

## Editorial

# Global Legal Entity Identifier (Foundation)

Wolfgang König

Stable financial markets, transparent financial transactions, sound risk management in banks – these are all objectives towards which we in the E-Finance Lab as well as in the House of Finance and in the SAFE research program (Sustainable Architecture for Finance in Europe) aim to make a profound contribution. Therefore, it will come as no surprise that we are involved in one of the currently most ambitious international regulatory projects seeking to achieve these goals: GLEIS, the “Global Legal Entity Identifier System” recently pushed forward by the inaugural meeting of its same-named foundation (GLEIF), which I was able to attend as the German member of the Supervisory Board, which consists of 16 persons.

GLEIS is a Financial Stability Board (FSB) initiative endorsed by the G20 leaders. It involves “Legal Entity Identifiers” (LEIs), namely the 20-digit alphanumeric codes which will be assigned to the contracting parties of financial transactions, such as banks, investment funds, or asset managers, in order to enable clear and unique identification. In this way, transac-

tions will become more transparent. In other words: the LEI System will lay the foundation to draw a global risk map that displays the transfer of risks between market actors, as identified by the LEIs.

Of course, particular large international organizations will have much more than just one LEI (otherwise we could not appropriately differentiate and aggregate systemic risks) – we expect thousands of legal entities that are to be provided LEIs in such houses. And the LEIs will be provided to the public free of property rights restrictions.

The benefit for regulatory authorities is obvious. The system will improve the detection of risks and, thus, ease supervisory tasks. Furthermore, it will simplify the collection, adjustment and transfer of data and therefore the contracting parties’ controlling and accounting activities, which, in turn, will naturally lower costs for the financial services industry.

The implementation of the GLEIS regarding the organizational form of a Public-Private Partner-



**Prof. Dr. Wolfgang König**  
Chairman of the E-Finance Lab  
Goethe University Frankfurt am Main

ship (PPP) has already begun. At present, there are about 300,000 LEIs in issuance, recognized by the Regulatory Oversight Committee (ROC), which includes the U.S. Commodity Futures Trading Commission, the Deutsche Bundesbank, and BaFin, Germany’s financial regulator. If you want to trade derivatives in the European Union, LEIs are already required.

The architecture of the inaugural GLEIS will be a federative one, comprising a Central Operating Unit (COU) that – aside of regular business and reporting obligations of the foundation – ties databases of prospectively several tens of world-wide distributed Local Operating Units (LOUs) together via common communication standards, common file formats, and common process specifications. Moreover, common auditing standards and, in the end, some common way of developing the business have to be applied. Of course, there are still profound challenges to overcome, in particular in terms of quality management.

Jean-Claude Trichet, the former president of the European Central Bank, was already very

early an emphatic supporter of these concepts and condensed in 2010 his thoughts in four short statements:

- Each one of us needs it.
- No one can do it for themselves.
- There can only be one of it; hence
- we must do it together.

And what are the benefits for research? Apparently, standardized data and standardized processes on global financial trade will provide researchers – and also practitioners in the field – new opportunities to analyze transactions and the transfer of risk. Scholars and management staff will be in a much better position to test and improve their assumptions, models, predictions, and warnings than without GLEIS. Hence, we consider our commitment to the GLEIF that is tasked with designing, implementing, and supervising the GLEIS not only as a contribution towards improving the regulation of financial markets but also towards advancing research on finance and IT.