

Progress note on the Global LEI Initiative

This is the third of a series of notes on the implementation of the legal entity identifier (LEI) initiative. The first progress note is available [here](#) and the second note [here](#)

Following endorsement of the FSB report and recommendations by the G-20, the FSB LEI Implementation Group (IG) has been tasked with taking forward the planning and development work to launch the global LEI system by March 2013. The IG is collaborating closely with private sector experts through a Private Sector Preparatory Group (PSPG) of some 300 members from 25 jurisdictions across the globe.

Charter for the Regulatory Oversight Committee (ROC): The IG has prepared a draft Charter for the Regulatory Oversight Committee for review and endorsement by the FSB and G20. The draft was supported by the FSB at its recent meeting in Tokyo for submission to the early November G20 Finance Ministers and Central Bank Governors meeting for final endorsement. Approval of the Charter will initiate the process for the ROC to be formed. ROC membership will be open to public authorities from across the globe that assent to the Charter. Authorities will also be able to apply for Observer status. The objective is to launch the ROC as the permanent governance body for the global LEI system in January 2013.

Location and legal form of the global LEI foundation: Formation of the ROC is a necessary step for the creation of the global LEI foundation which is the legal form for the Central Operating Unit. 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 for the foundation 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. 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. The PSPG presented a number of initial recommendations and options related to these criteria for the Board of Directors on 16 October; the proposals are currently being reviewed by the IG and the final version of the recommendations will be presented at the first meeting of the ROC.

Operational Solutions Demonstration Day: The FSB hosted a Global LEI System Operational Solution Demonstration Day in Basel on 15 October. Thirteen presentations from across the globe were made that contained proposals and solutions covering all or part of the

proposed global LEI system as set out in the FSB report. Annex 1 contains a list of the presenters.

Business Processes and Use Cases: PSPG members presented an initial set of deliverables containing business processes and use cases for the operational elements of the global LEI system at the joint PSPG and IG meeting on 16 October. PSPG members have already undertaken detailed work in some areas and will expand on a strong base. The next phase of the operational work is to 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, addressing local languages, as well as how to draw most effectively on local infrastructure to deliver a truly global federated LEI system. The PSPG are requested to prepare clear proposals and recommendations by the end of the year, in order to support a successful and speedy launch of the global LEI system.

Number allocation scheme for the global LEI system: On 12 September, the IG requested an ‘engineering study’ from PSPG experts 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 at the 16 October PSPG meeting, the IG prepared a recommendation for the technical specification of the LEI code structure which has been endorsed by the FSB Plenary. Annex 2 sets out the FSB decision to adopt a ‘structured’ approach to the number allocation scheme, whereby LOUs are assigned a unique prefix. The FSB decision is 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.

Ownership and hierarchy data: Addition of information on 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 data on the direct and ultimate parent(s) of legal entities and on relationship (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.

**Annex 1: Global Legal Entity Identifier (LEI) System Operational Solution
Demonstration Day**

Basel 15 October 2012

Presenters:

Association of National Numbering Agencies (ANNA)

Corporation for National Research Initiatives (CNRI)

Deloitte

DTCC and SWIFT

EDM Council

European Business Register (EBR)

Financial InterGroup

Fincore

Fujitsu Limited

Global IDs

GS1

National Institute of Statistics and Economic Studies (INSEE), France

NTT Data Corporation

Annex 2: Number Allocation Scheme for the Global LEI System - implications for local pre-LEI Issuers and other early movers

In response to requests for early clarity and guidance on the determination of the number allocation scheme for the management of identifiers for the Global LEI System, the FSB Implementation Group requested an ‘engineering study’ from the FSB LEI Private Sector Preparatory Group (PSPG) experts to explore the advantages and disadvantages of different schemes. The FSB is very grateful for all of the responses and for the contributions of members of the PSPG.

While there are a range of different schemes to manage the issue of identifiers that fit the characteristics of the 20 digit code (including two check digits) approach outlined in the ISO 17442 standard, for simplicity those schemes can be categorised into two general groups:

- An unstructured numbering system – one where an 18 character unique identifier fills the whole numbering spectrum;
- A structured numbering system – one where subsets of the spectrum of possible codes are partitioned for efficient allocation according to a structural guideline; for instance, an N digit prefix could be assigned to each Local Operating Unit (LOU) for its exclusive use¹.

On the basis of the arguments presented, the FSB has concluded that a structured number offers the best approach for the Global LEI System. The following method is to be used²:

- Characters 1-4: A four character prefix allocated uniquely to each LOU.
- Characters 5-6: Two reserved characters set to zero.
- Characters 7-18: Entity-specific part of the code generated and assigned by LOUs according to transparent, sound and robust allocation policies.
- Characters 19-20: Two check digits as described in the ISO 17442 standard.

Public authorities wishing to sponsor local pre-LEI issuance that would transition to the LEI system should ensure that new numbers are allocated according to the above guideline³. Pre-LEI solutions wishing to transition into the Global LEI System upon its launch shall be required to adopt the numbering scheme outlined above no later than 30 November 2012. This approach does not affect ISO 17442 compliant numbers issued prior to that date. Once the global LEI system is in place, pre-LEI codes issued according to the ISO 17442 standard (and if issued after November 30, complying with the above guideline and thus embodying an appropriate 4 digit prefix) will be transitioned into LEIs, subject to meeting the agreed global

¹ For the user, however, the identifier remains a 20-digit string void of meaning. Because the ISO standard requires that such a prefixed code would not change if its maintenance were migrated to another LOU, the code structure can be considered as having no permanent embedded meaning.

² The LEI code for an entity is the entire 20 character code (including the check digits) and will continue to conform to the ISO 17442 standard.

³ The FSB Secretariat will allocate a 4 digit random number prefix to any such pre-LOUs, and will publish this prefix on the FSB website. Numbers will be used for these cases rather than alphanumeric characters to provide additional flexibility to local systems. Responsibility will transfer to the ROC and the COU once they are in place. The ROC and COU will decide the rule for new 4 character prefixes for LOUs applying for a prefix after the global system launch.

LEI standards, including survival rules adopted by the ROC or the COU in the exceptional cases where entities have multiple ISO 17442 compliant pre-LEI identifiers⁴.

The LEI will be portable within the global LEI system, implying that the LEI code may be transferred from one LOU to another⁵. Each LOU should immediately transfer an LEI to a different LOU following the request of the LEI registrant or an LOU acting on its behalf without any financial or operational hindrance. Each LOU must consequently have the capability to take over responsibility for LEIs issued by other LOUs.

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-registration⁶. From November 9, all pre-LEI systems will allow self-registration only.

Authorities sponsoring pre-LEI issuers are expected to sign the ROC Charter once it is approved by the G20.

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⁴ A survival rule will need to be put in place by the ROC and COU to address the presumably rare cases where 2 or more potential LOUs allocate ISO compliant pre-LEIs to the same entity. The 'survival' rule will address which number will become the LEI in such circumstances, given the need to ensure that entities have one and only one LEI.

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

⁶ 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.