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Editorial

Legal Entity Identifier and Future Research Directions

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As international transactions grow, the demand for global identification becomes substantial to transaction counterparties, related parties, and jurisdictions to assess risks and compliance. To uniquely and globally identify legal entities, G20 and the Financial Stability Board (FSB) launched the Legal Entity Identifier (LEI) project in 2012. This initiative is managed by the Global Legal Entity Identifier Foundation (GLEIF), a supra-national, not-for-profit organization. The LEI is a 20-character alpha-numeric code that uniquely identifies a legal entity in financial transactions worldwide, thereby fostering greater transparency in global financial markets (see https://www.gleif.org/en for more information).

The current LEI framework captures detailed attributes and characteristics of legal entities through the Level 1 data ("Who is who"), including entity names, registered addresses, jurisdiction, etc. In addition, the framework provides parent-children connections (including direct and indirect) to a legal entity globally as the Level 2 data ("Who owns whom"). The hierarchical insights enhance the transparency of the associations and structures among legal entities. Notably, all LEI data are publicly accessible through GLEIF or https://www.gleif.org/en/lei-data/access-and-use-lei-data, reflecting the commitment to open access and usability.

Despite its potential to transform the global financial markets by enhancing transparency, research on the LEI's implications in the fields of accounting and auditing is very limited. One of the few exceptions is by Yen (2021), which investigates whether a client's use of a Legal Entity Identifier (LEI) is associated with audit fee changes. The study shows that audit fees increase more for LEI firms than for non-LEI firms within the first few years of LEI registration, but they increase less for LEI firms than for non-LEI firms afterward. The results provide initial evidence that LEIs help reduce verification costs by improving transparency.

A significant challenge in leveraging LEI data is the task of mapping LEIs to existing identifiers used in other databases. Yen (2021) employs a fuzzy matching approach to the company names to map LEIs and financial statement data. While this approach offers a cost-effective solution for processing large datasets without a valid map, it inherently has a high error rate. While the mapping issue highly reduces the usefulness of LEIs in practice and academics, GLEIF started

many projects to provide additional mapping. For example, starting in 2024, GLEIF has provided the mapping pairs of LEIs and S&P Global Market Intelligence company IDs. From the view of academics, it is expected to substantially alleviate the data integration burden.

We would like to encourage more research and exploration regarding the potential benefits that LEIs can provide to companies, investors, and regulatory authorities. Specifically, future research can focus on, but is not limited to,

- What factors influence a legal entity's decision of voluntary adopting an LEI?
- To what extent does the adoption of an LEI facilitate global transactions or access to the global capital market?
- How does the adoption of an LEI help organizations reach different strategic partners or different arrangements, such as alliances and joint ventures?
- Does the presence of an LEI signal a more transparent information environment and higher quality of reported information to the public?
- Does voluntarily disclosing the LEI registration signal a better information environment and transaction credibility?
- Does mandatory adoption and reporting of an LEI in certain regulatory authorities ensure compliance and reduce reputational damage?
- How does the adoption of an LEI help auditors with the risks regarding counterparties or credit risks?

References

1. TYen, J.-C. 2021. The Effect of Legal Entity Identifiers on Audit Fee Changes. *Journal of Information Systems*, *35* (3): 177–197.