LEI ROC

7 September 2015

Consultation document on collecting data on direct and ultimate parents of legal entities in the Global LEI System

Executive Summary

This consultation document seeks input into the design of a process for collecting data on direct and ultimate parents of legal entities within the Global Legal Entity Identifier System (GLEIS).The main features of the proposal are:

- An **incremental approach**: this consultation document seeks to identify the priority features that should be part of the first phase of this data collection, with the objective of starting implementation around the end of 2015. Adding data on parent entities was envisaged in the 2012 FSB recommendations on the LEI and would augment the usefulness and attraction of the system for users. At the same time, the system is still at an early stage of development, with 385 000 entities worldwide having acquired an LEI, and the proposal seeks to avoid imposing unwarranted costs or complexities that could be detrimental to the expansion of the system. Relationship data can be expanded in future phases.
- Entities that have or acquire an LEI would report their "**ultimate accounting consolidating parent**", defined as the highest level legal entity preparing consolidated financial statements, as well as their "**direct accounting consolidating parent**". The identification of the consolidating entity would be based on the local accounting definition of control or consolidation applying to this entity.
- **Accounting definitions were chosen as a starting point** because (i) they are applicable to both financial and non-financial companies; (ii) their international comparability has increased, following greater convergence between IFRS and US GAAP on the scope of consolidation; and (iii) they are widely used, publicly available and their implementation is periodically reviewed by external auditors.
- **The information collected would be published** in the Global LEI System and therefore freely available for public authorities and market participants. It is envisaged at this stage to only record relationship data that could be made public.
- **Entities would report to the Local Operating Units of the Global LEI System, which would verify the relationship information based on public documents if available** (eg, list of subsidiaries in audited consolidated financial statements; regulatory filings), or other sources.
- **Information on parents would be part of the information that must be provided** in order for an LEI to be issued or renewed, but with the option to decline providing this information for reasons that would be made public. These reasons would include the absence of a parent which is eligible for an LEI, legal obstacles and cases where disclosure would be detrimental to the entity or its parents.

Answers to the attached questionnaire are invited to be sent to leiroc@bis.org by **19 October 2015**.

Statement of purpose

This consultation document was developed by the LEI Regulatory Oversight Committee (ROC) under its Committee on Evaluation and Standards (CES).[1] The purpose is to seek input from the public on the design of a process for collecting data on direct and ultimate parents of legal entities within the Global LEI System (GLEIS). Your responses to the questionnaire annexed to this document will inform the final version of the policy framework that the ROC will approve for implementation by the GLEIF. **Please type your answers into the attached questionnaire and send it to leiroc@bis.org by 19 October 2015**.

This document benefited from a prior consultation with regulatory authorities both within and outside the ROC membership, the GLEIF, the pre-LOUs and members of the Private Sector Preparatory Group (PSPG), an advisory group for the ROC.

The approach for collecting data on organizational relationships proposed by the ROC for consultation is based on several premises. First, the approach is assumed to be incremental. Because complexity in this area is high, the process implemented must proceed in steps as manageable as possible and the implementation process must be structured so that subsequent steps can be approached based on what has been learned. Second, the initial relationship types to be captured are to be based on accounting standards. Many other aspects of ownership, control or other relationships may be highly relevant in later phases, but the need for relative simplicity and clarity argues for a measure with sufficiently common support in all jurisdictions. Finally, the implementation developed for the first phase should ensure that no step taken limits the ability to publish the data within the GLEIS. One of the key principles of the GLEIS is that data should be openly and freely available.

Overview

The G20-endorsed FSB report "A Global Legal Entity Identifier for Financial Markets" called for the GLEIS to include the "*Level 1*" "business card" information on entities (e.g.: official name of the legal entity, address of its headquarters)[2], followed later by "*Level 2*" data on relationships among entities.[3] Recommendation 12 of the report specifically called for the development of proposals for additional reference data on the direct and ultimate parent(s) of legal entities and relationship or ownership data. The FSB report underlined that this information was essential for risk aggregation, which is a key objective for setting up the GLEIS. This information may also serve other public policy objectives and private sector

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[1] The ROC is a group of over 60 public authorities from more than 40 countries established in January 2013 to coordinate and oversee a worldwide framework of legal entity identification, the Global LEI System. The ROC was established on the recommendation of the Financial Stability Board and its Charter was endorsed by the Group of 20 (G-20) nations in November 2012. G20 Leaders at their Los Cabos summit in June 2012 encouraged "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks". (More on http://www.leiroc.org/).

[2] As defined in the ISO 17442:2012 standard.

[3] See https://www.financialstabilityboard.org/publications/r_120608.pdf (8 June 2012).

needs. Therefore, the report also called for input from interested parties in the regulatory community and private sector experts.

While the ultimate aim is to have sufficient data to construct a detailed network of entities and to rely as much as possible on standardized, machine readable information, the FSB report recognized that an incremental approach was needed.[4] Shortly after its establishment in early 2013, the ROC endorsed an approach based on relationships as defined under accounting conventions for its initial phase of work on Level 2 data that was based upon an approach underpinned by accounting definitions of control.[5]

Taking into account these considerations, the ROC established in December 2014 a Task Force to develop a proposal for principles and standards necessary for phased collection of Level 2 data and announced in January 2015 that phased implementation of the information collection by the GLEIS was expected to begin around the end of 2015.[6]

This document includes 6 sections addressing the following topics:

1. Uses of relationship information;
2. Definition of parent relationships;
3. Data collection, validation and updates;
4. Data organisation;
5. Business models for relationship data;
6. Conclusion and next steps.

Taking into account the feedback from this consultation, the ROC will work with the GLEIF to develop an implementable formal approach to begin collecting and maintaining the data. Throughout this development process, there will be an opportunity for feedback from the pre-LOUs and other relevant stakeholders. As described in the final section of this document, progress will be tested through a series of proofs of concept.

1 Uses of organization relationship information

The ROC has reviewed the main features of potential regulatory uses of relationship information, in terms of definition of parent relationships and timeliness, based on a sample of existing international standards, principles and best practices defined by international bodies and public authorities that regulate the financial sector or participants in financial transactions. Domestic authorities may choose to go beyond these standards, principles and best practices, which provide a baseline description of regulatory needs that can be expected to exist in a large number of jurisdictions. The sample included examples of uses for banking supervision (large exposures; data aggregation and risk reporting), securities regulation (aggregation of OTC derivatives data), licensing (banking, insurance and securities sectors), resolution of

4 See https://www.financialstabilityboard.org/publications/r_121211.pdf (11 December 2012).

5 See http://www.leiroc.org/publications/gls/roc_20130308.pdf (8 March 2013).

6 See ROC Year End Progress Note, 28 January 2015: http://www.leiroc.org/publications/gls/roc_20150128-2.pdf

failing financial institutions, financial stability, anti-money laundering and countering the financing of terrorism.[7]

This review has shown that control, which is the core concept determining whether accounting consolidation should occur, is frequently an important component of the definition of parent relationships used in these standards, principles and best practices.[8] This is consistent with the choice of starting with accounting-based definitions, although these sources also refer to other types of relationships (such as the regulatory scope of consolidation used for bank capital requirements, or economic interdependence). Accounting definitions also have the benefit of being applicable to both financial and non-financial companies, and therefore match the universal scope of the LEI, which is intended for all participants in financial transactions.[9]

The review also demonstrated that relationship information should be as timely as possible. The desired degree of timeliness might not be achievable initially, and some Task Force members noted that the annual or quarterly frequency of accounting financial statements might suffice at the outset. However, the objective of timeliness may impact the design of the initial phase, as the collection of information on direct parents might, in the future, provide greater timeliness at a lower cost.[10]

The regulatory uses reviewed so far do not all require the same level of detail in relationship information. For example, to aggregate OTC derivative transactions at group level, it would be sufficient to connect existing LEIs to their ultimate parents, because reporting rules already require entities conducting such transactions to have LEIs.

Other potential supervisory uses could benefit from a wider coverage of group entities, beyond those that are already subject to requirements to have an LEI. For such uses, finding a means of ensuring broad LEI coverage of corporate groups remains a priority.

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7 Sources include: Basel Committee on Banking Supervision (BCBS), *Core principles for effective banking supervision*, September 2012 (esp. principle 5), *Principles for effective risk data aggregation and risk reporting*, January 2013 and *Supervisory framework for measuring and controlling large exposures*, April 2014; Financial Action Task Force (FATF) *Recommendations and Interpretive Notes*, February 2012 and *FATF guidance on Transparency and Beneficial Ownership*, October 2014; FSB, *Feasibility study on approaches to aggregate OTC derivatives data*, September 2014, *The Financial Crisis and information gaps*, October 2009, *Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks*, October 2011; *FSB Data Gaps Initiative – A Common Data Template for Global Systemically Important Banks: Phase 2*, May 2014, *Key Attributes of Effective Resolution Regimes for Financial Institutions*, as updated October 2014; International Association of Insurance Supervisors (IAIS) *Insurance core principles* October 2013 (esp. criteria 4.3); International Organisation of Securities Commissions (IOSCO), *Methodology for assessing implementation of the IOSCO objectives and principles of securities regulation*, September 2011 (esp. principle 29).

8 An explicit reference to the accounting definitions of control or consolidation is made in the sources above for large exposures in the banking sector, for the aggregation of OTC derivatives and the Common Data Template for Global Systemically Important Banks. Control is also mentioned as one the criteria to determine beneficial ownership in FATF standards or the scope of information to be provided by an applicant concerning licensing in the securities sector, although the definition of control may be broader than in accounting standards. The FSB Key Attributes refer among others to "parents" and "subsidiaries" without defining those terms.

9 This also matches the scope of a number of the regulatory uses reviewed here: participants in derivatives transactions and bank customers (eg, for monitoring large exposures) can for instance be both financial and non-financial entities.

10 For instance, the sale of a sub-group might be reported quicker and at a lower cost as a change of the direct parent of the head entity of the subgroup, rather than all sub-group subsidiaries reporting a change in their ultimate parent. However, currently, an ultimate parent cannot always be inferred from a chain of direct parent relationships for instance due to differences in accounting standards.

The uses above only require identifying sets of entities that belong to the same group, i.e., ultimate parent to child or other descendant. Other uses, such as the resolution of financial institutions, would necessitate a more granular mapping of relationships within the group itself, to identify sub-groups and possibly the direct parents of entities within the group, in order to be able to draw an organisational chart.

Yet other uses may benefit from more granular information on the percentage of ownership or voting rights for each relationship, for instance because they may require higher or lower thresholds than accounting control.[11]

It is acknowledged that other potential public policy uses exist, for example statistics on the balance of payment or foreign direct investments or business statistics more broadly, in the tax area, in competition laws, combatting financial crime[12] or in public procurements. It may also support analysis of corporate governance practices and a better understanding of corporate structures, including their evolution over time and their impact on risk contagion, or on monetary and economic policy. There are also business or private sector uses for this information. Some of them are in part governed by the regulatory requirements described above, such as know your customer or risk management. Private sector uses could also include better understanding the relationships of another entity from which a company or individual is buying goods or services or in which it is investing. Academics, financial analysts or other parties may also have an interest in understanding the structure of organizational groups.

While it is important to identify, to the extent feasible, the long-run use cases for data on organizational relationships on a global scale, to ensure to the extent possible that initial developments can support future expansions, it is equally important that the scope of the first phase be manageable, to avoid costs and complexities that could jeopardize the success of the project.

Limiting the scope of the work in some aspects at the start is one way to minimize the potential for overwhelming complexity. Already Level 2 phase 1 has been restricted to a limited set of relationship information based on accounting conventions. It may also be necessary to start collecting information without the assurance that the definitions proposed for consultation in section 2 of this document would capture all accounting standards, all possible group structures, or all uses, provided that there are reasonable prospects that the phase 1 framework would sufficiently capture the bulk of entities for some identified uses and would be extendable over time. These issues are discussed further in section 6.

2 Definition of parent relationships

Ideally, organizational relationships would be described in the GLEIS at a granular level that would allow users with different purposes to specify the exact types of organizational

[11] For instance, higher thresholds for fiscal consolidation or lower thresholds for beneficial owners in the area of anti-money laundering.

[12] For instance, bribery and corruption, insider dealings, and other illegal activities

information relevant for their purposes. Such an approach has long-run appeal, but raises the possibility of significant costs and complexity at the start. For that reason, the ROC determined to initiate the collection of relationship data by focusing on direct and ultimate parents, based on existing accounting definitions.

Accounting standards have the benefit of providing high-level definitions that are already agreed, publicly available, widely used by financial and non-financial entities, and their implementation is reviewed by third parties (external auditors[13]). International Financial Reporting Standard (IFRS) or United States-Generally Accepted Accounting Principles (US GAAP) cover the great majority of countries and global GDP.[14] Their international comparability has increased, following greater convergence between the two standards on the scope of consolidation. Despite this progress in the consistency of standards used internationally, some differences remain, and local accounting standards continue to apply to many entities, including in jurisdictions having adopted IFRS (eg: non-listed entities). In addition, there is latitude for interpretation under all such standards.

This remaining variation underscores the difficulty of achieving universal applicability of any definition of parent. The section below describes the basic outline of the issues. The definitions of relationships discussed below are based on a preliminary review of IFRS and US GAAP. The Task Force envisages testing the applicability of these definitions at least under the accounting consolidation standards applicable to the consolidating entities of the Global Systemically Important Financial Institutions (G-SIFIs) identified by the FSB (see section 6), and using the responses to this consultation to refine the approach and make allowances for other accounting standards as necessary.

2.1 The definition of parents in accounting standards.

IFRS and US GAAP define a parent as an entity that controls, or has a "controlling financial interest"[15] in at least one other entity. Therefore, the ROC has focused so far on controlled entities, although the case of other relationships is also briefly discussed in the next sections.

Both standards consider that control may exist in two broad types of situations:

- When decision-making of the entity is controlled by voting rights, entitled to returns (e.g. voting shares)[16], the holder of a majority of those voting rights generally controls the entity, although there can be exceptions.

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13 For instance, to support the opinion they express on whether the financial statements taken as a whole are fairly presented in accordance with the applicable accounting framework.

14 For IFRS coverage, see http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx. IFRS standards are now adopted by 114 jurisdictions representing 58% of the world's GDP for all or most of their domestic publicly accountable entities (listed companies and financial institutions).

15 In IFRS 10, Appendix A, a "parent" is defined as "an entity that controls one or more entities" and a "subsidiary" as "an entity that is controlled by another entity". For US GAAP, the FASB Master Glossary defines "parent" as "An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity)".

16 Entitlement to returns is considered by IFRS but not US GAAP (in US GAAP, once it is determined that control is based on voting rights there is not an assessment of whether the voting rights are also entitled to returns). We are seeking here to give examples of situations that would be addressed similarly by both IFRS and US GAAP.

- Control may also be determined to exist when the investor holds less than a majority of the voting rights, or even in the absence of share ownership.[17] This will be the result of a more qualitative analysis of, for instance, contractual arrangements and their impact on factors such as the investor's powers on the investee, and exposure to losses or benefits.[18] This applies in particular to structured entities such as some securitisation, investment or financing vehicles. The number of such vehicles may be substantial.

The above provide the basis for the accounting concept of consolidation, which is when different legal entities should be considered as a single economic entity for accounting purposes: consolidation consists of presenting the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries as those of a single economic entity. Intragroup balances and transactions are offset or eliminated in the consolidated financial statements.

Under IFRS and US GAAP, accounting consolidation applies when there is control, but there are certain exceptions, including:

- exceptions to the obligation of the parent to consolidate subsidiaries, for instance, in both IFRS and US GAAP, when the investor is an "investment entity", such as a private equity firm or a sovereign wealth fund, which simply value each line of investment instead of applying the look-through approach of consolidation.[19]
- exceptions to the obligation to present consolidated financial statements. This is the case in IFRS, but not US GAAP, under several cumulative conditions, including for instance wholly-owned subsidiaries that are not listed, if consolidated financial statements of a parent are available for public use and comply with IFRS.[20]

Therefore, because not all controlled entities are consolidated, defining a parent as an entity that consolidates a subsidiary, or presents consolidated financial statements, may be less encompassing than defining a parent as exercising control. However, consolidation could be the easiest starting point, as described in the next section.

2.2 Definition of parent relationships in the GLEIS

This section discusses some of the issues related to the definition of the legal entities that would be considered as the direct or ultimate parents of another legal entity.

The definition of "legal entity" used here is the same as that used for the eligibility for an LEI, therefore currently including a variety of legal forms as well as government entities, but

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[17] In the latter case, the parent will not be an equity investor, but could be for instance a debt holder or a guarantor.

[18] See the analysis of effective control in IFRS, in particular for structured vehicles, or the determination of variable interest entities under US GAAP.

[19] In addition to the exceptions defined in IFRS or US GAAP a parent entity may not be required to prepare consolidated financial statements in its jurisdiction (eg: the government)

[20] See IFRS 10, §4; this also includes non-wholly owned subsidiaries if all other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the absence of consolidated financial statements.

excluding natural persons. Accounting definitions in IFRS and US GAAP also focus on "entities" or "legal entities" but the scope can differ, for instance concerning governmental bodies or agencies.

2.2.1 Direct parents

The two concepts described in section 2.1 (control and consolidation) led the ROC to examine two variations of the definition:

a) The "**direct controlling parent"** of legal entity X could be defined as the lowest level legal entity that controls entity X, under the accounting definition of control applicable to the controlling entity. This would provide more granular information, but the verification might less frequently rely directly on audited financial statements.[21] This definition would use a different concept than the one proposed below for ultimate parents, which would therefore go against the preference by most regulators and LOUs surveyed by the Task Force to favour simplicity during the first phase of the data collection on parent entities.

b) The "**direct accounting consolidating parent**" of legal entity X could be defined as the lowest level legal entity that prepares consolidated financial statements that consolidate entity X. This would arguably be easier to verify, less costly and therefore more suitable for the first phase. Although it would result in omitting any intermediate parents that use the option offered by IFRS not to present consolidated financial statements (as described above), the most significant intermediate parents are likely to issue listed securities, or, in the financial sector, to be subject to supervision at the sub-consolidated level, and therefore generally required to present consolidated financial statements. Consequently, the ROC preliminarily concludes that definition (b) should be used for the initial collection. This would result in collecting some information on the structure of a group, beyond a mere list of consolidated entities, as the reporting of "direct accounting consolidating parents" would assist in identifying the main subgroups.

2.2.2 Ultimate parents

The ROC envisages the definition of ultimate parent as "**ultimate accounting consolidating parent**", which would be the highest level legal entity preparing consolidated financial statements. It appears necessary initially to refer to "accounting consolidation", to distinguish it from other perimeters of consolidation (e.g.: the perimeter used for the calculation of capital requirements in the banking sector, or fiscal consolidation).

This definition may seem preferable as a starting point, because alternatives relying on control (such as the "ultimate controlling parent"[22]) could result in an excessive level of aggregation.

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[21] There are cases where these statements provide information on the direct or ultimate controlling parent: under IFRS standards (IAS 24 Related Party Disclosure §13) the reporting entity shall disclose the name of its parent and, if different, the ultimate controlling party, irrespective of whether there have been transactions between them. Other sources exist but may use different definitions: listed entities generally have to provide to investors information on their parents (See IOSCO Principles for periodic disclosure by listed entities, February 2010, paragraphs 1 (a) and 1 (g)).

[22] The ultimate controlling parent of legal entity A would be the legal entity that controls the legal entity A without being controlled by any other legal entity, under the accounting definition of control applicable to the controlling entity.

For instance, it might not be relevant for all purposes to record in the GLEIS only the fact that the government is the ultimate controlling parent for subsidiaries of state-owned enterprises, as some users may prefer to be able to distinguish between various corporate groups controlled by the government; the same could apply for different industrial or financial groups controlled by the same private equity firm. In addition, in most cases the ultimate controlling parent would be the same as the ultimate accounting consolidating parent.

2.3 Other relationships

The relationships described below are not described as parent-child relationships in IFRS or US GAAP and hence would require a separate set of rules. Therefore, and although some regulators have expressed an interest in each of these relationships, the ROC preliminarily concludes that they should not be included in phase 1 but should be considered for a future phase of Level 2 data.

2.3.1 Joint ventures and other joint arrangements[23]

Both IFRS and US GAAP include accounting for joint ventures but have differing definitions. Under IFRS, joint ventures are defined by the existence of joint control by two or more parties (the venturers). Joint control means that all of the significant decisions related to the joint venture require the unanimous consent of all of the entities controlling the venture. This arrangement is distinct from the situation where one investor, acting together with related parties, controls an entity, or from the existence of several large shareholders.

Joint ventures are not consolidated by the venturers under IFRS, and generally are not consolidated under US GAAP.[24] If the joint venture has subsidiaries, their ultimate accounting consolidating parent would generally be the joint venture, under IFRS and US GAAP. The joint venture itself would generally have no "parents" as defined above, but the GLEIS could, in the future, record "joint control" as a specific category of relationship: a more detailed examination of potential variations in other accounting standards as well as user needs would be necessary.

2.3.2 Other investors in an entity

Both IFRS and US GAAP distinguish the case of investors having a **significant influence**, generally presumed for investments of 20% or more of the voting common stock or equity of the investee[25] (and less than 50%, as they would otherwise generally be parents having control). The investee is not consolidated, and other accounting methods are used to value the investment. It is not proposed to include these relationships in the scope of this phase.

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23 IFRS distinguishes two types of joint arrangements: joint ventures and joint operations

24 Proportionate consolidation for joint ventures was abandoned with the adoption of IFRS 11 to converge with US GAAP, but is still permitted in US GAAP to account for interests in unincorporated entities in certain limited industries when it is an established practice.

25 See for instance EY, *US GAAP versus IFRS, The basics*, November 2013, p. 10; for IFRS, International Accounting Standard 28, Investments in Associates and Joint Ventures, §5; for US GAAP, ASC 323 Investments – Equity Method and Joint Ventures-10-15-8

Interests where an investor does not have control alone, joint control, or significant influence on the investee are not examined here.[26]

2.3.3 Other related entities:

Structured entities: Although many structured vehicles are consolidated under the applicable definitions of control in US GAAP and IFRS, entities may have interests in structured vehicles that they do not consolidate. The entity may support these unconsolidated vehicles in various ways, such as providing explicit or implicit guarantees or liquidity lines. Including Level 2 data for such entities would require further work.

Funds managed by an entity: These funds will not necessarily be controlled or consolidated under applicable accounting definitions. The structure of the Level 1 data already allows for the possibility of including the identity of an "associated entity" that manages a fund.

Branches are part of the same legal person as their head office, and can be described as different establishments, or locations, of the same corporate entity, whereas a subsidiary is a distinct legal person from its parent. However, international branches may have independent requirements for regulatory reporting and other matters. The ROC is considering in a separate workstream the issuance of LEIs for branches and the appropriate description of the relationship between a branch and its head office.

2.4 Other definitions of parents

Bank supervisors or other regulators, for instance, may define the scope of regulatory consolidation for computing capital requirements in a way different from the scope of accounting consolidation. The BCBS is currently reviewing the scope of consolidation for prudential regulatory purposes with a view to developing guidance for public consultation by end-2015 to ensure that all banks' activities, including interaction with the shadow banking system, are appropriately captured in prudential regimes.[27] For the future, this work might inform how best to capture in the Global LEI System the relationship elements required to build the organizational structures defined by such regulatory perimeters, for instance including structured entities that would not be consolidated under accounting definitions.

There may be as well other relationships similar to groups, such as entities controlled by the same individuals, sometimes described as parallel owned structures, which are of interest to regulators and other users, but which would require further work.

3 Data collection, validation and updates

Self-registration is a central principle in the collection of Level 1 data; the entity registering (or its authorized agent) must provide the data directly to the LOU that will issue its LEI. The

[26] These interests (including for instance equity interests) would generally be subject to the accounting standards that relate to financial instruments to determine how they should be valued in financial statements, but would not be consolidated.

[27] See: http://www.financialstabilityboard.org/wp-content/uploads/Overview-of-Progress-in-the-Implementation-of-the-G20-Recommendations-for-Strengthening-Financial-Stability.pdf

ultimate responsibility for data accuracy falls upon the registrant. The rules of the system, however, specify that the LEI reference data should be validated by the LOUs, using public official sources, and private legal documents where public sources are inadequate.

Level 1 LEI reference data must be validated at the time of registration, entities have an obligation to update their information when there are relevant changes, and for a record to be considered active, it must be revalidated at least annually. In addition, the system is open to data challenges from any user, and those challenges must be resolved.

The collection, validation and maintenance of Level 2 data will likely require designing a specific process. The sources of information will often be different from those for Level 1 data, and relationships involve by definition two different entities that could each meet the definition of self-reporting.

3.1 Data sources for validating parent relationships

The ROC has identified several possible sources of information for validation. As explained below, the sources including relationship information may, depending on the country, be publicly available or not and it is proposed that both publicly available and non-publicly available sources may be used for validation, but that the type of sources used would be disclosed. Although it is envisaged at this stage to only record relationship data that could be made public, the fact that the source used for validation is not public does not necessarily imply that the relationship information is itself confidential.[28]

Consolidated financial statements could be a key source to validate parent relationships based on accounting definitions, in jurisdictions where such statements include the name of the controlled entities within the scope of consolidation, which is the case, for example, when IFRS 12 applies.[29] These statements are usually certified by external auditors. However, consolidated financial statements are not updated in real time, and thus cannot be used for validating changes happening in between annual or quarterly reports.

Other documents supporting the preparation of consolidated financial statements might be available where the published consolidated financial statements do not mention all names. Such material also may be of use between annual financial statements, for instance when mergers and acquisition require the intervention of external auditors.

Regulatory filings may also provide public information on parent relationships, via regulatory disclosures applying to listed entities or reporting requirements applying to financial institutions (for instance, reporting in the US by bank holding companies on controlled entities, published in the National Information Center (NIC) database, maintained

[28] For instance, an entity may choose to voluntarily share with LOUs documents supporting the preparation of consolidated financial statement, which may be more timely or more detailed than the published financial statements (e.g., because materiality thresholds apply to disclosures of entity names in such statements). On the other hand, confidential regulatory filings would not be available to LOUs for validation in most cases, unless this is authorised by the applicable jurisdictional framework.

[29] Name, principal place of business and place of incorporation when IFRS 12, §12 applies (subsidiaries that have non-controlling interest that are material to the reporting entity); otherwise name only (IAS 24 §13). No identifier or address is required, which may complicate the use of this information by third parties.

by the Federal Reserve[30] or "current" reporting requirements for corporate actions). The definition of control used in these filings may differ from the accounting definition, but these sources could assist in corroborating the information provided by the registrant.

Other sources exist, such as data vendors, but their information is generally proprietary, may have been collected from a variety of sources, with different definitions or levels of validation or quality; the indirect nature of the source might not allow the information to be flagged appropriately. For all these reasons, the ROC preliminarily concludes that such other sources should not be included for the validation of relationship data in the GLEIS for the first phase.

3.2 Reporting by the parent or the "child"

At least to some extent, it will be necessary to allow for an entity to report its parents, rather than the reverse. Not all parent entities possess an LEI and thus they are not in a position to report their subsidiaries. Moreover, the complete set of parent entities is not fully known a priori.

At the same time, involving the parent, where possible, is desirable because the subsidiary may not be in a position to assess whether the accounting definition of control or consolidation is met. Each potential parent entity, in conjunction with the work of its external auditors, determines whether it controls another entity and should consolidate it under applicable accounting standards. Because these determinations may require a certain amount of judgment, it may be difficult to reach conclusions when changes occur after the latest periodic statement.[31] In addition, it might be less costly for the system and more convenient for a large organization if the ultimate parent registered all of its relationships, based on the same consolidated financial statements, compared with a case where the relationships were reported separately and across many pre-LOUs.

Therefore, the ROC preliminarily concludes that reporting by the child, combined with some option for the parent to report, would be the best approach.

3.3 Options for data collection and their impact on coverage and quality

Generally, not all entities in a group currently have an LEI. Among other explanatory factors, existing regulatory requirements to have an LEI have focused on entities conducting certain transactions (primarily, OTC derivatives), or specific regulated institutions (e.g. banks), rather than corporate families. [32] The incompleteness of Level 1 coverage raises two interrelated issues:

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[30] See http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx. The reporting instructions can be found here: http://www.federalreserve.gov/reportforms/forms/FR_Y-1020141031_i.pdf

[31] Changes can result from corporate events higher up the chain of control that may be unknown to the "child". They can also result from changes in accounting standards that the entity might not be aware of if they affect a foreign parent. To take some extreme examples, a Dutch structured entity might not know for sure whether it has become or ceased to be a variable interest entity controlled and consolidated by an ultimate US parent under US GAAP, or, similarly, a US company might not be able to ascertain itself whether the analysis of its shareholders' voting patterns will lead one of its EU shareholders to determine that it meets the conditions for de facto control under IFRS.

[32] For instance, the European Banking Authority has required that all credit institutions and investment firms obtain an LEI, including "all entities within their group on which information is required under their reporting obligations" but has

- how to achieve the best possible mapping of all entities in a group and
- how to represent a relationship between two entities in the GLEIS when one of the entities in the relationship does not have an LEI. In particular, should the relationship be represented only if both the parent and the child have an LEI, or should alternative approaches to identification be accepted in the short term?

3.3.1 Extent to which parent relationships should be required by the GLEIS

Currently, a minimum set of Level 1 reference data (name, address, …) for an entity must be provided in order for an LEI to be issued. The ROC preliminarily concludes that information on parents should be added to this set of information required by the GLEIS for validating an LEI record, but with the option to decline providing this information for reasons that would be made public. The ROC envisages a limited list of reasons that would encompass situations such as the following:

a) there is no parent according to the definition used: this would include for instance (i) the entity is controlled by natural person(s) without any intermediate legal entity; (ii) the entity is controlled by legal entities not subject to preparing consolidated financial statements (given the definition proposed for parents) (iii) there is no known person controlling the entity (e.g.: diversified shareholding).

b) legal obstacles prevent providing or publishing this information: this would include for instance (i) obstacles in the laws or regulations of a jurisdiction; (ii) other binding legal commitments such as articles governing the legal entity or a contract.

c) the disclosure of this information would be detrimental to the legal entity or the relevant parent. This would include for instance reasons generally accepted by public authorities in similar circumstances, possibly based on a declaration by the entity.

d) if an LEI is necessary to record the relationship but the parent does not consent to obtain an LEI.

No set of opt-out provisions would prevent an authority from being more restrictive in the range of reasons it accepts, when requiring entities under its jurisdiction to report the information to the GLEIS. Making public the motives for declining to report an LEI for a parent would allow regulators to monitor alignment of entities with local reporting rules and to observe patterns of noncompliance. Such disclosure may also incentivize the provision of relationship information by market participants desiring to demonstrate a high level of transparency.

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specified that this would not include entities other than institutions as defined in the capital requirement regulation (for example, insurance firms that are defined in EU law as insurance undertakings).

3.3.2 Identification of relationships when no LEI is available

Two broad approaches could be envisaged to address the case where one of the entities in the relationship does not have an LEI:

a) Alternative identifying information could be used to report the relationship when no LEI is available.

If a relevant parent does not have an LEI and there is no direct means of requiring one, the only possibility for recording a relationship at all would be by using alternative identifying data for the parent. The ROC believes that introducing an identifier external to the GLEIS would raise too many problems of implementation and maintenance: in particular, there is no other universal alternative identifier and subsidiaries of the same entity might use different identifiers to indicate the same parent. However, any benefits from such an approach could be achieved by other means. In principle, alternative identifying data might be accomplished by the collection of sufficiently granular data on a parent to approximate the Level 1 information that would be available if the parent had itself registered for an LEI.

Another potential approach to solving the problem of consistent identification of entities in recorded relationships that do not have an LEI would to be institute a formal process of assigning a relationship connection identifier to such entities by the GLEIF or by LOUs in coordination with the GLEIF. Such an identifier would serve as an “internal key” within the GLEIS for organizing data in a consistent way. If the identifier were made visible to the public or to regulators, connection to other identifiers might be accomplished through external mapping tables. It is an open question the extent to which such an identifier might be made visible to regulators or to the broad public. In any case, for such a system to have credibility, some degree of validation and exclusivity checking would be required, thus introducing additional costs

b) The LEI would be required to report a relationship

In the second broad option, in the absence of an LEI, the relationship could not be reported. This would provide higher data quality and cost-efficiency. However, as this would limit the information available in the system, four possible palliatives could be envisaged:

i) Flag that a relationship exists but cannot be reported.

ii) In some jurisdictions and in some sectors, regulators may have the authority to require ultimate parents to obtain an LEI, for instance on the basis of supervisory powers on bank holding companies or the regulation of listed entities. However, issuing such requirements might take time, or might not always be possible, even in the financial sector (for instance because there are unregulated entities above the bank holding company); in addition, the jurisdictional framework may not always allow for such a requirement.

iii) The entity reporting a relationship might be authorized to obtain an LEI for the relevant parent consistent with the current “express consent” regime in place for assisted registrations. However, this could introduce risks of errors in the reference data of the parent and could complicate data maintenance. To reduce these risks, this possibility might be limited to subsidiaries registering their ultimate parents and subject to conditions such as a higher level of verification of the relationship and of the reference data of the parent.

iv) There might be differential requirements for direct and ultimate parents, with stronger restrictions for opting out of reporting ultimate parents. Because any requirement of an entity to obtain an LEI for its immediate parent would logically trigger a full cascade of registration up to the level of the ultimate parent, consideration might be given to the possibility of a "stopping rule", perhaps at the level of an unregistered direct parent.

Currently, for the 30 global systemically important banks (G-SIBs) identified by the FSB, almost all top group entities appearing on the list already have an LEI, although not all are licensed as a bank. The issue for this population would therefore be fairly limited, as regards ultimate parents.

4 Data organisation

Following the ROC endorsement in 2014 of a common data format (CDF) specified in XML for reporting Level 1 data, all operational pre-LOUs have adopted this structure for publication of data for the entities whose LEI records they maintain. The content and form of the CDF are organized around the needs of Level 1 identification, including a set of status flags relevant to the state of the entity and the data in the record; the formal model for Level 1 history is still under development. A common data model for Level 2 data will be developed by the GLEIF, in consultation with the ROC and other stakeholders.

The ROC envisages that the main policy requirements in this area are:

a) Extensibility and high-level structure

The data model must be extensible to other classes of relationship, and sufficiently flexible to reflect different sources or level of validations, as envisaged in the rest of this document.

A key initial decision is whether the model for Level 2 data should be treated as an extension of the CDF or a separate model. The ROC believes, given the policy objectives above, that the model for relationship data should be represented separately; i.e. to consider a relationship among entities as an object in its own right.

Even if relationship information is collected as a separate type of object, this would not necessarily prevent entities from using the same interface to report, update or validate existing reference data and the new relationship data. The supporting structure for Level 2 data must relate seamlessly to all members of a relationship. Similarly, publication or display of the data could be managed in a way transparent to the user.

There is extensive work previously done by the PSPG and members of the ROC in designing a data model for relationship data and a related approach to managing history. The TF envisages leveraging this prior work.

b) Data updates and maintenance

The ability for entities to update relationship information as needed is important to maintain its viability, integrity and usefulness

b) Data history

For policy or research purposes, it may be more important to be able to trace the relationships among entities through time (including when a relationship starts or ceases to exist) than to trace changes in their Level 1 data, such as a change of address. Consideration of corporate actions such as mergers, acquisitions and spin-offs often figures prominently in constructing meaningful time series. Thus, it is important from the start that history is built into the data model conceptually, even though the collection of such information may not be implemented in the first phase.

c) Other policy requirements

There may be other policy requirements, such as recording the level of validation and verification.

5 Business model for relationship data in the GLEIS

The business model must be such that the system of Level 2 data pays its way. A question is to what extent Level 2 data collection would require adapting the current business model.

5.1 Relationship data collection in the current business model

For Level 1 data, an entity registers and the pre-LOU validates and publishes data, addresses updates or challenges, and annually revalidates the data; the cost to any entity at a given pre-LOU is approximately the same, regardless of whether the entity is easy or difficult to validate. The pre-LOUs also provide the funding of the GLEIF, which publishes LEIs and LEI reference data consolidated across pre-LOUs.

For level 2 data, two main approaches could be envisaged:

a) If pre-LOUs collect information from entities on their parent relationships and validates this information based on documentation that is provided by the entity or easily accessible, and if a limited number of sources provide a sufficiently direct evidence of a given relationship, the business model may not differ greatly from what pre-LOUs do already in collecting Level 1 data. Allowing a lesser degree of validation for any changes occurring within an accounting cycle would also contribute to keep costs manageable.

b) If LOUs were expected to ascertain themselves whether the definition of control or consolidation is met based on evidence of the number of shares held, and on an analysis of the exposure and rights to variable returns or a review of contractual arrangements, validation costs could be much higher, with significant variations between entities depending on the complexity of the ownership structure. This would be especially the case if such verification had to take place for each link in the chain of control leading to an ultimate parent. Therefore, the ROC considers that this option is not suitable for the first phase.

Some other adaptations to the business model are likely to be necessary. For instance, it would be necessary to organise how a parent entity can choose to report a relationship instead of its being recorded during registration of the child entity, or how LOUs reconcile different information, if the same relationship can be reported by both the parent and child. Similarly, data updates may require some adaptations compared to the existing practice, where data is certified by the entity at least annually with updates encouraged or required by contract or regulation as changes occur: for instance, as discussed above, the level of validation may vary for infra-annual updates. Staying as close as possible to the current business model might be the best way to gain the experience necessary to begin to extend this model to more complicated relationships and a broader set of entities. In any event, specifying this area will require more extensive consultation with the GLEIF and the pre-LOUs.

5.2 Other business models

If LOUs were expected to conduct extensive verifications, they would need to hire relevant expertise, and charge entities based on the costs of this research. Such a change in business model could be risky, and the costs could deter adoption of relationship data. Although extensive verifications would contribute to better data quality, the extension of LEI coverage within groups could, over time, contribute to verify in a more cost-effective way the different direct parent relationships that lead to an ultimate parent relationship.

Yet another business model would be to rely on public authorities as direct contributors of Level 2 data in the GLEIS, where possible. Earlier in the report, regulatory sources were mentioned only as a way for the LOU to validate information reported by an entity. It could be envisaged in the future that some public authorities could agree to directly contribute relationship information to LOUs, or even directly to the GLEIF. However, the Task Force has not identified regulatory sources that would both use strictly the accounting definitions proposed and be publicly available, although the US FRB NIC database would be the closest example. This type of approach might be more suitable when adding to the GLEIS relationships based on regulatory definitions, although several issues would have to be addressed, such as the role of entities, the accreditation or selection of relevant sources, the appropriate flagging of the provenance of the data and the ability to publish the data. [33]

6 Conclusion and next steps

The collection of relationship data will open areas that are new from a global perspective and potentially difficult to address clearly from the start. Whatever decisions are taken at the start of the work, there will be a continuing need for decisions as the work progresses. Those decisions should be taken in light of their (1) potential benefits, (2) feasibility of implementation, and (3) potential for unfavourably skewing incentives to participate in the GLEIS, particularly in terms of Level 1 coverage. It is envisioned that throughout the development of the first phase of implementation, a series of proofs of concept will be conducted in conjunction with the GLEIF to test particular assumptions or approaches against these three dimensions. These proofs of concept may take the form of a conceptual model, a simulation, or a limited form of implementation against real data. As noted elsewhere in this consultation document, feedback is critical and will be used to take the next incremental steps in implementing this G20 objective of Level 2 data for the GLEIS.

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[33] Regulators and public authorities collect information on group structures for a wide range of purposes, such as resolution planning, statistics, supervision, market regulation. However, the legislative and regulatory framework for these data collection frequently do not allow this information to be published, and may as well restrict the sharing of information with other authorities, especially across borders or sectors.

Table of abbreviations

BCBS	Basel Committee on Banking Supervision, see http://www.bis.org/bcbs/index.htm?ql=1
CDF	Common Data Format (for LEI data)
CES	Committee on Evaluations and Standards (of the ROC)
EU	European Union
FASB	Financial Accounting Standards Board (in the US), see www.fasb.org/
FATF	Financial Action Task Force, see www.fatf-gafi.org
FSB	Financial Stability Board, see http://www.financialstabilityboard.org/
GDP	Gross Domestic Product
GLEIF	Global LEI Foundation, see https://www.gleif.org//en
GLEIS	Global Legal Entity Identifier System
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
IAIS	International Association of Insurance Supervisors, see http://iaisweb.org/
IAS	International Accounting Standard (preceding IFRS)
IFRS	International Financial Reporting Standard (developed by the International Accounting Standards Board – IASB see http://www.ifrs.org).
IOSCO	International Organization of Securities Commissions, see https://www.iosco.org
LEI	Legal Entity Identifier
(pre-)LOUs	(pre-) Local Operation Units (of the Global LEI System); *The expression "pre-LOUs" is used to specifically refer to the LOUs endorsed by the ROC before the Global LEI Foundation is able to assume this function*
NIC	National Information Center (maintained by the Federal Reserve in the US)—see http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx
OTC	Over the counter
PSPG	Private Sector Preparatory Group (of the ROC)
ROC	Regulatory Oversight Committee, see www.leiroc.org
US	United States of America
US GAAP	United States-Generally Accepted Accounting Principles

LEI ROC

Consultation document on collecting data on direct and ultimate parents of legal entities in the Global LEI System

Annex: Questionnaire

Please type your answers into the questionnaire below and send it to leiroc@bis.org by close of business 19 October 2015 (An MS Word version of the questionnaire is available at: http://www.leiroc.org/publications/Questionnaire_on_parent_entities.docx). Where possible, please specify the reasons for the preferences expressed or the details of any trade-offs you see. The questions are organized along the sections of the consultation document.

The responses to the survey will be shared within the ROC membership and with the GLEIF. Neither participants' identity nor any specifically identified reference to their opinion will be made public without their express consent. However, the responses themselves may be quoted on an anonymised basis. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Identification of the respondent and confidentiality
Respondent: **Name and email of a contact person:** ☐ **Please check this box if you object to any of the responses below being quoted on an anonymised basis and specify here any sections or questions to which this objection applies**
Please specify here as needed which response(s) should not be quoted:
1 Uses of organization relationship information
1.1 Are there important potential future uses of any type of relationship data that would pose additional requirements that should be taken into account when designing the initial implementation of relationship data?
Please insert your response here:
2 Definition of parent relationships
2.1. Do accounting definitions provide the best basis for identifying data to support the purpose of the GLEIS as discussed, for example, in paragraph 2.2.1, and as opposed to, for example, legal control? If you suggest another basis, such as legal control, please explain how you would define the basis and what standards could be referenced for defining the basis. 2.2. Are there known differences among existing accounting standards that could be expected to have material effects on the definition of parents proposed in this section?

Please insert your response here:
2.3. Do you have any comments on the initial definitions of relationships proposed, particularly in terms of their clarity for implementation and validation)?
Please insert your response here:
2.4. For future phases of Level 2 data, should the priority be to add other definitions of parents (e.g.: scope of regulatory consolidation applying to specific sectors such as banks or insurance companies; legal control), or to add other relationships as defined in accounting standards (e.g.: joint venture/joint arrangements, significant influence; interests in unconsolidated structured entities)?
Please insert your response here:
2.4 Are there other, alternative approaches to recording relationships -- other than the one described here based on an accounting framework -- that you believe would be preferable for the initial phase of data collection?
Please insert your response here:
3 Data collection, validation and updates
3.1 Considering both efficiency and data quality, do you agree with the preliminary conclusion that reporting of parent information by the "child" entity, combined with some option for the parent to report, would be the best approach, given that not all parents report to the LEI system?
Please insert your response here:
3.2 If both members of parent-child relationships have LEIs and both report, how should reporting about common relationships be reconciled? More generally, should the system seek to reconcile the network structure of relationships determined from the accumulation of information on direct parents?
Please insert your response here:
3.3. In your view, are the sources proposed in section 3.1 appropriate for validating data on relationships based on accounting definitions? Should the type of source used to validate the data be disclosed in the GLEIS (if so, how granular should the disclosure be)? What, if any, other aspects of data provenance should be disclosed?
Please insert your response here:

3.4 To what extent in the first phase of Level 2 data collection should the GLEIS aspire to incorporate changes in a relationship that happen or become known between publication points in the accounting cycle of an entity? Would it be appropriate to use different sources to validate a relationship at different points in time? Would it be appropriate to record such information based on a statement by the entity, provided it is appropriately flagged and that validation occurs at the next accounting cycle or the next annual revalidation?
Please insert your response here:
3.5. What is the best strategy, in your view, for maximizing coverage and data quality for Level 2 data? How do you assess the costs for registrants to provide this information (independently from the fee charged by LOUs), and the benefits for registrants and other users? How might the incentives of entities be shaped in order to encourage participation?
Please insert your response here:
4 Data organisation
4.1. Do you have suggestions on the content or high-level arrangement of Level 2 data and any supporting metadata?
Please insert your response here:
4.2. Do you have suggestions on a particular high-level approach or necessary conditions for organizing the representation of the history of Level 2 data?
Please insert your response here:
5 Business model for relationship data in the GLEIS
5.1. Should the implementation of Level 2 data take place through the LOUs following procedures similar to the ones applying for Level 1 data, or should other possibilities be considered?
Please insert your response here:
6 Conclusion and next steps
6.2. Is there anything important at this stage that has been omitted from the consultation or any other comment or suggestion you would like to make?
Please insert your response here:

Thank you for participating in this consultation.