

Legal Entity Identifier (LEI) for Cross Border Transactions and its Impact

Snapshot

Legal Entity Identifier (LEI) is a globally recognized identification number which is being mandated by the Reserve Bank of India very rigorously on a number of both derivative and non-derivative transactions including borrowings by an entity in India.

The origins of LEI lie in the aftermath of the global financial crisis of 2008 which affected not only corporations but also sovereign debt crisis for countries such as Greece and Iceland.

A brief background on the ever-increasing list of transactions mandated on the nature /limit of transactions mandated to avail the LEI is being explained in the note.

Background of LEI

In 2011, the Group of Twenty (G20) sought assistance of Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system to provide recommendations for a global Legal Entity Identifier (LEI) and a supporting governance structure.

Thereafter in June 2014, FSB established, Global Legal Entity Identifier Foundation (GLEIF), a not-for-profit organization created to support the implementation and use of the Legal Entity Identifier (LEI) with its headquarters in Basel, Switzerland.

In line with the developments overseas, the Reserve Bank of India (RBI) initiated the introduction of LEI in a phased manner, which is represented in the below table:

Date of RBI Circular / Notification	Nature of Transactions	Applicable to Whom and Criteria
June 01, 2017	Over the Counter (OTC) markets for Rupee Interest Rate derivatives, foreign currency derivatives and credit derivatives in India.	All entities governed by RBI / IRDAI / SEBI / PFRDA and corporates having net-worth of 1,000 crores and above (with phased implementation for lower net-worth limits).
November 02, 2017	Bank Borrowings.	Initially for borrowers having exposure to banks above INR 1,000 crores and above (with phased implementation for lower borrowing limits).
November 29, 2018	Non-derivative markets (which includes Government securities markets, money markets and non-derivative forex markets) and Bank Borrowings.	All the participants having net-worth of 1,000 crores and above (with phased implementation for lower net-worth limits).
December 10, 2021	Capital / Current Account transactions covered under FEMA, 1999.	All Resident Entities (other than individuals) with transaction size of INR 50 crores or more (per transaction).

What is Legal Entity Identifier (LEI)?

The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO).

It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including over the counter (OTC) derivative, non-derivative markets, large corporate borrowers and large value transactions.

Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply stated, the publicly available LEI data pool can be regarded as a global directory, which enhances transparency (commercial and financial) and in the global marketplace and maintained in the global LEI database available on the website of the Global Legal Entity Identifier Foundation (GLEIF).

Purpose of LEI

The global LEI system (GLEIS) has been set up by regulatory authorities [including G20 and the Financial Stability Board (FSB)] to address the global financial crisis which shook the world in 2008.

The LEI is designed to enable the identification and linking of parties to financial transactions in order to manage counterparty risk.

Its goal is to measure and monitor systemic risk and support cost-effective compliance through regulatory reporting requirements.

Whom it Impacts!

All Resident entities (including LLP / Partnership Firm) are required to obtain an LEI in order to carry out any current account transaction of INR 50 crore or above (per transaction) (for e.g., Export, Import, Dividend to Non-Residents etc.) or capital account transaction of INR 50 crore or above (per transaction) (for e.g., equity investment from Non-Resident or availing ECB from Non-Resident etc.).

The LEI is required to be obtained by all the applicable entities prior to October 1, 2022.

AD Banks have already started demanding LEI number to be quoted for various foreign exchange transactions (even below the threshold level of INR 50 Cr.) and is recommended for entities to apply for and avail the LEI at the earliest to avoid disruptions in trade / capital account transactions.

Key Points

- Legal Entity Identifier India Limited, a subsidiary of the Clearing Corporation of India Ltd. (CCIL) has been designated to issue globally compatible Legal Entity Identifiers (LEIs) in India.
- An LEI is valid for one year from the date of issuance/last renewal date. It shall be the duty of the entity to apply for renewal of LEI before expiry of the validity of the LEI. The status of your LEI will change to 'LAPSED' on the next renewal date.
- After receipt / upload of documents and payment, it takes generally 3 to 5 working days to issue an LEI.
- The Indian entity can view LEI of their foreign parent company or foreign group company on <https://www.gleif.org/en/>, in case they have obtained the LEI.

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For further analysis and discussion, you may please reach out to us.

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