

ClientAlert

Bank Advisory

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Federal Reserve Board Proposes to Include Legal Entity Identifiers in Certain Banking Organization Reporting



One difficulty encountered by national banking authorities during the course of the 2008 global financial crisis was identifying the ultimate parent for the trades made by various subsidiaries of dealers. To assist in reducing that difficulty the Financial Stability Board in January 2013 established the Regulatory Oversight Committee (“ROC”), a group of over 60 public authorities from more than 40 countries, to coordinate and oversee a worldwide framework of legal entity identification, the Global LEI System. The Legal Entity Identifier (“LEI”) is a 20-digit alpha-numeric code that uniquely identifies legally distinct entities that engage in financial transactions.¹ The LEI supports national financial authorities and market participants in identifying and managing financial risks. In particular, ROC intends for LEIs to be used for trade and regulatory reporting and other supervisory purposes in the various jurisdictions represented in the ROC. The LEI code is associated with reference data for each entity, currently including core identification information, such as the official name of the legal entity, the address of its headquarters and address of legal formation. More than 300,000 LEIs were issued to entities in over 180 countries as of January 2015.

On March 16, 2015, the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) proposed an information collection activity that would require banking organizations, including top-tier bank holding companies, foreign banking organizations and security holding companies, to include, if available, their LEIs in the following reporting forms: FR Y-6 (Annual Report of Holding Companies), FR Y-7 (Annual Report of Foreign Banking Organizations), FR Y-10 (Report of Changes in Organizational Structure) and FR Y-10E (Supplement to the Report of Changes in Organizational Structure).²

The Federal Reserve Board hopes that the inclusion of LEIs in FR Y-6, FR Y-7, FR Y-10 and FR Y-10E will enable more effective “measurement and monitoring of the exposures of a [banking organization]’s legal entities, especially in times of stress.”³

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1 The term “legal entity,” as defined in the standards established by the International Standards Organization (“ISO”) for financial services LEIs, includes unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way. This includes all financial intermediaries, banks and finance companies, all entities that issue debt, equity or other securities for other capital structures. ISO 17442:2012.

2 Federal Reserve Board, Proposed Agency Information Collection Activities (March 16, 2015) (“Proposed LEI Information Collection Release”) available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20150316a1.pdf>.

3 Federal Reserve Board, Press Release (Mar. 16, 2015), available at <http://www.federalreserve.gov/newsevents/press/bcreg/20150316a.htm>.

The Federal Reserve Board is only proposing the reporting of LEIs to the extent they are already available. The Federal Reserve Board information collection does not require a reportable entity to obtain an LEI for the sole purpose of including it on the applicable reporting forms.⁴

According to the Federal Reserve Board, the proposal is responsive to a global framework introduced by the Financial Stability Board, one that seeks to establish an identifier system that would uniquely identify parties to global financial transactions.

Under the proposal, banking organizations are required to include the LEIs of all banking and nonbanking legal entities reportable in their respective FR Y-6 and FR Y-7 organizational charts as of June 30, 2015 and on the Banking, Non-Banking, SLHC and 4K Schedules of FY Y-10 filings. In addition, a one-time information collection as of June 30, 2015 will require banking organizations to submit LEIs for all FR Y-10 reportable entities, excluding branches.

The Federal Reserve Board is seeking comment on whether collecting LEIs solely for FR Y-10 reportable entities would be sufficient as opposed to LEI collection for each entity included on FR Y-6 or FR Y-7 organizational charts. Comments on the proposal are due 60 days from the publication date of the proposal in the Federal Register.

This is the tip of the iceberg with respect to LEIs. The Federal Reserve Board, Commodity Futures Trading Commission, the Securities and Exchange Commission and the National Association of Insurance Commissioners now use LEIs in some of their data collections. In addition, LEIs are becoming the required method for identifying counterparties.⁵

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⁴ Proposed LEI Information Collection Release, *supra* at 7.

⁵ See, e.g., CFTC, Final Regulations on Swap Data Recordkeeping and Reporting Requirements, 77 FR 2132 (Jan. 13, 2012).