

## **Collecting data on direct and ultimate parents of legal entities in the Global LEI System – Phase 1**

### **Executive Summary**

Following two rounds of consultation in May and September-October 2015, this document sets forth the policy design of a process for collecting data on direct and ultimate parents of legal entities, to be implemented within the Global Legal Entity Identifier System (GLEIS). The main features of the proposal are:

- An **incremental approach**: this document identifies the priority features that should be part of the first phase of this data collection, with the objective of starting implementation around the end of 2016. Adding data on parent entities was envisaged in the 2012 FSB recommendations on the LEI and would augment the usefulness and attraction of the system for users. At the same time, the system is still at an early stage of development, with 420,000 entities worldwide having acquired an LEI. The proposal seeks to avoid imposing unwarranted costs or complexities that could be detrimental to the expansion of the system. The LEI ROC is aware that this first phase may not meet all the needs expressed in the consultations and will work on expanding the scope of relationship data in future phases, in consultation with relevant stakeholders.
- Entities that have or acquire an LEI would report their “**ultimate accounting consolidating parent**”, defined as the highest level legal entity preparing consolidated financial statements, as well as their “**direct accounting consolidating parent**”. In both cases, the identification of the parent would be based on the accounting definition of consolidation applying to this parent.
- **Accounting definitions were chosen as a starting point** as the ROC concluded that their practical characteristics outweighed limitations caused by the fact that they are designed for a different purpose, i.e., to report relationships to investors on a going concern basis. These practical characteristics are that: (i) they are applicable to both financial and non-financial companies; (ii) their international comparability has increased, following greater convergence between IFRS and US GAAP on the scope of consolidation; and (iii) they are widely used, publicly available and their implementation is periodically reviewed by external auditors.
- **The information collected would be published** in the Global LEI System and therefore freely available for public authorities and market participants, subject to a pilot phase to examine issues associated with collecting data on parents that do not have an LEI. At this stage, the GLEIS will only record relationship data that can be made public, in accordance with the applicable legal framework.
- **Entities would report relationship information to the Local Operating Units of the Global LEI System, which would verify the relationship information based on public documents if available** (e.g., list of subsidiaries in audited consolidated financial statements; regulatory filings), or other sources.

- **Information on parents would be part of the information that must be provided** in order for an LEI to be issued or renewed, but with the option to decline providing this information for the reasons listed in section 3.3.1.

## Statement of purpose

This document was developed by the LEI Regulatory Oversight Committee (ROC) under its Committee on Evaluation and Standards (CES).<sup>1</sup> A preliminary consultation of the LEI ROC Private Sector Preparatory Group (PSPG), along with the Global LEI Foundation (GLEIF), Local Operating Units endorsed by the ROC (pre-LOUs) and stakeholders from the public sector was conducted in May 2015, followed by a public consultation from 7 September to 19 October 2015. The final version published today sets forth the policy design of a process for collecting “Level 2” data on direct and ultimate parents of legal entities within the Global LEI System (GLEIS), to complement the existing “Level 1” reference data.

The approach for collecting data on organizational relationships described in this report is based on several premises. First, the approach is assumed to be incremental. Because complexity in this area is high, the process implemented must proceed in steps as manageable as possible and the implementation process must be structured so that subsequent steps can be approached based on what has been learned. Second, the initial relationship types to be captured are to be based on accounting standards. Many other aspects of ownership, control or other relationships may be highly relevant in later phases, but the need for relative simplicity and clarity argues for a measure with sufficiently common support in all jurisdictions. Finally, the implementation approach developed for the first phase should also be cognizant that one of the key principles of the GLEIS is that data should be openly and freely available.

## Overview

The G20-endorsed FSB report “A Global Legal Entity Identifier for Financial Markets” called for the GLEIS to include the “*Level 1*” “business card” information on entities (e.g., official name of the legal entity, address of its headquarters)<sup>2</sup>, followed later by “*Level 2*” data on relationships among entities.<sup>3</sup> Recommendation 12 of the report specifically called for the development of proposals for additional reference data on the direct and ultimate parent(s) of legal entities and relationship or ownership data. The FSB report underlined that this information was essential for risk aggregation, which is a key objective for setting up the GLEIS. This information may also serve other public policy objectives and private sector needs.

---

<sup>1</sup> The ROC is a group of over 60 public authorities from more than 40 countries established in January 2013 to coordinate and oversee a worldwide framework of legal entity identification, the Global LEI System. The ROC was established on the recommendation of the Financial Stability Board and its Charter was endorsed by the Group of 20 (G-20) nations in November 2012. G20 Leaders at their Los Cabos summit in June 2012 encouraged “global adoption of the LEI to support authorities and market participants in identifying and managing financial risks”. (More on <http://www.leiroc.org/>).

<sup>2</sup> As defined in the ISO 17442:2012 standard.

<sup>3</sup> See [http://www.financialstabilityboard.org/publications/r\\_120608.pdf](http://www.financialstabilityboard.org/publications/r_120608.pdf) (8 June 2012).

Therefore, the report also called for input from interested parties in the regulatory community and private sector experts.

While the ultimate aim is to have sufficient data to construct a detailed network of entities and to rely as much as possible on standardized, machine readable information, the FSB report recognized that an incremental approach was needed.<sup>4</sup> Shortly after its establishment in early 2013, the ROC endorsed an approach based on relationships as defined under accounting conventions for its initial phase of work on Level 2 data that was based upon an approach underpinned by accounting definitions of control.<sup>5</sup>

Taking into account these considerations, the ROC established in December 2014 a Task Force to develop a proposal for principles and standards necessary for phased collection of Level 2 data and announced in January 2015 that phased implementation of the information collection by the GLEIS was expected to begin around the end of 2015.<sup>6</sup> The target date was moved to end 2016 following the public consultation that took place between 7 September and 19 October 2015, during which 28 responses were received, some of them being the joint contribution of industry associations or other groupings. An Annex details the response to the consultation.

This document includes 6 sections addressing the following topics:

1. Uses of relationship information;
2. Definition of parent relationships;
3. Data collection, validation and updates;
4. Data organisation;
5. Business models for relationship data;
6. Conclusion and next steps.

Taking into account the feedback from the consultation, the ROC will work with the GLEIF to develop an implementable formal approach to begin collecting and maintaining the data. Throughout this development process, there will be an opportunity for feedback from the pre-LOUs and other relevant stakeholders.

## **1 Uses of organization relationship information**

The ROC has reviewed the main features of potential regulatory uses of relationship information, in terms of definition of parent relationships and timeliness, based on a sample of existing international standards, principles and best practices defined by international bodies and public authorities that regulate the financial sector or participants in financial transactions. Domestic authorities may choose to go beyond these standards, principles and best practices, which provide a baseline description of regulatory needs that can be expected to exist in a large number of jurisdictions. The sample included examples of uses for banking supervision (large exposures; data aggregation and risk reporting), securities regulation (aggregation of OTC

---

<sup>4</sup> See FSB report of 8 June 2012, recommendation 12, p. 38 and the *Fourth progress note on the Global LEI Initiative* by the FSB LEI Implementation Group, [http://www.financialstabilityboard.org/publications/r\\_121211.pdf](http://www.financialstabilityboard.org/publications/r_121211.pdf) (11 December 2012).

<sup>5</sup> See [http://www.leiroc.org/publications/gls/roc\\_20130308.pdf](http://www.leiroc.org/publications/gls/roc_20130308.pdf) (8 March 2013).

<sup>6</sup> See ROC Year End Progress Note, 28 January 2015: [http://www.leiroc.org/publications/gls/roc\\_20150128-2.pdf](http://www.leiroc.org/publications/gls/roc_20150128-2.pdf)

derivatives data), licensing (banking, insurance and securities sectors), resolution of failing financial institutions, financial stability, anti-money laundering and countering the financing of terrorism.<sup>7</sup>

This review has shown that control, which is the core concept determining whether accounting consolidation should occur, is an important component of the definition of parent relationships used in these standards, principles and best practices.<sup>8</sup> This is consistent with the choice of starting with accounting-based definitions, although these sources also refer to other types of relationships (such as the regulatory scope of consolidation used for bank capital requirements, or economic interdependence). Accounting definitions also have the benefit of being applicable to both financial and non-financial companies, and therefore match the universal scope of the LEI, which is intended for all participants in financial transactions.<sup>9</sup>

The review also demonstrated that relationship information should be as timely as possible. The desired degree of timeliness might not be achievable initially, though some have noted that the annual or quarterly frequency of accounting financial statements might suffice at the outset. However, the objective of timeliness may impact the design of the initial phase, as the collection of information on direct parents might, in the future, allow greater timeliness at a lower cost.<sup>10</sup>

The regulatory uses reviewed so far do not all require the same level of detail in relationship information. For example, to aggregate OTC derivative transactions at group level, it would be sufficient to connect existing LEIs to their ultimate parents, because reporting rules already require entities conducting such transactions to have LEIs.

Other potential supervisory uses could benefit from a wider coverage of group entities, beyond those that are already subject to requirements to have an LEI. For such uses, finding a means of ensuring broad LEI coverage of corporate groups remains a priority.

---

<sup>7</sup> Sources include: Basel Committee on Banking Supervision (BCBS), [Core principles for effective banking supervision](#), September 2012 (esp. principle 5), [Principles for effective risk data aggregation and risk reporting](#), January 2013 and [Supervisory framework for measuring and controlling large exposures](#), April 2014; Financial Action Task Force (FATF) [Recommendations and Interpretive Notes](#), February 2012 and [FATF guidance on Transparency and Beneficial Ownership](#), October 2014; FSB, [Feasibility study on approaches to aggregate OTC derivatives data](#), September 2014, [The Financial Crisis and information gaps](#), October 2009, [Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks](#), October 2011; [FSB Data Gaps Initiative – A Common Data Template for Global Systemically Important Banks: Phase 2](#), May 2014, [Key Attributes of Effective Resolution Regimes for Financial Institutions](#), as updated October 2014; International Association of Insurance Supervisors (IAIS) [Insurance core principles](#) October 2013 (esp. criteria 4.3); International Organization of Securities Commissions (IOSCO), [Methodology for assessing implementation of the IOSCO objectives and principles of securities regulation](#), September 2011 (esp. principle 29).

<sup>8</sup> An explicit reference to the accounting definitions of control or consolidation is made in the sources above for large exposures in the banking sector, for the aggregation of OTC derivatives and the Common Data Template for Global Systemically Important Banks. Control is also mentioned as one of the criteria to determine beneficial ownership in FATF standards or the scope of information to be provided by an applicant concerning licensing in the securities sector, although the definition of control may be broader than in accounting standards. The FSB Key Attributes refer among others to “parents” and “subsidiaries” without defining those terms.

<sup>9</sup> This also matches the scope of a number of the regulatory uses reviewed here: participants in derivatives transactions and bank customers (e.g., for monitoring large exposures) can for instance be both financial and non-financial entities.

<sup>10</sup> For instance, the sale of a sub-group might be reported quicker and at a lower cost as a change of the direct parent of the head entity of the subgroup, rather than all sub-group subsidiaries reporting a change in their ultimate parent. However, in the initial phase, an ultimate parent cannot always be inferred from a chain of direct parent relationships, for instance due to differences in accounting standards.

The uses above only require identifying sets of entities that belong to the same group, i.e., ultimate parent to child. Other uses, such as the resolution of financial institutions, would necessitate a more granular mapping of relationships within the group itself, to identify sub-groups and possibly the direct parents of entities within the group, in order to be able to draw an organisational chart.

Yet other uses may benefit from more granular information on the percentage of ownership or voting rights for each relationship, for instance because they may require higher or lower thresholds than accounting control.<sup>11</sup>

It is acknowledged that other potential public policy uses exist, for example statistics on the balance of payment or foreign direct investments or business statistics more broadly, in the tax area, in competition laws, combatting financial crime<sup>12</sup> or in public procurements. It may also support analysis of corporate governance practices and a better understanding of corporate structures, including their evolution over time and their impact on risk contagion, or on monetary and economic policy. There are also business or private sector uses for this information. Some of them are in part governed by the regulatory requirements described above, such as know your customer or risk management. Private sector uses could also include better understanding the relationships of another entity from which a company or individual is buying goods or services or in which it is investing. Academics, financial analysts or other parties may also have an interest in understanding the structure of organizational groups.

While it is important to identify, to the extent feasible, the long-run use cases for data on organizational relationships on a global scale, to ensure to the extent possible that initial developments can support future expansions, it is equally important that the scope of the first phase be manageable, to avoid costs and complexities that could jeopardize the success of the project. This incremental approach was generally supported in responses to the public consultation.

Limiting the scope of the work in some aspects at the start is one way to minimize the potential for overwhelming complexity. At the same time, the phase 1 described in this document is intended to meet at least in part some identified uses of parent information:

- The need to collect parent data as part of derivative reporting requirements. As noted in the LEI ROC Progress Report<sup>13</sup>, jurisdictions hosting the bulk of derivative activities already require that counterparties of reportable derivative transactions have an LEI. In the EU, the collection of parent data for commodity derivative reporting is expected to start in early 2018.
- Facilitate the aggregation of data on correspondent banking activity at banking group level, in relation with the plan to be developed by the FSB for promoting the use of the LEI by all banks involved in correspondent banking.<sup>14</sup>

---

<sup>11</sup> For instance, higher thresholds for fiscal consolidation or lower thresholds for beneficial owners in the area of anti-money laundering.

<sup>12</sup> For instance, bribery and corruption, insider dealings, and other illegal activities

<sup>13</sup> [http://www.leiroc.org/publications/gls/lou\\_20151105-1.pdf](http://www.leiroc.org/publications/gls/lou_20151105-1.pdf)

<sup>14</sup> FSB, Report to the G20 on actions taken to assess and address the decline in correspondent banking, 6 November 2015, <http://www.fsb.org/wp-content/uploads/Correspondent-banking-report-to-G20-Summit.pdf>

- Another identified use is the need to know parent information as part of the U.S. FFIEC Banking Agencies' Home Mortgage Disclosure Act by all banks and nonbanks that issue mortgage in the U.S. and meet the reporting thresholds starting in 2017.

The uses of such information are not limited to those and will expand with LEI coverage.

## 2 Definition of parent relationships

Eventually, organizational relationships may be described in the GLEIS at a granular level that would allow users with different purposes to obtain the exact types of organizational information relevant for their purposes. Such an approach has long-run appeal, but raises the possibility of significant costs and complexity at the start. For that reason, the ROC determined to initiate the collection of relationship data by focusing on direct and ultimate parents, based on existing accounting definitions.

Accounting definitions were chosen as a starting point as the ROC concluded that their practical characteristics outweighed limitations caused by the fact that they are designed for a different purpose, i.e., to report relationships to investors on a going concern basis. Accounting standards have the benefit of providing high-level definitions that are already agreed on, they are publicly available, are widely used by financial and non-financial entities, and their implementation is reviewed by third parties (external auditors<sup>15</sup>). International Financial Reporting Standard (IFRS) or United States-Generally Accepted Accounting Principles (US GAAP) cover the great majority of countries and global GDP.<sup>16</sup> Their international comparability has increased, following greater convergence between the two standards on the scope of consolidation. Despite this progress in the consistency of standards used internationally, some differences remain, and local accounting standards continue to apply to many entities, including in jurisdictions having adopted IFRS (e.g., non-listed entities). In addition, there is latitude for interpretation under all such standards.

This remaining variation underscores the difficulty of achieving universal applicability of any definition of parent. The section below describes the basic outline of the issues. The definitions of relationships discussed below are based on a preliminary review of IFRS and US GAAP. The responses to the public consultation did not request amendments to the broad definitions that were proposed, although the ROC, working with the GLEIF and other stakeholders, will as needed refine them or provide implementation guidance, especially in case exigent specificities emerge during implementation.

---

<sup>15</sup> For instance, auditors may review the implementation of definitions to support the opinion they express on whether the financial statements taken as a whole are fairly presented in accordance with the applicable accounting framework.

<sup>16</sup> For IFRS coverage, see <http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx>. IFRS standards are now adopted by 114 jurisdictions representing 58% of the world's GDP for all or most of their domestic publicly accountable entities (listed companies and financial institutions).

## 2.1 The definition of parents in accounting standards.

IFRS and US GAAP define a parent as an entity that controls, or has a “controlling financial interest”<sup>17</sup> in at least one other entity. Therefore, the ROC has focused so far on controlled entities, although the case of other relationships is also briefly discussed in the next sections.

Both standards consider that control may exist in two broad types of situations:

- When decision-making of the entity is controlled by voting rights, entitled to returns (e.g. voting shares),<sup>18</sup> the holder of a majority of those voting rights generally controls the entity, although there can be exceptions.
- Control may also be determined to exist when the investor holds less than a majority of the voting rights, or even in the absence of share ownership.<sup>19</sup> This will be the result of a more qualitative analysis of, for instance, contractual arrangements and their impact on factors such as the investor’s powers on the investee, and exposure to losses or benefits.<sup>20</sup> This applies in particular to structured entities such as some securitisation, investment or financing vehicles. The number of such vehicles may be substantial.

The above provide the basis for the accounting concept of consolidation, which is when different legal entities should be considered as a single economic entity for accounting purposes: consolidation consists of presenting the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries as those of a single economic entity. Intragroup balances and transactions are offset or eliminated in the consolidated financial statements.

Under IFRS and US GAAP, accounting consolidation applies when there is control, but there are certain exceptions, including:

- to the obligation of the parent to consolidate subsidiaries, for instance, in both IFRS and US GAAP, when the investor is an “investment entity”, such as a private equity firm or a sovereign wealth fund, which simply value each line of investment instead of applying the look-through approach of consolidation.<sup>21</sup>
- to the obligation to present consolidated financial statements. This is the case in IFRS, but not US GAAP, under several cumulative conditions, including for instance wholly-

---

<sup>17</sup> In IFRS 10, Appendix A, a “parent” is defined as “an entity that controls one or more entities” and a “subsidiary” as “an entity that is controlled by another entity”. For US GAAP, the FASB Master Glossary defines “parent” as “An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity)”.

<sup>18</sup> Entitlement to returns is considered by IFRS but not US GAAP (in US GAAP, once it is determined that control is based on voting rights there is not an assessment of whether the voting rights are also entitled to returns). We are seeking here to give examples of situations that would be addressed similarly by both IFRS and US GAAP.

<sup>19</sup> In the latter case, the parent will not be an equity investor, but could be for instance a debt holder or a guarantor.

<sup>20</sup> See the analysis of effective control in IFRS, in particular for structured vehicles, or the determination of variable interest entities under US GAAP.

<sup>21</sup> In addition to the exceptions defined in IFRS or US GAAP a parent entity may not be required to prepare consolidated financial statements in its jurisdiction (e.g., the government)



owned subsidiaries that are not listed, if consolidated financial statements of a parent are available for public use and comply with IFRS.<sup>22</sup>

Therefore, because not all controlled entities are consolidated, defining a parent as an entity that consolidates a subsidiary, or presents consolidated financial statements, may be less encompassing than defining a parent as exercising control. However, the ROC agreed that consolidation was an appropriate starting point, as described in the next section.

## 2.2 Definition of parent relationships in the GLEIS

This section discusses some of the issues related to the definition of the legal entities that would be considered as the direct or ultimate parents of another legal entity.

The definition of “legal entity” used here is the same as that used for the eligibility for an LEI, therefore currently including a variety of legal forms as well as government entities, but excluding natural persons.<sup>23</sup> Accounting definitions in IFRS and US GAAP also focus on “entities” or “legal entities” but the scope can differ, for instance concerning governmental bodies or agencies.

### 2.2.1 Direct parents

The consultation document of 7 September 2015 examined two variations of the definition of direct parent. Although most responses did not favour one definition over the other, a number of responses cautioned against the costs and complexities of validating relationship data. Therefore, the ROC decided not to retain for the time being “direct controlling parent”<sup>24</sup>.

This definition would have provided more granular information, but the verification might less frequently rely directly on audited financial statements.<sup>25</sup> This definition would use a different concept than the one proposed below for ultimate parents, which would therefore go against the preference by most to favour simplicity during the first phase of the data collection on parent entities.

Instead, the ROC retained the following definition: The “**direct accounting consolidating parent**” of legal entity X would be defined as the lowest level legal entity that prepares consolidated financial statements that consolidate entity X, based on the accounting definition of consolidation applying to this parent. This appears easier to verify, less costly and therefore more suitable for the first phase. Although it would result in omitting any intermediate parents

---

<sup>22</sup> See IFRS 10, §4; this also includes non-wholly owned subsidiaries if all other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the absence of consolidated financial statements.

<sup>23</sup> Individuals acting in a business capacity may be eligible to an LEI under certain conditions: see LEI ROC [http://www.leiroc.org/publications/gls/lou\\_20150930-1.pdf](http://www.leiroc.org/publications/gls/lou_20150930-1.pdf)

<sup>24</sup> The “**direct controlling parent**” of legal entity X was defined as the lowest level legal entity that controls entity X, under the accounting definition of control applicable to the controlling entity.

<sup>25</sup> There are cases where these statements provide information on the direct or ultimate controlling parent: under IFRS standards (IAS 24 Related Party Disclosure §13) the reporting entity shall disclose the name of its parent and, if different, the ultimate controlling party, irrespective of whether there have been transactions between them. Other sources exist but may use different definitions: listed entities generally have to provide to investors information on their parents (See IOSCO Principles for periodic disclosure by listed entities, February 2010, paragraphs 1 (a) and 1 (g)).



that use the option offered by IFRS not to present consolidated financial statements (as described above), the most significant intermediate parents are likely to issue listed securities, or, in the financial sector, to be subject to supervision at the sub-consolidated level, and therefore generally required to present consolidated financial statements.<sup>26</sup> Consequently, the ROC preliminarily concludes that this definition should be used for the initial collection. This would result in collecting some information on the structure of a group, beyond a mere list of consolidated entities, as the reporting of “direct accounting consolidating parents” would assist in identifying the main subgroups.

### **2.2.2 Ultimate parents**

The ROC retains the definition of ultimate parent envisaged in the public consultation: the “**ultimate accounting consolidating parent**” of entity X would be the highest level legal entity preparing consolidated financial statements that consolidate entity X, based on the accounting definition of consolidation applying to this parent. It appears necessary initially to refer to “accounting consolidation” to distinguish it from other perimeters of consolidation (e.g., the perimeter used for the calculation of capital requirements in the banking sector, or fiscal consolidation).

This definition may seem preferable as a starting point, because alternatives relying on control (such as the “ultimate controlling parent”<sup>27</sup>) could result in an excessive level of aggregation. For instance, it might not be relevant for all purposes to record in the GLEIS only the fact that the government is the ultimate controlling parent for subsidiaries of state-owned enterprises, as some users may prefer to be able to distinguish between various corporate groups controlled by the government; the same could apply for different industrial or financial groups controlled by the same private equity firm. In addition, in most cases the ultimate controlling parent would be the same as the ultimate accounting consolidating parent.

## **2.3 Other relationships**

The relationships described below are not described as parent-child relationships in IFRS or US GAAP and hence would require a separate set of rules. Therefore, and although some regulators and responses to the public consultation have expressed an interest in these relationships, the ROC concludes that they should not be included in phase 1 but should be considered for a future phase of Level 2 data.

### **2.3.1 Joint ventures and other joint arrangements<sup>28</sup>**

Both IFRS and US GAAP include accounting for joint ventures but have differing definitions. Under IFRS, joint ventures are defined by the existence of joint control by two or more parties (the venturers). Joint control means that all of the significant decisions related to the joint venture require the unanimous consent of all of the entities controlling the venture. This

---

<sup>26</sup> Similar situations may arise in local accounting standards but were not reviewed.

<sup>27</sup> The ultimate controlling parent of legal entity A would be the legal entity that controls the legal entity A without being controlled by any other legal entity, under the accounting definition of control applicable to the controlling entity.

<sup>28</sup> IFRS distinguishes two types of joint arrangements: joint ventures and joint operations

arrangement is distinct from the situation where one investor, acting together with related parties, controls an entity, or from the existence of several large shareholders.

Joint ventures are not consolidated by the venturers under IFRS, and generally are not consolidated under US GAAP.<sup>29</sup> If the joint venture has subsidiaries, their ultimate accounting consolidating parent would generally be the joint venture, under IFRS and US GAAP. The joint venture itself would generally have no “parents” as defined above, but the GLEIS could, in the future, record “joint control” as a specific category of relationship: a more detailed examination of potential variations in other accounting standards as well as user needs would be necessary.

### **2.3.2 Other investors in an entity**

Both IFRS and US GAAP distinguish the case of investors having a **significant influence**, generally presumed for investments of 20% or more of the voting common stock or equity of the investee<sup>30</sup> (and less than 50%, as they would otherwise generally be parents having control). The investee is not consolidated, and other accounting methods are used to value the investment. It is not proposed to include these relationships in the scope of this phase.

Interests where an investor does not have control alone, joint control, or significant influence on the investee are not examined here.<sup>31</sup>

### **2.3.3 Other related entities:**

**Structured entities:** Although many structured vehicles are consolidated under the applicable definitions of control in US GAAP and IFRS, entities may have interests in structured vehicles that they do not consolidate. The entity may support these unconsolidated vehicles in various ways, such as providing explicit or implicit guarantees or liquidity lines. Including Level 2 data for such entities would require further work.

**Funds managed by an entity:** These funds will not necessarily be controlled or consolidated under applicable accounting definitions. The structure of the Level 1 data already allows for the possibility of including the identity of an “associated entity” that manages a fund. The ROC will further consider in 2016 how this information is collected.

**Branches** are part of the same legal person as their head office, and can be described as different establishments, or locations, of the same corporate entity, whereas a subsidiary is a distinct legal person from its parent. However, international branches may have independent requirements for regulatory reporting and other matters. The ROC is considering in a separate

---

<sup>29</sup> Proportionate consolidation for joint ventures was abandoned with the adoption of IFRS 11 to converge with US GAAP, but is still permitted in US GAAP to account for interests in unincorporated entities in certain limited industries when it is an established practice.

<sup>30</sup> See for instance EY, *US GAAP versus IFRS, The basics*, November 2013, p. 10; for IFRS, International Accounting Standard 28, Investments in Associates and Joint Ventures, §5; for US GAAP, ASC 323 Investments – Equity Method and Joint Ventures-10-15-8

<sup>31</sup> These interests (including for instance equity interests) would generally be subject to the accounting standards that relate to financial instruments to determine how they should be valued in financial statements, but would not be consolidated.

workstream the issuance of LEIs for branches and the appropriate description of the relationship between a branch and its head office.<sup>32</sup>

## **2.4 Other definitions of parents**

Bank supervisors or other regulators, for instance, may define the scope of regulatory consolidation for computing capital requirements in a way different from the scope of accounting consolidation. In addition, the BCBS published on 17 December 2015 a consultation document on the identification and measurement of step-in risk,<sup>33</sup> which focuses on identifying unconsolidated entities to which a bank may nevertheless provide financial support, in order to protect itself from any adverse reputational risk stemming from its connection to the entities. For the future, regulatory perimeters or the current work of the BCBS on step-in risk might inform how best to capture in the Global LEI System relevant relationships with entities that would not be consolidated under accounting definitions.

There may be as well other relationships similar to groups, such as entities controlled by the same individuals, sometimes described as parallel owned structures, which are of interest to regulators and other users, but which would require further work.

## **3 Data collection, validation and updates**

Self-registration is a central principle in the collection of Level 1 data; the entity registering (or its authorized agent) must provide the data directly to the LOU that will issue its LEI. The ultimate responsibility for data accuracy falls upon the registrant. The rules of the system, however, specify that the LEI reference data should be validated by the LOUs, using public official sources, and private legal documents where public sources are inadequate.

Level 1 LEI reference data must be validated at the time of registration. Entities have an obligation to update their information when there are relevant changes, and for a record to be considered active, it must be revalidated at least annually. In addition, the system is open to data challenges from any user, and those challenges must be resolved.

The collection, validation and maintenance of Level 2 data will likely require designing a specific process. The sources of information will often be different from those for Level 1 data, and relationships involve by definition two different entities that could each meet the definition of self-reporting.

### **3.1 Data sources for validating parent relationships**

The ROC has identified several possible sources of information for the validation of parent relationships. As explained below, the sources including relationship information may, depending on the country, be publicly available or not. Therefore, both publicly available and

---

<sup>32</sup> See LEI ROC *Consultation document on including data on branches in the Global LEI System*, 19 October 2015 ([http://www.leiroc.org/publications/gls/lou\\_20151019-1.pdf](http://www.leiroc.org/publications/gls/lou_20151019-1.pdf)).

<sup>33</sup> <http://www.bis.org/bcbs/publ/d349.pdf>

non-publicly available sources may be used for validation, and the type of sources<sup>34</sup> used will be disclosed (but not necessarily the source document). Although it is envisaged at this stage to record only relationship data that could be made public, the fact that the source used for validation is not public does not necessarily imply that the relationship information is itself confidential.<sup>35</sup>

**Consolidated financial statements** could be a key source to validate parent relationships based on accounting definitions, in jurisdictions where such statements include the name of the controlled entities within the scope of consolidation, which is the case, for example, when IFRS 12 applies.<sup>36</sup> These statements are usually certified by external auditors. However, consolidated financial statements are not updated in real time, and thus cannot be used for validating changes happening in between annual or quarterly reports.

**Other documents supporting the preparation of consolidated financial statements** might be available where the published consolidated financial statements do not mention all names. Such material also may be of use between annual financial statements, for instance when mergers and acquisition require the intervention of external auditors.

**Regulatory filings** may also provide public information on parent relationships, via regulatory disclosures applying to listed entities or reporting requirements applying to financial institutions (for instance, reporting in the US by bank holding companies on controlled entities, published in the National Information Center (NIC) database, maintained by the Federal Reserve<sup>37</sup> or “current” reporting requirements for corporate actions). The definition of parent used in these filings may differ from the accounting consolidation definition, but these sources could assist in corroborating the information provided by the registrant.

Comments received during the public consultation expressed concerns about the ability of LOUs to perform the validation of parent relationships at a reasonable cost. To mitigate such concerns, it is important that LOUs can rely on determinations already made, resulting from documentation or other evidence showing that an entity is part of the consolidation perimeter of the parent, based on the accounting definition of consolidation applying to this parent. The three types of sources above appear to meet this condition, although more detailed guidance will have to be developed to support implementation.

In the absence of such sources, it may be acceptable that the relationship be recorded based on registrant-provided information, although guidance is expected to delineate the cases where this would be accepted, based on the existing accounting, regulatory or disclosure framework for

---

<sup>34</sup> This refers to the types of admissible sources described in this section: Consolidated financial statements; Other documents supporting the preparation of consolidated financial statements; Regulatory filings; contracts; and other official document. In case of a regulatory filing, the filing name should be provided.

<sup>35</sup> For instance, an entity may choose to voluntarily share with LOUs documents supporting the preparation of consolidated financial statement, which may be more timely or more detailed than the published financial statements (e.g., because materiality thresholds apply to disclosures of entity names in such statements). On the other hand, confidential regulatory filings would not be available to LOUs for validation in most cases, unless this is authorised by the applicable jurisdictional framework.

<sup>36</sup> Name, principal place of business and place of incorporation when IFRS 12, §12 applies (subsidiaries that have non-controlling interest that are material to the reporting entity); otherwise name only (IAS 24 §13). No identifier or address is required, which may complicate the use of this information by third parties.

<sup>37</sup> See <http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx>. The reporting instructions can be found here: [http://www.federalreserve.gov/reportforms/forms/FR\\_Y-1020141031\\_i.pdf](http://www.federalreserve.gov/reportforms/forms/FR_Y-1020141031_i.pdf)

certain types of entities in some jurisdictions. Such cases should be flagged publicly in the GLEIS.

As this is the case currently for the existing “level 1” reference data, the published reference data would specify whether each relationship is “fully corroborated”, “partially corroborated” or “entity supplied only”. The ROC underlines that these qualifications would apply separately to each relationship (i.e. the direct and the ultimate parent respectively), and would be distinct from the qualification applying to level 1 data. Some adjustments are also made to the definition of the three categories, to reflect the specificities of level 2 data:

Fully corroborated	This applies to the three types of sources above <sup>38</sup> , when they establish the consolidation relationship and mention the name of both related entities.
Partially corroborated	<p>This covers two cases:</p> <ul style="list-style-type: none"> <li>- The definition of parent used in regulatory filings differs<sup>39</sup> from the accounting consolidation definition, but filings assist in corroborating the information provided by the registrant that the conditions of consolidation are met.</li> <li>- Official documents such as regulatory filings or contracts make it likely that the conditions of accounting consolidation are met, or have ceased to be met, when consolidated accounts reflecting the new situation have not been established yet.</li> </ul>
Entity supplied only	<p>This covers two cases:</p> <ul style="list-style-type: none"> <li>- consolidated accounts reflecting a new parent relationship or the termination of such relationship have not been established yet;</li> <li>- none of the sources admitted for “fully corroborated” and “partially corroborated” exist under the applicable framework although the conditions of consolidation are met (for instance, a <i>de minimis</i> threshold applies).</li> </ul> <p>The reference data should specify whether the information was supplied by the parent entity, the child entity, or both.</p>

---

<sup>38</sup> These sources include consolidated financial statements; other documents supporting the preparation of consolidated financial statements; regulatory filings.

<sup>39</sup> Only accounting consolidation relationships are expected to be reported but the LOU is not expected to conduct an analysis of differences between the regulatory sources and the accounting standard. Generally, the type of source, or the fact that the source does not refer to accounting standards will inform the LOU that this category should be used.

The public reference data should also include:

- The accounting standard applied;
- The date of the situation reflected in the source document (generally distinct from the date of the document); and
- The date of the beginning and end of a relationship are only required for the start and end dates occurring after the beginning of the collection of relationship data in the GLEIS for the relevant entities. Although entities should be encouraged to provide the exact dates when known, start and end dates may be approximated by the date of the situation described in the first accounting statement showing consolidation or the end of consolidation, respectively.
- The date at which the information is collected by the LOU.

**Other sources** exist, such as data vendors, but their information is generally proprietary, may have been collected from a variety of sources, with different definitions or levels of validation or quality; the indirect nature of the source might not allow the information to be flagged appropriately. For all these reasons, the ROC concludes that such other sources should not be included for the validation of relationship data in the GLEIS for the first phase.

### 3.2 Reporting by the parent or the “child”

At least to some extent, it will be necessary to allow for an entity to report its parents, rather than the reverse: Because not all parent entities possess an LEI, relying exclusively on the reporting of relationships by parent entities would, for instance, not allow identifying in the GLEIS that two entities with an LEI have the same parent if this parent does not have an LEI and consequently did not report the relationships to the GLEIS.

At the same time, involving the parent, where possible, is desirable because the subsidiary may not be in a position to assess whether the accounting definition of consolidation is met. Each potential parent entity, in conjunction with the work of its external auditors, determines whether it controls another entity and should consolidate it under applicable accounting standards. Because these determinations may require a certain amount of judgment, it may be difficult to reach conclusions when changes occur after the latest periodic statement.<sup>40</sup> In addition, it might be less costly for the system and more convenient for a large organization if the ultimate parent registered all of its relationships, based on the same consolidated financial statements, compared with a case where the relationships were reported separately and across many LOUs.

Responses to the public consultation generally confirmed the two types of considerations above. Therefore, the ROC concludes that reporting by the child, combined with some option for the parent to report, would be the best approach.

---

<sup>40</sup> Changes can result from corporate events higher up the chain of control that may be unknown to the “child”. They can also result from changes in accounting standards that the entity might not be aware of if they affect a foreign parent. To take some extreme examples, a Dutch structured entity might not know for sure whether it has become or ceased to be a variable interest entity controlled and consolidated by an ultimate US parent under US GAAP, or, similarly, a US company might not be able to ascertain itself whether the analysis of its shareholders’ voting patterns will lead one of its EU shareholders to determine that it meets the conditions for de facto control under IFRS.

The principle is that the child is expected to report the relationships with its parents and the completeness of an LEI record should be assessed from this perspective. The GLEIS will not require at this stage that a parent records all its subsidiaries when registering for an LEI, although some jurisdictions may impose such a requirement for certain types of entities.

The operational details of the option for the parent to report will have to be specified during the implementation phase, with the objective of minimizing costs and burden for registrants and the GLEIS: In this regard, it would be acceptable that reporting by the parent is done instead of, and not in addition to, reporting by the child. Similarly, although it would be desirable, for data quality, that the other entity in the relationship is informed and has the possibility to correct the relationship information before publication, it may be acceptable to rely initially on the current publication and challenge process of LEI reference data.

### **3.3 Options for data collection and their impact on coverage and quality**

Currently, entities in a group<sup>41</sup> generally do not all have an LEI. Among other explanatory factors, existing regulatory requirements to have an LEI have focused on entities conducting certain transactions (primarily, OTC derivatives), or specific regulated institutions (e.g. banks), rather than corporate families.<sup>42</sup> The incompleteness of Level 1 coverage raises two interrelated issues:

- how to achieve the best possible mapping of all entities in a group and
- how to represent a relationship between two entities in the GLEIS when one of the entities in the relationship does not have an LEI. In particular, should the relationship be represented only if both the parent and the child have an LEI, or should alternative approaches to identification be accepted in the short term?

#### ***3.3.1 Extent to which parent relationships should be required by the GLEIS***

Currently, a minimum set of Level 1 reference data (name, address, ...) for an entity must be provided in order for an LEI to be issued and considered by the ROC and regulators as valid. The ROC concludes that information on direct and ultimate parents should be added to this set of information required by the GLEIS for validating an LEI record, but with the option to decline providing this information for reasons that will be made public. Considering the high level of support for the reporting of parent information in the public consultation, the ROC considers that there should only be the following limited list of reasons for an entity to decline providing information on its parents, knowing that the adequacy of the list will be reviewed by the ROC as needed in light of experience:

a) there is no parent according to the definition used: this will include for instance (i) the entity is controlled by natural person(s) without any intermediate legal entity meeting the definition of parent in the GLEIS; (ii) the entity is controlled by legal entities not subject to preparing

---

<sup>41</sup> Group refers here to the accounting consolidation perimeter, based on the accounting definition of consolidation applying to the parent.

<sup>42</sup> For instance, the European Banking Authority has required that all credit institutions and investment firms obtain an LEI, including “all entities within their group on which information is required under their reporting obligations” but has specified that this would not include entities other than institutions as defined in the capital requirement regulation (for example, insurance firms that are defined in EU law as insurance undertakings).



consolidated financial statements (given the definition of parents in the GLEIS) (iii) there is no known person controlling the entity (e.g., diversified shareholding).

b) legal obstacles prevent providing or publishing this information: this will include (i) obstacles in the laws or regulations of a jurisdiction<sup>43</sup>; (ii) other binding legal commitments such as articles governing the legal entity or a contract.

c) the disclosure of this information would be detrimental to the legal entity or the relevant parent. This will include reasons generally accepted by public authorities in similar circumstances, based on a declaration by the entity.<sup>44</sup>

No set of opt-out provisions would prevent an authority from being more restrictive in the range of reasons it accepts, when requiring entities under its jurisdiction to report the information to the GLEIS. Making public the motives for declining to report an LEI for a parent will allow regulators to monitor alignment of entities with local reporting rules and to observe patterns of noncompliance. Such disclosure may also incentivize the provision of relationship information by market participants desiring to demonstrate a high level of transparency.

Reporting entities opting out will have to select a motive among a (i), (ii) and (iii), b (i) and (ii), and c above and this motive will be made public. LOU are not expected to verify the statement by the entity, beyond the collection, for b (i) of the references of the law or regulation or other element of the legal framework which will also be made public,<sup>45</sup> and for c), of a sufficiently descriptive explanation of the nature of the detriment, which will not be made public but shared with the GLEIF and ROC. In the latter case, further guidance will be developed as necessary.

### ***3.3.2 Identification of relationships when no LEI is available***

The consultation document of 7 September 2015 envisaged two broad approaches to address the case where one of the entities in the relationship does not have an LEI:

#### **a) The preference is not to use alternative identifiers when no LEI is available.**

If a relevant parent does not consent to have an LEI and there is no means of requiring one, and assuming the other allowable exemptions listed above do not apply, the only possibility for

---

<sup>43</sup> This would include for instance cases where, under the applicable legal framework disclosing the parent relationship would require the consent of one of the entities in the relationship, or both, and such consent could not be obtained, knowing that it is a responsibility of a child entity to seek parent consent when necessary for disclosing the parent relationship, for instance by inviting in writing the parent entity to provide consent. In this case, the reference data of the child would specify, in addition to the disclosure of the motive foreseen for b(i), that “the consent of the parent was necessary under the applicable legal framework and the parent did not consent or could not be contacted”.

<sup>44</sup> This would also include the following cumulative circumstances: i) the parent could not be informed via the GLEIS and have the possibility to correct the relationship information before publication (including raising a cause for opt out), as envisaged in section 3.2, either because the parent does not have an LEI, or it has an LEI but the GLEIS has not yet implemented such system; ii) the relationship is not already in the public domain (information being in the public domain assumes here that the way the information came into the public domain did not infringe the applicable legal framework); iii) the child entity has reasons to believe that the parent may consider disclosure to be detrimental; (iv) the child entity has sought to consult the parent entity of the reporting of the parent information to the GLEIS but could not confirm the absence of detriment in a way that can appropriately prevent liability risks for the child entity (or those acting on its behalf) under the applicable legal framework. This case is expected to correspond mostly to a transient situation and is meant to ensure that the child is not prevented to obtain an LEI during the time needed to ascertain the absence of detriment to the parent. It will be flagged in the reference data and the ROC and GLEIF will monitor its use to adapt it as necessary.

<sup>45</sup> The LOU is not expected to verify or analyse whether the legal framework constitutes a legal obstacle. It will be for instance for any competent regulator requiring this information to determine whether the opting out was justified.

recording a relationship at all would be by using alternative identifying data for the parent. The ROC believes that introducing an identifier external to the GLEIS would raise too many problems of implementation and maintenance: in particular, there is no other universal alternative identifier and subsidiaries of the same entity might use different identifiers to indicate the same parent.

The ROC had envisaged in the consultation document two other means of capturing parent information:

- the collection of sufficiently granular data on a parent to approximate the Level 1 information that would be available if the parent had itself registered for an LEI.
- This information could be combined with a GLEIS identifier, either purely internal to the system, or made visible to regulators or to the broad public.

The first option was retained under certain conditions described in section b. However, the ROC decided not to use another GLEIS identifier than the LEI, because financing the alternative GLEIS identifier could prove problematic, and there was a risk of an appearance of a minority of fee-paying LEI financing a large number of free identifiers.

**b) The GLEIS relationship database will only record LEI to LEI relationships, but information on parents without LEIs will be collected**

As a result of the above conclusions, in the absence of an LEI for the relevant parent<sup>46</sup>, parent information will not be processed as a relationship in Phase 1. This will provide higher quality and cost-efficiency for relationship data. However, as this will limit the information available in the system, four palliatives will apply<sup>47</sup>:

i) The ultimate parent should be invited by the child entity to obtain an LEI and if this invitation is unsuccessful, the GLEIS will publish the information that the parent does not consent to have an LEI or could not be contacted. Because any requirement of an entity to obtain an LEI for its direct parent would logically trigger a full cascade of registration up to the level of the ultimate parent, the direct parent would only be expected to be reported if it already has an LEI and reporting of intermediaries further up the chain (excluding ultimate parent) would not be required, subject to the possibility for the GLEIF and LOU to collect parent meta data on direct parents under the conditions described below.

ii) The entity reporting a relationship remains authorized to obtain an LEI for the relevant parent consistent with the current “express consent” regime in place for assisted registrations.

iii) In some jurisdictions and in some sectors, regulators may have the authority to require ultimate parents to obtain an LEI, for instance on the basis of supervisory powers on bank holding companies or the regulation of listed entities. However, issuing and implementing such requirements might take time, or might not always be possible, even in the financial sector (for

---

<sup>46</sup> This would also be the case for relationships reported by the parent, when the subsidiary does not have an LEI, given, as discussed in 3.2., the GLEIS will not require at this stage that a parent records all its subsidiaries when registering for an LEI.

<sup>47</sup> Case (iii) may apply only in some instances described in (iii)

instance because there are unregulated entities above the bank holding company); in addition, the jurisdictional framework may not always allow for such a requirement.

iv) As a pilot<sup>48</sup>, LOUs will collect, for parents that do not have an LEI, the name, legal address, headquarters address and business registry identification (identification of the registry and registry number; if applicable), as provided by the child (hereafter “parent metadata”). During the pilot phase, the public reference data of the child entity would only mention that there is a parent, but that the parent does not consent to have an LEI or could not be contacted. Three specific rules would apply to the data collected on parents without LEIs:

- There would be no other verification of the parent metadata than the documents already used to establish the relationship, to avoid excessive costs to the GLEIS compared to the situation where the parent LEI is provided. This information would help LOUs verify, at least on a yearly basis, that the parent does not have an LEI unknown to the child.
- The absence of publication of the parent metadata and of relationships between child entities based on this parent metadata, would provide additional time to review, based on real cases, whether publication would harm the GLEIS, including concerns that this lower quality data may affect the reputation of the GLEIS and the adoption of the LEI. This will also enable to determine whether the minimum level of validation and exclusivity checking required for the credibility of the system would not add costs and complexity going against the expansion of the Global LEI System.
- During the pilot phase, metadata on parents would only be accessible to the GLEIF and ROC members.

No later than 6 months after the start of the effective collection of relationship data by LOUs, the ROC will determine whether the parent metadata can be made public as part of the reference data of the child or whether the pilot should be extended, to provide additional time to address any issues associated with publication, with the expectation that publication will take place as soon as feasible.<sup>49</sup> The ROC will communicate publicly this determination, including the reasons justifying any delay for the publication of parent metadata.

Given this objective of making the parent metadata public as part of the reference data of the child entity, and where the parent may not have been in a position to object to the disclosure for the opt-out reasons admitted in this report, information on parents without LEI will be collected by LOUs only on the basis of public sources.

In any case, this collection of reference data on parents without LEIs would occur only when the opt out cases in section 3.3.1 of the report do not apply.

This collection of parent metadata would apply at least to ultimate parents. However, the GLEIF and LOUs could develop the same framework for direct parents, but only if it does not lead to

---

<sup>48</sup> The pilot is distinct from the “first phase” described in this report and is only a part thereof. The pilot is meant to assess the ability to publish the data that will be collected on parents without an LEI (not the principle of collecting this data).

<sup>49</sup> As explained above, issues that could delay publication are whether publication would harm the GLEIS, including concerns that this lower quality data may affect the reputation of the GLEIS and the adoption of the LEI, and that the minimum level of validation and exclusivity checking required for the credibility of the system could add costs and complexity going against the expansion of the Global LEI System.

an increase of the price of an LEI for entities both at issuance and renewal in any material way, and the total price is not above the one charged by LOUs as of end 2015.<sup>50</sup> Such framework for collection of parent metadata on direct parents would then apply to all LOUs.

Currently, for the 30 global systemically important banks (G-SIBs) identified by the FSB, almost all top group entities appearing on the list already have an LEI, although not all are licensed as a bank. The issue for this population would therefore be fairly limited, as regards ultimate parents.

## **4 Data organisation**

Following the ROC endorsement in 2014 of a common data format (CDF) specified in XML for reporting Level 1 data, all operational LOUs have adopted this structure for publication of data for the entities whose LEI records they maintain. The content and form of the CDF are organized around the needs of Level 1 identification, including a set of status flags relevant to the state of the entity and the data in the record; the formal model for Level 1 history is still under development. A common data model for Level 2 data will be developed by the GLEIF, in consultation with the ROC and other stakeholders.

The ROC considers that the main policy requirements in this area are:

### **a) Extensibility and high-level structure**

The data model must be extensible to other classes of relationship, and sufficiently flexible to reflect different sources or level of validations, as envisaged in the rest of this document.

A key initial decision is whether the model for Level 2 data should be treated as an extension of the CDF or a separate model. The ROC believes, given the policy objectives above, that the model for relationship data should be represented separately; i.e. to consider a relationship among entities as an object in its own right.

Even if relationship information is collected as a separate type of object, this would not necessarily prevent entities from using the same interface to report, update or validate existing reference data and the new relationship data. The supporting structure for Level 2 data must relate seamlessly to all members of a relationship. Similarly, publication or display of the data should be managed in a way transparent to the user.

### **b) Data updates and maintenance**

The ability for entities to update relationship information as needed is important to maintain its viability, integrity and usefulness. This is discussed in more detail in the next section.

### **c) Data history**

For policy or research purposes, it may be more important to be able to trace the relationships among entities through time (including when a relationship starts or ceases to exist) than to trace changes in their Level 1 data, such as a change of address. Consideration of corporate actions such as mergers, acquisitions and spin-offs often figures prominently in constructing

---

<sup>50</sup> Given that LOUs have different sizes and cost structures, it may be that the price would be beyond the threshold for some LOUs and not for others. In this case, to determine whether the GLEIS should implement this collection, the price to take into account is the average price, weighted by the number of fee paying LEIs at end 2015.

meaningful time series. Thus, it is important from the start that history is built into the data model conceptually, even though the collection or management of such information may not be implemented in the first phase.

#### **d) Other policy requirements**

Other policy requirements include recording the level of validation and verification.

## **5 Business model for relationship data in the GLEIS**

The business model must be such that the system of Level 2 data pays its way. A question is to what extent Level 2 data collection would require adapting the current business model.

### **5.1 Relationship data collection in the current business model**

For Level 1 data, an entity registers and the LOU validates and publishes data, addresses updates or challenges, and annually revalidates the data; the cost to any entity at a given pre-LOU is approximately the same, regardless of whether the entity is easy or difficult to validate. The LOUs also provide the funding of the GLEIF, which publishes LEIs and LEI reference data consolidated across LOUs.

In the responses to the consultation there was a large support for generally preserving this business model, with LOUs collecting information from entities on their parent relationships and validating this information based on documentation that is provided by the entity or easily accessible. As explained earlier, preference will be given to sources that provide a sufficiently direct evidence of a given relationship. Allowing a lesser degree of validation for any changes occurring within an accounting cycle would also contribute to keep costs manageable.

Respondents generally did not consider it realistic that LOUs be expected to ascertain for themselves whether the definition of control or consolidation is met based on evidence of the number of shares held, and on an analysis of the exposure and rights to variable returns or a review of contractual arrangements. It was recognised that such validation costs could be much higher, with significant variations between entities depending on the complexity of the ownership structure. This would be especially the case if such verification had to take place separately for each link in the chain of control leading to an ultimate parent. Therefore, the ROC considers that this option is not suitable for the first phase.

Some other adaptations to the business model are likely to be necessary. For instance, as discussed above, it would be necessary to organise how a parent entity can choose to report a relationship instead of its being recorded during registration of the child entity. Similarly, data updates may require some adaptations compared to the existing practice, where data is certified by the entity at least annually with updates encouraged or required by contract or regulation as changes occur. There was a range of views during the public consultation as to the appropriate balance between the desirability of up-to-date information and the costs this would entail. In any case, the system will need to be able to manage changes reported yearly, and to keep the history including the date at which a situation changed, independently from when this change was reported. Therefore, the main cost for the system would depend on the level of validation,

and the ROC considers it acceptable that the level of validation be lower, at least initially, for infra-annual updates, provided this is flagged publicly.<sup>51</sup>

## **5.2 Other business models**

If LOUs were expected to conduct extensive verifications, they would need to hire relevant expertise, and charge entities based on the costs of this research. Such a change in business model could be risky, and the costs could deter LEI adoption. Although extensive verifications would contribute to better data quality, the extension of LEI coverage within groups could, over time, contribute to verify in a more cost-effective way the different direct parent relationships that lead to an ultimate parent relationship.

Yet another business model would be to rely on public authorities as direct contributors of Level 2 data in the GLEIS, where possible, and some respondents encourage using such sources to avoid duplicative reporting. Earlier in the report, regulatory sources were mentioned only as a way for the LOU to validate information reported by an entity. It could be envisaged in the future that some public authorities could agree to directly contribute relationship information to LOUs, or even directly to the GLEIF. However, the ROC has not identified regulatory sources that would both use strictly the accounting definitions proposed and be publicly available, although the US Federal Reserve Board NIC database would be the closest example. This type of approach might be more suitable when adding to the GLEIS relationships based on regulatory definitions, although several issues would have to be addressed, such as the role of entities, the accreditation or selection of relevant sources, the appropriate flagging of the provenance of the data and the ability to publish the data.<sup>52</sup> This avenue is not retained for the first phase of level 2 data.

## **6 Conclusion and next steps**

The collection of relationship data will open areas that are new from a global perspective and potentially difficult to address clearly from the start. As such, there will be a continuing need for decisions as the work progresses. Those decisions should be taken in light of their (1) potential benefits and costs, (2) feasibility of implementation, and (3) potential for unfavourably skewing incentives to participate in the GLEIS, particularly in terms of Level 1 coverage. Throughout the development of the first phase of implementation, the ROC will work closely with the GLEIF and the process will ensure input from relevant stakeholders. As regards future phases of development, further consultations may be conducted.

---

<sup>51</sup> See section 3.1 for more details.

<sup>52</sup> Regulators and public authorities collect information on group structures for a wide range of purposes, such as resolution planning, statistics, supervision, and market regulation. However, the legislative and regulatory framework for these data collection frequently do not allow this information to be published, and may as well restrict the sharing of information with other authorities, especially across borders or sectors.

## Table of abbreviations

BCBS	Basel Committee on Banking Supervision, see <a href="http://www.bis.org/bcbs/index.htm?ql=1">http://www.bis.org/bcbs/index.htm?ql=1</a>
CDF	Common Data Format (for LEI data)
CES	Committee on Evaluations and Standards (of the ROC)
EU	European Union
FASB	Financial Accounting Standards Board (in the US), see <a href="http://www.fasb.org/">www.fasb.org/</a>
FATF	Financial Action Task Force, see <a href="http://www.fatf-gafi.org">www.fatf-gafi.org</a>
FSB	Financial Stability Board, see <a href="http://www.financialstabilityboard.org/">http://www.financialstabilityboard.org/</a>
GDP	Gross Domestic Product
GLEIF	Global LEI Foundation, see <a href="https://www.gleif.org/en">https://www.gleif.org/en</a>
GLEIS	Global Legal Entity Identifier System
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
IAIS	International Association of Insurance Supervisors, see <a href="http://iaisweb.org/">http://iaisweb.org/</a>
IAS	International Accounting Standard (preceding IFRS)
IFRS	International Financial Reporting Standard (developed by the International Accounting Standards Board – IASB see <a href="http://www.ifrs.org">http://www.ifrs.org</a> ).
IOSCO	International Organization of Securities Commissions, see <a href="https://www.iosco.org">https://www.iosco.org</a>
LEI	Legal Entity Identifier
(pre-)LOUs	(pre-) Local Operation Units (of the Global LEI System); <i>The expression "pre-LOUs" is used to specifically refer to the LOUs endorsed by the ROC before the Global LEI Foundation is able to assume this function</i>
NIC	National Information Center (maintained by the Federal Reserve in the US)—see <a href="http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx">http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx</a>
OTC	Over the counter
PSPG	Private Sector Preparatory Group (of the ROC)
ROC	Regulatory Oversight Committee, see <a href="http://www.leiroc.org">www.leiroc.org</a>
US	United States of America
US GAAP	United States-Generally Accepted Accounting Principles



## Summary of responses to the public consultation

In September 2015 the ROC released a general Consultation document to the public outlining key parameters of the initial approach to implementing Level 2 data within the GLEIS. The consultation document and questionnaire can be found on the LEI ROC website ([http://www.leiroc.org/publications/gls/lou\\_20150907-1.pdf](http://www.leiroc.org/publications/gls/lou_20150907-1.pdf)). 28 responses were received, including 7 LOUs, 4 public authorities, and 17 private sector entities, 8 of which being responses by industry associations and other groupings. Not all responses addressed all questions in the public consultation.

Overall, the public consultation confirmed the main policy choices presented by the ROC:

- Accounting definitions were seen as the best starting point, despite not being crafted for this purpose and some drawbacks such as local variations in their implementation;
- There was broad support for continuing the existing business model of the Global LEI System, where LOUs collect information from registrants and validate the information based on reliable sources;
- The stepwise approach was not challenged;
- The importance of data history and of clarity on sources was recognised, although some noted that it should not lead to collect history prior to the implementation of the data collection, and that publishing the type of sources was sufficient.

However, a number of concerns were expressed, the main ones being:

- That there were other important relationships not captured by accounting consolidation, such as economic interdependence or funds and other vehicles managed by an entity on behalf of investors;
- That expanding LEI coverage was a first priority, before the collection of level 2 data, which major industry associations suggested to delay;
- The collection of level 2 data could be costly and time consuming for LOUs, which may not all have relevant expertise, and this could lead to an increase in fees which would slow down the expansion of the LEI. Costs for entities were also sometimes mentioned.

A number of responses also encouraged authorities to mandate the LEI as much as possible.

The final report published today reflects changes made by the LEI ROC to take into account those responses, in particular:

- LEI ROC is aware that this first phase may not meet all the needs expressed in the consultations and will work on expanding the scope of relationship data in future phases, in consultation with relevant stakeholders. The target implementation date was delayed.
- Additional clarity was provided on the due diligence expected from LOUs.

### Summary of Consultative Responses

The following sections summarize the consultative questions and responses. This information has guided in the ROC's decision-making regarding this initial implementation of hierarchy information.

## **Question 1: Uses of organizational relationship information**

*The ROC asked whether the types of relationship information the ROC had proposed to capture – immediate and ultimate parentage based on accounting consolidation principles – would provide useful information and whether this initial implementation should include additional requirements.*

The ROC found that general support existed for the uses stated in the consultation document. Among the 19 responses that specifically addressed this question, however, some suggested the approach is overly focused on regulatory needs and that a closer exploration of potential private-sector uses would be helpful, such as in uses related to expanding concepts of exposures and transparency-related work. Several suggestions stated the potential to build on the information over time, creating the ability to trace relationships or similar information historically. Simplicity at the start was recognized as important. One response suggested the initial focus should only deal with information for managing derivatives. An alternate suggestion argued that cross-border uses related to taxation, potentially involving data sharing among tax authorities, should be taken into account. Multiple responses stated the need for flexibility to accommodate potential future uses.

Notably, various responses suggested relatively small modifications which might be helpful, but none appear to identify major concerns with the proposed approach. There therefore seemed to be no argument among the responses based on use not to follow the plan for collecting organizational relationship information as proposed in the consultation document. Clear opinion existed in the responses that the relationship information will be useful for various needs and while adjustments or extensions might be appropriate in the future, the current proposed initial uses are in line with expectations.

There were a few suggestions for alternative approaches but none were unequivocally endorsed; one stated the ROC should explore whether exposures currently reported can be covered by the LEI. While these responses offer some ideas for the future, none offer any reason to change the initial approach from that outlined in the consultation document.

## **Question 2: Definitions of Parent Relationships**

*The ROC asked whether the accounting-based approach was a useful one or whether some other construct, such as legal control, would better serve needs.*

Among the 18 respondents who directly addressed this question, the overwhelming majority favored the use of accounting definitions. While some responses noted that the accounting definitions are not perfectly unambiguous or globally consistent, the belief was expressed they are a workable starting point. For example, some suggested that definitions involving “legal control” might come closer to meeting the most pressing needs, though they also recognized the need for further research on that approach. Another response recognized the proposed approach as best for the start, but it pointed to the need for some flexibility in its application in order to capture the most useful range of relationships. One respondent stated that using another approach at this time would create a burden.

The few less supportive responses still did not oppose the use of the accounting definitions but expressed the view that the approach is inferior to a definition based on control, but no universal definition was identified. One response addressed these concerns by stating a preference for the control definition but noting that the accounting definition is substantially easier to

implement. Another response noted that a rigorous application of the proposed accounting definition would result in the potential registration of entities which otherwise would not be required to obtain an LEI for purposes of regulatory reporting.

Moving forward, there was general support the accounting definitions provide the best initial basis for identifying data to support GLEIS purposes for level 2.

*The ROC asked whether there are known differences among existing accounting standards that could be expected to have material effects on the definition of parents proposed in this section, and for comments on the proposed definitions to help improve them*

Most of the 18 respondents directly addressing this question noted some issue with differences in accounting standards. Only one respondent was of the opinion the differences are material enough to cause a fatal flaw, because of a belief LOUs are not capable of coping with complex accounting principles; although no such concern was stated in this context by the other respondents, the issue emerged again in responses to Question 3.3 in the context of validation.

The ROC also found general support for the initial definitions among the 19 respondents that directly addressed this question. A few respondents suggested small modifications or expressed other concerns. One statement which appeared in multiple responses is that whatever standard is selected, it will be important to ensure that no effort is expected to fill in historical information. Another expressed the view that the definition of ‘majority control’ is crucial to understanding the role of a parent. A more frequently expressed concern was the potential for inconsistent reporting or treatment across entities. One suggestion was that data on the parent should be limited for simplicity sake, while another response noted that even though the proposal is reasonable, there will always be unaddressed scenarios. Others stated the parent definition should focus more on the ultimate consolidating parent version than the direct consolidation parent. One response suggested a public pilot first to build better understanding of the issues.

The responses to the public consultation did not request amendments to the broad definitions that were proposed, although there may be a need to refine them or provide implementation guidance, especially in case specificities emerge during implementation.

*The ROC asked what the priority should be for capturing additional hierarchy information in future implementations.*

Of the 20 respondents to this question, nine clearly preferred later phases focus on the addition of other relationship types before other parent definitions. One respondent stated that using the accounting standards is the only way to avoid a potential legal challenge to the overall approach. Another stated that using accounting standards for other relationships will allow more time for improved implementation.

Four respondents suggested more parent definitions should be added before dealing with other types of relationship. One of these noted that while parent relationships are the most useful, they are also difficult to define.

Some respondents suggested it is too early to decide on future phases and that the focus should be on getting the initial steps implemented correctly. While the concerns of these respondents are recognized, it is important to note there is no immediate plan for what the future level 2 phases will hold and the ROC intends not to make a final decision on future level 2 phases

based solely on information available to date. At this stage the intent is to proceed with the limited scope for the time being and expand as other needs arise.

### **Question 3: Data collection, validation and updates**

*The GLEIS is presently premised upon the principle of self- or assisted-registration. As a result, the system relies upon registrants obtaining an LEI, and it will commonly occur that a child's parent has not obtained an LEI. Consequently, the ROC asked a question about whether the preliminary conclusion that reporting of parent information by the "child" entity, combined with some option for the parent to report, is the best approach, given that not all parents report to the LEI system.*

General support existed from 24 respondents to this question that reporting by the "child" entity of parent information is the best initial approach for collecting such relationship information. Some responses indicated a preference that parents be the entity registering the relationship information. This comes in part from the expressed belief there will be efficiencies to obtaining information directly from ultimate parents about their organizational structure. "Bulk" registration from the parent level or similar ideas of assisted registration was emphasized by some as a way to achieve a manageable model. One response proposed allowing ultimate parents to serve as registration agents for their children. Another expressed the view that having the parent report makes more sense, because in principle the accountants or auditors of the parent determine how the child fits under the consolidated balance sheets. Despite these responses, the only response which outright rejected reporting of parents by child entities argued the ultimate controlling or accounting consolidating parent is the only party capable of reporting the necessary information.

Overall there was support for the notion of reporting parents in most circumstances but there were disagreements about whether it should be a requirement given the child is not likely to have as much relevant information as its parent. Some cautioned child entities may not always know the necessary information to allow for accurate reporting. Others attempted to find a middle ground suggesting the child submit organizational charts which they obtain from the parent. Other respondents disliked the ambiguity implied in the question about reporting options. One stated the concept of 'some option' for parental reporting is too vague to work. Others expressed concern over the ability of LOUs to validate information about the parent and stated that parents should only be identified if they are entities requiring LEIs. A similar comment stated whoever has the LEI should be reporting the relationship. Some supporters of requiring parent information only if they have LEIs opposed other recommendations to track entities without an LEI.

Some respondents supported collecting data on entities without an LEI, with part of them advising to record the parent legal name and some welcoming the use of a GLEIS-generated reference code to identify them. Some did not support the identification of parent entities with identifiers other than the LEI and advised instead that the parent should be required to register as an LEI. One LOU noted that dealing with parents without an LEI would impact the level of efforts, and that any additional validation cost would result in higher fees. Some expressed the need for flexibility in allowing entities to provide information. Others expressed resistance to allowing entities to decline to provide data on their parents, with supporting arguments focused on transparency and the potential for gaming the system. There was some support for collecting

data on relationships from public sources or for facilitating interoperability with relevant business registers.

While the comments offered a variety of considerations on when relationships for entities without an LEI should be published, it is essential that the preliminary decision be one that minimizes the potential for complexity

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

The 23 responses to this question largely stated concern over the scope and depth of any reconciliation process. Generally, they expressed some resistance towards allowing reporting from both bottom-up and top-down models because it would be burdensome or complex to reconcile. In any case, they expressed the view that it will need to be clear which party is ultimately responsible for any errors. Reconciliation of a complete relationship structure would often need to span multiple LOUs and potentially the GLEIF, thus requiring serious efforts for coordination and a clear plan for reconciliation. Some responses expressed the belief that such reconciliation is beyond the near-term capacity of the GLEIS. Another respondent stated that the amount of publicly available data should suffice to reconcile and add the needed clarity

*In the consultation the ROC identified sources for validating data on relationships and asked whether these will be sufficient and if other sources can be relied upon.*

Most of the 23 responses recognized the potential complexity in validating level 2 data and the associated costs, particularly during the first phase. Aside from fairly general indications, there was little discussion of what validation might entail, especially on a granular level. Ideally, validation will take place with well-defined and publicly available material, but many recognized this ideal will not always be attainable. There was some support for working toward defining appropriate validation sources, with guidance that might differ by jurisdiction, but there was also recognition that sometimes there will be no accessible information other than what can be provided by the registrant. Some recommended that where possible, efforts should be made to obtain a complete organizational chart or to involve the parent in the validation process.

There were several suggestions that level 2 implementation and validation should leverage existing information, such as regulatory data, business registers, vendor data and existing data already collected for statistical purposes. One response proposed a role for government authorities in validation. Some suggested that a challenge process, perhaps coupled with regulatory consultation, would be particularly helpful in validation. Another respondent emphasized a potential role for auditors and similar professionals in validating relationship data. There is some indication that LOUs may vary in their ability to assemble the necessary expertise for validation, and one respondent suggests that a “relationship validation service” might be created as a utility to assist LOUs in validation. One respondent discussed the challenges on the entity side in providing information, arguing that the expertise to give meaningful relationship data is different from that needed to provide level 1 data and that this issue may become more problematic than concerns related to cost. There was also some discussion on the need to account for privacy-related concerns both in reporting and in validating data.

Many responses supported providing information on validation sources to users, but there was less agreement on how particular the description of such information should be. Some opposed revealing the validation sources at all and some emphasized the confidential nature of such information.

The many different suggestions and comments to this question show the difficulty at this phase in defining validation in detail.

*The ROC asked questions about the need to record changes in relationships and the information that can be used to validate those changes.*

In general, there was a sense from the 24 comments that timely updates to relationship data would be useful, but there was recognition that frequent updates might stress the start-up of the system, impose heavy costs and pose serious difficulties for validation. Therefore it appears from the comments there is strong support for simplicity in incorporating changes in relationship data during the first phase of level 2 information collection.

Various ideas existed on how to incorporate changes in relationship information. Some recommended updating information only when there is a regular accounting basis for the update. There were recommendations that different validation sources, appropriately flagged, might be useful for updates between accounting cycles. Some even suggested that updates between accounting cycles should not be validated at all, or only minimally, and with this fact clearly flagged for users. Alignment of updates with regulatory or other accounting cycles was supported by multiple respondents. Some responses stated LEI registrants should be responsible for updating their relationships, with LOUs performing validation. Some suggested that corporate actions should be tracked in a systematic way, perhaps to encourage entities to update known changes, but others underscored the complications in adding this responsibility to LOUs during the start-up phase.

*The ROC understands that coverage of the LEI needs to be expanded, particularly so that relationships within complex global firms can be revealed and understood. The ROC asked for views on creating incentives to maximize coverage.*

The 20 comments to this question largely split around which of two strategies are appropriate to increase Level 2 coverage: lowering the cost of obtaining an LEI or imposing regulatory pressure/mandates to register. While both were addressed in the responses, there was stronger support for the desirability of regulatory pressure or mandates to increase coverage and data quality.

Many responses related to the costs for registrants, the LOUs or the GLEIF. Some noted the costs of compliance may differ across organizations or jurisdictions, with large sophisticated organizations possibly being more easily able to provide information. There was a suggestion that where a registrant can provide information to save LOU research time, a discount might be appropriate. Some responses strongly stated that registration and maintenance fees are an obstacle to the needed expansion of Level 1 coverage to create a high-quality system. Some expressed the view that the level of benefit available at this point to registration is too low to justify the costs. Some expressed a need for the LOUs to gain experience and build capital to support the move to Level 2. Some focused on the need for additional study or consultation on costs or the benefits of starting slowly in order to discover efficiencies as the collection of Level 2 data begins. Whether higher fees might be necessary to support implementation of Level 2

was an open question for some. Most responses made clear that while cost is something to be sensitive to, other potential incentives would more effectively increase coverage.

Across many respondents, including some respondents that cited cost as an issue, there was fairly broad support for the idea that regulatory mandates are necessary for incentivizing entities to register and for making the system useful. Many statements argued that some sort of regulatory pressure will be the best way to build up the database and improve the effectiveness of Level 2 implementation; once LEIs are broadly required they would simply become a cost of doing business and registration would be something expected not just by regulators but by other private entities. There were differences among respondents on how this pressure should be applied. Some expressed the view that there should be outright mandates while others argued for a more nuanced approach incentivizing registration or providing education about the usefulness of LEI.

There were many comments emphasizing the need to achieve cost efficiency and some comments pointed to a need for making clear why it is necessary to proceed with collecting relationship data now. Those that addressed both largely expressed the view that the larger obstacle is getting entities to want to register, not the registration costs. Cost concerns also are tied to the breadth of Level 2 reporting within complex organizations.

#### **Question 4: Data organization**

*The ROC asked for views on the organization of the hierarchy reference data.*

In total, 18 respondents addressed at least one of the two parts of this question. General support existed for the development and implementation of an extensible framework to contain the proposed Level 2 data, including a metadata framework flexible enough to contain a variety of relationship types. There was a wide array of possible suggestions which will be useful going forward as the system for Level 2 data is implemented.

Some noted specifically the desirability of having relationship records distinct from, but linkable with, the Level 1 reference data, including a specific identifier for each relationship. There were a few fairly specific suggestions for how relationship data might be organized as a data record; one operating via a code joining two LEIs and the other proposing a type of pyramid structure. There were several comments about the importance of maintaining the history of relationships, with both beginning and ending dates. One response also identified a need to have historical metadata to support the interpretation of historical data on relationships. Some suggested deferring the development of history until the Level 2 system is in place. It was also noted that even if implementation starts off without historical data, the GLEIS will quickly build up a historical database going forward. One comment recommended that the Level 2 data be structured in such a way that it could become part of a real-time searchable network, accessible much as the Internet is.

Several comments recommended additional consultation with users and with industry, particularly data vendors, on the organization and specification of the relationship information. One response noted the importance of developing a search capability for Level 2 data. Another recommended developing a facility for the graphical display of relationships. One suggested LEI's which are reorganized be flagged with a "reorganized" tab so they do not simply show up as an expired LEI.



**Question 5: Business model for relationship data in the GLEIS:**

*The ROC asked for confirmation that collecting hierarchy data should be done through the LOUs as is the case for all other LEI data.*

There was broad support overall among the 18 responses for retaining a central role for LOUs in the collection of Level 2 data, since this would take advantage of both the established framework of LOUs in the GLEIS and their existing connections to registrants. One response noted specifically that this approach is the most expedient and efficient option. However, there was substantial support for additional thought on how work might be arranged, particularly in light of issues related to the potential complexities of validation work, the consequent operational and cost implications, and the expected variation in the abilities of various LOUs. While expressing flexibility about the optimal business model, one respondent emphasized the need for a clear and uniform model as the central methodology. Many comments overlapped with points also raised in the responses about validation. Specific concerns were raised about the necessary expertise in both local languages and local legal frameworks that will arise in addressing relationships that span multiple jurisdictions. One respondent recommended establishing a “relationship validation service” to which LOUs might turn, as noted above, and another recommended deeper involvement of auditors and similar professionals. It was also noted by some that it is not yet clear what the cost implication of Level 2 might be, especially in the case where an entity involved in a relationship does not have an LEI and there is a requirement to record and validate the relationship. One response opposed the proposal stating that it is questionable whether an LOU can properly validate the information, given the costs of doing so.

Like the responses to many of the other questions, the concerns expressed here did not so much relate to whether the LOUs are best positioned to implement Level 2 initially, but what larger scale decisions can be made to improve the process. Respondents raise points which will need to be reviewed and taken into consideration before future steps beyond the initial Level 2 implementation can be completed. At this time though there appears to be no major objections to the assumption for the first stage that the LOUs are best positioned to implement the collection of relationship data, and thus this initial implementation will follow the normal course of LEI registration and maintenance.

**Question 6: Conclusions and next steps:**

*The ROC asked for any further information that could be helpful to the ROC in implementing hierarchy information.*

There appeared to be broad support for the proposed steps for collecting Level 2 data, but a minority called into question the need for such information, particularly given the costs and the availability of relationship information from other sources. The 17 respondents to this question generally reiterated the concerns they mentioned in earlier responses they felt were most problematic to successful Level 2 implementation. Throughout most responses, the need to increase Level 1 coverage and the need to address costs were emphasized, while a number of respondents suggested that implementation of Level 2 should be delayed until Level 1 coverage is higher, or at least be phased in slowly, perhaps over a period of up to 2 years or after the LOUs are accredited. Some responses underscored the need to work with the industry to develop more compelling reasons to support both Level 2 and Level 1. Other comments

suggested that lowering costs is a key priority for making progress and some felt that a clear plan with an accompanying timeline is essential.