

KEY POINTS

- This survey was conducted to determine if the Legal Entity Identifier (LEI) system is accessible in developing countries.
- The LEI has been implemented globally, including among small companies in small developing countries.
- Of the respondents, 87% said an LEI was relatively easy to acquire and 65% said it was reasonably priced at \$75 or less.
- Global adoption of the LEI system would address two challenges: access to finance and transparency in the economy.

Legal Entity Identifier Accessibility: A Survey by the Trade Finance Program

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INTRODUCTION

The Global Legal Entity Identifier Foundation (GLEIF) has created an identification system that is transforming the way people do business, evaluate risk, and lend money. Global and harmonized, the Legal Entity Identifier (LEI) system was established in 2014 by the Group of Twenty (G20) in the wake of the financial crisis, with oversight provided by the Financial Stability Board.

The LEI is a unique, electronic, 20-digit standard identifier for legal entities, including financial institutions, major corporations, governments, and small and medium-sized enterprises (SMEs). Just like a passport or a car registration number, the LEI represents a common and recognizable code. Relevant reference data are easy to access, making it easier to identify legal entities and verify their status.

The power of the information linked to the LEI could be transformational. The LEI verifies who is who and who owns whom. In the future, it will also verify who owns what. The LEI can likewise serve as an anchor to ensure that other identifiers containing additional information can be secured. For example, the LEI and the Business Identification Number code are already mapped onto each other and provided by the GLEIF on its website. The LEI and other identifiers are also being mapped. By using the LEI, micro, small, and medium enterprises could have more access to finance, creating growth and jobs.

Full adoption of the LEI system would increase the transparency of the global economy, thwarting money laundering and terrorist financing. Global adoption would help banks conduct know-your-client (KYC) due diligence. It would also

- (i) mitigate the risk of correspondent bank relationships being cut (de-risking);
- (ii) increase access to finance for SMEs in emerging markets by easing the flow of reliable information about small companies; and
- (iii) promote the development of financial technology, blockchain, and related technologies, thereby reducing costs.

Without a unique and globally harmonized identifier, finding information about an SME in a sea of metadata would be difficult, if not impossible. The LEI makes this process workable and helps realize the potential of financial technology to make finance more accessible.

Figure 1: Survey Respondents per Country



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Source: ADB TFP Survey on LEI, March 2019.

LEI SURVEY BY ADB'S TRADE FINANCE PROGRAM

To help drive global adoption of the LEI system, ADB's Trade Finance Program (TFP) did a survey to demonstrate that both large and small companies in developing countries can acquire an LEI relatively easily and at reasonable cost. The TFP provides loans and guarantees (4,500 transactions in 2018, valued at \$6.2 billion) to banks to support trade.

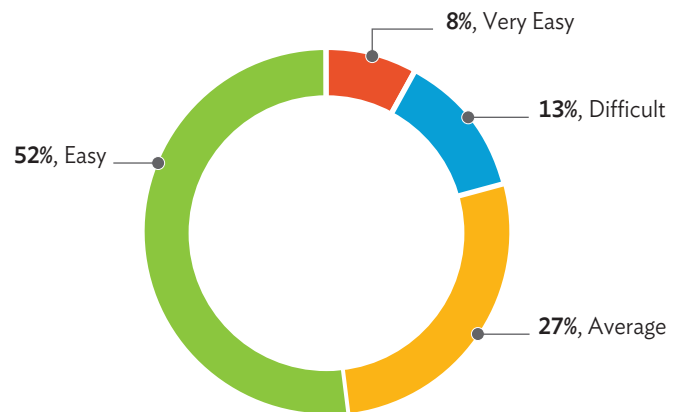
The survey—in the second half of 2018 and early 2019—covered companies, including SMEs, in a range of small and large developing countries in Asia. By leveraging ADB's TFP client base of commercial banks and by availing itself of the assistance of the GLEIF, the survey covered 66 legal entities, including 16 SMEs, in 10 developing countries. The legal entities were composed of 31 banks and 35 companies.

This survey focused exclusively on developing countries and targeted the participation of SMEs to determine the cost and ease of LEI adoption.

Figure 1 shows the number of respondents per country.

Of those surveyed, 87% rated the LEI registration process very easy, easy, or average. Figure 2 shows the responses (from both banks and companies) related to ease of LEI registration.

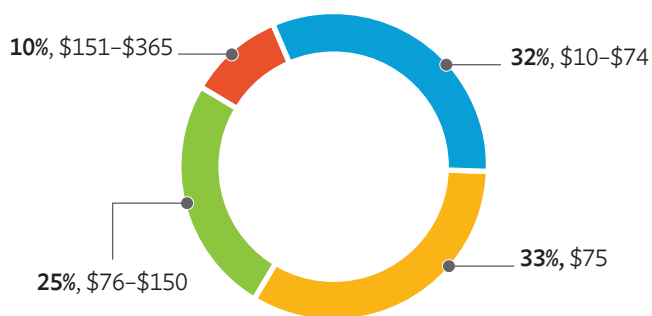
Figure 2: Ease of Acquiring a Legal Entity Identifier



Source: ADB TFP Survey on LEI, March 2019.

Of the entities surveyed, 65% had paid \$75 or less to acquire an LEI. Annual renewal fees were as low as \$5. Most of the survey respondents (77%) considered the LEI registration fees reasonable. Banks appear to bear the highest registration fees. Figure 3 summarizes the LEI registration fees paid by respondents.

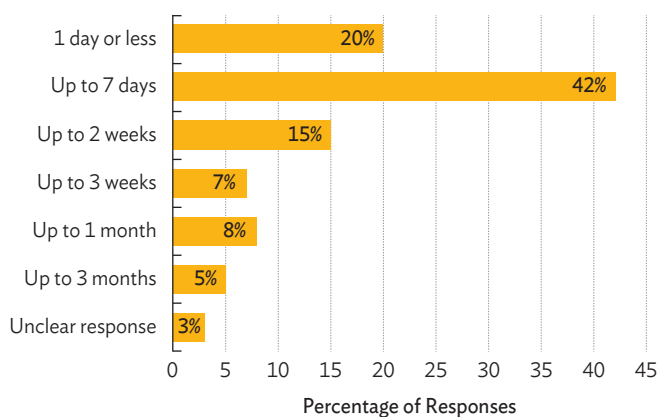
Figure 3: Legal Entity Identifier Registration Fee



Source: ADB TFP Survey on LEI, March 2019.

Of those surveyed, 62% had completed the process of acquiring an LEI within a week.

Figure 4: Duration of Registration for a Legal Entity Identifier



Source: ADB TFP Survey on LEI, March 2019.

STATUS OF LEI ADOPTION

As of the first quarter of 2019, 1.3 million companies in 224 jurisdictions had acquired an LEI.

India requires corporate borrowers with facilities worth \$700,000 or more to obtain an LEI through phased implementation. An LEI has been required for over-the-counter derivatives transaction reporting by all legal entities in India since 2017.

The LEI is also mandatory for European Union (EU) and non-EU legal entities involved in certain financial transactions such as derivatives.

MOVING FORWARD

Pricing. GLEIF is working on a program to scale up the LEI and adapt its operating model. As part of this program, it will explore ways to bring the cost down.

GLEIF accreditation of local operating units. GLEIF accredits (mostly private) local operating units to conduct due diligence and issue LEIs. An ongoing robust accreditation process to ensure that each LEI is backed by reliable information is critical to success.

Marketing. Knowledge and understanding of the LEI is not widespread, despite significant gains in the financial sector in Europe, India, and the United States. Feedback from respondents suggested a need for marketing and information campaigns to explain the benefits of an LEI. As part of a more effective marketing effort, the GLEIF website and other public information sources could be more user-friendly, less technical, and more geared to helping companies and SMEs understand the benefits of acquiring an LEI.

User-friendliness. Survey respondents said information about how to initiate the process of acquiring an LEI, including whom to contact, should be more accessible. These processes could also be explained more effectively.

Imperative to acquire an LEI. There may be limited incentive for SMEs to acquire LEIs without legislation requiring them to do so. This is changing, given that Society for Worldwide Interbank Financial Telecommunication (SWIFT) and the BIS Committee on Payments and Market Infrastructures are proposing that an LEI be required in all electronic remittances to combat financial crime in the banking system. As more LEIs are issued, momentum will build toward greater transparency and access to finance.

Global adoption. Global adoption of the LEI could be achieved by legislating a requirement for all importing and exporting companies in G20 countries to register. This might be considered an extension of the G20's original initiative creating the LEI in 2010. The International Chamber of Commerce has recommended that the G20 adopt legislation requiring LEIs for all trading companies.

The private sector can play a large role in LEI adoption by using the LEI in its daily business processes. Banks can also encourage clients to obtain an LEI.

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