"Who is who?; Who owns who?; and Who owns what?"
Remarks of Matthew Reed, Chief Counsel, Office of Financial Research, U.S. Department of the Treasury at the *CUSIP Annual Industry Summit, October 29, 2014,* ***New York, NY.***

Good morning and thank you, Scott, for the kind introduction. Thanks also for inviting me back again this year.

I am pleased to report that the LEI initiative has made great strides since last year, so I have a full update for you. I also want to spend a few moments talking about the future of the LEI — some of our grand hopes — and about the OFR's role in promoting better data.

Before diving into the LEI and our related agenda, I want to talk about why we do what we do. We are all in the financial services business and the U.S. economy depends on access to these services. As my office looks at financial stability and considers potential threats to it, we ask about the core services this industry provides and whether a threat could disrupt services to the rest of the economy. Those core services are credit allocation and leverage, maturity transformation, risk transfer, price discovery, liquidity provision, and the facilitation of payments.

To give all of us comfort that financial services will continue to serve the economy, even under stress, we need transparency for these activities. A lot of attention gets focused on the need for more transparency — so much that transparency has become something of a buzzword. "Transparency" appears at least 80 times in the Dodd-Frank Act, which says one of OFR's responsibilities is to "provide certain data to financial industry participants and to the public to increase market transparency."

At its core, transparency is about access to information. Information reduces uncertainty and fosters clarity. If whatever you're calling information doesn't foster clarity, it's just noise.

A market regulator wants transparency into whether markets are functioning as intended. A prudential supervisor wants to examine the safety and soundness of a bank. The OFR wants insight into risks and how they propagate throughout the financial system.

The financial services industry also needs transparency — into the risks in a bank, the health of a counterparty, or the return on an investment. All of these insights give us confidence that our markets are working as intended, and that our government has the ability to monitor the health of the system and act if necessary. So, transparency is no small matter. It undergirds our confidence that the financial services industry can deliver its core services.

But transparency is impossible if the information being provided is impenetrable. It gets garbled and becomes noise. Regulators and supervisors can make good decisions only if they have access to good information at decision time. There are time when they need reliable information on short notice, without having to wait for data to be cleaned or to find an expert to explain it. So do financial market participants.

It is important to note that I did not say *more* information is essential for transparency. My point is that *better* information is essential for transparency — and data standards help yield better information. After all, what good is all the data in the world if you can't make sense of it?

The solution isn't necessarily to mandate transparency by requiring ever greater volumes of information. The result can be information-overload that obscures important facts rather than clarifies them. In this way, an effort to advance transparency can end up having the opposite effect.

To illustrate the point, I dug up the paperwork on a commercial mortgage-backed security issued by a major bank. The prospectus alone runs 777 pages. The section on risk factors covers 50. This document contains a mass of valuable information. An investor needs to understand the contents to figure out the risks, either by poring over the tome or relying on someone else for analysis. Otherwise, the investor must invest blindly, or stay on the sidelines. Those of us in the public sector can't stay on the sidelines. We must be able to understand how risks are building in our markets.

The good news is that the SEC just adopted a rule requiring that this kind of paperwork be made computer readable, so information is readily available at decision time. Unfortunately, the rule doesn't require use of an LEI to identify the offerings — a missed opportunity.

That kind of problem — making sure the information necessary to make a decision is available at decision time — is why the OFR, other U.S. and foreign regulators, and scores of people from industry who are here today and beyond this room, have wanted an LEI.

The LEI will ultimately help us answer three basic questions: *Who is who?*; *Who owns who?*; and *Who owns what?* With more timely answers to these three basic questions, we can better understand threats that could prevent this industry from delivering its core services to the economy. It's that simple, and that fundamental.

Before I discuss how the LEI will help answer those three basic questions, I would like to update you on our progress in setting up the LEI system. About this time last year, 80,000 LEIs had been issued and we were busily putting together the global LEI foundation that would eventually take day-to-day operational control of the system.

I am happy to report today that the future has arrived. The LEI system has moved out of the start-up phase and into operational mode. The foundation is up and running, and the LEI is spreading across the globe.

The foundation makes good on the promise that the LEI initiative is a public-private partnership. The public sector ensured that the LEI would be a global standard that met official needs and served a public purpose. The private sector made sure the LEI would hold value for financial firms by reducing confusion, increasing efficiencies, and one day forming the backbone of internal data management.

The Chairman of the LEI foundation board is Gerard Hartsink, former Chairman of CLS, the entity owned by leading financial institutions and focused on the foreign exchange market. He has broad and deep experience working with market data and market utilities. The rest of the board is a globally balanced group of financial and industrial executives, data standards experts, and risk consultants. The board has hired a CEO from the financial data-vendor field who keenly understands what it takes to build and manage a market-data utility. The foundation also has funding and a strategy for continued progress.

To date, almost 300,000 LEIs have been issued to entities from 180 countries. In addition, the LEI's Regulatory Oversight Committee (where I serve as Chairman) has endorsed 19 utilities in countries in North America, Asia, and Europe to issue LEIs for use in regulatory reporting.

Countries like Turkey, Ireland, Japan, Germany, and a score of others have LEI utilities handing out codes to all comers. China now has an endorsed utility as well.

Regulations requiring the LEI are also coming on board at an increasing speed. The United States, Canada, Europe, and parts of Asia require the reporting of swaps using an LEI. Meanwhile, Canada is looking to the LEI for bond reporting, while the insurance arm of the European Banking Authority is adopting the LEI as its entity identifier.

In this country, a host of regulatory reports are also beginning to use the LEI. Commodity swaps must be reported using an LEI. Just last week, multiple regulators issued so-called "credit risk retention" rules regarding mortgages; the rules call for use of the LEI in reporting if the mortgage originator has one. If a company has an LEI, the firm can use it in many other reports to regulators, for example:

- Reports to the SEC from private funds and advisors, with the proposed addition of reports for swaps and money market funds;
- Reports at the National Association of Insurance Commissioners for insurance holdings; and
- Reports at the Municipal Securities Rulemaking Board for municipal bonds.

In addition, the Consumer Financial Protection Bureau is proposing use of the LEI in reports required under the Home Mortgage Disclosure Act.

More is coming, so stay tuned.

As momentum builds and the LEI system grows, the benefits are growing as well, such as efficiencies for financial companies in internal reporting, risk management, and in collecting, cleaning, and aggregating data. We also expect to reduce companies' reporting burdens by generating efficiencies in reporting data to regulators — a critical goal.

With the foundation in place and the LEI system operational, the LEI's Regulatory Oversight Committee and the OFR continue to encourage broader adoption of the LEI. It is crucial to understand that the LEI will deliver the biggest benefit when the standard is ubiquitous and industry can build systems around entity management less expensively and more efficiently. I have the good fortune of talking with people all over the world about the benefits this system will bring, and except for some occasional reluctance based on proprietary interests, I almost never hear complaints or concerns. In fact, major trade groups like the Global Financial Markets Association have publicly called on the Treasury Secretary, who also serves as Chairman of the Financial Stability Oversight Council, to mandate the LEI. That's a remarkable development — industry asking to be regulated!

Given this demand, why are we missing any opportunity to adopt the LEI? I think there are two reasons: lack of awareness by regulators and misunderstandings about the LEI's costs and benefits.

If anyone attending this event thinks your company would value a broader adoption of the LEI, then we need you to help others in industry and government understand the LEI and its benefits. For those who have already taken up this charge, including my hosts here, I thank you.

As you know, an LEI is fairly inexpensive — perhaps $150 to obtain an LEI, plus a few hours of work to use it for reporting. Although the cost would increase for a firm to revamp its data management system based on the LEI, a determination that the benefits would outweigh the costs would presumably precede any decision to go down that path.

The benefits of simply using the LEI for reporting can be manifold, especially if used broadly, rather than just to comply with a particular rule. For example, it might not make much sense for a medium-sized company to obtain an LEI only for the purpose of filing an annual report to its regulator. But if an LEI can be used to support multiple reporting requirements, it can help reduce reporting burdens.

These are some benefits we see from the perspective of the public sector. We would love to hear from you on how the LEI could improve your systems, data, information, and insights. How can it help you ensure that you're providing the financial services your clients and the broader economy rely on?

Propagation of the LEI is just one goal of the global LEI system, and of the OFR. Our agenda is bigger than that. Believe it or not, building a global system to identify financial market participants is not what the LEI initiative is all about. This question of, *Who is who?*, is important, and a necessary foundation. But even greater value lies in understanding how all of these entities fit together. This is not a trivial task. This is the *Who owns who?* question. The easy linkages are between parent companies and their wholly owned subsidiaries. The linking gets harder when you add in joint ventures, and still harder when you define ownership as enough of an interest to exercise control.

For now, our goals in the pursuit of transparency are modest: the LEI system will capture ownership essentially by parents of wholly owned subsidiaries. Eventually — and in years, not decades — the system should be able to capture more tailored information. This type of information will be enormously valuable for market participants to understand exposures to counterparties, for bank regulators to understand the soundness of institutions, for crime fighters to decipher suspicious financial activities like money laundering, and for other government authorities to monitor risks building across the financial system.

The next piece of the puzzle will be identifying owners of financial assets, or *Who owns what?* If a security — equity or bond — is traded on an exchange, it's already got an identifier. Easy. Except that linking the instrument to its issuer, and then to its owner and its beneficial owner, can become complicated. Also, tracing these links on any scale can be difficult where the data are not open.

Financial contracts pose another challenge. A contract at its core is just a financial instrument. Although standardizing all contracts might not make sense, some contracts such as futures are already standardized. This consistency allows for exchange trading of these instruments. I know you will be speaking about financial market utilities in a moment, and in designing and implementing these utilities, the need for standardization becomes acute.

My discussion this morning about transparency and data standards has taken us pretty far down the road into the future and what we aspire to accomplish. Everywhere along this path, an essential truth remains: Data standards make possible the transparency required to answer the three basic questions I mentioned about the financial system: *Who is who?*; *Who owns who?*; and *Who owns what?* A lack of data standards makes risk management, financial stability monitoring, orderly liquidation, and many other essential tasks difficult — perhaps impossible.

At the OFR and in the LEI governing system, we are pursuing standards as we reach toward true transparency. We sure could use your help as we move forward.

Thank you again for your time today. I would be happy to respond to any questions.