



# The Global LEI Initiative –

Caution: the LEI is part of a much bigger picture.

**A Research Note by  
Financial InterGroup**



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**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 February 2017 reporting of LEI issuance.<sup>1</sup>**

Total Issued LEIs was 492, 801

New Issued LEIs	5,580
New Lapsed LEIs	8,680
Net Lapsed vs. New LEIs	- 3,100

The average number of net lapsed LEIs was 966 for all of 2016 <sup>2</sup> vs. this month's net lapsed rate of 3,100 and last month's 2,121. Total Lapsed rate for all issued LEIs was 30.4 vs. last month's 29.7.

Solving the Lapsed LEI (failure to renew an LEI) issue is becoming critical as the EU's MiFid II regulation is making use of LEI's mandatory for all EU trade reporting while accepting lapsed LEIs as valid LEIs. At the same time IOSCO/CPMI is proposing to make the LEI the mint (prefix) for the UTI.

The GLEIF has provided a recent analysis of renewal rates and made its case on the need to renew LEIs. <sup>3</sup>

The reasons for the failure to renew LEIs have been explained in many ways:

- a registrant not wishing to pay the renewal fee;
- a registrant not being properly notified by the registering LOU;
- neither the GLEIF nor LOUs having the power to compel renewal;
- the challenge mechanism assures data quality of the LEI thus minimizing issues resulting from failures to renew; and
- non-renewed (lapsed) LEIs may be overly populated by non-existent or failed companies.

This last point may have been exasperated by a single LOU's early adoption of the LEI, releasing unsolicited codes to a large population of financial market participants prior to the advent of the LEI system. This single LOU (GMEI) now account for 62% of all lapsed LEIs and 36.9% of those identified as headquartered in the US. <sup>4</sup>

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<sup>1</sup> GLEIF Data Quality Report – February, 2017, <https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-global-lei-data-quality-report-february-2017#>

<sup>2</sup> "The Global LEI Initiative - A 2016 Year-End Review of Progress and Issues" click [here](#)

<sup>3</sup> GLEIF, "The Power of Transparency: A Closer Look at LEI Renewal Rates", <https://www.gleif.org/en/newsroom/blog/the-power-of-transparency-a-closer-look-at-lei-renewal-rates>, March 2, 2017

<sup>4</sup> "The Global LEI Initiative - The New Year Starts with Lapsed LEIs Exceeding New LEIs" click [here](#).

Another issue to be resolved is the many US regulators that have opted not to make LEIs mandatory for new regulations they have recently passed. The reasons are many:

- bowing to the wishes of industry trade groups that have chosen not to advocate use of the LEI in comments to public consultations;
- concerns about identifying counterparties through their LEI at too early a point in the trade lifecycle;
- choosing only to require a LEI if an entity already has one;
- conflicting understandings of sovereign regulators' LEI rules with those of global entities that oversee the LEI initiative; and
- waiting for completion of the LEI system to include organizational hierarchies.

Finally, the GLEIF in mid-2017 is set to “compel” registrants when renewing LEIs to also register their immediate and ultimate parents and receive their own LEIs. This will present an even more perplexing set of issues. For example:

- What will compel the non-renewed LEI registrants representing 30% of the total LEI population to renew this time?
- Non-renewed LEIs will, presumably, be assigned LEIs by the GLEIF for their immediate and ultimate parents. Will they then remain as non-renewed immediate/ultimate parent LEIs and, thus, become lapsed LEIs?
- Who will make the case for registration of ultimate/immediate parents when those entities are not overseen currently by financial regulators responsible for compelling such LEI registration?

## **Commentary**

The success of the LEI is dependent on its successful use, initially in swaps trade reporting, then in data aggregation for risk reporting and eventually to be used internally across silos of businesses by financial institutions and externally by the global financial supply chain.

The first use in swaps data reporting has not gone well.<sup>5</sup> We have come a long way. Let's make sure we have answers to all the above before we move into the next phase of more use by regulators, in building hierarchies of LEIs and in embedding the LEI into the UTI.

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<sup>5</sup> Thomson Reuters, ESMA calls EMIR a success, but its communications depict an incomplete regime, Feb 17 2017, <https://www.complinet.com/editor/article/preview.html?ref=191542>

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