



## Financial InterGroup's Global Identification LEI paper

24 April 2012

Our paper "GLOBAL IDENTIFICATION STANDARDS FOR COUNTERPARTIES AND OTHER FINANCIAL MARKET PARTICIPANTS" was recently sent to regulators, financial industry members and financial market participants. It was also issued as a proposal to the G20's Financial Stability Board, and to members of their Expert Regulatory Panel and Industry Advisory Panel overseeing the global Legal Entity Identifier (LEI) initiative. It is available for viewing and download at <http://ssrn.com/abstract=2016874>. A condensed version of the paper has been accepted for publication in the Special Issue on Counterparty Risk of the Journal of Risk Management in Financial Institutions which will be available in early May.

It is our hope that the LEI will become more than "just another number", not one of many we use to report to regulators, to multiple financial market utilities and infrastructure institutions, and use internally within financial firms. It should become the transformational first step toward the development of a truly global identification system for financial market participants and the contracts and instruments they trade in and own. It should then be followed by deployment of systems to aggregate and gather valued position and cash flow data from commonly defined risk management and performance measurement data sets. Finally, it should be capped off by an innovative phase of open and democratized experimentation and development of the analytical build-out of techniques and tools for systemic risk analysis.

However, to truly achieve the promises made by legislators and heads of state for all this regulatory compulsion around the LEI the industry needs to reach farther. To reach the much anticipated but never achieved goal of straight-through processing. Achieving STP will enable massive reductions in operational risk and huge reductions in the infrastructure costs built into the financial system. This overbuilt infrastructure and excessive risk is a relic still with us, left over from the

bygone era of localized financial markets and massive mapping protocols to achieve interoperability, both within firms and across them.

The new mantra of federated systems and the reengineering of financial institutions around new globally federated reference data and clearing utilities should provide a 21st century financial system in keeping with regulators requirements, the public's interest and the information age platform of its new design. Together we can achieve the expected outcome of "risk adjusting" the financial system to make financial institutions safer and to mitigate instability in the global economy. We need only take the LEI initiative to the place it is leading us to.

We have released this announcement with the new means available to communicate to the world, a demonstration of the views we have expressed in our proposal that the new technology of the Internet is in place and its remarkable reach, resilience and flexibility readily available to create the LEI federated network we are proposing. Like any technology project, certainly one as bold as the LEI initiative in its transformational aspirations, the logical next step should follow classical systems development business and contracting protocols and first issue an RFI and thereafter an RFP to qualified contractors.

The LEI initiative is the first step toward risk adjusting the financial system. It is the political leaders of nations at the G20 that need to keep their "feet to the pedal" on regulatory compulsion and then stand back and listen to those who have taken this journey before. We hope our paper and proposal can further illuminate the way.