FSB FINANCIAL STABILITY BOARD

31 October 2012

# Implementing the Global Legal Entity Identifier (LEI) System – A Charter for the Regulatory Oversight Committee and Report on Progress

## Note for the G20 Finance Ministers and Central Bank Governors meeting 4/5 November 2012

This note seeks the endorsement of the G20 Finance Ministers and Central Bank Governors for the draft Charter for the Regulatory Oversight Committee of the Global LEI System. The draft has been approved by the FSB and is provided in the Annex. Endorsement of the Charter is the key first step in the implementation timeline of the Global LEI System. Approval by the G20 Finance Ministers and Central Bank Governors will initiate the process for the ROC to be formed. In turn, formation of the ROC as the permanent governance arrangement for the LEI system is a prerequisite for the creation of the global LEI foundation and the operational structure.

The note also provides a short progress report on other major elements of the LEI work programme within three broad work areas: governance; operations; and relationship data.

Following endorsement of the FSB report "A Global Legal Entity Identifier for Financial Markets" and its recommendations at the Los Cabos Summit, the FSB has been tasked by G20 Leaders to take forward the planning and development work to launch the Global LEI System by March 2013. In particular, the Los Cabos Declaration highlighted:

> *'We endorse the FSB recommendations regarding the framework for development of a global legal entity identifier (LEI) system for parties to financial transactions, with a global governance framework representing the public interest. The LEI system will be launched by March 2013 and we ask the FSB to report on implementation progress by the November 2012 Finance Ministers and Central Bank Governors' meeting. We encourage global adoption of the LEI to support authorities and market participants in identifying and managing financial risks.'*

To take the work forward, the FSB formed an LEI Implementation Group (IG) drawn from the global regulatory community. The IG is collaborating closely with private sector experts through

the FSB LEI Private Sector Preparatory Group (PSPG)[1] which includes over 200 members from 25 jurisdictions[2] (see Appendix 1 for charts of break-down by region and participant type).

In order to establish a project plan, the FSB has developed the following definition of 'launch' of the Global LEI System:

> 'For the launch of the Global LEI System by March 2013, the global governance structure, including a written charter, the Regulatory Oversight Committee (ROC) and the Central Operating Unit (COU) (in the form of a foundation or equivalent legal form) will have been created. Designation of the Board of Directors of the global LEI foundation operating the COU and the design of processes to integrate the LOUs and the COU will be underway.'

## I. The draft Charter for the Regulatory Oversight Committee (ROC)

The Regulatory Oversight Committee (ROC) Charter sets out the mission and responsibilities of the ROC as required by Recommendation 21 of the FSB LEI Report. The ROC is responsible for governance of the Global LEI System.

The FSB recommends endorsement of the attached draft Charter. The Charter provides the ROC with the mandate to oversee the Global LEI System in the broad public interest in accordance with the Global LEI System High Level Principles and FSB recommendations, as endorsed by the Heads of State and Government of the Group of Twenty.

Key points of the Charter include:

- Membership of authorities in the ROC Plenary should be open to encourage wide, global participation and to develop and build global momentum[3]. However, national authorities are invited to facilitate co-ordination among eligible Plenary members within their national borders. Membership criteria, as with other elements of the Charter would be subject to a review clause.
- Establishment of the Executive Committee of the ROC responsible for the operational oversight of the Global LEI System as delegated by the ROC Plenary. The Executive Committee is to be a size limited (23 members), regionally balanced, group selected from the ROC Plenary. It is charged to take forward work of the ROC including decisions on operational oversight issues, under specified delegated responsibilities and powers provided by the Plenary.[4]
- Ensuring regional balance is instrumental to encourage global participation and acceptance. The Executive Committee will be balanced geographically to support the

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[1] The FSB published an open invitation for interested parties from the private sector (both financial and non-financial), data and technology providers, academics, and other parties with relevant expertise from around the world to join the PSPG. See: http://www.financialstabilityboard.org/publications/r_120703.pdf.

[2] A list of the affiliations of the initial members of the PSPG is published on the FSB website: http://www.financialstabilityboard.org/publications/r_120803.pdf. Membership has risen further since the list was published.

[3] Authorities that support and wish to be informed of the work of the Global LEI System but do not wish to participate actively in the decision making and governance process may apply for Observer status.

[4] Section 10 of the LEI ROC Charter (pages 7-9) outline the duties and responsibilities of the Executive Committee.

global nature of the project. To ensure the adaptability of the Executive Committee, the Charter also contains a provision that the maximum size and composition of the Executive Committee is to be reviewed every 3 years.

- The ROC should be formed as soon as possible given the tight and ambitious timelines for the system launch, recognising that establishment of the ROC is a critical step on the implementation path. Formation, however, requires that a minimum number of authorities join from different regions to ensure that regional balance is achieved from the start. Joining the system will be by assent to the Charter[5], which means that a member is to:
    - Uphold the High-Level Principles and goals set forth in the Charter to protect the broad public interest in relation to the Global LEI System;
    - Participate actively in the work of the ROC; and
    - Support the introduction of the Global LEI System for official or international identification purposes.
- Table 1 below sets out the procedure and timeline envisaged[6].

**Table 1: Proposed Timetable and Process for the Formation of the ROC**

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|---|---|
| **November 4/5** | Endorsement of the ROC Charter by the G-20 Finance Ministers and Central Bank Governors in Mexico City. |
| **November 6** | FSB announcement of the process and procedures for assent to the Charter. |
| **January 10** | Initial deadline for assent to the Charter. |
| **Late January** | First meeting of the ROC Plenary for authorities indicating assent by the 10 January. Items for resolution at that meeting would include:<br>o Formation of the Executive Committee<br>o Election of the first Chair of the ROC<br>Official end of the FSB Implementation Group[7] |
| **February** | First meeting of the Executive Committee |

- The Charter is subject to review, no later than October 2017. The review may cover all aspects of the governance arrangements for the Global LEI System.

[5] Prior to the formation of the ROC, assent will be provided by a letter from eligible authorities to the Chair of the FSB (a template will be provided) – on formation of the ROC and appointment of the Chair of the ROC, assent will be by letter to the Chair of the ROC. Authorities may also select to apply for Observer status.

[6] If the quorum of initial assenters is not reached by January 10, the meeting in January would revert to a meeting of the Implementation Group. But clearly in that event, it would not be possible to launch the system by March 2013.

[7] The IG will ensure an effective handover to the ROC.

## II. Progress on other major elements of the LEI Work Programme

As well as the development of the draft Charter, the FSB Implementation Group is taking forward preparatory work on a number of fronts in active collaboration with the Private Sector Preparatory Group. The aim is to prepare a comprehensive legal and operational analysis of future components as well as standards and protocols to support the rapid operational implementation of the federated Global LEI System as soon as the ROC is formed and the global LEI foundation operating the Central Operating Unit is in place. A number of issues are highlighted below for information.

**Governance:**

**Location and legal form of the global LEI foundation:** The FSB LEI Report tasks the IG to develop a detailed plan for the formation of the COU via the establishment of a not-for-profit LEI foundation (or legal equivalent) by interested industry participants under the oversight of the formed ROC[8]. Taking forward the preparation of such a plan is an important next step for the IG and the PSPG.

The articles, by-laws and governing documents for the LEI foundation will have a key bearing on the power and influence of the ROC, but at the same time should satisfy the needs of the global private sector. In particular, an important aim is that the articles of the foundation should support the governance framework, for example by specifying the regulatory oversight responsibilities of the ROC and by incorporating a number of key principles and public interest objectives that the foundation must adopt, for example including adherence to the intellectual property and anti-monopoly framework set out in the FSB LEI report so that data and operating process are not to be subject to any type of intellectual property restrictions, except those judged necessary by the ROC for protecting the broad public interest.

The location and exact legal form of the global LEI foundation will have a bearing on the overall governance framework for the Global LEI System. The IG and PSPG have analysed potential locations and have now initiated a detailed assessment of a narrow set of potential candidates. The results of the assessment will facilitate the drafting of the necessary legal documentation to establish the foundation and will be presented at the first meeting of the ROC.

**Board of Directors of the LEI foundation**: One of the first tasks for the ROC will be the appointment of the initial Board of Directors of the LEI foundation. PSPG members are working closely with the IG to develop criteria for fitness, experience, regional and sectoral balance, term of office etcetera that will support the process for nomination and selection of the first Board, and deliver a governance framework for the global LEI foundation to help sustain the public good nature of the system. Initial proposals are currently under review. Final recommendations will be presented at the first meeting of the ROC.

[8] The recommendation also highlights that the 'foundation would rely on the expertise and knowledge of industry participants 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. 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 COU in a manner defined by the IG.'

**Operations:**

**Business Processes and Use Cases:** Operational planning is also well underway. PSPG members presented an initial set of business processes and use cases for the operational elements of the Global LEI System at a recent joint PSPG and IG meeting. PSPG members have already undertaken detailed work in some areas and will expand on a strong base in the coming months. The next phase will build on these specification documents, focusing on how the system can best address a number of key issues in relation to areas such as data quality and addressing local languages and character sets, as well as how to draw most effectively on local infrastructure to deliver a truly global federated LEI system. Clear proposals and recommendations will be prepared by the end of the year, in order to support a successful and speedy launch of the system.

To support the work, the FSB recently hosted an Operational Solution Demonstration Day. Thirteen presentations from across the globe were given that contained proposals and solutions covering all or part of the proposed Global LEI System as set out in the FSB report.

**Number allocation scheme for the Global LEI system:** The Implementation Group recently requested an 'engineering study' from the PSPG to determine which scheme for the management of the issue of identifiers best serves the purposes of the Global LEI System. Following receipt of response and discussion with private sector experts, the IG prepared a recommendation for the technical specification of the LEI code structure which has been endorsed by the FSB Plenary. The FSB has decided to adopt a 'structured' approach to the number allocation scheme, whereby LOUs are assigned a unique prefix. The FSB decision has been provided now to deliver clarity and certainty to the private sector on the approach to be taken by potential pre-LEI systems that will facilitate the integration of such local precursor solutions into the Global LEI System.

**Portability:** An important element of the Global LEI System is that the LEI will be portable, implying that the LEI code may be transferred from one LOU to another[9]. In terms of future development of systems, each LOU must consequently have the capability to take over responsibility for LEIs issued by other LOUs.

**Self–registration:** Given the importance to the system of ensuring high data quality, recommendation 18 of the FSB LEI report highlighted that the LEI system should promote the provision of accurate LEI reference data at the local level from LEI registrants, and that self-registration should be encouraged as a best practice for the Global LEI System. To provide force to this recommendation, the FSB has agreed that pre-LEI services should henceforth be based on self-registration[10].

**Reference Data:**

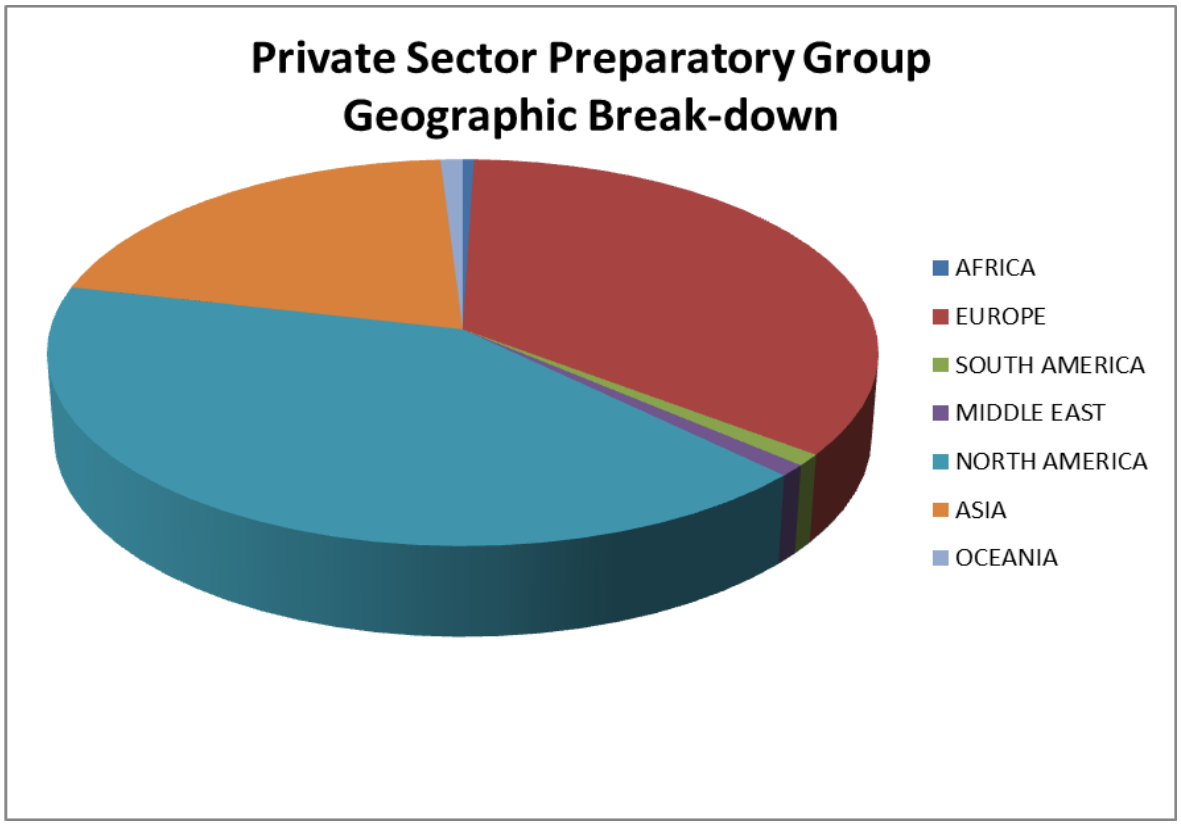
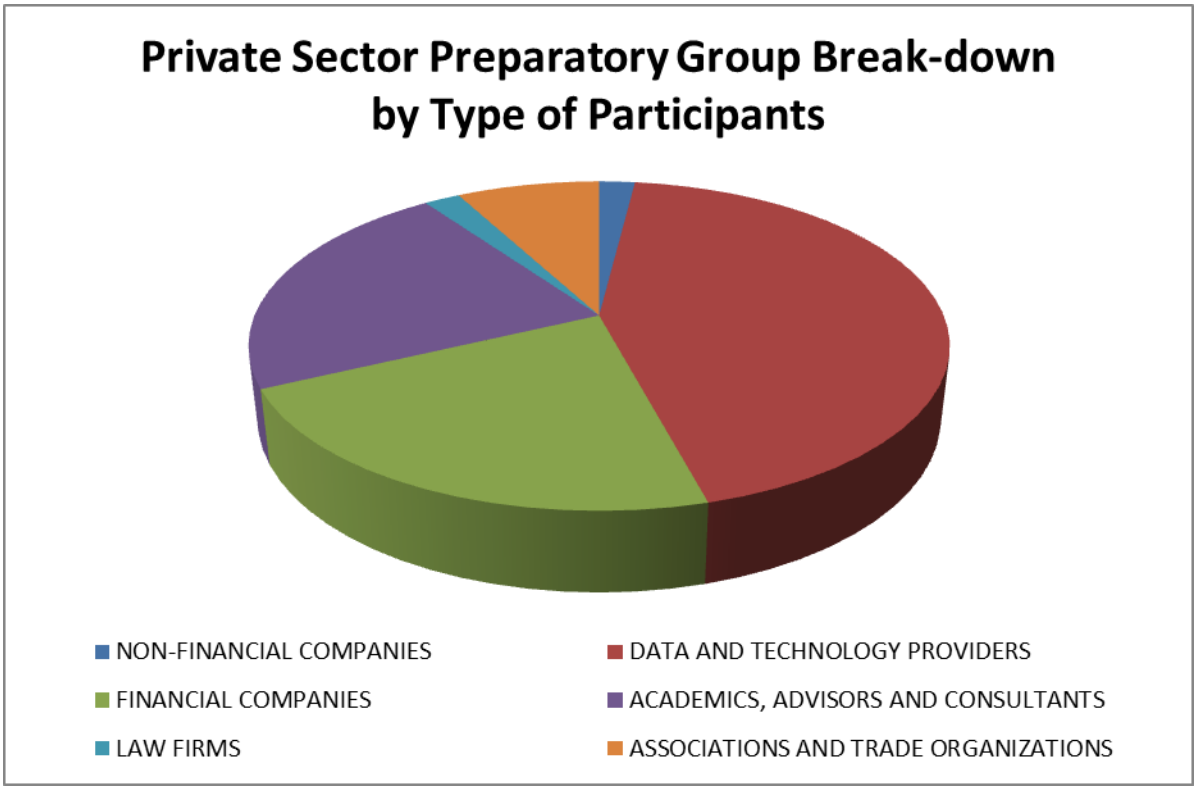
**Relationship data**: The addition of information on corporate relationships (including ownership and corporate hierarchies) is essential to support effective risk aggregation, which is a key objective for the Global LEI System. The IG is developing proposals for additional reference

[9] Recommendation 5 of the FSB report states that the LEI should be portable.

[10] The permission/agreement of the LEI registrant to perform an LEI registration on its behalf by a third party is considered to satisfy the requirements of self-registration granted the registrant has provided explicit permission for such a registration to be performed.

data on the direct and ultimate parent(s) of legal entities and on relationships (including ownership) data more generally and will prepare initial recommendations by the end of 2012. The IG is working closely with the PSPG to develop the proposals.

## III. Next steps

G20 endorsement of the draft ROC Charter at the Mexico City meeting on 4/5 November will initiate the process for formation of the ROC, with the objective of the ROC holding its first meeting in January 2013. That will in turn enable the LEI foundation operating the COU to be established and the Board of Directors appointed, establishing a solid global governance platform that will promote confidence and trust in the Global LEI System once it is launched by March 2013.

## Appendix 1: Private Sector Preparatory Group (PSPG)