Financial Research Advisory Committee Meeting
July 20, 2017

OFR Update: Legal Entity Identifier Adoption [1]

At its February 23, 2017, meeting, the Financial Research Advisory Committee recommended the Office of Financial Research (OFR) engage key stakeholders of the Legal Entity Identifier (LEI) to identify obstacles to more complete adoption.[2] Specifically, the committee recommended that the OFR do the following:

1. Reach out to key LEI stakeholders and constituent groups to identify and explore LEI adoption issues. The committee asked the OFR to document where the LEI is being successfully adopted, including U.S. reporting rules that have mandated the LEI, and where the LEI is facing challenges, including recently issued U.S. reporting rules that have not mandated the LEI.

2. After finishing the outreach work, hold workshop to identify benefits of the LEI, determine the root cause of impediments to LEI adoption, develop a response to those impediments incorporating public-sector and private-sector adoption, and report back to the committee on progress.

The committee's recommendation is rooted in the understanding that the expectations and promises of the LEI cannot be realized until the LEI is more broadly adopted.[3]

We have been working to respond to the FRAC's two recommendations since the February meeting. We are currently working on LEI industry stakeholder outreach focused on the benefits and challenges of LEI adoption and planning the recommended workshop to discuss the costs and benefits of LEI adoption. The workshop also will address perceived barriers to adoption and possible solutions for overcoming them, with a further aim of bolstering support for data standards by highlighting how they generate efficiencies and reduce burdens for private companies and public authorities in collecting, cleaning, aggregating, using, and reporting data.

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[1] The Legal Entity Identifier (LEI) of the Global LEI System is a 20-digit alphanumeric code that works like a barcode. Based on the ISO 17442 standard developed by the International Organization for Standardization (ISO), the identifier connects to key reference information, enabling clear and unique identification of legal entities participating in financial transactions. Implementation and use of the LEI is supported by the Global LEI Foundation (GLEIF), a not-for-profit organization headquartered in Basel, Switzerland. The GLEIF is backed and overseen by the LEI Regulatory Oversight Committee (ROC), a group of 90 central banks, finance ministries, and financial regulators from 50 countries. Information about the LEI can be accessed here: www.financialresearch.gov/data/legal-entity-identifier/.

[2] Financial Research Advisory Committee, "Data and Technology Subcommittee, Data Standards Working Group, LEI Adoption," February 23, 2017. This document can be accessed here: www.financialresearch.gov/frac/files/OFR_FRAC-meeting_working-group_LEI_02-23-2017.pdf.

[3] As of March 31, 2017, more than 500,000 LEIs have been issued in 195 countries by 29 operational issuers approved to issue LEIs. The total number of LEIs issued represents a 21 percent increase from year-end 2015 and has been largely driven by the use of the LEI in derivatives reporting, which is mandated by key regulatory authorities in the United States, Europe, and other jurisdictions worldwide. In markets where the use of the LEI is not mandated, issuance has been uneven. Also, some 30 percent (approximately 150,000) of entities with LEIs have lapsed in renewing and verifying their LEI reference data. The lack of comprehensiveness of the current population of issued LEIs and the high rate of lapsed LEIs are impediments to continuing adoption of the LEI.

In addition, we continue to advocate for and build awareness of the LEI through external engagements. We are coordinating with the U.S. Department of the Treasury to hold a two-hour panel on the LEI at the Federal Identity Forum & Exposition (FedID) colocated with the Homeland Security Conference in Washington, D.C., September 12-14, 2017. (This event is expected to attract 3,000 professionals from 30 countries with a goal of promoting current capabilities, trends, and future direction of the identity community.)

The LEI panel will include senior representatives of private companies (financial and nonfinancial) and public authorities (regulatory and law enforcement). Discussion will focus on benefits, opportunities, and challenges within the Global LEI System (GLEIS), privacy considerations for the collection, provision, and use of GLEIS data, and showcasing the GLEIS as an example of effective public-private partnership and interagency coordination on a global scale.

Recently, to notable developments have occurred. First, on May 1, 2017, the Global LEI Foundation (GLEIF) began collecting "Level 2" data that allows the identification of the direct and ultimate parents of a legal entity whose direct and ultimate parents have an LEI. The GLEIF began publishing these data daily on May 8.[4] These data, which are commonly referred to as entity hierarchy or relationship data, answer the question of "who owns whom?" With these added data, the GLEIS is an additional tool to gain a holistic view of the full risk exposure of a large financial entity using hierarchy data to understand complex structures.

In addition, Bloomberg Finance, L.P., announced on May 2 it had received the GLEIF's approval to serve as an accredited Local Operating Unit. With Bloomberg's accreditation, there are now two U.S.-based Local Operating Units, Bloomberg LEI and GMEI Utility of The Depository Trust & Clearing Corporation. The question is whether Bloomberg's entrance into the LEI-issuance business will reduce the expense of obtaining and maintaining an LEI and increase the quality of attendant services, which might help increase LEI adoption.

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[4] Regulatory Oversight Committee of the Global LEI System, "Launch of the Data Collection on Parent Entities in the Global LEI System," May 9, 2017. This document can be accessed here: https://www.leiroc.org/publications/gls/roc_20170509-1.pdf.