EUROPEAN CENTRAL BANK

EUROSYSTEM

Harmonisation in Investor Identification

Summary of DIMCG separate session

18 January 2021

4th Debt Issuance Market Contact Group meeting

27 January 2021

Introduction

- In its 16 December telco the DIMCG agreed to hold a dedicated focus session on harmonisation of investor identification with volunteering members
- The session was held on 18 January with an active participation of banks and issuers
- The following slides aim to provide the key takeaways from the discussion

Main key takeaways

- Harmonisation work on investor identification should have at least two objectives:
    I. Help / make the allocation process and decision more efficient for all stakeholders (increase speed and accuracy without creating more complexity)
    II. Equip issuers and deal managers with a better tool to build more accurate historical databases on investor participation / behaviour
- Work should take into account / build on the existing allocation process which can be efficient at the level of individual stakeholders by means of proprietary ids
- Common rules on investor identification should bring harmonisation across stakeholders and across transactions but should also remain flexible and robust to changes in investor status and behaviour

Main key takeaways

- Question on the product / output of harmonisation:

  A. A common scheme / protocol (set of rules to provide guidance for stakeholders using decentralised datasets)

  or

  B. a common / shared database of investors with single id and reference data

- A common database could increase efficiency significantly but raise more difficult questions on governance, data ownership, liability and flexibility

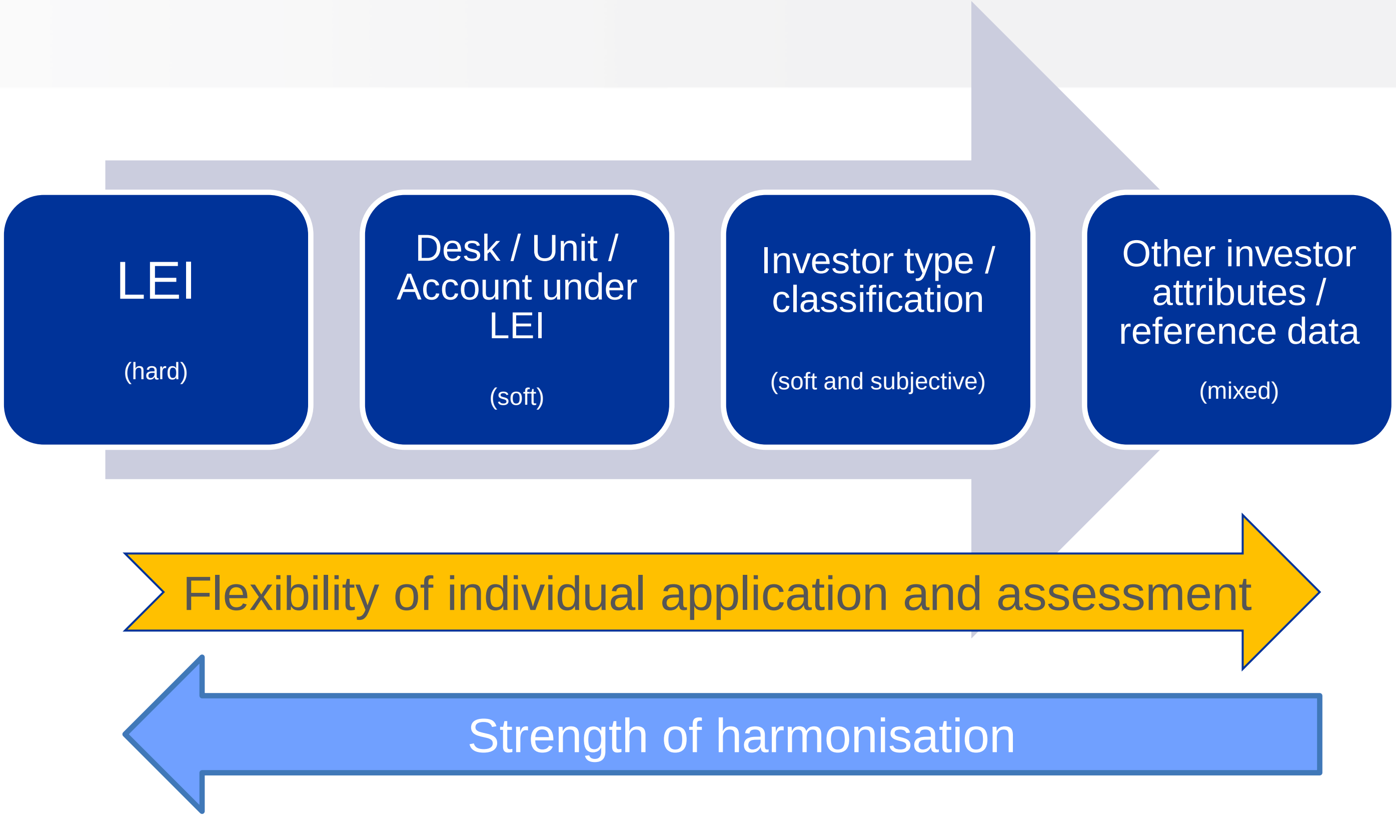
- A single protocol may not generate strong enough adherence but would be better suited to leave flexibility and building own datasets while contributing to efficiency

Main key takeaways

Consensus on a layered approach

1. Start with LEI
   - ✓ LEI is a good starting point but falls short of the data required for unequivocally identifying an investor
2. Identification of business areas / desk / accounts (under same LEI)
   - ✓ Asset manager, fund, treasury / execution desk …
3. Allocation Identifier – investor classification
   - ✓ Buy and hold, trading, …
4. Other relevant attributes / reference data
   - ✓ Region, investor status, green status, size, …

Main key takeaways



Main key takeaways

1. Start with LEI

- Seems to be the most prominent identifier as it could:
  - ✓ contribute to efficiency gains when checking duplication in allocation proposal
  - ✓ be used for managing historical databases
- LEI can be used for most wholesale investors (no better alternative)
- But…how many entities in a given book do not have LEIs? (e.g. funds, private / retail investors)
- For non-LEI holders potentially use a substitute code / common identifier?
  - ✓ Volunteer exercise to check current LEI coverage among stable EUR investor base

Main key takeaways

2. Identification of business areas / accounts (below LEI level)

- Define a set of standard labels / suffix codeset to designate unit / account under LEI
- The codeset could be standard but flexibly extensible…
    - ✓ E.g. Asset management unit, treasury / execution desk, fund (if fund does not have its own LEI)
    - ✓ Question is whether only a set of labels or to include reference data
- Should the investor be allowed to select / designate (banks, issuers may not have the info) – question of verification / potential misuse?

Main key takeaways

3. Allocation Identifier – investor classification

- Identify investor type for purpose of allocation and related ex-post analysis
- Set of labels can be defined / agreed but assigning them to investors is a delicate matter – harmonisation should provide tool but should not limit individual assessment
- Should be flexible
  - May have a default value for a given investor / investor desk
  - Can be changeable, since investor behaviour may change between transactions
- Question of whose assessment it should reflect?
  - Could be different amongst issuers, syndicated managers, investment banks? If yes, how to best consolidate?
  - Could be provided by investors themselves, by a self-assessment?

Main key takeaways

Challenges

- Banks in a syndication trade may have a different approach to classify an investor
- How to consolidate if self-assessment provided by Investor differs from Banks views ?
- Mapping with historical data
- Investor willingness to provide information regarding their classification
- Data protected from secondary market trading / private investors that cannot be shared
- Adoption of standards by full community
- Address governance of such protocol / scheme / define options at a later stage

Main key takeaways

Next steps:

- DZ bank and ESM volunteered to look into its books to check:
  - ✓ the percentage of entities that do not have LEI
  - ✓ Type of investors within its books
- Additional dedicated session on Investor Identification taking into account:
  - ✓ Conclusions from DZ Bank and ESM exercise
  - ✓ Feedback received from DIMCG

Thank you for the attention

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