



The Global LEI Initiative

The New Year Starts with Lapsed LEIs Exceeding New LEIs

**A Research Note by
Financial InterGroup**



www.financialintergroup.com

The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on LEI data since January 2016. We are pleased to bring you this Research Note on the GLEIF's January 2017 reporting of LEI issuance.¹

There were 486,989 LEIs registered at month end January 2017, an increase of 5,390 new LEIs registered over year-end 2016. However, 7,511 existing LEIs were not renewed (lapsed).

As recorded in our 2016 year-end report on Progress of the LEI initiative², since GLEIF started reporting in January, 2016, 62,347 LEIs were issued in 2016. Newly issued LEIs totalled 64,012, lapsed LEIs totalled 75,602. For the entire year, there was a net of 11,590 lapsed LEIs over newly issued LEIs.

The lapsed rate this month was 29.7% for all issued LEIs, moving above the lapsed rate of 29% that persisted throughout much of 2016. This failure to renew already issued LEIs may present significant problems as reported in earlier Research Notes. It will become even more critical as the GLEIF prepares to add ultimate/immediate parent LEIs to the GLEIS beginning in May, 2017. We are, therefore, devoting this month's Research Note to diving deeper into Lapsed LEIs.

The top seven (7) issuers of LEIs collectively account for 96.4% of the total lapsed LEIs.

Top LOU ISSUERS with Highest LAPSED LEIs *

LOU	Active LEIs	Lapsed LEIs	Lapsed LEIs as % of Each LOU's Active LEIs	Lapsed LEIs as % of Grand Total Lapsed LEIs
GMEI	231,638	89,717	38.7	62.0
WM DatenService	65,633	15,366	23.4	10.6
Italy LOU	42,931	9,885	23.0	6.8
INSEE (FR)	25,425	9,009	35.4	6.2
UK	42,160	10,263	24.3	7.1
Spain	16,063	3,716	23.1	2.6
Netherlands	14,895	1,645	11.0	1.1
Sub-Total	438,745	139,601	31.8	96.4
Global Total	487,243	144,730	29.7	100.0

*Data compiled February 1, 2017 from GLEIF LEI Statistics

Note: prior Research Report, November 2016 incorrectly duplicated and reported Issued LEIs in Lapsed LEI column, although % calculations used correct LEI Lapsed data

¹GLEIF Data Quality Report – January, 2016, https://www.gleif.org/content/4-lei-data/4-gleif-data-quality-management/1-about-the-data-quality-reports/1-download-data-quality-reports/20170203-download-global-lei-data-quality-report-january-2017/2017-02-03_global-lei-data-quality-report-january-2017.pdf

² "The Global LEI Initiative - A 2016 Year-End Review of Progress and Issues", <http://www.financialintergroup.com/cmsAdmin/uploads/FIG-Research-Note-A-2016-Year-end-Progress-Report-on-the-Global-LEI-Initiative.pdf>

The GMEI issuer has by far been least able to get registrants of originally issued LEIs to renew. It and its partner LOUs account for 62.0 % of all Lapsed LEIs. For LEIs registered by the GMEI in the US it accounts for 36.9% of all Lapsed LEIs.

GMEI/GMEI Partner LOUs LAPSED LEIs

LOU	Active LEIs	Lapsed LEIs	Lapsed LEIs as % of Each LOU's Active LEIs	Lapsed LEIs as % of GMEI Global Total Lapsed LEIs
GMEI (US)	118,519	53,359	45.0	36.9
GMEI (Canada)	20,212	6,423	31.8	4.4
GMEI (Luxembourg)	11,995	2,959	24.7	2.0
GMEI (Sweden)	8,724	2,452	28.1	1.7
Sub-total	159,450	65,193	40.9	45.0
GMEI (all others)	72,188	24,524	34.0	17.0
GMEI Global Total	231,638	89,717	38.7	62.0

Expansion of Issued LEIs are anticipated when ESMA's MiFid II legislation goes into effect in 2018. However, while the legislation requires all clients who trade financial products on organized markets throughout the EU to have an LEI (the concept of "no LEI no trade") the mandate allows lapsed LEIs to be used in financial transaction reporting.

"Trading venues should also verify that the LEI of the underlying client of the executing firm is accurately formatted and is in the GLEIF database (in this case the LEI can be 'issued', 'pending transfer', 'pending archival' or 'lapsed')".³

Also, as reported in earlier Research Notes, the US regulators with early enthusiasm for the LEI have explicitly rejected making LEIs mandatory beyond participants in swaps markets. This includes the SEC in its Computerized Audit Trail System (CATS) project, the Federal Reserve in its reporting to the National Information Center (NIC) database, and the US Treasury in not adopting the LEI for qualified financial contract recordkeeping in its financial institutions' resolution planning. In addition, the CFTC has only provisionally granted the GMEI status as a LOU, awaiting the GLEIS to be "fully operational" (yet undefined). In recognition of these failings the Director of the OFR in a recent posting on the OFR's website stated:

"To accelerate adoption, regulators must require broader use of the LEI in regulatory reporting. Authorities in Europe have required it, but our fellow U.S. regulators have been slower to respond. They need to step up and do more."⁴

³ ESMA/2016/1451, Final Report Guidelines on transaction reporting, order record keeping and clock synchronisation under MiFID II, https://www.esma.europa.eu/sites/default/files/library/2016-1451_final_report_on_guidelines_mifid_ii_transaction_reporting.pdf at page 26, October 10, 2016

⁴ Richard Berner, Director Office of Financial research, "Breaking Through Barriers Impeding Financial Data Standards", <https://www.financialresearch.gov/from-the-director/2017/02/02/breaking-through-barriers-impeding-financial-data-standards/>, Feb. 2, 2017

This lack of follow through by regulators in the U.S., prompted the U.S. Congress to author a bill that would hold the OFR responsible for the progress of the LEI initiative. It would require that the OFR report on regulations mandating the use of the LEI to ensure the adoption of the LEI by primary financial regulators.⁵ It has been referred to the Committee on Banking, Housing, and Urban Affairs where it now sits.

It should be noted that even though the LEI was first championed by the OFR, and that it did work on its deployment initially as a U.S. undertaking, it did so without any reference to the LEI in the Dodd-Frank legislation. This amendment in some respects creates the justification for the OFR's pursuit of the LEI. Right now, the OFR is pursuing the LEI under Dodd-Frank authority to pursue 'other necessary data', after direct reference to establishing an LEI was removed from early drafts of Dodd-Frank.

Finally, in a glowing recitation by the predecessor management team of the ROC of the success of the LEI initiative in solving the collective action problem that has stalled so many financial industry standards initiatives in the past, they concluded that:

*"Other challenges remain. Although regulatory compulsion has led to rapid adoption and largely solved counterparty identification for our global swaps markets, the pace of adoption has slowed. Also, fewer firms than expected are renewing their codes — important both for quality control and the funding mechanism. In addition, some expected regulations that would mandate LEI adoption have not materialized."*⁶

Commentary

Systems as far reaching and substantial as the GLEIS needs to assure its users that it can be maintained. Neither the lack of regulatory support in the US nor the accelerating lapsed rate gives such confidence.

With a third generation of executives since the financial crisis now in charge of the CFTC, SEC and US Treasury it is time for the GLEIF to exert itself, potentially withdraw its accreditation to any LOU that does not meet minimum lapsed rate standards and to insist that all legislation insert a time-line in which lapsed LEIs will thereafter not be permitted. To this end the GLEIF should add a category, Lapsed Rates, to its Data Quality reports, age lapsed LEIs and highlight each LOUs lapsed rates. Finally, the OFR and the US Treasury have to be the "product champions" to an invigorated US Congress to recognize the significance of data standards and the LEI in fixing the plumbing of finance.

⁵ Bill H. R. 3340, In the Senate of the United States, 2016, "Financial Stability Oversight Council Reform Act," SEC. 5 (V), April 18, <http://bit.ly/2jHGw53>

⁶ Bertrand Couillault, Jun Mizuguchi, and Matthew Reed, Emeritus ROC Executive Management, "Collective Action: Toward Solving a Vexing Problem to Build a Global Infrastructure for Financial Information", https://www.financialresearch.gov/briefs/files/OFRbr_2017_01_LEI.pdf, Feb. 2, 2017

For further Information Contact

Allan D. Grody

Financial InterGroup - USA

169 East 69th Street - 18th floor

New York, New York 10021 USA

Mobile +1 917 414 3608

Email agrody@financialintergroup.com



www.financialintergroup.com

Copyright © 2017 Financial InterGroup. All rights reserved.