

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the International Organization of Securities Commission (IOSCO) Principles for the Regulation and Supervision of Commodity Derivatives Markets Consultation Report

January 2022

Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the International Organization of Securities Commission (IOSCO) Principles for the Regulation and Supervision of Commodity Derivatives Markets Consultation Report. GLEIF will focus its comments on the role of the Legal Entity Identifier (LEI) to enhance transparency, enable data aggregation and reinforce market surveillance in the commodity derivatives market.

GLEIF welcomes the revised Principles that aim to reflect changes, trends, and activities in the commodity derivatives markets over the last decade since the publication of the original Principles in 2011. GLEIF will focus its comments on broader use of the LEI as the enabler of principles related to public disclosures, data collection, monitoring and aggregation, market surveillance, and information sharing.

First, GLEIF agrees that transparency concerning transactions on the commodity derivatives markets is critical to enable better data management. GLEIF is aware that IOSCO has published several reports on Commodity Futures Markets between 2009 and 2011. However, since these reports were published prior to the establishment of the Global LEI System, the usefulness of the LEI for creating more transparent markets is not fleshed out in the Principles. Therefore, GLEIF would like to suggest how the LEI can improve the principles listed below:

1- Principle 8: Public Disclosure. IOSCO suggests that relevant market authorities should publish the aggregate exposures of different classes of large traders, primarily commercial and non-commercial market participants, within the bounds of maintaining anonymity of individual market participants.

GLEIF suggests that for such publications, the LEI should be used to tag large traders. This ensures consistency and transparency in how large traders are identified and also data aggregation.

2- Principle 9: OTC Transparency. IOSCO emphasizes that all IOSCO Members should promote the reporting of OTC derivatives contracts to trade repositories in order to improve transparency, mitigate systemic risk, and protect against market abuse in commodity derivatives markets. The LEI is an important component of the post-global financial crisis reforms. Leveraging the LEI in mandates helps decrease counterparty risk and increase transparency of derivative transactions.

Some Financial Stability Board jurisdictions, such as the Securities and Board of India under its KYC requirements has specifically [mandated](#) LEI code for Eligible Foreign Entities in the commodity derivatives market to identify entities that might cause price uncertainty in Indian commodity markets. GLEIF agrees that IOSCO members should continue to promote the importance and benefits of trade reporting to ensure implementation beyond the FSB/G20 member jurisdictions. To create awareness

across IOSCO members, GLEIF recommends IOSCO update its reports published before 2012 with recent developments in data harmonization and standardization.

3- Principle 11: Monitoring, Collecting and Analyzing Information. GLEIF agrees that effective monitoring of orders and electronic transactions, collection, and analysis requires standardization across markets. Data is a vital tool for maintaining fair and orderly markets, ensuring market integrity and detecting customer and market abuses. IOSCO states that it is challenging to standardize data collected across markets initially but would, in due course, foster improved cross-border surveillance of linked international and domestic markets.

GLEIF suggests that IOSCO templates be updated to include an explicit recommendation to use global identifiers such as the LEI, UTI, or UPI. This would support data standardization efforts across borders. It would allow a large amount of data to be processed and analyzed in almost real-time, and market abuses could be detected in due course.

4- Principle 14: Large Positions. Authorities must be aware of large positions and their owners (including positions owned or controlled by a third party on behalf of such true owner) and may need additional information on related OTC and physical market positions.

A large corporate can have multiple trading operations trading independently for different purposes (e.g., commercial hedging, proprietary trading), but all those positions are under the common ownership of this entity. Therefore, the unique and unambiguous identification of an entity via the LEI is of great importance for data aggregation and risk assessment.

The consultation paper provides an example where a broker's direct client (i.e., first customer level) signs the account documentation but in reality may be operating on behalf of an unknown person who controls the account (the beneficial owner).

GLEIF suggests that requiring the LEI of the customer would allow regulators to collect both direct and ultimate accounting consolidation parent information. While accounting consolidation parent information is not equivalent to beneficial ownership information, the LEI provides a powerful foundation to identify corporate structures.

Therefore, we suggest IOSCO considers an amendment on the following as added in red color: *"To enable efficient identification of positions on an aggregated basis, relevant Market Authorities should be able to access information as to **the LEI and** name of the owner of each reportable position"*.

A recent [blog](#) published by the Banque de France highlights that the LEI can be quite instrumental to monitor groups' ownership structure of large entities in offshore financial centres, which offer a high degree of financial secrecy and thereby facilitate tax evasion and the financing of illicit activities.

5- Principle 19: Framework for Addressing Multi-Market Abusive Trading and Powers and Capacity to Respond to Market Abuse. It is stated in the consultation paper that it is difficult to successfully identify and prosecute manipulation and other abusive conduct in commodity derivatives markets. are caused by difficulty in identifying

GLEIF suggests that standardizing how market participants are identified would substantially reduce efforts to monitor for market abuse as manipulative schemes often involve multiple markets and participants.

6- Principle 21: Information Sharing. GLEIF agrees that Market Authorities must be prepared and legally empowered to share such information with their regulatory counterparts, both domestic and foreign, in a timely manner.

However, GLEIF would like to emphasize that a prerequisite of timely and smooth information exchange is the use of comparable datasets and templates with standardized information. Adding the LEI to information sharing templates can improve the information sharing process and enhance the ability to identify abusive trade market participants more quickly and efficiently.

With all these benefits that the LEI presents for robust and transparent commodity derivatives markets, GLEIF invites IOSCO to add the LEI in its final Guidelines and make a reference to the LEI in other reports, as available.