

**Alistair Milne**, Professor of Financial Economics  
Direct Line: +44 (0)1509 222718 Fax: +44 (0)1509 223910  
E-mail: [A.K.L.Milne@lboro.ac.uk](mailto:A.K.L.Milne@lboro.ac.uk)  
<http://www.lboro.ac.uk/>

Thursday, 28 November 2013

Dear Sir

This letter is a response to the EBA's consultation on the use of the pre-LEI codes as a unique identifier for the regulatory reporting of credit and financial institutions in the European Union.

I am writing as an independent researcher and commentator on issues of financial regulation, who is currently engaged in research on the global legal entity identifier. I am happy for this response to be published on your website.

My answers to your three questions are as follows:

1. Which are your views on the use of pre-LEIs as unique identification codes for supervisory purposes for credit and financial institutions in the European Union?

The use of standardised entity identifiers promises substantial cost savings to firms, both in regulatory reporting and in their internal management of client and counterparty data.

These savings will be fully achieved only if one system of entity identifiers becomes the universal global choice in all business information and in regulatory reporting applications.

I therefore fully endorse the recommendation that pre-LEIs be used for regulatory reporting in the European Union, rather than ECB MFI-IDs, BICs or a new identifier, because this is the choice that does most to move us towards a universal global system.

From this perspective creating a new EBAS specific identifier is obviously a step in the wrong direction. Similarly the use of ECB MFID-IDs, as the consultation paper notes, is not ideal, because it is regional not global. Indeed it may be worth acknowledging this is the rationale for MFI-IDs eventually being replaced by the LEIs. A key FSB and the G20 objective for the introduction of the LEI is to support monitoring of the stability of the financial system at a global level, and doing this effectively necessitates the use of global not regional identifiers.

A possible alternative would have been the use of the BIC as the universal legal identifier instead of the global LEI. This though is not a decision for the EBA alone but rather for the global regulatory community in consultation with the industry. This possibility was indeed considered in the preparatory work for the global LEI, but was rejected for good reasons, including (a) the difficulties of collecting and properly validating necessary supporting reference data if the BIC

were used outside of the payments space (b) the challenge of dealing with mergers and other changes in corporate form.

It is clear that the short term additional costs of setting up and implementing the LEI as the new global entity identifier, rather than adapting BIC, are fully justified by the medium and long term benefits of a new identifier suitable for use in all business and regulatory reporting applications, and the EBA's recommendation for the use of the global LEI in regulatory reporting is justified.

2. Can you provide inputs for assessing the costs and benefits of this draft recommendation?

My recent research on the LEI: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2325889](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2325889) may be a useful input for the cost-benefit assessment.

While not easy to quantify, I think the cost-benefit should take into account the wider impacts of using the pre-LEI on (i) overall reduction from using a universal global entity identifier in costs of data management and reporting for financial institutions, across all the jurisdictions in which they operate (ii) the broader benefits of standardised identification, beyond those arising in data management and regulatory reporting. Our paper discusses these points.

3. Please, provide your feedback on the proposed timeline and the proposal of having less tight deadlines for banks not included in the EBA sample.

I don't have strong views on this, other than to say that anything that encourages the uptake of the LEI is welcome, so nothing should prevent banks from voluntarily using the LEI for identification in regulatory reporting.

One other related point: I would have thought that the LEI should in time become an integral part of large exposure reporting, with credit and financial institutions required to report the LEI of all their major counterparties. This way the regulators are in a position to assess counterparty and credit risk at the level of the systems as a whole.

While this is not part of the current EBA recommendations, an indication that this may be a further possible step, will be a useful incentive for the further implementation of LEI in banks own internal systems.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alistair Milne', with a horizontal line underneath.

Alistair Milne