

September 23, 2011

Via e-mail submission

Committee on Payment and Settlement Systems Secretariat (cpss@bis.org)  
IOSCO Secretariat (OTC-Data\_Report@iosco.org)

**Re: August 2011 IOSCO-CPSS Consultation Report on OTC derivatives data reporting and aggregation requirements**

The coalition of financial services firms and trade associations (the “Trade Associations”) appreciates the opportunity to comment on the IOSCO-CPSS Consultation Report on OTC derivatives data reporting and aggregation requirements (“the report”). The Trade Associations support the IOSCO-CPSS position that “a system of legal entity identifiers (LEIs”) would be an essential tool for the aggregation of OTC derivatives”, and are pleased to note the call for the “expeditious development and implementation of a standard LEI”. The Trade Associations look forward to the FSB workshops scheduled at the end of September and are optimistic that these workshops will facilitate the timely implementation of a standard LEI and build strong international consensus for the solution recommended by the Trade Associations on July 11, 2011.

The Trade Associations are pleased to offer the following comments in response to the questions raised in the report with respect to legal entity identification.

**Expeditious Development and Implementation of a Standard LEI**

The Trade Associations strongly support the “expeditious development and implementation of a standard LEI.” As IOSCO and CPSS know, the Trade Associations and ISO have worked for several months on the development of an LEI standard and operating model culminating in the July 11, 2011 recommendation by the Trade Associations for the LEI Solution Providers. Specifically:

- Standards Body: The International Organization for Standardization, i.e., ISO’s new standard, ISO 17442, is recommended for use as the new, authoritative legal entity identification standard.
- Core Issuing and Facilities Manager: The Depository Trust & Clearing Corporation (DTCC) and the Society for Worldwide Interbank Financial Telecommunications (SWIFT), along with DTCC’s wholly-owned subsidiary AVOX Limited, are recommended as key partners to operate the core LEI utility as the central point for data collection, data maintenance, LEI assignment, and quality assurance.

- Federated Registration: ANNA, through its network of local national numbering agencies (NNAs), is recommended as a key partner in the solution for registering, validating and maintaining LEIs for issuers, obligors, and other relevant parties in their home markets. The NNAs are envisioned to serve as the “face” of the LEI utility to those markets while leveraging the functionality of the centralized LEI utility for the assignment, further validation and global distribution of LEIs.

The Trade Associations believe that the LEI standard, issuance capability and management solution outlined above represents a powerful foundation upon which the remaining aspects of an LEI system, such as governance, can be built. IOSCO-CPSS, as well as the FSB, have recognized the progress made by the industry in this regard, and we strongly encourage the use of this solution as the backbone of a robust LEI system.

In Section 5.2.1 of the report, IOSCO-CPSS recommends that the industry process include the development of an LEI standard and an issuance capability under the auspices of organizations with international membership and experience in developing and publishing international standards for the financial sector. As noted above, the Trade Associations have recommended The International Organization for Standardization (ISO) for the development of the standard and DTCC-SWIFT-ANNA for issuance and management of the LEIs and LEI database. All of these organizations have strong international membership and/or governance and experience in the international financial services industry. Specifically:

- ISO is located in Geneva, Switzerland and is the premier standards body responsible for the development and management of international standards (currently more than 18,100 standards) through its worldwide network of national standards bodies.
- DTCC currently provides custody and asset servicing for 3.6 million securities issues from over 120 countries and territories. DTCC, through its Avox subsidiary, has nearly ten years of experience in collecting and validating legal entity information from over 200 jurisdictions.
- SWIFT is a European-based global utility; a member-owned cooperative used by more than 9,000 banking organizations, securities institutions, and corporate customers, and regulators in 209 countries. SWIFT, based in Europe, is subject to regular oversight by a group of G-10 central banks, led by the National Bank of Belgium.
- ANNA is formed under Belgian law as a ‘srl’ Association (a cooperative company with limited liability) in 1992. ANNA has a network of 81 National Numbering Agencies (NNA’s) with full membership rights and an additional 30 associate members (ANNA partners) covering 118 countries. The coverage of ISIN assignment (ISO 6166 standard) is in excess of 200 countries worldwide. ANNA has been appointed as and is the recognized ISO Registration Authority for the ISO 6166 (ISIN) and for ISO 10962 (CFI) standards.

The Trade Associations believe this alliance of service providers and standard developers should satisfy IOSCO-CPSS's and others' preference for strong international membership, presence, and experience in creating and managing the LEI solution. We are pleased to report that in the two months since the Trade Associations have issued our recommendation, DTCC/SWIFT/ISO and ANNA have had numerous working sessions and have agreed on a principle-based framework illustrating the various options on how the NNAs can interface with the LEI Utility to federate the input of legal entity data into the Utility for issuers and obligors.

With respect to expeditious implementation, the Trade Associations have been working very closely with the DTCC-SWIFT-ANNA alliance and ISO to ensure the LEI solution can be implemented and available for use before the effective date of any required reporting to Trade Repositories (TRs) in any region of the world. The time frames under which these organizations are currently operating are as follows:

- Target end date for completion of LEI standard, following the global ISO process, by January 2012 (see August 2011 Update on the SIFMA website at <http://www.sifma.org/issues/operations-and-technology/legal-entity-identifier/resources/>)
- DTCC-SWIFT-ANNA will have a self-registration application including a payment facility added to the current platform and the necessary staffing in place by Q3 2012. At that point OTC Derivatives will populate the LEI facility with scrubbed data on entities that are transaction counterparties (expected to be no more than 50,000 entities) and make the data available to the entities for self-validation. It should be noted that DTCC/Avox has successfully scrubbed and added to the database the entities representing over 90% of the trade data reflected in the Trade Information Warehouse. This data will be contributed to DTCC's global trade repository. The second phase of the implementation will be to add over 400,000 records to the LEI database, validated using authoritative sources and circulated for self-validation by the end of 2012.

The Trade Associations and solution providers look forward to working with the TRs and regulatory community to ensure these time frames satisfy future reporting requirements and that any implementation questions are resolved in a timely fashion so as to achieve these timeframes.

### **Basic Principles for the LEI**

The Trade Associations support the set of basic principles set forth in the report. The characteristics of the LEI standard outlined in the report are largely consistent with the data model set forth in the Trade Associations Requirements document (<http://www.sifma.org/issues/operations-and-technology/legal-entity-identifier/resources/>) and represent characteristics that we believe are important for the LEI to be successful. The Trade Association Requirements document also recommended that the LEI be "structurally fixed", specifically:

“The LEI should be structurally fixed in that it should remain static with respect to its format (e.g., alphanumeric) and character sets. Revising or expanding the LEI format (e.g., adding another character) over time can have significant negative impacts on systems relying on the existing LEI structure.”

The Trade Associations recommend that IOSCO-CPSS consider adding this characteristic to its set of basic principles.

The Trade Associations agree with the principle in the report that easy and free access to LEI data ensures the data is a public good and does not unfairly benefit one party over another. In addition, broad access improves the data quality and its ultimate benefit to all users as well as promotes the use of the LEI for many other business purposes.

The Trade Association Requirements document also highlighted another very important principle that we believe warrants mentioning as part of the recommendation around LEIs in the IOSCO-CPSS report. For the LEI solution to be successful, there must be regulatory support in terms of a mandate for financial institutions with transaction/position reporting requirements to identify their counterparties with LEIs. In our view, it will be incumbent on the regulatory community to mandate this compliance. Further, over time, to ensure the highest quality data and most cost-efficient operations, regulators should work with the industry to implement the appropriate incentives to encourage legal entities to self-register for LEIs, to maintain high quality data, and to certify the accuracy of their LEI information on at least an annual basis. The IOSCO-CPSS recognizes in section 4.5.2 that a “fundamental obstacle” to prior efforts to adopt an LEI has been the lack of “legal compulsion.” It will be incumbent on the regulatory community to help facilitate this compliance. Therefore, we urge IOSCO-CPSS to include legal or regulatory compulsion as a one of its basic principles of an effective LEI system and to work with the regulatory community to promote the mandatory use of a single, universal LEI standard.

### **Appropriate Governance of the LEI Solution**

As outlined in the Trade Associations requirements document (<http://www.sifma.org/LEI-Industry-Requirements/>), the Trade Associations believe the LEI standard, issuance and management should be governed by a single global governance body (i.e., “LEI Governance Body”) comprised of global market participants (e.g., trade associations, regulators and supervisors, utilities). The Trade Associations proposed that the LEI Governance Body should be responsible for leading the interests and ensuring the overall success of the LEI system. The Governance Body would have oversight of all the activities of the LEI Solution Provider(s) including the issuance of the LEI, the management and distribution of the data, and any additional potential services that the Solution Provider would endeavor to deliver. The Governance Body would also interact closely with the Standards Body to ensure any

changes to the standard itself or related data model are made with the best interests of the LEI solution in mind.

The LEI governance framework is a key critical success factor to the legitimacy and adoption of a uniform and global LEI standard. The framework must properly represent and balance the interests of market participants, policymakers, regulators as well as be sensitive to financial market and geographic considerations.

Appendix 1 to this letter reiterates from the Requirements document the principles that the Trade Associations believe would help formulate a strong governance framework for the LEI solution. It also includes a pictorial representation of a possible governance framework. The Trade Associations look forward to continued dialog regarding the regulatory community's requirements for such a governance framework.

### **Other Comments**

While IOSCO-CPSS have not specifically asked for comments on the Alternatives to creation of a universal legal entity identifier discussed in section 4.5.3, the Trade Associations would like to offer its thoughts on the topic. As stated in the Requirements document, Section 3.4, Guiding Principles:

“The Trade Associations promote a single, industry-wide LEI standard supported by all regulators globally. Incurring the extra cost and manpower burden from regulations that establish multiple LEIs for the same legal entities would be inefficient.”

The objective of the Trade Associations was to develop an international consensus-based recommendation for a single, uniform, and global LEI Solution. Having a single, universal identifier is *the* most important element in any LEI system. Only with a single, universal LEI standard will global regulators, supervisors, and private firms be better able to measure and monitor systemic risk and counterparty exposure.

The Trade Associations acknowledge that the report highlights the flaws of a multi-identifier system. Further, we feel the report lays out very clearly many strong reasons for having a single LEI solution and how such a solution would significantly benefit assessing systemic risk and financial stability, market surveillance and supervision as well as facilitating resolution activities. Given these benefits and the benefits to private firms, the Trade associations strongly urge IOSCO-CPSS to take a strong position on this point and firmly reject the notion of a multi-identifier system.

We appreciate the opportunity to comment on the IOSCO-CPSS consultative report and would be happy to answer any questions about the LEI requirements or recommendation put forth by the Trade Associations.

If you have any questions, please feel free to contact the coalition via the undersigned at 212-313-1260, or at [tprice@sifma.org](mailto:tprice@sifma.org).

On behalf of the coalition of financial services firms and trade associations we are,

Sincerely,

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Managing Director  
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## Appendix 1

### Governance Framework

- **LEI Oversight via an “LEI Governance Committee”:** The LEI Solution provider requires a single global governance committee ("LEI Governance Committee") comprised of global market participants (e.g., trade associations, regulators and supervisors, utilities) to guide its activities and help ensure full global industry support and adoption.
- **LEI Utility Board of Directors:** The company formed to deliver and operate the solution will have a Board made up of industry representatives and representatives from the solution providers
- **Accountability:** The LEI Solution provider(s) and its Board shall be supervised by the LEI Governance Committee under the terms of an oversight memorandum of understanding or similar set of guidelines
- **Funding:** The LEI Solution shall be managed on a cost recovery basis. As such, the Trade Associations are agnostic to the overall structure of the LEI Solution provider (e.g., not-for-profit; private).
- **Intellectual Property:** The LEI Governance Committee shall provide oversight to ensure the appropriate treatment of any LEI intellectual property that is created as part of the LEI solution, including data, data model, industry facing interfaces, and to protect the openness of the solution, the stakeholders and the solution providers. The LEI Governance Committee shall also oversee contract rights to the services provided by the LEI Solution.
- **Regional Capability:** The Governance Committee will ensure that the LEI Solution provider has the capability to support regional conventions and regulations and provide local certification while maintaining a single global standard, centralized repository and issuance system.
- **Local Regulatory Requirements:** The physical location of the LEI database, as well as the access rights to the information contained within it, must consider and comply with local regulations related to data privacy and data access issues.

## Illustrative Governance Structure

