

# Data and Technology Subcommittee

## Data Standards Working Group

### LEI Adoption

#### **Agenda:**

- Working group goals and objectives
- Update and observations of the LEI landscape
- FRAC RECOMMENDATION: next steps/actions items to increase LEI adoption in the U.S.

#### **Members:**

John Bottega (chair); Tom Dunlap; Lewis Alexander, Larry Lannom; William Hodash

**Discussion Document**

**Feb. 23, 2017**

# The Ask, Goals and Assumptions

## **Ask:**

The OFR has asked the FRAC's Data and Technology Subcommittee to provide suggestions and recommendations on what actions can be taken by the OFR, to further enable the adoption of the LEI standard entity identifier in the U.S. As a result of this request, the Data Standards Working Group was formed.

## **Goal of the Working Group:**

The goal of the working group is to provide the Data and Technology Subcommittee with a formal recommendation which defines and articulates an action plan and next steps. Once vetted, recommendation will be sent to FRAC for approval.

## **Assumptions:**

- LEI adoption involves many constituencies...
  - Increased LEI adoption in the U.S. involves many constituencies (both public and private). It is assumed that there are no restrictions in reaching out to these parties.
  - It is assumed that OFR will have access to current state of LEI adoption from the various LEI supporting bodies (GLEIF; ROC; U.S. ROC members; SIFMA LEI Steering Committee members; U.S. LEI LOU representatives, GFMA, etc.)
  - It is assumed that the recommendations put forward will require OFR staff execution, potential private sector participation, and FRAC guidance

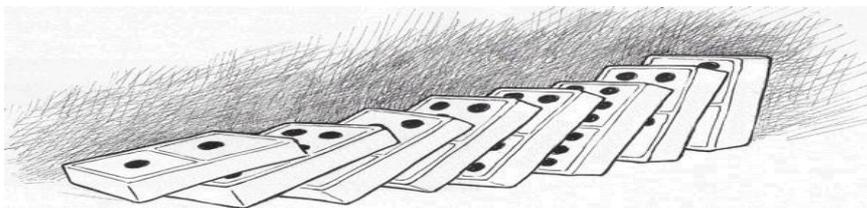
### The Need for a Legal Entity Identifier

A standard legal entity identifier (LEI) is a critical component in measuring and monitoring systemic risk. The financial crisis clearly demonstrated the extreme “complexity of interrelationships” and dependencies that exist between parties, counterparties, issuers, guarantees, and guarantors and the domino effect that can result should one or more of the nodes within these horizontal or vertical relationships come under pressure. Unique identification of each and every entity is critical to unraveling these linkages and (inter)relationships.

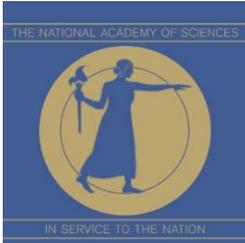
Creating a Linchpin for Financial Data, Dec 10, 2010

### Consider the events of the Lehman collapse

- The “Raw Materials” were not there
  - There was no standard way to identify Lehman and her entities cross the industry.
  - There was no clear understanding of the Lehman organizational structure
  - There was not way to fully understand and predict the impact across the industry



# Why the LEI – A Reminder...



**National Academy of Sciences  
Technical Capabilities Necessary for Systemic Risk Regulation**

**“regulatory tools, processes, and data have fallen behind”**

**In the wake of the financial crisis, a number of testimonies were delivered to congressional and senate committees...**

**“recent financial crisis revealed important gaps in data collection”**

**“greater standardization of data than exists today, is required”**



**John Liechty, associate professor of Marketing and Statistics at Penn State University, in a Business Week interview last August 18, 2009...**

*“Does anybody have the data in place to really deal with systemic risk”?  
Had this collection of data and analytics existed last fall, “regulators could have modeled the repercussions of a Lehman collapse using actual data...”*

**FINANCIAL RESEARCH  
ADVISORY COMMITTEE**

## Global LEI Foundation

GLEIF is a Swiss foundation inaugurated in June 2014 and founded by the Financial Stability Board (FSB). It is overseen by 70 global regulators from 40 jurisdictions in the Regulatory Oversight Committee (ROC).

## Strategic Goals

- Grow the total LEI population to cover all mandated use case
- Provide high quality services to all users of public and private sector
- Reach and maintain an overall data quality level meeting expectation of the LEI users
- Manage the GLEIS effectively and efficiently so as to achieve lowest cost for the industry



# Benefits of LEI Adoption

## Public Sector

### **Risk assessment, market surveillance and enforcement**

- Reporting
  - Derivatives; securities; central banks; insurance regulators; pension fund regulators
- AML (anti money laundering); CFT (combating financial terrorism); sections
- Rulemaking

### **Other public sector benefits**

- Public procurement
- International tax programs
- Provision of statistical research
- Collateral management (Central Banks)
- Reliable sourcing of LEI data by public administrations

## Private Sector

### **LEI adoption responds to business needs with regard to identification management in the following areas:**

- Know your customer (KYC) utility
- Unified data management
- Correspondent Banking (buy side and sell side)
- Trade finance (UCP 600)
- Cash management corporates
- Distributed ledger solutions, e.g. Blockchain
- SBR reporting
- Asset management for (pension) funds
- Payment schemes
- Card payment schemes (merchant data)
- E--invoicing schemes
- Trading, clearing and settlement rulebooks
- Collateral management
- Credit rating

## Remarks of Richard Berner at the Power of Transparency

Published: January 25, 2017

When Lehman failed, financial regulators and Lehman's counterparties were unable to assess many individual exposures to the failing firm. No industry-wide standards existed for identifying parties to financial transactions, so many market participants were exposed to Lehman through its subsidiaries without knowing it.

If only knowledge of those exposures had existed prior to the Lehman failure. Now we have a solution: The global Legal Entity Identifier system, or LEI, is like a bar code for precisely identifying parties to financial transactions. It is a cornerstone for financial data standards.

## Rick Fleming, Investor Advocate of the Securities and Exchange Commission (SEC)

"Embrace the Legal Entity Identifier with the goal of making public company disclosure to the SEC interoperable with disclosure to other reporting regimes, as recommended by the Data Coalition and XBRL US;"

## MiFID II LEI Requirements: No LEI/No Trade FCA MiFID II LEI Update:

From 3 January 2018 firms subject to MiFID II transaction reporting obligations will not be able to execute a trade on behalf of a client who is eligible for a Legal Entity Identifier (LEI) and does not have one.

[Source: <https://www.fca.org.uk/markets/mifid-ii/legal-entity-identifier-lei-update>]

# LEI Business Case Opportunity

## **GSA has issued the following RFI considering alternatives to the DUNS number.**

The General Services Administration (GSA) has released a Request for Information for government-wide entity identification and validation services.

- The government has a need for a unique numbering system to consistently identify specific commercial, nonprofit, or government entities. The overarching government requirement is for business identification and validation services associated with that unique number.

Currently, these services are provided by Dun and Bradstreet (D&B), contract expiration in 2018. The government is exploring all viable means of continuing to meet its ongoing need for entity identification and validation services after the contract's expiration.

Additionally, both the FAR and 2CFR regulations have recently been revised to remove any proprietary references to Dun and Bradstreet (D&B) and DUNS.

### **Data important to the GSA is the same data used in LEI**

- Address Standardization
- Address Verification
- Business Legitimacy
- Corporate Hierarchy

# Challenges to LEI Adoption

## Promoting Higher Quality and Lower Cost in Financial Regulatory Reporting

**Richard Berner - Published: January 12, 2017**

“Firms report to the Securities and Exchange Commission (SEC) using their central index key, to the Federal Reserve with their RSSD ID number, and so forth. Companies must manage even basic information in multiple ways for multiple regulators.

This redundancy and extra cost is why industry groups have called on authorities to universally adopt the LEI.”

## Self-regulators oppose LEIs for SEC audit trail – Publication: Mlex – Market Insight - 11/3/2016

A panel of securities industry self-regulators overseeing the creation of the Securities and Exchange Commission's audit trail said financial firms shouldn't be required to adopt legal-entity identifiers to submit stock-trading data.

## Statement on the Joint Industry Plan on the Consolidated Audit Trail (“CAT”)

**Commissioner Kara M. Stein - Nov. 15, 2016**

“Another area of concern related to accuracy is the failure to require the use of legal entity identifiers (“LEIs”).”

“Under the amended CAT Plan, LEIs for industry members and customers are not required. This will leave regulators and industry participants near-sighted and unable to figure out important interconnections or identify exposures between financial firms.

I had requested that at a minimum, the exchanges and FINRA be required to provide a report on the feasibility of requiring LEIs for industry members and customers. Unfortunately, such a report was not included in the CAT Plan. This is a mistake, which I hope will be remedied by the exchanges and FINRA going forward.”

# Data Standards Working Group LEI Adoption

**The Data Standards Working Group has reached out to the following individuals and organizations to discuss the objective of the working group – to assist the OFR in advancing the adoption of the LEI**

## **GLIEF – Global LEI Foundation**

- Gerard Hartsink (Chairman, GLEIF)
- Stephan Wolf (CEO)

## **Data Coalition – Sponsor of the DATA Act**

- Hudson Hollander, Executive Director

## **SEC**

- Rick Fleming, Investor Advocate of the SEC
- Alexandra Ledbetter – Senior Council, SEC

## **CUSIP Global Services**

- Scott Preiss - Managing Director, Global Head – CGS

## **Misc. Contact**

- Industry colleagues and data professionals across the financial spectrum of organizations

# Data Standards Working Group LEI Adoption

Based on the research done to date, the contacts made, and the possible direction moving forward (next steps), the Data Standards Working Group for LEI Adoption proposes the following recommendation to the OFR...

The OFR should engage industry stakeholders to identify the obstacles for a more complete adoption of LEI  
Approach:

- 1. Reach out to key LEI stakeholders and continuant groups. Perform an information gathering exercise to identify and explore all LEI adoption issues.**
  - Document where LEI is being successfully adopted, including U.S. reporting rules that have mandated LEI
  - Document where LEI is facing challenges, including recently issued U.S. reporting rules that have not mandated LEI

Stakeholders would include members of the GLEIF; Data Coalition; SEC contacts; GLEIF Board member(s); Joe Tracy (FRBNY); U.S. members of the ROC Executive Committee (CFTC; SEC; FDIC; FED; etc.); members of the SIFMA LEI Steering Committee; representatives of U.S. based LOUs
- 2. Upon the completion of this research, conduct a workshop...**
  - Identify benefits of the LEI
  - Determine impediments to the LEI adoption (determine root cause)
  - Develop a response to these impediments (incorporating Public and Private sector adoption)
  - Report back to the Advisory Committee on progress