

Fourth progress note on the Global LEI Initiative

This is the fourth of a series of notes on the implementation of the legal entity identifier (LEI) initiative. The first progress note is available [here](#), the second note [here](#), and the third note [here](#). Please also see G20 progress note [here](#), LEI ROC Charter [here](#), and allocation of pre-LOU prefixes for pre-LEI issuance [here](#)

Following endorsement of the FSB LEI 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 with a wide range of experience from different sectors and fields through a Private Sector Preparatory Group (PSPG) incorporating members from 25 jurisdictions across the globe.

Charter for the Regulatory Oversight Committee (ROC): The G20 Finance Ministers and Central Bank Governors endorsed the [Charter](#) for the ROC on 5 November, thus initiating the process for the ROC to be formed. ROC membership is open to all public authorities from across the globe that assent to the Charter. Authorities can also apply for Observer status. The objective is to launch the ROC as the permanent governance body for the Global LEI System in January 2013 with the first meeting of the ROC to take place at the end of the month.

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 will operate the Central Operating Unit (COU). 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 including its Board of Directors. The IG is very grateful for pro bono legal work which was helpful in identifying potential candidate countries to be the legal home of the foundation and in highlighting the most important factors to be considered in such a choice. Following analysis by the IG and PSPG of potential locations for the legal home for the foundation, the FSB is commissioning a detailed legal assessment of Switzerland. Two important considerations in the deeper assessment are that the legal home for the foundation should support the governance structure described in the ROC Charter to ensure the protection of the broad public interest and that it should allow different locations for the legal home of the foundation and its associated operational activities. The results of the legal assessment will be presented at the first meeting of the ROC in January to facilitate the decision on the legal location of the Global LEI Foundation and its formation in time for the system launch by March 2013.

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 following the formation of the Global LEI Foundation. A call for nominations for the Board is expected to follow the first meeting of the ROC. As requested in Recommendation 28 of the G20 endorsed FSB LEI report, the IG and PSPG have been working closely to develop criteria for fitness, experience, regional and sectoral balance, term of office etc. to 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 Annex to this note sets out a preliminary criteria and initial selection matrix prepared by the IG, drawing on extensive input from the PSPG. The matrix remains work in progress. Additional input from potential Board nominees on important questions that they would welcome guidance on in advance of the official call for nominations by the ROC, as well as considerations on public or independent Directors are very welcome. Please could any such feedback or questions be provided to Nigel Jenkinson and Irina Leonova (nigel.jenkinson@bis.org; irina.leonova@bis.org).

Operational workstream: PSPG members are currently deepening work on operational elements of the Global LEI System, building on a strong base of business processes and use cases presented at the joint PSPG and IG meeting in October. An overarching aim is how to draw most effectively on local infrastructure to deliver a truly global federated LEI system with a ‘logically’ centralised database of unique LEIs (and supporting reference data) based on consistent standards, protocols, procedures, etc. that appear seamless to users as discussed in the [FSB LEI report](#). Separate workstreams are addressing respectively: business architecture; data architecture; and standards and protocols. The PSPG is aiming to prepare clear proposals and recommendations by the end of the year, for consideration by the ROC and the Board of Directors of the Global LEI Foundation once in place.

Allocation of pre-LOU prefixes for pre-LEI issuance: Following a review and engineering study of the number allocation scheme for the Global LEI System, the FSB Plenary endorsed a recommendation for the technical specification of the LEI code structure. This was spelled out in Annex 2 of the third progress note, which highlighted the FSB decision to adopt a ‘structured’ approach to the number allocation scheme, whereby LOUs are assigned a unique prefix.

Public authorities wishing to sponsor local pre-LEI issuance that would transition to the LEI system, subject to meeting the agreed global LEI standards, including survival rules, should ensure that pre-LEI code strings are allocated according to the guideline set out in the third progress note¹. Pre-LEI solutions wishing to transition into the Global LEI System upon its launch shall be required to adopt the proposed numbering scheme for any new pre-LEI codes issued after 30 November 2012. There is no deadline to request a prefix for pre-LEI issuance.

The prefix approach will deliver uniqueness of the LEI code. This approach does not apply to ISO 17442 compliant numbers issued prior to 30 November. 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 guidelines set out in the third progress note and thus embodying an appropriate 4 digit prefix followed by two digits of zeros) will be transitioned into LEIs, subject to meeting the agreed global 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 identifiers². An effective and sound process for dealing with cases

¹ 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.

² A survival rule will be specified by the ROC and COU to address the presumably rare cases where 2 or more pre-LOUs allocate ISO 17442 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.

of the duplication of numbers assigned to one entity is a key requirement for the Global LEI System, as some such exclusivity violations will happen as part of the data system operations regardless of the precautions made and de-duplication measures implemented.

The following policies will help to lower the number of cases where survival rules will need to be applied when pre-LOUs apply to become LOUs and to join the Global LEI System:

- Self-registration: As stated in the third progress note, all pre-LEI systems will henceforth allow self-registration only³. The registrant requesting a pre-LEI should consequently confirm that the entity has not previously applied for a pre-LEI that is acceptable to meet reporting or other regulatory requirements in a particular jurisdiction;
- Portability: As previously indicated, the LEI must be portable within the global LEI system. 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. The portability principle is strongly encouraged for sponsored pre-LOUs as well;
- Mutual recognition of pre-LEIs: To eliminate any risk of a single entity requiring multiple pre-LEIs to comply with local regulatory requirements, it is important that there is mutual recognition of pre-LEIs issued outside the domestic framework and of pre-LEIs ported to another pre-LOU. Authorities sponsoring pre-LOU solutions are encouraged to make an early statement of support for this principle to provide clarification to any entity requiring a pre-LEI to meet regulatory requirements.
- Openness of pre-LOU systems: All pre-LOUs should have open systems that provide all users with free, ready access to any pre-LEIs and core reference data.
- Checking for duplicates: All pre-LOUs are encouraged to perform a check prior to the issuance of a new pre-LEI for potential exclusivity violations. In the exceptional cases where such a check reveals a potential violation, the entity should be able to immediately port the pre-LEI to the desired pre-LOU.⁴
- Avoidance of intellectual property restrictions: Freedom from IP restrictions will be an important consideration for the on-boarding of pre-LOUs and LOUs into the Global LEI System⁵.

As highlighted in the third progress note, public authorities sponsoring pre-LEI issuance are expected to assent to the ROC Charter and to encourage pre-LOU solutions to adopt the policies outlined above.

³ This agreement applies from 9 November 2012.

⁴ Also see Recommendation 19 of the G20 endorsed FSB LEI report.

⁵ A team of PSPG IP experts and IG members are currently working to identify sources of potential IP problems in the Global LEI System more broadly, the remedies that might be available, and their potential consequences.

Relationship data: Information about relationships among entities 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 for consideration at the first meeting of the ROC. The IG is working closely with the PSPG to develop the proposals. The proposals under development embody an initial step where relationship data collection leverages from the accounting consolidation approach and would then be incrementally built out to develop a flexible, automated system for more general relationship data over the medium term. Local data privacy and confidentiality restrictions may have a major impact on the sharing of relationship data. The IG and PSPG are reviewing such issues.

Annex: Global LEI Foundation Board of Directors (BOD) Eligibility, Selection Criteria and Composition - preliminary

Recommendation 28 of the G20 endorsed FSB LEI report requests the IG to develop the fitness criteria, size, role, etc. for the BOD of the Global LEI Foundation.

According to the governance framework for the Global LEI System specified in the Charter for the Regulatory Oversight Committee, the BOD of the Global LEI Foundation must, inter alia:

- Implement and manage the standards and policies of the Global LEI System adhering to the protection of the broad public interest;
- Ensure transparency throughout the Global LEI System;
- Manage development and implementation of standards for LEI reference data and other aspects of the Global LEI System as directed by the ROC;
- Manage development and implementation of standards for participation of LOUs in the Global LEI System under ROC guidance;
- Implement the COU budget;
- Implement standards for data availability, business continuity, disaster recovery, and automated system safeguards;
- Implement standards that safeguard confidential data;
- Ensure the conduct of independent audits of the Global LEI System;

Drawing on extensive input from the PSPG, the IG has developed the following preliminary BOD selection criteria and High Level Principles governing BOD composition that should be adhered to by the Global LEI Foundation.

BOD Selection Criteria and High Level Principles governing BOD composition:

1. Broad public interest protection and commitment to LEI mission and objectives
2. Fit and proper criteria
3. Organizational behavior and corporate governance knowledge
4. Experience of high level Board interaction
5. Complex federated data system knowledge
6. Start-up of federated international operation (in initial years at least)
7. International experience and cross-cultural awareness
8. Geographical and sectoral diversity

BOD Selection Matrix (characteristics to be reflected in the Board composition):

SKILLS
SECTOR
GEOGRAPHY

Skill Matrix (recognizing that the balance of required skills will change over time with the development of the System):

- 1. Organizational Skills
 - Federated international organization start up and operation
 - Experience of international negotiations
 - Cross-cultural experience/background
 - Financial planning and audit experience
 - Funding experience
 - Strategic planning experience
 - Broad public interest understanding
- 2. Technical Skills
 - Data management experience
 - Distributed network systems knowledge/operation
 - Identification systems knowledge/operation
 - Risk management system experience
 - Data standard development and implementation
 - National/international identification infrastructures knowledge/experience
- 3. Legal Skills
 - Intellectual property legislation and practice
 - Privacy and confidentiality legislation and practice
 - Anti- trust legislation and practice
 - Not- for- profit sector knowledge/experience

Sector Matrix:

- 1. Data and technology
 - a. Data standards;
 - b. Data management;
 - c. Enterprise architecture;
 - d. Coordination/integration of global systems of identifiers
 - e. ...

2. Financial
 - a. Sell-side entities (investment banking, broker dealers, etc.);
 - b. Buy-side entities (such as private equity funds, mutual funds, life insurance companies, unit trusts, hedge funds, pension funds, proprietary trading desks, etc.);
 - c. Commercial banking;
 - d. ...
3. Non-financial companies
 - a. Multi-national;
 - b. Regional and domestic;
 - c. ...
4. Not for profit sector, including academics and advisors
 - a. Broad public interest protection focus;
 - b. Transparency focus;
 - c. Market structure and corporate governance;
 - d. Data, technology and innovation;
 - e. Risk management;
 - f. ...

Geography Matrix:

1. North America (including Mexico and the Caribbean);
2. Europe (including the Commonwealth of Independent States);
3. Asia (excluding the Middle East);
4. Central and South America, Africa, Oceania, and the Middle East.