

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Hong Kong Exchanges and Clearing Limited 'A Listing Regime for Companies from Emerging and Innovative Sectors' Consultation Paper

March 2018

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments on the Hong Kong Exchanges and Clearing Limited 'A Listing Regime for Companies from Emerging and Innovative Sectors' Consultation Paper. GLEIF will limit its comments on the GLEIF's views on the use of the Legal Entity Identifier (LEI) in the consultation. Specifically, GLEIF will provide comments in two areas outlined in the consultation paper, Issuers with WVR Structures and Secondary Listings of Qualifying Issuers.

First some background on the LEI.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System (GLEIS) that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose in identity management for legal entities both by the public and private sectors. This includes but is not limited to supply-chain, digital markets, trade finance, and many more.

The LEI initiative is driven by the Financial Stability Board (FSB) and the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of global regulators known as the LEI Regulatory Oversight Committee (LEI ROC), including the Hong Kong Monetary Authority.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization. It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions.

In the area of Issuers with WVR (Weighted Voting Rights) Structures:

GLEIF recommends that HSEK include a requirement for the LEI not only for the broadened listing

regime but to extend to all companies listed on the exchange. Listing on an exchange is an important step in the capital raising an issuance process of a company and the capital market of the listing. Embedding the LEI into the framework for capital markets, beginning with the issuance process, can bring further benefits beginning with the requirement to include the LEI at the outset of the financial instrument issue process, as a required element in prospectuses as the key identifier of issuers, offerors and guarantors. This requirement initially is being seen in the EU for the Prospectus Directive and Regulation.

The LEI also could be used for external validation of the company for non-WVR shareholders. The LEI record would hold the basic entity data for all entities, and for emerging and innovative companies that are children of larger, well-established companies, additionally the relationship record of the LEI would capture these relationships. The LEI records would be publicly available transparent to any external shareholder, including foreign private investors, for investment decision making and analysis.

Overall coverage and data quality of the Global LEI System will benefit as these entities renew and keep current their LEI entity and relationship data.

Finally, for this area, as the LEI is persistent, as an emerging and innovative company undertakes a conversion of WVR to ordinary shares, the LEI remains as a consistent identifier of the company.

In the area of Secondary Listings of Qualifying Issuers:

The consultation paper includes proposals for Mainland Chinese companies that wish to secondarily list in Hong Kong as well as to create a new concessionary route to secondary listing for large Mainland and non-Mainland companies from emerging and innovative companies have primary listings in the US and on other major international exchanges. The LEI could be a common identifier among the Mainland Chinese exchanges, HSEK and the US/other major international exchanges, to identify and track the activity of secondarily listed companies, without the necessity to develop and assign a proprietary identifier.

GLEIF also is looking to leverage the LEI in the digital world by embedding LEIs in digital certificates. This is an important step as ideas to make prospectuses machine readable are being evaluated. Access to the issuance details of financial instruments in a digital way could benefit exchanges and other market infrastructures, and investors as well, with increases in consistency and data quality in listings.