given the relationship and branch information which the LEI reference data provide