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CCIL to issue Unique Identity Codes to Entities in Financial Transactions

The Reserve Bank of India has selected the Clearing Corporation of India Ltd. (CCIL) to act as a Local Operating Unit (LOU) for issuing globally compatible Legal Entity Identifiers (LEIs) in India. The LEI is a 20-character unique identity code assigned to entities which are parties to a financial transaction. As an LOU, CCIL will issue unique identifier codes to all eligible and desirous legal entities participating in financial markets across the globe on a non-profit cost recovery basis. On CCIL being recognised by the Regulatory Oversight Committee of the global LEI system, codes issued by it will be accepted globally. Once the infrastructure in this regard is set up, the use of the LEI numbers is likely to be mandated for OTC derivative transactions and large borrowers (legal entities) in a phased manner, to begin with. The implementation of the global LEI system as a part of G20 mandate is being spearheaded by the Financial Stability Board (FSB). The functioning of CCIL as an LOU will be under the regulation and oversight of the Reserve Bank of India.

It may be recalled that the Reserve Bank had, in July 2013, designated CCIL as a critical Financial Market Infrastructure (FMI) for oversight considering its systemic importance in financial markets regulated by the Reserve Bank. Last week it was granted the status of a Qualified Central Counterparty (QCCP). As a member of Financial Stability Board (FSB), the Reserve Bank, is committed to the adoption and implementation best international practices.

Background

The global financial crisis under-scored the lack of a common, accurate and sufficiently comprehensive identification system for parties undertaking financial transactions across the globe and also provided a renewed spur to the development of a global LEI system (GLEIS). International regulators recognised the importance of the LEI as a key component of necessary improvements in financial data systems. Accordingly, the G20 at the Cannes Summit held in November 2011, endorsed the development and maintenance of a global LEI system and tasked the FSB to lead the co-ordination of international regulatory work and to deliver concrete recommendations on the system. The framework for the GLEIS has been developed by the FSB. It comprises a Regulatory Oversight Committee (ROC) which has the ultimate responsibility for the governance of the GLEIS and presently includes members and observers from more than 70 authorities across the globe; a Central Operating Unit (COU) which will be the pivotal operational arm of the GLEIS; and Local Operating Units (LOUs) which will provide the primary interface for entities wishing to register for the LEI system. The Reserve Bank joined Regulatory Oversight Committee of the global LEI system in 2013.

Introducing a single global system for uniquely identifying parties to financial transactions would offer many benefits. The system would provide a valuable 'building block' to contribute to and facilitate many financial stability objectives, including: improved risk management in firms; better assessment of micro and macroprudential risks; facilitation of orderly resolution; containing market abuse and curbing financial fraud; and enabling higher quality and accuracy of financial data.

The GLEIS is presently in an evolutionary stage and while many operational issues, particularly those involving cross border compatibility are being ironed out, LOUs in quite a few countries have already become functional. Considering this, the identifiers presently allocated by LOUs are referred to as pre-LEIs and LOUs themselves are called pre-LOUs.

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