

Including data on international/foreign branches in the Global LEI System

Statement of purpose

Following the public consultation¹ conducted between 19 October and 16 November 2015, the Regulatory Oversight Committee (ROC) at its Plenary Meetings in February and June 2016 approved the following approach to incorporating data on some types of foreign branches into the Global LEI System (GLEIS). This policy document sets forth the policy design, definitions, and conditions for issuance of LEIs for international branches (also known as foreign branches and hereafter referred to as “international branches”). Implementation is expected to start in early 2017, subject to ROC concurrence with an appropriate framework being established to ensure that the conditions described in this document are met. Once the framework is established, the ROC will communicate a more precise implementation date to stakeholders. This approach is responsive to the mandate to make the GLEIS as open and inclusive as possible, and therefore more useful for both regulators and financial market participants, while also maintaining data integrity and upholding the founding principles of the GLEIS².

The ROC defines through this policy document a standard³ for the Global LEI System that will allow LEIs to be issued to branches under the following conditions:

1. The branch is a lead international branch or international branch network outside of the head office’s jurisdiction. For purposes of this policy document, jurisdiction is synonymous with “country”⁴ and a lead international branch or international branch network outside of the head office’s jurisdiction is defined as a non-incorporated establishment of a head office legal entity, when this establishment is located in a separate jurisdiction from the jurisdiction in which the head office legal entity is located, i.e., in a host jurisdiction outside of its home jurisdiction. Under this definition, an establishment may consist of a single office or other business premises, or of several offices (i.e., a branch network) in different locations of the same host jurisdiction: even in the latter case, only one LEI would be issued per host jurisdiction, essentially

¹ The “Consultation document on including data on branches in the Global LEI System,” can be found at http://www.leiroc.org/publications/gls/lou_20151019-1.pdf.

² The founding principles of the GLEIS are established in the ROC Charter (http://www.leiroc.org/publications/gls/roc_20121105.pdf) and “A Global Legal Entity Identifier for Financial Markets,” Financial Stability Board-FSB, June 2012 (http://www.leiroc.org/publications/gls/roc_20120608.pdf). Further references to FSB recommendations pertain to the recommendations from the June 2012 report.

³ Policy standards, as foreseen in FSB Recommendation 11, are defined by the ROC pursuant to Article 2 of the ROC Charter. Article 30 of the Global LEI Foundation (GLEIF) Statutes (<https://www.gleif.org/en/about/governance/statutes#>) specifies that the ROC defines the framework, principles and standards under which the GLEIS shall operate, in accordance with the purpose clause of the foundation. The GLEIF defines in turn the operational and technical standards ensuring consistent implementation by the Local Operating Units of the GLEIS.

⁴ Unless specified otherwise in future guidance, countries refer to the ISO 3166 country list. It does not in all cases refer to a territorial entity that is a state as understood by international law and practice.

amounting to, “one country-one LEI.” Unlike foreign subsidiaries of a parent entity, which are separately incorporated or organised under the laws of the host jurisdictions, an international branch, as defined here, is legally dependent on the head office legal entity and cannot exist without its head office legal entity;

2. The branch is registered in a publicly accessible local business registry or local regulatory registry or tax registry;
3. The head office (or headquarters) of the branch already has an LEI so that the LEI of the head office entity can always be associated with the LEI of the international branch in the GLEIS; and
4. The reference data of the branch in the LEI system always specifies that the entity is a branch, in a way that is easily accessible to users.

For purposes of LEI issuance, international branches satisfying the conditions given are taken to constitute a type of legal entity under host country rules or regulations.

The ROC recognizes that this approach does not cover all branch identification needs. However, it should be noted that this approach does not preclude expanding the GLEIS in some way in the future to include additional branch data after learning from the experience gained through this implementation. As the ROC considers its future work program, it will continue to evaluate options for including additional entity information in the GLEIS and may conduct a public consultation on these topics at a later date.

Motivation

The ROC’s motivation for proposing a policy standard to the effect of including data on international branches in the GLEIS is driven by both public sector and private sector needs. First, the responsibilities for prudential supervision of international branches are generally split between the supervisory authority where the entity is headquartered and the regulatory authority of the host jurisdiction in which the branch is located. This construct frequently results in multiple specific reporting requirements or transparency obligations for international branches, for which a separate identifier is already necessary⁵. Furthermore, a number of future regulatory reporting requirements⁶ envisage some form of reporting on branch activities, and a branch LEI could support a common approach across jurisdictions. Data on international branches may also be necessary for micro- as well as macro-prudential supervision.

⁵ For instance, according to Article 101(2) of the Capital Requirements Regulation (CRR), branches, which form a significant part of the European Union (EU) banking market, may be directly subject to supervisory reporting requirements. However, when branches are requested to report supervisory data they cannot be identified using a Legal Entity Identifier. After having investigated various options, EU Competent Authorities are currently dealing with this issue using alternative identifiers similar to the LEI but without the benefits of the GLEIS framework for the issuance, maintenance and access of universal, unique and public identifiers (for example, the European Central Bank (ECB) will identify branches using as a unique identifier: ISO country code + national ID provided by the National Competent Authority).

⁶ Examples include future reporting requirements by the U.S. Securities and Exchange Commission (SEC) or the Hong Kong Monetary Authority.

Secondly, assigning LEIs to international branches will help to facilitate orderly resolutions for entities that have cross-border business activities, in the event of a failure. International branches that may not have a separate status from their head office during normal times may be treated as separate and distinct legal entities during times of financial distress. Different resolution or insolvency regimes may apply to the international branch, which may result in different priorities among creditor claims for the branch's assets compared to its head office's assets, and specific measures such as "ring fencing" may be applied to the branch⁷. Further, deposits placed in an international branch may be covered by deposit insurance rules that differ from the rules applicable to its head office. These conditions require the ability to easily identify, even in normal times, the international branches of a foreign bank.

For the uses discussed above, identifying a local branch with its head office's LEI may be adequate at a purely domestic level, but such an approach is frequently inadequate in a cross-border context. The ROC is of the view that an LEI for international branches could support the identification of transactions reported by different branches, when authorities need to be able to distinguish activity occurring in different jurisdictions, and more generally would offer the benefits of a universal identifier to support information exchange on branch activities between the home and host supervisors of international financial institutions.

Further, LEIs for international branches may be relevant for cooperation in the tax area, market structure analysis, and statistical reporting, where it could offer similar benefits. Facilitating identification of international branch activities could in addition help market participants to measure, monitor, and mitigate their risks, by supporting a more granular tracking of their relationships with different branches of the same counterparty in several countries, while preserving the capacity to aggregate risk positions and financial data of all international branches with those of the head office, given the condition that the LEI of the head office entity should always be associated with the LEI of the international branch.

The introduction of international branches into the GLEIS is not meant to influence regulatory reporting policies or market monitoring goals and policies, especially where the focus is on the legal entity as a whole (home office activity plus its international branches). The ROC considers that granting LEIs to international branches would nevertheless provide a valuable "building block"⁸ to additionally contribute to and facilitate many financial stability objectives, including

⁷ See for instance Basel Committee on Banking Supervision, *Report and Recommendations of the Cross-border Bank Resolution Group*, March 2010 (<http://www.bis.org/publ/bcbs169.pdf>), for a description of the regulatory requirements that may be imposed on branches by host countries in normal times (such as asset maintenance, capital or liquidity requirements) and examples of ring fencing and other actions taken during the 2008 financial crisis against bank branches, such as the prohibition of making payments and the appointment of administrators for the different branches of a bank. Concerning the need to identify international branches to support resolution activities, see also, in the United States, 31 CFR Part 148, "Qualified Financial Contracts Recordkeeping Related to Orderly Liquidation Authority; Proposed Rule," 80 Fed. Reg. 966, January 7, 2015 (<http://www.gpo.gov/fdsys/pkg/FR-2015-01-07/pdf/2014-30734.pdf>).

⁸ The GLEIS is designed to evolve over time in response to the needs of the regulatory community and private sector users. Flexibility was built into the GLEIS to allow it to expand, evolve, and adapt to accommodate innovations in financial markets. The ROC encourages widespread adoption of LEIs and consequently supports that the idea that the term "legal entities" for the purpose of obtaining LEIs should be broadly defined, in order to ensure that all relevant entities can apply now and in the future as financial markets evolve and adapt. The ROC believes this approach is consistent with the GLEIS founding principles and the ISO 17442:2012 standard.

but not limited to improved risk management in firms, better assessment of micro- and macro-prudential risks, and facilitation of the orderly resolution of cross-border entities.

Altering or adding an extension to the LEI of the head office was considered by the ROC as a means of designating branches, but it was rejected because it would require handling different LEI formats in reporting. This approach would also violate the principle within the Global LEI System that there should be no embedded meaning in the LEI itself and that relevant information should be found in the reference data associated with the LEI.

Proposed Approach

The ROC defines through this policy document a standard for the Global LEI System that will allow LEIs to be issued to branches under the following conditions:

1. The branch is an international branch;
2. The branch is registered in a publicly accessible local business registry or local regulatory registry or tax registry;
3. The head office (or headquarters) of the branch already has an LEI; and
4. The reference data of the branch always specifies that the entity is a branch.

Condition 1: Limiting eligibility to international branches

For purposes of this policy document, an international branch is defined as stated on page 1. For purposes of LEI issuance, international branches satisfying the conditions given are taken to constitute a type of legal entity under host country rules or regulations. Eligibility of branches should be limited to international branches for several reasons: There is an established need to identify international branches as separate and distinct entities from a head office, as described above. Domestic branches are generally not treated as separate legal entities and, for instance, their assets generally are not treated differently in liquidation. Accordingly, particular care is needed to avoid violations of the exclusivity principle of the Global LEI System, under which no more than one LEI shall be assigned to any legal entity⁹. For the same reasons and consistent with the definition of branches proposed here, even when a company or other eligible entity has several offices in different geographic locations within a host jurisdiction, only one LEI would be issued per host jurisdiction¹⁰.

⁹ See FSB Recommendation 8, in the FSB report “A Global Legal Entity Identifier for Financial Markets,” referenced in footnote 1 (http://www.lei.roc.org/publications/gls/roc_20120608.pdf).

¹⁰ Unless specified otherwise in future guidance, countries refer to the ISO 3166 country list. It does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As regards federal states and the case of distinct territories, what constitutes a separate jurisdiction for the purposes of LEI issuance may be specified as needed in future guidance, taking into account the opinion of local authorities as well as for instance the existence of a distinct treatment of assets in liquidation, and whether offices located in these different subdivisions or territories are treated as different legal entities for a number of purposes (e.g., taxes, financial regulation, corporate law, registration requirements, etc.).

When several branches are recorded in the host jurisdiction in the accepted registries defined under the second condition below, the LEI will be issued to the lead branch, if identified in the host jurisdiction¹¹, or otherwise to the network of branches that exist in the host jurisdiction. The network of branches will be considered as a single entity for purposes of LEI issuance. The relevant branches within the branch network shall determine a lead branch for the purposes of the LEI reference data. The role of the head office is defined under the third condition below.

The ROC recognizes that this approach does not cover all branch identification needs. However, it should be noted that this approach does not preclude expanding the GLEIS in some way in the future to include additional branch data after learning from the experience gained through this implementation. As the ROC considers its future work program, it will continue to evaluate options for including additional entity information in the GLEIS and may conduct a public consultation on these topics at a later date.

Condition 2: Registration in an official registry

Due to the special nature of international branches, the ROC considers it reasonable to restrict LEI issuance to only those international branches that have registered in a publicly accessible business registry, regulatory registry or tax registry in the jurisdiction where the branch is domiciled (in the host country). The definition of a branch and conditions for recognising a branch may vary across jurisdictions beyond the general definition provided in this document, depending on the legal corporate definition applied, the regulatory framework, and market practice. Therefore, rather than attempt to create a universally applicable definition of branches for the GLEIS, the ROC determined to rely on whether the branch is registered in a local business registry, regulatory registry or tax registry as a reasonable condition for it to be issued an LEI.

Obtaining an LEI has so far not been predicated on the registration of the legal entity in an official registry. The ROC is of the view, however, that reliance on registration in official registries would be a cost-effective and reliable way to verify that the branch has a clearly recognized status distinct from its home office legal entity. The ROC considered that the existence of an international branch as a separate entity, with a separate balance sheet, hinged upon some recognition of the branch by relevant local authorities, and would contribute to the alignment of the definition of a branch with the applicable legal framework. Registry information supports the identification process and provides publicly available, reliable information that can be used to verify an entity’s existence and reference data.

In response to comments in the public consultation, the ROC has determined to retain this condition for the first stage of the LEI eligibility of international branches, but to be flexible as regards accepted registries, which may include:

¹¹ For instance, in some countries a head branch/lead branch is identified to provide a consolidated reporting to banking supervisors for all the sub-branches in the country.

- Publicly accessible business registries;
- Publicly accessible registries held by host regulators;
- Publicly accessible registries held by home authorities, when the establishment of a branch involves a cooperation process between home and host authorities¹²; and
- Publicly accessible tax registries.

In the absence of a record of the branch in such a registry, the existence of a branch as a separate legal entity (in the LEI sense) is not considered to be sufficiently established, and no LEI may be issued to the branch in this initial stage.

The ROC and GLEIF are working on developing more specific guidance on the use of business registries and other registration authorities in the GLEIS. Registries may have a variety of purposes and guidance on the use of registries will specify as needed which registries are appropriate to validate the existence of a branch as defined in this document as well as the link between the branch and the head office. In case of doubts, this guidance will take into account the opinion of local authorities, as well as factors such as the existence of a distinct treatment of assets of the entity in liquidation, and whether the entity is treated as distinct for a number of purposes (e.g., taxes, financial regulation, corporate law, registration requirements, etc.).

Condition 3: The head office already has an LEI

The ROC determined that only international branches with a current (“issued” status) “head office-LEI” should be authorised to register, receive and maintain an LEI as an international branch. The link between the LEI of the head office entity and the LEI of the international branch in the GLEIS should always be available in the system. The system should ensure that these conditions continue to be met over time. These requirements ensure that aggregation of different branches of the same entity is possible through the LEI reference data.

Although an international branch and its head office are considered different legal entities for purposes of LEI issuance as discussed above, they remain part of the same legal person (in the traditional legal sense), which makes it expedient that both entities have an LEI and it is essential that the association between the two LEIs is recorded in the Global LEI System, as discussed further below. In addition, when a head office opens a branch in a foreign jurisdiction, the legal entity (consisting of both head office and branch) has a presence in that jurisdiction and may have to comply with local reporting or other legal requirements that govern this presence, including any requirement that both the head office and branch have LEIs.

Ideally, the issuance of an LEI for branches should be coordinated through and approved by the head office legal entity. This coordination activity creates a central point of accountability, avoids possible duplicate requests from the branch, and ensures the branch’s assignment to the correct head office (i.e., data quality). It also helps to contain costs by reducing unnecessary effort that might be created if there is not a centralized point, such as a head office, to refer

¹² For instance, such a process exists in banking supervision : see Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision (<http://www.bis.org/publ/bcbs230.pdf>), principle 5 and essential criteria 10 under principle 5 (“In the case of foreign banks establishing a branch or subsidiary, before issuing a licence, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received”).

validation questions to, and by minimizing the risk of duplicate LEI requests coming from the international branches themselves. At a minimum, the head office entity should be informed with sufficient lead time of the issuance of a branch LEI (for instance, through the contact persons of the head office entity).¹³

Condition 4: The reference data of the branch always specifies that the entity is a branch

There should be no confusion as to whether a given LEI corresponds to a branch or not, and this information should be easily accessible to users. This is a necessary feature, for instance to make sure that head office LEIs or branch LEIs are accurately reported as required. A possible solution envisaged in the consultation document was, for instance, that the “LegalForm” data element, which is currently a freeform field¹⁴, could be modified to include an appropriate designation for international branches as part of the normative list of codes to be implemented under a standard for legal form that ISO has developed.

Other considerations and limitations

Reporting requirements may vary across jurisdictions, or even across international branches operating in the same host country. For example, there are often reporting requirement thresholds based on branch size, business activity, or other attributes. The necessity to identify international branches may also vary across industry sectors (e.g., banking, insurance, investment products, non-financial corporate, etc.) or type of uses (e.g., monetary, statistical, supervisory, consumer protection, etc.).

Consistent with the mandate of the ROC, this document only sets the conditions under which international branches will be eligible to obtain an LEI from the GLEIS and does not in any way compel international branches to obtain LEIs or head office entities to register their international branches into the GLEIS. As for all LEIs, it is within the purview of national authorities to define any requirement for international branches to be registered into the GLEIS. Furthermore, it would also be up to those authorities to specify whether any given reporting should take place at the level of the branch or the entire legal entity, or whether a branch’s LEI or its head office’s LEI should be used for reporting purposes.

The ROC notes that international branches offer similarities with fund compartments or sub-funds, which are not separate legal entities but are eligible to obtain an LEI. Such fund compartments or sub-funds may be part of the same corporate entity, but the ROC already took into account that in most cases “the assets and liabilities of each sub-fund are completely ring-fenced from those of the other sub-funds, with no risk of contagion between them in the event that a sub-fund becomes insolvent”.

Independent of the implementation of this policy, the ROC intends to conduct a more comprehensive review of the effect of corporate actions on the reference data in the GLEIS, which would encompass the effects on subsidiaries and branches. Such actions could include cases when the LEI of an international branch’s head office expires (as opposed to simply

¹³ Given that the international branch’s head office should always have a non-lapsed LEI, the contact persons of the head office, as recorded by the managing Local Operating Unit of the head office LEI, could be informed ahead of the issuance of the branch LEI. If the branch does not withdraw the request within a certain timeframe, the GLEIS could assume the absence of objections by the head office, given that the head office and branch are part of the same corporate entity.

¹⁴ See LEI ROC, LEI Data File Format 1.0, 19 June 2014, http://www.leiroc.org/publications/gls/lou_20140620.pdf.

lapsing), when an international branch or a branch network is acquired by another firm (either foreign or domestic), and when an international branch becomes a separate legal entity apart from its head office.

Implementation of the policy as described in this document is expected to start in early 2017, subject to ROC concurrence with an appropriate framework being established to ensure that the conditions described in this document are met. Once the framework is established, the ROC will communicate a more precise implementation date to stakeholders. This will allow LEI issuers and users to adapt their systems and regulatory authorities to issue, as necessary, guidance as to whether existing reporting requirements should or should not include international branches once LEIs become available for them.

Reference data format

The GLEIF will specify any adaptation needed to the data format as well as the technical standards on how to record the relationship between an international branch and its home office legal entity, in consultation with the ROC and other stakeholders, and in accordance with the policy framework, principles and standards defined by the ROC.

Modalities of issuance

As is currently the case, some Local Operating Units (LOUs) may specialise on specific legal forms within a jurisdiction, and may choose not to issue LEIs for international branches, where, after assessment according to the criteria above, they consider they do not have the appropriate capacity to validate the reference data of the international branch and its relationship to its head office. However, based on consultation with the pre-LOUs, it is expected that most would offer LEI validation and issuance service to international branches.

The LEI of the head office and the LEI of the international branch would not need to be issued by the same LOU.

Including data on branches in the Global LEI System

Summary of the public consultation

A public consultation document was published on 19 October 2015 with responses invited by 16 November 2015. The consultation document proposed a simple and straightforward approach that would introduce branch information in the GLEIS based on three conditions:

1. The branch is an international branch, defined as a non-incorporated establishment of a head office legal entity that is located in a jurisdiction outside the jurisdiction where the head office legal entity is located;
2. The branch is registered in a publicly available local business registry or local regulatory register in its host country; and
3. The head office (or headquarters) of the branch already has an LEI.

There were 20 responses to the consultation, comprising a broad range of respondents. Ten of the responses came from members of the GLEIS (e.g., the Global LEI Foundation and the Local Operating Units), seven from industry or trade groups, two from standards organizations, and one from an “other” category.

Uses of international branch information

Although there was not unanimity among all respondents, there was generally strong support for incorporating branch information in the GLEIS, both for regulatory uses and business purposes. These uses include orderly resolution activities, counterparty identification and risk management, micro-prudential supervision, macro-prudential and market structure analysis, and statistical reporting purposes. Some responses also supported the idea that including branch information in the GLEIS would benefit regulators and market participants because of regulatory reporting requirements to which international branches may be subject. Some industry responses highlighted that a number of regulatory requirements¹ envisaged some form of reporting on branch activities and they saw merits in a branch LEI that could support a common approach across jurisdictions.

A couple of the responses from industry groups expressed concern that the potential benefits may not outweigh the potential costs of introducing data on branches in the GLEIS, particularly for the private sector. These costs would include the cost to:

- Obtain an LEI for branches, which could number in the thousands of entities if domestic branches are considered;²

¹ Examples mentioned by respondents included future reporting requirements by the U.S. Securities and Exchange Commission (SEC), the Hong Kong Monetary Authority, and European Securities and Markets Authority (ESMA).

² Note that the proposal in the first consultation document specifically excluded domestic branches from consideration.

- Renew and maintain the reference data annually, especially for large and complex entities if domestic branches are considered; and
- Change internal systems to recognize and use the branch LEI data.

One response cautioned against advancing the GLEIS on a piecemeal basis. The respondent recommended postponing the introduction of branches into the GLEIS until the ROC obtains a more comprehensive view of the regulatory and private sector uses of LEIs for branches, while at the same time designing an appropriate data model, possibly one that could encompass branches more generally.

The ROC underlines that at this stage, domestic branches are not included and that the number of branches would therefore be more limited. The GLEIF will specify any adaptation needed to the data format as well as the technical standards on how to record the relationship between an international branch and its home office legal entity, in consultation with the ROC and other stakeholders, and in accordance with the policy framework, principles and standards defined by the ROC. Finally, there seemed to be some confusion or conflation with the concept of allowing international branches to obtain LEIs and requiring them to obtain LEIs, with a couple of respondents asking for more clarification on what and when branches should report LEIs. As explained in the consultation document,³ reporting requirements are determined by the regulators independently from the GLEIS, and the relevant regulators would conduct cost benefit analysis as necessary under their legal framework.

Conditions for issuing LEIs to branches

Condition 1: The branch is an international branch

Although there were differences of opinion on this condition, it was deemed acceptable by most respondents, and even necessary by many respondents, so as to limit the scope of branch entities that would be eligible to obtain an LEI. However, a couple of the respondents expressed a desire to broaden the scope to include identification of domestic branches or even trading desks within the GLEIS, even though the consultation specifically excluded such entities.

Still others expressed concern that including any branch entity in the GLEIS would be a violation of ISO 17442 since international branches are not technically independent legal entities, as they enter into trades in global markets on behalf of their head office. However, as noted in the consultation document, different resolution or insolvency regimes may apply to the international branch, which may result in different priorities among creditor claims for the branch's assets compared to its headquarters' assets, and specific measures such as "ring fencing" may be applied to the branch. Different rules may also apply to branches. These conditions require the ability to easily identify, even in normal times, the international branches

³ The consultation document stated that, "The introduction of international branches into the GLEIS is not meant to influence regulatory reporting and market monitoring goals and policies, especially where the focus is on the legal entity as a whole (home office activity plus its international branches)" and that, "Consistent with the mandate of the ROC, this proposal only envisages the conditions under which international branches would be eligible to obtain an LEI from the GLEIS and does not in any way compel international branches to obtain LEIs or head office entities to register their international branches into the GLEIS. As for all LEIs, it is within the purview of national authorities to define any requirement for international branches to be registered into the GLEIS. Furthermore, it would also be up to those authorities to specify whether any given reporting should take place at the level of the branch or the entire legal entity, or whether a branch's LEI or its head office's LEI should be used for reporting purposes."

of a foreign bank. Other respondents involved in the preparation of the ISO 17442 standard expressed support for a narrow definition to allow international branches to obtain LEIs. They agreed that an LEI could be created for international branches where there is separate reporting in the host country where the international branch is located, but that further work on ISO 17442 may be required.

The ROC notes that international branches offer similarities with fund compartments or sub-funds, which are not separate legal entities but are eligible to obtain an LEI. Such fund compartments or sub-funds may be part of the same corporate entity, but the ROC already took into account that in most cases “the assets and liabilities of each sub-fund are completely ring-fenced from those of the other sub-funds, with no risk of contagion between them in the event that a sub-fund becomes insolvent”.

Condition 2: The branch is registered in a publicly accessible local business registry or local regulatory register in its host country

Some argued that this condition made sense and would assist LOUs with validation of the branch entity during registration and annual renewal of the LEI. However, many respondents argued against such a condition, noting that it may be too restrictive and that this condition does not even apply as a prerequisite for legal entities (the head offices) to obtain LEIs. There were concerns that such information may not be publicly available or that such information may not be sufficient to establish a relationship between the international branch and its parent. Still others were concerned that if an international branch could not meet such a condition because of a lack of business registry in the jurisdiction it is operating in, then the branch would be unfairly ineligible to get an LEI through no fault of its own. Furthermore, there may not be a universal requirement across all jurisdictions that international branches be registered in a local business registry.

The ROC considered that the LEI eligibility of an international branch as a separate legal entity, with a separate balance sheet, hinged upon some recognition of the branch by relevant local authorities, and would contribute to the alignment of the definition of a branch with the applicable legal framework. For purposes of this policy document, acceptable registries may include:

- Publicly accessible registries held by host regulators;
- Publicly accessible registries held by home authorities, when the establishment of a branch involves a cooperation process between home and host authorities;⁴ and
- Publicly accessible tax registries.

Condition 3: The head office of the branch already has an LEI

There was a general consensus that this condition was acceptable. There also seemed to be a consensus that the head office should be required to authorize international branches to obtain LEIs; in fact, many respondents preferred that the head office actively organize such actions,

⁴ For instance, such a process exists in banking supervision: see Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision (<http://www.bis.org/publ/bcbs230.pdf>), principle 5 and essential criteria 10 under principle 5 (“In the case of foreign banks establishing a branch or subsidiary, before issuing a licence, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received”).

which creates a central point of accountability, avoids possible duplicate requests from the branch, and ensures the branch's assignment to the correct head office (i.e., data quality).

There was a concern that any requirement for authorization with a second party such as a head office would raise the cost of reference data validation. But those potential increased costs could be counterbalanced by reducing unnecessary effort that might be created if there is not a centralized point, such as a head office, to refer validation questions to, and by minimizing the risk of duplicate LEI requests coming from the international branches themselves.

Other responses

Alternatives to branch LEIs

One respondent stated that, "it would like to explore further the extent to which existing and widely used identifiers such as BIC (Business Identifier Code) codes may be suitable." BIC is currently defined by the ISO Standard 9362:2014, and the registration authority for BIC is hosted by the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Another respondent suggested adding a field for the BIC code, which is already used by financial institutions, as a more practical way to identify branches than assigning an LEI to them. On the other hand, most industry associations considered in their response that the BIC code should not be considered an authoritative identifier for purposes of branch reporting, and one respondent stated that "the use cases [...] are strong reasons for the issuance of LEI to international branches and will benefit both public and private sector."

The main benefit of using the SWIFT BIC code would be to keep costs low since branches – or at least bank branches – frequently already have BICs. In addition, since BICs are used for payments, there is a strong incentive to keep them up-to-date, which makes them particularly reliable. However, this appears mainly true for the some 11,000 "connected" 8-character BICs and 35,000 "connected" 11-character BICs including a branch identifier that are used for routing payments, but not for other BICs, where updates may be less frequent. In addition, the practice of using connected BICs for branches varied among countries and banks.

The known drawbacks of the BICs were also confirmed, although some could be potentially mitigated:

- The BIC code does not have the same governance framework as the LEI, where the G20 endorsed High Level Principles, and FSB recommendations define flexibility, competition, data validation, open access, and other requirements under the oversight of the LEI ROC, to serve the broad public interest.
- Although since the 2014 revision of ISO 9362 the full legal name of the business party is a mandatory data attribute, implementation will take time, and the link between a given BIC code and the legal entity (i.e., to which company a branch belongs) is not always clear.
- There can be multiple BIC codes for the same branch. The ISO standard 9362 for BIC codes defines a branch as an "organizational unit of the business party, such as a specific location, department, or service of the business party in the country where it is located". This definition leads to a greater heterogeneity of branch BICs compared to the branch LEI contemplated here.

- The BIC code embeds information derived from the name of the entity and can become stale, introducing issues with data management (i.e., management of changes in names or successor entities).

Another alternative to the branch LEI could be to add an extension to the headquarter LEI, such as an ISO country code. This may work in areas such as transaction reporting, where branch information would be an additional attribute to a trade, in addition to the headquarter LEI. This may not work where the LEI is used as the primary key of the data base, especially where branches are considered as legal entities in their own right (for instance, bank supervision or resolution): the same LEI could refer to different entities (e.g., different branches of the same headquarters).

Specific LEI code structure for branch LEIs

A few industry participants strongly advocated embedding in the LEI code the information (such as an indicator) that the LEI is assigned to a branch entity. A subsequent call with representatives of these associations verified that they understood that the ROC intended to include this information in the reference data rather than the LEI code itself, but they confirmed their preference for imbedding intelligence into the LEI code for two reasons:

- It would be less costly for them (e.g., to check that a branch LEI was not improperly used in reporting instead of a headquarter entity LEI, it would not necessitate IT development to access and cross-reference the appropriate LEI reference data).
- It would “keep ISO 17442 pure to its original intent” of unambiguous legal entity identification, given that in normal times a branch cannot trade in its own name, but only in the name of the headquarters.

The ROC has concluded that the LEI code should not contain any embedded intelligence, including indicators that the LEI corresponds to a branch. Although this may represent a quick IT fix that would make the introduction of a branch LEI less costly and could contribute to data quality as confusions between headquarter and branch LEI would be easier to detect, this may impede the flexibility of the system. For instance, this would constrain choices in terms of data history (a branch that incorporates itself would need a new LEI), and possible future evolutions, such as the distinction between different types of branches which might not be considered in the same way by different regulators. In addition, the ROC encourages market participants to routinely check the reference data (for instance to avoid the use of lapsed LEIs).

Other questions raised

With respect to whether it should also be possible to assign an LEI to “home activity excluding foreign branches,” there was some confusion about what such a concept meant, and at least one respondent asked for clarification on the matter. Otherwise, there seemed to be a consensus that this should not be allowed, even if there may be “use cases” for such a concept. Operationally it may be quite difficult to manage such a concept.

Respondents did not seem to answer fully the question whether there were cases where an international branch might continue to exist even when its head office closes (e.g., because of bankruptcy). Opinions differed on whether the LEI of an international branch could persist with only changes to the reference data if the LEI of its head office expires (as opposed to simply lapsing). The ROC intends to conduct a more comprehensive review of the effect of corporate

actions on the reference data in the GLEIS, also encompassing their effects on subsidiaries (relationship data) and branches.

Respondents were split on the question as to whether an international branch's LEI should persist or expire when it is acquired by another firm. Some believed the branch becomes a completely new entity, and its entry in the local business registry changes accordingly. Upcoming work on corporate actions may help to inform a policy position on this question.

Similarly, respondents were also split on the question as to whether an international branch's LEI should persist or expire if it becomes a separate legal entity apart from its head office (e.g., through a spin-off). Again, the upcoming work on corporate actions may help to inform a policy position on this question.