



The Global LEI Initiative – A Second Month of Net 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 – July, 2016 reporting on LEI issuance.¹

The chart below follows the seven 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 seven month reporting period, the month of July is the second month in a row of a net gain in LEIs issued vs LEIs lapsed since GLEIF started reporting in January, 2016.

At the July 2016 end of reporting period, 454,699 LEIs had been “Issued”, of which 69.8% or 313,378 had been “Validated” vs. June month end’s 313,870.

Report of LEI Population							
2016	January	February	March	April	May	June	July
Total LEIs Issued	419,175	424,559	430,338	436,019	442,186	449,027	454,699
Newly Issued	4,747	4,992	5,459	5,178	6,067	6,512	5,387
Lapsed	6,742	7,418	11,330	7,318	6,383	5,364	4,614
Increase/decrease	-1,995	-2,426	-5,871	-2,140	-276	+1,148	+773

The success of the LEI initiative is premised on all financial market participants obtaining an LEI. Regulatory compulsion was the accepted means by which this would be accomplished. This was thought the best way to overcome the long-standing inertia of the failure to take collective action by industry members themselves.

It was therefore a major ‘disappointment’ that the Securities Industry & Financial Markets Association (SIFMA) did not recommend to the Securities & Exchange Commission (SEC) that its broker-dealer members be compelled to obtain an LEI for use in uniquely identifying

¹GLEIF Data Quality Report - July, <https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-data-quality-report-july-2016>

themselves in the Computer Audit Trail System (CATS).² This follows the Federal Reserve's similar hesitation in mandating LEIs for their reporting requirements.³ The CFTC in similar manner has only been renewing the GMEI LOU run by DTCC and SWIFT one year at a time awaiting the time when the GLEIS is 'fully operational'⁴. This may, as the Financial Stability Board has stated, be conditioned on the ability to use the LEI for risk data aggregation, initially for swaps transactions.⁵ This requires the full LEI hierarchies for swaps counterparties and, eventually, for a complete set of LEIs for all financial market participants.

It's ironic that the most prominent US regulators, the CFTC and the Federal Reserve, and the most prominent trade association, SIFMA, that were first to support the LEI back in 2010 are now backtracking. In the case of SIFMA, its CEO was advocating regulators' mandating of the LEI in a Financial Times editorial letter as recently as August 2014.⁶

Besides LEIs being issued, sustaining those registered LEIs is a critical determinant of success of the LEI initiative. It was again a 'disappointment' that the European Securities and Markets Authority (ESMA) in their final rules on MIFIR, the European regulation overseeing the implementation of swaps (where the first and only use of LEIs is required) does not require that reporting parties require that an LEI for a client or a counterparty be renewed.⁷

The GLEIF is faced with a herculean task to make the Global LEI System (GLEIS) and its LEI data base relevant to industry members. Industry members have been looking for significant operational costs and risk reduction as part of following regulatory mandates to obtain an LEI.

Without regulatory mandates, and the industry supporting it in practice, then a new approach may be needed. The industry through XBRL International is already focused on automating at-source input on LEIs, their hierarchies and changes to each using the XBRL Reporting language. Involving an industry consortium of Systemically Important Financial Institutions (there are 40 such global SIFIs) which collectively and in various capacities deal

² SIFMA comments to SEC on File No. 4-698: Joint Industry Plan; Notice of Filing of the National Market System Plan Governing the Consolidated Audit Trail, <https://www.sec.gov/comments/4-698/4698-11.pdf>, at pages 36-37, July 18, 2016

³ FEDERAL RESERVE SYSTEM Proposed Agency Information Collection Activities; Comment Request <https://www.gpo.gov/fdsys/pkg/FR-2015-03-20/pdf/2015-06363.pdf> at page 15010, March 16, 2015

⁴ CFTC Extends Designation of DTCC-SWIFT as LEI Provider

ONE-YEAR EXTENSION ALLOWS MORE TIME FOR GLOBAL LEI SYSTEM TRANSITION, <http://www.cftc.gov/PressRoom/PressReleases/pr7408-16#PrRoWMBL>, JULY 18, 2016

⁵ Financial Stability Board, "Financial reforms – finishing the post-crisis agenda and moving forward," Financial Stability Board, <http://www.financialstabilityboard.org/wp-content/uploads/FSB-Chair-letter-to-G20-February-2015.pdf>, at page 4, February 4, 2015

⁶ Financial Times, Regulators must mandate use of the Global LEI System

<https://next.ft.com/content/e9a81566-167d-11e4-8210-00144feabdc0>, August 6, 2014

⁷ ESMA CONSULTS ON TRANSACTION REPORTING, REFERENCE DATA, RECORD-KEEPING AND CLOCK SYNCHRONISATION 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

with almost all the world's financial transactions) would be an excellent 'partner' to the 40 sovereign countries represented on the Regulatory Oversight Committee that oversees the GLEIF on behalf of the FSB. Global auditors (there are four) acting as advisors to this new partnership would assure the quality of the LEI data and its hierarchies, hierarchies which are required to follow account consolidation principles for financial statement reporting.

Financial InterGroup Principals

Allan D. Grody

Allan is the founder of the Financial InterGroup companies. He has been active in the financial industry for nearly five decades and has had hands-on experience in multiple sectors of the financial industry. He advises on domestic (USA) and international issues related to financial institutions' global strategies, restructuring and acquisition needs, information systems, communications infrastructures and risk management systems.



In an earlier career, he was the founder and Partner-in-Charge of Coopers & Lybrand's Financial Services Consulting Practice, which was subsequently merged with Price Waterhouse and eventually sold to IBM. Professor Grody founded and taught the only graduate level Risk Management Systems course at NYU's Stern Graduate School of Business. He is a former founding Board member of the Technology Committee of the Futures Industry Association. He is currently an editorial board member of the Journal of Risk Management in Financial Institutions and a board member of the Blue Ribbon Panel of the Professional Risk Managers International Association. He writes, speaks and advises on issues where data management, risk management and technology converge. He has participated in expert panels sponsored by local and global regulators on these subjects.

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At Financial InterGroup he leads consulting projects and provides advisory and training services to some of the globe's leading banks, global IT and consulting firms, trade associations and banking institutes with particular emphasis on cross-enterprise risks, operational risk, Basel II & III, capital management (including the Internal Capital Adequacy Assessment Process - ICAAP), finance transformation, accounting (including IFRS), data management, risk measurement and management systems and risk based auditing.

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