Thank you, Stephan [Wolf], for your kind introduction and invitation to speak at this important forum today.

As Stephan noted, I am relatively new to the Office of Financial Research. My position as Director was confirmed by our Senate this past June. However, I am not so new to the LEI and the capabilities it represents.

I come to the OFR from our Congressional Committee on Financial Services, where I served as chief economist and focused on policy issues that affect our financial markets and the economy they support. I also come to the OFR with a deep interest in the history of our markets, and appreciation of both the opportunities and difficulties they can bring.

LEI is a recent creation, motivated by our experience during the 2008 financial crisis. But data standards to identify parties to market transactions have a long history. Indeed, when and where markets have been built - whether they are the ECNs of Wall Street today or the street fairs from medieval times – they have depended on two ingredients.

The first is trust. Without it, buyers and sellers spend too much time assuring each other’s performance, and too little enjoying the mutual benefits that transacting can bring. They ask questions like “Will my counterparty perform as promised?” When and where these questions are tough to answer, markets fall short of their considerable ideal.

The second ingredient is market breadth. Trading with yourself doesn’t get you anywhere. But as a market’s breadth grows, so do the odds that buyers and sellers can discover mutually beneficial
prices and terms. And while we frequently take that breadth for granted today, it was a long time coming to developed countries, and remains scarce in developing countries.

Participants in developing markets have a hard time creating trust, let alone scaling it. As a consequence, they also have a hard time establishing market breadth. Consider an early market, like the American stock exchange, created by 24 brokers who met according to legend under a buttonwood tree along New York’s Wall Street. For this small group, mutual trust was both possible and critical for establishing a trading platform in the local coffee house.

When markets consist of only tens of people, traders can rely on relational trust. Repeat transactions mean you can know who makes good on their word, and who does not.

But while assurance is high in relational markets, breadth is low. Price discovery is never easy, and it approaches impossible when potential counterparties lack a diversity of views and preferences. Imagine trying to sell a security and none of your fellow stock brokers at the coffee shop – slash – stock market are interested. After all, there are only two dozen of them.

Our online world, by contrast, has fundamentally changed retailing by scaling trust and broadening breadth. Only a handful of years ago, if you had an unusual hobby – perhaps tying flies for fishing lures – there may have been only one distant source for your supplies. And what that retailer stocked may not have fit your needs very well.

Today almost anyone, anywhere, can find a dozen online retailers offering greater selections at better prices, with delivery to your doorstep overnight.

But with market breadth comes anonymity, which can compromise trust that is vital for economic efficiency. Sellers charge uncompetitive prices because they can. Buyers, in turn, open their wallets more reluctantly. Both sides of the transaction spend too much time trying to agree on and enforce terms of trade. Absent institutions for efficient markets, buyers and sellers must fill the gaps through effective but far less scalable alternatives.

In today’s financial and business worlds, the Legal Entity Identifier can strengthen institutions for more competitive and reliable markets. Unlike other tools aimed at ameliorating tensions between trustworthiness and market breadth, the LEI is both comparatively simple and
comparatively cheap. In fact, its simplicity makes it easy to overlook from a regulatory and even business perspective. But it is a mistake to look at the LEI and see just an ID code.

Imbedded within this simple alpha-numeric code is the potential to recognize and identify a counterparty or trading partner – much in the same way that our original 18th century stock brokers could have recognized each other at the local coffee house. But today’s computing power lets us quickly recognize 1.5 million trading partners in a “coffee shop” that spans the entire globe.

And as the LEI’s scope expands to include so-called Level 2 data, its value will increase further still. At that point, you can recognize not only your partners, but also their immediate and ultimate parent companies – providing increased transparency for assessing counterparty risk.

What makes LEI so valuable – and not just LEI, but other financial data standards coming on line – is modern computing power. To realize that value, however, computing power must be informed by reliable data standards. Computers are both amazingly smart and incredibly dumb. Feed them a flawed data standard, or input data in a format that cannot be read, and all of the computing power in the world cannot help. Unfortunately, it is sometimes precisely the harmonization of these data standards that has been lagging, even as the power of our computers is rocketing ahead.

Legacy systems that rely on outdated standards remain in the chain. In many cases, different firms – and different supervisors – have set up new standards that can be incompatible with each other.

Or to abuse the analogy of those eighteenth century stock brokers, we’ve enlarged our coffee house to encompass the entire world, but now risk having a Tower of Babel where the espresso machine should be.

Fortunately, this collective action problem is the very type that the GLEIF and the LEI ROC have been created to address. I say this because, despite what some may characterize as a disappointing pace toward universal adoption, the same pace also appears remarkable.
The LEI has grown from mere concept to 1.5 million registered LEIs in only 8 years. That level of registration might appear disappointing if LEI was a standard adopted within a homogenous domestic jurisdiction. But it is not.

Rather, it’s a global standard, used in markets around the world, and across different regulatory systems and financial markets. What’s more, evaluated against LEI’s original goal – that is, identifying counterparties where financial stability concerns may arise – we could argue that, at 1.5 million, the LEI has already achieved an important milestone. Globally, most large financial firms have LEIs. And identifying these counterparties today is much easier than it was even a decade ago.

While dear to financial supervisors, however, take-up by the largest financial firms is not sufficient to crown LEI a broader success. Yes, with 1.5 million LEIs informing monitors of the world’s largest financial institutions, we’ve diminished – though not eliminated – the likelihood of another Lehman Brothers’ situation, where exposures to large institution failures can remain hidden. Going forward, firms of all sizes will need to embrace LEI to fully realize the benefits from increased transparency.

At OFR, we are happy that the GLEIF is studying ways to ease the process by which small and medium sized enterprises can acquire LEIs. And we are encouraged by the ROC’s and GLEIF’s continued work on LEI Level 2 data quality, which can enhance transparency and risk monitoring.

At the same time, there is a degree of urgency with this work that should not be ignored. While it took two decades for the now ubiquitous bar code to become widely adopted, we may not have that kind of time where data standards and the financial industry are concerned. The cost of moving too slowly can be high indeed.

One last thing – I would also like to commend the LEI ROC for considering a governance role in other data standards and identifiers, particularly the Unique Product Identifier, the Unique Transaction Identifier, and the Critical Data Elements for derivatives transactions. These nascent identifiers and standards may well increase the LEI’s utility to the financial industry, offering
both more transparency in the market and greater cost savings through automation and better risk management.

It would be a mistake to believe these and future data standards are silver bullets that will prevent future financial crises or make the management of financial risk easy. However, I am confident they will prove valuable tools in our collective toolbox – the rare win-win-win that furthers the abilities of supervisors to monitor financial stability risks, lowers costs for industry, and improves market efficiency. I want to thank the GLEIF and the ROC members for their important work in helping the LEI achieve its potential.

Thank you, again, for your kind invitation and good work. I hope you enjoy a productive conference.