

BVI German Fund Association
Global Financial Markets Association
Investment Industry Association of Canada
The Institute of International Finance
International Swaps and Derivatives Association, Inc.
SIFMA Asset Managers Forum
The Investment Association [UK]

October 19, 2015

To: Legal Entity Identifier Regulatory
Oversight Committee (ROC)

Delivered by email: leiroc@bis.org

**Re: ROC Consultation Document on Collecting Data on Direct and Ultimate
Parents of Legal Entities in the Global LEI System**

On behalf of the undersigned associations, we welcome the opportunity to respond to the Legal Entity Identifier Regulatory Oversight Committee's (ROC) "Consultation Document on Collecting Data on Direct and Ultimate Parents of Legal Entities in the Global LEI System" (Level 2 data). We have written to the FSB and IOSCO, and regional regulators from around the globe, on a number of occasions to express our support for the development of the Global LEI System (GLEIS). We understand that collecting data on direct and ultimate parents is an important objective of the global LEI system and we believe, if done in the right way, will help further enhance the ability to detect risks in the system, and promote financial stability.

Critical to any next step in the extension of the LEI system is bringing the first phase of developing the system – registration of an LEI for all legal entities engaged in the financial markets – to a successful conclusion. In this regard, we note the importance of regulators globally requiring LEIs to be used broadly in regulatory reporting and other supervisory practices thereby facilitating the expansion of the LEI system and its related benefits. We have consistently stated that the only way for the Global LEI System to be truly effective is for regulators to *mandate* the use of LEIs for entity identification in regulatory reporting and other processes. If half the world uses the LEI and the other half does not, then we'll end up where we are today, with a partially implemented system that does not fully achieve the objectives of significantly improving regulators' systemic risk analysis and financial services firms' counterparty risk analysis. This lack of widespread registration will also be a major hindrance to the success of the Level 2 initiative.

As noted, we are concerned that attempting to implement the proposed collection of direct and ultimate parent data before the initial phase of work is largely complete will be a

diversion that could be detrimental to the overall success of the LEI system. Specifically, we have concerns that the cost and burden of this approach to introducing relationship data will be significant to the system and will *increase* barriers to uptake of LEI adoption. The cost of getting and maintaining an LEI has been widely cited as a real concern for entities registering for LEIs. This is especially prevalent for companies with multiple legal entities, entities that have infrequent financial transactions, smaller entities, and others.

We can understand the natural inclination to use the current LOU system for this next phase of LEI system development. It makes sense and we support it. However, we are concerned about the LOUs' ability to perform the proposed validation procedures without incurring significant cost and burden. The sources outlined in the Consultation may be adequate for validating information about some major financial and corporate institutions, but for groups of unconsolidated (but related) companies, public sector entities and funds, the process would be time consuming and costly. Also, there is the need to collect this information from the 380,000 registrants that already have an LEI. This will be a large immediate cost of implementing this approach. Couple this with the demand from the expected large increase in registrations due to MiFID II compliance in 2016, and it is possible the system would not be able to manage the volume without a significant increase in resources. This increased LEI registration level during 2016, will take place before MiFID II will come into effect in 2017. These additional costs to the LOUs would naturally be passed on to the market if the existing operating model and these validation processes are used.

In our view, a key priority for the ROC and GLEIF is getting the cost per LEI as low as possible so that cost is not a barrier to the widespread adoption of LEIs. We do believe the most effective way to decrease the cost is to significantly increase the number of entities required to have LEIs. This higher volume will drive lower unit costs and prices under the cost recovery business model of the GLEIF.

Regarding the use of accounting definitions to identify relationships, we understand that this approach has appeal as a reasonable way to start the work on establishing a global relationship hierarchy database given that such information about relationships created on this basis may be more reliable and consistent. However, as noted in the consultation, using accounting consolidation as the basis for determining parent entities will result in potentially important relationships not being captured between entities that are not within the same accounting consolidation framework. This is especially true in the funds industry. We believe that a key objective of creating the LEI system is to support systemic risk management. The accounting consolidation approach does not necessarily capture that. Further, many firms rely on control-based or economic relationships to determine a client's organizational relationships:¹, thus a global database structured solely

¹ In some case these are by choice and in others cases these relationships may be a legal requirement. For example, in Europe, CRD4 requires grouping of connected counterparties and economic dependencies, "Exposures to a group of connected clients must be calculated by summing all the exposures to the individuals within the group definition." For this purpose the term 'group of connected clients' is defined in Article 4(39) of the CRR. Also, the guidance from BCBS - Framework for Measuring and Controlling Large Exposures and the FSB Data Gaps Initiative – A Common Data Template for Global Systemically Important Banks, both require the reporting of exposures under a connected counterparty framework.

on the basis of accounting consolidation will be less useful for the industry as well as regulators and could result in higher compliance costs.

For example, regulated investment fund LEIs form a large part (one third) of the assigned LEI data base. Investment funds, especially those of the contractual or trust type, would need special rules for determining a “parent” entity. The relationships among funds, fund managers and investors do not fit well with the ordinary accounting concepts of corporate control or economic connection as the capital investors in funds (often required by law) do not exercise control over the fund product. The “control” concept in case of funds should aim primarily to identify only as an “associated entity”² the administrative body of the fund as provided for by law, in particular the relevant fund management company which is the relevant entity. As noted in the Consultation, this link is already accommodated in the Level 1 data, but would be more appropriate to capture as Level 2 in due course with a key goal of the LEI system being risk management, we suggest the ROC consider building the framework for the Level 2 data in such a way to accommodate entities related in an unconsolidated manner, regulated investment funds, and other types of connected relationships.

Given our concerns about the potential cost of this proposed data collection, the timing issues, as well as whether it will be effective as a risk management tool, we strongly urge the ROC to undertake an impact study with the private sector to fully assess these issues before any requirements are issued. As noted above, the LOUs will have much demand on their resources due to MiFID II and other regulatory compliance during 2016 as well as the newly announced LOU accreditation process. As a result, we believe the ROC should take time during 2015-16 to conduct the impact study fully and use the results of the study to better understand what relationships are captured by using only accounting consolidation as the basis for identifying relationships and which ones are missed. The impact study could be used to determine what additional relationships are captured under control, economic dependence and other contractual/legal requirements as described above and whether such relationships are significant. We would anticipate that the impact study results will greatly inform how the Level 2 hierarchy should actually be constructed.

We also believe the impact study should be used to determine whether the validation routines suggested in the Consultation can actually be achieved. Further, even if they can be accomplished, the ROC should understand the actual effort and cost required to determine if an undue burden will be placed on the LEI system and its ultimate success. There are many private sector firms and vendors who can provide insight into the viability and cost of performing the validation requirements. It may be that the ROC will need to consider other possible approaches to creating and validating the relationship data that do not place unnecessary and excessive cost burden on the LOUs and industry. We have highlighted some possible approaches in our responses to the Questionnaire.

We are strongly encouraged that authorities in Asia, the EU, US and Canada have taken some steps to mandate the use of LEIs for multiple types of recordkeeping and

² Cf. page 10 , para 2.3.3 of this Consultation.

reporting requirements. While this is welcome progress, the ROC, in concert with the Financial Stability Board, should urge regulators and policy makers across the globe to prioritize work on ensuring LEIs are required, and that separate work on relationship data and hierarchies not distract from the essential public policy objective of the initial phase of the GLEIS. ROC members are uniquely positioned to help establish the business case for the rule writers in their organizations to expeditiously issue new rules and amend existing rules to mandate LEI in recordkeeping and reporting across the full financial industry and across all asset classes.

With widespread adoption of the LEI, we would welcome the creation of a global relationship database and expect that it could be helpful to the private sector in the future. Today it can be challenging to understand another entity's hierarchy; as a result, different firms have different views on relationships leading to inconsistency and reconciliation needs. Going forward, having a golden source of relationship data could be very effective and efficient for industry.

The undersigned may provide comments separately due to the important issues outlined in the "Annex: Questionnaire" annexed to the Consultation.

Sincerely,

BVI German Fund Association
Global Financial Markets Association
Investment Industry Association of Canada
The Institute of International Finance
International Swaps and Derivatives Association, Inc.
SIFMA Asset Managers Forum
The Investment Association [UK]



Consultation document on collecting data on direct and ultimate parents of legal entities in the Global LEI System

Annex: Questionnaire

Please type your answers into the questionnaire below and send it to leiroc@bis.org by close of business 19 October 2015. Where possible, please specify the reasons for the preferences expressed or the details of any trade-offs you see. The questions are organized along the sections of the consultation document.

The responses to the survey will be shared within the ROC membership and with the GLEIF. Neither participants' identity nor any specifically identified reference to their opinion will be made public without their express consent. However, the responses themselves may be quoted on an anonymised basis. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Identification of the respondent and confidentiality
Respondent:
Name and email of a contact person:
<input type="checkbox"/> Please check this box if you object to any of the responses below being quoted on an anonymised basis and specify here any sections or questions to which this objection applies
<i>Please specify here as needed which response(s) should not be quoted:</i>
1 Uses of organization relationship information
1.1 Are there important potential future uses of any type of relationship data that would pose additional requirements that should be taken into account when designing the initial implementation of relationship data?
<i>Please insert your response here:</i>
<ul style="list-style-type: none">- <i>We would hope that the relationship database could be helpful to the private sector in the future. Today it can be challenging to understand an entity's hierarchy and different firms have different views leading to inconsistency and reconciliation needs. Going forward, having a golden source of relationship data could be very effective and efficient for industry. However, we believe some changes to the approach will be required to achieve this.</i>- <i>As noted in the comments below, we urge the ROC to ensure that the organizational approach for the Level 2 data be done in such a way as to accommodate both legal entities related to a parent by virtue of an accounting standard as well as those that</i>

are related in an unconsolidated manner due to control, legal or other economic connections. This will result in the need to capture in the records an indication of the basis for how the related entity was identified (accounting, control, equity holding, etc.). Having the ability to view relationships based on each of these parameters would be critical to the success of the project.

2 Definition of parent relationships

2.1. Do accounting definitions provide the best basis for identifying data to support the purpose of the GLEIS as discussed, for example, in paragraph 2.2.1, and as opposed to, for example, legal control? If you suggest another basis, such as legal control, please explain how you would define the basis and what standards could be referenced for defining the basis.

2.2. Are there known differences among existing accounting standards that could be expected to have material effects on the definition of parents proposed in this section?

Please insert your response here:

- *We understand that using accounting definitions is seen as a reasonable way to start the work on establishing a global relationship hierarchy database given that such information about relationships created on this basis may be more reliable and consistent.*
- *Notwithstanding, by selecting accounting consolidation, this approach will result in potentially important relationships not being captured between entities that are not within the same accounting consolidation framework. We believe that a key objective of creating the LEI system is to support systemic risk management. The accounting consolidation approach does not capture that and is too limited. We therefore propose that the ROC construct the requirements in a way that allow for alternative hierarchies - accounting, legal, control-based – to be captured.*
- *One approach to capturing certain relationships would be to consider the guidance that exists for “connected counterparties.” In Europe, CRD4 requires grouping of connected counterparties and economic dependencies in Article 4(39) of the CRR. Also, the guidance from BCBS – A Framework for Measuring and Controlling Large Exposures, and the FSB Data Gaps Initiative – A Common Data Template for Global Systemically Important Banks, both require the reporting of exposures under a connected counterparty framework.*
- *Beyond this, as suggested in our cover letter, working with the private sector, the ROC could better understand how other relationships are captured today and develop guidance from studying current practices.*
- *It is unclear if ROC is suggesting that only US GAAP and IFRS can be used. Or would ROC also allow local GAAP? Need clarification.*
- *Beyond that, we suggest getting feedback on known differences between accounting standards from the accounting firms. They should be able to help.*

2.3. Do you have any comments on the initial definitions of relationships proposed, particularly in terms of their clarity for implementation and validation)?

Please insert your response here:

-None.

2.4. For future phases of Level 2 data, should the priority be to add other definitions of parents (e.g.: scope of regulatory consolidation applying to specific sectors such as banks or insurance companies; legal control), or to add other relationships as defined in accounting standards (e.g.: joint venture/joint arrangements, significant influence; interests in unconsolidated structured entities)?

Please insert your response here:

- *See below 2.4*

2.4 Are there other, alternative approaches to recording relationships -- other than the one described here based on an accounting framework -- that you believe would be preferable for the initial phase of data collection?

Please insert your response here:

- *We urge the ROC to consider building the framework for the Level 2 data in such a way as to accommodate entities related in an unconsolidated manner due to control or other economic or legal connections.*
- *The ROC should analyse how it could structure the database to potentially capture a variety of relationships including accounting, economic, legal and control relationships. The interplay between the approaches should be tested before any requirements are put in place.*
- *We believe that valuable efficiencies could be realized if the LEI system were linked to global business registration authorities/offices in a manner which would enable an LEI to be provided together with the business registration ID at the time of business registration, but recognize that this may be challenging to implement globally.*

3 Data collection, validation and updates

3.1 Considering both efficiency and data quality, do you agree with the preliminary conclusion that reporting of parent information by the “child” entity, combined with some option for the parent to report, would be the best approach, given that not all parents report to the LEI system?

Please insert your response here:

- *We support reporting of the relationship based on the registrant. If the registrant is a child, it should undertake to report its direct and ultimate parent. Specifically, the parent entities should be obliged to obtain an LEI as soon as a subsidiary first obtains one and the subsidiary should be obliged to report the hierarchy data using the LEI(s) of its parent(s). We do not support the identification of parent entities with identifiers other than with the LEI; nor do we support the suggestion that parents should not be identified if they do not have an LEI – the parent should be required to get an LEI upon subsidiary registration. If the registrant is the ultimate parent, no reporting is required.*
- *We support allowing the parent to bulk register all/some of its subsidiaries.*
- *As noted, we are concerned that requiring parent companies to register and subsequently maintain each of its entity's LEIs is currently not cost effective. So*

again, the ROC should focus on better implementation of Level 1 data to ensure widespread assignment of LEIs. Once the cost per LEI is reduced to reasonable level (significantly less than today), we would support the ROC establishing guidance that requires parent companies to register LEIs for all their legal entities that are active in financial markets.

3.2 If both members of parent-child relationships have LEIs and both report, how should reporting about common relationships be reconciled? More generally, should the system seek to reconcile the network structure of relationships determined from the accumulation of information on direct parents?

Please insert your response here:

- *This should be a process for the LOUs as part of their data quality programs. There should be a cross checking between the respective parent and child LEIs to ensure they are reported commonly.*

3.3. In your view, are the sources proposed in section 3.1 appropriate for validating data on relationships based on accounting definitions? Should the type of source used to validate the data be disclosed in the GLEIS (if so, how granular should the disclosure be)? What, if any, other aspects of data provenance should be disclosed?

Please insert your response here:

- *We are concerned about the LOU's ability to perform the proposed validation procedures without incurring significant cost and burden. The sources outlined in the Consultation may be adequate for validating information about some major financial and corporate institutions, but for smaller companies and funds, the process would be time consuming and costly.*
- *We strongly urge the ROC to undertake analysis as part of the proposed impact study to determine if such validation routines can actually be achieved. Further, even if they can be accomplished, the effort and cost required must be factually determined.*
- *Consideration may have to be given to creating a relationship validation service that LOUs could subscribe to where the cost of validation could be mutualized among the LOUs.*
- *Lastly, we do not support requiring the validation source for the parent entity to be disclosed in the GLEIS. The status of the validation should be disclosed, e.g., public sources, etc., but not the actual source.*

3.4 To what extent in the first phase of Level 2 data collection should the GLEIS aspire to incorporate changes in a relationship that happen or become known between publication points in the accounting cycle of an entity? Would it be appropriate to use different sources to validate a relationship at different points in time? Would it be appropriate to record such information based on a statement by the entity, provided it is appropriately flagged and that validation occurs at the next accounting cycle or the next annual revalidation?

Please insert your response here:

- *As noted in our previous comment, aspects of simply getting the initial relationship properly recorded will be very difficult and costly. For this reason, we believe*

imposing a requirement to also track corporate actions goes beyond a first phase necessity.

- *The current proposal has several accommodations within it including using accounting consolidation and only requiring direct and ultimate parent information. We believe it is necessary to also allow an accommodation for corporate actions. We support allowing the registrant to change its self-registered information at the time of an event, or at the time of renewal, even if there is a delay in a validation process being able to be performed.*

3.5. What is the best strategy, in your view, for maximizing coverage and data quality for Level 2 data? How do you assess the costs for registrants to provide this information (independently from the fee charged by LOUs), and the benefits for registrants and other users? How might the incentives of entities be shaped in order to encourage participation?

Please insert your response here:

- *Ideally, the system would be set up to require ultimate parents to register all the entities in their hierarchies that are active in the financial markets. However, we think the current cost for an LEI and ongoing renewal fees are too high to demand such an approach.*
- *If the overall cost for an LEI were substantially reduced, we think a bulk registration of a company's legal entities would be an effective and efficient approach to increase coverage.*
- *The ROC should consider if it could find a way to offer significantly lower fees for such a bulk registration approach. The most expeditious way would be for all ROC members to ensure LEIs are mandated for financial transaction and position reporting in their jurisdictions.*
- *See previous comments on costs*

4 Data organisation

4.1. Do you have suggestions on the content or high-level arrangement of Level 2 data and any supporting metadata?

Please insert your response here:

- *We urge the ROC to work with partners in industry and vendors as part of an impact study to understand how corporate hierarchies are organized today. This could inform the approach and make the implementation of LEIs for Level 2 data smoother.*

4.2. Do you have suggestions on a particular high-level approach or necessary conditions for organizing the representation of the history of Level 2 data?

Please insert your response here:

- *We urge the ROC to ensure that the organizational approach for the Level 2 data be done in such a way as to accommodate both legal entities related to a parent by virtue of an accounting standard as well as those that are related in an unconsolidated manner due to control, legal or other economic connections.*

5 Business model for relationship data in the GLEIS

5.1. Should the implementation of Level 2 data take place through the LOUs following procedures similar to the ones applying for Level 1 data, or should other possibilities be considered?

Please insert your response here:

- *We can understand the natural inclination to use the current LOU system. It makes sense. However, as outlined above, we have concerns that the cost of this approach will be significant to the system. In our view, a key priority for the ROC and GLEIF is getting the cost per LEI as low as possible so that that this barrier to the widespread adoption of LEIs is removed.*
- *As noted above, other possible approaches, e.g., changes to validation requirements, should be considered more thoroughly before deciding on the LOU model.*
- *One approach is to work with companies to bulk register through the LOU systems their legal entities that are active in the financial markets. Cost would have to be discounted to achieve this, however. Compulsion could be achieved through FSB guidance to the national regulators and, it may be possible to leverage national regulators to validate the submissions. In this manner, there would be less cost to the LEI system.*
- *Consideration could also be given to creating a relationship validation service that LOUs could subscribe to where the cost of validation could be mutualized among the LOUs.*

6 Conclusion and next steps

6.2. Is there anything important at this stage that has been omitted from the consultation or any other comment or suggestion you would like to make?

Please insert your response here:

- *We again note the special consideration that needs to be given to fund entities. For example, umbrella structures and sub-funds – such umbrella funds should not be usually considered “parents” of the sub-funds. Special treatment of these funds needs to be included in the collection of the data so that relationship can be captured, but reflected in the correct fashion, e.g., not a consolidated entity, but an associated entity. The impact study should be used to reveal and resolve these issues thoroughly.*

Thank you for participating in this consultation.