



## asset management group

March 31, 2017

**Via Email** ([leiroc@bis.org](mailto:leiroc@bis.org))

Legal Entity Identifier Regulatory Oversight Committee

**Re: Draft Consultation Document on Funds Relationships in the Global LEI System**

Dear Sirs and Madams:

The Securities Industry and Financial Markets Association's Asset Management Group ("SIFMA AMG" or "AMG")<sup>1</sup> appreciates the opportunity to provide preliminary feedback to the Legal Entity Identifier Regulatory Oversight Committee ("LEI ROC") regarding its draft Consultation Document on Funds Relationships in the Global LEI System (the "Draft Consultation"). As detailed below, AMG believes that the Draft Consultation should be more purpose-driven and that the LEI ROC should consider whether further requirements should be imposed at this time.

### 1. Purpose of Level 2 Data

AMG, in considering the Level 2 data proposed and questions presented, does not believe that the Draft Consultation provides sufficient explanation of the purpose for obtaining Level 2 data fields from investment funds. We understand that the Draft Consultation seeks input on how the fund relationships should be collected and recorded in the global LEI system, and proposes to replace the current optional reporting of a single "fund family" relationship as part of the "Level 1" reference data with the reporting of more granular relationships as part of the "Level 2" data. However, the Draft Consultation does not indicate whether the data is sought to understand, among other things, liability and risk concentration, investment decision-making, or risk management. Without understanding the information gap being filled by this data, AMG will be challenged to provide constructive responses to the questions presented.

Relatedly, the Level 2 data does not differentiate fields being collected along purpose-driven objectives. Instead, the Draft Consultation treats a range of relationships as one in the same. For example, the same information is sought for fund structures with combined liability under accounting standards (*e.g.*, master/feeder fund relationships) and structures that are bankruptcy remote (*e.g.*, umbrella fund relationships). Likewise, the "Fund Management Entity" field seek to

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<sup>1</sup> SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG's members represent U.S. and multinational asset management firms whose combined global assets under management exceed \$39 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

capture varying dimensions of fund relationships without differentiating among investment management authority, risk management, custodial responsibility and administrative authority. Without differentiation, we do not believe that this information will be useable by regulators quantitatively, and will have limited use qualitatively.

Additionally, we believe that imposing reporting fields that are not anchored by a purpose will lead to inconsistent submissions. If investment funds understand that a certain field is intended to measure concentration of risk or trading control, for example, the intended purpose will provide direction on which of the myriad relationships should be identified in response.

## **2. Assessment of Burden Imposed by Level 2 Data**

AMG believes that the regulatory need for imposing additional reporting requirements should be considered by the LEI ROC in deciding whether to proceed with its Draft Consultation and, ultimately, whether to impose Level 2 requirements upon investment funds. We believe that part of the LEI ROC's assessment of the need for Level 2 fields should include whether these fields will provide overlapping information with other LEI fields. For example, capturing master/feeder fund information via fund family relationship fields would likely overlap with parent/affiliate relationship information. Likewise, we believe that the LEI ROC should consider overlap between the Level 2 requirements and transaction-level reporting fields that are already collected on a transaction-level basis. If, for example, more granular information on the entity controlling trading decisions is being provided on a trade-by-trade basis, requiring similar information on a generic basis for an investment fund may create more noise and add burden without much benefit.

In addition, AMG believes that an assessment of reporting burdens may be challenging at this time and run counter to broader efforts to optimize rather than add to existing regulatory requirements. The European Commission is currently reviewing the cumulative effect of new financial sector rules, including its Call for Evidence and review of the European Market Infrastructure Regulation ("EMIR"); the Committee on Payments and Market Infrastructures ("CPMI") and the International Organization of Securities Commissions ("IOSCO") continue their review of data harmonization; and the U.S., pursuant to the Presidential Executive Order on Enforcing the Regulatory Reform Agenda, has initiated a review of regulatory burden across all sectors, including the financial industry. As part of these reviews, AMG and others have identified ways that reporting can be streamlined and improved,<sup>2</sup> and we await the results of these analyses. Given this context, we suggest that these optimization exercises be completed before additional burdens are imposed.

Further, AMG is concerned that imposing Level 2 data requirements at this time will complicate the work underway to implement the Markets in Financial Instruments Directive ("MiFID II") requirements and reporting enhancements finalized by the Securities and Exchange

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<sup>2</sup> See, e.g., AMG Comments to CPMI and IOSCO on Harmonisation of the Unique Product Identifier (September 30 2016), available at: <http://www.sifma.org/issues/item.aspx?id=8589962727>; AMG response to the European Commission EMIR Review Consultation (August 16, 2015), available at: <http://www.sifma.org/issues/item.aspx?id=8589955996>.

Commission (“SEC”) for investment companies and investment advisers.<sup>3</sup> The marketplace will be heavily burdened with the new MiFID II “do not trade” rules imposing the need for many new entities to register for LEIs, and as part of that registration, for immediate and ultimate parent information to be provided. Likewise, the SEC’s changes to Forms N-Port, N-CEN and ADV are currently being absorbed in the U.S. We strongly suggest that an implementation of new guidance for funds be delayed at least until 2019 so that the market can first adoption the Phase I – Level II requirement before additional guidelines are layered on for fund relationships.

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For these reasons, AMG recommends that the LEI ROC:

1. Consider providing further background on the regulatory aims sought to be achieved by collection of the additional Level 2 data and align data fields to the regulatory goals;
2. Consider whether regulatory goals of obtaining Level 2 data from investment funds overlap with existing LEI data fields and transaction level data; and
3. Consider whether Level 2 data should be imposed at this juncture, given the regulatory optimization reviews underway and the current work underway to comply with MiFID II.

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Should you have any questions or wish to discuss these matters further, please do not hesitate to contact Laura Martin at 212-313-1176 or [lmartin@sifma.org](mailto:lmartin@sifma.org) or Elisa Nuottajarvi at 212-313-1166 or [enuottajarvi@sifma.org](mailto:enuottajarvi@sifma.org).

Respectfully submitted,

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<sup>3</sup> Press Release “SEC Adopts Rules to Modernize Information Reported by Funds, Require Liquidity Risk Management Programs, and Permit Swing Pricing” (Oct. 13, 2016), *available at*: <https://www.sec.gov/news/pressrelease/2016-215.html>; Press Release, “SEC Adopts Rules to Enhance Information Reported by Investment Advisers,” *available at*: <https://www.sec.gov/news/pressrelease/2016-168.html>.