

October 19, 2015

To the LEI Regulatory Oversight Committee

Japanese Bankers Association

Comments on “Consultation document on collecting data on direct and ultimate parents of legal entities 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 collecting data on direct and ultimate parents of legal entities in the Global LEI System” released on September 7, 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 on collecting data on direct and ultimate parents of legal entities in the Global LEI System

Annex: Questionnaire

Please type your answers into the questionnaire below and send it to leiroc@bis.org by close of business 19 October 2015. Where possible, please specify the reasons for the preferences expressed or the details of any trade-offs you see. The questions are organized along the sections of the consultation document.

The responses to the survey 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.

Identification of the respondent and confidentiality

Respondent: Japanese Bankers Association

Name and email of a contact person: Ryutaro HATASHITA (Mr.)

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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

Please specify here as needed which response(s) should not be quoted:

1 Uses of organization relationship information

1.1 Are there important potential future uses of any type of relationship data that would pose additional requirements that should be taken into account when designing the initial implementation of relationship data?

A sufficient and appropriate framework is already established under the current legal regime in respective jurisdictions for important data such as corporate registration and direct accounting consolidating parent. Therefore, appended information of LEIs would only serve as reference information, rather than to complement, reinforce or otherwise substitute the important data. Similarly, group-based credit information, including data on parent entities, which the consultation document seeks to capture through data on parent entities, is already available under the current legal regime and system. Additionally, in the absence of globally common accounting regime, the use of LEIs would not ensure the accuracy including the completeness and timeliness. Further, with regard to the "aggregation" which is the objective of requiring addition of data on parent entities, in most cases, the mechanism such as a code structure is already established for information

necessary in each jurisdiction, industry and company.

Given the above situation, while the use of LEIs as a single code has certain benefits such as facilitating data management, a burden arising from establishing a framework currently being considered seems to be too heavy compared to the fact that in current situation, relationship data may only be deemed as reference information lacking completeness and accuracy. Accordingly, due consideration needs to be paid from a perspective of cost-benefit.

Therefore, data to be registered for parent entities should be limited to minimum data (such as the name and address of parent) taking into account the burden imposed on registrants. It will also facilitate smooth implementation of LEIs.

2 Definition of parent relationships

2.1. Do accounting definitions provide the best basis for identifying data to support the purpose of the GLEIS as discussed, for example, in paragraph 2.2.1, and as opposed to, for example, legal control? If you suggest another basis, such as legal control, please explain how you would define the basis and what standards could be referenced for defining the basis.

2.2. Are there known differences among existing accounting standards that could be expected to have material effects on the definition of parents proposed in this section?

Given that the definition of parent differs across accounting standards in each jurisdiction, the only option to be adopted is the one proposed in this consultation document, i.e. “on the local accounting definition of control or consolidation applying to this entity”, instead of adopting the definition under the accounting standards of jurisdiction in which LOUs are located.

2.3. Do you have any comments on the initial definitions of relationships proposed, particularly in terms of their clarity for implementation and validation)?

With a view to simplifying and harmonising the validation mechanism, data on parent entities to be registered should be limited to those currently being disclosed. The frequency of update should be the same frequency as that required for filing securities reports under applicable laws and regulations in Japan.

2.4. For future phases of Level 2 data, should the priority be to add other definitions of parents (e.g.: scope of regulatory consolidation applying to specific sectors such as banks or insurance companies; legal control), or to add other relationships as defined in accounting standards (e.g.: joint venture/joint arrangements, significant influence; interests in unconsolidated structured entities)?

Assuming that additional information on parent relationship is disclosed, it is crucial to promote this process within the scope of accounting and disclosure standards in each jurisdiction.

In adding information, it is necessary to fully assess homogeneity of information because the treatment of consolidation differs across regulations and accounting standards. This also needs to be considered in a manner to ensure alignment with other global discussions, for example, by prioritising useful elements in data aggregation under the Basel regulation.

In the future expansion phase in which benefits arising from the use of LEIs outweighs costs, maintaining the definition of affiliates under the market regulations as Level 2 data would be beneficial for counterparty management purposes. (For example, it would be beneficial, for its own group, to maintain information about “flagged entities subject to inter-affiliate transactions” that are generally exempted from market regulations in respective jurisdiction; and for the counterparty’s group, to maintain information about “flagged entities subject to initial margin exchange requirements”).

2.4 Are there other, alternative approaches to recording relationships -- other than the one described here based on an accounting framework -- that you believe would be preferable for the initial phase of data collection?

We agree with the proposed approach to apply the accounting framework since the use of framework other than already established one would considerably increase a burden.

3 Data collection, validation and updates

3.1 Considering both efficiency and data quality, do you agree with the preliminary conclusion that reporting of parent information by the “child” entity, combined with some option for the parent to report, would be the best approach, given that not all parents report to the LEI system?

We agree with the proposed approach to report and register parent information by the child entity which possesses an LEI, to the extent of publically available information and registered accounting-based information.

However, from a perspective of usefulness of LEI, entities have only limited incentive to use the data based on public information. On the other hand, if non-public information is to be included, current accounting and legal regimes in respective jurisdictions might be subjected to a fundamental change. Consequently, it is requested to limit parent information to the extent available from public official sources, considering the burden and impact arising from including disclosure items that are not currently required.

3.2 If both members of parent-child relationships have LEIs and both report, how should reporting about common relationships be reconciled? More generally, should the system seek to reconcile the network structure of relationships determined from the accumulation of information on direct parents?

The accuracy of parent information reported by both parent and child entities should be reconciled by LOUs in the Validation phase based on disclosed information.

Incorporating the reconciliation feature into the system would lead to an excessive cost burden. Therefore, if matching between the parent and child data could not be carried out, an alternative option would be to reserve validation of parent information only (partial validation).

3.3. In your view, are the sources proposed in section 3.1 appropriate for validating data on relationships based on accounting definitions? Should the type of source used to validate the data be disclosed in the GLEIS (if so, how granular should the disclosure be)? What, if any, other aspects of data provenance should be disclosed?

Consolidated financial information is highly reliable in respective jurisdictions, and hence

<p><i>is appropriate for the source of validation by LOUs.</i></p> <p><i>We support the approach to perform validation of parent information under the accounting and disclosure standards in respective jurisdictions.</i></p>
<p>3.4 To what extent in the first phase of Level 2 data collection should the GLEIS aspire to incorporate changes in a relationship that happen or become known between publication points in the accounting cycle of an entity? Would it be appropriate to use different sources to validate a relationship at different points in time? Would it be appropriate to record such information based on a statement by the entity, provided it is appropriately flagged and that validation occurs at the next accounting cycle or the next annual revalidation?</p>
<p><i>Considering that LEIs, including information on parent entities, are in principle disclosed, the frequency of update should not be real time. Rather, the frequency should be consistent with that is required under the disclosure standards in the accounting standards established in respective jurisdictions (securities report, in the case of Japan).</i></p> <p><i>If this treatment is not applied, real-time update may violate requirements set forth in applicable laws and regulations related to disclosure standards in respective jurisdictions. The robustness and consistency of validation based on other determination standards will not be ensured, thereby increasing complication and burden. Therefore, requiring real-time update should be avoided.</i></p>
<p>3.5. What is the best strategy, in your view, for maximizing coverage and data quality for Level 2 data? How do you assess the costs for registrants to provide this information (independently from the fee charged by LOUs), and the benefits for registrants and other users? How might the incentives of entities be shaped in order to encourage participation?</p>
<p><i>Assuming that it is necessary to promote the use of LEIs for operational purposes (including regulatory reporting), facilitation of use of LEI, combined with the data development, would be a considerable burden for financial institutions. Accordingly, from a cost-benefit perspective, a more feasible implementation which enables minimization of cost burden of LEI should be explored.</i></p> <p><i>To ensure the quality of LEI data, it is necessary to develop rules for legal entities which obtain an LEI register, update and manage the LEIs obtained.</i></p> <p><i>Additionally, the enhancement of usability (i.e. how registered information can be used) needs to be considered in order to increase market participants' incentive to register information in the phase after LEIs have become widely used. Specific future options would include enhancing data elements, developing a system interface to provide Level 1 and 2 data to each entity, and providing information for matching with non-LEI identification numbers (such as TIN and GIIN in U.S. and Corporate Number in Japan).</i></p>
<p>4 Data organisation</p>
<p>4.1. Do you have suggestions on the content or high-level arrangement of Level 2 data and any supporting metadata?</p>
<p>N/A</p>
<p>4.2. Do you have suggestions on a particular high-level approach or necessary conditions</p>

for organizing the representation of the history of Level 2 data?
N/A
5 Business model for relationship data in the GLEIS
5.1. Should the implementation of Level 2 data take place through the LOUs following procedures similar to the ones applying for Level 1 data, or should other possibilities be considered?
<i>Given that the validation is carried out in accordance with accounting standards in respective jurisdictions, the implementation of Level 2 data should take place through the LOUs as proposed. It is not feasible for an LOU in a jurisdiction other than where an entity possessing an LEI is located or GLIEF to carry out such implementation (due to language barrier and other obstacles).</i>
6 Conclusion and next steps
6.2. Is there anything important at this stage that has been omitted from the consultation or any other comment or suggestion you would like to make?
<i>The title of 3.3.1 states “to which parent relationships should be required”. However, adding information on parents should not be mandated from a cost-benefit perspective, given that, under current situations, benefits of requiring additional information is limited, related financial regulations and market practice differ across jurisdictions, and the impact of disclosing information on parents may differ across industries and financial institutions.</i>
<i>In this view, c) is an integral factor for the reasons for declining providing information on parent and more flexible and broader reasons should be considered.</i>
<i>For the same reasons, we request not to require the parent to obtain an LEI only for the reason that this is necessary for the child entity to register parent information.</i>
<i>As future considerations, if the current “parent-child relationship information” is included in the elements required to be reported for transaction reporting, it is requested to give due considerations to timeline as well as a burden for developing a framework by the financial institutions, including systems development. Please also note that systems development can only be initiated after finalization of common data format (CDF).</i>
<i>Similarly, as a future vision, in the phase of considering specific examples for using Level 2 data, information on transactions could be aggregated for each financial institution group, by combining Level 2 data and transaction report data. In achieving this, there may be two options: (i) adding information on parents as elements of transaction report, and (ii) identifying a parent from LEIs of parties to the transaction (in an ex-post manner). Since (i) would impose an excessive burden on financial institutions, it is requested to facilitate the use of data by the option (ii).</i>

Thank you for participating in this consultation.