

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures and International Organization of Securities Commissions Consultative Report Review of Margining Practices

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures and International Organization of Securities Commissions Consultative Report Review of Margining Practices. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) to bring transparency and reduce regulatory data gaps in the non-bank financial intermediation (NFI) sector.

GLEIF would like to respond to Question 4: *Does the report identify appropriate aspects of transparency in centrally and non-centrally cleared markets for further international work, including identifying data gaps, enhancing disclosures to clearing members and increasing margin model transparency?*

a. What specific areas of transparency would be most helpful? What (if any) are the barriers to providing those points of transparency?

b. Should any other areas of increased transparency be considered?

First, GLEIF agrees that the post-global financial crisis reforms have increased the systemic importance of central counterparties (CCPs) and reduced the systemic risk of the financial sector globally. Developing a system to uniquely identify legal entities globally also had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision.

This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, supervisory authorities, working with the private sector, have developed the Global LEI System with a global governance framework representing the public interest that, through the issuance of unique LEIs, unambiguously identifies legal entities engaged in financial transactions.

The LEI is the only global standard for legal entity identification. It is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is

who' and 'who owns whom'. The publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.

The drivers of the LEI initiative, i.e., the Group of 20, the Financial Stability Board and many regulators around the world, have emphasized the need to make the LEI a broad public good. As such, the LEI and its associated reference data are accessible to all as open, public data. It is registered and regularly verified according to protocols and procedures established by the [Regulatory Oversight Committee](#).

As highlighted in the consultation paper Section 7.3 *Identifying data gaps in regulatory reporting*, the LEI could help to reduce data gaps in regulatory reporting pertaining to margin requirements. When market participants add the LEI of the counterparty/client in their datasets, they can better assess the counterparty characteristics such as country, reduce overcollateralization risks and prevent a potential systemic contagion. With the LEI, authorities could paint a more comprehensive picture of NBFIs sector preparedness and intermediaries' provision of liquidity to clients.

Therefore, GLEIF supports the suggestion made in the consultation paper to include the LEI to reduce data gaps in regulatory reporting. There is no obstacle in further adoption of the LEI. Today, there are more than 2 million LEIs issued and the LEI is referenced in over 126 regulations globally.

GLEIF would like to respond to Question 6: *Do you agree with the proposals for further international work to evaluate data gaps in regulatory reporting by banks and non-banks? Are there particular data gaps you would identify as being of material importance? If so, please provide any supporting information and data to the extent feasible.*

GLEIF agrees with the findings in the consultation paper that the varied range of practice around Initial Margin (IM) model transparency and, generally, low levels of transparency around modeling choices and governance practices may lead to procyclicality during periods of high volatility. Therefore, it is essential to take measures to address data gaps in regulatory reporting by banks and non-banks.

It is shown in Figure 7 in the consultation paper that the speed of the IM increase in the OTC segment was lower relative to the other asset classes. GLEIF suggests that this difference could be due to the fact that the OTC segment has been highly regulated at the aftermath of the global financial crisis and therefore its reaction to the market risk was stable in March 2020. One of the reforms in the aftermath of 2008 was introducing the LEI requirement to identify counterparties to previously opaque OTC derivatives transactions.

GLEIF agrees with the suggestions in the consultation paper that clearing members can encourage and facilitate greater liquidity preparedness of clients through appropriate information sharing; and the use by clearing members of clear, transparent and more

standardized disclosures and automated margin processes/procedures. Adding the LEI in these standardized disclosure requirements and information sharing templates can help to reduce data gaps in regulatory reporting and take preventive measures on a timely basis. Therefore, GLEIF invites the Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures and International Organization of Securities Commissions to recommend all relevant authorities to mandate the issuance and renewal of the LEI.

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