

Legal Entity Identifier

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TRADING IN FINANCIAL INSTRUMENTS GLOBALLY? GET THE RIGHT ID

In a digitally advancing world where companies can conclude transactions virtually without any in-person interaction, fraudulent activities have undermined confidence in digital authenticity. How does an organisation trust that a party to a financial markets transaction located across the globe is who they say they are? The process of confirming a stakeholder's legal identity digitally has become an essential requirement and the Legal Entity

Identifier (LEI) has become a key that enables the determination of a person's identity for such financial market transactions.

The Legal Entity Identifier ("LEI") system was developed in 2012 following the global financial crisis of 2007-2008. The aim was to, inter alia, create transparency within the financial markets in order to prevent anti-money laundering and financial fraud.



What is an LEI?



An LEI number or code is a 20-character, alphanumeric code that is based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It is a G20- endorsed unique global identifier, to help identify legal entities on a globally accessible database.

Each LEI contains information about an entity's ownership structure and includes data such as the legal name of the entity, registration authority entity ID, legal jurisdiction, LEI registration date, entity status; contact details, parent and subsidiary company information.¹



Who can obtain an LEI?



Any entity that can independently enter into contracts including corporations, trusts, partnerships, government organisations, is eligible to register for an LEI. Natural persons cannot, however, obtain an LEI.

¹ The data is registered and regularly verified according to protocols and procedures established by a Regulatory Oversight Committee.

What LEIs are used for?

LEIs are used to identify legal entities (companies or government agencies) that participate in financial markets transactions on a globally accessible database.

Across the world, LEIs are now requested or required by various regulatory bodies. For example, the Directive 2014/65/EU commonly known as Markets in Financial Instruments Directive (MiFID) II rules, indicate that all clients of EU investment firms need to have an LEI. This has become known as the “no-LEI-no-TRADE” rule which prohibits EU firms from acting on the instructions of a client who does not have an LEI.

Similarly, in the USA, the LEI system has been adopted by many financial regulators in order to bring transparency to the capital markets. The CEA (Commodity Exchange Act, 2012) has required the LEI for reporting purposes since 2012; the Dodd-Frank Act requires LEI to be reported for certain transactions; the Commodity Futures Trading Commission (CFTC), National Association of Insurance Commissioners (NAIC) and SEC (Securities Exchange Commission) and Investment Advisors

Act also require LEIs for reporting purposes.

In South Africa, LEIs are used by, amongst others, Over-the-Counter (OTC) Derivatives providers to report transactions to their trade repository, and are also required in respect of Contract for Differences (CFDs), and Securities Financing Transactions Regulation (SFTR) reporting.

Accordingly, although it is currently not required in Ghana for domestic transactions, your organisation may require an LEI to conduct international financial markets transactions. For example, a Ghanaian company looking to buy or sell stocks, bonds, swaps in jurisdictions such as the U.S., U.K. or the EU would require an LEI.

Issuers of LEIs and Registration

Local Operating Units (“LOU”s) are organisations accredited and authorised by the Global Legal Entity Identifier Foundation (GLEIF) to issue LEIs. An LOU undertakes registration, renewal and other services, and may issue LEIs to legal entities in any jurisdiction for which it is accredited. There are about thirty nine (39) LOUs currently active worldwide that issue and maintain the identifiers and act as primary interfaces to the global directory. Examples of LOUs that can issue LEIs worldwide (including to Ghanaian companies) include Bloomberg Finance LP, the London Stock Exchange LEI Limited, Irish Stock Exchange (Euronext Dublin) and Nasdaq

CSD SE (Nasdaq LEI).

Information required to register an LEI includes name and legal form of the entity, country of foundation/incorporation, entity registration number and authority; name of authorised signatory; and details of ownership of the entity. A registration fee is payable. Once issued, an LEI is valid for a year and renewable on an annual basis thereafter.

Conclusion

In summary, do not be surprised if a business partner requires an LEI prior to concluding an international financial markets transaction with your company. It is the new normal to help identify who the other party really is.

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