

WM Datenservice on the Opportunities of the LEI in Sanctions Screening

Introducing WM Datenservice

[WM Datenservice](#) provides financial expertise with data solutions, integrated data and information along the entire process chain of securities. WM Datenservice offers sanctions services to support the enforcement of sanctions against Russia and plans to extend these services to other sanctioned jurisdictions soon.

The Challenge

To combat fraud and other illicit transactions, publicly available sanctions and watch lists are maintained by a variety of supervisory authorities around the world. These lists typically comprise the names of persons and legal entities whose transactions are deemed to warrant further investigation. Financial institutions responsible for enabling financial flows must ensure compliance with these lists by checking, sometimes manually, that the names published do not correspond with the names displayed on the transactions they perform with clients.

In recent years, unique and unambiguous identification of sanctioned parties has become a major challenge. In the delivery product (International Sanctions Monitoring), WM Datenservice currently uses ISIN and other additional Identifiers as well as the LEI, where available. In the absence of a unique identifier in the sanctions lists provided by the authorities, WM Datenservice works with so-called name matching. Widespread and mandated use of the LEI in existing sanctions lists would simplify sanctioned entity tagging substantially. According to our estimates, it is currently possible to tag up to 15% of the sanctioned Russian issuers with the LEI. If this tagging were done centrally by the authority, we would know with certainty the sanctioned issuers with the LEI.

Sanctions authorities do not provide details on the business registration ID, tax ID or other identifying information in their lists, making it difficult for us to accurately identify these entities. This is especially difficult in regions where our database is less complete. In jurisdictions where we do not have direct business relationships (e.g. in Latin America), we do not have a complete overview of issuers.

Additional challenges we face include the identification of issuers and products in portfolios (e.g. Funds and structured Products) as well as identification of relevant relationships and dependencies between entities. This is important because making clients aware of all relationships guarantees they will not accidentally invest in a security of a sanctioned entity. The use of a consistent identifier such as the LEI would help resolve these issues.

The net result of these challenges is that a significant part of our sanctions screening process must be performed manually, consuming both time and resource capacity.

The Opportunity of the LEI

The LEI is an international standard; a unique identifier linked to a legal identity and issued by an accredited organization. This means that when it is used in financial flows, compliance verification can be based on actual identities instead of just names. For sanctions and watch lists, this means that transacting parties can be unambiguously identified, greatly reducing the amount of time that the matching process takes today.

By embracing a system where legal entity identification can be unequivocally assured, in an open, interoperable, and instant digital format, all stakeholders will be able to transact with far greater confidence and faith. Most importantly, however, the opportunities for financial criminals to cheat the system will be reduced significantly on a global scale.

Future value at WM Datenservice

Adding the LEI as a mandatory identifier in sanction lists would greatly accelerate our identification of sanctioned entities. We believe that the LEI could be a good solution to this problem, due to the increasing number of sanctioned issuers and products and the need to identify these sanctioned securities fast.

If the authorities mapped an LEI to every sanctioned legal entity, it would also greatly assist in the identification of related legal entities in ownership hierarchies and linked instruments.

In an ideal sanctions screening world, the screening of free form names would evolve into the screening of LEIs, creating huge cost and time efficiencies across the whole industry as a result.