

October 3, 2018

SENT BY ELECTRONIC MAIL

The Financial Stability Board
FSB@FSB.org

RE: FSB Thematic Peer Review on Implementation of the LEI

Dear Financial Stability Board,

The International Swaps and Derivatives Association, Inc. (“ISDA”) and the Global Financial Markets Association (“GFMA”) (together the “Associations”) appreciate the opportunity to provide the Financial Stability Board (“FSB”) with industry input related to the *FSB Thematic Peer Review* (“Peer Review”) on *Implementation of the Legal Entity Identifier* (“LEI”).

The Associations support the important work that the FSB has been doing related to global identifier standards such as the LEI. We recognize the LEI's role as an internationally standardized identification number in improving the quality of financial data and in facilitating the assessment of systemic risks. We therefore support a broader and more consistent implementation of the LEI across jurisdictions. Industry participants welcome the FSB's proactive leadership in support of regulatory mandates for the LEI, in both FSB member and non-member regimes, to facilitate and accelerate the global harmonization of legal entity identification in reporting and other regulatory requirements. Further, the industry is encouraged by the use of the FSB Standing Committee on Standards Implementation to address implementation of the LEI and other important global data standards. We are also hopeful the FSB will take a larger role in raising awareness and supporting additional areas where the LEI can be beneficial in other market processes.

We hope the following comments provide the FSB with useful feedback for its evaluation of LEI implementation progress, insight into approaches strategies for implementation, and input about the challenges that market participants have faced regarding the adoption, implementation, acquisition and maintenance of LEIs in FSB member and non-member jurisdictions.

The format of our comments is aligned with the FSB's suggested guidance to provide feedback in several areas, as outlined in the following pages.

A. Identifiers used by financial institutions for legal entities established in their jurisdiction or in foreign jurisdictions, and the extent to which they are mapped to the LEI

As you are aware, a significant number of non-LEI entity identifiers are currently in use across the global financial system. In some cases, only these non-LEI identifiers are used. In other cases, market participants and regulators maintain non-LEI identifiers in parallel to the LEI. Mapping of non-LEI identifiers to the LEI within a system or process can be helpful in allowing regulators and industry participants to more efficiently and clearly identify legal entities with certainty – the LEI provides this interoperability. While there is still complexity in maintaining multiple identifiers, mapping efforts can provide a positive way to broader LEI adoption, and in time, the LEI could replace the proprietary identifiers. This is a step the FSB should encourage as an interim approach to full LEI adoption.

The below section discusses ongoing and planned mapping efforts to cross-reference Business Identifier Code (BIC) and International Securities Identification Number (ISIN) to the LEI, followed by examples of non-LEI identifiers, including those currently in use in Germany, the European Union, and Japan, that would benefit from additional adoption and/or mapping to the LEI. There are many more examples, than those provided here, of non-LEI identifiers in use across the globe that would benefit from LEI mapping or using the LEI directly. Finally, the last section discusses potential future uses of LEI identifier mapping, such as with Brexit legal entity reference data needs and incorporating LEI functionality into local registration mechanisms.

LEI Mapping Efforts

Earlier this year, the GLEIF began providing the authoritative, open source relationship files that match a Business Identifier Code (BIC) assigned to an organization to its LEI free of charge.¹ Separately, the GLEIF anticipates making ISIN-to-LEI relationship files publicly available soon.²

The availability of mapping files such as the BIC-to-LEI and ISIN-to-LEI from the GLEIF enables market participants to leverage a reliable, authoritative source for cross-referencing key entity identifiers on a global basis, and eases the process of collecting and reconciling counterparty information across different platforms at each institution. This not only facilitates the use of the LEI in various processes, but can reduce the costs associated with entity verification, which is particularly beneficial in processes related to client relationship management and the requirement to know your customer (KYC), discussed below.

¹ See <https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files#>

² See Announcement of Association of National Numbering Agencies (ANNA) and GLEIF to link ISINs and LEIs (4 Sept. 2018). Available at <https://www.moodysanalytics.com/regulatory-news/sep-04-18-anna-and-gleif-join-forces-on-isin-to-lei-mapping-initiative>.

Across the globe, such efficiency gains save the collective industry significant money and time. We encourage the FSB to support the GLEIF's efforts to provide such authoritative mapping sources beyond those already provided.

Identifiers that could be mapped to the LEI

As already stated, in many jurisdictions, non-LEI identifiers are required for an entity to engage in regulated activity. In many instances, the LEI would be a more efficient and effective identifier. Below are some examples of such cases where adoption of the LEI, either fully, or in parallel, would create efficiency and interoperability; permitting regulators and market participants from outside that jurisdiction to have certainty and transparency into a specific legal entity's activity.

(1) Deutsche Bundesbank Creditor Identifier

As part of its program to identify parties making use of its payment system, the Deutsche Bundesbank requires that parties obtain a unique Credit Identifier (DB Credit Identifier).³ The Deutsche Bundesbank issues parties DB Credit Identifiers through an intensive application process. Central banks and other regulators use the DB Credit Identifier to perform risk analysis and create reports that identify concentrations of payment activity. For market participants with customers and activity in multiple jurisdictions outside of Germany, the DB Credit Identifier requirements create inefficiencies for market participants that include entity data mapping and management issues. Further, the movement of legal entities into Germany because of Brexit will likely create significant manual work on the part of market participants to apply for the local DB Credit Identifier on their customers behalf. The LEI is far easier to obtain and amend and applies globally, largely eliminating reconciliation and data mapping and management issues. As such, the Associations believe that the LEI should, at a minimum, be required in parallel with the DB Credit Identifier. Further, the LEI should eventually replace the DB Credit Identifier for legal entities to harmonize the reference data requirements between jurisdictions.

(2) European Union ID

The "Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law"⁴ ("Proposed Directive") proposed continued use of the "European unique identifier of companies and branches ('EUID')"⁵ to identify EU companies.

The joint ISDA / Association of Financial Markets in Europe (a GFMA affiliated trade association) response dated July 9, 2018, indicated their view that "the ability to communicate unambiguously within and across borders about entities involved in commerce" is "a critical element of operating in a global and digital environment." The

³ See https://www.bundesbank.de/Navigation/EN/Tasks/Payment_systems/SEPA/Creditor_Identifier/creditor_identifier.html.

⁴ See <http://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-239-F1-EN-MAIN-PART-1.PDF>.

⁵ Art. 13(a) Definitions.

LEI, a public, global entity identifier “to identify all entities in national business registers and in regulatory reporting, will better support the goals” outlined in the Proposed Directive “to ensure companies will be “unequivocally identified in communications between registers.”⁶ The GLEIF response stated “The resulting easier counterparty identification will open the door to further automation and digitization and make it easier and safer for all EU businesses and citizens to participate in the digital marketplace, thus providing EU businesses with an important tool to manage the new economic and social challenges of a globalized and digital world.”⁷

(3) BIC

The transaction reporting framework in Japan allows reporting parties to choose either to report directly to the regulatory authority, or to report via the designated trade repository.⁸ Reporting parties choose based on the volume of product asset class, specific type of transactions, location of data collection, and other factors. If a party chooses to report directly, no LEI data field is available on the reporting platform. If a party chooses to report via a trade repository, the repository is able to perform a BIC-to-LEI mapping for its member firms, regardless of how many reporting jurisdictions the firm is obligated to comply with. In either case, there is no consistent use or mapping of the LEI, making this an area that could benefit from further improvements.

(4) Local Registration IDs and LOUs

More broadly, where local entity identifiers exist, such as for the U.S. Treasury Tax ID, SEC CIK, we propose that the federal agency consume LEIs from LOUs or the GLEIF files and map them to their proprietary identifiers as part of their information capture process, to facilitate the ability to cross reference⁹ the local registration ID with the LEI, so that the entity could be easily and clearly recognized for a wider range of purposes. The Associations reinforce the benefits of enabling data sharing across agencies to better serve citizens and the government through improved service and lower costs.

In addition to the examples above, the FSB should look to the GLEIF to gain a full understanding of the potential areas for greater LEI usage through either full adoption or through mapping of the LEI to other proprietary identifiers.¹⁰ Specifically, the GLEIF has participated in numerous public consultations with regulators, standard setting organizations and others to promote requirements related to the use of LEI. These consultations explain the

⁶ [Association for Financial Markets in Europe \(AFME\) and International Swaps and Derivatives Association, Inc. \(ISDA\) joint response](#) to the Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law (9 July 2018).

⁷ [GLEIF response](#) to Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law (July 2018).

⁸ For the sake of clarity, the licensed CCP in Japan only reports directly to the regulatory authority.

⁹ We note that the Finnish Tax Administration has adopted the LEI and Finland has an entity registration and search service that could possibly be used for cross-referencing. See <https://www.ytj.fi/en/index/whatisbis.html> (Business Information System “YTJ”) provided by the Finnish Patent and Registration Office.

¹⁰ See <https://www.gleif.org/en/about/consultation-responses>

benefits of the LEI when adopted over localized and limited-purposes legal entity identifiers, and outlined opportunities to map the LEI to local legal entity identifiers.

Future LEI Mapping Use-Cases

(1) Brexit

The need to accurately identify legal entities during and after the Brexit transition is critical. We envisage that the LEI could be an effective tool for this use case. With Brexit in particular, it will be necessary to specifically identify the location(s) of decision maker(s) related to an investment activity as contracts are revised based on location. The LEI, and, in particular, the LEI branch information, is well suited to assist the financial industry in complying with such new requirements. In addition, incorporating the LEI into local registration processes would help distinguish identification of legal entities who were formerly in the United Kingdom, for example.

(2) Regulated Trading Platforms

Many regulated trading platforms currently use internally generated counterparty codes. Appropriate regulators should require trading platforms recognized or registered in a particular jurisdiction to add an LEI field in their counterparty database. Further, mandatory population of this LEI field when onboarding new clients to the platform would eliminate the differences in counterparty identification that exist currently between the bank data and platform data. Banks could quickly and accurately match each counterparty record from the platform to its own client records, without any need for manual review and remediation of gaps. Moreover, if only new clients were required to provide the LEI when onboarding, existing records would still be missing LEIs. Ideally, existing records on platforms should also be back-populated with LEIs. Capturing the LEI at point of onboarding is more efficient and cost-effective than having to remediate the data at a later point.

In summary, where full adoption cannot yet be achieved, mapping other counterparty identifiers to the LEI can be a useful approach since it allows more certain identification of legal entities than what would otherwise exist without mapping, and provides a bridge to full adoption of the LEI. While the Associations prefer use of a single identifier – the LEI – we recognize that replacement of other counterparty identifiers globally may not be immediately practicable for every scenario.

We respectfully urge the FSB to work proactively, as part of the FSB thematic peer review, with global authorities who have not yet required the LEI to promote regulatory mandates in their jurisdictions, to consider mapping as a way to smooth adoption where it is particularly challenging. In our view, this is the key step that the FSB can take to improve the current uptake of the LEI, and begin to eliminate the use of different counterparty IDs from jurisdiction to jurisdiction. The proliferation of local and jurisdictional counterparty IDs does not facilitate cross-border identification of legal entities, and creates significant operational and risk management challenges. Increased use of the LEI standard will increase

interoperability, enhance data quality, and improve the ability of authorities to effectively aggregate trade data for analysis and meet the objectives of the G-20.¹¹

See Section E “Main obstacles faced by market participants to adoption and implementation of the LEI” for related comments on regulatory mandates.

B. Awareness and adoption of the LEI in their jurisdiction, especially the existence or prospect of any market-driven or voluntary adoption of the LEI by market participants

The below section outlines where LEI adoption unrelated to mandatory regulatory reporting is occurring, including the following: enhancing compliance support functions; data vendor adoption and enrichment; and improved internal client reference data management. The Associations are encouraged by this voluntary LEI adoption and we expect it will continue to increase as regulatory mandates increase and LEI is adopted into some of the other areas we describe in Section F.

Counterparty Utilities and Services

The industry is using the LEI as the common matching identifier for clients using the ISDA Amend¹² protocol utility service, which covers a variety of regulations. In particular, the industry’s experiences with the non-centrally cleared derivatives regulation proved that market participants need to have correct LEIs within their systems infrastructure for both themselves and their counterparties in order for the ISDA Amend tool to work successfully as a straight through processing (STP) matching service.

Improved Third-Party Entity Matching using the LEI

One of the more challenging data management functions financial industry firms perform is matching their own entity data from an entity master file to any other third-party utility. As a result, more and more, the LEI is used as the first check in institutional processes to match data from various inputs, such as SWIFT, regulators (e.g., the Federal Reserve, the Financial Conduct Authority, etc.), ratings agencies, and other third-party utilities or vendors. These types of uses are increasing as the volume of entities with LEIs increases.

Enrichment of Data Provider Feeds

As the adoption of LEI has increased, market data vendors have incorporated LEIs into their data products to enrich the utility of their services. Examples of high-quality linking of LEI data to existing data include IHS Markit incorporating the LEI into their process for permissioning clients to affirm trades on their platform and Bloomberg incorporating the LEI into its security master data.

¹¹ *G20 Leaders Statement: The Pittsburgh Summit* (September 24-25, 2009), <http://www.g20.utoronto.ca/2009/2009communique0925.html>

¹² IHS Markit and ISDA, <http://www.markit.com/product/isda-amend>.

C. Types of private sector uses of the LEI (e.g. to implement risk management frameworks, support financial integrity, reduce operational risks, or support higher quality and more accurate financial data) as well as the benefits measured or anticipated from such uses (including any quantification of the benefits, to the extent possible)

Matching of Issuer and Client Data

Identification data for a variety of legal entity types can be stored in different areas within a firm's complex network of interconnected systems. As a result, industry participants spend considerable time and resources linking information for a specific securities issuer from a firm's securities master database to the information contained in the firm's client reference data for that entity; matching names manually can take 10-20 minutes each. When LEIs are available, data can be automatically shared and linked between the issuer and client reference databases, resulting in a savings of close to 100 percent of the time normally spent on manual matching of names.

Taking this one step further to the population of approximately 1 million active unique Committee on Uniform Securities Identification Procedures ("CUSIP") and CUSIP International ("CINS") issuers¹³, we can extrapolate the time saved assuming these securities issuers will eventually need to be matched to a client reference database or in risk system at least once. The potential savings - using an average of 15 minutes saved per match - is a reduction of up to 250,000 hours, or 31,250¹⁴ eight-hour work days. Additionally, this example assumes that manual matching only occurs once per CUSIP industry-wide. In reality, matching manually occurs individually at each firm, often for the identical CUSIPs and clients, thereby translating into real dollar savings as the manual work is eliminated.

Wider adoption of the LEI would further enable firms to proactively manage client and issuer data, thereby providing greater benefits to the industry. Today, data sets are managed manually and enquiries regarding breaks in client data are investigated and remediated on a reactive, and not a proactive basis. Firms assign numerous staff to process enquiries regarding reference data issues, and data breaks are resolved through manual interaction with client and issue data. This remediation work could be eliminated with broader adoption of the LEI.

Client Service

Currently, clients of investment firms often provide counterparty information using entity names or short codes, rather than a standard identifier. Analyzing a sample set of data revealed a high level of ambiguity on identification of counterparties when using names or short codes. An illustrative example would be XYZ BANK USA, XYZ BANK USA N.A., XYZ BANK USA N.A., XYZ BANK USA N.A., XYZ BANK USA N.A., XYZ BANK USA N.A., where these different names all refer to the same legal entity.

¹³ Source: CUSIP Global Services.

¹⁴ ((1 million CUSIPs * 15 minutes saved)/60 minutes)/8 hours.

Using entity names carries significant issues including inefficiency, poor data quality from mistaken identification, and slower client service. For example, on any given day internal firm surveillance systems generate hundreds of potential breaches or investment rules violations (i.e. alerts) that must be investigated by individual firms, many of which may prove false (“false-positives”). A significant portion of these false-positives are due to mistaken identification of the counterparty or issuer. Firms currently commit numerous headcount and substantial time to sort through these exceptions. Use of a standardized code such as the LEI would reduce the need for manual intervention and eliminate mistaken identification, allowing headcount to be reduced or reallocated.

As discussed below in Section E(2)(ii), standardization of the way in which data is represented from LOU to LOU would further enhance the LEI’s use for these and other purposes.

D. Challenges and costs faced in acquiring and maintaining LEIs

Challenge - Adoption and Renewal by Legal Entities that Transact Infrequently

One of the challenges the industry experiences regarding adoption and renewal of the LEI has to do with clients that transact infrequently. These entities often do not have an LEI when they decide to do a transaction and do not see the rationale for or benefits to obtaining one. They view the self-registration process as troublesome and do not want to pay the fees to acquire and maintain an LEI. For these entities, it is harder, and at times impossible to convince them to renew their LEIs. There is simply no incentive for them to do so as well as no consequence since renewal is not mandated by regulation.

Sometimes, even when an LEI is mandated for a particular jurisdiction, entities within the rule are, in some circumstances, not required to obtain an LEI. For example, in Part 45 of the Commodity Futures Trading Commission’s (“CFTC”) regulation,¹⁵ the “Information identifying the reference entity”¹⁶ is required to be reported as Primary Economic Terms data.¹⁷ However, the entity that is the subject of the protection being bought or sold in the swap is often not mandated to obtain an LEI. In another example, the ultimate underlying legal entity must be identified by an LEI for MiFIR Commodity Position Reporting. However, since this underlying legal entity is often not the trading entity, it may not have a regulatory obligation to obtain an LEI. It is difficult to motivate the entities in both these examples to obtain an LEI, since these types of entities are currently not obligated to do so under the transaction reporting rules. The industry hopes this challenge can be addressed as use of the LEI expands beyond its current scope.

¹⁵ 81 Fed. Reg. 41736, <http://www.cftc.gov/idc/groups/public/@Irfederalregister/documents/file/2016-14414a.pdf>.

¹⁶ The “Information identifying the reference entity” is defined as “the entity that is the subject of the protection being purchased and sold in the swap.” Allowable field values in the regulation are the “LEI, or substitute identifier for a natural person.” Applicable to the Credit and Equities asset classes.

¹⁷ Primary economic terms data is defined as all of the data elements necessary to fully report all of the primary economic terms of a swap in the swap asset class of the swap in question.

In other cases, we understand some firms that have limited reporting obligations may find system development costs to fully implement the LEI as an additional attribute to their client account database as too high, and simply handle their reporting obligations as an offline process. Such firms don't see the benefits from using the LEI for their internal operations, especially if they have little interaction internationally or with third party vendors.

It is unclear how much can be done to change the behavior of these participants without mandates. The industry and regulators may need to reassess the current LEI self-registration business model to determine if there are other approaches that may help reduce the administrative burden to improve adoption by clients and smaller firms. For example, lengthening the renewal period of one year, or using longer-term contracts that match the maturity of a financial transaction could ease adoption for infrequent traders. One possible model to consider for improved maintenance of the lapsed reference data is that the responsibility could be shared between registrants, financial firms, other market participants, LOUs and the GLEIF, rather than solely by the registrant. This would require some policy changes by the FSB, ROC and GLEIF, but should be considered as a different approach to keeping the reference data more up to date.

E. Main obstacles faced by market participants to adoption and implementation of the LEI

Lack of Regulatory Mandates

The lack of regulatory mandates for parties in financial transactions to obtain and maintain an LEI is still cited by market participants as the obstacle which most prevents the ubiquitous adoption of the LEI. Multiple regulators across jurisdictions have not included the mandate for an LEI in reporting rules, and therefore not all entities are obligated, or do not view themselves as obligated, to obtain one. Furthermore, most regulators do not require that an LEI be kept up-to-date, once acquired, resulting in entity reference data which is not always 100 percent accurate or current. As long as industry participants view LEIs as "optional" in terms of reporting rule sets globally, many entities will continue to fail to obtain, as well as fail to maintain, an LEI.

The industry has highlighted on many occasions that without global regulatory mandates, the LEI will continually face significant challenges in achieving wide adoption of the LEI. Regulation is the most straightforward and effective way to drive adoption. The benefits of efficiency and cost savings through use of the LEI seem clear, however, firms have numerous competing priorities, and despite the benefits from using the LEI, adoption without a regulatory mandate tends to become a lower priority in the face of many other critical projects.

We again respectfully urge the FSB to proactively work with regulatory authorities who have not yet required the LEI in legislative text to promote regulatory mandates as part of the thematic peer review. Further, we encourage the FSB to assist in raising awareness of the LEI outside of just the financial markets. The earlier example of the EUID and

identification of legal entities within Company Law in the EU (section A), is a case in point for such awareness and advocacy by the FSB.

Diverging Regulatory Adoption Across Jurisdictions

Even where jurisdictions have embraced the LEI, there are inconsistencies in the way in which the LEI is adopted between jurisdictions. For example, the EU (MiFIDII) mandates the LEI for reporting, while APAC regulators have not made the LEI mandatory to date,¹⁸ but have placed it at the top of eligible identifier hierarchies. Divergent LEI regulatory adoption from jurisdiction to jurisdiction makes implementation of the LEI for industry participants more complex and confusing, increasing the chance of reporting inconsistencies. In addition, because of this divergence, parties need to incorporate several counterparty identifiers in their global reporting systems, placing upward pressure on operational costs. Smaller clients and institutions may not have the resources or capacity available to implement varying regulatory approaches. Lastly, institutions who exist primarily in regions where the LEI is not mandated find themselves at a disadvantage since many of their clients do not see the benefit in obtaining an LEI. We urge the FSB with this peer review to plan targeted and regular outreach to such regions to help resolve some of the issues in LEI adoption.

Lack of Awareness

As LEIs continue to apply to a wider universe of entities, the industry continues to struggle, despite significant effort, to efficiently and effectively raise awareness of the G20 mandate and the benefits of broader adoption of LEIs. Entities are not always aware that the requirement to obtain an LEI applies to them, thus firms carry out considerable advocacy efforts to explain the need for LEIs. The educational process with clients may require repetition, due to the broad lack of recognition of the applicability of regulatory requirements, and general lack of understanding. Therefore, the industry welcomes the FSB's help to raise overall awareness with the market, and in particular with funds, sub-funds, intermediaries, smaller firms, and other clients about the need to obtain an LEI for reporting requirements, such as MiFID II, and other regulatory initiatives, such as use of the LEI as the "mint" for the Unique Transaction Identifier ("UTI")¹⁹ recommended by the Committee on Payments and Market Infrastructures ("CPMI") and International Organization of Securities Commissions ("IOSCO"). Periodic education and socialization by the FSB, as well as more targeted education to regions currently lagging in LEI uptake would support the financial industry's efforts to motivate clients to obtain an LEI, given the FSB's unique position of authority within the market. In addition, we encourage the FSB's help to raise awareness about the potential utility and value of the LEI within a broad range of industries and processes.

¹⁸ Except for MAS Specified Persons and, commencing in 2019, HKMA Reporting Entities. See:

[ASIC Derivative Transaction Rules \(Reporting\) 2013](#)

[Securities and Futures \(OTC Derivative Transactions – Reporting and Record Keeping Obligations\) Rules, Cap. 571A](#)

[Supplementary Reporting Instructions for OTC Derivative Transactions \(16 August 2017 version\)](#)

[Securities and Futures \(Reporting of Derivatives Contracts\) Regulations 2013](#)

¹⁹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD557.pdf>

Issues Relating to Data Quality

(1) Data Quality Generally

As with most data, the utility of the LEI is a function of its ability to convey current and accurate information. The LEI is generally of superb quality by this measure. However, there are instances where the LEI may not fully provide current information about the legal entity it represents, which can undermine the utility of the LEI and thereby broader LEI adoption. These instances generally fall into two categories: inaccuracy or ambiguity in the information initially entered into the LEI database – through an LOU – when a legal entity obtains an LEI, which is infrequent; and, more often, where the initially accurate information regarding a legal entity ceases to remain accurate – though the passage of time – as the legal entity evolves and changes.

The LEI system generally requires an entity to re-validate its information on a yearly basis. When an entity fails to re-validate its information, its associated LEI is marked as “lapsed” to, among other things, warn users of the LEI data that the information regarding that specific legal entity may have become inaccurate. The percentage of LEIs that are lapsed, approximately 16%,²⁰ remains persistently high. We know the GLEIF is implementing, in stages, a robust data quality program that will largely address issues with initial registration. However, the maintenance of the reference data over time is another issue.

As discussed in Section D, the mismatch of incentives between registrants, regulators, reporting institutions and other market participants, is a large factor affecting the data quality in the LEI system. Maintaining the LEI data quality is a critical success factor for the continued utility and adoption of LEIs and use of the Global LEI System (“GLEIS”). It is good to see new obligations are on the horizon beyond the original derivatives reporting mandate, including new recordkeeping requirements for Qualified Financial Contracts (“QFCs”) and cross-default requirements, where the LEI will be very useful. To continue to promote such expansion, it is critical that the data quality within the system be maintained at the highest level possible.

We provided a few examples in Section D of ways to improve the quality of the lapsed reference data. In particular, we suggest work needs to be undertaken to think about the roles of the various parties in the process of maintaining the data, rather than just relying on the registrant. The responsibility of maintaining reference data could be shared among registrants, financial firms, other market participants, LOUs and the GLEIF, rather than solely by the registrant. The LEI Regulatory Oversight Committee²¹ (ROC) is currently considering how market information on Corporate and other legal entity actions (like name changes, etc.), could be better integrated into the GLEIS processes.²² This provides a key opportunity for data maintenance even without the involvement of the registrant. Allowing changes to the registrant’s reference data without registrant involvement would

²⁰ <https://www.gleif.org/en/lei-data/global-lei-index/lei-statistics> (visited September 19, 2018).

²¹ See <https://www.leiroc.org/>.

²² See https://www.leiroc.org/publications/gls/roc_20170926-1.copy-1.pdf.

require some policy changes by the FSB, ROC and GLEIF and adequate guidelines for making such changes, but we believe this should be considered as a different approach to keeping the reference data more up to date. We urge the FSB to be a catalyst to create such dialog.

(2) Data Quality within LOUs and from LOU to LOU

LOUs have an opportunity to play an important role in enhancing more technical LEI data quality. An example of such an opportunity includes addressing data quality challenges related to the inconsistent use of capitalization, naming convention, and abbreviation between LOUs, and even at times within the same LOU. This inconsistency can result in delays and difficulties when users of LEI data attempt to retrieve information from the GLEIF database. Examples of such opportunities include the following:

- Search results can include a variety of letter cases, such as ABC BANK CANADA vs. ABC Bank Canada.
- Discrepancies between the fund names provided by fund managers via legal documentation and the fund names in search results.
- There are differences between LOUs in naming conventions, particularly with use of acronyms versus the full name, for example, FONDUERO V, **F.P.** vs. FONDUERO V **FONDO DE PENSIONES**.
- Acronym inconsistencies exist within the same LOU, for example GRUPO ASTRAZENECA PENSIONES, **F.P.** and GRUPO CEPESA **FONDO DE PENSIONES**. Other examples include Ltd. vs Limited, PLC. vs. Public Limited Company, LLC. vs. Limited Liability Company.

Standardizing representation of data at LOUs would eliminate the need for industry participants to perform multiple searches using variations of naming conventions, would reduce mistaken (or missed) identification, and eliminate the time spent on duplicative searches.

F. Ways to promote further adoption of the LEI, including specific areas where increased LEI uses would be the most favourable from a cost-benefit perspective

Promoting Further Adoption

The FSB has a clear opportunity to promote the further adoption of LEIs though fostering regulatory mandates and playing a key organizing role in socializing the benefits of using the LEI for industry processes not directly related to LEI mandates.

First and foremost, the Associations believe that the FSB can and should use its historical involvement in shaping the LEI and its authority within the global financial community to fulfil the obligations mandated in the G-20 statement on LEI. Specifically, the FSB should urge local regulators to mandate the use of the LEI wherever there is a need to unambiguously identify a legal entity, and further require that the LEI be maintained in a current status (i.e., not lapsed). Until this happens, the patchwork of LEI requirements

for different jurisdictions and unique market activities will not provide the foundation for sound systemic risk management and makes it difficult for financial firms to require the LEI for the onboarding of all legal entities and other internal processes.

The Associations encourage the FSB to explore strategies to increase LEI data quality to further facilitate the adoption of the LEI. Please see Section E for more details.

Working together with the ROC and GLEIF, the FSB should also explore additional mechanisms for regulated entities, such as banks, to obtain LEIs on behalf of the legal entities who are their customers, as the regulated entities generally see value from high quality LEI data, experience benefits from greater adoption of LEIs, and have access to current and accurate legal entity data related to its customer. The FSB and ROC are in a particularly advantageous position to help clear any barriers for new models of LEI issuance and maintenance by regulated entities that already maintain reference data for entities transacting in financial markets. For example, the FSB can help by working with regulators to amend current regulations to allow reliance on LOU validations rather than requiring that banks collect documentation to satisfy KYC requirements.

Most Favorable LEI Uses from a Cost-Benefit Perspective

The below paragraphs discuss specific areas where the Associations believe increased use of the LEI would be most favorable from a cost-benefit perspective. The FSB has a role in encouraging and advocating for regulators to permit such uses where appropriate. Further, The GLEIF describes potential uses of the LEI across different industries for different purposes in the consultation responses publicly posted at www.GLEIF.org.

(1) LEI Use to Facilitate KYC/AML Due Diligence

Today, banks and LOUs perform validation processes that are largely duplicative. Specifically, banks perform due diligence as part of KYC processes and LOUs do the same as part of the LEI issuance process. As part of the client on-boarding as well as other due diligence processes, financial firms are generally required to use external sources to validate information about their clients, even if they have the client's LEI. If regulators were to permit reliance on LOU due diligence, the utility of LEI could be greatly enhanced and could help streamline the client on-boarding process. The FSB should initiate a dialog with regulators to find a way eliminate such duplication by either permitting financial firms to rely on the due diligence of the LOUs or vice versa. Eliminating such duplication would save considerable industry cost, time and effort.

(2) *Payment Messages*

The FSB should encourage payment systems and related organizations, such as SWIFT and others to use the LEI in payment messages and processes to help capture cash movement from one entity to another. The proprietary identifiers currently used within such systems create inefficiencies when identifying authorized parties and constrain a regulator's ability to map activity that occurs outside such systems with activity that occurs within such systems. The CPMI Working Group on Correspondent Banking recognized several benefits of LEI use in correspondent banking in the report entitled *Correspondent Banking* mandated by the BIS Economic Consultative Committee (ECC).²³

(3) *Matching Legal Documents with Clients*

The LEI can ease the process by which legal documentation (e.g. ISDA Master Agreements and Credit Support Annexes ("CSA")) is matched to the correct client. An advantage of using an LEI was revealed during the implementation of the Basel Committee on Banking Supervision and the International Organization of Securities Commissions ("BCBS-IOSCO") margin requirements for non-centrally cleared derivatives,²⁴ when in-scope industry participants needed to re-document ISDA agreements (e.g. CSAs). Matching existing ISDA agreements with clients to ensure the correct documents were updated had to be conducted manually thus depleting countless hours of resources at financial institutions. Had the LEI been present on the legal documentation, matching would have been instantaneous and countless hours of time would have been saved throughout the numerous institutions that went through this necessary "repapering" exercise

(4) *Further Improving Institutional Operational Efficiency*

(a) Bank holding companies are required to report entity data to the Federal Reserve and to the Internal Revenue Service under the Foreign Account Tax Compliance Act ("FATCA"), and in some cases, these firms are required to provide identical entity data to each regulator for different regulatory applications. If authorities were to use the LEI centralized database to pull and consume the data, the industry would save time and improve operational efficiencies.

(b) Further efficiency gains will be achieved as the LEI ROC undertakes efforts to enhance the LEI record by adding better information about fund relationships²⁵ and ensuring that relationships are consistently represented, and using corporate actions and legal entity data history²⁶ information in the GLEIF to enhance LEI accuracy and utility.

²³ <https://www.bis.org/cpmi/publ/d147.pdf>

²⁴ BCBS-IOSCO, "Margin requirements for non-centrally cleared derivatives," September 2013, <http://www.bis.org/publ/bcbs261.pdf>. Updated March 2015: <http://www.bis.org/bcbs/publ/d317.pdf>.

²⁵ https://www.leiroc.org/publications/gls/roc_20170926-1.copy-1.pdf.

²⁶ https://www.leiroc.org/publications/gls/roc_20170726-1.pdf.

- (c) With regards to corporate actions, relationships between deactivated entities and replacement entities are inconsistently presented from record to record. Ideally, successor entity LEIs should be linked to the prior entity so there is no uncertainty in identities, however, often there is no linkage data and no information which enables searchers to link the successor entity to prior relationships using the LEI record.

Industry participants have provided examples where the LEI record of the successor entity does not even mention the previously one that has been replaced, while other LEI records do include the names of prior entity, although no way to access the old entity information. It would be useful if the successor entity record could include an audit trail of what has occurred prior, or a link to access a source of that information.

- (d) While the GLEIF already has certain mechanisms in place for users of LEI data to request changes of data that appears inaccurate, including the challenge process,²⁷ the FSB should explore ways to enhance those mechanisms and develop other initiatives which focus on different facets of LEI data quality.

(5) *Efficient and Accurate Search for Entity Information and Reference Data*

Part of the due diligence that financial institutions perform on both client and non-client legal entities includes leveraging information found in public business registries.

The GLEIF data record now includes information to identify the business registry where a Legal Entity is registered. Before this improvement, institutions had previously searched through multiple public business registries when performing due diligence on a particular entity. Several firms estimate that up to 30 minutes had been spent exploring multiple business registries to hunt for an entity's information. The availability of the information in the GLEIF database has made it more efficient to perform the equivalent due diligence, reducing the time spent from 30 to approximately 1 minute per entity. For the July 2017 data evaluated, 59 percent had a business registry number²⁸ in the LEI data record.²⁹ Using a conservative estimate that only 50 percent of the market currently uses the GLEIF database for this type of due diligence, we can estimate that the time saved industry-wide is approximately 76,008 hours³⁰ or 9,501³¹ eight-hour work days. This is a great example of real efficiency created for the industry.

The industry anticipates that further time and cost savings could be realized if all business registries began to add the LEI as a required element to their entity records regardless of whether a regulatory mandate exists for an entity to have an LEI. Business registers are in an ideal position to adopt, obtain and map LEIs into their databases and provide that

²⁷ <https://www.gleif.org/en/lei-data/challenge-lei-data>.

²⁸ The Business Register ID is populated in the LEI data record.

²⁹ Data as of 27 July 2017, Global LEI Foundation, www.gleif.org.

³⁰ (533,077 LEIs * .59 which have Business Register ID * 29 minutes saved * 50% usage) / 60 minutes.

³¹ 76,008 / 8 hours.

information to the consuming public. The FSB could play a role opening the dialog to such progress.

(6) *Hierarchy Management*

Financial institutions have multiple and often complex hierarchies to manage as part of their ongoing operations. Specifically, functional groups (i.e. Risk, Accounting, Client Relations) use different hierarchies from one another, which are often function-specific. For example, the risk group may use hierarchies based on risk relationships, accounting may use an accounting consolidation hierarchy, while others within the same firm would use hierarchies based on region or profit centers. These differing classifications are necessary to appropriately manage a firm; however, navigating between the differing hierarchical views is complex and challenging. Especially for cases where reference data uses long names to determine if an entity in one functional hierarchy is the same as an entity in another, having an LEI for each entity within an organizational tree would significantly simplify the hierarchical management. If an LEI were attached to entities in both a risk hierarchy and an accounting consolidation hierarchy, there would be no need to perform additional due diligence within the firm to determine if the correct organization was being referenced in both places. This would save the industry significant time and effort. In addition, some vendors provide hierarchical information which could vary from that of a firm's internal view. Use of LEIs would allow for prompt verification that entities are in fact the same.

We are optimistic about the ability to leverage the GLEIF Level 2³² database to facilitate such cross-referencing improvements as well as to use the database as a quality check on our own relationship records. As the collection and validation of immediate and ultimate parent information continues to grow, Level 2 data will help bring consistency to how each institution looks at hierarchical relationships and therefore will aid the analysis of risk and credit exposures. However, the current iteration of the Level 2 database is very difficult to use and the industry would like to see the GLEIF make near-term improvements to the usability of the database.

In addition, we urge the FSB and relevant authorities to socialize completed Level 2 work and the LEI ROC policy on including data on international branches³³ to help raise awareness to a higher level. As stated earlier, authoritative communications from the FSB on such topics would be a valuable tool to help ensure that markets understand the requirements and policies of the GLEIS. The Associations continue to stress the importance of being clear and consistent as to which branch fall under which legal entity in the LEI records for international branches. Complete data from a Level 2 perspective will help unlock the real value that industry participants hope to achieve in risk management and credit risk.

³² Global LEI Foundation, <https://www.gleif.org/en/lei-data/access-and-use-lei-data/level-2-data-who-owns-whom>.

³³ https://www.leiroc.org/publications/gls/roc_20160711-1.pdf.

(7) Future LEI Uses

The Associations support exploring and identifying additional areas where the LEI can be used, beyond transaction reporting. In the future, new technologies such as digital signatures, digital certificates, and utilities based on blockchain technology are expected to be integrated into many different processes, including the onboarding process of financial institutions. Employing LEIs could provide certainty of entity identification to improve data quality. As examples, LEIs could (1) be used in a distributed ledger (e.g. “blockchain”) systems for trading financial instruments to unambiguously identify counterparties, (2) be embedded into electronic seals (digital certificates) to provide evidence of a document’s origin and integrity, and (3) provide a way to construct an audit trail in numerous circumstances. The Associations encourage the FSB to support the ROC and GLEIF as they pursue such opportunities for the LEI system.

* * *

The Associations would like to thank you for your consideration of the input provided in this letter. We remain committed to helping our members and the industry advance and refine the implementation of the LEI in global reporting regimes. We would welcome the opportunity to work together with the FSB further to address LEI implementation challenges faced by FSB members as well as other global reporting jurisdictions. Please contact us if you have any questions or if we can be of further assistance.

Sincerely,

Eleanor Hsu
Director, Data and Reporting
International Swaps and Derivatives Association, Inc.

Allison Parent
Executive Director
Global Financial Markets Association

ABOUT THE ASSOCIATIONS

The International Swaps and Derivatives Association (ISDA)

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

The Global Financial Markets Association (GFMA)

The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.