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CUSIP Returns Fire Over Plan to Use FIGI as Identifier.

The Federal Deposit Insurance Corporation board shocked the municipal bond market on Tuesday with a proposal that would switch out CUSIP numbers with Financial Instrument Global Identifiers, a marker based on standards developed by Bloomberg.

“It was an opaque process, but we did hear of efforts behind closed doors to expand the scope of FDTA to include security-level identifiers, even though they are not mentioned once in the actual text,” said Matthew Bastian, senior director, CUSIP Global Services.

The FDIC is collaborating with seven federal agencies including the Securities and Exchange Commission, Treasury, the Governmental Accounting Standards Board, and the Municipal Securities Rulemaking Board on figuring out how the new rules imposed by the Financial Data Transparency Act will be implemented.

Per a statement from CUSIP, the proposed change of identifiers contains, “a fatal flaw that undermines the intent of the law and risks creating a costly and distracting operational challenge for financial market participants.”

The change could also have a profound effect on the municipal bond market.

“It would be a painful and chaotic change,” said Bastian. “The Municipal Securities Rulemaking Board embraced CUSIP in 1983 and since then the muni market has depended on the reliability of the CUSIP system.”

“This includes granular features that may go unrecognized, such as our use of different base issuer numbers depending on the revenue stream and how we treat partial pre-refundings. These details are an intrinsic part of how the municipal bond market operates.”

The FDTA is designed to bring more transparency to financial markets by making disclosures machine readable which would prompt a move away from relying on PDFs.

FIGI was developed under the auspices of the Object Management Group, a computer industry standards consortium.

“OMG is pleased that the FDIC, in yesterday’s joint Notice of Proposed Rulemaking, proposed to adopt the FIGI as the common identifier for financial instruments,” said David Blaszakowsky, financial sector domain task force co-chair, OMG.

“FIGI provides an innovative data management approach for identifying financial instruments, and like other OMG specifications, is based on open data principles and rigorous technical methodologies.”

OMG also noted their belief that “FIGI fulfills the requirements for identifying the full range of financial instruments, including municipal securities.”

CUSIP outlined what it considers to be additional major downsides to the industry moving to FIGI including its lack of fungibility. Per their statement, “Fungibility means that a specific financial instrument is represented by the same identifier regardless of the venue where it is traded.”

The SEC is leading the charge on implementing the FDTA which was signed into law in 2022. The early stages have been dedicated to developing a taxonomy, including identifiers that work for all parties.

The implementation is now in the public comment segment of the process. Determining the standards is set for December 2024, with specific rulemaking to be in place by 2026.

Added costs for issuers has been cited as a reason to curtail the FDTA since it was originally proposed.

The corporate side of the securities industry has been required to use machine readable format since 2009, which the regulators frequently cite as proof the system can be implemented, even in the complex world of munis.

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