

November 16, 2015

To the LEI Regulatory Oversight Committee

Japanese Bankers Association

**Comments on “Consultation document on including data  
on branches in the Global LEI System”**

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on “Consultation document on including data on branches in the Global LEI System” released on October 19, 2015 by the LEI Regulatory Oversight Committee.

We respectfully expect that the comments in attached paper will contribute to your further discussion on this issue.

## **Consultation Document: Including data on branches in the Global LEI System**

### **Annex: Questionnaire**

Please type your answers into the attached questionnaire and send it to leiroc@bis.org by COB 16 November 2015. Where possible, please specify the reasons for the preferences expressed or the details of any trade-offs you see.

The responses to the questionnaire will be shared within the ROC membership and with the GLEIF. Neither participants' identity nor any specifically identified reference to their opinion will be made public without their express consent. However, the responses themselves may be quoted on an anonymised basis. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

| <b>Identification of the respondent and confidentiality</b>   |
|---|
| <b>Respondent: Japanese Bankers Association</b>   |
| <b>Name and email of a contact person:</b>  |
| <input type="checkbox"/> <b>Please check this box if you object to any of the responses below being quoted on an anonymised basis, and specify here any sections or questions to which this objection applies</b>   |
| <i>Please specify here as needed which response(s) should not be quoted:</i>  |
| <b>1 Uses of international branch information</b>   |
| <b>1.1 What regulatory or private sector uses could benefit from allowing international branches to obtain LEIs?</b>  |
| <i>We consider that private sector users will not benefit from allowing international branches to obtain LEIs and cannot assume any needs for them to use such. This proposed approach would only increase management costs.</i>  |
| <i>To our understanding, LEIs have been discussed based on a fundamental concept that LEIs will be granted to parties engaged in financial transactions (on a basis of legal entities excluding natural persons).</i>   |
| <i>While we can understand the ROC's decision to limit the eligibility to international branches in light of convenience for authorities, related to data collection and cross-border transactions as described in page 2 of the consultation document, assigning a separate LEI to those international branches that are not engaged in a transaction as a legal entity would be inconsistent with the above-mentioned original concept.</i> |

*Besides, this proposed approach would require a considerable amount of additional costs. Specifically, as the existence of multiple LEIs within a same legal entity differs from the original concept of LEIs, a framework will need to be re-established, giving rise to a significant increase in system development/modification efforts and costs. Further, internationally active companies may result in obtaining an LEI not only for the head office but also for their international branches in each jurisdiction. As a result, not only the head office but also branches will be subject to management and system-related burdens, presumably increasing burdens and costs for the users as LEI registrant. Therefore, from the cost perspectives, assignment of LEIs to international branches should be avoided or at least should be discussed and assessed with considerable care.*

*Even when exploring the possibility of uses by financial institutions, the use will be limited to grouping on a jurisdiction-by-jurisdiction basis for credit management purposes because only one LEI would be issued per jurisdiction, instead of per international branch. Given that most of financial institutions already have in place a certain framework to manage counterparty exposures by jurisdiction, the merit of such a use would be very limited.*

*Regulatory uses for resolution purposes can be understood. Nevertheless, since applicable laws and regulations differ across jurisdictions, assignment of a separate LEI to international branches would provide only a limited benefit in substance. Further, the consultation document indicates that LEIs would be issued to international branches based on regulatory registration in each jurisdiction, which in itself demonstrates duplicate management. In this view, it is considered that a new numbering system of LEIs to international branches is unnecessary.*

*Alternatively, it is considered sufficient to establish a framework whereby relevant authorities exchange information or to introduce common numbers without involving private sectors. Moreover, it is difficult to consider the needs to use LEIs of international branches for resolution purposes unless there is a proof that the existing recovery and resolution planning (RRP) is incomplete for managing branches or there is an official request from authorities for a new international numbering system related to resolutions in each jurisdiction.*

*Overall, changes to the treatment of LEIs which are considered to be unnecessary for most of private sectors are being proposed one after another, resulting in an unclear picture as a whole and of the future. Therefore, it is becoming significantly difficult to take, or even make business decisions on, relevant approaches including system developments; and therefore entities are rather getting more disincentivised to work on LEIs. Further, entities will be unable to undertake a full-fledged initiative to address LEIs and instead will have to take multiple tentative approaches, which may rather increase risks.*

1.2 Are there complications that you envision from allowing international branches into the GLEIS, notably in view of possible breaches or risk of confusion with regard to the principle of exclusivity? If so, how would you propose to address them?

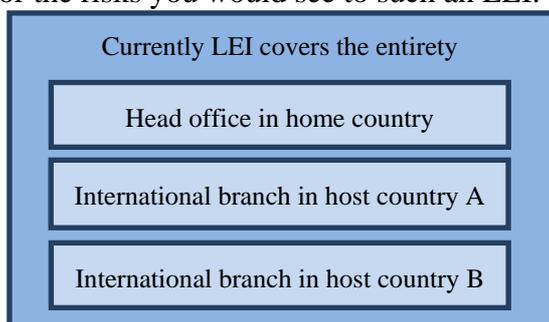
*Please refer to our answer to the question 1.1.*

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|---|--|
| <b>2</b>  | <b>Conditions for issuing LEIs to branches</b> |
| <p>2.1 Are the conditions described in this consultation sufficiently restrictive or too restrictive? Please explain your answer and offer alternative suggestions. Be specific about what you would suggest adding or removing.</p>  |  |
| <p><i>As described in our answer to the question 1.1, issuance of LEIs to branches should be avoided.</i></p> <p><i>Assuming that it is determined to issue LEIs to branches, it should be regarded as an exceptional treatment by setting more severe conditions, such as the international branch can be deemed as “an entity that is completely legally separate and independent from the head office” (e.g. the branch is treated legally separately from the head office when the head office defaults).</i></p> |  |
| <p>2.2 Should an international branch’s head office be required to authorise that an international branch can obtain an LEI, prior to issuance of an LEI to the branch? Alternatively, should the GLEIS envisage a system where the contact person(s) of the headquarter entity, as recorded by the relevant LOU, would simply be notified that a request by one of its international branches was made? Please explain the reasons for your preference.</p>  |  |
| <p><i>Issuance of LEIs to branches should be avoided.</i></p> <p><i>Assuming that it is determined to issue LEIs to branches, either of the approaches mentioned in this question may result in increased system workload and costs for establishing an LEI framework or may impose increased workload and costs on internationally active companies. Therefore, a careful consideration would be needed.</i></p>   |  |
| <p>2.3 In addition to host country business registries, could the registration in a business registry held in the home country also be accepted in the GLEIS as an acceptable means to provide certainty on the existence of an international branch as a separate entity in the host country, especially where the establishment of a branch involves both home and host authorities, for instance in the banking sector?</p>  |  |
| <p><i>If LEIs are issued to branches, it would be necessary to develop an identification process as described in the consultation document. However, it is our concern that this would increase workload and costs as discussed in our answer to the question 2.2.</i></p>  |  |
| <p>2.4 What other factors should the ROC take into consideration?</p>   |  |
| <p><i>The ROC should immediately perform a cost-benefit analysis. The proposal would only give rise to confusion and would not produce any benefits.</i></p>  |  |
| <b>3</b>  | <b>Other</b>                                   |
| <p>3.1 Do you have any comment on the definition of international branches on page 1 of this consultation document?</p>   |  |

Please refer to our answer to the question 2.1

We do not see how LEIs can be issued for branches; it seems to contradict the guidance issued (e.g. by the Commodity Futures Trading Commission (CFTC)) that a branch is not a separate legal entity. In addition, it is not clear whether the term “branch” represents a booking branch or trading branch. There are many cases in which a booking branch and trading branch are different. Therefore, if branches are to be assigned LEIs, it would be necessary to clearly define which LEI should be used.

3.1 Do you think it should also be possible to assign an LEI to the “home activity excluding foreign branches,” for instance to avoid that the “headquarter-LEI” be used for two competing purposes: (i) identifying the entire legal person (home country activity plus foreign branches) and (ii) identifying only the home country activity? Please describe the uses or the risks you would see to such an LEI.



*Q3.1 seems to imply that it would have to be all or nothing - i.e. all firm's international branches have their own LEI or none of them do.*

*This would not fit in the instance where some regulators mandate the use of the branch LEI and others do not (if they are going to go down that inconsistency route).*

*Also, if in some jurisdictions the branches do not qualify as ‘international branches’ (i.e. in the cases where they are not registered on a local business registry and therefore cannot obtain their own LEI), the proposal is unclear as to whether the entity-level LEI should be used for transactions conducted by branches which cannot obtain their own LEI, while the branch LEI is used for those transactions conducted by branches granted with an LEI. It seems there is a potential that this proposal could undermine the benefit of creating a globally consistent LEI system.*

3.2 **a)** Because the existence of a branch is so closely linked to its head office, can it be considered that the LEI of the branch LEI would necessarily expire when the head office LEI does, or are there cases where the branch would be considered in the host jurisdiction to survive, for instance, to a dissolution of the head office entity? **b)** Similarly, in case a branch has been acquired by another legal entity, should it keep its LEI and the associated entity information be updated with the LEI of the new head office? **c)** If a branch is incorporated into a distinct legal person, should the LEI become inactive, be marked as a “CORPORATE\_ACTION” and a successor entity LEI mentioned, or should the entity keep its LEI with a mere update of the legal form?

*Considering whether to expire the branch LEI when the LEI of its head office does so would mean that both the branch and its head office belong to the same legal entity. It is*

*not appropriate to assign a separate LEI to such a branch in the first place.*

3.3 Is there anything important at this stage related to branches that has been omitted from this consultation or any other comment or suggestion you would like to make?

*We would like to highlight that, as mentioned previously and subsequently, there are many practical concerns regarding the introduction of the branch LEI within the same coding framework as the entity-level LEI. Hence, when you discuss on how to use the branch LEI, it would be appropriate if you treat branch information separately from entity information and implement trade reporting requirements accordingly.*

*Given these concerns and the fact that the purpose of this introduction, including trade reporting and supervision, seems to focus mainly on financial institutions, we would like to propose that an alternative method, adding a field of “Swift BIC Code” which is already used by financial institutions, might be more practical to identify branches than assigning an LEI to branches.*

*<Concerns about introduction of the branch LEI>*

- (1) **Cost:** If each branch as well as the head office is required to bear cost for issuance and renewal of LEI, there would be a huge increase in cost in addition to the cost for systems development.*
- (2) **LEI management:** In case the renewal dates of LEIs differ across branches, it would be unnecessarily burdensome to manage the renewal dates of all LEIs across the entity especially when they are issued by different LOUs. To address such a case, it would be required to consider mandating that the issuer of the headquarter-LEI must synchronise renewal dates of LEIs to all child branches regardless of their location.*
- (3) **Discrepancy of reporting obligation between jurisdictions:** The ROC announced that it would not be compulsory for international branches to obtain their own LEIs but local regulators could mandate it in relation to reporting requirements in their jurisdiction. This discrepancy would result in unnecessary confusion and practical difficulties. In the cases where, for example, Jurisdiction A requires the branch LEI while Jurisdiction B does not or Jurisdiction C allows both entity-level LEIs and branch-level LEIs, several mixed LEIs for an entity and branches will be used for trade reporting. This may undermine data aggregation by authorities and may further increase managerial burdens of, or may confuse, entities obtaining LEIs due to coexistence of multiple LEIs.*
- (4) **Retrospective reporting:** If some jurisdiction requires branch LEIs in the trade reporting, entities may be required to re-report all previously reported transactions. If not, it raises another issue of how the continuity of data can be ensured. Given that systems may not be able to manage dual reporting (e.g. old transactions still using entity-level LEIs while new transactions using branch LEIs), as well as transaction volumes subject to TR reporting are huge, re-reporting of transaction data retrospectively would considerably be burdensome and complex.*

**Thank you for participating in this consultation.**