

**ROC**

**Progress report**

**2019-2021**

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## 1. Executive summary

The Regulatory Oversight Committee (ROC) is a charter-based organization created in 2012 by the Finance Ministers and Central Bank Governors of the G20 and the Financial Stability Board (FSB) with the initial mandate to oversee the Global LEI System (GLEIS). Between 2019 and 2021 some important developments have taken place for the ROC, and they are summarized in this progress note.

The development of the GLEIS has steadily progressed, and the issuance of Legal Entity Identifiers (LEIs) has continued growing with more than 2 million active LEIs as of end December 2021<sup>1</sup>. In the 2019 [Thematic Review on Implementation of the Legal Entity Identifier](https://www.fsb.org/2019/05/thematic-review-on-implementation-of-the-legal-entity-identifier/),<sup>2</sup> the FSB acknowledged such growth but also identified a number of obstacles to be addressed to further LEI adoption and implementation in order to meet the G20's objective of supporting authorities and market participants in identifying and managing financial risks by uniquely identifying counterparties to financial transactions. Since then, the ROC has been working to address the FSB recommendations, while continuing to develop its oversight activity over the GLEIS.

The ROC has advanced its policy work in response to the FSB recommendations. The new ROC policies (on funds relationship and LEI eligibility for government entities), the adapted policy decisions (on consolidating the reasons to opt-out from reporting parent LEIs and to end the collection on information about parents without LEI,) and the other ongoing policy workstreams (such as on the LEI for Unconventional Group Structures) aim to address outstanding questions to facilitate LEI implementation.

All through the considered period, the ROC has focused on Data Quality within the GLEIS, in part by developing the so-called Conformity Flag, an indicator of the quality of LEI data within individual records, and by closely interacting with the Global LEI Foundation (GLEIF) for such work. The ROC also welcomes all data quality controls that GLEIF has introduced over time. More work is currently planned to explore innovative ways to deal with Level 2 (parent relationship) data.

The ROC is also considering enhancements to the LEI business model to lower the cost and administrative burden for entities to acquire and maintain an LEI. The ROC identified achieving Global, Universal coverage and Real Time accuracy (the "GURT" goal) as its long-term goal in terms of the business model for the Level 1 (legal entity reference) data. The ROC is still discussing how and under which timeline the GURT goal could be achieved. Furthermore, the ROC is closely following GLEIF's own research projects such as the ones related to Validation Agents<sup>3</sup> and the GLEIF's digital strategy<sup>4</sup> as potential business model enhancements to reduce costs and incentivize voluntary adoption, thereby triggering further LEI growth. The newly refreshed Joint ROC-GLEIF Promotion Committee has offered the opportunity to the ROC to support GLEIF's outreach and educational activity to explain how the LEI could be beneficial in areas such as for multinational corporates or in the context of virtual assets.

In the third quarter of 2020 the ROC's mandate expanded to become the International Governance Body (IGB) of the globally harmonised Unique Transaction Identifier (UTI), the Unique Product

<sup>1</sup> <https://www.gleif.org/en/lei-data/global-lei-index/lei-statistics>

<sup>2</sup> <https://www.fsb.org/2019/05/thematic-review-on-implementation-of-the-legal-entity-identifier/>

<sup>3</sup> <https://www.gleif.org/en/lei-solutions/validation-agents>

<sup>4</sup> <https://www.gleif.org/en/lei-solutions/gleifs-digital-strategy-for-the-lei#>

Identifier (UPI) and the Critical Data Elements (CDE). As IGB of the UTI, UPI and CDE, the ROC became the overseer of the designated UPI service provider, the Derivatives Service Bureau (DSB).

Since the FSB transferred all governance and oversight responsibilities in relation to the UPI to the ROC, the ROC has been working with DSB to establish appropriately rigorous oversight arrangements. In June 2021, the ROC and the DSB finalised a Memorandum of Understanding on the implementation of the governance arrangements of the globally harmonised UPI,<sup>5</sup> representing a common understanding of the expected division of responsibilities for overseeing the UPI system. The newly established Committee on Derivative Identifiers and Data Elements (CDIDE) is assisting the DSB in ensuring that the UPI service is implemented consistently with the governance principles outlined by the FSB. Work is also underway to establish contingency arrangements to ensure a smooth transition to a new UPI service provider with minimal disruptions, in the event that the DSB ceases to provide the UPI service.

<sup>5</sup> [https://www.leiroc.org/publications/gls/mou\\_dsb20210630.pdf](https://www.leiroc.org/publications/gls/mou_dsb20210630.pdf)

## 1. Introduction

G20 Leaders supported in 2011 *"the creation of a global LEI which uniquely identifies parties to financial transactions"* and, following the recommendations by the FSB, tasked the ROC, established in November 2012, with coordinating the actions of the regulatory community in establishing and overseeing the GLEIS's responsibility of issuing and maintaining LEIs, in accordance with the principles endorsed by the G20 (see Box [A]: The LEI). The GLEIS is a federated model with one central operational unit, the not-for-profit Global LEI Foundation, and several local LEI issuers (Local Operating Units, or LOUs) that collect and validate the registrants' entity reference and relationship data. The GLEIF is overseen by the ROC, a group of approximately 65 public sector authorities that have assented to the ROC Charter.

### Box [A]: The LEI

The LEI is a 20-character reference code to uniquely identify legally distinct entities and associated reference data. It is based on two fundamental principles:

- **Uniqueness:** an LEI is assigned to a unique entity. Once assigned to an entity, and even if this entity has for instance ceased to exist, a code should never be assigned to another entity.
- **Exclusivity:** a legal entity that has obtained an LEI cannot obtain another one. Entities may port the maintenance of their LEI from one operator to another. The LEI remains unchanged in the process.

The LEI definition currently relies on a standard published by the International Organisation for Standardisation (ISO) on 30 May 2012 ([ISO 17442:2012](#)).

The LEI is associated with reference data, including:

- Primary information on the legal entity (Level 1 data), responding to the question "Who is who?", such as the official name, the address, the legal form of the entity.
- Relationships' data (Level 2 data), responding to the question "Who owns who?", such as the LEI of the direct parent and the ultimate parent, if available.

G20 Leaders also agreed at the Pittsburgh Summit in 2009, as part of a package of reforms to strengthen the resilience of the over-the-counter (OTC) derivatives markets, that all OTC derivatives transactions should be reported to trade repositories. A lack of transparency in these markets was one of the key problems identified by the global financial crisis. Trade reporting, by providing authorities with data on trading activity, is key to identifying potential vulnerabilities to financial stability in these markets. In that context, globally harmonised identifiers and data elements can help authorities obtain a comprehensive global view of the OTC derivatives markets (see Box [B]: The UTI; Box [C]: The UPI; and Box [D]: The CDE). Reference to the LEI in the harmonised derivatives identifiers and data elements will allow consistent monitoring of legal entities' trading activity, exposures, and interconnectedness in the global OTC derivatives markets.

**Box [B]: The UTI**

The UTI is a reference code with up to maximum of 52 characters that identifies individual transactions reported to trade repositories and allows authorities to follow their modifications during their whole lifecycle. In particular, a UTI will help to ensure the consistent aggregation of OTC derivatives transactions by minimising the likelihood that the same transaction will be counted more than once.

The globally harmonised UTI was published by ISO as an International Data Standard on 4 August 2020 ([ISO 23897:2020](#)).

Key characteristics of UTI codes include:

- **Neutrality:** The UTI is globally applicable and the generation of the UTI should not reflect jurisdictional differences.
- **Uniqueness:** Every reportable transaction should have a unique UTI. Different reportable transactions should each have their own UTIs. No UTIs should be reused even if the previous use was on a transaction that is no longer open.
- **Consistency:** Any individual transaction should have the same UTI even if such transaction is reported more than once to facilitate transactions' matching while contributing to the avoidance of double counting.
- **Persistence:** A transaction should keep the same UTI throughout its lifetime. This continuity facilitates the handling of amendments and updates to a report. Some life cycle events affecting existing OTC derivative transactions create one or more new reportable transactions, which such reportable transactions would then each require a new UTI.
- **Traceability:** If one transaction is replaced by another transaction with a different UTI, then there should be a means of relating the transactions before and after such a change of UTI. Traceability assists in understanding the evolution of transactions and provides an audit trail.

The UTI Technical Guidance also defines which entity (or entities) should be responsible for generating UTIs.

In order to also become the IGB of the UTI, UPI and CDE, the ROC amended its [Charter](#) in 2020. Since the [FSB then transferred to the ROC](#) all governance and oversight responsibilities in relation to the harmonised derivatives identifiers and data elements, the ROC has become also the oversight body of the [UPI service provider designated by the FSB](#), the [DSB](#). The ROC was tasked to develop appropriately rigorous oversight arrangements, in close cooperation with DSB, and in June 2021 the DSB and the ROC finalised a [Memorandum of Understanding \(MOU\)](#) representing a common understanding of the expected division of responsibilities for overseeing the UPI system. The June 2021 MOU is complemented by a [Notifications Protocol](#)<sup>6</sup>.

The ROC and the DSB are now working together to establish appropriate contingency arrangements for the UPI System to ensure a smooth transition to a new service provider with minimal disruptions, in the event that the DSB ceases to provide the UPI service. Finally the ROC has been working closely with DSB to address any outstanding questions on the application of the [UPI technical guidance](#) and the [UPI governance principles](#) in the ongoing implementation of the UPI service. The DSB works with a broad range of stakeholders, including industry representation groups, to determine key aspects of the UPI service.

<sup>6</sup> The Notifications Protocol describes the information on technical matters and on matters related to operational resilience that DSB will provide to the ROC.

### Box [C]: The UPI

The UPI is a 12-character code that uniquely identifies the products reported to trade repositories consistently across jurisdictions. Each UPI code is mapped to a set of data (the so-called reference data elements) with specific values that together describe the product. The combination of the UPI code, UPI reference data and the process of assigning a UPI code to a particular set of reference data represent the UPI System. The globally harmonised UPI code was published by ISO as a data standard on 15 November 2021 ([ISO 4914:2021](https://www.iso.org/standard/75461.html)).

The key characteristics of the UPI are:

- **Jurisdiction neutrality:** It helps ensure that the UPI System is globally applicable and therefore facilitates aggregation. All values that are included in an OTC derivative product's reference data should be standardised to the fullest extent practicable.
- **Uniqueness:** Every reportable OTC derivative product should be identified by one UPI code and by a distinct set of UPI reference data elements and their values. Different reportable OTC derivative products should have different sets of UPI reference data elements and their values and hence different UPI codes.
- **Consistency:** The UPI reference data should describe each OTC derivative product using a consistent set of UPI reference data elements. Different asset classes may utilise different sets of UPI reference data elements to represent different instrument and underlier characteristics specific to an asset class.
- **Persistence:** An OTC derivative product, once described using the UPI reference data elements and assigned a particular UPI code, should keep the same UPI reference data element values and UPI code, as far as practicable.
- **Adaptability:** The UPI reference data element values should be capable of adapting swiftly to market changes and innovations, including the introduction of new OTC derivative products as well as to the evolving aggregation needs of authorities in response to those changes. The allowable values for each UPI reference data element should be capable of readily incorporating required changes.

The DSB has been designated by the FSB as the service provider for the UPI system. As the sole issuer of UPI codes, the DSB will also perform the function of operator of the UPI reference data library. The DSB expects to be providing UPIs from Q3 2022.[1]

[1] <https://www.anna-dsb.com/upi/>

**Box [D]: The CDE**

The Critical Data Elements other than UTI and UPI (CDE) are data elements of an OTC derivative transaction reported to TRs that are important for the risk aggregation process. Setting a standardized definition, format and allowable values provides better understanding on the contents of the transaction and will provide transparency for all OTC derivative transactions. The CDE include data elements related to:

- Dates and timestamps;
- Counterparties and beneficiaries;
- Clearing, trading, confirmation and settlement;
- Regular payments;
- Valuation;
- Collateral and margins;
- Counterparty rating triggers;
- CDS Index Attachment & Detachment Point;
- Other payments;
- Prices and quantities;
- Packages and links;
- Custom baskets.

The CDE have been included within the ISO 20022 data dictionary and maintained by ISO. An ISO 20022-compliant message has been published in the ISO 20022 repository.[1]

[1] <https://www.iso20022.org/iso-20022-message-definitions?search=auth.030>

## **2. Adjusting the governance of the ROC**

### **a. ROC Charter revisions**

In January 2019, the ROC adopted a revised Charter. The most significant improvements of the 2019 Charter relate to the term and composition of the ROC Chairs' team (ROC Chair and Vice-Chairs). The term of one ROC Chair or Vice Chair can now be extended for an additional fourth year, to ensure greater continuity and to avoid significant turnover in the event that at the same time the GLEIF Board Chair would also be changing. At the same time, a third Vice Chair position was added (for a total of one ROC Chair and up to three Vice Chairs). As the Chair and Vice Chair(s) are to be from different geographic regions, each of the ROC's four geographic regions can now be represented within the ROC Chairs' team.

Finally, a clause was added, to make sure that the ROC Charter is reviewed at least every five years (or earlier than that upon need).

The ROC Charter was further revised in October 2020 to prepare the ROC for the role of the IGB for the UTI, the UPI and the CDE (see section 5).

### **b. ROC Secretariat**

The ROC is also working to establish a new Secretariat. The ROC Secretariat services had been provided since 2013 by the Secretariat of the Financial Stability Board (FSB), but this arrangement concluded at the end of 2021. Starting from January 2022, the ROC Secretariat is jointly provided



temporarily by two ROC members, the U.S. Department of the Treasury's Office of Financial Research, and the People's Bank of China, while a more permanent long-term solution is sought.

### **3. Oversight of the Global LEI System**

#### **a. Addressing the recommendations of the FSB LEI Peer Review**

In May 2019, the Financial Stability Board published a [Thematic Review on Implementation of the Legal Entity Identifier](#) (FSB Peer Review), and the ROC has been working to address its recommendations.

The FSB Peer Review recognized that, since its endorsement by the G20 in 2012, the LEI System has been successfully brought into operation, with – at time of the May 2019 peer review publication – over 1.4 million entities uniquely identified by an LEI in more than 200 countries. At that time LEIs identified reporting entities for close to 100% of the gross notional outstanding for over-the-counter (OTC) derivative trades in most FSB jurisdictions, and issuers of around 78% of the outstanding amounts of debt and equity securities. Most FSB jurisdictions had implemented rules mandating LEI use in at least one area. Adoption had been most successful when the LEI had been mandated as part of a regulatory effort (OTC derivatives), or across multiple market segments in the same region (EU).

Notwithstanding this progress, the FSB Peer Review stressed that in 2019 the LEI had far to go to meet the G20's objective given the low adoption of LEI outside OTC derivatives and securities markets and uneven adoption across FSB jurisdictions. A number of obstacles to further LEI adoption and implementation needed to be addressed. The current business model did not fully align the benefits and costs of LEI use for participants. The usability of relationship data still fell short of authorities' expectations (e.g., information on parent entities based on accounting consolidation can have limited utility), and there were insufficient links with other (in particular business registry) identifiers. For that purpose, the FSB Peer Review included the following recommendations addressed also to the ROC<sup>7</sup>:

- consider enhancements to the LEI business model to lower the cost and administrative burden for entities acquiring and maintaining an LEI;
- consider data quality process enhancements to increase the reliability of the LEI data so as to improve its usability by market participants and regulators, including processes to encourage and monitor updates of LEI reference data;
- work with industry and the public sector to raise awareness of the benefits of the LEI and encourage voluntary adoption by documenting existing uses, or by supporting pilot programs or research projects on promising new uses; and
- enhance the scope and usability of Level 2 data by considering cost-effective and reliable ways to add relationship data that would increase the value of the LEI (e.g., confidential relationships subject to access rights and appropriate controls; beneficial owners; and other definition of parents) and expand the coverage of such data, for instance by conducting

<sup>7</sup> The FSB Peer Review includes also recommendations addressed to FSB members (such as on implementing international standards referencing the LEI, and promoting LEI adoption and regulatory use), the FSB (such as on exploring the potential role and effective implementation of LEI in areas such as resolution, risk analysis, and payment messages), standard-setting bodies and international organisations (such as on enhancing references to LEI in their work), and finally to the ROC and GLEIF.

targeted LEI adoption campaigns for large multinational firms and by facilitating relationship reporting by parents of their group entities.

The ROC is responding to those recommendations along several avenues:

- 1) Ensuring that outstanding questions related to the LEI implementation are addressed. In reaction to implementation questions stemming from participants within the GLEIS and to the need for clarifications stemming from ROC members, the ROC released several new policies and policy clarifications between 2019 and 2021 (see Section 4b).
- 2) Launching a Working Group dedicated to the Level 2 parent relationship data (L2WG). This group is mandated to explore innovative ways in order to enhance the quality, scope and usability of the Level 2 data.
- 3) Working with GLEIF to improve the data quality of the GLEIS. The Conformity Flag Working Group has worked to develop an indicator that can provide high-level information on the quality of a given LEI (see Section 4c). Moreover, the Data Quality Working Group has investigated issues in cooperation with the GLEIF to continually enhance the GLEIF data quality application programming interface (API) introduced in August 2021 that LOUs must use before publication of new and updated records to the Global LEI Index. The ROC also welcomes the progress made by the GLEIF to complete the entity legal form (ELF) list. Section 4c provides an overview of the data quality efforts.
- 4) Launching a Working Group on Vision and Strategy that is mandated to analyse potential changes in the GLEIS business model, in the scope of entities covered by the LEI and possible expansion strategies and identification of further opportunities for applying the LEI (Section 4d).
- 5) Supporting the GLEIF's outreach activities that could help to promote LEI adoption. The ROC welcomed GLEIF's research projects (such as the ones with potential validation agents)<sup>8</sup> and efforts to develop new use cases for the LEI (such as in the digital context).<sup>9</sup> The GLEIF and the ROC both maintain on their respective websites a list of regulatory use cases that can inspire other jurisdictions on how to best use the LEI (see also section 4e).<sup>10</sup> Finally, under the aegis of the Joint Promotion Committee (JPC), co-chaired by the ROC Chair and GLEIF Board Chair, the ROC supported a series of workshops organized by the GLEIF on the use of the LEI for multinational corporates, in the context of virtual assets, and in other areas of potential applicability.

#### **b. New policies related to the LEI**

The Committee on Evaluation and Standards (CES) of the ROC<sup>11</sup> has coordinated the work of several different working groups and study groups. The work of some of these groups has led to the drafting of new policies with the view to improve the GLEIS data.

<sup>8</sup> <https://www.gleif.org/en/lei-solutions/the-lei-the-key-to-unlocking-financial-inclusion-in-developing-economies#> and <https://www.gleif.org/en/lei-solutions/validation-agents#>

<sup>9</sup> GLEIF's Digital Strategy, see <https://www.gleif.org/en/lei-solutions/gleifs-digital-strategy-for-the-lei#>

<sup>10</sup> <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei#> and [https://www.leiroc.org/lei/lei\\_regulatory\\_uses.htm](https://www.leiroc.org/lei/lei_regulatory_uses.htm)

<sup>11</sup> The primary responsibility of the CES is to evaluate the adequacy of existing standards and protocols for GLEIS in the light of the High Level Principles (ROC Charter, Annex A) and other principles adopted by the ROC and that serve the broad public interest, and to propose to the ROC Plenary revised or additional standards / protocols as necessary.

### *Policy on Fund Relationships*

In May 2019 the ROC published a [Policy on Fund Relationships](#) in response to challenges in recording the possible relationships affecting investment funds in the GLEIS. The goal of this policy is to make sure that the implementation of relationship data is consistent throughout the GLEIS and to facilitate a standardized collection of fund relationship information at the global level. The report asked GLEIF to replace the optional reporting of a single “fund family” relationship as part of Level 1 data with specific optional relationships as part of Level 2 data, providing a definition for each fund relationship.

### *Policy on LEI eligibility for General Government Entities*

Following clarification requests expressed by LOUs, in December 2020 the ROC published guidance on the [LEI eligibility for General Government Entities](#). Government entities that are not incorporated, such as Ministries and Agencies, are eligible for an LEI when entitled to enter into contracts and should declare a parent under the same condition as other legal entities. In addition, the practice shows that government entities usually declare no known parent as accounting consolidation within the government sector may be subject to jurisdictional specific rules and may be different from the commercial sector. The ROC therefore recommended to identify resident government entities and international organizations as specific entity categories and to expand the list of accounting standards used for consolidation to accommodate the specificities of government accounting standards.

### *LEI for individuals*

After having clarified in 2015 the conditions under which individuals acting in a business capacity are eligible to obtain an LEI, the ROC has not extended the LEI eligibility to other types of individuals such as those licensed or authorised by a financial regulator. Ultimately the ROC decided to discontinue any work on individuals, in light of the decision of the ISO Technical Committee 68 on financial services (ISO/TC 68) to work on an ISO standard for an identifier for natural persons.

### *Work on Unconventional Group Structures*

Work is underway to discuss whether and, if so, how to capture in the Global LEI System **group structures based on relationships that do not fit in the traditional “group” definition** in their jurisdiction (Unconventional Group Structures). The ROC’s assessment is building on examples of such Unconventional Group Structures collected from ROC members and LOUs.

### *Revision of policies related to the Level 2 parent relationship data*

The ROC has also recently reviewed and revised two aspects related to the policy for reporting LEI Level 2 parent relationship data, the **list of acceptable reasons for legal entities to opt-out from the provision of information on direct and ultimate parent LEIs** (from now on referred to as the list of opt-outs) and the request to LOUs to collect and provide to regulators parent metadata, also known as **Provisional Node Identifier (PNI) data**, for parents without LEIs.

The ROC decided to consolidate the nine previously existing opt-out reasons into five categories<sup>12</sup> and to discontinue the collection of the PNI metadata for parents without LEIs.<sup>13</sup>

Even if the PNI data may allow regulators to increase the information available on the parent(s) of LEI registrants, the ROC agreed that efforts and resources should be directed instead to ensure that registrants provide high-quality LEI information on their parent(s) as a key component of the quality of the LEI data.

### **c. Improving the quality of the GLEIS data**

Regarding data quality, the ROC continues to believe that continuing efforts should be put in place to ensure that the LEI related information is complete, correct and up to date, to maximise the benefit that the LEI brings to registered entities and users. The CES has continued to dedicate specific streams of work to discuss and investigate data quality related issues.

#### *Conformity Flag*

The ROC developed the concept of a conformity flag, in close cooperation with the GLEIF, to measure how well individual LEI records conform to ROC policies for LEI data. It can also be seen as an indirect indicator of the quality of LEIs and has the objective of incentivizing registrants and LOUs to improve the conformity rate – and thereby data quality – over time. Conformity would be achieved when five ROC policy criteria are met. The ROC is currently discussing with the GLEIF and the LOUs when the conformity flag will be implemented.

#### *Data Quality Working Group*

The ongoing dialogue on data quality between the Data Quality Working Group and GLEIF has been extremely valuable, and the ROC welcomes all data quality controls that GLEIF has introduced recently and over time. Efforts to better understand the processes and procedures and data quality controls used to obtain business register information for the GLEIS is important for a comprehensive and continuous data quality improvement. In particular, the Data Quality Working Group is analysing data quality issues that become evident by focusing on a population of LEIs rather than solely on individual LEI records, and on possible data quality errors that may be more readily identified because of relationships within the LEI reference data. Further, the ROC expects that the data quality API launched by the GLEIF for pre-issuance data quality checks will be a key tool to continually enhance and support data quality going forward.

### **d. The ROC's vision for the GLEIS**

In response to the FSB Peer Review recommendation to consider enhancements to the LEI business model to lower the cost and administrative burden for entities acquiring and maintaining an LEI, the ROC has been discussing its long-term vision and strategy for the ROC and the GLEIS. The work of the ROC's Vision and Strategy Working Group has been undertaken in parallel with the GLEIF.

<sup>12</sup> More specifically, the ROC agreed to consolidate the five allowed opt-outs for the "Non-Public" category ("Binding Legal Constraint", "Legal Obstacles", "Disclosure Detrimental", "Detriment Not Excluded" and "Consent Not obtained") into one allowed opt-out called "Non-Public". All the other opt-out categories ("Natural Person(s)", "No LEI", "No Known Person" and "Non-Consolidating") were retained. The ROC did not consolidate the opt-outs "Non-consolidating" and "No Known Person" because both of them account for more than a quarter of the overall opt-outs.

<sup>13</sup> [https://www.leiroc.org/publications/gls/roc\\_20220107.pdf](https://www.leiroc.org/publications/gls/roc_20220107.pdf)

The ROC identified the “GURT” goal as its long-term goal in terms of business model for the Level 1 data, namely achieving global, universal coverage and real-time accuracy. This goal would allow any user, human or machine, to be able to rely on LEI data without any further verification, and to retrieve LEI data on any legal entity addressed in any user process. While the GURT has been identified as a goal as opposed to an objective,<sup>14</sup> it could be strived for through chains of intermediate, local objectives that could bring GLEIS closer to the goal. The GURT goal can guide the practical design of upward-compatible specifications for those intermediate objectives, as well as more conceptual design specifications for the LEI and the entire “identity supply chain”. As a beacon, the GURT goal can also generate inspiration, positioning the LEI as a societal project, a practical contribution to sustainable digitalization. The ROC is discussing the specific scope and sequence of intermediate and local objectives to strive for the GURT goal.

#### **e. New regulatory mandates for the LEI**

Regulatory mandates are one of the primary drivers of increasing LEI adoption. In May 2019 the FSB Peer Review noted that LEIs identify reporting entities for close to 100% of the gross notional outstanding for over-the-counter (OTC) derivative trades and securities issuers for around 78% of the outstanding amounts of debt and equity securities. However, the FSB Peer Review also stressed that LEI adoption remained low outside securities and derivatives markets and was uneven across jurisdictions, with several FSB jurisdictions – particularly in Asia and emerging economies – not yet taking steps to mandate use of the LEI in any area, or having adopted rules requiring LEI use only if the entity already has one. Also, the extent to which LEI renewal is mandatory according to regulatory rules differs across jurisdictions, with differing potential for the LEI to be associated with reference data that is no longer up to date.<sup>15</sup>

Since the publication of the LEI Peer Review the total number of active LEIs reached more than 2 million with some diffusion across all jurisdictions (see Figure 1).

A number of new regulatory mandates and recommendations for the LEI have come into force since 2019, including the following:

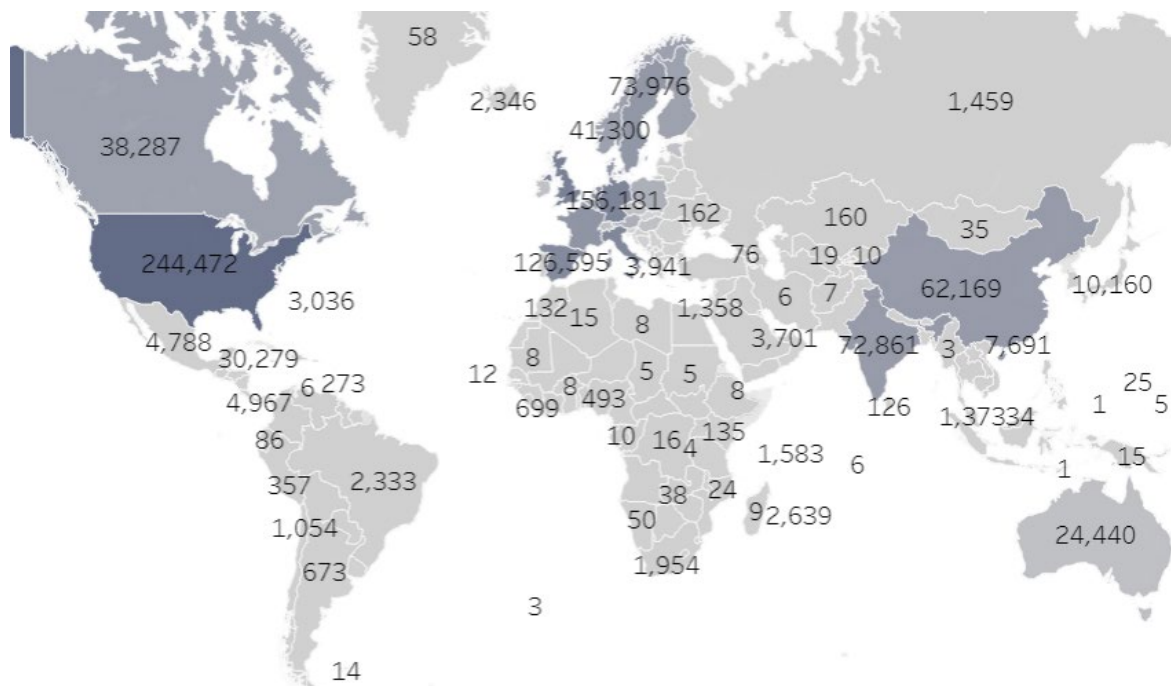
- In 2020 the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly released the “Roadmap to Implement Legal Entity Identifier in China between 2020-2022”. Since then, the LEI became the requirement for example for certain bond issuers and to access the interbank bond market and for purposes of statistical reporting of External Financial Assets and Liabilities.
- As of the beginning of 2021, entities in India which undertake large value transactions through the Reserve Bank-run Centralised Payment Systems are required to have an LEI. Moreover, in 2020, the Insurance Regulatory and Development Authority of India (IRDAI), the insurance industry regulator, made it mandatory for insurance companies to obtain an LEI. Starting from 2019 with a staggered approach, the Central Bank also introduced the mandatory requirement to have an LEI to operate on non-derivative markets.

<sup>14</sup> Contrary to an objective that is specific, attainable through a concrete plan in a finite time, a goal is more of an ideal.

<sup>15</sup> If a legal entity’s data changes and its LEI is not renewed, its LEI is associated with outdated reference data. However, if the LEI is not renewed but the data of the legal entity does not change, the LEI remains up to date, despite the lack of renewal.

- In the European Union, LEI growth was supported by the entry into force of the requirements to report to trade repositories the LEIs of a variety of entities involved in securities financing transactions. Moreover, issuers are required to identify themselves using LEIs when publishing their consolidated accounts in machine readable formats. Finally, in December 2020, the European Systemic Risk Board recommended to the European Commission to propose a Union legal framework governing the identification of legal entities involved in financial transactions by way of an LEI, to require legal entities to identify themselves when reporting financial information with an LEI and to require authorities to identify with the LEI any legal entity about which they publicly disclose information and which has an LEI.
- In the US, as of April 2019 certain central counterparties are obliged to identify with the LEI legal entities involved for a variety of reasons in repurchase transactions to be reported the U.S. Office of Financial Research.

**Figure 1: Total number of active LEIs by jurisdiction**



Source: <https://www.gleif.org/en/lei-data/global-lei-index/lei-statistics#> (as of end December 2021)

#### 4. **Becoming the International Governance Body of the globally harmonised derivatives data elements**

Tasked by the FSB to develop globally harmonised data elements for the reporting of transactions to trade repositories, the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) issued the [Technical Guidance on the Harmonisation of the Unique Transaction Identifier \(UTI\)](#) (UTI TG) in February

2017, the [Technical Guidance on the Harmonisation of the Unique Product Identifier \(UPI\)](#) (UPI TG) in September 2017 and the [Technical Guidance on the Harmonisation of critical OTC derivatives data elements \(CDE\)](#) (CDE TG) in April 2018.<sup>16</sup>

In the October 2019 report on [Governance arrangements for the UPI](#) the FSB agreed that the ROC was, subject to some necessary adaptations to its existing governance to make it fit for purpose, best positioned to take on the role of the IGB for the UTI and the UPI by mid-2020. Also, CPMI and IOSCO, tasked to develop the governance arrangements for the CDE, determined the same transition of governance to the ROC for the CDE in their [Governance Arrangements for critical OTC derivatives data elements \(other than UTI and UPI\)](#).

In 2020 the ROC amended its [Charter](#) to prepare for the new role and functions and to establish the necessary structure and processes to meet its new responsibilities. The ROC has embedded the IGB role in its mission, objectives and overall responsibilities, clarified the role that the Plenary and the Executive Committee (ExCo) needs to have to pursue such objectives and established a dedicated committee, the Committee on Derivative Identifiers and Data Elements (CDIDE), to specifically discuss UTI, UPI and CDE-related matters and report to the ExCo and Plenary where necessary. After having gained some experience in the governance and oversight of the UTI, UPI and CDE, the ROC plans to assess after 18 months the need to further adjust the October 2020 Charter.

Starting from October 2020, when the [FSB transferred](#) all governance and oversight responsibilities in relation to the harmonised derivatives identifiers and data elements to the ROC, the ROC has become the IGB for the UTI, UPI and CDE. The ROC has therefore also become the oversight body of the [UPI service provider designated by the FSB](#), the [DSB](#).

#### **a. Setting up appropriate governance arrangements of the DSB**

Since the ROC became the IGB for the UTI, UPI and CDE, there has been good cooperation between the ROC and the DSB to establish appropriate governance arrangements for the UPI system. The FSB had transferred all governance and oversight responsibilities in relation to the harmonised derivatives identifiers and data elements to the ROC, with the expectation that the ROC would establish an appropriately rigorous oversight arrangement of DSB and any potential future service providers and ensure that appropriate contingency arrangements are in place so that - in the event of a failure of a service provider to perform or of de-designation - a smooth transition to a newly designated service provider can occur with limited disruptions.

One key milestone of implementing governance arrangements of the globally harmonised UPI was the ROC and DSB's finalisation of the [Memorandum of Understanding \(MOU\)](#) and the [Notifications Protocol](#) in June 2021. The MOU represents a common understanding of the expected division of responsibilities for overseeing the UPI system.<sup>17</sup> It establishes the general principles for the oversight of the UPI system, determines responsibilities in the development of standards for the UPI system between the ROC and DSB and the management of disagreements between the ROC and DSB. It also includes DSB's commitments to the UPI system, certain information on DSB's policies and procedures, its governance and on its Advisory Committees. It is complemented by a Notification Protocol that sets out how DSB is expected to keep the ROC

<sup>16</sup> The most updated versions of the UTI TG, UPI TG and CDE TG are available on the ROC's website at [https://www.leiroc.org/leiroc\\_gls/index.htm](https://www.leiroc.org/leiroc_gls/index.htm).

<sup>17</sup> The UPI system is composed of the UPI code, the reference data and process of assigning a UPI code to a set of reference data elements, as well as the UPI Reference Data Library.



informed on the set up and the development of UPI system (operations, controls, and governance) and of DSB itself (financial situation, governing bodies, and so on).

The ROC and the DSB are now continuing to work together to establish appropriate contingency arrangements for the UPI System and are expecting to finalise them in the course of 2022.

#### **b. Addressing outstanding issues relevant for the UPI service implementation**

Under the 2020 Charter, the newly established CDIDE performs certain tasks on behalf of the ROC related to DSB's oversight. In this set up phase of the DSB's UPI service, the CDIDE is interacting with DSB on how to best address any outstanding issue that may arise during the implementation of the UPI service, in order to ensure consistency with the UPI TG and the UPI governance requirements (that since June 2021 are also enshrined in the MOU and the Notifications Protocol).

For example, the CDIDE has discussed with DSB:

- [Their fee model consultations and report](#), prior to their publication.
- The desired primary and alternate underlier identifiers in the Reference Data Library.
- The characteristics of a Regulatory User type.
- Certain characteristics and the monitoring of the residual category's template for products that do not fit in any other category.
- The technical questions put forward by the DSB's Advisory Committees, in particular by the [DSB's Product Committee](#).<sup>18</sup>

The ROC and the DSB also conducted in 2021 a joint programme to promote awareness of the use of the UPI. Two industry fora to introduce the main features of the service were held in the first half of 2021, the first one targeted mainly to the Asia Pacific region, and the second one to North and South America. The third one, targeted mainly to Europe and the Rest of the World, is planned for 2022.

#### **c. Revisions to the CDE Technical Guidance**

One of the responsibilities that the October 2020 Charter assigns to the ROC is to “*monitor the evolution of market practices and update the CDE Technical Guidance as necessary in response to evolving market practices, authorities' needs, and the purposes for which the CDE Technical Guidance was developed*” (Article 3 g).

In May 2021 the ROC [consulted publicly](#) on corrections to the CDE TG that were deemed necessary to further improve the standardisation and understanding of the data. The corrections do not change the substance of the data elements, but rather are introduced to eliminate factual errors, align certain format specifications with the ISO 20022 standard, and better clarify the content of the elements by avoiding ambiguities. The ROC issued the final corrections ([CDE Technical Guidance version 2](#)) in September 2021.

The ROC is now considering more substantial changes to the CDE TG that respond to regulators' experience in specifying data elements based on the current CDE TG, and plans to publicly consult on them in the first half of 2022.

<sup>18</sup> The other Advisory Committee being the TAC, the Technology Advisory Committee.



The ROC is in the process of establishing an Industry Representation Group mainly for CDE related matters (but also for UTI related issues and UPI topics that are not in the remit of the DSB's Product Committee). It has solicited interest to join the Derivatives Data Elements Industry Representation Group (DDE IRG) by publishing a call for participants on its website.

**d. Facilitating a consistent implementation of the UTI**

In order to facilitate the consistent implementation of the UTI Technical Guidance across ROC members' jurisdictions, the ROC is preparing some Frequently Asked Questions on certain aspects of the UTI generation waterfall, such as further clarifications on jurisdictions with earlier reporting deadlines.

**e. Expected jurisdictional implementation timelines**

The ROC is also tasked to monitor the implementation of the UTI, UPI and CDE as core data elements across its members' jurisdictions. As of December 2021, the expected timelines for regulatory reporting using the globally harmonized UTI, UPI and CDE in the ROC jurisdictions with major derivatives markets range from the second quarter of 2023 to the first quarter of 2024. The varying expected implementation timelines that exist across these jurisdictions is due to many factors, including the differing public notification requirements, processes and schedules for rulemaking that exist across these jurisdictions, as well as the implementation period required by market participants for their adoption. It is expected that jurisdictions with relatively smaller derivatives markets will align with the larger markets when planning for implementation.