

Integrating LEIs into MDM Strategy

Implementing Legal Entity Identifiers will drive significant change to financial processes and systems. This white paper answers some questions that many firms need to ask as they seek to incorporate the LEI into their overall master data management strategy. A well-defined and comprehensive approach will deliver more consistent results while averting risk throughout implementation.

A center piece of the Dodd-Frank financial reform legislation of 2010 is the establishment of a single, universal Legal Entity Identifier (LEI) for every organization or firm involved in a financial transaction. Implementation of the LEI is being carried out at the international level by the Financial Stability Board and its use has been mandated for all swap transactions by mid-2012 (DTCC, 2012). Eventually it will be employed to identify the parties involved in financial transactions of every asset class (SIFMA, 2012).

10 Questions and Answers

The prospect of an industry standard identifier has enormous implications for every firm's Master Data Management Strategy. Here are answers to ten questions you may have about the Legal Entity Identifier and MDM strategy of your firm.

Q1. We already have Employer Identification Numbers (EINs) for all of our clients and vendors. Why do we need the LEI?

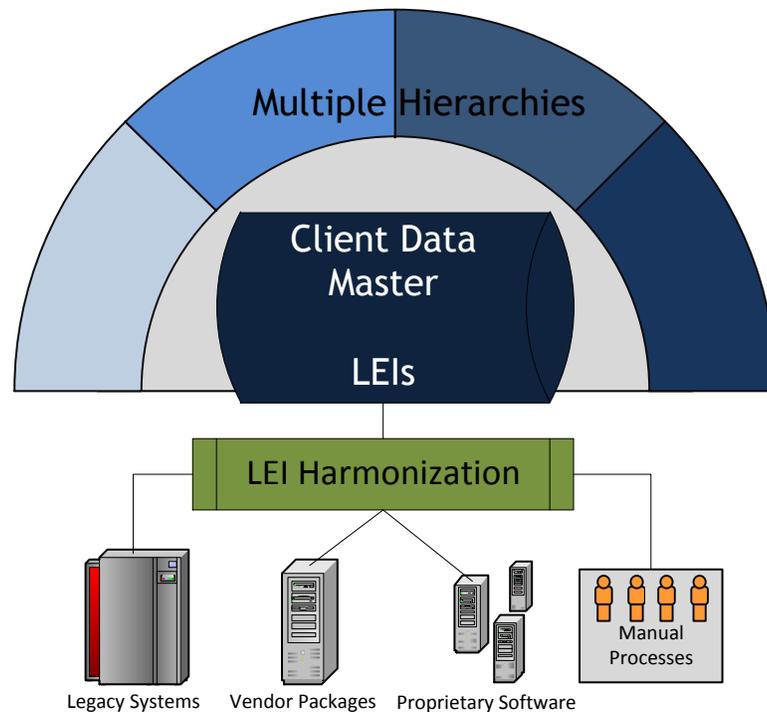
A: While a every legal entity that conducts business in the United States needs an EIN, the rules which govern the assignment of EINs serve the needs of the Internal Revenue Service – and were never intended to serve as the basis for an effective MDM strategy. EINs identify the entity that files a tax return or reports payments to the IRS – which in the case of a subsidiary is likely to be the parent company. In addition, the EIN is not stable – when there is a significant change in control, a new EIN is issued, although the former EIN is never “retired”, as it would be used for tax reporting against prior years. As a result, it's possible for many entities to have the same EIN and for a single entity to have multiple EINs.

Q2. Can I use the LEI as my Client Data Master?

A: The LEI can certainly be used to uniquely and permanently identify any corporation with which you exchange funds. However, its coverage will probably not be broad enough to entirely replace your CDM. For starters, defunct entities will not have LEIs, which will cause problems with historical reporting. In addition, LEIs will be not be required for individuals, personal trusts and sole proprietorships and simple partnerships unless they are large enough to pose “systemic risk”. Finally, sophisticated CDMs allow for multiple clients (different divisions or locations) for the same Legal Entity. Since these sub-entities will not have their own LEIs, the LEI will not always be unique for a specific customer or counter party.

*LEIs are
different than
EINs*

*LEIs cannot
replace a
Client Master*



Integrating LEIs into MDM Strategy

LEIs will still require enrichment for Client Hierarchies

Q3. What information can I get for “free” with the LEI?

A: At a minimum, the basic LEI will include these data points: the LEI (a 20 character random key) as well as the exact legal name; headquarters address; address of legal formation, date of the first LEI Assignment, Date of last update, and expiration date, if applicable (FSB LEI Expert Group, 2012). While the ISO standard for the LEI calls for the inclusion of the Parent and Ultimate Parent, this will not be mandatory (SIFMA, 2012). Data vendors can be expected to provide a full range of enriched data, such as address, industry codes, business data, product codes and alternate identifiers such as DUNS, SEDOL, CUSIP, Tickers, and Tax ID (Kingland Systems, 2011).

Q4. What about foreign entities – will they have an LEI?

A: Implementation of the LEI is being overseen by the Financial Stability Board a global organization that includes national authorities responsible for financial stability in significant international financial centers to develop and promote the implementation of effective financial regulatory policies. In due time, all major banking institutions will need to identify the entities engaged in significant financial transactions by LEI.

Q5. What is the value of using the LEI?

A: The biggest value of the LEI is that it will allow you to get an enterprise wide view of your relationships with any specific organization. Once you have a LEI, you will be able to enrich your view of that organization with vendor supplied information. Since the LEI is a durable reference point, maintaining that enriched view will be much simpler.

Adding LEIs to independent systems simplifies MDM

There will also be operational benefits such as a reduction in trade breaks caused by misidentification of counterparties.

Q6. We are in the planning stage of a MDM effort. How will the LEI impact its implementation?

A: By adding the LEI to each of your independent client data systems, you will be able to simplify the process of creating and maintaining a consolidated Client Data Master. While there will be some coverage gaps, initially, these will greatly diminish over time – greatly simplifying the consolidation effort.

Q7. How can we use the LEI to aggregate data to the *ultimate parents* of my clients / counterparties?

A: While the ISO standard for the LEI include both the LEI of the *parent* and the *ultimate parent* – these will not be mandatory. While we can expect that data vendors will offer products that fill this void, it needs to be recognized that there are some limitations to the usefulness of parent information. The corporate hierarchy specified by the ISO standard is based on pure ownership – a concept that may not fit your enterprise's view of the *ultimate parent*. Take the example of a real estate company holding company that own buildings that your organization funds or provides services to. In most cases, these buildings are separately incorporated – and each will have its own LEI. While they may have been built and managed by the real estate holding company, they are likely to be directly owned by various REITs, in which the real estate company has only a minority interest. Thus, the REIT would be both the *parent* and *ultimate parent* of the building – and the tie to the real estate company would not be apparent.

Q8. If the *parent* specified by the LEI is not really the functional parent, what is?

A: The answer depends on the nature of the relationships that your company has with a particular legal entity and the role that your end users have in those relationships. Let's go back to the example of the commercial building managed by a real estate holding company and owned by a REIT that was established by the same holding company. If your company sells services to that building, you are probably dealing with employees of the management arm of the real estate holding company – and your sales management would want to aggregate sales across all the buildings managed by that real estate company – regardless of who actually owned the buildings. At the same time, since the products and services are being sold to the buildings, and there is typically no recourse to the LLC's owners, you would want to assess credit risk by building. On the other hand, if your company has financed the building, while your credit risk might still stop at the building, your sales force may want to see revenue aggregated to the REIT or even beyond the REIT level to include all buildings owned by all REITs sponsored by that real estate company.

What this boils down to is that legal ownership is just one of many different relationships that exist between legal entities. Your MDM strategy needs the flexibility to represent a range of these relationships so that your users can aggregate data against the *ultimate parent* that serves their business needs.

Organizations will still require multiple client hierarchies.

Q9. Who can provide these different *ultimate parents* for us?

A: Most complex organizations will need their data stewards to work with their end users to define their client hierarchy requirements as well as to fine tune the rules for defining these relationships. Ideally these rules will be based on data attributes that can be gathered in the process of onboarding or servicing the client – or can be obtained from outside sources. Even so, there will also need to be exception procedures.

Q10. We see the value in using the LEI to our overall Master Data Management strategy. How do we get started?

A: That depends on where you are with implementing a MDM strategy for counter-party data. The very first step is to tie every client/counter party relationship to that organization's actual legal entity and associate to that legal entity record any attributes that are can be reliably used to locate the LEI. Next is to establish Data Governance over those Legal Entity records, so that you have controls in place for when records are created, modified or ultimately removed from active use. With that done, you can start to define the hierarchies that will be needed and the rules for determining parentage within those hierarchies.

Conclusion

In summary, while the LEI will not replace your need to manage client and counter party data, it still promises to be a very useful aid to your overall MDM effort. In the same way that it allows financial regulators to aggregate data from different institutions, it allows companies a way to aggregate data from across their business silos. As part of your MDM strategy, it will help you glue the pieces together. To get the greatest value, though, you still need to work with your business partners to understand how they view their entities and embody that understanding within your data governance policies.

About the Author



Duff Bailey is Practice Director for Master Data Management and Enterprise Integration for Actionable Strategies. Throughout his career, he has lead engagements at top tier firms in Finance, Media and Telecommunications – where he has been recognized for his ability to deliver, on schedule, high quality cross enterprise data solutions that manage risks, control cost and enhance revenue. Recent clients include BNY Mellon, Morgan Stanley, ADP, Bank of America, JPMorgan and Brookfield Properties.

Duff is active in the Project Management Institute and is currently President of the Westchester Chapter of PMI. He is also a contributor to the Cutter IT Journal and author of numerous articles on Project Management and Business / Technology alignment.

Works Cited

DTCC. (2012, February 10). *Legal Entity Identifier (LEI)*. Retrieved March 14, 2012, from [www.dtcc.com: http://www.dtcc.com/products/dataservices/lei.php](http://www.dtcc.com/products/dataservices/lei.php)

FSB LEI Expert Group; (2012, March 7). *Technical features of the Legal Entity Identifier (LEI)*. Retrieved March 14, 2012, from [www.financialstabilityboard.org: http://www.financialstabilityboard.org/publications/r_120307.pdf](http://www.financialstabilityboard.org/publications/r_120307.pdf)

Kingland Systems. (2011, September 19). *Kingland Continues Master Data Management (MDM) Innovation* . Retrieved March 31, 2012, from Business Wire: <http://www.businesswire.com/news/home/20110919006060/en/Kingland-Continues-Master-Data-Management-MDM-%C2%A0Innovation>

SIFMA. (2012, January 31). *Legal Entity Identifier (LEI) Project Scope & Preliminary Implementation Plan*. Retrieved March 14, 2012, from www.sifma.org: http://www.sifma.org/uploadedfiles/issues/technology_and_operations/legal_entity_identifier/lei-preliminary-scope-plan.pdf

Trade Associations. (2011, May). *Requirements for a Global Legal Entity Identifier (LEI) Solution*. Retrieved March 14, 2012, from www.gfma.com: http://www.gfma.org/uploadedfiles/initiatives/legal_entity_identifier_%28lei%29/requirementsforagloballeisolution.pdf