FSB FINANCIAL STABILITY BOARD

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A Global Legal Entity Identifier for Financial Markets

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Abbreviations

BOD – Board of Directors

COU – Central Operating Unit

IFI – International Financial Institution

LEI – Legal Entity Identifier

LOU – Local Operating Unit

ROC – Regulatory Oversight Committee

SIFI – Systemically Important Financial Institution

Executive summary

This report sets out recommendations and proposals to implement a global Legal Entity Identifier (LEI) system that will uniquely identify parties to financial transactions. The report is provided to the Los Cabos Summit, to meet the mandate provided by the G-20 to the FSB at the Cannes Summit.

Introduction

There is widespread agreement among the public authorities and financial industry participants on the merits of establishing a uniform global system for legal entity identification. Such a system would provide a valuable 'building block' to contribute to and facilitate many financial stability objectives, including: improved risk management in firms; better assessment of micro and macroprudential risks; facilitation of orderly resolution; containing market abuse and curbing financial fraud; and enabling higher quality and accuracy of financial data overall. It would reduce operational risks within firms by mitigating the need for tailored systems to reconcile the identification of entities and to support aggregation of risk positions and financial data, which impose substantial deadweight costs across the economy. It would also facilitate straight through processing. But despite numerous past attempts, the financial industry has not been successful in establishing a common global entity identifier. The finance sector consequently lags well behind many other industries in agreeing and introducing a consistent global framework for entity identification.

The financial crisis has provided a renewed spur to the development of a global LEI system. International regulators have recognised the importance of the LEI as a key component of necessary improvements in financial data systems.[1] To provide additional impetus, the FSB was given a mandate by the G-20 to lead the co-ordination of international regulatory work and to deliver concrete recommendations on the LEI system by June 2012:

'We support the creation of a global legal entity identifier (LEI) which uniquely identifies parties to financial transactions. We call on the FSB to take the lead in helping coordinate work among the regulatory community to prepare recommendations for the appropriate governance framework, representing the public interest, for such a global LEI by our next Summit.' (Cannes Summit Declaration)

To take the work forward, the FSB set up a time-limited Expert Group of key stakeholders with the following mandate:

- To deliver clear recommendations with respect to the implementation of a global LEI system to the FSB Plenary for endorsement. Specific recommendations should be presented for the following package:
  - Governance framework for a global LEI
  - Operational model
  - Scope of LEI reference data, access and confidentiality
  - Funding model
  - Implementation and phasing

[1] Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, Report on OTC derivatives data reporting and aggregation requirement, final report, January 2012.

The value of strong co-operation between private sector stakeholders and the global regulatory community in developing an LEI system is widely accepted. The Expert Group benefited from extensive input from an Industry Advisory Panel and discussions at a workshop in Basel in March. The FSB is very grateful for the support.

The FSB Plenary has reviewed and approved the recommendations of the Expert Group.[2] This Report provides the recommendations of the FSB to the G20 Summit for the development and implementation of the global LEI system.

Key considerations and challenges to overcome

Given that a unique LEI system for financial markets offers manifold benefits, an obvious question is why such a system is not already in place? The principal reason is that the benefits of the system are collective and accrue to users and the broader public as a group. There are insufficiently strong incentives in private markets to overcome two sources of market failure. The first is a problem of collective action and co-ordination, reflecting the challenges of gaining agreement that a particular identification scheme offers the best approach. The second reflects the problem of launching a network. The benefits from the system increase as more and more parties acquire an LEI. At the launch, however, as with other examples of network goods such as the telephone, the private incentives for potential early movers to acquire an LEI are low. To date it has proved impossible to get over this initial hurdle relying purely on voluntary adoption and market incentives.

These market failures support the view that the LEI is by nature a public good, offering collective benefits that are hard to capture by private market incentives alone. In practice, public intervention, for example, that mandates the use of the LEI for reporting of exposures or positions may be needed to break down such barriers and take the initiative forward. Removing such barriers provides an opportunity for a co-ordinated approach between the public and private sector in delivering a global LEI system. That is why the recent CPSS-IOSCO Report on data reporting and aggregation requirements emphasised that: "as a universally available system for uniquely identifying legal entities in multiple financial data applications, LEIs would constitute a global public good."

There are many areas where public and private sector interests in the global LEI system are fully aligned (such as unique identification of entities, high quality reference data, integrity of systems, etc). But since the LEI system is by nature a public good, there is a need to make sure that the gains for the broader public are captured and that provision of the LEI is not exploited in ways that do not benefit the public. For example, if regulators mandate use of the LEI system, then both LEI registrants and users have no alternative but to use it. Absent any choice, the market is captive. There are consequently incentives for suppliers of the LEI to exploit their privileged position and hence risks that suppliers face incentives to overcharge registrants, restrict access, cut corners on data quality, or to use a position of privileged access to LEI information to supply other revenue-generating services on non-competitive terms. These arguments provide the motivation for the mandate provided to the FSB to produce recommendations for a governance framework for the LEI that identifies and provides strong

[2] Membership of the Expert Group comprised representatives from both FSB members and key non-members from the global regulatory community with a major stake in the initiative such as the CFTC and ESMA. The Group greatly benefited from the active input and advice of a private sector Industry Advisory Panel of 34 experts from across the globe as well as from participants in a public/private sector workshop in Basel in March.

protection of the public interest, while encouraging competitive market forces and mitigating monopoly threats.

To foster confidence in the quality of the LEI and soundness of the LEI system, it is important that there is a unique identifier for each entity that registers, and that there are reliable, while flexible, operational principles and standards applied to the origination and maintenance of an LEI. Such principles and standards will facilitate the consistent integration into a global system of entities from jurisdictions with different regulatory, legal systems and local language character sets. It is important to reflect and take into account such characteristics if all such jurisdictions are to feel comfortable in joining the system over time. Moreover, in order to generate the maximum network benefits from broad coverage, it is important that the system has the capacity to expand quickly to include new jurisdictions and new registrants across the globe. Clear processes and protocols should be in place to facilitate the integration of registrars and registrants from new members into the system. It is also crucial that the global system is flexible and adaptable to take account of changes in financial markets and new potential uses. It must also provide appropriate protection of data covered by confidentiality and privacy restrictions governing some potentially important reference data in some countries, particularly regarding information on corporate relationships and ownership structures.

Developing and implementing a global LEI system will require active support and involvement from both the global regulatory community and from the private sector, including potential LEI registrants (both from the financial and non-financial sectors), standard setters, data and system suppliers, academics and consultants. To ensure global acceptance and the long-term future of the LEI system, the public sector must put in place a governance framework with a number of key objectives: to support the delivery of a public good; to ensure that public interests in the system are protected; to promote common standards; and to facilitate widespread global adoption. Such a framework will provide a transparent, open and fair system, that protects against the risk of abuse of dominant market positions, and that facilitates quick adoption. Under this broad governance framework, it is important to provide competitive market incentives for the private sector to develop and implement effective operational and technical solutions: to draw on expertise and specialism in local jurisdictions and globally in the development and operation of registration, identification and information systems; to establish collaboration methods to learn from the successful development of similar identification systems in other industries; to gain from the benefits of competition while facilitating co-operative solutions where appropriate; and to promote standardisation of approaches across the globe that benefit international financial markets, global financial integration and economic growth. The proposals and recommendations in the report consequently set out a framework that attempts to capture in a practical manner the benefits of both public sector and private sector involvement in taking forward the global LEI initiative, while attempting to bridge different views on the appropriate boundary between public and private sector responsibilities.

Proposals and recommendations

The FSB strongly supports the development and implementation of a global LEI system. The report sets out 35 ‘Recommendations for the Development and Implementation of the Global LEI System’ (Annex 2) to advance the practical implementation of such a system.

These recommendations are guided by a set of 'Global LEI System High Level Principles' that set out the objectives that the design of a global LEI system must meet (Annex 3).

The broad aim of the proposals is to put in place a strong global governance framework to protect the public interest, while promoting an open, flexible, and adaptable operational model for the global LEI system. To be successful, the global LEI system should support the needs and interests of both the regulatory community and the private sector, and encourage widespread adoption and take up across the globe in a phased manner.

Widespread (and ultimately global) adoption will maximise the benefits of the global system. To support this objective, the FSB recommends that the global system should support a high degree of federation and extensive reliance on local implementation under agreed and commonly applied global standards. In particular, the global LEI system should be designed, operated and governed in a manner that ensures unique entity identification and consistency at the global level, while drawing on distributed local elements and local infrastructures where possible. Drawing on such local arrangements provides additional flexibility to deliver a high level of local validation of reference data for the legal entities registering for an LEI, as well as meeting local jurisdictional requirements.

The FSB recommends a three-tier structure for the global LEI system to meet the broad objectives (see attached Chart in Annex 1):

- **Regulatory Oversight Committee (ROC).** The ROC will have the ultimate responsibility for the governance of the global LEI system. It would comprise authorities which support the core principles and purposes of the system (as set out in the High Level Principles) and that are committed to support the governance in the public interest. The FSB recommends that the governance principles and obligations are set out in a global LEI Regulatory Oversight Committee Charter that should be drawn up by the autumn. Endorsement of the Charter by the FSB or G-20 would establish the ROC. Membership of the ROC will be open to all authorities wishing to participate in the global LEI system and that are committed to the objectives and commitments highlighted in the Charter. An Executive Committee would be appointed by the Plenary to steer the work under guidelines to be set out in the Charter.
- **Central Operating Unit (COU).** The Central Operating Unit is the pivotal operational arm of the global LEI system and has responsibility for delivering high quality operations. In particular, the COU has responsibility for ensuring the application of uniform global operational standards and protocols that deliver: global uniqueness of the LEI; seamless, open access to the global LEI and to high quality reference data for users (with the depth of access controlled by appropriate access rights[3]); as well as protocols and methods for how local systems can connect to the COU, including the necessary support of the local systems. The COU will be a legal entity in the form of a not for profit foundation[4] that will rely on broad industry

[3] The COU will support the maintenance of a 'logically' centralised database of identifiers and corresponding reference data – as with the Internet, the database will appear to users to be from a single seamless system, but again as with the Internet, the data will be physically stored on different systems across the globe. Technology will deliver the logical centralisation.

[4] Or body of equivalent legal form.

participation, expertise and knowledge to identify and develop the most technologically, financially and legally sound methods to implement the global LEI system in line with the standards and framework defined by the ROC. A Board of Directors (BOD) will direct the operations of the COU. The Board may include both industry representatives and independent participants. The COU's BOD, in consultation with the ROC, will provide recommendations on whether to outsource any particular function or operation of the global LEI system or whether to develop a particular solution "in-house." Those recommendations should be consistent with the High Level Principles of the global LEI system and reflect the public good nature of the system.

- **Local Operating Units (LOU).** Local Operating Units will provide the primary interface for entities wishing to register for an LEI. They will be the local implementers of the global system. LOUs will offer facilities such as local registration, validation, and maintenance of reference data; protection of information that must be stored locally; and will facilitate the use of local languages and organisation types. LOUs could build on local business registry or numbering services to maximise the utilisation of local infrastructures. In some jurisdictions, there may be multiple LOUs to encourage competition, in others there may be one which could reside or be operated in the private or public sector, in yet others there may be no LOU and entities wishing to acquire an LEI will need to apply across borders or to the COU until the local infrastructure is established. In the latter case, if an LOU is subsequently created, it will be important to ensure that the LEI is portable (transferable) to the local jurisdiction.

An important objective in the system design is to ensure that the global LEI system has a self-sustaining funding model. The model must ensure that the system is based on non-profit cost recovery[5] and that there are no monopoly rents accruing to service providers. The proposed steady state funding system[6] has two components: a local discretionary charge; and a common fee for support of central functions of the COU and ROC. The cost of obtaining an LEI should be modest and not a barrier to acquisition. Access to the LEI and associated reference data will be free and open to all users, and there should be no 'bundling' of other services alongside the LEI by providers which forces users to pay directly or indirectly for the LEI.

The FSB encourages widespread adoption of LEIs and consequently supports that the eligibility of 'legal entities' to apply for an LEI should be broadly defined, in order to ensure that all relevant entities can apply now and in the future as financial markets evolve and adapt. Uniqueness must be guaranteed, however, and so only one LEI may be assigned to any financial market counterparty.

The initial reference data available at the launch of the LEI will enable the unique identification of the eligible legal entity. The subject reference elements are outlined in the recently issued standard ISO 17442:2012, *Financial Services – Legal Entity Identifier (LEI)*[7]. The FSB endorses the recommendation of the Expert Group that, as specified in ISO

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[5] Albeit with provisions to ensure efficiency and avoid any gold-plating of costs.

[6] Start up funding is covered below.

[7] The standard was published by the International Organisation for Standardisation on 30 May 2012.

17442:2012, the official name of the legal entity, the address of the headquarters of the legal entity, the address of legal formation, the date of the first LEI assignment, the date of last update of the LEI, the date of expiry[8], business registry information (if applicable), alongside a 20 digit alphanumeric code[9] should form the basis for the system at the launch of the global LEI initiative.

The FSB concluded that it is very important that the system is adaptable and expandable and that new reference data can be added into the global system. In particular, the FSB recommends the rapid development of the standards for LEI reference data on ownership and corporate hierarchies, as these data are essential to achieve one of the key objectives of risk aggregation for the global LEI system. The FSB consequently recommends that work is taken forward urgently to develop proposals and, if necessary, global standards for additional reference data on the direct and ultimate parents of legal entities to address the current operational constraints that prevent timely and effective data aggregation. The next step in this work will need to address the challenge that some jurisdictions may not, at least immediately, be able to share such information due to confidentiality and privacy restrictions. That will also affect where such data can be stored in the global LEI system (locally or centrally). Ideally, legal and technical arrangements can be put in place to enable sharing of confidential information among the global regulatory community, although this warrants additional scrutiny.

Implementation and next steps

The FSB strongly supports rapid implementation of the global LEI system. Early delivery of the system would advance multiple G-20 financial market initiatives and provide manifold benefits to the global regulatory community as well as to the private sector.

The FSB recommends adoption of an implementation plan with the goal of establishing an independent, open, fair and transparent global LEI system by the end of 2012 with the system independently functional by March 2013. Achieving this ambitious objective will require high level political support and strong engagement and co-operation with a wide range of private sector stakeholders on the development of the COU. That in turn will build on the successful interaction over the past four months between the FSB LEI Expert Group and the private sector, through the LEI Industry Advisory Panel and the workshop.

Subject to the G-20 supporting further work to launch the global LEI, and entrusting preparatory work to the FSB, the FSB recommends establishing an LEI Implementation Group with a time and task-limited mandate to launch the global LEI system on a self standing basis by no later than March 2013.

The Implementation Group (IG) would build on and replace the current Expert Group and would comprise interested and willing experts (legal, IT and other) from the global regulatory community. To reflect the global nature of the LEI initiative, the group would be led by

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[8] For entities with a date of expiry, the reason for the expiry should be recorded, and, if applicable, the LEI of the entity or entities that acquired the expired entity.

[9] The technical code of the LEI should be a 20 digit alphanumeric number as set out in the ISO standard 17442:2012. The code should not incorporate any intentional embedded intelligence (such as a country reference) which would lead to the code becoming out of date.

representatives from different geographical regions. There are two principal strands of work[10] (as shown in Chart 1 overleaf):

- Legal and policy work to develop the proposed Charter for the ROC together with the necessary documents governing the creation and operation of the ROC and the COU.
- Technology work with the private sector to establish the COU.

The initial objective of the legal workstream will be to develop the Charter for the ROC (see Annex 4: Initial Elements for Inclusion in a Charter for the Global Regulatory Oversight Committee) as well as other key legal documents such as the bylaws of the ROC and the legal framework for the establishment of a global LEI foundation charged with developing and operating the COU. The G-20 may either assign the FSB the task of preparing and endorsing the Charter, or could decide to undertake the final endorsement itself at the Finance Ministers and Central Bank Governors meeting in November. Endorsement of the Charter will establish the ROC[11]. A small secretariat may be recruited to support the ROC as determined by the ROC. International financial institutions would be approached to see if they would be prepared to support the establishment of the ROC. Once in place, the ROC will be able to endorse and establish the COU, including appointing the first BOD according to criteria developed by the Implementation Group. An early task is to analyse and develop practical methods for seed-corn funding for development of the global system (the preferred option is to approach charitable foundations that are interested in the area about funding a global LEI foundation which will form the COU[12] – other options, which could be complementary, include loans from IFIs or from the private sector).

In parallel, the technology stream will undertake preparatory work with a wide range of private industry representatives interested in joining a global industry LEI foundation consultative group[13] to develop a central platform that will facilitate the integration of a local identification schemes (whether currently existing or emerging) into a logically centralised database of unique LEIs based on consistent standards, protocols, procedures etc that appears seamless to users. This work will be taken over by the global LEI foundation or body of equivalent legal form under the direction of its BOD, once the ROC is in place to formally establish the foundation/COU and appoint the Board[14]. Once in place, the Board will then have responsibility under the guidance of the ROC for finalising the development and implementation of the necessary systems, including decisions on whether to build or buy particular components and services (including the option of complete contracting out).

The attached report sets out the recommendations and implementation plan.

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[10] Taking forward the development of recommendations for additional reference data to reflect ownership will form a third strand.

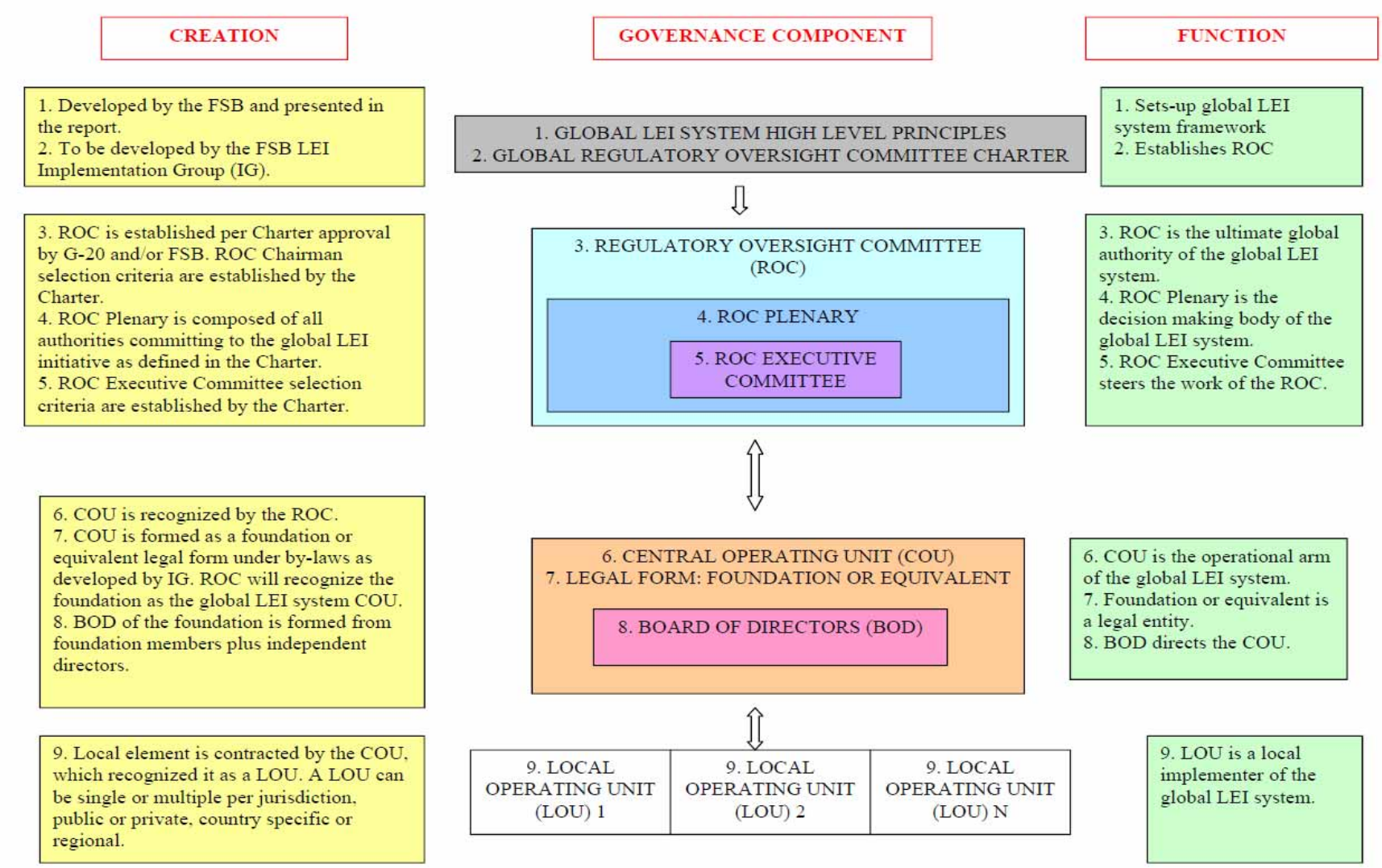
[11] The Charter will spell out the timeline and process to form the ROC as an operational Committee (eg membership, nomination of Chairman, secretariat, etc).

[12] Preliminary discussions indicate interest on the part of such foundations and other non-governmental organizations.

[13] An open invitation and solicitation of interest would be made by the Implementation Group via a public announcement upon endorsement of the Report by the G-20.

[14] Once the ROC has established the COU and appointed the Board, the COU will also have responsibility for the operational integration of any existing pre-LEI solutions operated by potential LOUs (eg the CFTC CICI solution - which is expected to be launched in mid 2012).

Annex 1: Global LEI system diagram



Annex 2: Recommendations for the development and implementation of the global LEI system

The following 35 recommendations are proposed by the FSB in order to develop and implement the global LEI system. They also include steps to be addressed by the recommended FSB LEI Implementation Group in the implementation phase of the global LEI initiative.

Recommendation 1

SETTING UP A GLOBAL LEI SYSTEM The FSB strongly supports the development and implementation of a global LEI system that uniquely identifies participants to financial transactions.

Recommendation 2

GLOBAL REGULATORY COMMUNITY REQUIREMENTS The LEI system should meet the requirements of the global regulatory community (including supranational organisations). The potential benefits of the LEI include: to support authorities in fulfilling their mandates to assess systemic risk and maintain financial stability; conduct market surveillance and enforcement; supervise market participants; conduct resolution activities; prepare high quality financial data and undertake other regulatory functions.

Recommendation 3

GLOBAL LEI SYSTEM GOVERNING DOCUMENTS Global LEI system High Level Principles set out the principles and commitments that specify and define the governance and structure of the global LEI system. A global LEI Regulatory Oversight Committee Charter should specify the mission, role and responsibilities of the Committee as well as the process for its establishment. Support for the High Level Principles agreement and Charter will indicate a desire to participate in the global LEI system.

Recommendation 4

SUPPORT OF FINANCIAL MARKET PARTICIPANTS The LEI system should be designed in a manner that provides benefits to financial market participants.

Recommendation 5

SYSTEM FLEXIBILITY Flexibility must be built into the global LEI system to provide the capability for the system to expand, evolve and adapt to accommodate innovations in financial markets. It must also allow the seamless introduction of new participants. To these ends, critical software and other relevant elements must be defined and made publicly available without any licensing, intellectual property or similar restrictions under open source principles. The LEI should be portable[15] within the global LEI system.

[15] In this context a portable LEI means that the code could be transferred from one LOU to another LOU. This may be necessary, for example, in case of the LEI being obtained originally from a foreign LOU before a local LOU was established or if an entity changed its legal address or headquarters, etc.

Recommendation 6

COMPETITION AND ANTI-TRUST CONSIDERATIONS The LEI system should be designed to ensure that it is not "locked-in" with a particular service provider for any key system functions or processes, and that the principles of competition are ensured on both global and local levels where appropriate. The governance framework should provide safeguards to ensure that competition principles and anti-trust considerations are upheld. The local implementation of the global LEI system should meet local anti-trust requirements.

Recommendation 7

FEDERATED NATURE OF THE LEI SYSTEM The global LEI system should support a high degree of federation and local implementation under agreed and implemented common standards.

Recommendation 8

SCOPE OF COVERAGE Eligibility of 'legal entities' to apply for an LEI should be broadly defined, in order to identify the legal entities relevant to any financial transaction. No more than one LEI shall be assigned to any legal entity.

Recommendation 9

LEI REFERENCE DATA AT SYSTEM LAUNCH The official name of the legal entity, the address of the headquarters of the legal entity, the address of legal formation, the date of the first LEI assignment, the date of last update of the LEI, the date of expiry, business registry information (if applicable), alongside a 20 digit alphanumeric code should form the basis for the global system at the launch of the global LEI initiative. For entities with a date of expiry, the reason for the expiry should be recorded, and, if applicable, the LEI of the entity or entities that acquired the expired entity.

Recommendation 10

REVIEW OF SCOPE OF COVERAGE AND REFERENCE DATA The Regulatory Oversight Committee should undertake regular reviews of the scope and extent of coverage of the LEI to reflect emerging regulatory and market requirements for the LEI use according to an agreed schedule. The Regulatory Oversight Committee should undertake regular reviews of the LEI reference data according to a set schedule to monitor the required changes, additions, retirements and modifications.

Recommendation 11

STANDARDS FOR THE LEI SYSTEM The LEI system should meet, to the degree possible, evolving requirements of both the regulatory community and industry participants in terms of information content, scope, timeliness and availability. The Regulatory Oversight Committee is responsible for the final determination for any standards for the LEI to be utilised in the global LEI system. When proposing areas for the development of new standards, the Regulatory Oversight Committee should strongly consider utilising existing standard setting organizations to develop such standards, provided that such organizations

incorporate the requirements for the standards as determined and communicated by the Regulatory Oversight Committee.

Recommendation 12

LEI REFERENCE DATA ON OWNERSHIP The FSB LEI Implementation Group should as soon as possible develop proposals for additional reference data on the direct and ultimate parent(s) of legal entities and relationship or ownership data more generally and to prepare recommendations by the end of 2012. The group should work closely with private sector experts in developing the proposals.

Recommendation 13

LEI OPERATIONAL AND HISTORICAL DATA The LEI system should maintain high quality records that retain relevant information on amendments (query, add, modify or delete of any data element) to data items as well as additional data to facilitate the surveillance and control of the system by the COU where appropriate.

Recommendation 14

CENTRAL OPERATING UNIT The mission and role of the Central Operating Unit should be to ensure the application of uniform global operational standards and protocols that deliver global uniqueness of the LEI, seamless access to the global LEI and to high quality reference data for users with depth of access controlled by appropriate access rights, as well as protocols and methods for how local systems can connect to the Central Operating Unit.

Recommendation 15

FORMATION OF THE CENTRAL OPERATING UNIT The LEI Implementation Group should develop a detailed plan for the formation of the Central Operating Unit via the establishment of a not-for-profit LEI foundation[16] by interested industry participants under the oversight of the formed LEI Regulatory Oversight Committee. The foundation would rely on industry participants, their expertise and knowledge to identify and develop the most technologically, financially and legally sound methods to implement the global LEI system in line with the standards and framework defined by the Regulatory Oversight Committee. Representatives from all geographic areas and industry sectors would be invited to participate in the preparatory work underpinning the formation of the LEI foundation as the Central Operating Unit in a manner defined by the Implementation Group.

Recommendation 16

BALANCED REPRESENTATION IN THE CENTRAL OPERATING UNIT The Regulatory Oversight Committee and LEI Implementation Group should ensure that the global LEI foundation takes account of the interests of financial and non-financial industry participants from different geographic areas and economic sectors.

[16] Or body of equivalent legal form.

Recommendation 17

LOCAL OPERATING UNITS The LEI system should allow the local provision of all LEI functions which the Regulatory Oversight Committee determines do not need to be centralised. The LEI system should enable the use of local languages, organisation types and relationship structures as required. Procedures to integrate local systems into the global LEI system should be developed by the LEI Implementation Group in consultation with local jurisdictions and potential Local Operating Units (when available) in a way and manner that meets the global LEI system High Level Principles. The Central Operating Unit of the LEI system should be able to provide support to Local Operating Unit operations when necessary according to criteria and requirements established by the Regulatory Oversight Committee and administered by the Central Operating Unit.

Recommendation 18

LEI DATA VALIDATION The LEI system should promote the provision of accurate LEI reference data at the local level from LEI registrants. Responsibility for the accuracy of reference data should rest with the LEI registrant, but Local Operating Units have responsibility to exercise due diligence in guarding against errors, as consistent with Regulatory Oversight Committee standards, and to encourage necessary updating. The Central Operating Unit has responsibility to check registrations for global uniqueness and to coordinate reconciliation by Local Operating Units where necessary. Accuracy should be ensured at the local level by the registered entities. Self-registration should be encouraged as a best practice for the global LEI system.

Recommendation 19

LEI ISSUANCE WHEN NO LOCAL REGISTRAR AVAILABLE Whenever possible the LEI registration should take place with the relevant Local Operating Unit. When a Local Operating Unit is not available, the Regulatory Oversight Committee and a local jurisdiction (when willing to engage) should agree on approaches for local entities to obtain LEIs. The Implementation Group should develop proposals for such mechanisms via: (1) establishing a mechanism of obtaining LEIs through other Local Operating Units; (2) establishing a mechanism of obtaining LEIs from a registration facility in the Central Operating Unit; and (3) any other mechanisms that are appropriate.

Recommendation 20

SUSTAINABLE FUNDING The steady state funding of the global LEI system should be self-sustainable and reliable. The funding system should be based on an efficient non-profit cost-recovery model. The system should have two components: a local discretionary charge; and a common fee based on the number of registrations in each LOU to pay for the centralised operations in the Central Operating Unit, alongside any costs of implementing and sustaining the governance framework. Fees should be sufficiently modest not to act as a barrier to acquiring an LEI.

Recommendation 21

GLOBAL REGULATORY OVERSIGHT COMMITTEE CHARTER The governance framework of the global LEI system should be developed at the international level in an open and transparent manner that supports collective governance of the global system. A global LEI Regulatory Oversight Committee Charter should set out the formation and operations of the Regulatory Oversight Committee. The global LEI Regulatory Oversight Committee Charter should be prepared by the FSB LEI Implementation Group for endorsement by the G-20 at the Finance Ministers and Central Bank Governors meeting in November 2012 or by the FSB Plenary in October.

Recommendation 22

REGULATORY OVERSIGHT COMMITTEE A Regulatory Oversight Committee, as specified in the Charter, should have the responsibility of upholding the governance principles and oversight of the global LEI system functioning to serve the public interest. The Regulatory Oversight Committee should be a body representing regulators and other government or supranational entities engaged in regulating or monitoring the financial system or markets. Membership and decision making processes would be established by the Charter. Wherever possible, decisions would be reached by consensus.

Recommendation 23

POWER AND AUTHORITY OF THE REGULATORY OVERSIGHT COMMITTEE The Regulatory Oversight Committee has the ultimate power and authority over the global LEI system. Any power delegated to the Central Operating Unit, Local Operating Units and other entities can be reversed by the Regulatory Oversight Committee[17]. The Regulatory Oversight Committee should establish a formal oversight plan to ensure that its directives to the Central Operating Unit or other parts of the system are enforced and that the governance principles are upheld.

Recommendation 24

PARTICIPATION IN THE REGULATORY OVERSIGHT COMMITTEE To participate in the LEI Regulatory Oversight Committee, an authority should indicate support for the global LEI High Level Principles and Charter for the Regulatory Oversight Committee. Authorities may elect to be a full member of the Regulatory Oversight Committee or an observer. The rights and responsibilities of members and observer status participants should be defined in the Charter.

[17] Local authorities may also reserve rights to be engaged in decisions on local registration operations to the extent that they act in accordance with the High-Level Principles of the LEI system.

Recommendation 25

LEVERAGING INFRASTRUCTURE OF AN INTERNATIONAL FINANCIAL ORGANISATION In developing proposals to establish the Regulatory Oversight Committee following agreement on the Charter, the Implementation Group should if possible and, subject to agreement, leverage on the existing infrastructure of an international financial organisation to initiate and stand-up the global LEI governance structure in a timely manner, utilising the experience of the international organisation in executing international initiatives.

Recommendation 26

GOVERNING DOCUMENTS FOR THE CENTRAL OPERATING UNIT Alongside the development of the global Charter, the Implementation Group should develop legal documents governing the mandate provided by the Regulatory Oversight Committee to the Central Operating Unit as well as other legal documents needed to specify the full governance framework for the global LEI system.

Recommendation 27

BOARD OF DIRECTORS OF THE CENTRAL OPERATING UNIT The Central Operating Unit shall have a Board of Directors. The Regulatory Oversight Committee has the right to veto membership of the BOD, as well as to remove members. The ROC has the right to appoint independent members[18].

Recommendation 28

FORMATION OF THE INITIAL BOARD OF DIRECTORS OF THE CENTRAL OPERATING UNIT The Central Operating Unit's initial Board of Directors should be appointed by the Regulatory Oversight Committee, taking into account the need for geographic and sectoral diversity. The Implementation Group should develop the fitness criteria, size, role etc for the BOD that should be reviewed in two years by the Regulatory Oversight Committee.

Recommendation 29

POWERS AND FUNCTIONS OF THE BOD OF THE CENTRAL OPERATING UNIT The Board of Directors of the Central Operating Unit should be granted powers to direct the management and operations of the Central Operating Unit in line with the overall standards set by the Regulatory Oversight Committee.

Recommendation 30

CONTINGENCY ARRANGEMENTS The Regulatory Oversight Committee is responsible for setting and overseeing the application of business continuity standards for the global LEI system in line with best practices for key financial infrastructure. Rules and procedures should be defined that the Central Operating Unit and Local Operating Units must follow in case of

[18] In this context independent members mean non-industry representatives.

insolvency, bankruptcy, etc in order to ensure continuity of the global LEI system. A protocol should also be developed for maintenance of secure parallel copies of the LEI, in a manner that respects local laws.

Recommendation 31

LEI INTELLECTUAL PROPERTY The LEI Implementation Group should conduct analysis and provide recommendations on the treatment of the "LEI" intellectual property (such as the LEI code, software, reference data, any other LEI data, operational protocols, etc) according to the principles of open access and the nature of the LEI system as a public good. The objective of this analysis shall be to ensure a regime that assures the availability in the public domain, without limit on use or redistribution, of LEI data, reference data, and processes. Any intellectual property rights should be held by, or licensed to the global LEI foundation unless defined otherwise by the Regulatory Oversight Committee. Copyright should be used to the extent possible to promote the free flow or combination of information from disparate sources.

Recommendation 32

FSB LEI IMPLEMENTATION GROUP Subject to the G-20 supporting further work to launch the global LEI, and entrusting implementation planning to the FSB, an FSB LEI Implementation Group (IG) should be established with a clear mandate to launch the global LEI system on a self- standing basis. The LEI Implementation Group should cease to exist upon formation of the Regulatory Oversight Committee which should be by 31 March 2013 at the latest.

Recommendation 33

STRUCTURE OF THE FSB LEI IMPLEMENTATION GROUP A time-limited FSB LEI Implementation Group of interested and willing experts (legal, IT, and other) from the global regulatory community that includes interested parties from the FSB LEI Expert Group should be formed to take the global LEI initiative forward into the global implementation phase until the Regulatory Oversight Committee is established. The IG should be led by representatives from different geographic areas to reflect the global nature of the LEI initiative and will be supported by the FSB Secretariat. The IG should develop proposals for the global LEI system stand-up as defined in the mandate below for review and endorsement by the FSB Plenary in October 2012 and, as appropriate, final review and endorsement by G-20 Finance Ministers and Central Bank Governors in November 2012.

Recommendation 34

RESPONSIBILITIES OF THE FSB LEI IMPLEMENTATION GROUP The mandate of the FSB LEI Implementation Group should be to prepare a draft global LEI Regulatory Oversight Committee Charter, proposals for the establishment of the LEI Regulatory Oversight Committee and related structures, develop all necessary legal documents for Regulatory Oversight Committee operations, develop necessary intellectual property agreements and contracts, conduct research and provide recommendations on LEI related information sharing arrangements; set up the process and any necessary legal documentation necessary for establishment of the Central Operating Unit and its Board of Directors; and set

up the process for establishment of the necessary standards, protocols, rules and procedures and organizational design for the Central Operating Unit.

Recommendation 35

ESTABLISHMENT OF THE GLOBAL LEI SYSTEM The global LEI system will be established by the endorsement of the high level Charter for the Regulatory Oversight Committee by the G-20 Finance Ministers and Governors in November or by the FSB Plenary in October.

Annex 3: Global LEI System High Level Principles

The global LEI system High Level Principles have been prepared to guide the development of the global LEI system, in line with the G-20 mandate of developing a governance framework that represents the public interest. The recommendations for the development and implementation of the global LEI system in Annex 2 draw on the High Level Principles.

1. The Global LEI system should uniquely identify participants to financial transactions.
2. The LEI system should meet the requirements of the global regulatory community for accurate, consistent and unique entity identification.
3. The LEI system should be designed in a manner that provides benefits to financial market participants.
4. Flexibility must be built into the global LEI system to provide the capability for the system to expand, evolve, and adapt to accommodate innovations in financial markets.
5. The LEI system should not be "locked-in" with a particular service provider for any key system functions or processes. The principles of competition should be ensured on both global and local levels where appropriate.
6. The global LEI system should support a high degree of federation and local implementation under agreed and implemented common standards.
7. The LEI system should meet evolving requirements of both the regulatory community and industry participants in terms of information content, scope of coverage, timeliness and availability.
8. The LEI Regulatory Oversight Committee should have the responsibility of upholding the governance principles and oversight of the global LEI system functioning to serve the public interest. The Committee has the ultimate power and authority over the global LEI system.
9. The mission, role and responsibilities of the ROC shall be specified by the global LEI Regulatory Oversight Committee Charter, which shall establish the Committee.
10. Participation in the global LEI Regulatory Oversight Committee shall be open to all authorities subscribing to the High Level Principles and to the objectives and commitments in the Charter.
11. The LEI Central Operating Unit should have the mission and role to ensure the application of uniform global operational standards and protocols set by the ROC and act as the operational arm of the global LEI system. It shall be established as a foundation or legal equivalent.
12. The LEI Central Operating Unit should have a balanced representation of industry participants from different geographic areas and sectors of economy. Its Board of Directors should be selected from industry representatives, plus independent participants.

13. The LEI system should allow the local provision by Local Operating Units of all LEI functions which the ROC determines are not required to be centralised.

14. The LEI system should promote the provision of accurate LEI reference data at the local level from LEI registrants and ensure global uniqueness of the registrants.

15. Any global universal intellectual property rights should belong to the global LEI system.

Annex 4: Initial elements for inclusion in a Charter for the global LEI Regulatory Oversight Committee (ROC)

The initial elements for inclusion in a Charter for the global LEI Regulatory Oversight Committee (ROC) outlines a number of high level elements that could be considered for incorporation in the development of the proposed Charter.

Mission of the ROC

- To govern the global LEI system in the public interest in accordance with the global LEI system High Level Principles.
- To take any action deemed necessary to protect the public interest in respect of the global LEI system.

Objectives of the Charter

- To provide high level agreement on the governance framework for the global LEI system.
- To establish the ROC as the regulatory governance body for the global LEI system.
- To specify the mandate and objectives of the ROC.
- To provide the ROC with authority and power to take any action necessary to protect the public interest in respect of the global LEI system.

Commitments and Obligations

Authorities abiding by the Charter agree to:

- Uphold the agreed, global, governance principles to protect the public interest in relation to the global LEI system.
- Participate in the work of the Regulatory Oversight Committee.
- Support the introduction of the global LEI for regulatory purposes.

Membership

- Participation in the ROC shall be open to all regulatory authorities, jurisdictions and supranational authorities that agree to the High Level Principles for the global LEI system and that are willing to subscribe to the commitments specified in this Charter.

Mandate and Responsibilities of the Regulatory Oversight Committee

- The ROC shall have responsibility for upholding the governance principles and oversight of the global LEI system functioning to serve the public interest.
- The ROC shall have responsibility for protection of the public interest: to protect the public good of the global LEI system and to mitigate any potential for the exploitation of privilege and market power. Specific objectives include:
    - Assuring open and free access to publicly available data.

        - Data should be non-proprietary, with no 'bundling of services[19], or restrictions on access or redistribution;
        - All public data should be readily available on a continuous basis, free of charge;
        - Confidential data must be suitably protected;
        - Data and operating processes should not be subject to any type of Intellectual Property restrictions;
    - Assuring open access to the acquisition of an LEI. Entities required to, or wishing to, obtain an LEI should be able to acquire one under open, and non-discriminatory terms:
        - Fees, where and when imposed, should be modest and set on a non-profit cost-recovery basis[20]. The operational model must be efficient and avoid excessive costs. Budgeting frameworks should be clear and consistent.
        - No restrictions should be placed on the use of the LEI by the registrant.
    - No competitive advantage should apply to any entity involved in the LEI system.
    - Ensuring that the LEI system meets public sector requirements, including:
        - Ensuring uniqueness, accuracy, reliability, portability and persistence of the LEI code and reference data.
        - Proposing new standards for the LEI system that serve the public interest and reflect market changes. Modifying existing standards as required.
        - Promoting the use and scope of the LEI to expand the collective benefit from widespread adoption.
        - Utilising local language and character sets, as well as ensuring access to the whole system in a common language.
- The ROC shall have the ultimate responsibility for developing standards and general policies and overseeing the functioning of the global LEI system in the public interest irrespective of whether those functions are delegated or not. This should include the following:
    - Plans, policies, and strategy for the global LEI system
    - Standards for LEI reference data
    - Approval of budgets of the Central Operating Unit
    - Approval of material contracts to avoid 'vendor dependence'

[19] The LEI should be freely and openly available and should not be tied (or 'bundled') to the provision of other services.

[20] It is possible that some jurisdictions could be willing to fund the LEI issuance from public sources and provide LEIs to its local entities free of charge.

- Business continuity standards
- Audit of the system for financial control, best business practices, data quality standards, etc.
- Recognition and termination of Local Operating Units and registration agencies[21].

Functions and Powers

- The ROC has the ultimate power and authority over the global LEI system. Any power delegated to the Central Operating Unit, Local Operating Units and other entities can be reversed by the ROC.
- The ROC has responsibility for establishing the global LEI foundation or body of equivalent legal form as a legal form that will operate the Central Operating Unit as well as the criteria for participation in the foundation.
- The ROC shall appoint the initial Board of Directors of the Central Operating Unit and has the power to veto or remove Directors thereafter. The ROC has the power to appoint independent Directors to the Board of the COU.
- The ROC should establish a formal oversight plan to ensure that its directives to the COU or to other parts of the global LEI system are enforced and that the governance principles are upheld.
- The ROC has the right and should have the ability to audit the parties engaged in the global LEI system and appoint independent auditors.
- The ROC should have the ability to adjudicate disputes.

Structure of the ROC

- The ROC should be composed of the ROC Plenary and ROC Executive Committee.
- Plenary: All participating authorities shall be members of the Plenary. The Plenary is the ultimate decision making body of the ROC.
- Executive Committee: An Executive Committee shall be selected from among the Plenary membership to direct the functioning of the ROC.
  - Membership shall be balanced jurisdictionally and regionally and also in terms of expertise and functions (eg prudential regulators, market regulators, central banks, etc). Criteria to be determined.
  - Responsibilities of the Executive Committee to be determined.
- Chair: A chair of the ROC shall be appointed. Role, terms, appointment procedure, etc to be determined.
- Observer status: Authorities may participate as observers in the ROC. Role of observers and criteria for participation to be determined.

[21] Local authorities may also reserve rights to be engaged in decisions on local registration operations to the extent that they act in accordance with the High Level Principles of the LEI system.

Decision making

- Decisions shall be made by consensus, wherever possible.
- Voting arrangements to be decided in cases where consensus is not possible.

Sub-Committees and Advisory Panels

- The ROC will create Sub-Committees to undertake key functions as it judges necessary. The mandate and responsibilities of any such Sub-Committees shall be decided by the ROC.
- The ROC may also appoint public or private sector Advisory Panels as it judges necessary.

Secretariat and Administration

- A ROC Secretariat should be formed to support ROC activities as required.
- Size, role, and location of any central secretarial function for the ROC to be determined.
- The cost of any central governance function shall be provided from centrally collected registration fees.

Establishment

- The ROC shall be established upon endorsement of this Charter by the G-20/ FSB. The Charter will spell out the timeline and process to form the ROC as an operational Committee (eg membership, nomination of Chairman, secretariat, etc).

A Global Legal Entity Identifier for Financial Markets

I. Introduction

Introducing a single global system for uniquely identifying parties to financial transactions would offer many benefits. There is widespread agreement among the global regulatory community and financial industry participants on the merits of establishing such a legal entity identifier (LEI) system. The system would provide a valuable 'building block' to contribute to and facilitate many financial stability objectives, including: improved risk management in firms; better assessment of micro and macroprudential risks; facilitation of orderly resolution; containing market abuse and curbing financial fraud; and enabling higher quality and accuracy of financial data overall. But despite numerous past attempts, the financial industry has not been successful in establishing a common global entity identifier and lags well behind many other industries in agreeing and introducing a common global approach to entity identification.

The financial crisis has provided a renewed spur to the development of a global LEI system. International regulators have recognised the importance of the LEI as a key component of necessary improvements in financial data systems[22]. The value of strong co-operation between private sector stakeholders and the global regulatory community is widely accepted.

To provide additional impetus, the FSB was given a mandate by the G-20 to lead the co-ordination of international regulatory work and to deliver concrete recommendations on the LEI system by June 2012:

'We support the creation of a global legal entity identifier (LEI) which uniquely identifies parties to financial transactions. We call on the FSB to take the lead in helping coordinate work among the regulatory community to prepare recommendations for the appropriate governance framework, representing the public interest, for such a global LEI by our next Summit.' (Cannes Summit Declaration)

To take the work forward, the FSB set up a time-limited Expert Group of key stakeholders with the following mandate:

- To deliver clear recommendations with respect to the implementation of a global LEI system to the FSB Plenary for endorsement. Specific recommendations should be presented for the following package:
    - Governance framework for a global LEI;
    - Operational model;
    - Scope of LEI reference data, access and confidentiality;
    - Funding model;
    - Implementation and phasing.

[22] Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, Report on OTC derivatives data reporting and aggregation requirement, final report, January 2012.

The FSB Plenary has reviewed and approved the recommendations of the Expert Group[23]. This Report provides the recommendations of the FSB to the G20 Summit for the development and implementation of the global LEI system. It has eight sections. Section II outlines the objectives of the global LEI system and the potential benefits and uses. Challenges to overcome in developing and implementing a global system are addressed in Section III. The subsequent section sets out principles underpinning the framework and design of the global LEI system. Section V outlines the potential coverage of the LEI and the reference data associated with it. Section VI describes the operational framework for the global LEI system, highlighting the key operations and functions. The following section outlines the specific regulatory objectives required to protect the public interest and sets out proposals for a global governance framework to deliver them. Section VIII provides concrete recommendations on the launch of the global LEI system, including setting out the way forward and next steps.

II. Objectives of the global LEI system

The current problem The lack of a common, accurate and sufficiently comprehensive identification system for parties to financial transactions raises many problems. For example, as outlined in the recent report by CPSS-IOSCO on OTC derivatives data reporting and aggregation requirements[24], a single firm may be identified by different names or codes which an automated system may interpret as references to different firms. Thus in the example outlined, the firm J.P.Morgan may be identified as "Morgan", "JP Morgan", "J.P.Morgan", "JPM", or "J.P. Morgan" which an automated system may ascribe to different entities, thus rendering data aggregation and validation very difficult. Individual firms may resolve this by spending large amounts of money on "data cleaning" and on developing bespoke IT and data management systems to enable internal reconciliation and data aggregation. Such systems are costly and cannot be reconciled across firms. Deadweight costs across the economy from such an approach are high.

Objectives of the global LEI system The ultimate aim is to put in place a system that could deliver unique identifiers to all legal entities participating in financial markets across the globe. Each entity would be registered and assigned a unique code that would be associated with a set of reference data (e.g. basic elements such as name and address, or more complex data such as corporate hierarchical relationships). Potential users, both regulators and industry, would be granted free and open access to the LEI and to shared reference information for any entity across the globe and could build this into their internal automated systems. A high quality LEI would thus offer substantial benefits to financial firms and market participants that currently spend large amounts of money on reconciling and validating

[23] Membership of the Expert Group comprised representatives from both FSB members and key non-members from the global regulatory community with a major stake in the initiative such as the CFTC and ESMA. The Expert Group greatly benefited from the active input and advice of a private sector Industry Advisory Panel of 34 experts from across the globe as well as from participants in a public/private sector workshop in Basel in March.

[24] Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, Report on OTC derivatives data reporting and aggregation requirement, final report, January 2012.

counterparty information, as well as offering major gains to risk managers and the regulatory community in relation to the identification, aggregation and pooling of risk information.

Public sector interests and uses A system enabling unique identification of legal entities, supported by high quality reference data, offers substantial benefits across a wide range of regulatory work and financial stability analysis. The LEI provides a powerful foundational tool to enhance the monitoring and management of systemic risks. Among the potential benefits are:

- **Improved data aggregation and analysis:** It will be easier to combine and verify data, both within individual firms, supporting microprudential risk assessment, and across firms, supporting the mapping of system-wide risks and macroprudential assessment. That should also improve the quality, accuracy and integrity of regulatory data capture systems and of financial data overall. The first use of the LEI in a number of jurisdictions will be for the reporting and aggregation of data on OTC derivatives as recommended by CPSS-IOSCO[25].
- **Enhanced prudential supervision:** As well as supporting better internal risk management, a common identifier will facilitate information sharing about legal entities between regulators and across borders. That will enable better supervision of cross-border firms and firms whose business lines are overseen by multiple regulators.
- **Support for orderly resolution:** Improved clarity on internal structures of complex firms and on exposures by individual legal entity will support enhanced crisis management and resolution[26].
- **Protection against market abuse:** Clear and unique identification of parties to financial transactions should act as a bulwark against market abuse and help to curb financial fraud.

Private sector interests and uses Introduction of a high quality global LEI system would also provide substantial gains to private sector participants in financial markets. Particular benefits include:

- **Improved risk management:** The LEI would enable firms to strengthen the accuracy, integrity, and aggregation of data across entities and subsidiaries and thus improve counterparty risk data and management, as well as supporting enhanced data modelling and analysis. Better data would also facilitate limit setting and position monitoring.
- **Operational efficiency:** Many firms spend large sums of money on data cleaning and reconciliation of data and positions across different business lines and internal entities. An accurate global LEI system with widespread take up among financial market participants could lead to large gains in processing and settlement efficiency, by enabling and underpinning automated straight through processing of information.

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[25] Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, Report on OTC derivatives data reporting and aggregation requirement, final report, January 2012.

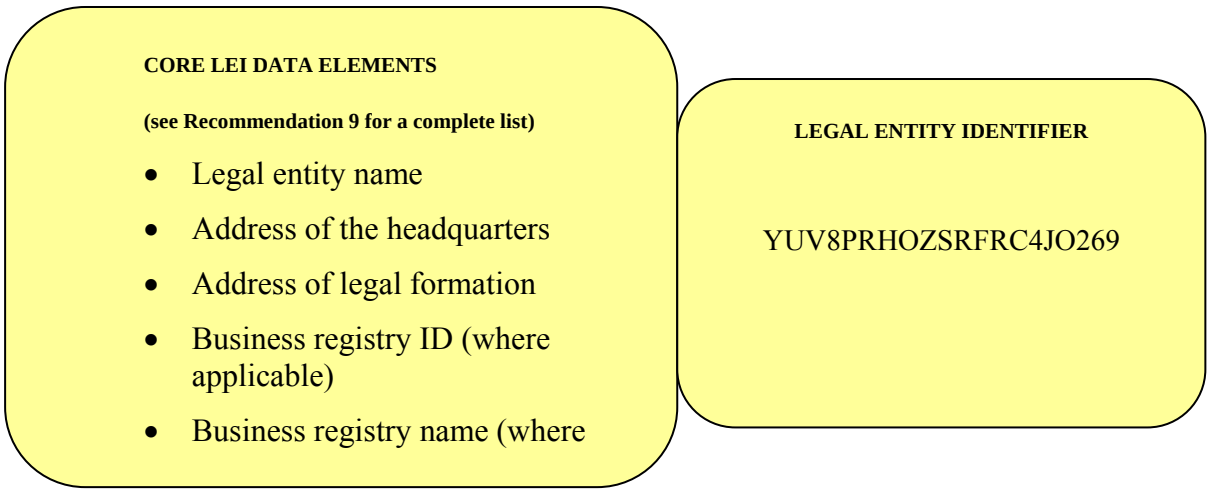
[26] FSB, Key Attributes of Effective Resolution Regimes for Financial Institutions, October 2011.

Such gains would benefit all financial market users, as efficiency savings are passed on to customers.

- **Enhanced regulatory reporting:** A global LEI system should lead to more precise and accurate regulatory reporting, as well as supporting the production of data for recovery and resolution planning.

Global coverage The benefits of a legal entity identification system arise from widespread adoption. As with other identification systems and networks, users obtain additional benefits the more other users adopt the system. The maximum benefits consequently accrue from eventual implementation across the whole global financial system. To support that ultimate aim, an important objective is consequently to ensure that widespread take up of the system is encouraged and that appropriate account is taken of important national characteristics in designing the governance and operational characteristics of the global system.

Global unique number The benefits also arise from a guarantee of uniqueness – that the LEI code provides an accurate and unique link to the particular registrant, and that the associated reference data are up to date and reliable. The existence of multiple LEIs for the same entity would quickly lead to a breakdown of trust and confidence in the system that would lead to rapid obsolescence and a loss of all the potential benefits. Ensuring that each entity has a unique code is an essential objective of the system.



Global consistency Users are looking for high quality reliable information on all entities registered in the global LEI system. An important objective is consequently to ensure that high standards apply to the registration of entities and to the granting of the LEI, and that there is consistency of approach across the whole system.

Examples from other industries There are a number of examples of successful introduction of identification schemes in other industries from which the financial sector can draw. Prominent examples are supply chain management in the consumer goods industry (using bar code technology), transportation of hazardous chemicals, and recent initiatives to identify and codify products in the entertainment and music industries. In each case there was sufficient

co-ordination and collective interest to overcome the inertial forces outlined above, and to capture the benefits from a common, unique, identification scheme.

Recent private sector initiatives to introduce an LEI in the financial sector Over the past several years, there has been renewed interest in the financial sector in the introduction of an LEI, stimulated by regulatory proposals to improve the reporting and aggregation of data on OTC derivatives in line with G-20 recommendations, but also stemming from the recognition of the collective benefits to financial market participants of a unique identification system. The private sector is understandably very keen to harness such benefits and to offer proposals for the design and implementation of the system that draw on private sector expertise in building and running financial market infrastructure. It is important to draw on private sector expertise in such operations and to marshal competitive forces where possible to promote efficiency and encourage innovation. A number of proposals were put forward in response to the CPSS-IOSCO consultation paper on the reporting and aggregation of OTC derivatives data. A recurring aspect, however, in the responses is that regulatory support for the initiative is an important element, to provide comfort that there will be sufficient take up to overcome the disincentives that inhibit early adoption described above.

III. Key considerations and challenges to overcome in building a global LEI system

In designing and implementing a unique entity identification system for parties to financial transactions, there are a number of challenges to overcome. This section addresses a number of market failures that have to date prevented the introduction of such a system and how they may be resolved. It also highlights a number of issues that need to be taken account of in the design and implementation, to ensure that the maximum benefits are captured and that perverse incentives are mitigated and do not undermine the system.

Why is there not a common, accurate and comprehensive global identification system in financial markets? Given that a unique LEI system is a simple idea which offers manifold benefits, an obvious question is why is such a system not already in place? The principal reason is that the benefits of the system are collective and accrue to users and the broader public as a group. There are insufficiently strong incentives in private markets to overcome two sources of market failure:

- Collective action and co-ordination problems: To take the initiative forward, there first needs to be collective agreement that a particular identification system is the right one. Each individual firm has a natural incentive to promote their own system as that would minimise the costs of adoption. Gaining widespread agreement on a common system to be used by all parties is difficult. But without it, there is no incentive to move.
- Network effects: As highlighted above, the benefits from the system increase as more and more parties acquire an LEI. The larger the network, the larger the gains. At the launch, however, as with other examples of network goods such as the telephone, the private incentives for potential early movers to acquire an LEI are low. For example, without extensive coverage of financial entities, there would clearly be little potential benefits provided from better codification and aggregation of counterparty trades and

risk positions. To date, it has consequently proved impossible to get over this initial hurdle relying purely on market incentives and voluntary adoption.

These market failures support the view that the LEI is by nature a public good, offering collective benefits that are hard to capture by private market incentives. Overcoming them within the private sector alone relies on strong co-operation and co-ordination among key stakeholders. That is necessary to ensure that there is sufficient adoption and take up by market participants to generate critical mass and to provide network benefits. In practice, public intervention, for example, that mandates the use of the LEI for reporting of exposures or positions, may be needed in some cases to break down such barriers and take the initiative forward. Removing such barriers would provide an opportunity for a co-ordinated approach between the public and private sector in delivering a global LEI system. The role of the public sector is to put in place a governance framework that protects the public interest. That in turn provides a platform to harness the technical skills of the private sector to deliver an effective operational system, underpinned by market forces and incentives.

Why public sector governance is required There are many areas where public and private sector interests in the global LEI system are fully aligned (such as unique identification of entities, high quality reference data, integrity of systems, etc). But as the LEI system is by nature a public good, there is a need to make sure that the gains for the broader public are captured and that provision of the LEI is not exploited in ways that do not benefit the public. In particular, while offering many benefits, a potential undesired consequence of active regulatory promotion of the system is that it also provides substantial power to the provider(s) of the system. Abuse of such power could work against the fundamental public interest. For example, if regulators mandate use of the LEI system, then both LEI registrants and users have no alternative but to use it. The market is captive. There are consequently incentives for suppliers of the LEI to exploit their privileged position and hence risks that suppliers face incentives to overcharge registrants, restrict access, cut corners on data quality, or to use a position of privileged access to LEI information to supply other revenue-generating services on non-competitive terms. These arguments provide the motivation for the mandate provided to the FSB to produce recommendations for a governance framework for the LEI that identifies and provides strong protection of the public interest.

The case for public intervention As highlighted above, public intervention promoting the use of the LEI is likely to be needed to overcome the market failures outlined above. For example, mandatory use of the LEI for public reporting would encourage respondents to adapt their internal systems to meet the new demands. A major associated benefit is that consistent introduction of the public requirement resolves the collective action problem (as all reporters are required to use the chosen system) and helps to solve the network problem (as the public intervention eliminates the initial disincentives to adopt the system at the start). Promotion of the LEI by the global regulatory community would consequently offer multiple benefits to both the public and private sectors.

Uniformity of principles, standards, and operational approaches To foster confidence in the quality of the LEI which is essential if there is to be widespread adoption and usage, it is important that there is a unique identifier for each acquiring entity, and that there are high, consistent operational principles and standards applied to the origination and maintenance of an LEI. Such principles and standards will facilitate the consistent integration into a global

system of entities from jurisdictions with different regulatory, legal systems and local language character sets that are important to reflect and take into account if all such jurisdictions are to feel comfortable in joining the system. The governance framework and operational model implementation must ensure that the common standards are applied across the system to deliver the necessary consistency, and enable users to access the whole system from a common source.

The global reach: expandability and adaptability In order to generate the maximum network benefits from broad coverage, it is important that the system has the capacity to expand quickly to include new jurisdictions and new registrants. Clear processes and protocols should be in place to facilitate the integration of registrars and registrants from new members into the system. It is also crucial that the global system is flexible, extendible and adaptable to take account of changes in financial markets and new potential uses. For example, there must be clear procedures for the identification and introduction of new reference data where warranted.

Confidentiality challenges The gains from the introduction of the global LEI arise from unique identification of entities, from the links to high quality reference data relating to the entities, and from widespread adoption of the system. The provision of open and free access to publicly available data is an important objective. One challenge is that there are confidentiality and privacy restrictions governing some potentially important reference data in some countries, particularly regarding information on corporate relationships and ownership structures. Such data are important to both the global regulatory community and private firms as they enable aggregation of information within complex financial groups which is essential to the analysis of exposures and to the development of improved systemic risk measures. The governance system design must, therefore, take account of the legal constraints on the storage and transmission of such data, for example, by ensuring that the data are stored in particular jurisdictions and that there are rigorous controls on access.

Incentives for regulatory and industry adoption As highlighted above, support from the regulatory community for the adoption of the LEI in different areas of regulatory reporting would help to break down the collective action problems and stimulate usage and take up. A key consideration in the design of the proposed governance framework and operational model is consequently to ensure that the approach meets the requirements and needs of the regulatory community across the globe, in order to deliver widespread buy in. Equally, it is important that the adopted approach meets the needs of financial market participants for a unique entity identification scheme, so that voluntary take up is encouraged alongside usage promoted by financial regulators. Ensuring that there are incentives to attract market participants to register voluntarily for an LEI is consequently an important goal.

The role of the private sector in delivering the global LEI system While the public sector has a key role to play in overcoming market failures and providing an accompanying strong governance framework to protect the public interest, the private sector has an equally important role in building and operating the system that delivers the global LEI. Experience from many other industries in developing, designing and successfully implementing identification systems clearly demonstrates that the challenge of building a global LEI system for the financial sector is not primarily technological. But equally, it is essential to draw effectively on private sector expertise and know how to make sure that the operational

framework is efficient, technically sound and robust, and benefits wherever possible from market forces and competition.

A key aim of the governance framework is to set out a platform of objectives, guidelines, and standards for the global LEI system which then enables the private sector to innovate in delivering technical and operational solutions. The challenge is to ensure that the framework provides the appropriate incentives to leverage private sector expertise and experience, and to benefit from market forces wherever possible across a range of issues:

- Technical and operational expertise: the private sector has considerable expertise in designing, building and operating identification schemes in other industries, as well as in some areas of the financial services sector (such as schemes for identification of securities and systems for bank transfers).
- Local expertise: to deliver a truly global system, specialist knowledge of local legal frameworks, corporate structures, as well as availability of the system in local languages, etc is critical.
- Encouraging competition and innovation: subject to ensuring accordance with the agreed common standards, encouragement of competition and innovation is desirable to promote efficiency and lower costs.
- Promoting consistent standards: the private sector has considerable experience in the design and operation of consistent technical standards.

Public – private sector co-ordination Drawing on the elements above, developing and implementing a global LEI system requires active support and involvement from both the global regulatory community and from the private sector. The public sector must put in place a governance framework with a number of key objectives: to support the delivery of a public good; to ensure that public interests in the system are protected; to promote common standards; and to facilitate widespread global adoption. Such a framework will provide a transparent, open system, that protects against the risk of abuse of monopoly power and privilege, and that facilitates adoption. Under this broad governance framework, it is important to provide market incentives for the private sector to develop and implement effective operational solutions: to draw on expertise and specialism in local jurisdictions and globally in the development and operation of registration, identification and information systems; to gain from the benefits of competition while facilitating co-operative solutions where appropriate; and to promote standardisation of approaches across the globe that benefit international financial markets and global financial integration. The proposals and recommendation in the report consequently set out a framework that attempts to capture the benefits of both public sector and private sector involvement in taking forward the global LEI initiative, while attempting to bridge different views on the appropriate boundary between public and private sector responsibilities.

IV. Principles underpinning the framework and design of the global LEI system

Based on the above analysis of the main challenges and options to overcome them, the FSB has set out a number of recommendations and principles that help to set out the framework and design of the global LEI system and to take the initiative forward. Subsequent sections provide a series of practical recommendations for implementation in each of the areas of the detailed mandate that draw on these principles.

Recommendation 1

SETTING UP A GLOBAL LEI SYSTEM The FSB strongly supports the development and implementation of a global LEI system that uniquely identifies participants to financial transactions.

Recommendations for the public sector

Recommendation 2

GLOBAL REGULATORY COMMUNITY REQUIREMENTS The LEI system should meet the requirements of the global regulatory community (including supranational organisations). The potential benefits of the LEI include: to support authorities in fulfilling their mandates to assess systemic risk and maintain financial stability; conduct market surveillance and enforcement; supervise market participants; conduct resolution activities; prepare high quality financial data and undertake other regulatory functions.

As set out earlier, the global LEI system offers substantial potential benefits to the global regulatory community. It is important that the governance framework and system design provide a framework that enables regulatory requirements to be fulfilled and that offers flexibility to adapt to changing regulatory requirements as financial markets adjust. The framework must also provide flexibility for expansion, as jurisdictions and regulatory authorities will implement the LEI system on a phased basis.

Recommendation 3

GLOBAL LEI SYSTEM GOVERNING DOCUMENTS Global LEI system High Level Principles set out the principles and commitments that specify and define the governance and structure of the global LEI system. A global LEI Regulatory Oversight Committee Charter should specify the mission, role and responsibilities of the Committee as well as the process for its establishment. Support for the High Level Principles agreement and Charter will indicate a desire to participate in the global LEI system.

To provide high level commitment and support for a global governance framework for the LEI, the FSB recommends support for High Level Principles for the global LEI system and that a global LEI Regulatory Oversight Committee Charter should be drawn up in the coming months. The Charter would establish a Regulatory Oversight Committee (ROC) to represent the public interest in the functioning of the LEI system. As discussed further below, the Committee would serve as the primary governing body. The Charter would specify the mission, responsibilities, and powers of the ROC, as well as the commitments attached to the

proposed governance framework which is set out in Section VII below. The principal idea behind the High Level Principles document and the ROC Charter is to embed high level support for the system and its guiding principles and to garner commitment to implement a global governance framework in order to maximise the benefits.

All authorities and jurisdictions willing to participate in the development of the global LEI Charter should be able to do so without any hindrance.

Recommendations for the Private Sector

Recommendation 4

SUPPORT OF FINANCIAL MARKET PARTICIPANTS The LEI system should be designed in a manner that provides benefits to financial market participants.

As emphasised above, widespread adoption of a common LEI system offers substantial potential benefits to private financial market participants. These include: fulfilling domestic and multi-jurisdictional regulatory and statistical reporting requirements; facilitating straight-through processing; improving internal risk management and other business purposes. Such a system should accommodate the business needs of all financial market participants, including financial and non-financial companies of different sizes and type, sited in different geographic locations across the globe and provide open access to the global LEI data in a common language, while accommodating local jurisdictional differences such as local language and legal framework. It is important that the design and operation of the system enables such benefits to be captured effectively and efficiently.

Recommendation 5

SYSTEM FLEXIBILITY Flexibility must be built into the global LEI system to provide the capability for the system to expand, evolve and adapt to accommodate innovations in financial markets. It must also allow the seamless introduction of new participants. To these ends, critical software and other relevant elements must be defined and made publicly available without any licensing, intellectual property or similar restrictions under open source principles. The LEI should be portable[27] within the global LEI system.

A key objective is to ensure that the system can expand to incorporate new users and new uses and that sufficient flexibility is built into the system design to facilitate adaptation to financial market innovations and associated changes in regulatory and market requirements.

A second key element is that the design should be open and not proprietary, so that any potential candidate wishing to offer relevant services can do so, subject to meeting the agreed common standards necessary to deliver an integrated system. This objective is also essential to promote competition and to foster innovation.

[27] In this context a portable LEI means that the code could be transferred from one LOU to another LOU. This may be necessary, for example, in case of the LEI being obtained originally from a foreign LOU before a local LOU was established or if an entity changed its legal address or headquarters, etc.

Recommendation 6

COMPETITION AND ANTI-TRUST CONSIDERATIONS The LEI system should be designed to ensure that it is not "locked-in" with a particular service provider for any key system functions or processes, and that the principles of competition are ensured on both global and local levels where appropriate. The governance framework should provide safeguards to ensure that competition principles and anti-trust considerations are upheld. The local implementation of the global LEI system should meet local anti-trust requirements.

It is important that protections are built into the system to avoid 'vendor or third party supplier dependence' that is associated with a build up of market concentration and power. Flexible system design and control of intellectual property rights are important tools to avoid providing power to the providers that ensures that the system relies on their services, or that the system cannot function in the event that a particular supplier of services enters insolvency.

Given the risks that mandatory regulatory use of the LEI could create privileged positions in the market place, it is important that due consideration is given to anti-trust obligations in terms of the arrangements for the provision of identifiers. In particular, it is important that competition law and anti-trust considerations are factored in and that appropriate protections are put in place to prevent abuse of monopoly positions.

Subject to meeting the common standards of the global LEI system, encouraging competition, wherever appropriate, is highly desirable to control monopoly privileges, to help contain costs, stimulate efficiency and promote innovation.

Recommendation 7

FEDERATED NATURE OF THE LEI SYSTEM The global LEI system should support a high degree of federation and local implementation under agreed and implemented common standards.

A key objective is to encourage widespread global take up of the LEI system. Subject to meeting the common protocols and standards that are needed to tie the system together to provide a logically consistent database that guarantees unique identification (provided by the COU); the FSB recommends that the global LEI system should support a high degree of federation and local implementation. That is likely to provide additional flexibility, for example to map and incorporate existing local registration and identification schemes into the global system and thus support the key objective. The federated system will also allow the accommodation of local jurisdictional differences such as a local language, legal framework, etc.

In particular, the FSB recommends that the global LEI system should be designed, operated and governed in a manner that ensures unique identification and consistency at the global level, while drawing on distributed local elements and local infrastructures that give additional flexibility to provide a high level of validation of the local registration data and to meet local jurisdictional requirements. Although local operations may operate flexibly, all must meet a common requirement of presenting a common interface between local data systems and the global registry system.

V. Scope, scale and initial ambitions

An LEI comprises a unique machine readable code identifying the entity, that points to a set of key reference data relating to the entity, such as the name, address, etc. Users should have open access to any LEI issued by the system, and to reference data that can be readily shared and that are not subject to privacy restrictions. This section of the report addresses the questions: What is an LEI? Which entities are eligible for an LEI (ie What is the potential scope of coverage)? What form should the code take and what reference data should be attached both at the launch of the system, as well as in the short to medium term? And what processes should be introduced to support the review and phased expansion of the reference data over time as financial markets adapt and as usage of the LEI system grows?

Recommendation 8

SCOPE OF COVERAGE Eligibility of 'legal entities' to apply for an LEI should be broadly defined, in order to identify the legal entities relevant to any financial transaction. No more than one LEI may be assigned to any legal entity.

For purposes of this definition, the term 'legal entity' refers to a legal person or structure organised under the laws of any jurisdiction. Legal entities include, but are not limited to, unique parties that are legally responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (eg trust, partnership, contractual, etc). It excludes natural persons, but includes governmental organizations; and supranationals, defined as governmental or non-governmental entities established by international law or treaty or incorporated at an international level. Examples of eligible legal entities include, without limitation: all financial intermediaries; banks and finance companies; all entities that issue equity, debt or other securities for other capital structures; all entities listed on an exchange; all entities that trade stock or debt; investment vehicles, including mutual funds, pension funds and alternative investment vehicles constituted as corporate entities or collective investment agreements (including umbrella funds as well as funds under an umbrella structure, hedge funds, private equities, etc); all entities under the purview of a financial regulator and their affiliates, subsidiaries and holding companies; and counterparties to financial transactions.

The definition above corresponds to the ISO standard 17442:2012 for a Legal Entity Identifier. It takes into account the possibility that in some jurisdictions, asset pools or other segregated parts of a legal entity may nevertheless carry separate rights and obligations at a sufficient level of independence of that legal entity. In such cases, for example, any claim in insolvency would apply to the asset pool alone. The Expert Group supports the view that in such jurisdictions, the asset pool or fund would be eligible for an LEI. The LEI Implementation Group should further study the scope of application with respect to entities that are not strictly legal entities to ensure that only one LEI is assigned to any particular entity for example in a structure of an umbrella fund, associated funds, and a fund manager, to address the cases similar to those discussed above.

The Expert Group is also aware that detailed definitions of legal entities may depend on local laws and that further specification considering local circumstances may be needed in some cases as the LEI system is implemented.

Recommendation 9

LEI REFERENCE DATA AT SYSTEM LAUNCH The official name of the legal entity, the address of the headquarters of the legal entity, the address of legal formation, the date of the first LEI assignment, the date of last update of the LEI, the date of expiry, business registry information (if applicable), alongside a 20 digit alphanumeric code should form the basis for the global system at the launch of the global LEI initiative. For entities with a date of expiry, the reason for the expiry should be recorded, and, if applicable, the LEI of the entity or entities that acquired the expired entity.

As previously announced[28], the technical code for the LEI should be a 20 digit alphanumeric number as set out in the LEI standard recently published by the International Organisation for Standardisation . The code should be a unique dumb alphanumeric string and not incorporate any intentional embedded intelligence (such as a country reference) which could lead to the code becoming out of date. The code should be persistent, in the sense that the code would never be assigned to another entity.

The following set of reference data attributes are regarded as the minimum set of information that should be available at the launch of the LEI as specified in ISO 17442:2012:

- The official name of the legal entity;
- The address of the headquarters of the legal entity;
- The address of legal formation;
- The date of the first LEI assignment;
- The date of last update of the LEI;
- The date of expiry, if applicable;
- For entities with a date of expiry, the reason for the expiry should be recorded, and if applicable, the LEI of the entity that acquired the expired entity[29];
- The official business registry where the foundation of the legal entity is mandated to be recorded on formation of the entity, where applicable;
- The reference in the official business registry to the registered entity, where applicable.

The first six items have been previously announced by the FSB, as items belonging in the set of minimum reference data at the launch of the LEI. The seventh item has been included in the list to provide information on the history of the entity, particularly if it is involved in a merger and acquisition and/or other form of corporate action process. The final two items provide a cross reference to the official business registry entry which provides the legal foundation for the formation of the legal entity applying for an LEI (such as Companies House in the UK, for example). Such a reference will help to tie the global LEI system together as a registry of registries and provide a strong cross-referencing and data validation tool.

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[28] " Technical features of the legal entity identifier (LEI) " FSB 7 March 2012.

[29] This is sometimes labeled the disposition of the LEI.

Recommendation 10

REVIEW OF SCOPE OF COVERAGE AND REFERENCE DATA The Regulatory Oversight Committee should undertake regular reviews of the scope and extent of coverage of the LEI to reflect emerging regulatory and market requirements for the LEI use according to an agreed schedule. The Regulatory Oversight Committee should undertake regular reviews of the LEI reference data according to a set schedule to monitor the required changes, additions, retirements and modifications.

The proposed ROC would monitor and review the scope and extent of coverage of the LEI (for example by agreeing a timetable for periodic reviews which is likely to be more intense in the early years of the LEI system). A particular issue for early review is for the ROC to consider whether and if so how the global LEI can be leveraged to identify bodies such as branches of international banks which are not legal entities, but which require separate identification under some cross-border resolution schemes[30].

The ROC would also regularly monitor and review the reference attached to the LEI according to a pre-set schedule which again is likely to be more intense during the early stages of the system.

In particular, the Expert Group identified a number of potential reference data items for future consideration:

- Organisation type – what is the corporate legal structure of the registered entity?
- Broader liability and other relationships – including elements such as control and guarantees.
- Problem indicators – such as reorganisation, etc.
- Conglomerates flag – is the registered entity a part of a broader financial conglomerate?
- Corporate events flag – are there particular corporate actions or events affecting the firm?
- Industrial classification – what is the principal activity of the firm?

In putting forward these ideas for further review, the FSB is cognisant that there is an important trade off between expanding the scope of coverage and the set of reference data and the burden on entities and registrars in reporting and keeping the information up to date. The ROC will bear such cost-benefit considerations in mind as any proposals for broadening the scope of coverage or reference data are reviewed.

Recommendation 11

STANDARDS FOR THE LEI SYSTEM The LEI system should meet, to the degree possible, evolving requirements of both the regulatory community and industry participants in terms of information content, scope, timeliness and availability. The ROC is responsible for

[30] One approach may be to build or bolt on a supplementary system on top of the LEI, although a full range of options will be assessed by the ROC.

the final determination for any standards for the LEI to be utilised in the global LEI system. When proposing areas for the development of new standards, the ROC should strongly consider utilising existing standard setting organizations to develop such standards, provided that such organizations incorporate the requirements for the standards as determined and communicated by the Regulatory Oversight Committee.

The set of reference data outlined the previous recommendation provides a minimum set of data that should be available at the launch of the LEI (sometimes labeled Phase 1 data).

In phase 2, it will be important to expand and add to this list, as additional reference information, for example, on corporate ownership and relationships (see recommendation below) is essential in order to aggregate risks and prepare consolidated exposure statements. A key role of the ROC will be to review and monitor evolving needs and requirements of the regulatory community as well as proposals from private sector users in relation to the reference data to be included in the global LEI system. When new needs are identified by the ROC, the Committee should draw on the expertise of existing standard setting organisations in developing such standards, provided that such development fully incorporates the specification and framework set out by the ROC.

Because both risk aggregation across groups is important for regulators and industry, and because relationship data may be important in defining the nature of an entity, this work has a very high priority for both regulators and for private industry.

Recommendation 12

LEI REFERENCE DATA ON OWNERSHIP The FSB LEI Implementation Group should as soon as possible develop proposals for additional reference data on the direct and ultimate parent(s) of legal entities and on relationship or ownership data more generally and prepare recommendations by the end of 2012. The group should work closely with private sector experts in developing the proposals.

Adding information on ownership and corporate hierarchies is essential to be able to undertake risk aggregation which is a key objective for the global LEI system. That should be taken forward urgently by the proposed FSB LEI Implementation Group, with the aim of developing practical proposals for such (phase 2) reference data by the end of 2012.

Ultimately the aim is to have sufficient data to construct a map of the financial network and the complex groups of entities which participate in them. The task requires standardized, machine readable information which underlies the network map. The more processes are automated, the more accurate the map will be. The more data rely on manual updating, the more degraded the map will become.

Ideal solutions to capture ownership relationships in the long run, such as parent and ultimate parent, would rely on information on the total share capital of all companies in the group, the shareholding of the parent entity, and LEIs for all the companies in the group. If such information were available, it would be possible to construct shareholdings and voting control through the financial group.

Such information is not available in the short term, however, and so other solutions must be found. The FSB consequently recommends urgent further study of the options in order to

develop firm proposals in six months time on the best way forward. Interested parties within the regulatory community would be invited to join the study – active advice from relevant private sector experts would be an important element of the process.

One additional and important challenge in addressing this issue is that some information on corporate ownership and hierarchies is protected by confidentiality and privacy restrictions in some jurisdictions. That will colour where data can be stored, and what can be shared and exchanged. Ideally, legal and technical arrangements can be put in place to enable sharing of confidential information among the global regulatory community – that requires some additional scrutiny by the proposed group over the next six months. Further examination should also be undertaken of the scope to provide non-confidential information on ownership relationships to all users.

Recommendation 13

LEI OPERATIONAL AND HISTORICAL DATA The LEI system should maintain high quality records that retain relevant information on amendments (query, add, modify or delete of any data element) to data items as well as additional data to facilitate the surveillance and control of the system by the COU where appropriate.

The LEI system, if successful, will receive a large amount of information on both registered entities and use of the system. Initial data will be entered for registered entities which may change over time, either as changes occur to circumstances of the company and to the associated reference data or as errors are detected. The system should also retain all relevant information on any changes made to data items for each entity, including a reference to the data field changed, the date of the change, a classification of the reason for change, a classification of the source of the change, and the value of the item before the change was made. It is very important to maintain a full history of changes in LEI reference data, in order to maintain a strong audit trail in case of queries, and to enable users to be able to track the time line of changes and to challenge the accuracy of information with a view to checking and to subsequent confirmation or amendment.

Users may perform various queries or downloads, they may ask for help, or they may challenge the accuracy of data in the LEI System. Organizational and other operational data should be collected to increase the efficiency, accuracy and utility of the System.

VI. Pulling the LEI system together

The global LEI system should be implemented according to a globally federated model. Such a structure will allow the accommodation of local jurisdictional differences such as language, legal framework, etc, while also providing for the COU to perform the central functions of the global LEI system.

Both the conceptual approach and technical features of the federated nature of the global LEI system have been addressed by the Industry Advisory Panel as well as LEI workshop participants.

One of the comments highlighted that in order to achieve the global application of a standard, it has to be able to accommodate the different rules, regulations, customs, languages, preferences and practices that apply in different sovereign states and jurisdictions. That would naturally lead to the establishment of local registration facilities that are able to address these local characteristics in a meaningful way. Another argument put forward during the workshop was that a federated model can lead to lower costs and increased quality of service to end users through competition.

While the concept of "federation" can have different meanings, for the purpose of the LEI system a federated model implies, as a minimum:

- A service is provided that appears to end users to be a single, global service – the same data are available anywhere in the world, regardless of where they were entered.
- Internally, the service is actually deployed as a network of multiple service providers, who collaborate and use technology to provide the appearance to end users of a single seamless service.
- If any LOU becomes isolated from the rest of the federation, the services provided by that unit continue to function for the unit's local end users, at least for the purpose of domestic transactions.

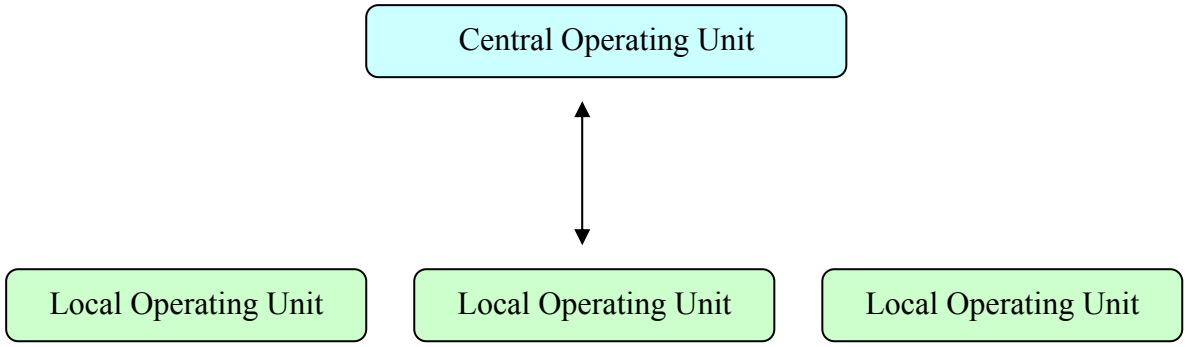
While this framework imposes requirements on the system architecture, it provides flexibility that encourages jurisdictions to adopt the system. One workshop commenter noted that the key element of the global LEI system operational model is not technological or of data replication but governance. For example, the operator of the central registry could use a replicated database that has elements hosted in data centres around the world. While this approach allows technological diversification in case of IT failure, it does not eliminate the political concern of one country registry denying services or access to another country. That is why the federated architecture of the global LEI system employing LOUs would address concerns about national sovereignty. That architecture also allows for diversity in both governance and services offered. For example, one country may have a strong preference for a critical utility like the LEI registry to be operated as a governmental or quasi-governmental agency specified under national law. Another country may prefer a private competitive market, in which case there might be more than one LEI registry that offers services within that jurisdiction, with the resulting competition serving to drive down prices and increase flexibility for end users.

Although a federated model can be designed in a number of ways, the key consideration in the global LEI federated system is to be able to provide an LEI to any legal entity as defined in the scope of coverage, regardless of country location or language used. Following this principle, a two level federated model can be described with the following components:

1. Central Operating Unit (COU) in charge of central facilities, ensuring uniqueness of the global LEI, global LEI administration and with responsibility for ensuring appropriate protection of the key data.

2. Local Operating Unit (LOU) that is in charge of local facilities, local information for the jurisdiction (i.e. confidential information, former local identification number), and registry

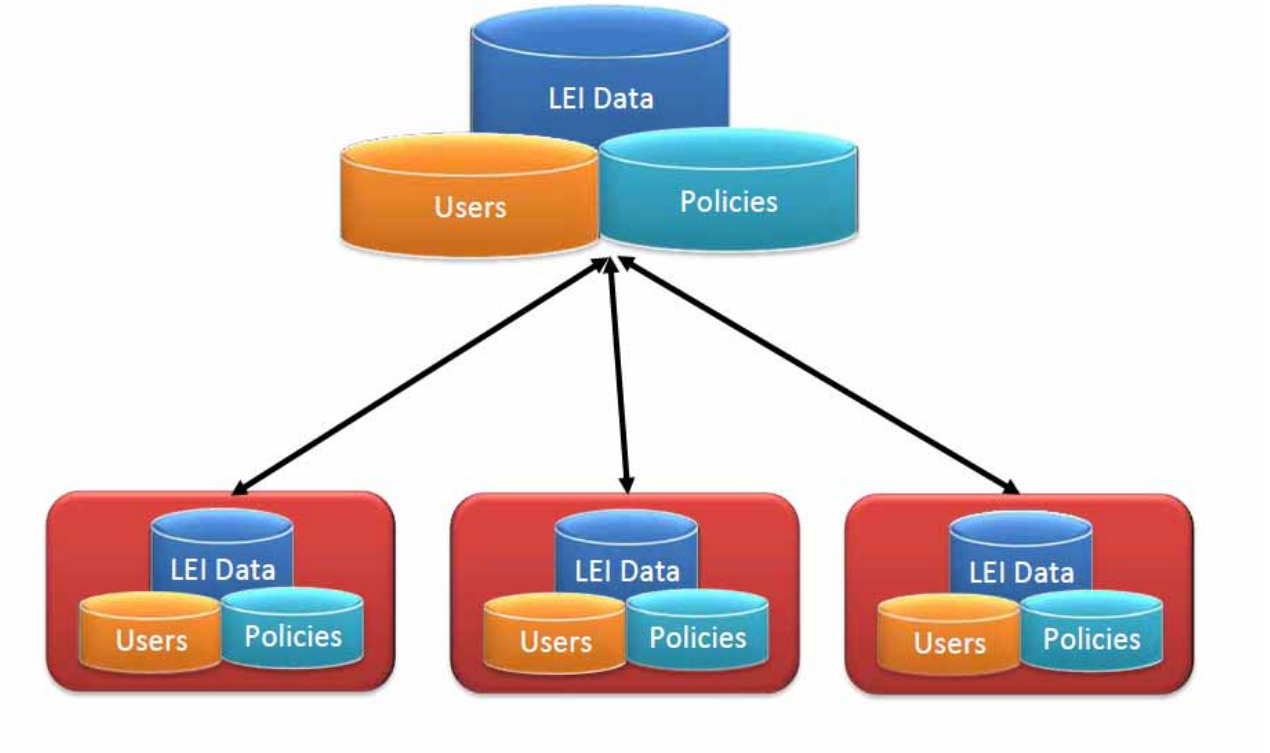
operations. It would also be in charge of processing LEI applications and verifying company authenticity. The key element here is that it should be able to accommodate local languages and local legal frameworks.



Experts on the Industry Advisory Panel explained that there are a variety of ways how federated distributed network architecture can be designed. One way is to have a single searchable registry (COU) to which local operating units (LOUs) submit minimal reference data sets about local registrants while holding locally additional, potentially non-standardized data with pointers back to the central registry. Alternatively, for example, the resolution system that ensures uniqueness of LEIs could hold the minimum set of data, the central registry holding the extensive set of data and local units being exclusively processors of the submitted data. The latter model creates some validation and duplication challenges. However, it was emphasised that architecturally, the COU software does not need to be restricted to a single central registry scenario. Multiple registries could be built to run in parallel to each other so that when a new entry or a change is made anywhere in one registry, it would be immediately reflected in other system components. In that case, each of those registries could theoretically function as a stand alone registry that lowers the risks of a critical point of failure. Alternatively, each of the local registries could contain only a subset of all the registered data and technology would enable a query to any individual registry to be executed via a query of all linked registries.

Recommendation 14

CENTRAL OPERATING UNIT The mission and role of the Central Operating Unit should be to ensure the application of uniform global operational standards and protocols that deliver global uniqueness of the LEI, seamless access to the global LEI and to high quality reference data for users with depth of access controlled by appropriate access rights, as well as protocols and methods for how local systems can connect to the Central Operating Unit.



The COU should be responsible for maintaining a central logical database of identifiers and corresponding reference data to:

- Ensure quality and accuracy of data.
- Provide a set of services that facilitate expansion of the system, such as defined standardised interfaces (software and services) that allow new jurisdictions to join the system in a low-cost, open source manner and that provide educational and training materials that document the requirements, costs, and advantages for local jurisdictions to join the system.
- Ensure that the system does not become technically obsolete over time by performing ongoing evaluation and development of relevant standard and protocols for the overall community (public and private sectors).
- Ensure that the information within the system is secure and prevents fraudulent activities.

In developing the rules and procedures for operations of the COU the ROC should consult the CPSS-IOSCO recommendations for Principles for Financial Market Infrastructure[31].

Among other important tasks, the COU under the supervision of the ROC should identify the plausible sources of operational risk, both internal and external, and mitigate their impact

[31] Principles for Financial Market Infrastructure, April 2012.

through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for a continuous service and for timely recovery of operations in the event of a wide-scale or major disruption[32].

At a minimum, the following three business continuity objectives should be meaningfully addressed in the development of the COU and its protocols and procedures:

- rapid recovery and timely resumption of critical operations following a wide-scale disruption;
- rapid recovery and timely resumption of critical operations following the loss or inaccessibility of staff in at least one major location; and
- a high level of confidence, through ongoing use or robust testing, that critical internal and external continuity arrangement are effective and compatible[33].

Recommendation 15

FORMATION OF THE CENTRAL OPERATING UNIT The LEI Implementation Group should develop a detailed plan for the formation of the Central Operating Unit via the establishment of a not-for-profit LEI foundation[34] by interested industry participants under the oversight of the formed LEI Regulatory Oversight Committee. The foundation would rely on industry participants, their expertise and knowledge to identify and develop the most technologically, financially and legally sound methods to implement the global LEI system in line with the standards and framework defined by the Regulatory Oversight Committee. Representatives from all geographic areas and industry sectors would be invited to participate in the preparatory work underpinning the formation of the LEI foundation as the Central Operating Unit in a manner defined by the Implementation Group.

The LEI system should be designed and implemented as a truly global system in order to capture the full potential benefits. To achieve that, the COU must be set-up and operated in a clear and transparent manner where all stakeholders are meaningfully represented, encompassing wide geographic coverage and business sectors. A collaborative approach based on industry consensus on technical and operational solutions should be the ultimate objective of the COU structure and its design and governance should ensure that it can be achieved in the most effective way. The FSB considers that a legal form of foundation or body of equivalent legal form would provide a catalyst for such international and cross-sectional cooperation and coordination, where the best ideas applicable for the global LEI system can be utilised, drawing on the experience of various experts from either finance or other sectors who have experience in the design and successful implementation of entity

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[32] Principles of Financial Market Infrastructure, April 2012.

[33] Interagency paper on sound practices to strengthen the resilience of the U.S. Financial system, April 11, 2003, Federal Register Vol. 68, No.70.

[34] Or body of equivalent legal form.

identification systems. Providing an open, transparent and broad access to such industry collaboration will ensure that the most technologically advanced and cost-efficient solutions are proposed and drawn on in the design and development of the federated global LEI system. The broad participation of various industry representatives in the LEI foundation will reinforce open communication within the industry to address not only technological changes but also structural, legal and policy considerations on both local and central levels. As one of the workshop participants noted, the design of the original system and the methodology for its deployment will have a direct impact on how well the future system can copy with modifications. To achieve a high degree of system adaptability in the future, the involvement of a wide range of industry experts from different sectors should be an integral component of the COU structure and should be a fundamental key element of its design.

Recommendation 16

BALANCED REPRESENTATION IN THE CENTRAL OPERATING UNIT The Regulatory Oversight Committee and LEI Implementation Group should ensure that the global LEI foundation takes account of the interests of financial and non-financial industry participants from different geographic areas and economic sectors.

The global LEI Central Operating Unit should have a wide representation of experts from different sectors of economy including financial and non-financial sectors industry representatives. As emphasised during the LEI workshop in March, other industries have made enormous progress over recent years towards improving their identification systems. Consequently, drawing extensively on the knowledge and experience of experts involved in such successful schemes will allow the financial sector regulators as well as industry to avoid obvious mistakes, as well as facilitating the choice of the best available solution in terms of implementation time and cost. It was highlighted at the LEI workshop that organizations such as Consumer Product Forum, GS1, Digital Object Identifier Foundation, Entertainment ID Registry, World Wide Web Consortium among others have a wide range of experience and knowledge in areas such as identification, the build-up of hierarchy relationships, and of distributed network set-ups which are necessary for the successful development of the global LEI system for financial counterparties. A global LEI foundation where not only interested financial parties but also experts from other sectors have an active role and voice would be an effective way to start the rapid practical implementation of the initiative, building on best practices from all sectors.

Learning from experience of other industries suggests that there are benefits from enabling all interested parties to contribute to the LEI foundation or body of equivalent legal form. That would support the development of sound technical solutions and processes and raise the acceptability and adoption of the LEI system both in the short and in the long run. The FSB consequently proposes that a global LEI foundation should be set-up to encourage wide-scale industry participation. The proposed LEI Implementation Group would call for expressions of interest in participating in the preparatory work, would guide the work and would develop all necessary legal documents, registrations, etc. to establish the global LEI foundation or body of equivalent legal form. The global LEI foundation set-up would consequently be undertaken with active engagement of the industry experts to expedite the process of the global LEI system launch.

As it was noted above and discussed at the LEI workshop, the organizing principle of the global LEI is a federated system with a "plug-in" architecture. This means that local procedures are locally determined, subject to overall principles and content constraints set by the centre when the local units plug in or join the system. To achieve that, LOUs would be required to use the same "network card" to connect to the global LEI system. That is why to ensure the successful launch and growth of the global LEI system it is important that potential LOUs are actively involved in the activities of the FSB LEI Implementation Group, in order to provide input to the design of the LEI implementation toolkit addressing data standards, messaging standards, operational processes and software tools in a way to allow easy and efficient integration of local systems.

Recommendation 17

LOCAL OPERATING UNITS The LEI system should allow the local provision of all LEI functions which the Regulatory Oversight Committee determines do not need to be centralised. The LEI system should enable the use of local languages, organisation types and relationship structures as required. Procedures to integrate local systems into the global LEI system should be developed by the LEI Implementation Group in consultation with local jurisdictions and potential Local Operating Units (when available) in a way and manner that meets the global LEI system High Level Principles. The Central Operating Unit of the LEI system should be able to provide support to Local Operating Unit operations when necessary according to criteria and requirements established by the Regulatory Oversight Committee and administered by the Central Operating Unit.

Members of the Industry Advisory Panel noted that to achieve the widespread acceptance of the LEI solution, a broad set of service providers (such as local registries and numbering agencies) that could become LOUs should be included in the COU and LOU integration mechanism development. Rapid take-up is best achieved by ensuring that as much functionality in relation to integration is available in the central system as possible so that new jurisdictions can 'plug in' without creating the need for a new "system build", unless there are major constraints from local law and regulation. Early provision of the full functional definition of the user interface in local languages and of the full function test system for regulatory and industry users are important to ensure rapid and relatively painless take-up.

The first local LOU is expected to be formed in the USA to commence the swap data reporting as required by the U.S. Commodity Futures Trading Commission (CFTC) final rule on swap data recordkeeping and reporting requirements[35]. It should be noted that on 9 March 2012 the CFTC requested submissions from industry participants who wish to be considered for designation by the Commission as the source for the CFTC Interim Compliance Identifiers to be used for identification of swap counterparties in swap recordkeeping and swap data reporting under the jurisdiction of the Commission beginning in mid 2012. The Commission stated that the designation will have a limited term of two years, and be terminable on six months notice if a different central utility for the global LEI is chosen later through the FSB

[35] CFTC swap data recordkeeping and reporting requirements, 13 January 2012 http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2011-33199a.pdf.

process and becomes operational. The Commission also noted that it plans to adopt the governance principles and LEI reference data requirements endorsed by the FSB[36].

Recommendation 18

LEI DATA VALIDATION The LEI system should promote the provision of accurate LEI reference data at the local level from LEI registrants. Responsibility for the accuracy of reference data should rest with the LEI registrant, but Local Operating Units have responsibility to exercise due diligence in guarding against errors, as consistent with Regulatory Oversight Committee standards, and to encourage necessary updating. The Central Operating Unit has responsibility to check registrations for global uniqueness and to coordinate reconciliation by Local Operating Units where necessary. Accuracy should be ensured at the local level by the registered entities. Self-registration should be encouraged as a best practice for the global LEI system.

The key objective of the global LEI system is to provide accurate up to date reference data for each registered entity. That will require investment because as it was noted by the Industry Advisory Panel currently available information from public sources is of mixed quality and timeliness. There are different short-term and long-term solutions to address the LEI data quality. One approach suggested by some workshop participants constitutes so-called commercial third party data validation. Those services are focused on cross-checking information from a range of sources by companies' staff in order to produce 'cleaner' data that has been 'scrubbed' through such a process. Typically, such companies do not accept liability or ultimate responsibility for data accuracy.

It was noted during the workshop that such third party validation services currently provide a useful role in improving the quality of data. They do not, however, provide strong incentives to deliver fundamental improvements in data quality at source. To address the quality of the data at the source, responsibility for the quality and accuracy of reference data must rest with the LEI registrants, and so achieving permanent improvement should build on that responsibility. That is best enabled at source at a local level where the initial registration is obtained; as such an approach draws on local expertise, legal frameworks and language, and also addresses the issue of poor data quality at the base level. The FSB consequently recommends that improvements in data accuracy should ultimately focus on providing responsibility to the registrant for the quality and accuracy of data that would then be validated at source via the local registration facility. That may entail some upgrading of local registration facilities, for example, to improve the timeliness of updating and reporting and the quality of data validation.

To support the process of improving data quality, the FSB recommends that the ROC directs the set-up of standards for LEI validation and LEI data quality and that the Committee has the power to conduct independent assessments of the application of such standards. The process of independent validation and verification of data quality and standards should provide a catalyst to deliver the necessary improvements.

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[36] CFTC Announces process to designate the provider of CFTC interim compliance identifier, 9 March 2012 http://www.cftc.gov/PressRoom/PressReleases/pr6200-12.

The ultimate responsibility for the accuracy of the data should reside with the LEI receivers. From the practical stand-point the registered entity should have the best information about itself on a timely basis. The challenge for the data accuracy here is to create incentives or compulsion for the entity to ensure the accuracy of its own data in the global LEI system.

A relevant issue for LEI data validation is third party registration. Third party registration poses a set of challenges to align the incentives of the entity and third party register vs. cost of registration vs. legal liability for data accuracy. At the workshop with private industry and during the work of the Expert Group, it was noted by some participants that third party registration would risk running counter to the objectives of uniqueness and data quality and hence should not be encouraged.

Some members of the Industry Advisory Panel noted that such third-party registration function should be limited to the ability of legal entities to outsource the registration for an LEI to a third party. The responsibility for registration for an LEI and related maintenance and certification of the accuracy of reference data would most sensibly rest with the representatives of the entity itself.

The ROC should have the unfettered right to conduct independent validation and verification of data standards, processes and quality. Such processes could leverage a third-party data validation as a temporary solution during the initial phase of the LEI system but the ROC should develop a specific and timely transition plan to adjust from the transitional data validation mechanisms to the permanent global data validation mechanisms.

Legal enforcement for fraud in registration is the responsibility of local authorities, but local registrars may act to invalidate entities associated with such fraud.

Recommendation 19

LEI ISSUANCE WHEN NO LOCAL REGISTRAR AVAILABLE Whenever possible the LEI registration should take place with the relevant Local Operating Unit. When a Local Operating Unit is not available, the Regulatory Oversight Committee and a local jurisdiction (when willing to engage) should agree on approaches for local entities to obtain LEIs. The Implementation Group should develop proposals for such mechanisms via: (1) establishing a mechanism of obtaining LEIs through other Local Operating Units; (2) establishing a mechanism of obtaining LEIs from a registration facility in the Central Operating Unit; and (3) any other mechanisms that are appropriate.

Recommendation 20

SUSTAINABLE FUNDING The steady state funding of the global LEI system should be self-sustainable and reliable. The funding system should be based on an efficient non-profit cost-recovery model. The system should have two components: a local discretionary charge; and a common fee based on the number of registrations in each LOU to pay for the centralised operations in the Central Operating Unit, alongside any costs of implementing and sustaining the governance framework. Fees should be sufficiently modest not to act as a barrier to acquiring an LEI.

The funding system should have 2 components: a local discretionary charge; and a common fee for each registrant to pay for the centralised operations in the COU, alongside any costs of

implementing and sustaining the governance framework. With respect to the ROC, the funding mechanisms, procedures and responsibilities should be clearly outlined in the Charter and be accepted by jurisdictions and authorities joining the LEI system. The LEI ROC should follow the established budgeting rules and other relevant cost related rules and ensure that the operations of the COU are undertaken on an efficient, non-for-profit, cost-recovery basis according to the cost-recovery criteria developed by the Implementation Group. The ROC should review budget plans, accounts and audits on an annual basis to ensure that the funding mechanism adheres to the principles of cost-recovery, and does not present any monopoly privileges, either directly or indirectly. Changes in payments to the COU from local systems should be announced and introduced on a timely basis and approved by the ROC. The ROC should ensure that the COU has financial resources not only to perform current functions but also has sufficient resources for research and development, and system expansion and modification as mandated by the ROC, while ensuring that the COU budget remains under tight control. Reflecting the federated nature of the LEI system, funding choices at the local level are flexible; a local operation may be viewed as being entirely a public good and be funded by the public, or it may be seen as a good to be provided and funded in the marketplace with a competitively determined price, or it may be seen as one of a variety of hybrids of the two. In all cases, it is in the interest of the ROC that local areas enforce rules to reduce the threat of monopoly privileges.

VII. Governance and the rules of the game

Proposals for the governance framework to protect the public interest are central to the mandate from the G-20 to the FSB. The approach adopted was first to identify the public interests to be protected in relation to the introduction of a global LEI system and second to provide recommendations for a governance framework best suited to protecting them.

Protecting the public interest

As highlighted in earlier sections there is a need for a strong governance framework to protect the public good of the global LEI system and to avoid creating positions where market powers and privileges can be exploited. A number of specific objectives have been identified:

- Assuring open and free access to publicly available data. In particular:
  - Data should be non-proprietary, with no 'bundling of services[37],' or restrictions on access or redistribution;
  - All public data should be readily available on a continuous basis, free of charge;
  - Confidential data must be suitably protected;
  - Data and operating processes should not be subject to any type of Intellectual Property restrictions, except those recognized as being necessary to promote free and open access.

[37] The LEI should be freely and openly available and should not be tied (or 'bundled') to the provision of other services.

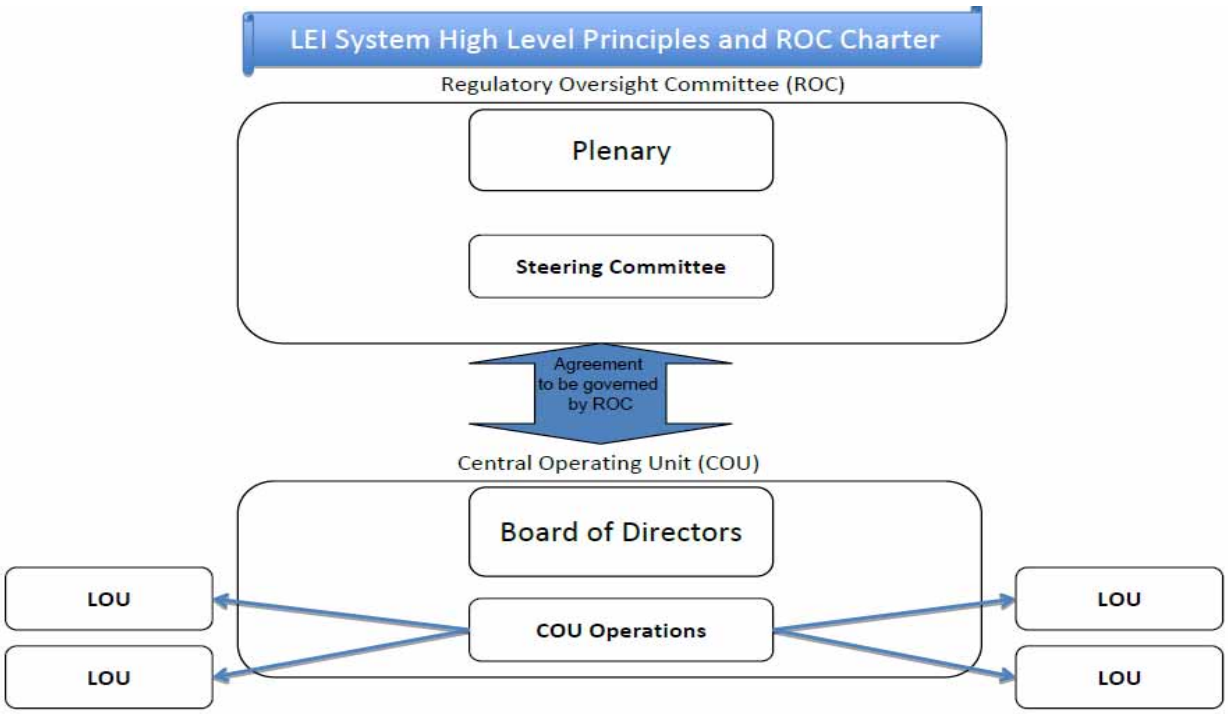
- Assuring open access to entities acquiring an LEI. Entities required to, or wishing to, obtain an LEI should be able to acquire one under open, and non-discriminatory terms:
    - Fees, where and when imposed, should be modest and based on a cost-recovery basis[38] that avoid monopoly rents and are subject to anti-trust considerations. The operational model must be efficient and avoid excessive costs. Budgeting rules should be clear and consistent.
    - No restrictions should be placed on the use of the LEI by the registrant.
- No competitive advantage should apply to any entities involved in the LEI system.
- Ensuring that the LEI system meets public sector requirements, including:
    - Ensuring uniqueness, accuracy, reliability, portability and persistence of the LEI code and reference data.
    - Proposing new standards that serve the public interest. Modifying existing standards as required.
    - Promoting the use and scope of the LEI to expand the collective benefit from widespread adoption.
    - Utilising local language and character sets, as well as ensuring access to the whole system in a common language.
- The governance bodies should have the necessary powers to enforce application of the governance principles, including:
    - To take any action deemed necessary to protect the public interest in respect of the global LEI system;
    - The ability to introduce oversight and governance processes, tailored to meet local and central needs;
    - Ability to audit the parties involved and the process; and appoint independent auditors;
    - The ability to adjudicate disputes.

The proposed governance framework has four main elements as set out in the Chart below:

- High Level Principles and Charter for the Regulatory Oversight Committee which sets out the principles and commitments that establish, specify and define the governance of the global LEI system.
- A ROC which is charged with protecting the public interests in the system.

[38] It is possible that some jurisdictions could be willing to fund the LEI issuance from public sources and provide LEIs to its local entities free of charge.

- A Board of Directors of the COU which has responsibility for delivering the agreed operational standards.
- Governance of the LOUs, which are the local implementers of the system.



The proposed framework and specific recommendations with regard to the different elements are set out in the section below.

Recommendation 21

GLOBAL REGULATORY OVERSIGHT COMMITTEE CHARTER The governance framework of the global LEI system should be developed at the international level in an open and transparent manner that supports collective governance of the global system. A global LEI Regulatory Oversight Committee Charter should set out the formation and operations of the Regulatory Oversight Committee. The global LEI Regulatory Oversight Committee Charter should be prepared by the FSB LEI Implementation Group for endorsement by the G-20 at the Finance Ministers and Central Bank Governors meeting in November 2012 or by the FSB Plenary in October.

As outlined earlier, the proposed global ROC Charter would define and frame the proposed international governance arrangements. The ROC would be established on endorsement of the Charter.

Recommendation 22

REGULATORY OVERSIGHT COMMITTEE A Regulatory Oversight Committee, as specified in the Charter, should have the responsibility of upholding the governance principles and oversight of the global LEI system functioning to serve the public interest. The Regulatory Oversight Committee should be a body representing regulators and other government or supranational entities engaged in regulating or monitoring the financial system or markets. Membership and decision making processes would be established by the Charter. Wherever possible, decisions would be reached by consensus.

The ROC will have responsibility to ensure that the governance and operation of the LEI system will protect the public interest. The proposed Charter will set out the high level principles governing the creation and operation of the ROC. Powers and participation arrangements are set out in the following recommendations.

Recommendation 23

POWER AND AUTHORITY OF THE REGULATORY OVERSIGHT COMMITTEE The Regulatory Oversight Committee has the ultimate power and authority over the global LEI system. Any power delegated to the Central Operating Unit, Local Operating Units and other entities can be reversed by the Regulatory Oversight Committee[39]. The Regulatory Oversight Committee should establish a formal oversight plan to ensure that its directives to the Central Operating Unit or other parts of the system are enforced and that the governance principles are upheld.

The ROC will be granted the ultimate power over the global LEI system in relation to delivery of the public good and protection of the public interest. It will take any action deemed necessary to protect the public interest in respect of the global LEI system. Specific responsibilities assigned to the ROC include:

- Co-ordination of the global regulatory community to oversee the implementation and operations of the global LEI system in the public interest.
- Development of plans, policies, and strategy for the global LEI system.
- Approval of technical and operational standards for the global LEI system. Promotion of the LEI as an industry standard.
- Approval of business continuity standards for the global LEI system.
- Approval of budgets and the setting of fees for the central operations and functions of the system, and overseeing local arrangements.
- Requiring audits of the system (including appointment of external auditors) for financial controls, business practices, data quality standards or other matters necessary to ensure the public interest.
- Ensuring balanced representation by geographic area and economic sector of the BOD of the COU.

[39] Local authorities may also reserve rights to be engaged in decisions on local registration operations.

- Appointment of the initial BOD of the COU.
- Veto and removal of members of the BOD.
- Appointment of independent members of the BOD, serving the public interest.
- Approval of policies for the recognition and termination of local registration agencies and LOUs.
- Approval of material contracts with third parties to avoid 'vendor dependence' and to ensure high quality in services that are subcontracted.

The ROC, when deemed appropriate, may delegate the fulfillment of selected responsibilities, as determined and agreed by the Plenary.

Recommendation 24

PARTICIPATION IN THE REGULATORY OVERSIGHT COMMITTEE To participate in the LEI Regulatory Oversight Committee, an authority should indicate support for the global LEI High Level Principles and Charter for the Regulatory Oversight Committee. Authorities may elect to be a full member of the Regulatory Oversight Committee or an observer. The rights and responsibilities of members and observer status participants should be defined in the Charter.

Participation in the ROC shall be open to all authorities and jurisdictions that agree to the core principles and purposes of the global LEI system and that are willing to subscribe to the objectives and commitments specified in the high level Charter. Participation will be at the Plenary level which is the highest decision making body of the ROC.

Plenary membership may be large. To help facilitate the work of the ROC, an Executive Committee shall be appointed. The Executive Committee will take the day to day work forward. Membership of the Executive Committee shall be balanced jurisdictionally and regionally and also in terms of members' functions (eg prudential regulators, market regulators, central banks, etc).

Wherever possible, decisions shall be taken by consensus. Where this is not available, a voting system shall be applied, based on an allocation specified in the Charter.

The requirements, rights and responsibilities of Observer status shall be set out in the Charter.

Recommendation 25

LEVERAGING INFRASTRUCTURE OF AN INTERNATIONAL FINANCIAL ORGANISATION In developing proposals to establish the Regulatory Oversight Committee following agreement on the Charter, the Implementation Group should if possible and, subject to agreement, leverage on the existing infrastructure of an international financial organisation to initiate and stand-up the global LEI governance structure in a timely manner, utilising the experience of the international organisation in executing international initiatives.

The FSB sees considerable merit in drawing on the experience and infrastructure of an international financial organisation in helping to prepare and launch the international governance framework. Help and advice may be sought in a number of areas such as technical development and preparations; legal work; and meeting logistics.

Successful implementation of this option will require the acceptance and agreement of the international financial organisation to the proposal.

Recommendation 26

GOVERNING DOCUMENTS FOR THE CENTRAL OPERATING UNIT Alongside the development of the global Charter, the Implementation Group should develop legal documents governing the mandate provided by the Regulatory Oversight Committee to the Central Operating Unit as well as other legal documents needed to specify the full governance framework for the global LEI system.

A number of legal documents will need to be prepared alongside the Charter to set out and specify the governance framework for the global LEI system. These potentially include the following:

1. Regulatory Oversight Committee by-laws or similar document;
2. ROC Plenary and Executive Committee governing documents;
3. Foundation or body of equivalent legal form agreement for the Central Operating Unit;
4. Legal agreement between the ROC and the Central Operating Unit or similar document;
5. IP and other related copyright/trademark protection framework;
6. Information sharing agreements or similar documents draft;
7. Legal analysis of anti-trust laws to ensure adherence to competition and anti-trust provisions.

The proposed FSB LEI Implementation Group will be charged with responsibility for drafting the legal documents alongside the high level Charter for the ROC.

The BOD of the COU will assent to and respect the terms of a legal agreement with the ROC, specifying roles, responsibilities and rights of the respective parties for the governance and oversight of the global LEI system.

Recommendation 27

BOARD OF DIRECTORS OF THE CENTRAL OPERATING UNIT The Central Operating Unit shall have a Board of Directors. The Regulatory Oversight Committee has the right to veto membership of the BOD, as well as to remove members. The ROC has the right to appoint independent members.

The COU forms the operational arm of the global LEI system, charged with fulfilling the necessary central functions to the overall standards set by the ROC. The BOD of the COU has responsibility for the functioning of the COU, including the operational integrity and implementation and maintenance of standards specified by the ROC. The BOD should be populated by stakeholders representing a wide range of interests, such as non-financial companies as well as financial, experts with demonstrated experience of successfully introducing and operating entity identification schemes in other industries, and independent

directors. It should be formed from membership of the proposed global LEI foundation or body of equivalent legal form which will form the COU, together with independent members. The initial Board shall be appointed by the ROC once the Committee has been established and the ROC has recognised the foundation as the system COU. Thereafter, the ROC will veto/remove members of the Board proposed by the foundation and retains the right to appoint independent members[40].

Recommendation 28

FORMATION OF THE INITIAL BOARD OF DIRECTORS OF THE CENTRAL OPERATING UNIT The Central Operating Unit's initial Board of Directors should be appointed by the Regulatory Oversight Committee, taking into account the need for geographic and sectoral diversity. The Implementation Group should develop the fitness criteria, size, role etc for the BOD that should be reviewed in two years by the Regulatory Oversight Committee.

It is important that the BOD of the COU has a balanced representation of stakeholder interests charged with ensuring that the COU is run efficiently and effectively as the operational arm of the global LEI in line with the standards set by the ROC.

Recommendation 29

POWERS AND FUNCTIONS OF THE BOD OF THE CENTRAL OPERATING UNIT The Board of Directors of the Central Operating Unit should be granted powers to direct the management and operations of the Central Operating Unit in line with the overall standards set by the Regulatory Oversight Committee.

Specific responsibilities may include:

- Appointing and dismissing management of the COU.
- Entering into and enforcing contracts for services.
- Auditing a local registration agency or LOU, or other service providers.
- Dismiss or replace service providers as necessary.
- Invalidating an LEI, if appropriate standards are not met.
- Determine a payment system for fees and services, in line with the decisions of the ROC.

Recommendation 30

CONTINGENCY ARRANGEMENTS The Regulatory Oversight Committee is responsible for setting and overseeing the application of business continuity standards for the global LEI system in line with best practices for key financial infrastructure. Rules and procedures should be defined that the Central Operating Unit and Local Operating Units must follow in case of insolvency, bankruptcy, etc in order to ensure continuity of the global LEI system. A protocol

[40] In this context independent members mean non-industry representatives.

should also be developed for maintenance of secure parallel copies of the LEI, in a manner that respects local laws.

The Global LEI system should be available on a continuous basis and should meet best practice standards for business continuity and contingency planning for key financial market infrastructure. The system should also be able to function in the event of insolvency and bankruptcy of a component, through the identification and application of rules and procedures that must be followed in such a case.

Recommendation 31

LEI INTELLECTUAL PROPERTY The LEI Implementation Group should conduct analysis and provide recommendations on the treatment of the "LEI" intellectual property (such as the LEI code, software, reference data, any other LEI data, operational protocols, etc) according to the principles of open access and the nature of the LEI system as a public good. The objective of this analysis shall be to ensure a regime that assures the availability in the public domain, without limit on use or redistribution, of LEI data, reference data, and processes. Any intellectual property rights should be held by, or licensed to the global LEI foundation unless defined otherwise by the Regulatory Oversight Committee. Copyright should be used to the extent possible to promote the free flow or combination of information from disparate sources.

Development of the global system of unique entity identifiers is likely to entail the creation of specific intellectual property rights in relation to certain key operational features of the system. It is important that such IP rights do not provide privileges that act against the public interest, for example, by providing power to market providers that ensures that the system relies on their services, or that the system cannot function in the event that the particular vendor enters insolvency. To avoid adverse incentives and to ensure continuity of the system and thus that the system is 'vendor independent', the IP rights should reside ultimately with the global LEI system, as embodied by the proposed global governance arrangements.

The LEI is deemed to be a public good and available to the public at large for free. LEIs may be freely reproduced, distributed, transmitted, used, modified, built upon, or otherwise exploited by anyone for any purpose, commercial or non-commercial, and in any way, including methods that have not yet been invented or conceived. It will be important to specify clear rules and guidelines on the use of the LEI to make sure that the principles of free and open access are protected and that the system is not abused.

VIII. Implementation and next steps

The FSB strongly supports the rapid implementation of a global LEI system under the framework set out above. Early delivery of the system would provide manifold benefits to the global regulatory community and to the private sector.

This section sets out an implementation plan framework. The aim is to adopt the Charter of the Regulatory Oversight Committee of an independent, open, fair and transparent global LEI system in November 2012, with the Committee fully and independently functional by March

2013. Achieving this objective will require substantial high political level support and a strong commitment to provide expert resources to undertake the necessary work, as well as strong engagement and co-operation with the wide range of the private sector participants on the COU development.

To advance the global LEI initiative into the implementation phase, the FSB recommends setting up an LEI Implementation Group with a clear mandate to 'launch' the system on a self standing basis as soon as possible.

Two immediate strands of work were identified that need to be addressed by the FSB LEI Implementation Group:

- Governance: Undertaking all the legal, policy, organisational and administrative work to establish the permanent governance arrangements for the global LEI system as well as the necessary legal and administrative work to stand-up the COU;
- Operations: In close co-ordination with the private sector, to undertake and oversee the necessary technical work to develop, launch, and implement an operational system for the COU of the global LEI, that delivers agreed technical and operational standards, and that enables open access to the system and federation of local operations.

A third strand is continued policy development. Until the new governance arrangements are in place that will address outstanding policy issues at that time, policy development, such as work on corporate ownership structures and business hierarchies, will take place under the Implementation Group.

The FSB LEI Expert Group is an ad hoc group which has a time-limited mandate. It has now been disbanded. If the proposals and recommendations in this report are accepted, and the FSB is tasked to support the first step of the global LEI system implementation, the proposed FSB LEI Implementation Group will be created immediately after the G-20 Summit to take the project forward. Although the Group will build on the Expert group, in terms of membership and skills, additional legal expertise and additional technical and operational skills will be needed, relative to the membership of the Expert Group. The Implementation Group should cease to exist upon formation of the ROC, which should be by March 31 2013 at the latest.

Membership of the Implementation Group will be open to authorities and jurisdictions willing to support the development and implementation of the global LEI system, and to supply suitable expertise to the project.

Recommendation 32

FSB LEI IMPLEMENTATION GROUP Subject to the G-20 supporting further work to launch the global LEI, and entrusting implementation planning to the FSB, an FSB LEI Implementation Group should be established with a clear mandate to launch the global LEI system on a self- standing basis. The LEI Implementation Group should cease to exist upon formation of the Regulatory Oversight Committee which should be by 31 March 2013 at the latest.

Recommendation 33

STRUCTURE OF THE FSB LEI IMPLEMENTATION GROUP A time-limited FSB LEI Implementation Group (IG) of interested and willing experts (legal, IT, and other) from the global regulatory community that includes interested parties from the FSB LEI Expert Group should be formed to take the global LEI initiative forward into the global implementation phase until the Regulatory Oversight Committee is established. The IG should be led by representatives from different geographic areas to reflect the global nature of the LEI initiative and will be supported by the FSB Secretariat. The IG should develop proposals for the global LEI system stand-up as defined in the mandate below for review and endorsement by the FSB Plenary in October 2012 and, as appropriate, final review and endorsement by G-20 Finance Ministers and Central Bank Governors in November 2012.

Recommendation 34

RESPONSIBILITIES OF THE FSB LEI IMPLEMENTATION GROUP The mandate of the FSB LEI Implementation Group should be to prepare a draft global LEI Regulatory Oversight Committee Charter, proposals for the establishment of the LEI Regulatory Oversight Committee and related structures, develop all necessary legal documents for Regulatory Oversight Committee operations, develop necessary intellectual property agreements and contracts, conduct research and provide recommendations on LEI related information sharing arrangements; set up the process and any necessary legal documentation necessary for establishment of the Central Operating Unit and its Board of Directors; and set up the process for establishment of necessary standards, protocols, rules and procedures and organizational design for the Central Operating Unit.

Launch of the global governance framework

The High Level Principles and proposed Charter for the ROC will frame the governance arrangements for the global LEI system. Subject to high level support for the approach, the Charter will be developed by the Implementation Group for endorsement by the FSB in October, as appropriate, final sign off and endorsement by the G-20 Finance Ministers and Central Bank Governors in November (see Annexes 1-4). A very provisional list of elements for inclusion in such a Charter is outlined in Annex 4. Suggested initial components, include:

- Mission of the Regulatory Oversight Committee
- Objectives of the Charter
- Commitments and Obligations
- Membership
- Mandate and Responsibilities of the Regulatory Oversight Committee
- Functions and Powers
- Structure of the ROC
- Decision Making
- Sub – Committees and Advisory Panels

- Secretariat and Administration
- Establishment

As well as preparation of a draft Charter, the Implementation Group will also need to prepare all the supporting legal documents governing the global LEI system. A preliminary list is set out above under recommendation 26.

Drafts of these documents could also be taken forward by the proposed group in consultation, if necessary, with financial industry specialists and private sector legal experts with relevant experience in those areas. The aim will be to prepare all of the necessary legal documentation to support the launch of the ROC by March 2013 at the latest.

Recommendation 35

ESTABLISHMENT OF THE GLOBAL LEI SYSTEM The global LEI system will be established by the endorsement of the high level Charter for the Regulatory Oversight Committee by the G-20 Finance Ministers and Governors in November or by the FSB Plenary in October.
Endorsement of the Charter will establish the global LEI system. That will include the governance framework including: the creation of the ROC, potentially housed in an international organisation; and appointment of the Chair and Secretariat of the ROC. Once the ROC has been created from jurisdictions and regulatory authorities indicating support for the Charter, by March 2013 at the latest, it will have responsibility for the endorsement of the COU and for the launch of the system on a self-standing basis as soon as possible, which should be by the end of 2012 ideally and by March 2013 at the latest.

Launch of the operational framework

The principal focus in relation to the creation of the COU is on the speedy development and implementation of a central platform that will facilitate the integration of local identification systems (whether currently existing or emerging) into a logically central database of unique LEIs based on consistent standards, protocols, procedures, etc). The technology stream of the Implementation Group will work with a wide group of private industry representatives to develop a global LEI system that will allow the rapid integration of federated local systems into the logically centralised database and that will appear to be seamless to end users. In other words, any user will be able to access the global LEI system and obtain the LEIs or reference data of any entity registered with the system from across the globe – subject to privacy or confidentiality restrictions being maintained. Indeed, in the latter respect, the technology stream will need to ensure that the system meets the highest standards in relation to data integrity and security, business continuity and access controls.

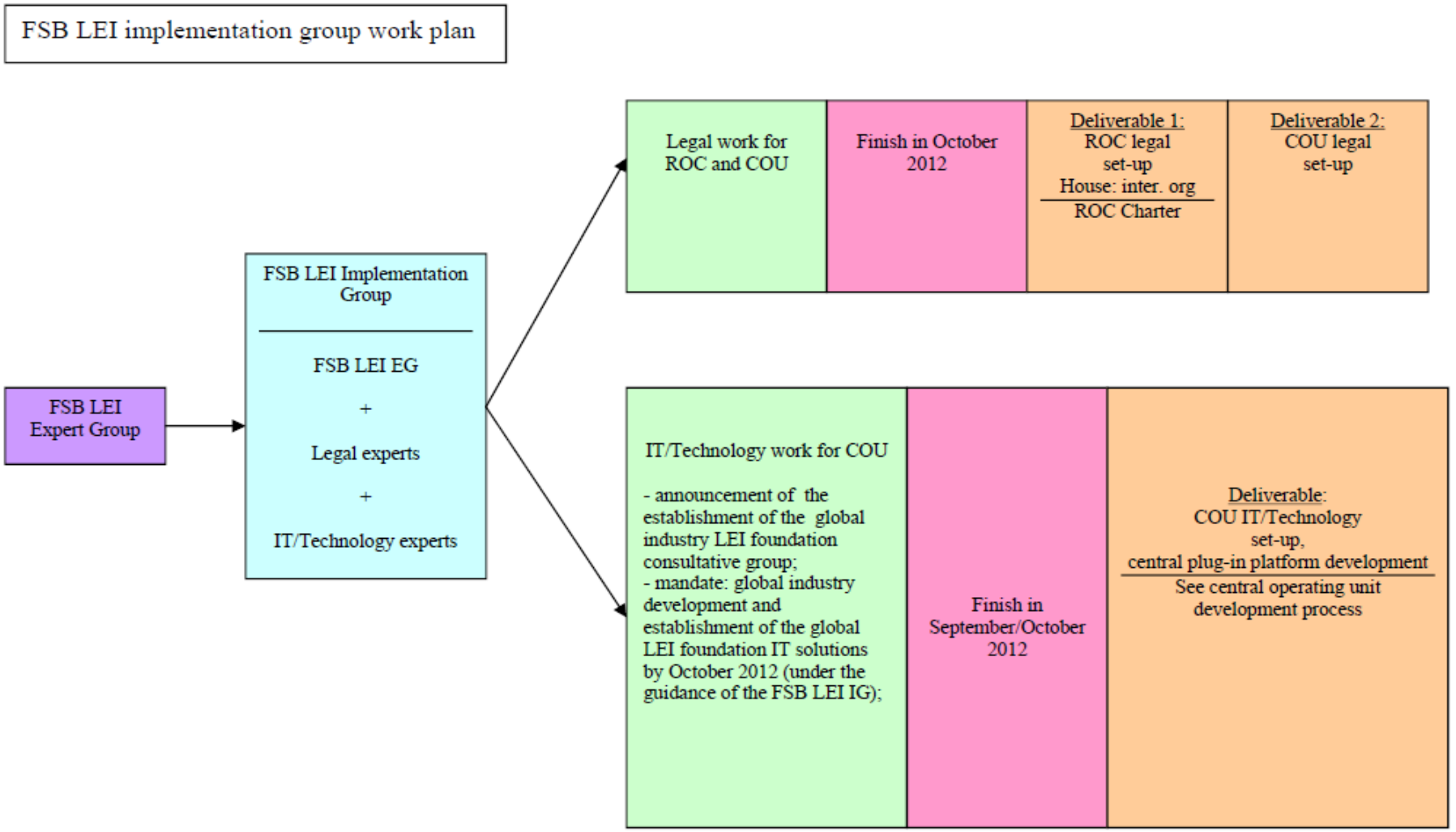
The Implementation Group will work closely with private industry experts to design and build an efficient system for the Central Operating Unit. The preferred approach is for the ROC (initially the Implementation Group) to direct the creation of a global LEI industry foundation or body of equivalent legal form to develop and operate the COU.

Following agreement to proceed with implementation, regulators would immediately solicit interest from a broad spectrum of private industry that includes financial companies (i.e.

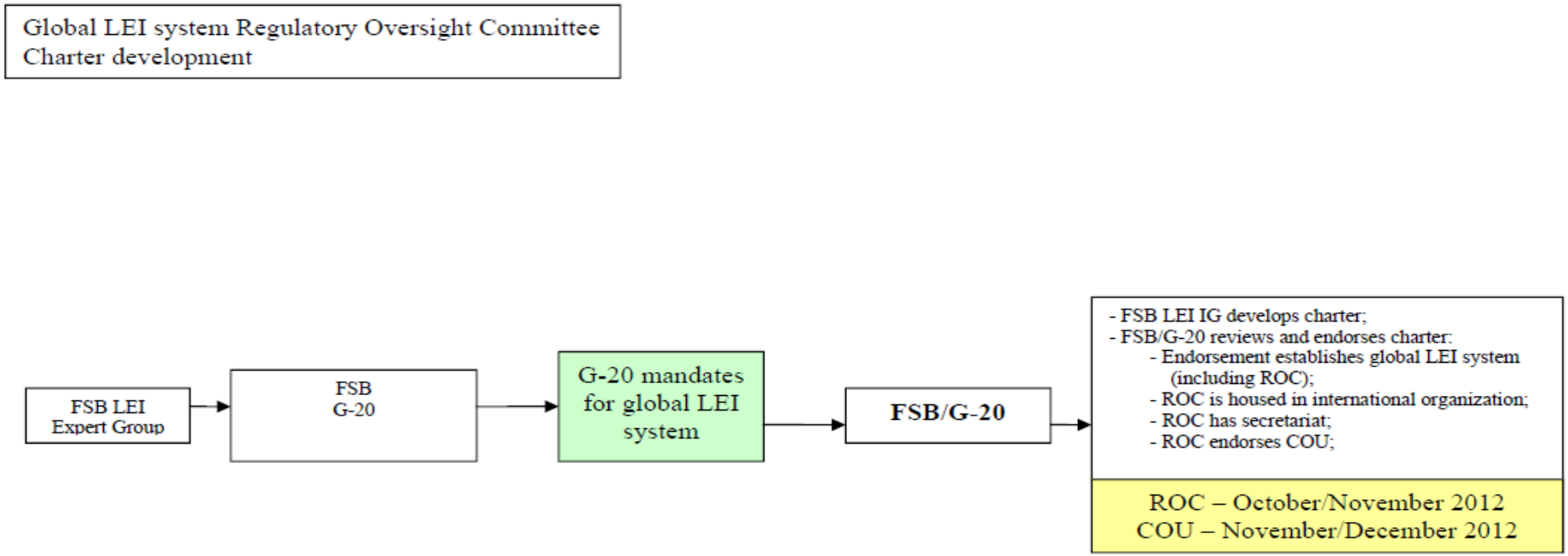
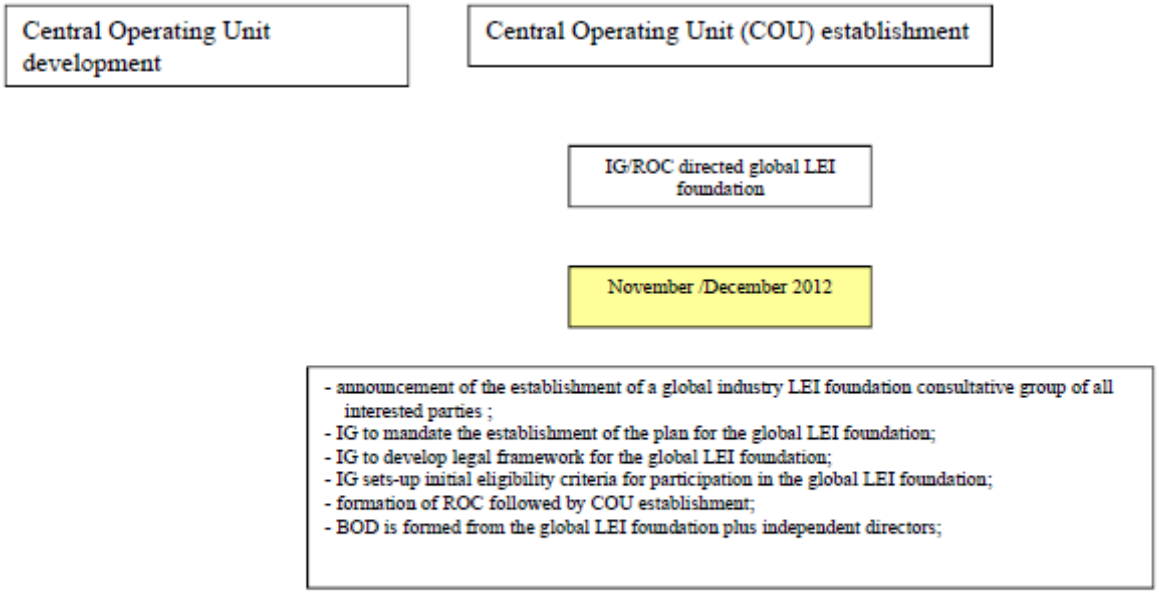
banks, financial intermediaries) and non-financial companies (i.e. standard setting bodies, data vendors, commercial companies, consulting companies) to participate in a global foundation that would be tasked to develop technical solutions for the implementation of the global LEI system, under the broad guidance and proposed legal framework provided by the Implementation Group. Participants would be sought on a global basis and from a broad set of experience, including from experts from outside the financial sector with experience of successfully introducing entity identification schemes. The Implementation group will provide a framework (outlining the main requirements and standards) and guidance for the private sector, enabling interested parties to work together within a foundation framework to deliver open access implementation processes and solutions that will quickly develop a central 'plug in' platform that local systems will link into. Once the ROC has been established, and the parallel legal work to set up the foundation completed, the ROC would set the eligibility criteria for membership and would select the global foundation to act as the COU. An initial BOD could then be selected by the ROC from the foundation members (supplemented potentially by independent members) to oversee the preparatory work and to act as the BOD of the self-standing COU. The BOD per validation by the ROC would decide for each part of the system whether to develop and operate the component within the foundation, or whether in some cases to buy in services or facilities from third party vendors.

The provision of seed-corn funding for the development of the system would need early resolution. The various possibilities include: private foundation funding (preliminary discussions indicate interest on the part of such foundations and other non-governmental organisations); contributions/loan from the public sector or an international financial institution; public funding and/or a private sector loan (that is the funding method suggested by GFMA/SWIFT/DTCC). Seed-corn funding would be repaid out of subsequent revenues of the system. An important early task of the Implementation Group will be to pursue seed-corn funding options, for consideration and decision by the ROC. The proposed implementation plan and timelines are summarised in the annexed Charts 5-7.

Annex 5: LEI Implementation Group work plan diagram



Annex 6: Global LEI system Charter development diagram



Annex 7: LEI Central Operating Unit development process diagram