

## 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](mailto: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](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.

<b>Identification of the respondent and confidentiality</b>
<b>Respondent: SWIFT</b>
<b>Name and email of a contact person:</b> Rachel Lindsay ( <a href="mailto:rachel.lindsay@swift.com">rachel.lindsay@swift.com</a> )
<b><input type="checkbox"/> 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</b>
<i>Please specify here as needed which response(s) should not be quoted:</i>
<b>1      Uses of organization relationship information</b>
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?
There are undoubtedly use-cases for relationship data that are not envisaged in this document (which is nevertheless commendably thought-through and complete). We agree with the authors that an iterative approach to implementation that can be elaborated over time as new use-cases emerge is the best way forward. This will require that the data model used to capture Level 2 data be flexible and extensible - allowing new relationships, and meta-data about those relationships, to be added without necessitating change to existing data or structures.

## **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?

Yes – accounting definitions provide the best basis for identifying data to support the purpose of the GLEIS. At the outset, accounting definitions will prove the most standardised, easiest to verify for LOUs, and offer the best opportunity to show success in what will be a complex initiative. Other types of relationship may add further value over time, but we believe that those based on accounting definitions would be a great start.

2.3. Do you have any comments on the initial definitions of relationships proposed, particularly in terms of their clarity for implementation and validation)?

Yes – with reference to section 2.1, terms like 'majority' will need to be very clearly defined. Consideration should be given to the additional burden provision of this data imposes on registrants. Definitions should be clear and guidance should be provided to registrants on the precise meaning and possible sources of the data requested.

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)?

The guiding principle should be to consider what kinds of data best serve the chief use-cases for LEI - principally the aggregation of risk data (thinking back to the original motivation for LEI - banks' inability to identify their exposures at the height of the financial crisis). With this in mind, identifying parent relationships based on accounting definitions should be the priority - and achieving this satisfactorily will be difficult enough. As long as the structures for capturing richer data are extensible, we suggest that the community gain further experience with 'simple' hierarchy data before trying to assess the priorities for future phases.

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?

No. We support the proposal to base initial implementation on an accounting framework.

### **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?

Yes – we agree that it should be possible for ‘child’ and ‘parent’ to report. The use-case for parent capture is risk aggregation. Parents should be identified with LEIs - no other option should be recommended. The ROC might consider requiring child entities to specify parents as LEIs, forcing applications for (or renewal of) LEIs up the corporate hierarchy to the ultimate parent, even if the parents are not otherwise in the scope of the LEI system. This may be seen as an unreasonable burden to place on registrants, but if the objections could be overcome, it would be an effective way to gather the necessary data.

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?

In general the system should seek to reconcile relationship information reported by parents and their children. It is possible that parents and children may register contradictory relationship information through different LOUs. In this case a simple rule should be set to identify which LOU has the lead in identifying the correct information and updating the master record. Logically, the parent source should prevail, because the parent is responsible for producing consolidated financial statements, and hence should ‘know better’ – so this could be the basis for such a rule.

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?

Data sources for relationships should be retained by LOUs wherever practical and consistent with applicable data privacy legislation, ideally with hypertext links to publicly available documents. This data will be invaluable to streamline the reconciliation of contradictory details referred to above. However, it may not be necessary or desirable to publish this information publicly.

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?

The GLEIS should strive to ensure that relationship data is up-to-date, but should also be realistic about what can be achieved. While the results of well-publicised M&A activity for a significant entity may reasonably be expected to be captured between reporting cycles, it would be a mistake to set this level of expectation for the entirety of entities identified in the system.

Information volunteered by a legal entity should be independently verified wherever practicable, but may nevertheless be reported before (or without) such verification if suitably flagged, particularly if the change is significant and time-critical.

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?

Application for an LEI today is straightforward, and can be performed by non-specialist staff in the registering institution. The need to provide Level 2 data will potentially require input from several areas in the institution - finance, legal, etc. - and will be difficult to orchestrate in all but the simplest cases. This, rather than any increase in fees, is likely to be the chief obstacle to obtaining good quality data. Education about the overall value of the information to participants in the system may help but is unlikely to be enough. 'Brute force' regulation - requiring reporting entities to register LEIs not just for themselves, but for direct and ultimate parents, possibly triggering LEI registration by these entities, is theoretically appealing, but may not be politically acceptable. However, experience to-date has shown the most effective incentive is a regulatory mandate. Experimentation around suitable incentives for registrants should be part of the exploration phase of the initiative, in addition to addressing the purely technical challenges of capturing and representing data.

#### **4 Data organisation**

4.1. Do you have suggestions on the content or high-level arrangement of Level 2 data and any supporting metadata?

Any representation should be flexible enough to allow for arbitrary extensions to data and metadata. That is to say, it should be possible to add new relationship types, as well as the characteristics of those relationships and types (for example, the percentage of a partial ownership relationship, or a reference to the legal definition of a type of relationship).

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?

There may be scope for using graph representations and graph database technologies (there are commercial implementations, of which the best known is Neo4j) to achieve this flexibility, but this is not a strong recommendation, so much as a suggestion as to a further direction that might be explored.

#### **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?

The registration and maintenance of LEI data will become much more complex and may 'break' the existing cost-recovery business model. Business model evolution should therefore be a key discussion point in the GLEIS community, including early engagement with (pre-)LOUs.

#### **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?

We would again like to congratulate the ROC on the completeness and clarity of the consultation, and add our thanks for the opportunity to respond.

**Thank you for participating in this consultation.**