The Global LEI Initiative:

A Return to Lapsed LEIs Exceeding New LEIs

A Research Note by
Financial InterGroup

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The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on LEI data. We are pleased to bring you this Research Note on the GLEIF's January – September, 2016 reporting on LEI issuance.[1]

The chart below follows the nine-month period, month-by-month, of reports of total issued LEIs, newly created LEIs and lapsed LEIs (failure to renew LEIs on first or subsequent annual anniversary of LEI registration). In this month's reporting period, the month of September breaks a three month run of net new LEIs issued and resumes a net loss in LEIs issued vs LEIs lapsed since GLEIF started reporting in January, 2016.

At the September 2016 end of reporting period, 464,231 LEIs had been "Issued", of which 69.0 % or 320,381 had been "Validated" vs. August month end's 319,451 validated LEIs.

Report of LEI Population									
2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Total LEIs Issued	419,175	424,559	430,338	436,019	442,186	449,027	454,699	459,136	464,231
Newly Issued	4,747	4,992	5,459	5,178	6,067	6,512	5,387	4.308	4,847
Lapsed	6,742	7,418	11,330	7,318	6,383	5,364	4,614	4,141	5,346
Increase/decrease	-1,995	-2,426	-5,871	-2,140	-276	+1,148	+773	+167	-499

While the success of the LEI initiative is premised ultimately on all financial market participants in all markets obtaining an LEI the more immediate issue is validating the existing LEIs through its annual re-registration (renewal) process. This renewal process is even more pressing now as the GLEIF, under its regulatory overseer, the Regulatory Oversight Committee, is tasked with persuading legal entities to also obtain and record (and subsequently renew) their immediate and ultimate parents' LEIs, what regulators refer to as "Who Owns Whom".[2]

LEIs are to be the primary means for regulators to identify parties to swaps transactions, and to aggregate such data from swaps data repositories for risk analysis. In new OTC derivatives regulations, counterparties and other OTC market participants are compelled by regulation to obtain a LEI in many jurisdictions, but not yet in all. Ultimately the LEI, along with unique product identifiers and unique transaction identifiers (what we collectively refer to as the Barcodes of Finance) will be used to aggregate all financial transactions for systemic risk analysis. To further this objective one jurisdiction, the EU, is planning to make LEIs mandatory beyond derivatives markets. However, the EU regulators are not requiring that reporting parties require that an LEI for a client or a counterparty be renewed.[3]

[1]GLEIF Data Quality Report – September, 2016, https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-data-quality-report-september-2016

[2]GLEIF, Connect the Corporate Dots Globally with the Legal Entity Identifier: A Progress Report on Collecting Data on 'Who Owns Whom', https://www.gleif.org/en/newsroom/blog/connect-the-corporate-dots-globally-with-the-legal-entity-identifier-a-progress-report-on-collecting-data-on-who-owns-whom, Sept 28, 2016

[3] ESMA Consults On Transaction Reporting, Reference Data, Record-Keeping And Clock Synchronization Under MIFIR https://www.esma.europa.eu/press-news/esma-news/esma-consults-transaction-reporting-reference-data-record-keeping-and-clock at page 20, December 23, 2015

Obtaining (issuing) a LEI is not the critical metric, renewed LEIs are. That is because one-third of issued LEIs already contained in billions of swaps transactions have not been renewed, corrupting counterparty identification in active swaps transactions and potentially masking reconciliation, fraud and default issues. Did these legal entities exist at all, have they been assigned to entities not compelled to have a LEI, did nefarious actors obtain one and are hiding in plain site by not renewing given they have had a full year to renew, or is it simply that some legal entities are not prioritizing renewals given there is no regulatory compulsion to do so? These and other issues need to be attended to.

While the next steps of the LEI initiative are laid out generally in the broad framework agreed to by the Financial Stability Board, there are significant implementation hurdles to be addressed in order to aggregate financial transaction data for systemic risk analysis, the regulators' ultimate objective. For example, yet to be accomplished are: more timely updating of LEIs when undergoing reorganization activities, such as mergers, acquisitions, spin-offs, bankruptcies, etc.; understanding each legal entity's contribution to its ultimate parent's risk profile; associating each legal entity's credit and other contractual obligations to its own issued and manufactured financial products; and associating each legal entity's ownership of securities, financial contracts, currencies and collateral (what regulators have taken to call 'Who Owns What') in order to value each legal entity's exposure to risk.

Before incrementing our way to the next steps in the GLEIS initiative in what could be construed as a 'hurry-up to get the regulations finished' approach, shouldn't the GLEIF in representing the industry be more reticent in proceeding? Shouldn't they be getting each phase bedded down first, understand the costs of the next and subsequent phases, and make sure there are no 'deal breakers' toward achieving the end objectives before taking on a next step?

Such a cautious approach was recently and explicitly requested by ISDA and GFMA[4] in a joint letter to the ROC and GLEIF asking to modify their finalized international/foreign branch policy document on LEI issuance, stating *"If the framework is drafted in a hurry, we risk ending up with a system that is not practical and useable."*[5]

Finally, putting frameworks and their interpretation into regulations aside, what is still left is the technical and operational systems implementations, both by industry members and the GLEIF. The GLEIF system as it is now being implemented is designed around yesterday's legacy thinking rather than the technology of tomorrow that is already here today.

In the end, if we do not proceed cautiously, industry members may be left to deal with a 'checked box' by regulators to indicate they have finished their LEI mission, but with a huge implementation task ahead. The industry may wind up with a very costly, perpetually out-of-date legal entity name and address file identifying only participants in the supply chain of swaps transactions rather than the promised means to analyze systemic risk and significantly reduce industry infrastructure costs. Then the 'blame game' will begin.

[4] International Swaps and Derivatives Association, Global Financial Markets Association, Joint letter to the LEI ROC policy document regarding international branch LEIs (Aug. 30, 2016), at page 3

[5] LEI ROC, Including data on international/foreign branches in the Global LEI System, July 11, 2016

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