

# Thematic peer review on implementation of the Legal Entity Identifier

## Summary Terms of Reference

### 1. Introduction

The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code, to uniquely identify legally distinct entities that engage in financial transactions. Implementing a Global LEI System (GLEIS) that uniquely identifies parties to financial transactions and ensuring its widespread adoption to support authorities and market participants in detecting and managing financial risks have been recognised, in the immediate aftermath of the financial crisis, as necessary improvements in financial data systems.

The G20 Leaders supported the creation of a global LEI at the Cannes Summit in November 2011, and endorsed the Global LEI System's high level principles and recommendations (set out in the FSB's June 2012 report *[A Global Legal Entity Identifier for Financial Markets](#)*) at the June 2012 Los Cabos Summit. The G20 also endorsed the establishment of a Regulatory Oversight Committee (ROC) for the GLEIS.<sup>1</sup>

The FSB has continued to support LEI implementation, including by establishing in June 2014 the Global LEI Foundation (GLEIF), which serves as the operational arm of the system and federates local LEI issuers under ROC oversight. In the governance framework endorsed by the G20 and now fully implemented, the GLEIF is responsible for developing the operational and technical standards for the GLEIS, in consultation with the ROC and other relevant stakeholders, while the ROC, the ultimate authority for oversight of the Global LEI System, is responsible for defining policy standards and exercising oversight of the GLEIF.

The completion of the governance framework, gradual enrichment of LEI reference data (most recently with the collection of data on direct and ultimate parents of legal entities and of data on international/foreign branches), and the increase in issued LEIs (approximately 1.2 million as of mid-April 2018) underline progress in the Global LEI System implementation.

The FSB Standing Committee on Standards Implementation (SCSI) agreed to launch a thematic peer review on implementation of the LEI. This document outlines the objectives, scope, approach and process for the review.

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<sup>1</sup> The ROC membership includes authorities from 46 jurisdictions; institutions from another 10 jurisdictions are represented by an observer. All FSB member jurisdictions are represented on the ROC, except Indonesia. See <https://www.leiroc.org/>.

## 2. Objectives

The thematic review offers a timely opportunity to evaluate the progress made by FSB members – both national authorities and international bodies – in response to the G20 Leaders’ call at the June 2012 Los Cabos Summit for “global adoption of the LEI to support authorities and market participants in identifying and managing financial risks”.

In particular, the objectives of the peer review will be to:

**a. Take stock of the approaches and strategies used by FSB members to implement the LEI, including its adoption for regulatory requirements by FSB member jurisdictions.**

In launching the LEI initiative, the June 2012 FSB report noted that the LEI is by nature a public good, offering collective benefits that are hard to capture by private market incentives, and that some form of public intervention may therefore be considered to ensure that there is sufficient adoption and take up by market participants to generate critical mass and to provide network benefits.<sup>2</sup>

The question of current and potential regulatory mandates, as well as the parameters of such possible mandates and associated cost-benefit assessments, remains the subject of active discussion in the LEI ROC and in the FSB and standard-setting bodies (SSBs).

In its work, the peer review will recognise that LEI strategies adopted by international SSBs and by jurisdictions reflect their particular needs, taking into account differences in the legal and regulatory frameworks in which they are operating, the mandates and objectives governing their actions, as well as the structures and economic conditions of the different jurisdictions, markets and sectors where the LEI can be used.

**b. Assess whether current levels and rates of LEI adoption are sufficient to support the ongoing and anticipated needs (particularly financial stability objectives) of FSB member authorities.**

The FSB stated in its June 2012 report that the GLEIS 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”. The report also noted that the LEI 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. An excerpt of the section on the “Objectives of the global LEI system” in the 2012 report is provided in the Annex.

Other potential regulatory uses are mentioned in reports of the FSB or other SSBs and international organisations that are members of the FSB. For instance, the [\*Principles for effective risk data aggregation and risk reporting\*](#) issued by the Basel Committee on Banking

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<sup>2</sup> In its July 2017 [\*Third Annual Report to the G20 on Implementation and Effects of the G20 Financial Regulatory Reforms\*](#), the FSB noted that “[f]urther adoption of the LEI by legal entities worldwide and its use by authorities for regulatory purposes is essential to fully reap its collective benefits”.

Supervision in 2013 mentioned the LEI as one of the initiatives aimed at strengthening firms' risk data aggregation capabilities and risk reporting practices, which is essential to support financial stability. Further illustrations of LEI uses can be found in other publications, such as the November 2015 [\*FSB action plan to assess and address the decline in correspondent banking\*](#),<sup>3</sup> the G20 Data Gaps Initiative (DGI),<sup>4</sup> and the [\*Technical Guidance on the Harmonisation of the Unique Transaction Identifier\*](#) (UTI – see below) by the Committee on Payments and Market Infrastructure (CPMI) and the International Organization of Securities Commissions (IOSCO).

An analysis of current coverage could also allow for the identification of areas where a relatively modest and targeted effort could produce sizable benefits. As noted also by some in the private sector,<sup>5</sup> adoption by a substantial number of businesses could set the necessary network effects in motion allowing realisation of the full potential of the LEI.

**c. Identify the challenges FSB members face in further advancing the implementation and use of the LEI, and make recommendations (as appropriate) to address common challenges.**

Drawing on the range of members' experiences in implementing and using the LEI, the peer review may identify areas where members face common challenges and document practices that have advanced the adoption and use of the LEI in improving the usability of financial data for financial stability purposes.

### **3. Scope of the peer review**

In order to avoid duplication with the ROC/GLEIF work, the peer review will not examine the governance or technical functioning of the LEI system but will rather focus, across the FSB membership, on LEI implementation approaches and uses for financial stability purposes (see Annex) and on possible strategies to further global adoption.

#### **a. LEI strategies**

Related to the first objective mentioned in the preceding section, the peer review will **take stock of the approaches and strategies used by FSB members to implement the LEI and share related lessons**. As noted in the LEI ROC's 2015 [\*Progress report on The Global LEI System and regulatory uses of the LEI\*](#), strategies to support LEI adoption may include sectoral rules and regulations, adoption of the LEI as a universal identifier at the national level, and incentivising voluntary adoption of the LEI by market participants. The peer review will look

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<sup>3</sup> The FSB stated in this report that it would identify, in cooperation with relevant authorities and SSBs, priority areas for promotion of use of the LEI at the intersection of several regulatory needs.

<sup>4</sup> The progress reports of the second phase of the DGI (<http://www.fsb.org/2017/09/second-phase-of-the-g20-data-gaps-initiative-dgi-2-second-progress-report/>) provide some indications of the possible uses of the LEI to address the data gaps identified after the global financial crisis. The G20 Finance Ministers and Central Bank Governors welcomed in their March 2017 meeting the recommendations of the Inter Agency Group on Economic and Financial Statistics (IAG) for sharing and accessibility of granular data. The first recommendation states that "Economies and international organizations, as appropriate, are encouraged to foster the use of common identifiers" and that "economies and relevant international organisations, the Global LEI Foundation and the LEI Regulatory Oversight Committee should continue working together to further investigate all ways to promote wider use of the LEI".

<sup>5</sup> [\*The Legal Entity Identifier: The Value of the Unique Counterparty ID\*](#), McKinsey & Company and GLEIF, October 2017.

at the experiences so far, including the conditions under which each of these strategies has been successful, the challenges experienced by member authorities and other stakeholders in implementing and using the LEI, and remedial actions that authorities have undertaken or considered.

The LEI ROC progress report of 2015 also underlined that there are merits in the various authorities considering the actions of others when assessing the costs and benefits of the LEI. Assessing a measure in isolation from other domestic or foreign rules also requiring the use of LEIs and covering some of the same population of legal entities could lead, for example, to an overestimate of the cost of the LEI coverage needed to implement a given use of the LEI.

To address this issue, the peer review will examine the approaches adopted to maximise the synergies among authorities. This means analysing, as part of the analysis on the LEI adoption, the extent to which various uses of the LEI complement each other: approaches adopted or considered by national authorities (e.g. interagency dialogue and collaboration, rulemaking on common risk topics/disclosures, national or regional LEI strategies), the role of SSBs (e.g. the technical guidance by CPMI-IOSCO using the LEI as a building block of the UTI for reporting of over-the-counter derivatives), and the uses of LEIs for purposes not necessarily related to financial regulation (e.g. private sector uses such as know your customer (KYC), risk management, compliance processes and possible synergies with other public sector uses, such as the use of identifiers by customs or tax authorities).

#### **b. LEI coverage in relevant areas**

Related to the second objective mentioned in the previous section, the peer review will **assess the extent to which the LEI is on track towards serving the financial stability-related needs and interests of FSB member authorities, both individually and collectively.**<sup>6</sup> It will collect information on existing analytical uses of the LEI (complementing and deepening the examples reviewed in the latest LEI ROC progress report), elaborating on the way in which LEI usage could contribute to preserving financial stability; data on LEI coverage, including with respect to the reference population and other indicators useful for benchmarking.

To that end, the peer review team will take stock of whether and how the adoption of LEI is starting to improve the ability of FSB members to aggregate and analyse data. The LEI ROC progress report of May 2018<sup>7</sup> provides information on areas where LEI uses have been implemented in laws and regulations in some jurisdictions:

- i. OTC derivative reporting;
- ii. other reporting to banking and insurance supervisors and securities regulators, where the LEI is used for the identification of reporting entities, the identification of clients, counterparties or investments of reporting entities and the identification of the parent entities, subsidiaries or other related entities of reporting entities;
- iii. enhancing the disclosure of securitised products;

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<sup>6</sup> A key potential value of LEI is its global reach that may enable a wider analysis of cross-border financial networks and linkages, so long as supporting information and infrastructure exists.

<sup>7</sup> See [https://www.leiroc.org/publications/gls/roc\\_20180502-1.pdf](https://www.leiroc.org/publications/gls/roc_20180502-1.pdf)

- iv. enhancing the regulation and supervision of credit rating agencies;
- v. identification of securities issuers and use in securities transactions reporting;
- vi. recordkeeping requirements to support the resolution of failing financial institutions;
- vii. identification of reporting entities and/or counterparties in credit registries; and
- viii. identification of participants in payment markets.

### **c. Achievements and challenges**

Analysis conducted by the peer review team will also include:

- the extent to which LEI has affected, replaced or complemented proprietary, more costly or less comprehensive identifiers, and any obstacles members face in replacing or complementing existing identifiers;
- benefits achieved and obstacles faced in the uses of the LEI and examples of cost-benefit analyses of LEI use. The peer review team will collect information as to whether the LEI has allowed improved data uses in some jurisdictions (such as greater availability, timeliness or quality, lower production costs, improved data analysis, lowered costs to the public) and if not, the conditions that likely would need to be met, if any, to meet these objectives. To the extent possible, the team should seek to obtain quantitative information. On the cost side, and based as much as possible on available data (such as cost-benefit analyses conducted by FSB members), the team will consider information regarding the costs for entities to obtain and maintain an LEI (both registration fees and administrative costs) and the costs for users to introduce the LEI;
- whether there are novel uses of the LEI identified by members that may contribute to financial stability objectives and are not already implemented; and
- lapsed LEIs as well as progress and challenges in the use of newly collected relationship data.

To complement this stocktake, the review will solicit feedback from market participants on private sector uses of the LEI that also may support regulatory objectives (e.g. to promote effective implementation of risk management frameworks and reduction of operational risks) as well as on possible challenges faced in acquiring and maintaining LEIs. In this regard, the consultation of industry participants could help assess any potential “tipping point” where private sector uses may expand independently of regulatory requirements.

## **4. Approach and process**

In undertaking its work, the peer review team will interact closely with the LEI ROC to help ensure that the review does not overlap with the work programme of this body. In particular, the peer review will build on the work carried out for the 2018 LEI ROC progress report, as far as the review of regulatory uses is concerned.

The primary source of information for the peer review will be responses to a questionnaire by FSB jurisdictions. The questionnaire will cover the areas identified above in section 3. In addition to the questionnaire to national authorities, the peer review will collect information

from SSBs and international financial institutions on areas in the scope of the review, such as any LEI strategy or approach, use of the LEI to support data collections, research or other purposes, achievements and challenges. Input may also be sought from the GLEIF in their area of expertise, such as LEI data, implementation costs, or private sector uses.

The collection of feedback and information will be complemented by a roundtable with market participants, identified in consultation with relevant FSB member authorities, to gather views on the benefits and uses of the LEI and related strategies and challenges with respect to global LEI adoption, including costs for its initial issuance and maintenance by legal entities. The review team will also collect information drawing from policy papers, guidance and other documents published by authorities and market participants.

## **5. Peer review report**

The peer review report, expected to be published in the first half of 2019, will describe the approaches followed by individual jurisdictions to promote LEI expansion; identify areas where members face common implementation challenges; and document practices that have advanced the adoption and use of the LEI in improving the usability of financial data for financial stability purposes. It will also include an assessment of current levels of LEI coverage across sectors and geographies so to provide a factual basis for the analysis.

The report may draw lessons and make recommendations to address common implementation challenges. The report will not set new policies but could recommend actions for consideration by the relevant bodies (e.g. FSB or SSBs) to address these challenges.

## **Annex: Excerpt from FSB's June 2012 report *A Global Legal Entity Identifier for Financial Markets***

**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 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<sup>8</sup>.

- **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<sup>9</sup>.
- **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:

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<sup>8</sup> 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.

<sup>9</sup> FSB, *Key Attributes of Effective Resolution Regimes for Financial Institutions*, October 2011

- **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.

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.