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Legal Entity Identifier Regulatory
Oversight Committee (ROC)

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BVI's position on the consultation document on including data on branches in the Global LEI System

Dear Sirs,

BVI¹ welcomes the opportunity to respond to the Legal Entity Identifier Regulatory Oversight Committee's (ROC) "Consultation Document: Including data on branches in the Global LEI System" (the "Consultation"). We expressed our support for the development of the Global LEI System (GLEIS) from the outset.

We unconditionally support the ROC's proposal to incorporate an identification approach for branches into the GLEIS as there is a need for such an identifier. Existing and proposed rules in a number of jurisdictions require branch identification, but without a common global way to identify the branch which is detrimental to ascertain the systemic risk of globally operating groups.

Internally, financial institutions identify international and home branches separately within their organization hierarchy structures for different purposes, including reporting and risk management. Therefore, having the linkage between the headquarters and the branches identified within the GLEIF database will be an added benefit for the industry and the regulators alike.

For all these reasons, BVI strongly agrees there is a need for a global, standardized approach for the regulatory reporting of branches and branch activity and believe the LEI system provides a good operational and standard structure for this purpose.

BVI overall welcomes the assignment of Business Entity Identifiers to other organizational structures, such as branches, specifically under ISO 17442. While we support a new branch identifier within the LEI standard, we have some issues with the approach proposed by the ROC and make recommendations for addressing those concerns.

¹ BVI represents the interests of the German investment fund and asset management industry. Its 91 members manage assets of approximately of EUR 2.5 trillion in UCITS, AIFs and assets outside investment funds. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the assets of 50 million private clients over 21 million households. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.



Some view using the current ISO 17442 code for branch identification, a questionable extension of the standard to non-legal entities. It is true that ISO 17442 prima facie only applies to legal entities. Branches are unique, and can be treated as separate units of an organization as described in the Consultation, but there are also limitations on branches acting as legal entities, e.g., they cannot legally transact in the name of the international branch, but only in the name of the headquarters branch. Although they are not legal entities, we believe that more importantly, extending ISO 17442 for branch identification using a branch-LEI, would open up the strategic possibility for the existing standard to morph into a true Business Entity Identification (BEI) standard in the future; thereby it will complement the existing ISO ISIN standards for instrument identification, and the ISO CFI standard for classification of product classes, as well as other ISO standards on accounts and cards. This enables the creation of a holistic family of ISO standards for financial services reference data.

Therefore BVI overall welcomes the assignment of Business Entity Identifiers to other organizational structures, including branches, specifically under ISO 17442. There is already precedent for Business Entity Identification on other than legal entities strictu sensu in ISO 17442, as an LEI has been awarded in the past to individuals in their capacity as registered merchants, as well as to subfunds of umbrella funds, both of which are not fully fledged legal entities. In line with the separate letter of GFMA and other associations of today, we outline below recommendations that would address both our concerns about extending the ISO Standard to a non-legal entity and around data quality:

- The branch identifier LEI would have the same length as the 20 character LEI.
- To ensure it could be easily identified as a branch identifier, an indicator could be inserted into the code itself to show it identifies a branch/business entity, and not a legal entity.
- Different LOUs can be used to issue the identifier to the branches and headquarters of a given organization.
- The branch identifier process needs to leverage all of the operational aspects of the LEI system - issuance, validation, public database - as these would ensure the quality and accessibility of the branch identifier.

Thereafter, allowing ISO 17442 to be used for such purposes should not create confusion for market participants and regulators alike if done in a proper, well documented, communicated and staged approach.

In order to allow for optimal private public cooperation in the true GLEIS spirit, the primary control on the technical standard setting process of ISO and the GLEIF should be upheld. The work of ISO and GLEIF needs to be in close cooperation with the ROC which primarily will give guidance on regulatory needs.

The assignment of a dedicated ISO 17442 branch LEIs to branches must not necessarily add another layer of complexity and data quality problems into the LEI system if not done properly. In line with the separate letter of GFMA and other associations of today, we note the following issues to be clarified in the ISO and GLEIF technical standard setting process:

Jurisdiction:

- Conceptually we would like to include both international as well as home branches (if in approved registers or documentation) in the scope. We stress, however, that we strongly favour a phased in approach, starting with the most pressing international bank branch identification issue.



- As discussed in Footnote 7 of the Consultation, complications arise with multiple jurisdictions within countries and likely inconsistencies in determining what a branch is and what is not. An example are the German federal states (*Bundesländer*) where it is unclear whether branches in different federal states (which also maintain different business registers (*Handelsregister*) should be considered international or not. Since each federal state has its own stock exchange regulator (*Börsenaufsicht*), reporting obligations may apply on this rather than a federal level.

Branch definition:

- Parties requesting LEIs should not be able to choose inappropriate entities to register if the definition of what a branch will be made adequately clear in the revised standard and accompanying flexible technical guidelines promulgated by the GLEIF as administrator of the standard. For example, it needs to be decided if and at what stage all the multiple offices, referred to as branches, of a broker dealer be considered branches for the purpose of receiving a branch identifier. As stated below, we would not demand that all such branches in the same jurisdiction always get the same ID and at the same time.

- It is unclear whether all branch locations within a country need to be recorded in a business registry for the country to receive a branch identifier. To the extent that several branches are documented in the approved business/regulatory registers envisaged by the Consultation, they should be able to get separate branch codes, but only if applied for. Otherwise, not separately registered and identified branches should stay under the envisaged general branch identifier for one country in order to minimize work at GLEIF and LOUs. The firms interested in branch IDs could be motivated in this way to put at least those branches which are important to their business into business/regulatory registers first.

- It needs to be reviewed whether requiring a branch to be registered in a business registry or other form of registry could impede the usefulness of the branch identifier proposal by allowing some branches to receive an identifier, while others which are perhaps more important for systemic risk analysis cannot. This would limit the usefulness of the identifier as it would potentially not be available for all branch identification. This requirement also sets a higher standard for branches than for legal entities who may still receive an LEI even if a public source of validation does not exist. Therefore, we propose to accept in case of regulated and supervised LEI entities, such as banks, insurance companies and investment funds, a solution allowing that it is sufficient if a branch is documented instead in a register only in an official offering document/prospectus or audited financial report of the headquarter LEI carrying firm. Such document should - if not available to the public - be available at least to both the relevant (LEI entity) regulator/LOU in order to document/verify branch existence.

Data issues:

- Registrants for a branch identifier may use varying approaches to completing the reference data fields as part of the registration of a branch. Where one jurisdiction has multiple branches, recording the reference data will be complex and may result in a multitude of data quality issues. We need clear rules in the revised standard and flexible technical guidelines promulgated by the GLEIF as administrator of the standard on matters such as what address and what naming convention should be used in the reference data field. Ensuring this reference data is fully standardized by ISO and GLEIF will be critical to data quality.

- As published by ISDA and as proposed by CPMI-IOSCO in their consultative report, "Harmonisation of the Unique Transaction Identifier" (UTI), UTI tie-breaker rules rely on a comparison of LEIs. Clear and consistent guidance is necessary as this process use counterparty LEIs (not branch identifiers). It will



greatly complicate the UTI generation process if it is ambiguous whether an LEI belongs to a branch or a true legal entity.

- We believe that branch registration should be primarily the group headquarters LEI entity obligation, however would not object to a solution where the branch may apply under the control of the headquarters LEI entity. Within this limits, a flexible approach should be applied such that groups can determine the optimum model for their own circumstances, and have the ability to apply a centralized or federated model to manage their branch identifiers. Such an approach would ensure reliability and assurance over the issuance and the information needed to link the international branch and the head office, while also allowing firms flexibility to manage their own branch identifiers.
- Annual maintenance of an LEI and any associated branch identifiers could be onerous and should be accommodated by LOUs at a group level.

Investment fund branch identification:

Our support for extending ISO 17442 to become a branch/Business Entity Identifier standard is primarily driven by our members desire for an internationally recognized and accepted branch ID solution for regulated investment funds which currently make up a third of the total LEI population. In this context, German and international fund managers need home state branch codes for each of the "segments"/investment contracts and mandates within a single regulated fund (which in turn are not subfunds of an umbrella fund) which are managed by several, usual external (outsourced) investment managers/firms. In the simplest form, imagine a German LEI carrying UCITS fund investing in US equities and bonds with outsourced US based manager/firm A investing the equities and another US based firm B doing the bond investment under contract from the also LEI carrying UCITS fund management company. Internally, fund managers identify segments separately within their organization hierarchy structures for different purposes, including reporting and risk management. Their need for a fund segment identifier became apparent in regulatory reporting too. In the initial phases of Dodd-Frank reporting many US asset managers to German and international funds in situations as described above applied for pre-LEIs on the segments/investment contracts they managed instead for a fund "branch" LEI which did not exist at the time, thereby resulting in wrong entries in the database of the leading LOU at the time. Using the fund LEI only, however, is not a good solution either, as it leads to very difficult reconciliation issues of the various manager transactions at the trade repository and fund management company/administrator level under both Dodd-Frank and EMIR reporting rules.

Utilizing an identification scheme as described above would allow trade repositories, regulators and other organizers of data to easily identify a branch, establish validity, or make corrections if a branch identifier is used for an incorrect purpose, e.g. to identify a counterparty to a trade. This would serve to protect data quality. We are available to work with the ROC to come up with an appropriate definition of what shall constitute a "branch" for purposes of branch identification as well as to agree standards for the reference data fields.

Implementation:

In line with the separate letter of GFMA and other associations of today, we strongly urge the ROC to add the following points to the final guidance on branches:

- ROC should indicate its expectation that jurisdictions and regulatory bodies requiring branch identification will move to using the authoritative branch identifier as promulgated in the final rule.



- The ROC should acknowledge that some jurisdictions currently use a SWIFT BIC code to identify a branch in reporting and that the SWIFT BIC code is not considered an authoritative identifier for purposes of branch reporting.
- We urge the ROC to specify its expectation that costs for an LEI and/or branch identifier will not rise as a result of this guidance since the branch identifier process will leverage the existing LOU and GLEIF operations. This guidance is simply an extension of those processes to another set of organizations, similar to the extension of the LEI that will result from forthcoming regulatory reporting and supervisory requirements for the parties to cash instruments and securities financing transactions.
- As stated in the last sentence of the Consultation, we strongly support the position that different LOUs can be used to issue the identifier to the branches and headquarters of a given organization.

Ideally, we hope it would be possible for the GLEIF, LOUs and the industry to implement branch identifiers in time for upcoming global regulatory requirements to avoid having to build and transition from interim solutions.

Finally, as mentioned in the previous association letter to the ROC on hierarchy data, critical to any next step in the extension of the LEI system is bringing the first phase of developing the system - registration of an LEI for all legal entities engaged in the financial markets - to a successful conclusion. New requirements like a branch identifier or Level II Data should not be an impediment to making progress in the issuance of LEIs to all entities around the globe. We urge regulators globally to require LEIs to be used broadly in regulatory reporting and other supervisory practices thereby facilitating the expansion of the LEI system and its related benefits. We have consistently stated that the only way for the Global LEI System to be truly effective is for regulators to mandate the use of LEIs for entity identification in regulatory reporting and other processes.

Please do not hesitate to contact us with questions or comments you may have.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R. Siebel', is written over a light blue rectangular background.

Rudolf Siebel, LL.M.

A handwritten signature in blue ink, appearing to read 'F. Ertl', is written over a light blue rectangular background.

Felix Ertl