

*Remarks of Linda Powell, Chief Data Officer, Office of Financial Research,
U.S. Department of the Treasury at the GSI Global Forum 2014,
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Good afternoon. Thank you for inviting me to join you here today.

I would like to offer special thanks to Tim Smucker, Ravi Mather, Donna Alexander, Ken Traub, and the nominees to the Board of Directors of the Global LEI Foundation who are here today, especially Gerard Hartsink.

Data standards are a passion of mine and it is exciting to be in a roomful of people who share my passion. It is also great to be in this international forum, which is one more sign that data standards have gone global.

As you can see from your program for this conference, the topic of my remarks is, “Progress on the Global LEI System – Mandates and Milestones.” I am very happy to share with you the latest information about the Legal Entity Identifier, or LEI, and discuss the impressive progress that the global community has made on this important standard. In just a few short years, we have moved from concept to worldwide acceptance and now a global rollout.

I would also like to take this opportunity to put the LEI into the larger context of standards in general and financial standards in particular.

The law that created the Office of Financial Research, where I work, directs the OFR generally to standardize the types and formats of data reported and collected. The law also calls for the creation of certain public-facing databases, such as a legal entity identifier database. Because the LEI must be universal to be successful, the solution for that database is not U.S.-centric, but global — and that is the path we have all chosen for the LEI.

The LEI is currently the centerpiece of the OFR’s initiatives on financial data standards because it is the foundational standard upon which others will build. But, it is not the only one. Today, I will tell you what else we are working on.

First, I would like to set the stage by discussing the development of financial data standards. Historically, the financial industry has not been at the forefront of standardization. Other industries embraced standardization decades ago or even centuries ago.

Decades ago, data were not as central to the world of financial services businesses as they are today. We now live in a world that is data-driven as never before. As data become increasingly important, momentum continues to build to find ways to make our data better — and that’s where standards play a valuable role.

As a result of this realization, the financial industry and the regulatory community have awakened to the vast benefits of standardization. Standards for financial data are an important

tool for companies to manage their risk and for government regulators to analyze data related to financial stability. The rapid proliferation of early-stage LEIs around the world is unmistakable evidence of that.

As I mentioned, data standardization is part of the mandate of the OFR, so we spend a good deal of time talking about the importance of standards. We have a couple of favorite examples and I would like to share them with you today.

The first example is the standard shipping container, which can be loaded onto trucks, ships, and trains across the world. Before the mid-1960s, shipping containers came in many sizes. Goods were loaded, reloaded, stored, and stocked at ports and depots across the world. All of this packing and repacking made goods vulnerable to theft and increased transportation time. After standardization, a container full of freight could be locked securely at its departure point and transported faster and at lower cost. In this way, standardized containers streamlined the flow of commercial goods across the globe. Whether globalization drove standardization in shipping or the other way around is the subject of debate, but clearly globalization of our financial markets is driving us toward standards in the financial industry.

Another example is the fire hydrant. Unfortunately, it is an example not only of the benefits of standardization, but also of the pitfalls of failing to achieve universal adoption. In the U.S., the impetus for standardization of fire hydrants came from the Great Baltimore Fire of 1904, which burned for 30 hours and destroyed 1,526 buildings over 70 city blocks.

Fire crews from nearby Washington, D.C., responded to Baltimore to help fight the fire, but their fire hoses did not fit Baltimore's fire hydrants. Although the U.S. National Fire Protection Association later adopted a national standard for fire hydrant connections, the standard was never government-mandated or universal adopted. As recently as 1991, a replay of the Baltimore tragedy occurred during a fire in Oakland, California, where 25 people died.

Those are both great examples of the benefits of standardization, but neither is my personal favorite. The example that really strikes a chord with me is the example of the bar code. My personal connection with the bar code is not related to the role GS1 has played in the evolution of the bar code over the last 40 years, or even that the bar code is featured so prominently in the brochure for this conference, on the bottle of water I drank this morning, or on the ticket for my flight here.

No, my reason is more personal. As a teenager, I worked in a food market. One of my most vivid memories of this job is how much trouble we had managing the inventory of food — before the advent of the bar code. Store managers were continuously checking the inventory to determine what they needed to order. As manager of the delicatessen section, I based my ordering on intuition and experience, rather than data. I learned to analyze trends in consumer buying behavior with minimal empirical information. I suspect that this experience paved the way for my interest in data standards and data quality.

Because of bar codes, the checkout process became faster and stores could keep better track of their inventories. The creation of standards that began in food markets and spread across the retail sales industry revolutionized the way stores operate, making them more efficient and cost effective — although perhaps a bit less fun for red-haired teenagers in the deli section.

At the OFR, we like to say that the LEI is like a bar code for identifying entities that engage in financial market transactions. It is a linchpin for making connections in the massive volumes of financial data that course through the international economy every day.

The sad truth is that nothing accelerates progress like a crisis. When Lehman Brothers failed in 2008, the financial industry held its collective breath as the fallout ensued. Financial market participants were unable to assess their total exposures to Lehman. Neither they nor government regulators could quickly determine their exposure to the network of Lehman firms. The recent financial crisis, and the lessons learned from it, have propelled progress on the LEI in the U.S. by underscoring the long-standing need for a global system to identify and link data.

The LEI promises a wide array of benefits. It is expected to save enormous sums that the financial industry spends on cleaning, mapping, and aggregating disparate data and on reporting data to regulators. Precise identification of counterparties would also give firms a clearer picture of their exposures in the marketplace.

For financial regulators, such identification would provide insight into ways shocks can spread across financial markets and would help in identifying vulnerabilities in the financial system.

The Director of the OFR — Dr. Richard Berner — is sometimes asked whether the LEI is taking too long to put in place. He responds by saying that, in fact, LEI already exists, and full implementation is moving at lightning speed. For a global standard to progress from being only a “gleam in the eye” to where we are today in only about three years is remarkable. The LEI success story is a tribute to standards supporters around this room and around the world.

In 2010, during the aftermath of the financial crisis, regulators began discussing how to create an LEI. The OFR issued a policy statement calling for the establishment of an LEI. The statement provided impetus to efforts by regulators and industry. The financial industry responded with a proposed solution and two U.S. regulators, the Securities and Exchange Commission and the Commodity Futures Trading Commission, helped to spur adoption by proposing swaps rules that required use of an LEI. Meanwhile, in Europe, central bankers and others began calling for a common identification system.

Late in 2011, the G-20 directed the Financial Stability Board to begin developing a framework for a global LEI standard. The adoption of ISO 17442, which is a technical standard developed by the International Organization for Standardization, came a few months later.

Another milestone for the LEI came in June 2012, when the G-20 endorsed an FSB report that contained the blueprint for the LEI system. The report outlined a three-tiered public-private governance framework that would protect the public interest, while meeting private sector needs.

Overseeing the LEI system is a Regulatory Oversight Committee, or ROC. OFR Chief Counsel Matthew Reed serves as ROC Chair, and members from the Japan Financial Service Agency and Banque de France are Vice Chairs. I work closely with Matt and others on the ROC, particularly on technical issues, as we roll out the LEI.

The ROC has established committees to set up the rest of the governance framework for the global LEI system. The center tier of the framework is the Global Legal Entity Identifier Foundation, organized in Switzerland. As I mentioned, several of the nominees to the foundation's Board of Directors are here with us today, including the nominated Chair, Gerard Hartsink, and Tim Smucker, both of whom bring exceptional leadership resumes. The board will direct the organization, which is entrusted with building the technology infrastructure of the LEI system and ensure adherence to governing principles and standards, including reliability, quality, and uniqueness.

In a few months, we hope to have the board membership established. In the meantime, the nominees have been hard at work organizing the foundation and preparing to get it under way.

The third tier of the LEI system is an international network of Local Operating Units to register entities, assign LEIs, validate and maintain the reference data associated with each LEI, and make the data continuously available to the public and regulators, free of charge.

Today, a dozen early-stage registrars have issued about 189,000 LEIs in 169 countries. The ROC has an interim system to recognize these early stage registrars, so that the codes they issue can be used for regulatory reporting all over the globe.

As LEI adoption continues to grow, OFR Director Berner has been calling on regulators in the U.S. and around the world to help accelerate progress by requiring the use of the LEI in regulatory reporting. Already, regulators in the U.S., Canada, Europe, and parts of Asia have imposed such requirements for some reporting related to swaps, insurance, and banking.

As the use of the LEI continues to snowball — an appropriate term given the harsh winter we are having back in Washington — we at the OFR are increasingly turning our attention to the next steps for the LEI that promise to compound the benefits of the LEI.

Turning back the clock again to 2008, one of the most vexing issues during the fall of Lehman Brothers was the inability to identify counterparty transactions not only with Lehman, but with Lehman's subsidiaries. Understanding and documenting corporate structures, or hierarchies, has been part of the global LEI since the G-20 directed the FSB to develop the LEI framework.

Incorporating hierarchies in the LEI system promises valuable insights to track the often complex structure of legal entities.

Coupled with the LEI, information about corporate hierarchies will give financial regulators deeper insights into how large financial institutions are structured and how they are connected to each other. We are addressing this need through both the Global LEI System and in our individual countries.

Another data standards initiative of interest to the OFR is the proposed universal mortgage identifier, or UMI. The need for such a standard is particularly pressing in the U.S., where debt related to home mortgage loans represents 70 percent of the liabilities of households. A single UMI that protects personal privacy would bring coherence to fragmented data and would significantly benefit households, industry, regulators, and researchers.

The latest OFR research working paper, which reflects substantial input from several other U.S. government agencies, discusses the characteristics that a UMI should have and criteria for implementation.

I would like to turn now to one other key area of focus for the OFR — a focus that we share with the international standards community — and that is the need for standards for data held by swaps and trade repositories.

We are all familiar with the huge exposure to credit default swaps that pushed American International Group, or AIG, to the brink of collapse during the financial crisis.

Before the crisis, these types of derivatives were traded between parties with no central record of who was trading with whom. The size of the market and the exposures within the network of trading connections were hidden from view.

After the crisis, the U.S. financial reform law — the Dodd-Frank Act — required for the first time that derivatives trades be reported to centralized data warehouses known as “swap data repositories.” This requirement holds the promise of transparency for our derivatives markets and keener insight into the types and levels of exposure throughout the financial system.

However, this promise has not yet been realized. Currently, the data are fragmented, with many different trade repositories in different jurisdictions, collecting different information in different ways. This fragmentation is keeping us from putting the information together to develop a full picture of the market.

At the OFR, we are fully committed to rolling up our sleeves and tackling the obstacles to progress. By working with the industry, the repositories, and the international regulatory community, we can establish standards for reporting, so that data can be aggregated and analyzed to promote the stability of the global financial system.

The OFR and the U.S. Commodity Futures Trading Commission, or CFTC, are participating in a Financial Stability Board initiative to design data standards for aggregating data across trade and swap data repositories. We are also collaborating with the CFTC on standards to improve the quality of data collected from these repositories.

Like other financial data standards initiatives across the world, these efforts are in their early stages. We are only at the beginning of financial data standardization and, although we have had some encouraging successes, many challenges remain.

At the OFR, a key part of our mission is to strive for the identification and adoption of standards that will improve the quality and utility of financial data.

Government can act as a catalyst for continued success, but cannot succeed alone. For that, we need strong collaboration from everyone at this forum today and others like you across the globe. For both industry and government regulators, the incentive to act is strong, the benefits are promising, and success is within our sights.

Thank you again for having me here today. I would be happy to respond to your questions.