

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Hong Kong Securities and Futures Commission (SFC), Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited (FSR) on the Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market in Hong Kong

April 24, 2019

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Hong Kong Securities and Futures Commission (SFC), Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited (FSR) on the Joint Consultation Paper on a Revised Operational Model for Implementing an Uncertificated Securities Market in Hong Kong. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

GLEIF would like to provide response to the Question 9 below:

- Do you have any concerns or comments about our proposal to require registered securities holders to provide a unique identification number to the issuer? If yes, please provide details.

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 spanning all industries and sectors.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). Hong Kong is among the FSB member jurisdictions. 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 currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC). Hong Kong is represented by Mr. Stanley Chan from 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 (ISO). The code connects to key reference information

that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used by all users without limitations.

The LEI offers market participants a one-stop approach to identifying legal entities based on open, high quality and standardized reference data. Broad LEI adoption, therefore, has the potential to take the complexity out of business transactions.

GLEIF welcomed Hong Kong Monetary Authority's decision to require LEIs in Hong Kong for all entities reporting OTC derivatives transactions starting from April 1, 2019. With the anticipated move toward uncertificated securities in Hong Kong, the LEI could be more transparent and precise means of verifying those sitting on either side of a transaction for uncertificated shares as well. Once LEI is required for all legal entity investors, Hong Kong Securities and Futures Commission (SFC) could have more transparent and easier identification of foreign investors in Hong Kong shares.

To create trust in automated transactions, the first step is to be able to offer reliable digital identities in order to allow any party to know the identity of the counterparty. Therefore, GLEIF's current work in incorporating LEI into digital identity solutions could be of interest given Hong Kong's recent move for digitalization of the securities market.

GLEIF and the Association of National Numbering Agencies (ANNA) piloted the first daily open-source relationship file that links newly issued International Securities Identification Numbers (ISINs) and Legal Entity Identifiers (LEIs) on April 4, 2019. The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions, in this case, the issuers of financial instruments. The daily ISIN-to-LEI relationship files are now publicly available on the GLEIF website and currently cover newly issued ISINs. In the longer term there are plans to enhance the ISIN-to-LEI mapping initiative to also cover legacy ISINs. ISIN-to-LEI mapping has been welcomed with great enthusiasm by financial sector participants as interoperability across complimentary identification platforms streamlines entity verification processes and reduces data management costs for data users. That is also of value for issuers in Hong Kong because it will have a positive impact on the tradability of their shares.

Given the opportunities LEI present, GLEIF suggests LEI to be adopted as the unique identification number for identifying all registered securities' holders who are legal entities, regardless of where the company is domiciled. Many of the large investors outside Hong Kong already have an LEI. Obtaining an LEI is easy and straightforward. LEI issuers, also referred to as Local Operating Units (LOUs) supply registration, renewal and other services and they act as the primary interface for legal entities wishing to obtain an LEI. A legal entity is not limited to using an LEI issuer in its own country; instead, it can use the registration services of any LOU that is accredited and qualified to validate LEI registrations within its authorized jurisdiction(s). For the time being, there are 15 accredited LOUs for providing LEI services in Hong Kong.

Identifying all concerned legal entities by their LEIs could provide a complete record of all registered securities' holders and improve data quality and transparency in uncertificated securities market in Hong Kong.

Submitted by:

Stephan Wolf, CEO GLEIF

Stephan.Wolf@gleif.org