

RBI introduces mandatory LEI from 1 October 2022

RBI has recently made it mandatory for AD Category – I banks to obtain the legal entity identifier (LEI) number from the resident entities (non-individuals) undertaking capital or current account transactions of INR 50 crores and above (per transaction) under FEMA. Furnishing of the LEI would be effective from 1 October 2022. However, furnishing of LEI voluntarily before 1 October 2022 is appreciated. Once an entity obtains an LEI number, it must be reported in all transactions of that entity, irrespective of transaction size.

What is LEI? LEI is a 20-character, alpha-numeric code based on the ISO 17442 standard. LEI is used to uniquely identify parties to financial transactions worldwide to improve the quality and accuracy of financial data systems. Each LEI contains information about an entity's ownership structure (who is who? who owns whom?) thus enhancing transparency in the global marketplace.

Earlier, RBI introduced LEI in a phased manner for participants in the over-the-counter (OTC) derivative, non-derivative markets, large corporate borrowers and large value transactions in centralised payment systems.

What AD Category – I banks need to do? AD Category-I banks shall ensure that they have the required systems in place to capture the LEI information. Once the entity furnishes the LEI number, the same needs to be validated by the bank against the global LEI database available on the Global Legal Entity Identifier Foundation (GLEIF) website.

Global LEI Foundation: GLEIF is the body tasked to support the implementation and use of LEI. The publicly available LEI data pool is a unique key to standardised information on legal entities globally. The data is registered and regularly verified according to protocols and procedures established by the Regulatory Oversight Committee.

Who is the LEI issuer in India? Legal Entity Identifier India Ltd. (LEIL) is the body accredited by GLEIF and recognised by RBI for the issue of LEI in India.

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NEFT65551DCFB1E41E6ACBD1B5D89F01329.PDF>

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Therefore

The LEI obtained in their respective countries by the entities engaging in financial transactions get included in the Global LEI Index. Such inclusion ensures that each business has a unique worldwide identity. Business entities worldwide know the ownership structure of other entities with whom they do business and are aware of the inherent risks involved. Also, SMEs can now get listed on a global platform, which otherwise lacked robust business credentials. Making the LEI reporting mandatory for India will widen financial inclusion.