

25th Meeting of the Wiesbaden Group on Business Registers
- International Roundtable on Business Survey Frames

Tokyo, 8 – 11 November 2016

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Session No. 7

Globalisation and Profiling

Unique global identifiers – an opportunity to strengthen statistics on globalisation

Abstract

Today, globalisation is a well-known phenomenon with an increasingly important impact on national economies. Production chains are split up and spread all over the world while resources can be allocated to almost any place on the planet.

It is clear that, in order to capture economic activities statistically on a local and global scale, national statistical practices have to be connected and harmonised. Currently, however, statistical production processes can vary greatly between countries. While some National Statistical Institutes (NSI) conduct surveys about the activities of international groups, others are only about to introduce such methods.

In Europe, many initiatives supported by Eurostat and by NSIs have been launched in this direction since the early 2000s. Profiling, for instance, is a way to gather information about economic activities that transcend national borders. Another approach is the introduction of the EuroGroups Register (EGR), which identifies connections between enterprises as to create corporate structures on a European level.

This being said, current initiatives have to be extended in order to enable NSIs to continue to fulfil their public mandate. Therefore, what has begun in Europe with the EGR and the EGR Identity service (EGR IS) should be a starting point for a worldwide system of entity identifiers. To reach this goal, the Legal Entity Identifier (LEI) of the Global Legal Entity Identifier Foundation (GLEIF) offers a promising opportunity.

In this context, the present paper depicts the Swiss Federal Statistical Office's (FSO) experiences with the introduction of the Unique Enterprise Identification Number (UID) and explains why the FSO is participating in the implementation of the LEI system as Legal Operating Unit (LOU).

1 Introduction

Globalisation as a movement is nothing new, yet it is having an increasingly substantial impact on national economies. Production processes are splintering to an increasingly degree, while resources are becoming ever more transportable across national borders.

At this point in time, decision-makers do not have an all-encompassing view on how their national economy interacts with their foreign counterparts. Data on balance of payments and foreign direct investment (FDI) are of some help, showing how multinationals (MNE) operate in this respect. In an attempt to improve visibility, several initiatives are now in progress, under the auspices of organisations such as the OECD and the UN. All are aiming to create instruments for gauging the extent of globalisation, but they also aim to strengthen the information flow as regards national statistics.

In Europe, initiatives led by Eurostat and NSIs have been under way since the early 2000s to help build awareness of this issue, chief among which has been the EuroGroups Register (EGR¹), which has drawn on a vast amount of resources in order to build a repository of enterprise groups at a European level. MNE profiling represents another significant initiative which has developed a methodology for gathering information on the cross-border economic activities of enterprise groups for statistical purposes. Although both these initiatives have already chalked up important achievements in terms of methodology and the harmonisation of units, data and processes, how they can dovetail with global statistical output must still be determined.

All these initiatives have marked out the building blocks that will be required for creating a basic infrastructure that is usable for generating statistics on globalisation, on one hand, and integrating data into national statistical apparatuses, on the other. Some of these key items have played a fundamental role. A noteworthy result has been the designing of a methodology for profiling enterprises as well as the designation of what could become a programme for collecting data from MNEs. However, the primary development, in my view, has been the identification of entities (legal units) and the ties that bind them together.

The development of an unambiguous identification infrastructure, and a harmonised definition of legal-units and the connections between them, are essential before moving to the next stage, which is making use of the collected data.

This contribution shows how important it has become to have a global company identification number, which will lay the foundation for an infrastructure capable of generating globalisation-related statistics while meeting the needs of national statistical apparatuses as well.

¹ EGR: <http://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/eurogroups-register>

2 Benefits of a unique national identifier

Switzerland has worked hard to set up a nationwide system that assigns a single identification number (UID²) to the economic entities that operate in the country. This infrastructure is firstly a service offered to businesses. But it has also fostered a broad-based improvement in the processing of information by federal, cantonal and municipal authorities.

In the past, the coexistence of several different identifiers hindered co-operation within the federal administration, as well as between central government and the cantons. However, following the enactment of the Federal Act on the Business Identification Number, which makes using the UID mandatory, the various authorities are having to work together. As such, they can now better harness the full potential of the collected data. Having the UID moreover lightens the workload, reduces the costs for collecting and inputting the data, and improves data quality. The UID is a standard-format, unique identifier assigned to companies. Data concerning a particular company is entered or modified just once, then relayed effectively and quickly to the rest of the administration.

The main benefit of this system is that, by using a unique identification number, a vast range of important administrative data can be mined for statistical purposes. Employment data from the social security system, revenue data from the VAT administration body, and export and import data from customs authorities, are all interconnected using a unique identifier.

It goes without saying that such an exercise does not happen overnight. It took five years between the time the change became law and when its effects became perceptible. Some parts of the system needed time to be re-adapted to meet the new requirements. All in all, however, the system is up and running and the data are available for use.

It should also be noted that, in the way that national statistical work is organised, the incorporation of administrative information that replaces or supplements directly collected data has been gradual. As with the major census reforms, it had to be ensured that the administrative data fulfilled the quality requirements for official statistics – in terms of content, applicability, completeness and accuracy. Data must also be up to date, available, accessible and cost effective.

Although implementation was no easy feat, the results have been compelling. Through this channel, it has also been possible to reduce and control the data-collection burden placed on companies – which is one of the key aims of any NSI. Our agency, as with other NSIs, is pursuing a strategy that will reduce the frequency and the size of direct surveys, by fully or partially substituting them with data collected from federal, cantonal or municipal authorities, or from legally appointed bodies. As such, the FSO is reducing constraints on the general populace and companies by using more efficient collection and production methods.

Another notable result has been the increased possibilities for the combination of information collected from various sources, e.g. data matching between population statistics (STATPOP³) and business statistics (STATENT⁴). This combination of different types of information has had a

² UID (French, German and Italian only): <http://www.bfs.admin.ch/bfs/portal/fr/index/themen/00/05/blank/03/02.html>

³ STATPOP ((French, German and Italian only): <http://www.bfs.admin.ch/bfs/portal/en/index/news/02.html>

⁴ STATENT (in French:

considerable influence on several statistical operations. First, population data can be supplemented with a wage component (an often crucial explanatory factor); second, the residencies of the active population can be connected to their workplaces or educational establishments. The end result is a matrix of basic information that can be used for statistical research into mobility. In this instance, it is worth noting that some of the findings were obtained on the basis of modelling, as collected data only indicated a workplace for approximately half the active population surveyed. The use of administrative data frequently requires recourse to such methods, and this has repercussions on the organisation of the statistical production process as well as on the dissemination and use of the findings. A final noteworthy example relates to the use of data from import/export declarations supplied by Swiss customs authorities, sorted either by company or by product. Such data can be used in several statistical fields.

A major role fulfilled by the FSO is harmonising and processing information supplied by various administrative stakeholders. Each administration functions according to the field which it governs, and companies are not necessarily recorded in the same way by each one. For example, although companies are listed in the business register as legal units, the VAT administration body may treat some as groups for taxation purposes. This requires identifying the entities (legal units) that make up such a group and assigning an identifier to it so that the right information is allotted to the correct entities. Then, at the social security office (OASI), this same group may not comprise the same entities. Hence, our role is to correctly identify the different entities (based on UIDs) then define the scopes that will be used for the production of statistics. Summing up, the unique business identifier is the foundation stone for compiling all the data sets required for statistical processing. The rules and documentation on the way in which these groups are constituted are available to statistics users. This represents the root of their analytical work.

The unique business identifier is also the basic constituent for globalisation-related statistics. The elements are combined for profiling and inclusion in the EGR. Work carried out at a national level can then be used as a building block for a comprehensive global system. For a global system to function properly, constituents must be the same and, most importantly, be labelled with an unambiguous identifier.

3 Supranational unique identifier for globalisation-related statistics

The question has been raised as to which elements are required for constituting a system that could underpin globalisation-related statistics. I am going to use the work carried out in Europe, specifically in regard to the EGR project, as the basis for my answer. One of the main results has been to give the countries concerned a common identifier for enterprises. This is a prerequisite for constructing and maintaining enterprise groups. The resulting survey frame then becomes a public good available to all European users.

http://www.bfs.admin.ch/bfs/portal/fr/index/infothek/erhebungen_quellen/blank/blank/statent/00.html

The LEID, the legal unit identifier used by the EGR, is the basic constituent. European national registers, which supply the legal units for the EGR identification system (EGR IS), represent the building blocks required to develop a harmonised supranational infrastructure, from which globalisation-related statistics can be compiled.

For European entities, the LEID is considered to be an unambiguous identification number. It is also possible to assert that this infrastructure is consistent with the goals pursued in the context of globalisation-related statistics.

While identification is no longer an issue thanks to the EGR, harmonisation still needs to be carried out in various statistical fields, especially harmonising the different definitions used to describe relationships between entities: ultimate parent, Global Group Head (GGH), direct parent, ownership, Global Decision Centre (GDC), Ultimate Controlling Unit (UCI) and Group Head are all terms that are still commonly used. Various task forces have been working to resolve the issue and a solution is expected soon.

Another issue that has still not been resolved concerns how to unambiguously identify entities that are located outside Europe. If we take as our starting point the fact that, in the EGR, the NSIs contribute to the creation of a unique identification system, the way must be paved for the same to happen on a worldwide level. An unambiguous identification number would also fill the gaps that still exist within the EGR.

4 Prospect of using LEI as the unique global identifier

The role of global unique identifier could be assumed by the Legal Entity Identifier (LEI⁵). The LEI is a global system for identifying legal entities. As a standardised global identification number, the LEI provides authorities and financial market stakeholders with a reliable identifier of counterparties in financial market transactions. At the moment, it helps identify and manage risk in the financial services sector, resulting in increased financial stability. The development of the LEI system is an initiative of the Group of Twenty major industrialised and emerging economies (G20) and was initially sponsored by the Financial Stability Board (FSB).

The LEI complies with the ISO 17442:2012 standard. Specifically, it is used as a global identification system for entities conducting transactions on financial markets, especially on the derivatives market (e.g. banks, commodity traders and investment funds). Implementation and use of the LEI is contained in two separate steps:

- **Phase 1, also known as Level 1 data.** The purpose of this phase is to assign a unique identifier (LEI) to entities directly involved in financial transactions. In Switzerland, this role is already fulfilled by the UID.
- **Phase 2, also known as Level 2 data.** The purpose of this phase, for each entity identified in the open-data public register of the Global Legal Entity Identifier Foundation (GLEIF⁶), is to

⁵ LEI: <https://www.gleif.org/en/lei-focus/introducing-the-legal-entity-identifier-lei>

⁶ GLEIF: <https://www.gleif.org/en/about/this-is-gleif>

combine the information that will, in turn, link it to the parent company's legal entity. The ultimate goal is to have a consolidated database using which potential risks can be analysed on the basis of the financial ties between entities. This second phase began in 2014 as a research project. It is likely to become operational some time in 2017 and 2018. It should be noted that this stage is the most problematic, given the sensitivity of the data and the fact that it is published in open-access format. For some enterprise groups, the ties revealed correspond to information that must be disclosed in business reports under IFRS⁷ or US GAAP⁸. Companies not required to issue financial statements under IFRS or US GAAP must provide this information when requesting an LEI.

The GLEIF centralises all LEI-related information attributed by Local Operating Entities (LOUs) and makes it available to public and private users. All information about LEI published on the GLEIF website can be downloaded freely and for free (i.e. it is open data).

What are the advantages of the LEI:

- The scheme is centralised using a central register managed by the GLEIF
- There is only one number for each LEI entity
- Validation is required in connection with the specific national business register
- It works like the EGR_IS, although it has yet to replicate the latter's full range of features
- LEI entities must validate their information annually
- LEI entities are requested to provide information on their related parties. Under IFRS, the entity's owner must be specified
- The LEI is the identifier that must be supplied for specific administrative procedures

What are the limitations of the LEI:

- The LEI is not mandatory as it has no legal foundation
- It is being introduced on a per-industry basis. At the moment, it is operational within the derivatives industry, which is regulated by legislation such as the European Market Infrastructure Regulation (EMIR⁹) in the countries of the European Community (EU + EEA), and the Dodd-Frank Act¹⁰ in the US

⁷ International Financial Reporting Standards (IFRS) are accounting standards designed by the International Accounting Standards Board (IASB) for listed companies or those raising capital. Their purpose is to provide a harmonised, clear presentation of companies' financial statements. <http://www.ifrs.org/about-us/pages/what-are-ifrs.aspx>

⁸ Generally Accepted Accounting Principles (US GAAP) are the primary accounting standards recognised by the U.S. Securities and Exchange Commission (SEC). The SEC has announced that it plans to move from US GAAP to International Financial Reporting Standards (IFRS). <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176163688345>

⁹ Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on on OTC derivatives, central counterparties and trade repositories. Text relevant for the EEA (<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32012R0648&from=FR>) and Commission Implementing Regulation (EU) 2016/523 of 10 March 2016 laying down the technical standards for implementation with regard to the format and template for notification and public disclosure of managers' transactions in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council (<http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32016R0523&from=EN>)

¹⁰ Dodd-Frank Act <http://www.cftc.gov/LawRegulation/DoddFrankAct/index.htm>

- As the system is designed to be open, private or public organisations can become LOUs. At the same time, no single country has the direct responsibility for ensuring the quality and exhaustiveness of the data, in contrast to the stipulations for the EGR_IS. Governance is relatively complex, with divergent interests present. Although the ROC¹¹, which supervises the work of the GLEIF, has representatives from public authorities, it does not function like the EGR, whose statistical goals have been clearly defined
- Since the GLEIF and ROC has an internal development dynamic, it is difficult for the statistical world to influence how the system will evolve

Although there are still plenty of hurdles to be overcome before the LEI can be extended, it still represents the best opportunity for establishing a unique identifier for legal entities. In addition, because of the obligations hard-wired into the system, the LEI has scope to form an infrastructure that can handle consolidations, especially in regard to non-European groups.

The LEI is shaping up as an efficient solution for implementing a global equivalent of the EGR. The final point still to be settled is governance. However, it is certain that this supplementary system would complement the achievements of the EGR, allowing for the creation of an infrastructure for globalisation-related statistics based upon the in-depth harmonisation of units and procedures.

5 How to support this initiative

Any initiative from official statistical bodies will in return earn some influence on proceedings, thus heightening the potential of the LEI project.

In Switzerland, the FSO has suggested following France's example, which entails using the national identification framework (UID) to help the LEI make inroads. Entities with an LEI will have this identifier linked to their UID, concerning entities based in Switzerland.

Authorities, especially the federal administration, must have access to reliable information. Furthermore, since the system is destined for regulatory authorities, i.e. entities enacting public policy, it is crucial that information should remain consistent over time and the LOU should play a lasting role – which is the intrinsic feature of the UID system. ***To meet these requirements, the data quality of the LEI system must be brought up to Swiss standards; and in return, the Swiss statistical apparatus should receive – for now in terms of financial statistics – high-quality data that can be linked to the UID.*** This is the vital first step for unlocking the full potential of the data that will be collected through the various systems.

¹¹ The Regulatory Oversight Committee (ROC) was formed in January 2013. It comprises representatives of public authorities.

For example, the Technical Group on Business Unit Identifiers Relevant for Statistical Production, which reports to the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB¹²), has in this respect come up with six recommendations:

Recommendation 1	Strengthen the cooperation with the GLEIS bodies (ROC/GLEIF).
Recommendation 2	Support the introduction of the GLEIS for domestic and international identification purposes in EU/national legal acts
Recommendation 3	Strengthen the cooperation at national level between the Local Operating Units (LOUs) and the national business registers
Recommendation 4	Promotion of LEI usage by the CMFB with respect to existing and new ESS-ESCB systems both internally and externally
Recommendation 5	Provide feedback to the GLEIF regarding LEI data quality
Recommendation 6	GLEIS information in relation with other international standards like the ISIN or Unique Transactions Identifiers (UTI)

Member States are firmly in support of the widespread and systematic use of identifiers. The CMFB considers these recommendations to be a first step in the right direction.

The development of this system is being observed closely. The first initiative will doubtless be adopted by other statistical areas, e.g. relating to foreign trade statistics.

Even now, any country can consult and employ the data already stored within the GLEIF system without having to make any particular adaptations. As such, every business register can reconcile its own data with the GLEIF's information. Data on this platform can then be checked and potential mistakes brought to light, in what can be termed a verification and validation stage. This marks an initial contact with the data, implying that identification must be correctly carried out. That will require the identifiers used by official registers to be associated with the LEI. Only then will data quality be optimised. From 2017, information on related parties will also be available, so it will then be possible to collate these data with those used in the area of enterprise group statistics.

A final solution that would help this initiative gain traction would be support from UN public statistical bodies, thus propelling it out of the soft-law domain because this global identifier would be used systematically. At this point in time, these efforts could converge in the form of a single initiative, which would unlock the potential of the available resources.

¹² Committee on Monetary, Financial and Balance of Payment Statistics. The CMFB is, on one hand, the coordination forum for statisticians from national statistical institutes with Eurostat and, on the other, the coordination forum for national central banks with the European Central Bank (ECB). <http://www.cmf.org>

In conclusion, I would labour the point that the LEI's potential, in the area of public statistics, represents not only an opportunity to obtain statistics on globalisation but could also improve the infrastructure of national business registers.