

## Questions from “Building a Global Legal Entity Identifier Webinar” (December 15, 2011)

### Webinar Questions - LEI Standard

#### Hierarchy

Q: Are hierarchies captured? Does each subsidiary have its own LEI?

A: The LEI includes fields for ultimate parent. Any entity, including all subsidiaries who are a “party to a financial transaction” shall be eligible to obtain an LEI.

Q: So for Company ABC and its subs would they all start with the same code, ABC Group, ABC Inc. ABC Capital Group, etc.?

A: The LEI is a dumb number with no embedded intelligence, so hierarchy relationships are not reflected in the number itself. In the initial phase, ultimate parent will be captured in the associated data fields, not more detailed hierarchy information.

Q: How do we determine ownership, e.g., 51% or management control etc? Will there be a way to record multiple ultimate parents?

A: While multiple definitions for ownership exist, for purposes of aiding implementation of the LEI Solution, the Trade Associations proposed ownership be defined as “greater than 50% ownership.” If there is no owner with greater than 50%, then the legal entity itself is entered as the ultimate parent. It is widely agreed that additional ownership and control definitions may be required and would be implemented on an iterative basis. For purposes of clarification, both 51% or 50.00001% meet the “greater than 50% ownership” requirement. Ultimately, the definition of ownership will be defined through regulation; for example the US Commodities Futures Trading Commission (CFTC) referred to a 25% level of control in rules issued in December 2011 – the LEI Trade Association Group will review this requirement.

Q: The ultimate parent will be available for free?

A: All data fields are available for free to users of the LEI database; ultimate parent data may not be available for some companies that reside in jurisdictions where disclosure of hierarchy information is restricted by regulation or law. Note that each legal entity that receives an LEI will be charged the registration fee. Thus, the creation of an ultimate parent will result in a registration charge. Any subsidiaries will then reference that ultimate parent record when registering themselves.

Q: Who determines the ultimate parent, the firm doing the registration or a central authority?

A: Either the firm that is self-registering or a third party registering another company will be asked to provide the ultimate parent field, which will be validated by the facilities manager.

Q: Will there be an expectation that LEIs need to be identified and assigned to existing instruments, or only to new ones going forward?

A: LEIs are for legal entities. When required for regulatory reporting, e.g., OTC derivative reporting to trade repositories, LEIs will be reported alongside trade and other instrument information.

## **ISO Process**

Q: When do you expect to get results of ISO ballot?

A: ISO balloting was completed on December 14. The draft ISO 17442 Legal Entity Identifier (LEI) standard received unanimous support from the ISO Member Bodies. This affirmation is a critical step forward in implementing the global LEI solution. While ISO/TC68 have some work to do to address comments received in the balloting process, guidance on an expected final implementation date will be provided in January.

## **Scope & Definition**

Q: Is LEI a replacement for ISIN, SEDOLS, Cusips that exist today? If not, could you please explain how these may co-exist and the relationship between them?

A: The LEI is not intended to replace any instrument codes nor any other existing entity codes, such as the BIC. It will be a global reference data standard used for the authoritative identification of legal entities. Firms and regulators will then map the LEI to other existing codes in their internal systems. The LEI only identifies entities and therefore, does not overlap with instrument ids such as CUSIPs. Note that at some point, an instrument record would ideally carry both a CUSIP and the LEI of the issuer.

Q: If an entity goes through a rename corporate action, will a new LEI be issued?

A: The LEI is persistent, and should follow a legal entity through its life regardless of corporate actions or other business or structural changes.

Q: What is the definition of a Legal Entity that is being used, e.g., are VIEs, SPVs, Branches, Rep Offices included?

A: The trade associations recommend that any “party to a financial transaction” shall be eligible to obtain an LEI. Based on this principle, SPVs could generally obtain LEIs, while branches would generally not as they are not separate legal entities.

Q: Are individuals/people in scope?

A: Individuals (natural persons) are not in scope for the LEI.

Q: For the buy side, would each product (fund) issued need to get its own LEI? Where an asset manager trades in an undisclosed fashion on behalf of a pension fund, would the pension fund require an LEI?

A: Each individual fund which is active in transactions that need to be reported using an LEI would need to obtain an LEI. Funds would have their own LEI, which would be constant across any asset managers they deal with.

## **Webinar Questions - Solution Structure**

### **Registration Authority**

Q: What is SWIFT's role in LEI registration and how is this different from the role of the facilities manager?

A: 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 to operate the core LEI utility as the central point for data collection, data maintenance, LEI assignment, and quality assurance. SWIFT, as the Registration Authority, will register and assist entities with self-registration. DTCC, as Facilities Manager, will collect requests for new LEIs to be created, validate against publically available sources in over 200 jurisdictions around the world, the information provided by third parties of the entities themselves, leveraging AVOX's capabilities, maintain and store the reference data associated with each LEI, and maintain the public distribution of the LEI database.

Q: Will the LEI be generated immediately upon registration via the web portal? When would this identifier be made available to consumers

A. Yes. Generation of a LEI would occur immediately following registration.

### **NNAs**

Q: How will local national numbering agencies (NNAs) be part of the process?

A: The Association of National Numbering Agencies (ANNA), through its network of 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.

### **Data Management & Validation**

Q: Is LEI only being conducted by Avox? If yes, why? Why is a body of data providers not used that comprise Avox, BvD, Dun Bradstreet etc.?

A. DTCC owns Avox which has significant capabilities in legal entity validation services. Consequently, DTCC will leverage Avox's capabilities to ensure the quality of the LEI data. Going forward, these capabilities will be provided into the LEI Utility itself and the LEI Utility will have its own infrastructure, staff and database.

Q: Can you explain a bit more about the self validation of information. How is this going to work?

A. DTCC is developing enhancements alongside the current Avox platform. Among the enhancements to support the industry's initial requirements is a new Web portal, to be established in mid-2012, that will support third-party registration of entities by broker-dealers, trade repositories, vendors and other intermediaries; self-registration by the entities themselves; self-validation by entities of information entered about them by third parties; a Web-based database search capability and a download capability of the full database. This portal will be free, available to market participants, regulators and vendors without restriction and will represent an essential first step prior to broader implementation of LEIs, which we expect to grow to one million or more over time. So, if a third party registers an entity, an LEI will be assigned and then the record will be posted in the free, open LEI database and the entity itself will be able to validate that the information is correct. Alternatively the entity could register itself, providing the information directly. In all cases the LEI Utility itself will look to "provenance" or validate the information provided via publically available sources in over 200 jurisdictions around the world and each record will have clear record noting what level of sourcing and validation has been undertaken.

Q: Where will the database for the LEI be physically located? US, Europe, elsewhere?

A: The future location of the database will be determined by service providers in consultation with the soon to be established LEI Governance and Oversight body or bodies, which will be formed with guidance on Governance Principles from the FSB. Given that the members of the governance and oversight body or bodies are intended to represent all regions of the world and a mix of market participants including regulators, the ultimate location will reflect international perspectives on data access and security. There may also be multiple locations of databases in line with best practices on resiliency and business continuity planning.

Q: If there will be a single global LEI database who will run and maintain it? DTCC, SWIFT, both?

A: The LEI database will be maintained and operated by DTCC in its capacity as facilities manager.

Q: How often will the database be updated?

A: The database will be continually updated as new entities register and the facilities manager carries out validation and annual checks on entities already in the database.

Q: Will there be a flag indicating if a firm has validated their LEI or not?

A: Yes. Flags will be used to provide information about the validation status of a LEI record.

Q: Will the "Buy Side" counterparts have the ability to create their LEI's as well?

A: All market participants (excluding individuals) will have the capacity to create LEIs.

### **Payment**

Q: Who will pay for each LEI and how much? Is this known already?

A: Once the utility reaches a steady state, the LEI service will be paid for through initial registration fees paid by the companies who request LEIs and by registered companies on an annual basis thereafter once an LEI has been obtained.

### **Webinar Questions - Regulation**

#### **General Questions**

Q: Will LEIs be required to be entered for inter-affiliate trades?

A: The use of the LEI for specific reporting requirements will be determined by regulators with prudential oversight over specific markets. Firms may also use LEIs internally to determine inter-affiliate relationships. This is one of the large advantages to having a global LEI solution.

Q: Whilst initially targeted at OTC derivatives, what appetite has been expressed amongst regulators and industry with respect to mandating LEI usage to a more extensive set of financial products, including exchange traded, lending, and wealth/custodial services e.g. looking out to 5/10 year horizons?

A: The Trade Associations have recommended the LEI as a global entity identification solution which can be applied across a range of reporting requirements; the full benefit of the LEI is obtained when it is

broadly used across many regulators, jurisdictions, and markets and products for risk management. We have advocated a phased implementation, with OTC derivatives as a first phase, and encourage regulators to expand the use of the LEI to legal entities that are counterparties on transactions in other products in the future.

Q: Previous global standards have not managed to overcome all obstacles and achieve widespread adoption. What are the main different this time - is it simply a question of regulatory mandates?

A: Yes. The current LEI effort is supported by a growing regulatory consensus that LEIs provide a vital tool for regulators to manage information and effectively monitor risks, and the development and implementation of the LEI has been recognized as a goal by the G-20 and IOSCO-CPSS, as well as a growing number of national regulators.

### **US Questions**

Q: Is there any relationship between LEI and US LTID (Large Trader ID) initiatives?

A: The Trade Associations promote a single, industry-wide LEI standard supported by all regulators globally and strongly encourage that the LEI solution put forth be adopted for use in other rulemaking with an entity ID component where appropriate, such as the Large Trader ID.

Q: Has it been agreed by the regulators that DTCC will be where the repository is housed?

A. The future location of the database will be determined by service providers in consultation with the soon to be established LEI Governance and Oversight body or bodies. Given that the members of those are intended to represent all regions of the world and a mix of market participants including regulators, that ultimate location will reflect international perspectives on data access and security. There may also be multiple locations of databases in line with best practices on resiliency and business continuity planning.

Q. To satisfy CFTC requirement will LEI only apply to US entities incorporated in the USA? Is there a time line to have this completed?

A. While the final rule needs to be analyzed yet, we expect that LEIs will need to be reported for all counterparties to OTC derivatives trades. This will include non-US counterparties.

Q: Are US firms required to register a LEI for a non-US counterparty even if the non-US country of the counterparty has not yet adopted the use of LEI?

A. Yes. See previous Q&A.

### **International Questions**

Q: How did the OFR request for an LEI become an international request / obligation?

A: The need for creating an LEI has been recognized as an international priority, with calls to create an LEI standard issued by G-20 leaders and finance ministers and IOSCO-CPSS. The OFR has participated in that global dialog and itself called for a "global solution". Reflecting this international regulatory consensus on the value of the LEI, the G-20 in November 2011 "call[ed] on the FSB to take the lead in helping coordinate work among the regulatory community to prepare recommendations for the

appropriate governance framework, representing the public interest, for such a global LEI by our next Summit.”

Q. Is there any time line in European and Asia to establish LEI's?

A: The only mandate that currently exists has been promulgated by the CFTC. The regulators in each region will determine timelines for their required reporting – to date, we do not know of any specific timelines in Asia or Europe

### **Webinar Questions - Implementation**

#### **Cost**

Q: Will there be a cost to "Downloads of the Database"? Will we have to sign up to AVOX's services for this access?

A: The LEI database will be free to access from the LEI Utility, without restrictions on reuse or redistribution of the LEIs and their associated data. A firm can access it directly and does not have to become a customer of any data services provider including Avox. However, there may be costs for more customized services, such as direct downloads of daily changes to the database (delta file) or customized feeds.

#### **Data Delivery**

Q: How do we foresee end users downloading the latest data set of identifiers and descriptive data? Who would provide it? Would there be a cost/pricing model? When will this be ready and who should we contact?

A: The data will be available from the facilities manager DTCC through a web portal. See prior Q&A.

Q: Will there be an API provided to download the entities? Also, will the database highlight changes with entities?

A: The industry is continuing to work on defining requirements for the delivery of the LEI infrastructure; delivery of the database file is one of the topics currently being addressed to make sure the planned solution meets industry requirements.

Q. For electronic trading platforms, i.e. EBS, Reuters Matching, FXAll etc. will the vendor provide LEI's for both counterparties if available?

A: The Trade Associations expect several other service providers to participate in complementary roles, for example, linking the LEI to other data elements they collect in their commercial processes and offering enhanced products to their existing customers, as well as providing existing information to help to pre-populate the industry utility.

#### **Documentation**

Q: Is there a published plan for the DTCC/Avox/SWIFT first phase delivery? Have development requirements for these enhancements and business rules etc. have been distributed to industry working groups been released?

A: The recommended solution providers are working on a document which outlines their proposed phase 1 launch, as well as the relevant service levels, documentation, and business requirements. The document is still under development and has not yet been released.

Q: How will one be able to obtain a test file or production file when LEI is "live"; are file specs available now for us to review?

A: Once the initial release of LEIs needed for initial swap reporting in the US has been completed, it will be freely available for download.

Q: What definitions and service levels around quality of data (including accuracy, currency) been drafted? How will transparency of quality be provided by the service provider?

A: The solution providers are working on the development of specific business requirements, including definitions and service levels. Oversight of service quality will be provided through a governance structure.

### **Internal Firm Work**

Q: A lot of firms are "complaining" about the work involved in conforming to the new LEI. However, no one seems to state what that work is. What kind of impact do you feel it has on firms in terms of effort and cost?

A: Each firm will have to individually determine the work effort for implementing LEI. The level of work will vary greatly depending on how well a firm's current counterparty/client reference data is currently maintained, e.g., centralized or decentralized; the level of trade activity subject to regulatory reporting that includes reporting LEIs; and whether or not the entity is a major swap dealer. The overall direction of the work is to make space for the LEI in reference data databases, map LEIs to a firm's current identifiers and use the LEI to meet regulatory reporting requirements only while continuing to run internal applications using the firm's current identifiers. Decisions about re-engineering other internal applications can be deferred well into the future.

Q: Getting entities to register for their LEI is probably the easy bit. But applying that LEI across corporate hierarchies is a very, very difficult task.

A: Again, as discussed in the prior question, implementing LEI will simply be a matter of adding the identifier to the correct legal entity in the firm's internal client reference system. The quality of the hierarchy linkages will be dependent on how well the firm's overall client reference system is maintained.

Q: What steps do buy-side firms need to be taking at this time/or at least in the near future? Presumably systems will need changing/updating in order to capture LEI data?

A: The first step is to determine whether the firm has a reporting requirement requiring use of LEIs to identify itself and its counterparties with an LEI in a final or proposed rule. Firms that will have regulatory reporting requirements relating to OTC derivatives should be actively planning for implementation of those reporting requirements including LEI. This would include being able to report LEIs for all counterparties with which the firm is trading OTC derivatives. Many firms are planning to incorporate the LEI as an additional data field in their client reference data systems and thereby provide a common source for use of customer LEIs through out their firms.

## **Mapping**

Q: Will there be a mapping of securities issued by an entity back to the LEI? Is that mapping a goal of the standard?

A. The LEI database itself will not have a mapping of LEIs to securities. We expect that firms and regulators will map the LEI to other existing codes, like CUSIPs, in their internal systems. The LEI only identifies entities and therefore, does not overlap with instrument ids such as CUSIPs. Note that at some point, an instrument record would ideally carry both a CUSIP and the LEI of the issuer. Also, third party vendors may undertake to perform such mappings for firms as a valued added service.

Q: LEI is for Legal Entity. How does it relate to instruments? Do the firms have to build the end to end link from Entity to Instruments for reporting?

A. See answer to prior question.

Q: Will the AVOX AVID be a 1-2-1 mapping with LEI given that AVOX are one of the partners?

Q: Can Swift set the LEI code when reporting to GTR with mapping SWIFT BIC and LEI automatically, when we decided to utilize GTR swift solution for FX TR ?

Q: Will DTCC download of database include any other identifiers (e.g. ISIN) to help mapping exercise ?

Q: Will there be a mapping table SWIFT BIC/LEI?

A: See question 1 in this section.

## **Timeline**

Q: What is the expected timeline for LEIs to be introduced for all entities that currently form part of issuer hierarchies (as supported by all major data vendors).

A. In the initial phase, the issuance of LEIs will generally be driven by the need to use such LEIs in regulatory reporting. The only regulatory reporting currently in the queue is reporting of OTC derivatives to trade repositories. The final US rule on reporting swaps was just released by the CFTC on December 21<sup>st</sup>. We are also expecting rules soon in Hong Kong, Canada, Australia and then other jurisdictions. LEIs will be needed to do this US reporting beginning in July 2012. As a result, issuance of LEIs to counterparties in these markets will begin in earnest to support this reporting beginning in early 2012. Other types of reporting leveraging LEIs will follow quickly and we are aware of guidance impending in registration rules, resolution and recovery, large trader reporting, as examples.

Q: What date/quarter will the first cut of the LEI ISO file of the initial 3,000 LEIs be published, and through what medium?

A. We are planning for January through a web posting of provisional legal entity identifiers based on the Draft ISO Standard.

Q: When would you expect the LEI to be incorporated into the systems of institutions?

A. The first step is to determine whether the firm has a reporting requirement requiring use of LEIs to identify itself and its counterparties with an LEI in a final or proposed rule. Firms that will have regulatory reporting requirements relating to OTC derivatives should be actively planning for



implementation of those reporting requirements including LEI. This would include being able to report LEIs for all counterparties with which the firm is trading OTC derivatives. For US firms, the final US rule on reporting swaps was just released by the CFTC on December 21<sup>st</sup>. We are also expecting rules soon in Hong Kong, Canada, Australia and then other jurisdictions. LEIs will be needed to do this reporting beginning in July 2012.

Q: What is the timeframe for the introduction of the LEI's and what issues do you expect before this initiative can be introduced globally across the industry. When do you estimate the completion of the final implementation of LEI's?

A: For US firms, the final US rule on reporting swaps was just released by the CFTC on December 21<sup>st</sup>. We are also expecting rules soon in Hong Kong, Canada, Australia and then other jurisdictions. LEIs will be needed to do this reporting beginning in July 2012. Other types of reporting leveraging LEIs will follow quickly and we are aware of guidance impending in registration rules, resolution and recovery, large trader reporting, as examples.

Q: As LEI might not be available in 1st Jan 2013 when HKTR go-live, and if HKTR is using HKTR member #/SWIFT BIC/HKCI/HKBR # as identifier, can DTCC map it back to LEI later?

A. LEIs will be available by January 2013.