

September 21, 2018



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To: Whom It May Concern

RE: FSB Thematic Peer Review on Implementation of the LEI

We appreciate the opportunity to provide input to the Financial Stability Board Thematic Peer Review on Implementation of the Legal Entity Identifier (LEI). XBRL US is a national, nonprofit consortium for the business reporting standard - a member-driven organization, representing accounting firms, software companies, other nonprofits, data intermediaries, and service providers. The mission of XBRL US is to encourage the use of business information in a standardized format, to improve reporting between business, government, and the public. XBRL US is the U.S. jurisdiction of XBRL International, a global organization that is responsible for maintaining the technical XBRL specification. XBRL is a nonproprietary, open standard, designed specifically for financial data, and is currently in use in 60 countries, by over 10 million companies, and has been adopted by over 100 regulators.

As a standards organization, we are strongly supportive of the LEI as it represents a critical opportunity to provide needed clarity around organizational provenance, with benefits to businesses, regulators, and investors alike.

This letter seeks to address specific topics surrounding implementation raised in the press release about the FSB Thematic Peer Review of August 16, 2018 and noted in italics below.

Entity Identifiers in Use

Topic raised in the FSB RFC: *identifiers used by financial institutions for legal entities established in their jurisdiction or in foreign jurisdictions, and the extent to which they are mapped to the LEI.*

Multiple identifiers, some proprietary, some open, are used by different government agencies in the United States. For example, the SEC uses the Central Index Key (CIK) to identify operating companies, and the LEI for reporting by investment funds; some agencies use the Employer Identification Number (EIN), and still others rely on proprietary formats such as CUSIP (Committee on Uniform Security Identification Procedures) which is also used to identify a security

issuer. The Federal Government uses DUNS numbers to track contractors. These identifiers are not mapped to the LEI.

Unlike these other identifiers, the LEI provides standardized information that helps businesses understand the origins of their clients, contractors, and suppliers; and allows investors to better understand the entities in which they invest. Identifiers that are more widely used in the U.S., such as the EIN, the CUSIP and the CIK, do not allow the type of ownership structure tracking afforded by the LEI. In addition, the problem with multiple identifiers is that data reported by these entities cannot be easily commingled - mapping of differing identifiers must take place before information can be compared. Additional shortcomings of some of the non-LEI identifiers include:

- CUSIP is a paid identifier and cannot be freely distributed. It's maintained by a commercial entity and therefore subject to the business restrictions defined by that entity.
- CIK, while it is free, is used for a single regulatory implementation, with no connections to any other data collection program.
- EIN is free and nonproprietary, but it is perceived as being akin to an individual's social security number, and therefore risky to disseminate. Some companies are concerned that distribution of an EIN can result in corporate identity theft, unauthorized access to bank accounts, or other misuse of the taxpayer identifier. EINs for non-profit organizations however, are widely disseminated; they appear on IRS Forms 990 that these entities must file and make available for public inspection.
- Dun & Bradstreet (D&B) has a sole-source contract with the Federal Government to track federal contractors and grantees. The government pays D&B to run the registration system, and any contractor that does business with the government must license (and pay for) a DUNS number from D&B. D&B, in turn, then resells the corporate data they collect.
- State identifiers. The company registration authority in each U.S. state maintains a company registry and assigns a state identifier, with no consistency between different state registries.

Awareness and Understanding of the LEI in the U.S.

Topic raised in the FSB RFC: *awareness and adoption of the LEI in their jurisdiction, especially the existence or prospect of any market-driven or voluntary adoption of the LEI by market participants.*

According to the Global LEI Foundation¹, 172,208 LEIs have been registered in the United States. A search on OpenCorporates.com, a global database of companies and company data developed to make information on companies more usable and more widely available for the public benefit, found 898 active companies matching "Pfizer"; a similar search on "General Electric" identified 1,111 companies. Each of these companies could be assigned an LEI.

¹ GLIEF: <https://www.gleif.org/en/lei-data/access-and-use-lei-data>

Many of these identifiers are also used to represent multiple funds within a single fund family, or multiple subsidiaries within a company. For example, a single fund family like “Fidelity” is estimated to have over 1,700 individual funds, each with their own LEI (based on a search using an LEI lookup tool)². A search on “Blackrock” turned up 2,799 LEIs.

Thus, the use of the LEI in the U.S. to date, is limited. That figure is expected to increase significantly with the passage of the U.S. Securities and Exchange Commission (SEC) Investment Company Modernization Rule³, which became effective January 17, 2017. The compliance date for large funds with net assets of \$1 billion or more was June 1, 2018, reflecting data as of June 30, and no later than July 30; smaller fund entities have until June 1, 2019.

Bloomberg and GMEI (division of DTCC) are US-based organizations that provide registrations for LEIs, however potential LEI registrants in the U.S. are not limited to using these two registration options. The GLEIF web site lists 12 organizations⁴ that currently serve US organizations wishing to register or renew an LEI.

Awareness of the LEI in the U.S. is difficult to gauge. LEIs are typically obtained by the legal or compliance-related departments within companies, and as noted earlier, now that the SEC requires fund companies to report using the LEI, we expect awareness to increase dramatically, at least within the legal departments of fund companies.

To gauge the level of awareness and response to the LEI among investors and other data consumers, XBRL US held individual interviews with seven providers of financial fundamental data and analytics, which included Calcbench, idaciti, Intrinio, Morningstar, S&P Market Intelligence, and Thomson Reuters, among others. These interviews were held in December 2017. All providers were aware of, and enthusiastic supporters of the LEI.

Uses and Benefits of the LEI

Topic raised in the FSB RFC: *types of private sector uses of the LEI (e.g. to implement risk management frameworks, support financial integrity, reduce operational risks, or support higher quality and more accurate financial data) as well as the benefits measured or anticipated from such uses (including any quantification of the benefits, to the extent possible).*

² Legal Entity Identifier Search: <http://www.lei-lookup.com/#!record;lei=549300478VTUOFTSUU57;from=0>

³ SEC Investment Company Modernization Rule: <https://www.sec.gov/rules/final/2016/33-10231.pdf>

⁴ Global Legal Entity Identifier Foundation: <https://www.gleif.org/en/about-lei/get-an-lei-find-lei-issuing-organizations>

Supporting LEI Use

XBRL US seeks to ensure that the voluntary use of the LEI is possible with XBRL programs developed in the U.S. For example, the Orange Button Taxonomy⁵, which was developed through a partnership between the U.S. Department of Energy⁶ and the solar financing industry, is a comprehensive set of data standards for the reporting, collecting and analyzing of data representing the solar life cycle. Identifiers are used throughout the taxonomy and the LEI is available to be used for any entity involved in the evaluation, building, and operations of a solar plant, including investors, utilities, developers, equipment manufacturers, law firms, special purpose entities, etc. The LEI is not required as an identifier but is encouraged to represent the numerous entities involved in a solar program.

Separately, a new taxonomy representing financial terms for state & local government entities is underway to support the standardization of financial data reporting by municipalities. This taxonomy will also support the voluntary use of the LEI.

The SEC Document Entity Information (DEI) Taxonomy is used by both public companies and mutual funds in preparing their XBRL financials. The LEI is an available concept in that taxonomy, supporting the use of the LEI by these entities.

Anticipated Benefits

As noted earlier, XBRL US conducted interviews with various data and analytical tool providers who made the following observations, and noted the following potential benefits of the LEI:

- To track counterparty and entity exposure, and aid in credit and risk evaluation.
- To enable the aggregation of financial statement data with other sources like corporate information reported through the patent office or the Federal Drug Administration.
- To increase the quality of data and provide more robust capital markets data that is more efficient and more easily consumed. It was noted that in the absence of the LEI, workarounds are required for entity resolution, which are prone to error.
- More robust capital markets data that is more efficient and more easily consumed.

While all were supportive of the LEI, two data provider respondents noted that if the LEI is only required of those organizations that already maintain one, it has less value. Other respondents were more positive however, noting that even if the universe of LEIs is not complete, there is still great value in being able to reference an identifier that never changes.

⁵ SunSpec Alliance: <https://sunspec.org/orange-button-initiative/>

⁶ U.S. Department of Energy Orange Button program: <https://www.energy.gov/eere/solar/orange-button-solar-bankability-data-advance-transactions-and-access-sb-data>

Challenges to Adoption

Topic raised in the FSB RFC: *challenges and costs faced in acquiring and maintaining LEIs.*

Topic raised in the FSB RFC: *main obstacles faced by market participants to adoption and implementation of the LEI.*

There are two impediments to the adoption of the LEI. First, resistance to change and the need to swap out existing processes. Adoption can be a lengthy process with upfront costs in the near-term for reporting entities. Legacy systems must be revised. Staff must be educated and trained. These activities result in development and training costs. The benefit to end users of data is much greater initially, than to those required to report. Benefits do not trickle down to reporting entities until later in the adoption life cycle.

Organizations that are accustomed to using a different standard identifier such as the CIK, are typically reluctant to switch because of the transition costs. Education campaigns are necessary to help reporting entities understand what the LEI is and the benefits it can bring. They need to be educated on the benefits not only to the end-users of their own data, but for their own use in conducting peer analysis and due diligence when investigating possible partnerships, M&A, or even when exploring new vendors or clients.

The second impediment to adoption is the cost of the LEI, which does not compare favorably with free identifiers such as the EIN or CIK. GMEI charges \$100 + \$17 GLEIF surcharge for new registrations; \$90 + \$17 GLEIF surcharge for renewals. LEIs can be registered on a same day basis for an added charge of \$50. Bloomberg Finance L.P. charges \$65 for new registrations (including the GLEIF fee), and \$60 for bulk registrations. Annual renewals are \$45 for more than 10 renewals.

For some fund companies which may need to register hundreds of legal entities, even \$45 per year per fund may become expensive. For small private companies, the fee for a single entity is \$65 with \$50 for annual renewals. Although this may not appear significant, it is a big increase versus the current cost of zero.

Promoting Further LEI Adoption

Topic raised in the FSB RFC: *ways to promote further adoption of the LEI, including specific areas where increased LEI uses would be the most favourable from a cost-benefit perspective.*

Identifiers are critical components of financial data standardization. Without the adoption of a single, standard identifier, data users must rely on mapping tables requiring significant maintenance and real-time updates that are unnecessarily manual, duplicative, prohibitively expensive and prone to error.

First, use of the LEI should be considered in all U.S. regulatory standards and disclosure-related implementations as the identifier of choice. Regulation Crowdfunding, which was passed by the SEC in October 2015, requires the use of a CIK for crowdfunded entities, the same identifier used by publicly listed operating companies. But in December 2017, the SEC published the final rule on Investment Company Modernization, referenced earlier in this letter, which mandates the use of the LEI for investment management firms. One would hope that this signifies a trend by the Commission towards the LEI, away from other identifiers like the CIK.

Second, the cost of the LEI must come down substantially. As noted earlier, it can be prohibitively expensive for those organizations that may have hundreds or thousands of registered entities and that must renew identifiers every year.

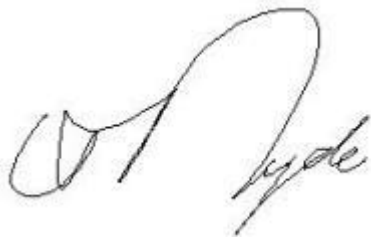
Third, an easy point of distribution would be through state registries. States can also benefit from the trackable ownership structure of the LEI. By requiring companies that obtain state registration to obtain an LEI, the use of the LEI would increase dramatically.

Conclusion

The LEI is a critical component of an effective data standards program. We strongly support the work of the FSB and of the GLIEF in pressing for greater worldwide adoption.

We appreciate the opportunity to provide our recommendations and are available to respond to any questions the FSB may have. I can be reached at campbell.pryde@xbrl.us or (917) 582-6159.

Sincerely,

A handwritten signature in black ink, appearing to read "Campbell Pryde". The signature is fluid and cursive, with a large initial "C" and "P".

Campbell Pryde
President and CEO