Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Securities and Exchange Commission's proposed rule on outsourcing by investment advisers

December 22nd, 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Securities and Exchange Commission (Commission) on the proposed rule on outsourcing of services or functions by investment advisers.

Consultations and proposed rules are opportunities to re-consider existing identifier schemes with longer term vision for a broader, standardized, and consistent use of global standards and open sharing across US and global regulations.

First, some background information on the LEI and GLEIF.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. The LEI and its associated reference data are accessible to all as open, public data. The LEI is the only global standard for legal entity identification.

Established by the Financial Stability Board in June 2014 under the mission of improving financial stability and transparency due to the aftermath of the financial crisis, GLEIF is tasked to support the implementation and use of the LEI. Even though the primary and initial usage and adoption of the LEI predominantly was in financial markets and financial instruments, the LEI is use agnostic and therefore has been embraced by different industry sectors and regulators since its introduction by the Regulatory Oversight Committee, in which the Commission is an active member, and the Financial Stability Board in 2012. Further details on the use of the LEI in regulatory initiatives is provided here.

GLEIF will respond to the proposed amendments to Form Adv:

The inclusion of the LEI in Form ADV, section 7.C. in Schedule D, is fully supported by GLEIF. Open, non-proprietary data standards, which are established by voluntary standard bodies, create transparency and facilitate the open exchange of information for regulators. The inclusion of LEI within the proposed rule to identify service providers presents an opportunity for the Commission to capitalize on recent proposed rules that seek to add the LEI in various form types. The Commission already has made several amendments to include the LEI as well, specifically Form N-CEN, Form PF, Form ADV, Form N-MFP, Form N-PORT and more recently in the final rule announcements for 13-Fs and Form N-PX. By implementing the LEI in various Form types, the Commission would comprehensively set forth a consistent identification scheme highlighted by the LEI.

The proposed amendments to section 7.C. also include the legal name, legal address and headquarter address. These data fields, among other data elements, are included in the reference data for an LEI, as part of the ISO 17442 standard. The Commission could leverage these fields when an LEI is submitted. Moreover, if the Commission were to consider removing the "if applicable" clause and instead require the submission of an LEI then these data elements could be auto-retrieved from an LEI record. This would result in higher quality submissions and relieve the investment adviser from typing names and addresses into section 7.C. This could also be considered for other sections of Form ADV that include the LEI and similar data elements.

GLEIF supports the Commission's ongoing efforts to include the LEI in various form types and observes that the use of the LEI in U.S. regulations continues to increase. There have been several recent consultations that specifically mention the LEI from Bureau of Consumer Financial Protection, Financial Crimes Enforcement Network, Treasury, U.S. Customs and Border Protection, in addition to the Commission's recent proposed rules on security-based swaps, securities lending and money market fund reforms earlier this year, and more recently, the outstanding proposed rule for the registration of security-based swap execution facilities. The LEI currently exists in 42 various U.S. laws and regulations, the majority of which belong to the Commission, and globally the LEI exists in 296 laws, regulations and policy papers.

The Commission could make further use of the XBRL reporting capability, which includes an LEI taxonomy that can be used in conjunction with any inline XBRL taxonomy. XBRL US is a nonprofit standards organization. The mission of XBRL US is to improve the efficiency and quality of reporting in the U.S. by promoting the adoption of business reporting standards. XBRL US is a jurisdiction of XBRL International, the nonprofit consortium responsible for developing and maintaining the technical XBRL specification, which is a free and open data standard widely used around the world for reporting by public and private companies, as well as government entities. Commissioner Crenshaw also stated during a speech titled the Lessons of Structured Data; "While the SEC has taken steps to incorporate LEIs into our filings, I believe we should continue to leverage their benefits by incorporating them into our forms and filings wherever it makes sense to do so. The ability to use LEIs in XBRL data only increases their potential utility for users of our data."

Lastly, on December 15th, the Senate passed the fiscal 2023 National Defense Authorization Act, which included an amendment known as the Financial Data Transparency Act (FDTA). The FDTA directs seven financial regulators, including the Commission, to adopt standardized data reporting practices for information collected from regulated entities, and mandates the adoption of an open, non-proprietary legal entity identifier, such as the LEI, to allow for easy and consistent matching of filings from the same entity across different financial regulators. The adoption of open data standards through the FDTA will improve transparency and accountability for federal agencies and the public, and can also accelerate policy innovation.

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