The Global LEI Initiative

Reaching a Milestone –
With a half million LEIs issued the hardest part is yet to come

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 March 2017 reporting of LEI issuance.[1]

The GLEIF crossed the ½ million mark with its 29 LOUs issuing a total of 500,235 LEIs. The lapsed rate for all LEIs rose a modest .1 percent, from last month's 30.4 to this month's 30.5.

	2016	Month-end 2017		
	Monthly Average	January	February	March
Total LEIs Issued	481,522 (Year-end Total)	486,989	492,801	500,235
Newly Issued	5,334	5,390	5,580	7,123
Lapsed	6,300	7,511	8,680	7,278
Net Increase/decrease	-996	-2,121	-3,100	-145
Lapsed rate	29.0% (Year-end %)	29.7%	30.4%	30.5%

Nearly half of all LEIs (48.4%) were issued by one LOU, the US's GMEI Utility, which also manages other LOUs and accounts for 62% of all lapsed LEIs and 39% of its own issued LEIs in the US. In defence of the GMEI Utility and all LOUs in general, there is no regulatory mandate for LOUs to compel registering legal entities to renew their LEIs. This should be included in regulations requiring a legal entity to obtain a LEI.

To compound the problem, the GLEIF has just accredited the GMEI Utility, giving up its leverage to demand that the Regulatory Oversight Committee (ROC) intercede with regulators to require renewal of LEIs in their regulations.

Further, as reported in earlier Research Notes the European Union and the European Securities and Markets Association, and most recently, the European Central Bank, while touting 'mandating' LEIs more broadly in their regulations than that in the US,[2] have accepted lapsed LEIs into their reporting regimes.

With the LEI being held up as the prime example of the success of public-private partnerships; called to duty as the lynchpin of the Unique Transaction Identifier (UTI); and poised to be the bridge between an individual legal entity and its hierarchies of organizational relationships, time is not on our side to get lapsed LEIs under control. To make matters 'interesting', we have new technologies, specifically the Distributed Ledger Technology (DLT) of the Blockchain that the acting commissioner of the CFTC has suggested may be the saviour of failed swaps data repository initiatives.[3]

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[1] GLEIF Data Quality Report – March, 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-march-2017#, April 6, 2017

[2] Roland, N., MLex, LEI mandates should be considered by US, other non-European Countries, ECB official says, http://www.mlexfs-core.com/?r=EAAAAHrHv2CIdcBBplxPzZ7WDncn1P44wFwPOE4x2xYrg14B, April 3, 2017

[3] J. Christopher Giancarlo, Blockchain potential solution to derivatives repository 'disappointment' Giancarlo says, Remarks at the Institute of International Bankers' Annual Washington Conference; Washington, DC; March 13, 2017, as reported by Roland, N., MLex, http://www.mlexfs-core.com/?r=EAAAAAflncyAfj85HMHdPgNUJy25gnuJG4hgDV4z4jUtvmj4, March 17, 2017

It is ironic that it was the CFTC under then Chairman Gary Gensler that pushed the standards agenda but prematurely implemented swaps data reporting using incomplete standards. It may, in the end, prove fortuitous in that the Blockchain requires standards. Not just communication protocol standards but financial industry supply chain participant (LEI) and product identification (UPI) standards. Without these standards an end-to-end completely electronic relationship, as promised by Blockchain technology, cannot be accomplished.

Acting Commissioner Giancarlo, unlike his predecessor who served the interests of the political class in calls for a quick resolution to regulating the OTC derivatives industry after the financial crisis, is taking a cautious approach. With the CFTC on the record as awaiting a fully operational LEI system before permanently accrediting its one and only LOU, the GMEI Utility,[4] it would seem the CFTC has the leverage to get lapsed LEIs under control, at least here in the US.

Until the GLEIF and, more importantly, the ROC gets to the core of this problem it risks a diminished revenue stream from renewals; a failure to establish a culture and discipline around maintaining high quality of LEI data; and, potentially the failure to identify and remove fraudulent legal entities from the GLEIS.

With the Office of Financial Research now advocating wider use of the LEI[5] and, at the same time conducting a study of the impediments to greater LEI usage,[6] it seems an appropriate time to place the lapsed LEI issue on its, and the GLEIF's agenda. It would also seem appropriate to place the use of such Blockchain technology as DLT and smart contracts into consideration for its impact on GLEIS's technology infrastructure.[7] [8] This is especially important as similar considerations for this technology are underway for its use in swaps data repository consolidations, derivatives trading and settlements, Central Counterparty (CCP) risk assessments, et al. The LEI's infrastructure is expected to support all of these new technology driven initiatives in the near real-time time frames and high quality expected of Blockchain implementations where LEIs are required.

Commentary

If we consider that at the current time we have yet to design the Unique Product Identifier; yet to resolve competing IOSCO/CPMI and ANNA claims on competing UPIs constructs and governance; yet to develop reference data standards to associate with identifiers of market participants and products; still to harmonize data components of financial transactions; still to build the core swaps trade repository data bases; and, finally, to have all these data and identity standards work together to aggregate data, across business silos and across regulatory borders…then we can only conclude that there is so much more to do.

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[4] CFTC, CFTC Extends Designation of DTCC-SWIFT as LEI Provider, http://www.cftc.gov/PressRoom/PressReleases/pr7408-16, July 18, 2016

[5] Wright, J., Risk.Net, OFR leads US push for mandatory adoption of LEIs, http://www.risk.net/regulation/4317261/ofr-leads-us-push-for-mandatory-adoption-of-leis, March 23, 2017

[6] Office of Financial research (OFR), Meeting of the Financial Research Advisory Committee, Data and Technology Subcommittee Data Standards Working Group LEI Adoption, https://www.financialresearch.gov/frac/files/OFR_FRAC-meeting_working-group_LEI_02-23-2017.pdf at Slide 12, Feb. 23, 2017

[7] Grody, A.D., Financial InterGroup, Core Data Issues of Financial Reform, http://www.financialintergroup.com/cmsAdmin/uploads/Trump-letter-to-Transition-team_001.pdf, Dec. 20, 2016

[8] Grody, A.D., Financial InterGroup, Trumpeting in the New Era of a Lean Technology-Driven Financial System, http://www.financialintergroup.com/cmsAdmin/uploads/downloads/Trumpeting-in-the-New-Era-of-a-Lean-Technology-Driven-Financial-System.pdf, at pages 18-19, Dec. 20, 2016

It then follows, given the early failure of granular data reporting, certainly in the swaps data repository realm, that it is logical to first consolidate our gains before we extend our reach. This 'overreaching' is now apparent in not getting the lapsed LEI issue resolved before we proceed to link it to the UTI while still calling for more use of the LEI in more regulatory reporting.

Overreaching is also apparent in using LEIs to establish hierarchies of ownership while nearly one-third of all LEIs have lapsed. It only invites more lapsed LEIs one year from the start date of May, 2017 when these ultimate parent/immediate parent LEIs are to be renewed. It also sets up another potential issue, LEIs that will be created by the GLEIF to substitute for ultimate parents not willing or not required to obtain an LEI.

These non-LEI LEIs will find their way into all manner of regulators' data bases, swaps data repositories, and vendor and financial institutions' internal systems. With the corporate events issue of how the GLEIF manages the maintenance of LEIs affected by reorganizations yet to be considered by the ROC (mergers, acquisitions, spin-offs, capital distributions that change control of LEIs, et al), it is interesting to ponder how a non-LEI not registered by the ultimate parent will work. How will the GLEIF manage these created LEIs that they will own, how will reorganization events associated with these created LEIs be processed through the LOUs to update their own LEI data bases and then that of the GLEIF LEI data base?

I fear the solution to this issue and others will be still more appendages to the infrastructure of the global financial system, adding more cost, more complexity, more data mappings and more risk. It's time to pause and take stock of our past failures, successes and our new technologies and make sure we are still on the right path to achieve the stated objectives of data aggregation across business silos and across global financial regulatory barriers.

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