

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Sector Conduct Authority Consultation Paper on the Implementation of Legal Entity Identifiers

October 2018

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Consultation Paper on the Implementation of Legal Entity Identifiers drafted by the Financial Sector Conduct Authority (FSCA).

GLEIF would like to thank FSCA for drafting the Consultation Paper which provides a comprehensive overview of the global LEI system.

GLEIF would like to emphasize that both the quality and accuracy of LEI data will be maintained as reporting entities renew and keep current their LEI entity and relationship data. GLEIF is pleased to observe that FSCA highlighted the importance of renewal of the LEI in response for the question “4. How long does an LEI remain valid?” in FAQ. Within this perspective, GLEIF would like to propose that FSCA consider requiring that only LEIs that are current and renewed will satisfy the reporting obligation for OTC derivatives in draft Conduct Standard of 2018 and other planned LEI projects listed in the Consultation Paper.

GLEIF would like to offer responses for the five questions posed by the FSCA in the Consultation Paper.

- 1) *What are your views on the use of LEIs as unique identification codes for supervisory purposes for credit and financial institution in South-Africa?*

The use of the LEI is expanding as LEI responds to the critical need for a universal system of identifying entities across markets, products, and jurisdictions.

The inclusion of the LEI in regulatory reporting regimes still is an important driver for the adoption and implementation of the LEI, resulting in improving the quality and accuracy of financial data for better risk management. Wide adoption of LEI, a global standard, in South Africa will not only allow regulators to enhance their risk assessment and supervision capabilities for the entities domiciled in the country, but it will also help regulators to assess risks beyond the borders given the relationship and branch information which the LEI reference data provides.

The consultation demonstrates the recognition of the value of using LEIs beyond regulatory reporting purposes, illustrating by example the support of South Africa as a member of the G20 and the Financial Stability Board.

- 2) *For which entities, in your view, should LEIs be requested?*

The ‘Entity Legal Forms (ELF) Code List’, released by GLEIF in November 2017, lists more than 1,600 entity legal forms across more than 50 jurisdictions. In line with the ISO 20275 standard on which the ELF assignment process is based, the ELF Code List assigns a unique code to each entity legal form, all of

which would be in scope for assignment of LEIs.

Integrating ELF codes into the standardized set of reference data on a legal entity available within the Global LEI Index, further enhances the business card information included in each Legal Entity Identifier (LEI) record. The richer data provides an improved user experience because it helps to categorize legal entities and therefore, allows for more insight into the global market place.

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.

- 3) *Do you agree with the list of planned LEI Projects In South-Africa provided in Annexure B? If not provide reasons.*

Being aware of the draft Conduct Standard of 2018, mandating the use of LEI by OTC derivatives providers will be the first significant step for wide-adoption of LEI in South Africa.

In addition to planning to mandate the LEI for OTC derivative providers, GLEIF is pleased to observe that FSCA has listed three planned projects for the implementation of LEI in South Africa. The planned use of the LEI in securities, repos, margin lending transactions, stock loans, buy/sell backs and commodity loans and short-selling reporting will contribute systemic risk surveillance by regulators in South Africa and help to achieve the goals set forth by the G20.

GLEIF would like to highlight that mandating the use of LEI when reporting short-selling transactions to the exchanges will be a first use of the LEI in this context. The use of LEI when reporting short-selling transactions will improve South African regulators to better assess risks associated with market volatility and take necessary preventive measures timely.

GLEIF encourages the FSCA to include LEI as a standard, structured data element in all planned data collections as this will allow the FSCA to better understand market participants' exposures and improve risk assessment capabilities.

- 4) *Do you have any other suggestions for projects to be considered? If yes, Kindly list them and motivate the reason for inclusion.*

GLEIF observes that in some jurisdictions non-derivatives market, foreign exchange market, money market participants are required to obtain LEI for being able to undertake financial transactions in these financial markets. A similar reporting regime for these financial market participants might be gradually considered in South Africa if it is deemed appropriate.

Besides the use of LEI for regulatory purposes, there are an increasing number of use cases in other sectors, that take the adoption of the LEI way beyond the financial sector for the benefit of the public and the private sector.

A comprehensive legal entity identification system based on the LEI could help identify and mitigate systemic risk in markets, track and debar low-performing contractors, improve supply chain efficiency, mitigate non-compliance in Anti-Money Laundering (AML) and Counter Terrorist Financing risks for

cross-border payments, benefit aggregation and analysis of data in statistics, and generally be useful anywhere a government-to-business relationship exists (also for e-government purposes).

For additional suggestions, the LEI could be considered for use by the Financial Intelligence Centre in reporting required for the Anti-Money Laundering and Counter-Terrorism Financing Legislation in the area of Customer Due Diligence to precisely identify legal entities and information regarding business relationships and for monitoring of correspondent banking transactions. The LEI also may be of use for the identifications needs for mobile payment services for which the Rand is used as a settlement currency.

The use of the LEI in legislation by South Africa may also have impact for the region. With South Africa as a leading partner in the South African Development Community (SADC), use of the LEI would benefit the supervisors in South Africa as well as in the other SADC countries.

GLEIF also would like to highlight the recent Agreement between the ANNA (the Association of National Numbering Agencies) and GLEIF to provide the LEI-to-ISIN mapping certification program free of charge and openly available to users without any restrictions. This linking of LEIs to issuers and their financial instruments is major breakthrough in the financial sector as it provides more transparency and will help lowering costs. GLEIF would like to recommend that the FSCA encourage the use of this program in South Africa through the participation of the South African National Numbering Agency.

5) Kindly provide inputs/comments regarding the costs and benefits of the proposed implementation?

The Global LEI system operates on a non-profit cost-recovery-basis according to the principles set out by the Financial Stability Board in 2012. Currently, there are 8 Local Operating Units (LOUs) accredited for assigning LEIs to South African legal entities, including the Strate Pty Ltd.

The private sector could realize massive cost savings of being able to leverage the LEI for legal entity identification throughout their business processes and transactions, with the banks covering LEI issuance and renewals as an integral part of their KYC process. As cited in the joint McKinsey & Company and GLEIF study¹, savings of at least 10 percent of total operations costs for client on boarding and trading processing for banks adopting the LEI are possible. For three use cases, McKinsey predicts potential saving of USD650 million annually.

Operational efficiencies, cost savings, reduction of time to transact and more reliable information can be gained by introducing the LEI into any process that requires identification and verification of a counterparty, while supporting the objective of public authorities to increase transparency in financial markets and beyond.

¹ McKinsey & Company and GLEIF: The Legal Entity Identifier: The Value of the Unique Counterparty ID