

Knowledge Exchange

OALP Client Update

Olaniwun Ajayi LP

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THE 'LEGAL ENTITY IDENTIFIER' INITIATIVE

The Legal Entity Identifier (LEI), endorsed by the G20 (Heads of State and Government of the Group of Twenty), is an initiative of the international Financial Stability Board (FSB) designed to create a global reference data system that uniquely identifies every legal entity or structure, in any jurisdiction, that is party to a financial transaction. A global LEI system will provide long-term benefits to legal entities by clearly identifying their counterparties and improving internal risk management. The Legal Entity Identifier Code (the **LEI Code**) which is a twenty (20) digit alpha-numeric code was therefore designed to identify parties to financial transactions.

In furtherance of its objectives, the FSB in January 2013 established the Regulatory Oversight Committee (ROC), as a regulatory governance body to coordinate and oversee a worldwide framework of legal entity identification (the **Global LEI System**). The ROC is a group of over 60 public authorities (including the Nigerian Securities and Exchange Commission) from more than 40 countries.

In the past, regulators and financial institutions the world over have explored ways to overcome the fragmented system of firm identifiers and create a common global system of identification for financial institutions. The want of industry-wide standards for identifying and linking financial data to represent entities or instruments made it somewhat impossible for regulators to measure the risk attendant to the failure of parties in financial transactions. This need for a standardized identification system became

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more glaring after the failure of Lehman Brothers in 2008, when its counterparties struggled to assess their total exposures to the risk. It is for this reason that the FSB developed a global system for the accurate and unambiguous identification of legal entities engaged in financial transactions.

To assist in global allocation of LEIs, Local Operating Units (LOUs) sponsored by local regulators have been formed to assign and maintain LEIs to firms on a cost recovery basis. The Nigerian Securities and Exchange Commission (SEC) therefore endorsed the Central Securities Clearing System Plc. (CSCS) as its LOU to administer the LEI Code to Nigerian entities.

According to the Charter of the ROC, the Global LEI System can be used by:

- (i) authorities of any jurisdiction or financial sector to, assess systemic risk and maintain financial stability, conduct market surveillance and enforcement, supervise market participants, conduct resolution activities, prepare high quality financial data, and undertake other official functions; and
- (ii) the private sector to support improved risk management, increased operational efficiency, more accurate calculation of exposures, and other needs.

CHARACTERISTICS OF THE LEI CODE

The fundamental characteristics of the LEI Code are:

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- **Uniqueness:** A distinct LEI Code is assigned to each individual entity. Upon assignment to a legal entity, an LEI Code can belong to no other entity, even after such entity to which it was assigned ceases to exist.
- **Exclusivity:** a legal entity that has obtained an LEI Code cannot obtain another one. An entity may transfer the maintenance of its Code from one LOU to another; however, the Code remains unchanged.

ELIGIBILITY FOR THE LEI CODE

Any legal entity that enters into financial transactions will be eligible for the LEI Code. The ROC, using the parameters of the International Organisation for Standardisation (ISO17442:2012), defines legal entities to include (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, governmental organisations and supnationals), excluding natural persons. Participants engaged in financial transactions (including exchanges, utilities and registrars) may obtain the LEI Code as deemed necessary.

BENEFITS OF THE LEI SYSTEM

The Global LEI System promises to improve the effective regulation and monitoring of emerging risks in the securities market by enabling regulators and organisations to effectively measure and manage counterparty risk. Additionally, it will assist firms in strengthening the accuracy, integrity and aggregation of data across entities and

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subsidiaries; thus reducing counterparty risk and supporting enhanced data modelling and analysis.

The LEI will help the financial industry, regulators, and policymakers trace exposures and connections across the financial system. It also promises to generate efficiencies for financial companies in internal reporting, risk management, and in collecting, cleaning, and aggregating data. In addition, the LEI is expected to ease companies' regulatory reporting burdens by reducing overlap and duplication with respect to the multiple identifiers reporting firms must manage.

Furthermore, a global LEI system will lead to more precise and accurate regulatory reporting, as well as supporting the production of data for recovery and resolution planning. Other benefits of the system include:

- attracting foreign investors by providing access to information on Nigerian companies registered on the LEI portal;
- serving as a central repository for information that is frequently requested for by banks;
- facilitating the reconciliation of data on registered entities; and
- providing a globally unique identification number.

REGISTRATION FOR THE LEI CODE

Registrants are to complete an online registration form which can be accessed via the CSCS website. The information required for the registration is as follows:

- The official name of the entity;
- Address of the headquarters of the entity;
- Legal address of the entity;

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- Date the entity was first assigned;
- Date of last update;
- Date of expiry; and
- Reason for expiry.

There is a registration fee of ₦25,000 for the first registration which is renewable every year for an additional fee of ₦12,500 for each renewal. After registration, the CSCS will carry out validation on the entity to ensure avoidance of duplicates as well as to confirm the validity of the entity's details.

CONCLUSION

The LEI is an initiative that seeks to contribute to more transparent, fair and competitive transactions in the global securities market, and over just a few years its adoption across the globe has been commendable, with more than 300,000 LEIs issued to entities in 180 countries as of January 2015.

Both regulators and transacting entities can derive benefits from taking part in what promises to be a positive development in the global financial sector and it is recommended however, that for increased effectiveness, regulators in various jurisdictions should mandate its use in regulatory reporting, as universal adoption is necessary to bring effectiveness to reporting entities.

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