

Global Financial Markets Association
Investment Industry Association of Canada
The Institute of International Finance
International Swaps and Derivatives Association, Inc.

16 November 2015

To: Legal Entity Identifier Regulatory
Oversight Committee (ROC)

Delivered by email: leiroc@bis.org

**Re: ROC Consultation document on including data on branches
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: Including data on branches in the Global LEI System" (the "Consultation"). 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).

Overall, we support the ROC's proposal to incorporate an identification approach for branches into the Global LEI System (GLEIS) as there is a need for such an identifier. Existing and proposed rules in a number of jurisdictions require branch identification, but without a common way to identify the branch. For example, regulatory rules like the U.S. Security Exchange Commission (SEC) security-based swaps reporting rule, MiFID, the Hong Kong Monetary Authority (HKMA) and the Japanese Financial Services Agency (JFSA) derivatives reporting requirements, all require reporting of information at the branch level and/or identification of a branch. However, branch identification methods specific to jurisdictional regulations or trade repositories, like we have today, are not cost effective and are not conducive to the global aggregation of data.

Internally, financial institutions identify international branches separately within their organization hierarchy structures, including for purposes of reporting and risk management. Thus, similar to current practice, having the linkage between the headquarters branch and the international branches identified within the GLEIF database using the associated entity field will be an added benefit for the industry and the regulators alike.

For all these reasons, we strongly agree there is a need for a global, standardized approach for the regulatory reporting of branches and branch activity and

believe the LEI system provides a good operational structure for this purpose. While we support new guidance for a branch identifier, we have several concerns with the approach proposed by the ROC and make recommendations for addressing those concerns. Our specific comments follow:

First, using the current ISO 17442 code for branch identification is an inappropriate extension of the standard to non-legal entities. ISO 17442 only applies to legal entities. Branches are unique, and can be treated as separate units of an organization as described in the consultation, but there are also limitations on branches acting as legal entities, e.g., they cannot legally transact in the name of the international branch, but only in the name of the headquarters branch. *Simply, they are not legal entities.*

Extending ISO 17442 for branch identification would set a bad precedent, potentially leading to the assignment of branch identifiers to other organizational structures, such as office locations and trading desks. Allowing ISO 17442 to be used for such purposes would create confusion for market participants and regulators alike. We strongly prefer to keep ISO 17442 pure to its original intent to avoid this and to ensure the standard can reach its full potential for unambiguous *legal entity* identification. As you will read later, we recommend calling a branch identifier something other than an LEI.

Secondly, the assignment of standard ISO 17442 LEIs to branches would add another layer of complexity and data quality problems into the LEI system if not done properly. Specifically, we note the following:

- Parties to trades could mistakenly report a branch identifier rather than a true legal entity LEI misrepresenting the counterparty to the trade.
- Similarly, under certain reporting regimes, parties could (mistakenly) report the branch identifier as the counterparty LEI making it, for instance, difficult to match the trades in a trade repository e.g., when dual sided reporting is required.
- National regulators providing their own, non-standardized guidance as to whether a branch identifier or the headquarters LEI should be used in regulatory reporting could lead to inconsistent information in the system.
- Parties requesting LEIs could choose inappropriate entities to register as the definition of what a branch is has not been made adequately clear. For example, could the multiple offices, referred to as branches, of a broker dealer be considered branches for the purpose of receiving a branch identifier? We do not believe this was the intent, but it is difficult to determine from the broad definition provided in the consultation.
- As discussed in Footnote 7 of the Consultation, complications arise with multiple jurisdictions within countries and likely inconsistencies in determining what a foreign branch is and what is not. An illustrative example exists in Canada where it is unclear whether branches in different Provinces should be considered international or not. Since each province

has its own securities regulator, reporting obligations may apply on a provincial rather than a federal level.

- Registrants for a branch identifier may use varying approaches to completing the reference data field as part of the registration of a branch. Where one jurisdiction has multiple branches, recording the reference data will be complex and may result in a multitude of data quality issues. For example, it is unclear what address and what naming convention should be used in the reference data field. Should it be the name and address of the primary branch in the country? Or should it be the first one to register for a branch identifier? Do all locations within a country need to be included in the reference data? Ensuring this reference data is standardized will be critical to data quality.
- It is also unclear whether all branch locations within a country need to be recorded in a business registry for the country to receive a branch identifier.
- As published by ISDA¹ and as proposed by CPMI-IOSCO in their consultative report, "Harmonisation of the Unique Transaction Identifier (UTI)," UTI tie-breaker rules rely on a comparison of LEIs. Clear and consistent guidance would be necessary that this process use counterparty LEIs (not branch identifiers). It will greatly complicate the UTI generation process if it is ambiguous whether an LEI belongs to a branch or a true legal entity.
- Annual maintenance of an LEI and any associated branch identifiers could be onerous and should be accommodated by LOUs at a group level.

Finally, we are concerned that requiring a branch to be registered in a business registry or other form of registry could impede the usefulness of the branch identifier proposal by allowing some branches to receive an identifier, while others cannot. This would limit the usefulness of the identifier as it would potentially not be available for all branch identification. This requirement also sets a higher standard for branches than for legal entities who may still receive an LEI even if a public source of validation does not exist. It is not clear from the Consultation whether the ROC tested this criterion to understand if it could actually be applied in practice. Given the short time for comment, the industry did not have time to fully research the topic, but it appears that there are some flaws in attempting to use this test as a way to define a branch. We urge the ROC to work with industry experts to determine the true scope of branches that are registered in some acceptable registry before this criterion is put in place.

In light of our concerns about using the ISO 17442 for identifying branches, we recommend that the ROC create a separate, unique branch identifier that closely, but not exactly, follows ISO 17442. We outline below recommendations that would address

¹http://www2.isda.org/attachment/NzczMg==/2015%20July%2020%20UTI%20Best%20Practice%20v11.6_final.pdf

both our concerns about extending the ISO Standard to a non-legal entity and around data quality:

- The branch identifier would be the same length as the 20 character LEI to facilitate its efficiency as an organizational identifier similar to the LEI.
- To ensure it could be easily identified as a branch identifier, an indicator could be inserted into the code itself to show it identifies a branch, not a legal entity.
- One approach could have the “00” field contain a digit or letter (“B”) to indicate it is a branch identifier. In this case, the branch would have a unique code issued to it based on the 17442 format, but with the “B” inserted in the “00” field to uniquely identify it as a branch identifier.
- Another approach would be to use the ISO Standard 3166 2-digit country code and populate the “00” field with the country code for the location of the branch.
- Other approaches could make use of other parts of the 20-digit 17442 code structure if needed.
- The branch identifier process would leverage all of the operational aspects of the LEI system – issuance, validation, public database – as these would ensure the quality and accessibility of the branch identifier. The ROC should consider carefully which data fields required for an LEI using the ISO 17442 format would be required for branches, particularly the Level 2 data fields such as parent hierarchy. And as new data fields are introduced for ISO 17442 LEIs, the variations appropriate for the branch identifiers should be described as well, to keep the two types of identifiers aligned as data requirements change.
- As mentioned before, consideration should be given to calling the branch identifier something other than an LEI. Perhaps something like international branch identifier (IBI) would be an option.

Utilizing an identification scheme as described above would allow trade repositories, regulators and other organizers of data to easily identify a branch, establish validity, or make corrections if an branch identifier is used for an incorrect purpose, e.g., to identify a counterparty to a trade. This would serve to protect data quality. Importantly, this approach would also avoid tainting the ISO 17442 standard by extending it to non-legal entities.

There are other possible iterations for a solution based on the above core suggestions and we are prepared to work closely with the ROC and the GLEIF to quickly formulate a revised approach. We do not believe it would take a significant amount of work to reach agreement on the best code structure.

With respect to other concerns around data quality, we recommend:

- The ROC specify further the definition of an international branch to make clear exactly what is meant by a foreign branch, e.g., it is not a foreign office of a broker-dealer.
- To ensure consistency, the ROC should provide specific guidance on the allowable values for the reference data fields, e.g., what value should be

used for the branch name, address, entity type, etc. Do all the locations within a country need to be identified? If not, which location should be identified?

We are available to work with the ROC to develop an appropriate definition of what shall constitute a “branch” for purposes of branch identification as well as to agree to standards for the reference data fields.

In addition to our comments on ISO 17442 and data quality, we strongly urge the ROC to add the following points to the guidance in the final paper on branches:

- ROC should indicate its expectation that jurisdictions and regulatory bodies requiring branch identification will move to using the authoritative branch identifier as promulgated in the final rule.
- The ROC should acknowledge that some jurisdictions currently use a SWIFT BIC code to identify a branch in reporting and that the SWIFT BIC code is not considered an authoritative identifier for purposes of branch reporting.
- We urge the ROC to specify its expectation that costs for an LEI and/or branch identifier will not rise as a result of this guidance since the branch identifier process will leverage the existing LOU and GLEIF operations. This guidance is simply an extension of those processes to another set of organizations, similar to the extension of the LEI that will result from forthcoming regulatory reporting and supervisory requirements for the parties to cash instruments, and securities financing transactions.
- As stated in the last sentence of the Consultation, we strongly support the position that different LOUs can be used to issue the identifier to the branches and headquarters of a given organization. We believe a flexible approach should be applied such that groups can determine the optimum model for their own circumstances, and have the ability to apply a centralized or federated model to manage their branch identifiers. Such an approach would ensure reliability and assurance over the issuance and the information needed to link the international branch and the head office, while also allowing firms flexibility to manage their own branch identifiers.

Ideally, we hope it would be possible for the GLEIF, LOUs and the industry to implement branch identifiers in time for upcoming global regulatory requirements to avoid having to build and transition from interim solutions. The deadline for these requirements are as follows:

- HKMA – July 10, 2016 (date that Reference Branch of Trade Party is mandated)
- SEC – mid-September, 2016 (earliest proposed compliance date, still subject to finalization after consideration of industry feedback)
- MiFID II – January 1, 2017 (compliance date)

Finally, as mentioned in our previous letter to the ROC on hierarchy data, 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. New requirements like a branch identifier or Level II Data should not be an impediment to making progress in the issuance of LEIs to all entities around the globe. We urge regulators globally to require 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.

Sincerely,

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