Legal entity identifiers

General Features

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Entities engaging in financial transactions from 3 January 2018 will need a new identification code as part of enhanced global transparency measures.

As part of the global drive towards transparency, a new identification code for legal entities has been introduced. This is a new legal requirement on *legal entities* engaging in a *relevant financial transaction* and, consequently, readers may increasingly see their clients being asked by brokers and portfolio managers to provide their Legal Entity Identifier (LEI).

An LEI is a 20-digit alpha-numeric code which allows entities involved in financial transactions to be identified. This is a global transparency measure endorsed by the G20.

From 3 January 2018, *legal entities* engaging in a *relevant financial transaction* will need an LEI in order to make such a transaction.

Given the imminent arrival of the new regime, there is a surprising lack of accessible guidance about relevant definitions. We know for example that the term *legal entity* includes all companies, charities and trusts (excluding bare trusts) but usually excludes natural persons (individuals). We have not, however, at the time of writing seen definitive guidance on the application of the rules to partnerships (which may be general, limited or limited liability partnerships), or whether personal representatives acting for an estate are within the scope.

At the global level, guidance suggests partnerships are in scope and LEIs have been issued to partnerships based in the UK. This is consistent with the original goal of the scheme which is to operate as widely as possible. However, English general partnerships do not comfortably sit within the definition of *legal entities* for LEI purposes as '*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'.

Advisers of relevant partnerships (other than limited liability partnerships or limited partnerships, which do have legal personality), and relevant estates, may wish to ensure that such clients have sought appropriate advice from their broker.

The term *relevant financial transaction* includes buying or selling listed shares, bonds and collective investment schemes. Website commentaries suggest that transactions in private company shares do not constitute relevant financial transactions but again there is an absence of reassuringly clear guidance.

Entities with existing portfolio managers may already have been contacted by them to recommend registration. This is because investment firms subject to the *Markets in Financial Instruments Directive II* (MiFID II) regulations will not be able to transact on behalf of client entities who should, but do not, have an LEI.

The responsibility for obtaining an LEI sits with the entity. However many entities are likely to be unaware of the requirement for an LEI if they are not regularly carrying out financial transactions. For example, a trust or company with a longstanding, static share portfolio held directly may not be aware of the requirement until they decide to sell or acquire shares on or after 3 January 2018 and discover they will need an LEI before any transactions can be carried out. Readers may therefore wish to consider in advance whether an LEI is likely to be needed for a time sensitive transaction. In many cases, the actual registration is likely to be dealt with by the investment firm handling the transaction.

An LEI can be obtained from the London Stock Exchange. The LEI has to be renewed annually and there are fees for registration and renewal. For registrations handled via the London Stock Exchange, these are currently £115 plus VAT for initial allocation of an LEI number and £70 plus VAT for annual maintenance. A searchable database of LEIs already issued can be found on the GLEIF website.