

## Element22 on the Power of the LEI in Sanctions Screening

### Introducing [Element22](#)

Element22 provides data consultancy services and software solutions to financial institutions and the broader industry supply chain including rating agencies, exchanges, and data providers.

The Element22 team has extensive experience with LEI codes and related entity data. It helped to create the first active Local Operating Unit (LOU) in the Global LEI System, and also assisted in the development and advancement of the ISO 17442 standard for LEI. LEI codes and entity data from GLEIF feeds are embedded in Element22's ESGi software product, used for ESG data collection and reporting.

### The Challenge

To combat fraud and other illicit transactions, publicly available sanctions and watchlists 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. In some cases sanctions are applied for all counterparties in an entire country or those who operate in an industry sector within a country.

Confidently identifying the entities listed in sanctions lists is a major challenge for financial institutions, as most are published simply as lists of names and aliases. This lack of verified identifiers can make it very difficult for firms to identify the right individual or entity. As these lists change regularly, often monthly, the tracking and review overhead is substantial, requiring multiple steps and requiring close coordination with external parties.

Currently, the compliance process requires financial institutions to match names only; limiting its effectiveness. The current system of using keywords to search extensive entity and transaction databases creates ambiguity in the form of false positives and near matches, each of which requires costly and inefficient manual investigation.

This is only part of our challenge. Financial institutions may also need a way to identify impacted subsidiaries and securities that aren't explicitly listed, in a timely manner. The lack of identification in sanction lists make it difficult to tie subsidiaries to their parent companies unless the subsidiary has a similar name. The process relies on firms running their own searches and having high quality and well-maintained parent-subsidary links in place in their internal databases, which is often not the case.

As a result, to identify relationships between companies and links to financial instruments these organizations must complete a significant amount of manual research which can be costly, inefficient, and prone to human error.

## The Power of the LEI

Given that current sanctions compliance processes are both expensive and inefficient, a significant opportunity exists to replace the name-based system with one based on identity - the LEI - thereby making it faster, more effective, and less expensive to administer for all stakeholders.

LEIs play an important role in understanding the counterparties engaged in a financial transaction and are already well embedded across the industry, which makes them very useful for sanctions compliance purposes; it means that transacting parties can be unambiguously identified, greatly reducing the number of false positives that the matching process generates today.

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

## Future value at Element22

The LEI already greatly streamlines our entity identification process. As the LEI provides unambiguous identification, it is particularly valuable for identifying ownership hierarchies (such as the overseas subsidiaries of sanctioned legal entities) and linked instruments, as well as for generating new sector and geographic insights. As entity data is siloed in many repositories across large financial institutions at present, the LEI offers the opportunity to connect across these silos, and then to sanctions lists.

We contend that sanctions authorities should provide the LEIs of sanctioned entities in their lists to make the accurate identification of sanctioned entities faster, cheaper, and simpler. But still there needs to be some driver that obliges sanctioned entities to be issued with LEIs. How can we fill this gap? We volunteer how the LEI could be implemented across the financial ecosystem to fill this gap:

1. Regulators: Require the LEI in all financial transactions, making it an obligatory element when corporates engage in marketplaces or networks.
2. Business registries: Provide all legal entities with an LEI at the point of registration.
3. Financial institutions: Incorporate the LEI into their standard customer onboarding practices.
4. Networks, utilities, and other data service providers to utilize LEI data in their operations and services.

"Ideally, the LEI would be tagged to all named legal entities by the sanctioning authorities and published alongside the names and aliases. This could be further enhanced by collecting valuable information back from the financial institutions, so that where firms identify related parties (additional LEI's matching names, subsidiaries,

and parent companies), these could be fed back and added to the register, for the network to benefit from. This would result in more efficient sanctions screening, better use of public and private resources and greater accuracy in sanction monitoring and reporting." - **Mark Davies, Partner, Element22**

