



September 20, 2018

**Sent via Email**

Mark Carney  
Chair  
Financial Stability Board  
Bank for International  
Settlements CH-4002  
Basel,  
Switzerland  
[fsb@fsb.org](mailto:fsb@fsb.org)

Re: *Thematic peer review on implementation of the Legal Entity Identifier:  
Summary Terms of Reference*

Dear Chair Carney:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Financial Stability Board's (FSB) *Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference*.<sup>1</sup> Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 68,000 credit unions in 109 countries with USD 1.8 trillion in total assets serving 235 million physical person members.<sup>2</sup>

World Council supports continued development of the Legal Entity Identifier (LEI) and the Global Legal Entity Identifier System, however, we urge the FSB and other policymakers to incentivize increased uptake of the LEI rather than to mandate its usage per se, especially for smaller financial institutions. We believe that increased usage of the LEI can help limit unreasonable regulatory burdens on credit unions and other community-based financial institution so long as obtaining an LEI is voluntary or is only required when institutions enter into specific types of financial transactions, such as derivatives trades.

We do not support mandating that all depository institutions obtain LEIs at this time because updating a credit union's or bank's back-office computer systems to accommodate a new identification number can be very expensive, in addition to the

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<sup>1</sup> Financial Stability Board, *Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference* (Aug. 2018), available at <http://www.fsb.org/2018/08/thematic-peer-review-on-implementation-of-the-legal-entity-identifier-summary-terms-of-reference/>.

<sup>2</sup> World Council of Credit Unions, *2016 Statistical Report* (2017), available at <http://www.woccu.org/publications/statreport>.

costs associated with any applicable LEI-related registration fees. We do see value, however, in the FSB encouraging increased use of the LEI in several compliance areas, in order to reduce potential redundancy and confusion in terms of identification of financial institution counterparties, while also respecting smaller institutions' freedom of choice not to register for an LEI if doing so would be unreasonably expensive.

Currently, World Council's members report that obtaining an LEI is most often required for participants to derivatives transactions. We believe that this is a right-sized approach because usually only credit unions and mutual banks with more than USD 1 billion in assets engage in derivatives transactions. For these institutions, the costs of updating their computer systems to incorporate the LEI or to pay LEI-related registration fees are relatively low compared to their economies of scale.

In addition, the Financial Crimes Enforcement Network (FinCEN), the US Treasury Bureau that serves as the financial intelligence unit of the United States of America, in 2016 rejected the proposed mandatory use of the LEI for anti-money laundering/countering the financing of terrorism (AML/CFT) customer due diligence purposes because "the overwhelming majority of legal entities subject to this requirement will be smaller or non-financial entities that would not be typical applicants for LEIs in the first instance, and that the costs of mandating its use solely for the purposes of the Certification Form would not be outweighed by the benefit."<sup>3</sup>

We believe that FinCEN's reasoning is equally applicable to the majority of the world's credit unions, which have an average asset size of approximately USD 26 million in total assets.<sup>4</sup>

World Council, however, does believe that giving financial institutions the option to use the LEI can help reduce regulatory burdens in areas such as:

- (1) By improving beneficial ownership information in the context of financial institutions' AML/CFT customer due diligence, when the potential customer already possesses an LEI;
- (2) By helping to identify payments beneficiaries, originators and intermediaries when those beneficiaries, originators and/or intermediaries already possess an LEI;
- (3) By helping to identify reporting entities and counterparties in credit registries, where the reporting entity and/or the counterparty already

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<sup>3</sup> Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29398, 29406 (May 11, 2016), available at <https://www.federalregister.gov/documents/2016/05/11/2016-10567/customer-due-diligence-requirements-for-financial-institutions>.

<sup>4</sup> See World Council of Credit Unions, *2016 Statistical Report* (2017), available at <http://www.woccu.org/publications/statreport>.

possess LEIs; and

- (4) To serve as an identifier in other situations where a legal entity identification system would be needed; in this way, the LEI may help reduce unnecessary compliance burdens by minimizing the number of potential future technology system upgrades needed. In theory, if only one future system upgrade—i.e. to add LEI capabilities to the institution's back-office systems—were to be necessary, financial institutions' future compliance costs could be decreased.

While World Council does not support mandating that all depository institutions obtain LEIs at this time we do see value in the FSB encouraging increased use of the LEI, while also respecting smaller institutions' freedom of choice not to register for an LEI if doing so would be unreasonably expensive.

World Council appreciates the opportunity to comment on the FSB's *Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference*. If you have questions about our comments, please feel free to contact me at [medwards@woccu.org](mailto:medwards@woccu.org) or +1- 215-668-5240.

Sincerely,



Michael S. Edwards  
VP and General Counsel  
World Council of Credit Unions