sifma asset management group

October 21, 2024

Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551, USA

Via Email: regs.comments@federalreserve.gov

Re: Docket No. R-1837, RIN 7100-AG-79, Financial Data Transparency Act Joint Data Standards Under the Financial Data Transparency Act of 2022

Dear Ms. Misback,

On August 22, 2024, nine federal Agencies (the "Agencies")[1] published in the Federal Register a proposal to establish joint data standards for collections of information reported to the Agencies under Section 124 of the Financial Stability Act of 2010, as amended by Section 5811 of the Financial Data Transparency Act of 2022 ("FDTA")[2] (the "Proposal").[3] The Securities Industry and Financial Markets Association[4] and the Securities Industry and Financial Markets Association's Asset Management Group[5] (collectively "SIFMA" appreciates the opportunity to

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[1] The Agencies include: the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Board"), the Federal Deposit Insurance Corporation (the "FDIC"), the National Credit Union Administration (the "NCUA"), the Consumer Financial Protection Bureau ("the CFPB"), the Federal Housing Finance Agency (the "FHFA"), the Commodity Futures Trading Commission ("CFTC"), the Securities and Exchange Commission ("SEC"), and the Department of the Treasury ("Treasury").

[2] 12 U.S.C. § 5334(b).

[3] Financial Data Transparency Act Joint Data Standards, 89 FR 67890, Document Number 2024-18415, Pages 67890-67908 (proposed Aug. 22, 2024) (the "Proposal"), *See also* https://www.govinfo.gov/content/pkg/FR-2024-08-22/pdf/2024-18415.pdf

[4] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

[5] SIFMA's Asset Management Group (SIFMA AMG) brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies,

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provide comments on the Proposal to implement the FDTA. This joint rulemaking aims to introduce standardized data collection and reporting requirements across U.S. financial regulatory Agencies. We appreciate the intent behind this initiative, particularly its potential to enhance transparency, interoperability, and consistency in regulatory reporting. However, SIFMA, on behalf of its member firms, has several significant concerns regarding the specifics of the Proposal that warrant further scrutiny and adjustment. SIFMA will confine its comments to the below four areas which are more directly connected to securities markets operations:

1) Statutory Overreach
2) The Adoption of a Common Identifier for Financial Instruments (the Financial Instrument Global Identifier ("FIGI"))
3) The Use of the Legal Entity Identifier ("LEI")
4) Data Transmission and Schema Standards

The FDTA amended Section 124(b)(1) of the Financial Stability Act, to mandate [the Agencies] … jointly establish data standards for "collections of information reported to each [Agency] by financial entities under the jurisdiction of the [Agency]."[6] This directive outlines the Agencies' intent to standardize data reporting requirements across the financial industry for use by the regulatory Agencies. The Proposal, however, goes beyond the intent of this statute and suggests a broader reporting shift with the adoption of a new standardized financial instrument identifier (e.g., the FIGI) and mandatory use of LEI for reporting purposes by all financial entities to regulatory Agencies and not simply for internal regulatory use.[7] Such an expansive interpretation of FDTA's intent will have a significant impact on the financial institutions and financial industry as a whole.

We are concerned the Proposal lays the foundation for major transformation of how the financial services industry would manage data– particularly in the context of the adoption of a common financial instrument identifier – without providing the cost-benefit analysis needed to justify a change of this scale under the Administrative Procedure Act ("APA").

The proposal to require adoption of a common universal identifier for financial instruments (the FIGI) will place a significant burden on financial entities to adapt to this new standard. This includes substantial system overhauls and process adaptations to comply with the new reporting mandate, directly affecting not only the industry's financial reporting but the broader recordkeeping and enterprise data management systems supporting reporting. Given the broad impact of implementation across the industry and related costs, there is a need for further industry engagement and thorough analysis before proceeding with the Proposal.

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endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.sifma.org/amg

[6] Financial Stability Act § 124(b)(1)

[7] *Id.*

The Proposal also mandates the use of the LEI for all entities required to report to the Agencies. The LEI, developed under the ISO 17442-1:2020 standard, offers several advantages, including improved identification of counterparties across jurisdictions. Despite these benefits, there are several practical challenges associated with the mandatory widespread adoption of LEIs which would need to be overcome by the industry. For instance, further adoption of LEI into market segments which currently do not use LEI would require substantial system overhauls and increase maintenance costs and additional administrative burden to market participants. This includes small market participants, such as municipal issuers with limited resources, that would likely face significant challenges in adapting to the new requirements. The burden is not simply the cost of acquiring an LEI but also the operational cost of using it in reporting. This limitation must be carefully considered, especially as it may disproportionately impact smaller issuers.

While the Proposal's approach to data scheme and transmissions formats offers potential benefits in terms of data interoperability and automation, we urge the Agencies to review them with an eye to ensuring they are designed with necessary flexibility, while also avoiding conflict with international standards.

SIFMA recommends the Agencies reassess their approach to improving data transparency and seek to align any potential changes to prevailing industry approaches and standards, using a robust cost benefit analysis. This analysis should be carried out on a product by product and entity by entity basis, as opposed to blanket mandates across financial entities and regulators. The analysis must take into account opportunities for meeting the goals of the FDTA while allowing the continued use of existing product identifiers with no additional requirements.

Regulatory Agencies must align their intentions with the realities of market reporting obligations. A thorough cost-benefit analysis and an open, inclusive dialogue with all industry participants are critical for ensuring that the optimal solution is adopted, without creating disruptions or unnecessary burdens on entities of all sizes and especially impactful for smaller entities. Transparency, accuracy, and careful planning are essential as the industry navigates these complex changes. This analysis should also reflect the fact that there are multiple market segments where this is effectively zero penetration of LEIs or FIGIs currently, and in some functions or systems where the FIGI may be available, it may not be captured in systems used for reporting.

1. **Statutory Overreach.**

The FDTA requires the establishment of common data standards, including non-proprietary identifiers for legal entities.[8] However, it does not mandate that all identifiers, including those for financial instruments, be open-source or non-proprietary. The FDTA provides that data standards (beyond LEI) shall, where "practicable"... be non-proprietary and

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[8] 12 U.S.C. § 5334(b)(1)(A).

available under an open license.[9] The decision to exclude CUSIP and ISIN in favor of FIGI appears to be based on a misinterpretation of the statute. If Congress intended for all identifiers to be non-proprietary, it would have specified this requirement explicitly.

Under the APA, Agency actions must be based on reasoned decision-making that includes a thorough analysis of relevant data and potential economic impacts. Under the APA, agency action will be set aside if "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.[10] In this instance, the Agencies have failed to provide a satisfactory explanation for their decision to adopt FIGI as the common identifier and have not identified a problem to be solved or conducted the necessary cost-benefit analysis. The rulemaking process lacks a comprehensive evaluation of the potential effects on the financial industry, given the significant role played by the CUSIP and ISIN today.

The Agencies have argued that the Proposal applies only to themselves and not to market participants. This reasoning is flawed, as the adoption of FIGI as the securities identifier standard effectively mandates a shift in reporting and data infrastructure across all market participants. The shift to FIGI will entail significant costs as firms overhaul their systems and processes, without clear advantages over the systems already in place within the industry. The Agencies have proposed to effectively mandate the use of FIGI in place of other identifiers with no cost benefit analysis to support the significant economic impacts it would have on the financial services industry, including the fundamental transformation it would require in how firms manage financial data. The Agencies themselves have previously determined that fungibility is critical for minimizing trade failures, ensuring transparent reporting, and monitoring and assessing systemic risk. However, they have failed to outline how the FIGI standard is more fungible than CUSIP or ISIN.[11]

The Proposal's lack of adequate stakeholder engagement and analysis further underscores its arbitrary nature. Financial institutions and regulators have long relied on CUSIP. The introduction of FIGI, which has substantial differences from currently used identifiers (*e.g.* assigning multiple identifiers to the same security based on different exchanges or countries), may lead to reduced transparency, heightened market fragmentation, and increased operational risk. More broadly**,** the Proposal would drive a major change in how the industry identifies financial instruments and would effectively serve to establish the FIGI and its supporting infrastructure as an integral part of financial firms' operating models. A change of this scale must be supported by a holistic process of industry review to understand the suitability of the FIGI and its operating model. Instead, the Proposal would select a new identifier as a foundational part of the industry's data systems and operating models, without review beyond the Proposal itself, which is clearly inadequate for a change of this scale.

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[9] *See* https://www.govinfo.gov/content/pkg/FR-2024-08-22/pdf/2024-18415.pdf
[10] 5 U.S.C. § 706(2)(A).

[11] *See* 89 FR. 17984, 18019 (Mar. 12, 2024).

2. Adoption of Common Identifiers for Financial Instruments (FIGI, UPI, and CFI).

The Proposal introduces the FIGI as a standard identifier for financial instruments, alongside the Unique Product Identifier ("UPI") and the Classification of Financial Instruments ("CFI"). While the industry has made multiple attempts to standardize product identifiers and drive the development of open-source standards, a regulatory mandate for firms to rely on a financial instrument identifier which is not currently broadly used in the financial markets would be highly costly and disruptive, and any benefits would be dwarfed by the operational disruptions involved in such a conversion. This includes a major overhaul of internal systems to accommodate and integrate new identifiers. This would involve complex data mapping and system modifications with highly questionable added benefit. These challenges are reflected in the fact that multiple prior industry attempts to introduce new approaches to common data standards have failed.

Nor is it clear how the common instrument identifier in the Proposal (the FIGI) would integrate with existing reporting requirements and the securities lifecycle. Differences exist between FIGI and existing identifiers in areas such as treatment of securities lifecycle events and mapping across trading venues. Additionally, certain industry processes and regulatory requirements are directly linked to existing identifiers and their particular functionality. SIFMA would like to highlight a number of serious challenges which the adoption of the FIGI would present:

- **Operational Challenges and Costs:**
  - Many firms currently rely on widely accepted identifiers such as CUSIP, ISIN, or UPI for instrument identification and associated regulatory reporting. The transition to reporting based on the FIGI would necessitate significant operational changes, including remapping data systems to incorporate FIGI. This transition would incur substantial costs for both firms and regulators. For example, financial institutions would need to invest in technology, update internal processes, and train staff to manage the new identifier.
  - These operational challenges will be magnified because the FIGI handles certain securities lifecycle events differently than CUSIP. For example, asset servicing and corporate action functions would need to be redesigned due to limitations of the FIGI in the segregation of post and pre corporate action events. CUSIP does this intrinsically. As a result, the operational impacts on firms would extend to redesign of underlying systems which are built on embedded features of existing widely used identifiers. Neither of these substantial categories of costs are addressed in the proposal.
  - The introduction of the FIGI would not allow for a decrease in costs associated with the use of proprietary identifiers such as CUSIP or ISIN over time, since a) transactions in financial markets would still take place with reference to existing identifiers (including for legacy products and instruments), b) firms would be

required to continue to use these identifiers for regulatory reporting outside the US and other industry functions where these identifiers remain embedded, and c) the open source elements of the FIGI would need to be supplemented by paid commercial services to give the level of data quality and supporting information needed for enterprise data management and regulatory reporting.

- **Lack of Cost Benefit Analysis**:
  - Notwithstanding the requirements of the APA, which applies to all non-statutory required changes, the Proposal lacks a cost-benefit analysis of the effect of the changes required to transform the industry's approach to data management and operations to comply with a new financial instrument identifier reporting requirement. Nor does the Proposal assess the costs and benefits of alternative solutions.
  - While it could be argued that the Proposal lacks cost benefit analysis because it is focused primarily on issues within the Agencies, this approach is overly narrow as the Proposal would inevitably require the broad adaptation of internal systems and market structures to the new standard. Given the foundational nature of the Proposal, a thorough cost benefit analysis is essential.
  - The Proposal also requires a more robust review of the anticipated benefits a new identifier mandate would deliver both to the Agencies and the industry. As we discussed, we are concerned that the differences between the FIGI and existing identifiers would create additional complexity for the financial industry and therefore obviate many of the purported benefits of moving to an ostensibly open-source standard.

- **FIGI's Open-Source Nature and Dependencies:**
  - We are concerned that the Agencies are proposing the FIGI based on the incorrect view that the FIGI can be adopted on a purely open-source basis. While the Proposal describes the FIGI as an open-source standard, its open-source features and functionality are combined with a commercial dependence on third parties to provide the enhanced the FIGI data needed for complex recordkeeping and enterprise data management.
  - This reliance on outside providers could create further embedded costs for financial market participants, as well as risks related to data consistency, coverage and lack of timely availability, potentially limiting the effectiveness of the FIGI as a universal identifier. The FIGI would inevitably need to be cross-referenced with both CUSIP and ISIN, which introduces additional complexity.

- **Granularity:** SIFMA questions whether the level of detail required for regulatory reporting and the firm-level data management needed to support it, can be done with only open-source FIGI information. Indeed, initial analysis suggests the level of supporting information needed to use the FIGI to meet regulatory reporting requirements would depend on additional paid subscription data not available through open-source elements

of FIGI, such as cross reference to other vendor codes, exchange symbology, etc. This introduces additional systemwide costs that the Agencies do not address.

- **Cross-Referencing Challenges:**
  - The Proposal's use of the FIGI introduces substantial cross-referencing requirements, which are a critical consideration due to the challenges they present. The FIGI, CUSIP, and ISIN are distinct identifiers, each with its own structure and usage, and managing these relationships is not as straightforward as might be assumed. Cross-referencing these identifiers requires careful handling to avoid inconsistencies, errors, and potential inaccuracies. The Proposal seems to overlook this crucial aspect of the rulemaking, underestimating the operational complexity that firms would face when trying to align to multiple identifiers. This oversight, if not addressed, could lead to significant issues in the accuracy and reliability of financial reporting across markets.

- **Mapping & Alignment:**
  - While there is potential for mapping and alignment *vis a vis* a CUSIP or other current identifiers, this creates additional demands around data maintenance and mapping of the FIGI to share class level information. Any potential induction of new identifiers such as the FIGI must be grounded in an analysis of these concrete questions across the securities and reporting lifecycles, to determine whether a new identifier is suitable for specific regulatory reporting requirements. This analysis would best be carried out at the Agency level and be informed by the specifics of individual products and markets.
  - A potential solution would be for a third party to manage this cross-referencing on behalf of the Agencies. Under this hypothetical model, the government would be the sole obtainer and consumer of the FIGI, and the mapping would only serve regulatory needs. Further, there should be no expectation for firms to take on additional reporting responsibilities due to FIGI implementation; the burden should remain solely on the Agencies. This model could be built on reporting of existing identifiers by firms. It would also need to incorporate translation of information provided by regulators to firms into currently implemented identifiers as well.

- **Redundancy of Identifiers:**
  - Introducing FIGI alongside existing identifiers like CUSIP or ISIN, which already have deep market penetration, could lead to unnecessary redundancy. Many firms have already invested heavily in the use of existing identifiers, and the advantages of switching to the FIGI do not justify the associated costs, particularly when the firms would be required to continue to support other identifiers for international reporting requirements or market functions where they are embedded, including for legacy products and instruments.
  - Given the close relationship between ISIN and CUSIP, it is relatively simple to cross-identify these two standards. However, introducing the FIGI into the

process could complicate matters further, creating complex operational challenges. The difference between taxonomy-based identifiers (such as CUSIP) versus product-based identifiers (such as the FIGI) is an important distinction. Taxonomy-based identifiers offer a broader framework that groups instruments based on shared characteristics or classifications, facilitating a more holistic approach to data management and reporting. This system can enhance interoperability and streamline processes across different platforms and jurisdictions. In contrast, product-based identifiers are designed to identify individual financial products, allowing for the tracking and analysis of each instrument. Thus, taxonomy-based identifiers like CUSIP offer a broader framework for classification and interoperability.

- **Concerns About Whether the FIGI's Features are Suitable for Universal Financial Instrument Reporting:**
  - Beyond issues of redundancy, there are questions about whether the FIGI is universally understood and applicable across all aspects of a security's lifecycle. Firms may have differing interpretations of the FIGI's meaning, which could lead to operational inconsistencies and errors.
  - For example, there are questions on how the unique features of the FIGI (such as trade lifecycle tracking, cross-venue trading, alignment with CUSIP, share class level information, regulatory reporting, and data maintenance requirements) map across the securities lifecycle, and whether there are areas where it does not map exactly to how firms currently record securities lifecycle events. There are additional questions on the impact of FIGI's approach to instruments trading across multiple venues, as well as differences in the handling of corporate action events.
  - The complexities of market structures—including trading venues, liquidity providers, and settlement systems—may present challenges in integrating the FIGI seamlessly into established frameworks. Conflicts can arise if the FIGI does not adequately reflect the nuances of different market participants and their operational requirements.

- **Assessment of FIGI's Suitability is Needed:**
  - As the Agencies consider standardizing the use of the FIGI, it is critical to evaluate the representation of data quality associated with the FIGI. Key attributes such as accuracy, timeliness, and coverage/completeness must be thoroughly assessed to ensure that FIGI meets the required standards for data quality. The FIGI must be deemed fit for purpose; this means that it should reliably serve the needs of all financial market participants. It currently appears to not do this.
  - Further, the assessment of FIGI's suitability must extend beyond reporting requirements. While compliance with reporting obligations is a critical factor, market participants must also consider how FIGI interacts with trading protocols, operational workflows and risk management systems.

- Moreover, there is a risk of "picking winners" in the identifier landscape without a comprehensive assessment of the FIGI's quality. The Agencies should carefully consider whether the FIGI can meet the industry's expectations for data integrity and performance, as relying on an identifier that lacks robust quality metrics could undermine the overall goals for transparency and efficiency in the financial markets.

- **Role of established identifiers:** We caution the Agencies to consider the established role of CUSIP and the closely related ISIN financial instrument identification systems, which are the market standards for uniquely identifying financial instruments across many functions, including financial reporting.[12] ISIN is a 12-character code used globally to identify securities. The first two characters represent the country code, the next six digits are local identifiers (such as CUSIP for the U.S. and Canada), and the last digit is a check digit used for validation. This structure allows ISINs to work internationally while accommodating different local codes in the middle section. These mature identifiers cover a wide range of financial instruments and have evolved to become integral to numerous critical functions. For example, CUSIP is used extensively in Treasury issuances, highlighting its importance in maintaining market stability.

- **Disruptions in Reporting Due to FIGI's Structure:** Transactions across multiple venues present a significant risk of reporting errors due to the FIGI's reliance on the official place of listing. The FIGI follows a hierarchical structure, which includes a 1:1 mapping. However, the FIGI has notable differences *vis a vis* CUSIP. CUSIP is at the class level, but the FIGI has the exchange level of data, the composite level and the top level. Maintaining this data hierarchy accurately is crucial, as any errors in the mapping—even if only for an hour—can result in incorrect reporting. This potential for misreporting presents substantial risks for firms, regulators, and the overall financial system. The lack of a cost-benefit analysis in the Proposal compounds these concerns. Without understanding the full operational and financial impact of this new system, it is impossible to adequately address the complexities and costs involved in implementing the FIGI across multiple reporting platforms. Even if these challenges are ultimately solvable, they will require extensive resources and time to manage effectively.

- **Conflicts with Established Reporting Requirements:** The Proposal fails to address the many areas where established reporting requirements have been built using existing identifiers and would be therefore be materially disrupted by the introduction of new

[12] *See* §13(f) of the Securities Exchange Act of 1934. *See also* 17 CFR 420.3(f).

identifiers.[13] While the Proposal indicates that these areas would be considered in future rulemakings, SIFMA notes that the lack of adequate cost-benefit analysis when setting a standard during this initial Proposal stage creates a risk of setting up other standards and implementing meaningful global changes without such an important step..

  - For example, the municipal bond market, which relies exclusively on CUSIP identifiers, would face severe potential disruptions. All Municipal Securities Rulemaking Board ("MSRB")[14] rules and processes are intricately tied to CUSIP, and a shift to a different identifier would necessitate comprehensive changes to these regulations. Such a transition could fundamentally destabilize the municipal market, as it would involve not only reworking existing rules but also retraining market participants and updating infrastructure, creating significant operational and compliance challenges. It is important to stress the disruptiveness of this scenario and the reason for an extended transition period, were the rollout of the FIGI to go forward.

- **Misalignments in the Issuance Process:** In examining the implementation of the FIGI, it is important to identify potential misalignments in the issuance process that could hinder its effectiveness. These misalignments may arise from discrepancies in how different entities issue identifiers, varying regulatory frameworks, and inconsistent market practice. Examples of misalignments in the issuance process include:
  - **Regulatory Inconsistencies:** Different Agencies may have varying standards and requirements for issuing identifiers, leading to confusion and a lack of uniformity.
  - **Timing Discrepancies:** The issuance of FIGIs may not align with the timelines required by different market participants, impacting their ability to comply with reporting obligations. Market participants would need FIGIs almost immediately as part of the issuance / formation process in order to meet reporting obligations. The lack of clarity on where the responsibility lies to obtain a FIGI could complicate the timely availability of FIGIs. Additionally, there are questions around whether platforms will have to pre-trade data under a new FIGI standard.
  - **Data Quality Issues:** Variations in data collection and validation processes among issuers can result in inconsistencies in the quality and accuracy of FIGIs, leading to potential market risks.

- **Misalignment with International Approaches to Instrument Identification**: We are concerned that any move towards mandated use of the FIGI would bring the US out of alignment with broader international trends in financial instrument identification. For

[13] *See* CUSIP Global Services Statement on Proposed Data Standards for the Financial Data Transparency Act, August 1, 2024, *see also* https://www.morningstar.com/news/globe-newswire/9198012/cusip-global-services-statement-on-proposed-data-standards-for-the-financial-data-transparency-act

[14] *See* MSRB Rule Book for the Municipal Market, *see also* https://www.msrb.org/Rules-and-Interpretations/MSRB-Rules

example, regulators internationally have not looked to the FIGI in their rulemaking. On the contrary, recent regulatory initiatives in other jurisdictions have looked to other identifier standards. To move away from international approaches to instrument identification would disrupt the ability to effectively aggregate and share information internationally and create challenges for firms active in multiple jurisdictions who need to comply with divergent standards.

- ***Global Standardization and the Role of the FIGI:*** Currently, the ISIN serves as a global standard for identifying securities, incorporating local elements to ensure its relevance across various jurisdictions. The ISIN framework facilitates international trading and investment by providing a universally recognized identifier that enhances transparency and reduces complexity in cross-border transactions. In contrast, the FIGI is not yet globally accepted and lacks the same level of recognition and adoption as ISIN.
- While the Agencies assert that the FIGI is global, this is only narrowly correct, as Brazil is the only jurisdiction that has currently adopted FIGI and there are reasons to question if the FIGI would be adopted by more jurisdictions as it originated in the United States and is connected to a United States commercial entity. Additionally, international jurisdictions have not adopted the FIGI, and some other jurisdictions have considered and rejected FIGI. There is no reasonable expectation that global regulators will follow suit if the United States adopts the FIGI since it was initially created by a U.S. commercial entity which will add frictions to global consistency of reporting and appears to be a move in an opposite direction to efficiency of data sharing.
- If the Agencies were to move forward with the FIGI as a standard identifier without achieving broad global acceptance, the industry risks taking a step backward in efforts toward global harmonization. Such a shift could lead to fragmentation in the market, as firms and regulators may face challenges in reconciling the FIGI with existing systems and identifiers like ISIN. This disjointed approach could hinder effective communication and data sharing, ultimately undermining the benefits of standardized identification. Therefore, it is imperative to critically evaluate the implications of adopting the FIGI in its current state and ensure that any transition supports, rather than detracts from, the goals of global standardization and harmonization.
- ***Potential Conflicts with International Reporting Mandates****:* The Proposal conflicts with efforts in other jurisdictions to adopt common data standards for data reporting by the industry. Many institutions affected by the Proposal also have reporting requirements to regulators and supervisors in other jurisdictions, and policymakers should be cautious about imposing new requirements which would be disruptive to the systems for identifying products necessary for meeting foreign reporting requirements, such as by mandating product identifiers which are not used internationally. In some cases, the same transaction is reported to both US and foreign regulators, and under the Proposal firms would use different and unaligned product identifiers when reporting the same transaction to different regulators.

- For example, the European Central Bank (ECB) is in the middle of launching the Integrated Reporting Framework (IReF), which seeks to integrate existing EU statistical data into a single, standardized reporting framework applicable across the euro area based on the ISIN.[15] It is scheduled for adoption in 2025 and is expected to go live in 2027. The IReF seems to have the same objectives as the Proposal and both endeavors have similar implementation timelines. However, what is concerning is that the IReF and the regime envisioned by the Agencies may be incompatible with each other, so multinational financial institutions will have to implement two different sets of reporting requirements and will not be able to leverage one buildout to comply with the other.

To mitigate these challenges, SIFMA recommends the Agencies:

- **Do not proceed with establishing the FIGI as a mandatory identifier:** SIFMA strongly recommends that the Agencies do not establish FIGI as the mandatory common identifier. Further analysis and consideration are needed before implementing such a drastic, industry-wide change. The current lack of global acceptance for the FIGI raises significant concerns regarding its usability. While the FIGI has potential advantages, such as facilitating the identification of financial instruments, it is not the only identifier that can accomplish this goal and it is crucial to also recognize its limitations and its lack of global adoption Mandating the FIGI without a robust framework for its integration into existing data systems and processing could lead to confusion and operational challenges for market participants. Additionally, without a thorough evaluation of the FIGI's performance in these areas, stakeholders could face unforeseen risks, including data integrity issues and challenges in compliance with regulatory requirements. Smaller firms, in particular, may face disproportionate challenges in making the required changes, leading to potential barriers to market participation and competition.

- **Review Suitability of FIGI and Opportunities for Introducing it as Optional Identifier:** The Agencies should assess the FIGI in light of its operating model and particular features and identify if there are areas where it may be suitable for introduction as an optional identifier. This would allow firms who wish to expand their use of open-source standards to do so, without mandating disruptions to the industry broadly. This process would best be carried out on an agency-by-agency basis, identifying reporting requirements which may be better suited to allow for the use of the FIGI. The Proposal itself recognizes that there may be situations where flexibility and optionality in the use of identifiers is necessary, noting that "an Agency could determine to use an identifier that is not in the joint standards."[16]

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[15] European Central Bank Integrated Reporting Framework (IReF), https://www.ecb.europa.eu/stats/ecb_statistics/reporting/IReF/html/index.en.html

[16] *Supra 3*, footnote 20

- **Assess gaps in current identifiers and improve where needed:** Before introducing a new identifier like the FIGI, focus should be placed on identifying any gaps or weaknesses in the current identifier systems (such as ISIN or CUSIP). Improvements should be made only where necessary, with a limited scope to ensure that resources remain focused on existing market standards and the broader goals of the project.

- **Assess Whether Changes at the Agency-Only Level Would Suffice:** The Agencies could consider whether mapping to an open-source standard within their own systems – without changing the information provided by reporting firms – would meet the requirements of the FDTA and Agencies' objectives in terms of greater transparency and easier information sharing across Agencies. Focused mapping at Agencies in their capacity as data repositories would be far more efficient and entail much less operational and process disruption than mandating wholesale change across the industry. Should the Agencies take this approach, re-translations will be needed to ensure that data shared with the public includes the more readily used identifiers.

- **Evaluate the benefits of the FIGI in light of its limitations:** The Agencies should carefully assess the potential benefits of adopting the FIGI, taking into account its limitations as an open-source identifier. Any decision to incorporate the FIGI in some role should weigh its value against the current system and consider whether there is a problem that is being solved with its adoption and whether its adoption would truly enhance the identification process or present further challenges. This evaluation should include engagement with the industry broadly.

2. Use of the LEI.

The Proposal mandates the use of the LEI by all entities required to report to the Agencies. The LEI, developed under the ISO 17442-1:2020 standard, provides several advantages, including enhanced transparency and improved identification of counterparties. Despite these benefits, there are several practical challenges associated with the widespread adoption of LEIs that must also be considered.

First, clear regulatory guidelines are necessary to establish where the responsibility for obtaining and maintaining an LEI rests, taking into consideration both U.S. and non-U.S. persons. The responsibility of financial firms for ensuring that their clients and counterparties acquire or maintain their LEIs is unclear, and in cases where an entity cannot obtain an LEI (e.g., individuals), alternative identifiers should be allowed for financial reporting purposes. Additionally, the use of lapsed LEIs should be permissible, provided that the financial firm itself maintains a current LEI. Concerns also arise over driving activity away from the regulated financial sector if entities are unwilling to obtain LEIs, potentially undermining regulatory goals. Finally, there is the key question regarding the requirement for legal identifiers to be open-source, as the LEI system is not fully open-source.

- **Responsibility for Obtaining LEIs:** The FDTA does not require issuers to obtain a LEI, which raises questions about how a reporting mandate can effectively be implemented. If there is no initial obligation for issuers to secure an LEI, it is not clear how financial entities can be held responsible for its use in financial reporting. This issue is further complicated when end users are supported by multiple financial services firms, as it becomes unclear where the responsibility for obtaining and maintaining the LEI lies if the entity in question does not do so itself. Clarifying these responsibilities is essential to ensure effective compliance and streamline the financial reporting process within the regulatory framework.

- **Cost and Process Complexity:** Obtaining and renewing an LEI involves costs and administrative effort, particularly for smaller firms. The requirement to use LEIs universally could lead to increased expenses without proportional benefits for these entities. For example, smaller financial institutions might face disproportionate burdens compared to larger entities, which could exacerbate existing disparities in the financial sector.

- **Differences in LEI Implementation Across Markets:** The degree of LEIs adoption varies substantially across various markets. For example, there is a dramatic contrast in the numbers of entities with LEIs in the swaps markets, where LEI adoption is nearly universal due to prior regulatory mandates, and the municipal securities markets, where they are quite uncommon. A regulatory agency may be familiar with LEIs in one market, but not in another, leading to a fragmented, patchy implementation. This inconsistency raises concerns about how LEI adoption would be standardized for the purpose of financial reporting.
- This lack of widespread uptake results in gaps in LEI coverage. For firms that currently use multiple identifiers, such as Taxpayer Identification Number ("TIN") or the Commercial and Government Entity Code ("CAGE"), mandating the LEI could complicate data integration processes with few benefits.
- While the cost of LEIs has decreased over the years—approximately $60 for issuance and $40 for annual renewal—the real burden lies not in obtaining an LEI but in complying with registration requirements. For example, entities such as small municipal issuers, which may only issue a small number of bonds every decade, often lack the internal resources to handle the registration obligations that come with LEI compliance.
- Many of these entities do not currently require LEIs at the time of incorporation, and imposing these requirements suddenly would place a significant operational burden on them and require extensive education and training across all sizes of issuers. In addition, the cost of using the LEI for reporting purposes is an even greater burden than the cost of maintaining it.
- The primary reason the use of LEIs is more burdensome than their maintenance lies in the complexities of regulatory compliance. While obtaining and renewing an LEI is relatively straightforward and low-cost, using it for reporting involves much more. Small issuers, like municipal bond issuers, often lack the internal infrastructure to handle the detailed and technical reporting requirements that accompany LEI compliance. They may

need to invest in new systems, train staff, or hire external experts just to ensure they meet these requirements. This operational strain, particularly for organizations not accustomed to frequent reporting, makes the cost of using the LEI significantly higher than simply maintaining it.

- **Challenges to Financial Institutions in Markets where Clients have Limited LEI Adoption:** Industry concerns on mandating adoption of the LEI in market segments where they are not currently used is not primarily about the cost associated with obtaining a LEI, but rather about the outreach efforts needed to ensure compliance. During the implementation of MiFID, significant resources were devoted to collaborating with clients to identify which of their entities were required to obtain an LEI and assisting them in the acquisition process. Ultimately, Europe moved away from a strict "no LEI, no trade" policy because the responsibility for obtaining the LEI was unclear. In addition, it is important to recognize the ongoing burden of maintaining the LEI, which raises uncertainties for entities over the long term. Therefore, regulators should focus on the issuance requirements of the LEI rather than placing the onus solely on reporting firms to manage compliance. This shift in focus can help clarify responsibilities and facilitate a smoother integration of LEIs into the financial landscape.

- **Expansion of the LEI to New Market Segments should be Tailored:** This Proposal should not serve as a backdoor to force certain market segments to adopt or change their reporting practices around LEIs. There are market segments, such as municipalities, where LEI usage is extremely low or non-existent. Imposing LEI requirements on these segments without a thoughtful, targeted approach risks forcing a market overhaul that may not be necessary or beneficial. Any expansion of the use of LEIs should be done on an agency-by-agency basis and be based on review of the existing reporting practices and structures of each market segment, rather than reshaping them entirely through a blanket mandate across multiple regulators.

- **Limited Adoption of LEI in Market Segments:** The universe of entities that currently do not have LEIs includes various categories, such as small businesses, sole proprietorships, non-profit organizations, and certain foreign entities that do not engage in activities requiring them to report to regulatory Agencies. For these entities, acquiring an LEI can be challenging for several reasons:
    - **Complexity and Cost:** The process of obtaining an LEI can be complex and potentially costly for smaller entities. There may be administrative burdens associated with the application process, including legal expenses, documentation requirements and fees, which could be prohibitive for businesses with limited resources.
    - **Lack of Awareness:** Many small businesses and non-profit organizations may not be aware of the LEI requirement or its importance. This lack of awareness can lead to a reluctance to engage with the process of obtaining an LEI, especially if they do not see a direct benefit.

- **Limited Engagement in Regulated Activities:** Many entities that do not have an LEI may not engage in activities that require regulatory reporting, leading them to believe that acquiring an LEI is unnecessary. For instance, a local small business that operates solely within its community and does not engage in significant financial transactions may not see the relevance of obtaining an LEI.

- **Fragmented Regulatory Environment:** Entities operating in multiple jurisdictions may face confusion regarding LEI requirements, as different regulators may have varying mandates. This inconsistency can create challenges for entities attempting to navigate the regulatory landscape and determine whether an LEI is required.

- **Applicability of LEIs Requirements to Other Sources of Capital**: It is also important to clarify whether the requirement to obtain LEIs will apply beyond other sources of capital. If so, this could impact how firms and entities choose their financial partners, potentially driving them towards other sources of financing which do not require them to obtain LEIs. Any proposal around LEIs should not inadvertently favor one financial instrument or entity over another. The scope of LEI adoption must be carefully considered to avoid creating market distortions or shift market activity.

- **Open-source requirement for legal identifiers:** Since legal identifiers are mandated by law to be open-source, questions arise regarding the LEI's status. The LEI system, as it currently operates, is not strictly open source, which may create challenges for its broader adoption and compliance with regulatory requirements. This discrepancy should be addressed to ensure that LEIs meet legal expectations.

To address these concerns, we propose the following recommendations:

- **Review LEI Expansion at the Agency level:** Any expansion in mandated use of the LEI should be carried out by individual Agencies and be based on an analysis of the unique features of the markets and entities they supervise. Where there are opportunities to expand the use of the LEI, it should be addressed through proposals grounded in the unique conditions of these markets. Similarly, The Agencies should recognize that there are certain markets and reporting obligations which may not be suited to the widespread adoption of the LEI at this time.

- **Allow Flexibility:** Consider permitting flexibility in the use of LEIs, especially for smaller or less complex reporting entities. Small firms include small and medium enterprises, startups, local businesses, among others. Smaller firms use Employment Identification Numbers, DUNS Numbers, TIN Numbers, and CUSIPs. For instance, smaller firms could be given an option to use alternative identifiers or a streamlined process for LEI adoption.

- **Reduce Operational Burdens:** Explore ways to reduce the operational challenges associated with LEI registration and renewal. Options might include subsidized registration fees for smaller firms or a simplified renewal process that minimizes administrative overhead. Improving the LEI operating model will provide a better foundation for potential future expansions of its use in regulatory reporting.

- **Clarify and Properly Align Responsibilities of Financial Institutions in Use of the LEI for Reporting:** Any expansion of the LEI to new markets must carefully reflect areas where financial institutions have authority and responsibility, and conversely, where they are dependent on the actions of their clients and counterparties who may be outside the Agencies regulatory remit. These include a range of tailored requirements to ensure that reporting financial firms are in compliance even if their clients have not fully adopted the use of the LEIs. Any expansion of LEI requirements impacting financial institutions should include the following elements:

    - **Clarify regulatory requirements for LEI obligations:** It is essential that regulatory guidelines clearly state that the responsibility to obtain and maintain LEI lies with the entity to which the LEI is issued.
    - **No obligation for financial firms to remind other entities of LEI maintenance:** Financial institutions required to use LEIs should not be responsible for reminding or ensuring that other entities maintain or renew their LEIs. The responsibility must remain solely with the entity holding the LEI.
    - **Use of alternative identifiers when LEI is unavailable:** In cases where an entity does not or cannot obtain an LEI, financial entities should have the option to use an alternative identifier.
    - **No requirement to notify regulators of missing LEIs:** Financial entities should not be burdened with the obligation to notify regulators when an entity has not obtained an LEI. Furthermore, the absence of an LEI should not trigger unnecessary regulatory reporting requirements.
    - **Permissibility of using lapsed LEIs:** Financial firms required to use LEIs should be allowed to rely on lapsed LEIs for entities they engage with, provided that the financial firm itself maintains a current and valid LEI for its own activities.

3. Data Transmission and Schema Standards.

The Proposal emphasizes establishing common standards for data transmission formats and schema formats, including requirements for machine-readable, high-quality, and non-proprietary formats such as Extensible Markup Language (“XML”), JavaScript Object Notation (“JSON”), and eXtensible Business Reporting Language (“XBRL”). While these formats offer benefits in terms of data interoperability and automation, we urge the Agencies to consider the following issues:

- **Costs of Implementation:** Adopting new data transmission and schema formats can be costly, particularly for firms with legacy systems that may not be easily adapted. The costs associated with updating systems, retraining staff, and ensuring compliance with new standards can be substantial. For example, firms may need to invest in new software, hire consultants, or upgrade their information technology infrastructure to accommodate the new formats.

- **Flexibility in Schema Formats:** Different data collections have varying levels of complexity. Certain financial data (such as basic transaction records or account balances) may be adequately reported using simpler formats like Comma-Separated Values ("CSV") or Hyper Text Markup Language ("HTML"), while more complex data (such as detailed financial statements or risk assessment reports) may be adequately reported using simpler formats, while more complex data (such as detailed financial statements or risk assessment report) might require detailed taxonomies like XBRL. We recommend allowing flexibility in choosing the appropriate format based on the nature of the data being reported. This flexibility would enable firms to use the most efficient format for each type of data, reducing unnecessary complexity.

- **Interoperability with Existing Systems:** Many firms already utilize well-established systems for regulatory reporting, designed around existing standards. Requiring firms to adopt new data formats without ensuring compatibility with current systems could lead to significant disruptions.

- **Geopolitical Entities, Names, and Codes ("GENC"):** While SIFMA supports the use of internationally recognized standards, such as ISO codes, for trade reporting, SIFMA has significant concerns about the introduction of certain variations, specifically the use of the GENC profile in place of the ISO 3166 standard for country identification. SIFMA supports the ISO 4217 code as a standard for currency reporting in OTC derivatives. This globally accepted standard provides the necessary uniformity without imposing undue burdens on market participants. Similarly, for the identification of countries, the ISO 3166 standard, has been adopted by multiple global trade reporting regulators, including the Commodity Futures Trading Commission, European Securities and Markets Authority, Canadian Securities Administrators, and Japan Financial Services Agency. The joint notice of proposed rulemaking's proposal to adopt the GENC standard, however, introduces significant complications. GENC's modifications and extensions to ISO 3166 introduce inconsistencies that would require substantial system builds and adaptations, creating operational burdens that outweigh any potential benefits. The GENC standard, with its unique geopolitical extensions and exclusions, would increase the cost and complexity of trade reporting without contributing to greater global harmonization. The adoption of the GENC standard would not be consistent with the global recommendations resulting from the G20's 2009 commitment to ensure

transparency in the OTC derivatives markets.[17] This effort to align reporting requirements across jurisdictions would be undermined by the introduction of GENC's non-standard extensions, creating divergence from internationally recognized norms. Given that ISO 3166 is already widely used for OTC derivatives reporting and that maintaining consistency is critical to the success of global trade reporting efforts, we urge that the ISO 3166 standard remain in place without the adoption of the GENC modifications.

Conclusion.

In summary, we appreciate the Agencies' work as seen in the Proposal to enhance financial data transparency, consistency, and interoperability. However, we urge the Agencies to carefully reconsider their approach to adopting FIGI as the common financial instrument identifier, LEIs, and data transmission and scheme standards. The exclusion of established identifiers like CUSIP and ISIN lacks statutory justification and disregards their significant role in global financial markets. Moreover, a major restructuring of regulatory reporting requirements as envisaged by the Proposal would have major implications for how firms manage information, and changes of the scale envisaged by the Proposal would entail major costs and disruptions for the industry. Any change of this scale must be supported by robust cost-benefit analysis. Greater standardization in reporting is best undertaken at the Agency level, by identifying specific areas where changes to reporting frameworks and their supporting identifiers, grounded in the specific facts and circumstances of the products and entities and questions, and backed by cost-benefit analysis are justified.

On behalf of our member firms, SIFMA appreciates the opportunity for continued collaboration and looks forward to continued dialogue with you. We look forward to the opportunity to further discuss these issues and collaborate on developing a regulatory framework that meets the needs of all market participants while achieving the goals of the FDTA. Thank you for considering our comments. Please feel free to reach out to the undersigned.

Sincerely,

Stephen Byron
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Head of Operations, Technology, Cyber & BCP
SIFMA

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[17] *See* https://g20.utoronto.ca/2009/2009communique0925.html

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cc: The Honorable Jerome H. Powell, Chair of the Board
The Honorable Phillip N. Jefferson, Vice Chair of the Board
The Honorable Michael S. Barr, Vice Chair for Supervision of the Board
The Honorable Michelle Bowman, Governor, Board of Governors
The Honorable Lisa Cook, Governor, Board of Governors
The Honorable Adriana Kugler, Governor, Board of Governors
The Honorable Christopher Waller, Governor, Board of Governors
The Honorable Ann Misback, Secretary of the Board