The seventh webinar in the series will discuss Introduction of LEI in ASEAN.

**LEI Application in Malaysia**
Malaysia introduced LEI in 2018 for bond transactions to identify holders of Malaysian bonds via its large value payment system as part of its initiative for enhanced transparency and facilitating greater surveillance in the onshore financial market. Malaysia has also expanded the application of LEI into other financial reporting (FX) and is able to leverage on these information to formulate policies and develop useful tools for investors.

**ADB’s Proposal to Standardize Foreign Exchange Reporting**
Through the Account Structure Study to Improve Know-Your-Customer Processes for Regulatory and Tax Reporting in ASEAN+3, the ASEAN+3 Bond Market Forum (ABMF) identified two distinctive Know-Your-Customer (KYC) processes; initial KYC and transactional KYC processes, which classifies customers’ status for regulatory and tax reporting purposes. Initial KYC will always be required, regardless of whether future transactions of a customer. On the other hand, transactional KYC processes may be streamlined and standardized by utilizing the LEI. In addition, using the LEI in foreign exchange reporting with an application of ISO 20022 would create a large room for much quicker, easier, and automated reporting. ADB will share the discussion under the ABMF and regional plan for the standardization.
Nurashiqin is a Deputy Director in the Governor’s Office and plays a dual role as the Deputy Director overseeing the domestic financial markets in the Investment Operations and Financial Market Department of Bank Negara Malaysia. She is responsible in driving the strategic business plan of the central bank and provides strategic support to the Governor and senior management of the Bank. As part of her role in domestic financial market development, she is responsible in strategizing development initiatives to enhance efficiency, liquidity and surveillance in the domestic financial market as well as providing financial advisory to the government in its public debt issuances.

With more than 16 years of experience in treasury operations and financial markets, she has led various market development initiatives, which include amongst others, the dynamic hedging program as well as developing market infrastructures to facilitate domestic bond market surveillance.

Nurashiqin began her career at Bank Negara Malaysia in 2005 in various roles including the foreign exchange management unit, money market and securities operations before being in charge of her current portfolios. She holds a Master of Science in Wealth Management from Singapore Management University and a Bachelor of Financial Engineering (Hons) from Multimedia University. She is also a member of the Financial Markets Association of Malaysia and a licensed treasury dealer.
SESSION 1

MS. NURASHIQIN ASRI
Deputy Director, Governor’s Office
Investment Operations and Financial
Market Department
Bank Negara Malaysia
Malaysia’s experience on adoption of LEI in domestic financial markets
Enhanced surveillance and transparency are important elements of market development.

Developments of domestic financial market

Non-resident holdings

Policy tools developed to manage risks

Policy Objectives

- Entails effective surveillance, including identifying potential risk build-ups from behaviour and tendencies of investors
- Greater flexibility on the onshore FX market to facilitate global investors transition

Emerging Risks

- Rising NR government bond holdings leads to potentially greater vulnerabilities to global markets sentiment
- Opaque offshore market continued to grow with negative spillover risk to onshore market

Policy Tools Developed

- RENTAS Segregated Securities Account (SSA)
- Dynamic Hedging Programme

Source: Bank Negara Malaysia
Introduction of LEI in domestic bond market in 2018

- In an effort to strengthen financial market infrastructure, Bank Negara Malaysia in collaboration with Financial Markets Committee (FMC) in 2018, implemented segregated securities account structure in the domestic large value payment system (RENTAS), which serves as both central depository of scripless debt securities and wholesale payment infrastructure.

- **LEI was introduced as a unique identifier for ultimate beneficial owners** of the segregated securities accounts (SSA) in addition to the SSA number.

- Key objectives to utilise LEI and introduce SSA structure were:
  i. Greater transparency with centralised real time data
  ii. Improve overall operational efficiency by reducing manual reporting burden of depositary institutions
  iii. Facilitate effective surveillance in the onshore financial market
Implementation and challenges

Key considerations in implementation

**Channel: Operating Procedures vs Policy**

**Consideration:** Efficient implementation with minimal additional workload on investors

**ID selection: LEI or Internal custom ID**

**Consideration:** Cost to investors, familiarity and operational efficiency

**Level of segregation: Fund manager/Entity level vs End beneficiary**

**Consideration:** Level of disclosure required for effective surveillance

Challenges

**Onboarding of Local players**

- **Increase awareness:** Publish factsheet on LEI including introduction of Local Operating Units (LOUs), indicative fees and application process. Please refer to the following link: [https://www.bnm.gov.my/documents/20124/54166/Legal+Entity+Identifier+%28LEI%29.pdf](https://www.bnm.gov.my/documents/20124/54166/Legal+Entity+Identifier+%28LEI%29.pdf)

- **Introduce threshold:** Exclude retail investors and corporates with less than RM1 million holdings from segregated account requirement
Benefits of introducing SSA structure with LEI as identifier

Experience Thus Far

**Effective surveillance and lower operational burden**
- Real time data as holdings changes at end beneficiary level are fully reflected in the system upon settlement
- Remove monthly manual reporting requirement by custodian banks
- Investors with existing LEI has no additional requirement of obtaining new identifier

**Policy formulation is able to leverage on the infrastructure**
- LEI serves as an unique identifier across different data infrastructures and allows for seamless surveillance across different platforms. This provides policymakers greater flexibility when formulating policies.
- For instance, BNM has introduced the Dynamic Hedging programme, which allows institutional investors to actively manage their FX position with eligible underlying without the need to show documentation. This is predicated on BNM’s ability to conduct necessary monitoring to ensure the investors abide by the Foreign Exchange Policy rules while reducing operational requirements between onshore banks and investors.

Moving Forward

Continue to facilitate effective surveillance, with potentially wider adoption of LEI in other financial instruments and reporting
Thank you
SESSION 2

MR. SATORU YAMADERA
Advisor
Economic Research and Regional Cooperation Department (ERCD)
Asian Development Bank
ADB-GLEIF Joint Asia Webinar Series on Legal Entity Identifier (LEI)

Webinar 7: Introduction of the LEI in ASEAN
ADB’s Proposal to Standardize Foreign Exchange Reporting
FX reporting in ASEAN+3

• In principle, cross-border transactions must be reported to the central banks in ASEAN+3.

• Reporting formats and systems are proprietary.

• However, reporting items are similar.

• As discussed under the ABMF account structure study, tax procedures can be streamlined in relation to transactional KYC, reporting of investors’ residence.

• The G20 has made enhancing cross-border payments a priority.

• The G20 roadmap by FSB and CPMI promotes the adoption of common data formats for cross-border transactions.

• ABMF will discuss the standardization of the FX reporting in ASEAN+3, aiming at automated real-time reporting under ISO 20022.
Institutional Framework of ASAEN+3 financial cooperation

Finance Ministers and Central Bank Governors Meeting

Deputy Ministers and Deputy Governors Meeting

CMIM*
Regional safety net

ADB as the Secretariat

ABMI
Asian Bond Markets Initiative

Promoting LCY bond markets to address the double mismatch problem

TF 1
(Supply)

TF 2
(Demand)

TF 3
(Regulation)

TF 4
(Infra.)

ASEAN+3 Bond Market Forum (ABMF)

CH
TH

JP
SG

JP
MY

KR
PH

Credit Guarantee and Investment Facility (CGIF)

Asian Bonds Online Asian Bond Monitor

Infrastructure Finance (including Hosing finance)

SME

Green bond, Social bond

ADB as the Secretariat

ASEAN+3 Macroeconomic Research Office

ASEAN+3 Bond Market Forum (ABMF)

Sub-forum 1 AMBIF

Sub-forum 2 ISO STP

Cross-border settlement Infrastructure Forum (CSIF)
Based on the flows of information to fulfill the requirement of KYC, there are two types of KYC: initial KYC and transactional KYC (customer identification/classification).

We may be able to consider LEI for transactional KYC (customer identification/classification).
FSB reports identify challenges and frictions in cross-border payments

Stage 1 report sets out the challenges and the frictions in cross-border payments.

Stage 2 report describes the necessary elements of a response as 19 building blocks.

Stage 3 report proposes a roadmap to address the key challenges.

Source: CPMI. 2020. Enhancing cross-border payments: building blocks of a global roadmap, Stage 2 report to the G20
Overview of the focus areas and building blocks

• **Focus area A:** Committing to a joint public and private sector vision to enhance cross-border payments

• **Focus area B:** Coordinating on regulatory, supervisory and oversight frameworks

• **Focus area C:** Improving existing payment infrastructures and arrangements to support the requirements of the cross-border payments market

• **Focus area D:** Increasing data quality and straight-through processing by enhancing data and market practices
  - BB14: Adopt harmonised version of ISO 20022 for message; BB15: Harmonise API protocols for data exchange; BB16: Establish unique identifiers with proxy registries
    - Providing a globally standardised approach supporting the global Legal Entity Identifier for legal entities and a similarly standardised identifier for individuals.

• **Focus area E:** Exploring the potential role of new payment infrastructures and arrangements

Source: CPMI. 2020. Enhancing cross-border payments: building blocks of a global roadmap, Stage 2 report to the G20
Related actions in the Roadmap

• Building Block 14 - Adopting a Harmonized ISO 20022 version for message formats (including rules for conversion/mapping)
  • Action 1: Tech sprint to identify new applications of ISO 20022 and APIs for data exchange to enhance cross-border payments
  • Action 2: Develop standard global ISO formats for cross-border payments
  • Action 3: Development of country-level plans for adoption of global ISO 20022 standard for cross border payments
  • Action 4: Development of an implementation guide and policy measures to ensure adoption.

• Building Block 16 - Establishing unique identifiers with proxy registries
  • Action 1: Review the scope, technical and operational requirements of existing and proposed global digital Identifiers for both legal entities and natural persons and analyse the need for a decentralised proxy registry.
  • Action 2: Determine the next steps to promote the use of a (global) digital Unique Identifier framework and decentralised proxy registry in jurisdictions

Source: FSB. 2020. Enhancing Cross-border Payments Stage 3 roadmap
Let’s take this opportunity to build back better!
Next step: Standardization and FX reporting data mapping exercise

- Along with the implementation of ISO 20022 by 2025, there is a possibility that existing foreign exchange reporting in ASEAN+3 to be standardized.
- Not only reporting process can be streamlined and reporting burden would be reduced, but also the authorities may be able to have access to more data, hence, can gain more transparency in financial transactions.
- Standardization can support improving and streamlining of regulatory and tax reporting as well as digital transformation (DX) by financial institutions.
- LEI can be used for not only FX reporting but also other reporting including taxation.

Collecting FX reporting items in ASEAN+3

Map the data
- Entity info
- KYC process
- Transaction info
- Reason for transaction
- Map against the existing message standards

Propose standardization
- Propose a revision of existing message or creation of new messages
Approach to identify data element:
Starting from existing transaction and message flows

FX Instructions
  Voice trades
  Proprietary systems
  Messaging
    MT300
    MT380
    MT54x w. FX indicator
    MT599
  Standing instructions

[Custodian (Data)]
  Underlying Trade/CA
  Transaction Data
    Static Data (Client)
      Client ID
  Transaction Indicators
    Product category
    Purpose

FX Reporting
  By Transaction
    Deal data
  Daily
    Transactions
    Totals
  Monthly
    Volume/Turnover
    CCY Pairs
    Transaction Types

[Electronic means only]
Relevance of standardized client ID

Statutory FX Reporting likely identifies (all) Entities by Client ID (at least proprietary ID within a custodian)

FX Instructions
- Voice trades
- Proprietary systems
  - Messaging
    - MT300
    - MT380
    - MT54x w. FX indicator
    - MT599
- Standing instructions

[Custodian (Data)]
- Underlying Trade/CA
- Transaction Data
  - Static Data (Client)
    - Client ID
    - LEI
  - Transaction Indicators
    - Product category
    - Purpose

FX Reporting
- By Transaction
  - Deal data
- Daily
  - Transactions
  - Totals
- Monthly
  - Volume/Turnover
  - CCY Pairs
  - Transaction Types

[Electronic means only]
Use of LEI for customer identification and classification in transaction flows

- **Basic data elements for taxation**
  - 1. individual or non-individual (entity)
  - 2. Name
  - 3. Nationality / Legal domicile
  - 4. Identity Number (i.e. Tax ID and/or personal ID for individual)
  - 5. Date of Birth / Date of company establishment
  - 6. Address
  - 7. **Type of Business** (only for institution)
    - a. Corporate (CP)
    - b. Foundation (FD)
    - c. Financial institution - bank (IB)
    - d. Financial institution - non bank (IB)
    - e. Insurance (IS)
    - f. Mutual Fund (MF)
    - g. Pension Fund (PF)
    - h. Securities company (SC)
    - i. Others (OT), i.e. government entity or international organization

LEI can provide the information in red.
LEI can cover most of investors
Relevance of standardized transaction identifiers

OTC derivative reporting will include UTI, UPI, and CDE

FX Instructions
- Voice trades
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[Custodian (Data)]
- Underlying Trade/CA
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Transaction Indicators
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[Electronic means only]
• Unique Transaction Identifier (UTI)
uniquely identify individual OTC derivatives transactions required by authorities to be
reported to TRs.

• Unique Product Identifier (UPI)
uniquely identify the product involved in an OTC derivatives transaction that an authority
requires, or may require in the future, to be reported to a trade repository (TR).

• Critical Data Element (CDE)
critical OTC derivatives data elements other than those in the UPI and UTI

ABMF will follow the global discussion to create regional standards compatible with the global standards
THANK YOU

Satoru (Tomo) Yamadera
Advisor
ERCD
syamadera@adb.org
Thank you for your participation
Our Speakers

MODERATOR
Mr. Satoru Yamadera
Advisor
Economic Research and Regional Cooperation Department (ERCD)
Asian Development Bank

PANELIST
• Mr. Daisuke Miura, Public Management Specialist (Taxation), Asian Development Bank
• Mr. Stephan Wolf, Chief Executive Officer, Global Legal Entity Identifier Foundation (GLEIF)
• Mr. Hans Huber, Senior PO Trade Finance Innovation R&D, Commerzbank Germany
• Ms. FENG Lei, Section-Chief, Technology Department, People’s Bank of China (PBOC)
• Mr. ZHANG Yanzhao, Senior Strategy Analyst, China Financial Certification Authority (CFCA)
• Mr. P. Vasudevan, Chief General Manager, Reserve Bank of India
• Mr. Masayuki Tagai, ISO RMG Convenor
• Ms. Nurashiqin Asri, Deputy Director, Investment Operations and Financial Market, Bank Negara Malaysia (BNM)
• Mr. Oswald Kuyler, Managing Director DSI, International Chamber of Commerce (ICC)