

## KEY FINANCIAL SECRECY INDICATORS

### Key Financial Secrecy Indicator 10: Legal Entity Identifier

#### What is measured?

This indicator reviews the extent to which a jurisdiction requires domestic legal entities to use the Legal Entity Identifier (LEI). A global LEI system has been developed under the guidance of the Financial Stability Board (FSB) and provides a unique identification number for legal entities engaging in financial transactions. Sometimes labelled a global business card for legal entities, all legal entities incorporated in any country can apply for and use a LEI. The cost for obtaining a LEI has fallen and stands currently at about 90€ for first registrations, and about 60€ for annual renewal.<sup>1</sup>

The LEI is a 20-character, alpha-numeric code and all entities using a LEI can be searched on their website for free.<sup>2</sup> In essence, the information contained in any LEI record is currently limited to the name(s), legal jurisdiction and legal form of the entity, its address, as well as date and details of registration.<sup>3</sup> From May 2017 onwards additional information on the direct and ultimate accounting consolidating parents is required for each LEI record upon annual renewal.<sup>4</sup> The accuracy of any LEI record can be challenged online.

Some jurisdictions have required the use of a LEI in some segments of financial markets.<sup>5</sup> The global system for automatic exchange of tax information (Common Reporting Standard, CRS) allows jurisdictions to use the LEI as an identifier for the [reporting financial institutions](#).<sup>6</sup>

For a jurisdiction to obtain a zero secrecy score, it must require all legal entities created under its laws to use an annually updated LEI by 15 September 2019. Otherwise, a 100 points secrecy score is applied.

However, the 100 points secrecy score can also be reduced by 25 points for each specific purpose for which the jurisdiction requires by the same date annually updated LEIs:


- for some financial market operators and/or asset classes; and/or
- for the identification of reporting financial institutions (pursuant to the CRS Implementation Handbook, [CRS commentaries, section I, subpara A\(3\)](#)).<sup>7</sup>

# KFSI 10: LEGAL ENTITY IDENTIFIER

The Secrecy Scoring Matrix (Table 10.1 below) provides an overview of KFSI 10, and the full details of the assessment logic can be found in Table 10.3 underneath.

**Table 10.1: Secrecy Scoring Matrix KFSI 10**

<p style="text-align: center;"><b>Regulation</b></p> <p style="text-align: center;">[Secrecy Score: 100 points = fully secretive; 0 points= full transparency]</p>	<p style="text-align: center;"><b>Secrecy Score</b></p> <p style="text-align: center;">[Simple addition / Subtraction]</p>
<p><b><u>No mandatory and updated LEI for all companies</u></b></p> <p>The use of an annually updated Legal Entity Identifier (LEI) is not mandatory for all domestic companies</p>	<p style="text-align: center;">100 points</p>
<p><b><u>Mandatory and updated LEI for one type of operators/asset classes</u></b></p> <p>The use of an annually updated LEI is mandatory either for trading in "Over the Counter" (OTC) derivatives, or for financial market operators and/or asset classes beyond (OTC) derivatives. <b>Or</b></p> <p><b><u>Mandatory and updated LEI for two types of operators/asset classes</u></b> The use of an annually updated LEI is mandatory both for trading in "Over the Counter" (OTC) derivatives and for some financial market operators and/or asset classes beyond trading in OTC derivatives.</p>	<p style="text-align: center;">-25 points</p> <p style="text-align: center;"><b>Or</b></p> <p style="text-align: center;">-50 points</p>
<p><b><u>Mandatory and updated LEI for automatic exchange of tax information</u></b></p> <p>The use of an annually updated LEI is mandatory for the identification of reporting financial institutions (pursuant to the Common Reporting Standard (CRS), as referred to in the <a href="#">CRS commentaries, section I, subpara A (3)</a>)<sup>8</sup></p>	<p style="text-align: center;">-25 points</p>
<p><b><u>Mandatory and updated LEI for all companies</u></b></p> <p>The use of an annually updated Legal Entity Identifier (LEI) is mandatory for all domestic companies</p>	<p style="text-align: center;">0 points</p>

**All underlying data can be accessed freely in the  Financial Secrecy Index database.** To see the sources we are using for particular jurisdictions please consult the assessment logic in Table 4 at the end of

this document and search for the corresponding info IDs (**IDs 414, 415 and 420**) in the database report of the respective jurisdiction.

This indicator is largely derived from two sources. First, the GLEIF website has been reviewed, especially the page "Regulatory Use of the LEI"<sup>9</sup>, as well as the LEI ROC website which has an updated table of LEI progress updated as of June 30, 2019<sup>10</sup>. Second, the results of TJN-Survey 2019<sup>11</sup> and earlier have been taken into account.

### Why is this important?

In response to the global financial crisis, the LEI has been developed originally to increase transparency in financial markets and to "uniquely identify parties to financial transactions".<sup>12</sup> However, there are more reasons why the use of an updated and globally unified legal entity identifier is curtailing financial secrecy.

The crisis had evidenced flaws and failures in financial data systems, in risk assessment and mitigation as well as in fraud detection and prevention, all of which were exacerbated, if not caused, by the absence of a unique and public identification system of legal entities engaging in financial transactions. For example, the critical issue of derivatives reporting and aggregation has been hampered in the past by failures of automated systems to aggregate data correctly to a single financial institution because of different spellings or codings of that same financial institution. As a result, regulators may have incomplete or misleading information about the critical risk exposure of financial institution and might therefore fail to take appropriate actions. Therefore, the development and provision of a global LEI system has been conceived as a public good which provides collective benefits.<sup>13</sup>

In June 2012, the Financial Stability Board, an international body promoting financial stability, published a report 'A Global Legal Entity Identifier for Financial Markets'. This report was endorsed by the G20 at the Los Cabos Summit in June 2012.<sup>14</sup> A non-for-profit foundation (Global Legal Entity Identifier Foundation, GLEIF) and an oversight committee (Regulatory Oversight Committee, LEI ROC) were established to implement the global LEI system. Meanwhile, the scope of the LEI has been widened and it is open also to any legal entity that engages in financial transactions. Adhering to the Open Data Charter as of January 2016, the GLEIF is committed to providing data in open data format by default.<sup>15</sup> As a consequence, it can be "freely used, reused, and redistributed by anyone, anytime, anywhere", thus enabling it to play a role far beyond financial market regulation.

There are good reasons for mandating LEI usages beyond the financial markets. Legal entities are the vehicles of choice for large scale embezzlement, money laundering, tax evasion and other forms of corruption.<sup>16</sup> Many secrecy jurisdictions have specialised in fast and cheap production and dissolution of shell companies. Among those specialist offers feature

- [ready-made shelf companies](#)<sup>17</sup> including [nominee directors or shareholders](#),<sup>18</sup> which may allow backdating the existence of a company and misleading law enforcement;
- so-called [Series LLCs](#)<sup>19</sup> which enable the creation of dozens or even hundreds of separate legal entities at very low costs;
- tailored [private trust companies](#)<sup>20</sup> for the secretive administration of high net worth individuals' wealth;
- creation of companies only for a few days followed by them [being struck off the Register, and subsequently dissolved](#).<sup>21</sup>

These features of companies can make it very difficult for legitimate interests such as law enforcement, market regulators, Financial Intelligence Units, public procurers, clients, business partners, tax officials, civil society, journalists and all those in charge of undertaking anti-money laundering due diligence to understand the background, nature and network of legal entities.

One key obstacle in accessing relevant data is the lack of interconnectivity of existing data sets and records. Taken together, the information about a legal entity available on all public records worldwide may offer very important insights and reveal connections that could prove pivotal for the above mentioned legitimate interests. For example, a legal entity may be recorded in public corporate registers of several jurisdictions. However, the functions in which the same company is registered may differ. Often the company will be publicly registered in the jurisdiction of incorporation, but may be recorded as well in other jurisdictions for example if it is a shareholder or a director of a local company, or if it is bidding in public procurement tenders. In addition, not all jurisdictions require the same information to be recorded and/or made available online or on hard copy record. Some jurisdictions may require the publication of accounts or of beneficial ownership information, while other jurisdictions might publish only the name and business number, or a registered business address – possibly a mere letter box. And only some public registers deliver free of charge access to the corporate data, inhibiting further the access on information. Therefore, the interconnection of information in existing databases and public records is of paramount importance.<sup>22</sup>

While the interconnectivity of existing data records often fails because the data of company registers is not provided in open data format, another related problem consists of the lack of a unique global identifying number for each company. A unique and uniform number with established data verification procedures is an important condition for matching data records from different sources, because company names can be misspelled and might change over time. Similarly, if each jurisdiction provides its own identifier numbers e.g. through tax administrations or the business registries, these numbers are specific to that jurisdiction and will therefore not allow the linking of another jurisdiction's records on that same legal entity. Furthermore, if the data quality is not regularly checked and linked back to local registers, the data identifiers may soon be outdated or could be abused.

For tax purposes, the OECD has long been exploring introduction of a unique taxpayer reference number and has confirmed in the past the benefits of a unique taxpayer ID system.<sup>23</sup> However, because of taxpayer confidentiality these taxpayer IDs and identities are not routinely exchange across borders and, even if they are, they are not harmonised. The taxpayer ID from country A is of little use to country B if it does not match the ID country B had given the same legal entity. Furthermore, legal entities can be set up precisely to avoid paying taxes in other jurisdictions, including by avoiding local registration. Therefore, taxpayer IDs are not suitable to serve as a basis for universal matching of public domain data on corporate entities.

For the global automatic exchange of tax information pursuant to the OECD's Common Reporting Standard, the reporting financial institutions need to be identified uniquely to efficiently collect, administer and exchange data with partner jurisdictions. The LEI is explicitly mentioned as one possible identifying number for reporting financial institutions. The respective passage in the Commentaries to the CRS (Subparagraph A (3)) reads as follows:

The Reporting Financial Institution must report its name and identifying number (if any). Identifying information on the Reporting Financial Institution is intended to allow Participating Jurisdictions to easily identify the source of the information reported and subsequently exchanged in order to, e.g. follow-up on an error that may have led to incorrect or incomplete information reporting. The "identifying number" of a Reporting Financial Institution is the number assigned to a Reporting Financial Institution for identification purposes. Normally this number is assigned to the Reporting Financial Institution by its jurisdiction of residence or location, but it could also be assigned globally. Examples of identifying numbers include a TIN,

business/company registration code/number, Global Legal Entity Identifier (LEI),<sup>6</sup> or Global Intermediary Identification Number (GIIN).<sup>7</sup> Participating Jurisdictions are expected to provide their Reporting Financial Institutions with guidance with respect to any identifying number to be reported. If no such number is assigned to the Reporting Financial Institution, then only the name and address of the Reporting Financial Institution are required to be reported.<sup>24</sup>

**All underlying data can be accessed freely in the  Financial Secrecy Index database (IDs 414, 415 and 420).**

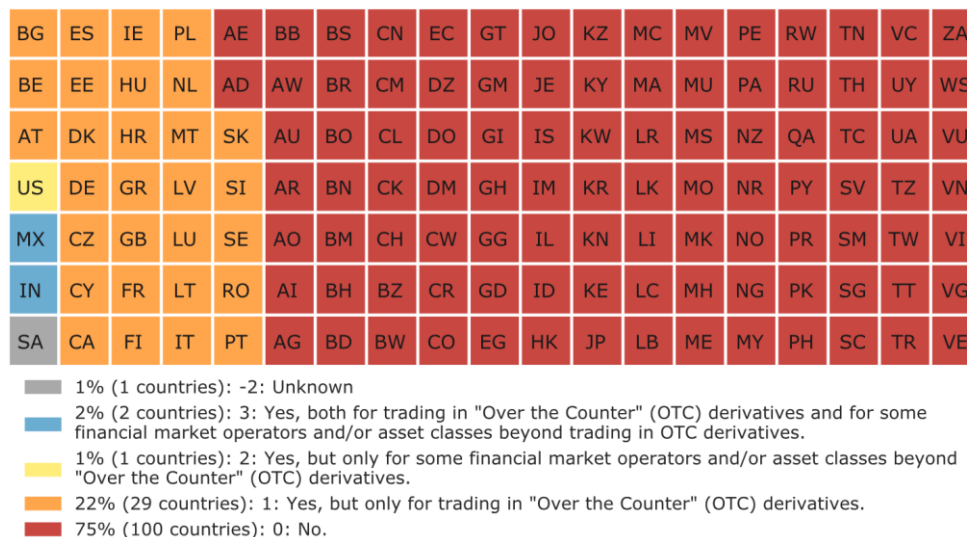
## Results Overview

**Figure 10.1: Legal Entity Identifier - Secrecy Score Overview**



**Figure 10.2: Legal Entity Identifier – Overview**

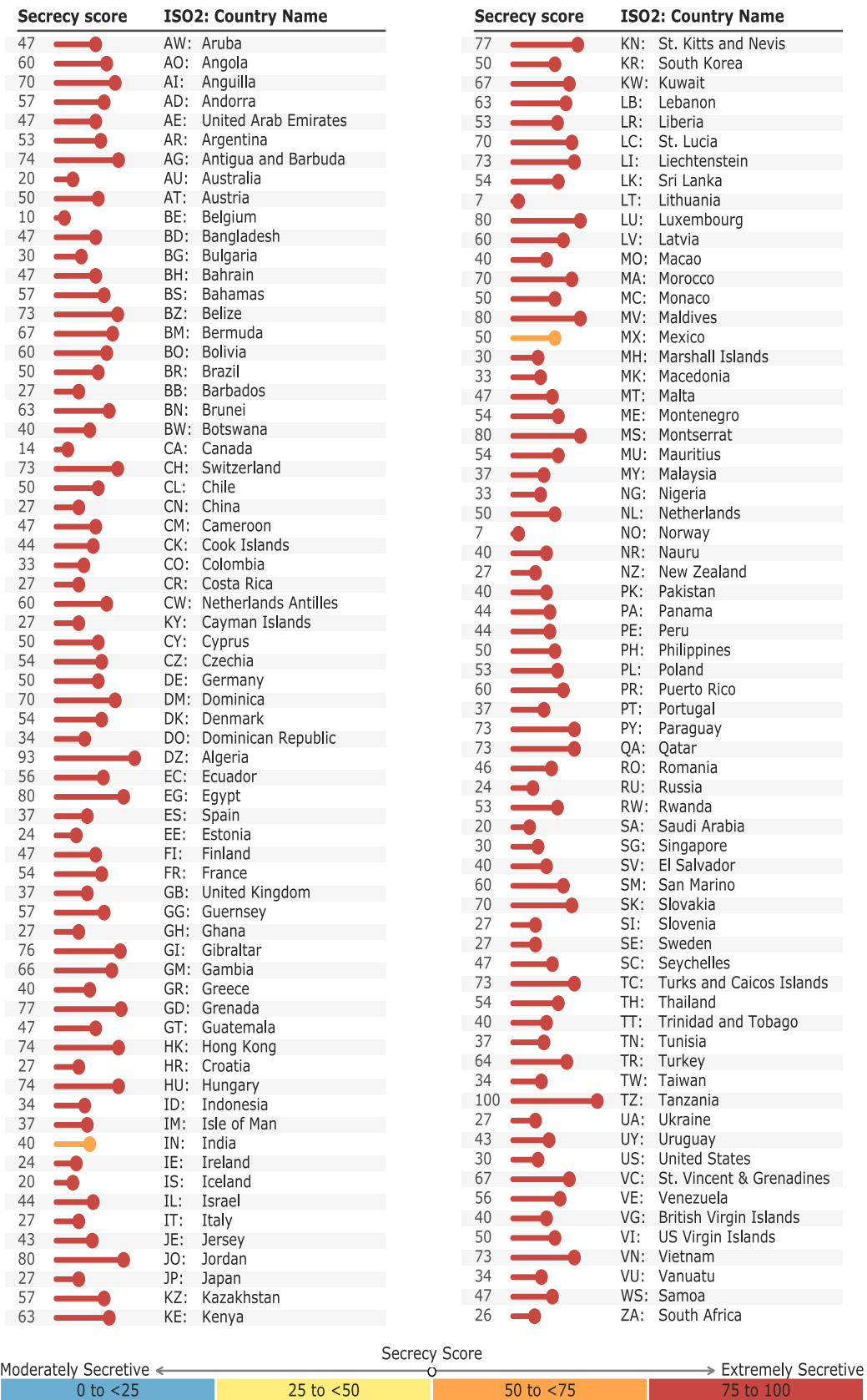
**[ID 415] Is the use of an annually updated Legal Entity Identifier mandatory for some financial market operators and/or asset classes?**



\*note: Given that currently there is no jurisdiction in which LEI is mandatory for all domestic companies, this option is not included in Figure 10.2.

# KFSI 10: LEGAL ENTITY IDENTIFIER

**Table 10.2: Legal Entity Identifier Secrecy Scores**





**Table 10.3: Assessment Logic**

Info_ID	Text_Info_ID	Answers (Codes applicable for all questions: -2: Unknown; -3: Not Applicable)	Valuation Secrecy Score
414	Is the use of an annually updated Legal Entity Identifier (LEI, developed under the guidance of the Financial Stability Board, FSB) mandatory for all companies?	YN	If Y: 0; otherwise 100; All of following scores below are added/subtracted. If sum is above 100 = 100, below 0 = 0.
415	Is the use of an annually updated Legal Entity Identifier (LEI, developed under the guidance of the Financial Stability Board, FSB) mandatory for some financial market operators and/or asset classes?	0: No; 1: Yes, but only for trading in "Over the Counter" (OTC) derivatives; 2: Yes, but only for some financial market operators and/or asset classes beyond "Over the Counter" (OTC) derivatives; 3: Yes, both for trading in "Over the Counter" (OTC) derivatives and for some financial market operators and/or asset classes beyond trading in OTC derivatives.	If answer 1 or 2: -25; 3: -50.
420	Is the use of an annually updated LEI mandatory for identification of reporting financial institutions (pursuant to the Common Reporting Standard (CRS), as referred to in the CRS commentaries, page 97, section I, subpara A (3))?	YN	If Y: -25.

## List of References

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- Financial Stability Board, *A Global Legal Entity Identifier for Financial Markets*, 2012 <[https://www.leiroc.org/publications/gls/roc\\_20120608.pdf](https://www.leiroc.org/publications/gls/roc_20120608.pdf)> [accessed 30 August 2017]
- O'Donovan, James, Hannes F. Wagner, and Stefan Zeume, 'The Value of Offshore Secrets Evidence from the Panama Papers', *SSRN Electronic Journal*, 2016 <<https://www.ssrn.com/abstract=2771095>> [accessed 18 December 2018]
- OECD, *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*, 2001 <<http://www.oecd.org/daf/ca/43703185.pdf>> [accessed 27 January 2020]
- , *Standard for Automatic Exchange of Financial Information in Tax Matters. The CRS Implementation Handbook*, 2014 <<https://www.oecd.org/tax/exchange-of-tax-information/implementation-handbook-standard-for-automatic-exchange-of-financial-information-in-tax-matters.pdf>> [accessed 22 January 2020]
- , 'Tax Administration in OECD and Selected Non OECD Countries: Comparative Information Series (2008)', 2009 <<https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/comparative/CIS-2008.pdf>> [accessed 29 January 2020]
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<sup>1</sup> See for examples prices here: [https://www.lei.direct/fileadmin/user\\_upload/LEI-direct-Price-list-LEI.pdf](https://www.lei.direct/fileadmin/user_upload/LEI-direct-Price-list-LEI.pdf); 22.1.2020.

<sup>2</sup> <https://search.gleif.org/#/search/>; 22.1.2020.

<sup>3</sup> <https://www.gleif.org>; 22.1.2020.

<sup>4</sup> The data required to be provided on accounting consolidating parents for parents without a LEI is limited to legal name, legal address, headquarter address and business register information (identification of register and registry number). The concatenated files are available for download free of charge on the GLEIF website, in <https://www.gleif.org/en/lei-data/gleif-concatenated-file>; 22.1.2020

See also <https://www.gleif.org/en/about-lei/common-data-file-format/parent-reference-data-format/>; 22.1.2020

<sup>5</sup> <https://www.gleif.org/en/about-lei/regulatory-use-of-the-lei>; 22.1.2020.

<sup>6</sup> OECD, *Standard for Automatic Exchange of Financial Information in Tax Matters. The CRS Implementation Handbook*, 2014, p.97

<<https://www.oecd.org/tax/exchange-of-tax-information/implementation-handbook-standard-for-automatic-exchange-of-financial-information-in-tax-matters.pdf>> [accessed 22 January 2020].

<sup>7</sup> Ibid. p.97.

<sup>8</sup> Ibid. p.97.

<sup>9</sup> While this website provides for a list of mandatory regulatory uses, it does not specify if these include a requirement to annually update the LEI. Therefore, those regulations of jurisdictions which were classified as having a mandatory LEI requirement were analysed in depth.

See <https://www.gleif.org/en/about-lei/regulatory-use-of-the-lei>; 22.1.2020.

<sup>10</sup> An updated version of the table as of 30 June 2019 is accessible in:

<https://www.leiroc.org/lei/uses.htm>; 22.1.2020

<sup>11</sup> [https://www.financialsecrecyindex.com/PDF/FSI2020\\_Questionnaire-MOF-NAO.xlsx](https://www.financialsecrecyindex.com/PDF/FSI2020_Questionnaire-MOF-NAO.xlsx); 22.12.2019.

<sup>12</sup> Financial Stability Board, *A Global Legal Entity Identifier for Financial Markets*, 2012, 1 <[https://www.leiroc.org/publications/gls/roc\\_20120608.pdf](https://www.leiroc.org/publications/gls/roc_20120608.pdf)> [accessed 30 August 2017].

<sup>13</sup> Financial Stability Board, *A Global Legal Entity Identifier for Financial Markets*, 2.

<sup>14</sup> <http://www.fsb.org/what-we-do/policy-development/additional-policy-areas/legalentityidentifier/>; 22.1.2020.

<sup>15</sup> <https://www.gleif.org/en/about/open-data>; 22.1.2020.

<sup>16</sup> See for example: OECD, *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*, 2001 <<http://www.oecd.org/daf/ca/43703185.pdf>> [accessed 27 January 2020]; Emile Van der Does de Willebois and others, *The Puppet Masters. How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*, 2011

<<https://star.worldbank.org/sites/star/files/puppetmastersv1.pdf>> [accessed 27 January 2020]; James O'Donovan, Hannes F. Wagner and Stefan Zeume, 'The Value of Offshore Secrets Evidence from the Panama Papers', *SSRN Electronic Journal*, 2016 <<https://www.ssrn.com/abstract=2771095>> [accessed 18 December 2018].

<sup>17</sup> <https://companiesinc.com/aged-shelf-corporations/>; 22.1.2020.

<sup>18</sup> Bastian Brinkmann, Obermaier, Frederik and Bastian Obermayer, 'The Secret World Of Sham Directors', *Süddeutsche.De* (2016) <<http://panamapapers.sueddeutsche.de/articles/5718f882a1bb8d3c3495bcc7/>> [accessed 22 August 2017].

<sup>19</sup> <https://ct.wolterskluwer.com/resource-center/articles/series-llcs-wise-option-or-risky-strategy>; 22.8.2017.

<sup>20</sup> <https://www.careyolsen.com/briefings/cayman-islands-private-trust-companies>; 22.8.2017.

<sup>21</sup> <https://www.bedellcristin.com/insights/briefings/striking-off-dissolution-and-restoration-under-the-bvi-business-companies-act-2004/>; 22.1.2020.

<sup>22</sup> For a list of more than 700 business registers on the globe, please visit: <https://www.gleif.org/en/about-lei/gleif-registration-authorities-list>; 22.1.2020.

<sup>23</sup> OECD, 'Tax Administration in OECD and Selected Non OECD Countries: Comparative Information Series (2008)', 2009, 154–55 <<https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/comparative/CIS-2008.pdf>> [accessed 29 January 2020].

<sup>24</sup> See: OECD, *Standard for Automatic Exchange of Financial Information in Tax Matters. The CRS Implementation Handbook*, 2014, 97  
<<https://www.oecd.org/tax/exchange-of-tax-information/implementation-handbook-standard-for-automatic-exchange-of-financial-information-in-tax-matters.pdf>> [accessed 22 January 2020], FN 6 and 7, CRS Commentaries.