



The Global LEI Initiative

Rate of LEI issuance accelerating while rate of lapsed LEIs remains stagnant

**A Research Note by
Financial InterGroup**

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

This month marked the second successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 5,219 vs. the earlier months all-time high of 2,219. This milestone is occurring at the same time as a 31% ratio of issued vs. lapsed LEIs persists, although the ratio has declined for the first time 31.3% vs. 31.2%. Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates.

July, 2017 was also the third month for GLEIF's collection of relationship data (Level 2 data) or what is referred to as 'who owns whom' data – the immediate parent and ultimate parent of each LEI renewed. Three month's results so far have seen the registration of 19,356 relationship records, 4,878 more than month end June's 14,478 and nearly triple May's 7,393, the first full month of gathering relationship data. However, 9 of 30 LOUs are still not reporting relationship data vs. 11 in June and 12 in May.

The chart below follows newly issued LEIs vs. lapsed LEIs for each month in 2017 and compares it to last year's monthly average. As can be seen, while monthly lapsed LEIs have consistently exceeded the new issued rate, this has now turned around in the last two months. This turnaround is occurring at the same time as LEI registrants are required by the EU's MiFid II directive to obtain a LEI in order to transact and report on financial business beyond swaps transactions with clients or financial institutions in the Eurozone.

	2016	Month-end 2017						
	Monthly Average	January	February	March	April	May	June	July
Total LEIs Issued	481,522 (Year-end Total)	486,989	492,801	500,235	506,456	513,177	522,241	534,376
Newly Issued	5,334	5,390	5,580	7,123	5,820	6,614	8,655	11,669
Lapsed	6,300	7,511	8,680	7,278	6,666	7,719	6,436	6,450
Net Increase/decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219
Lapsed rate	29.0% (Year-end %)	29.7%	30.4%	30.5%	31.0%	31.2%	31.3%	31.2

What remains to be determined is the number of new registrations for EU implementations that will result from MiFid's 'No LEI No Trade Rule' and 'No LEI No Issuance Rule' by year-end. DTCC, the largest LOU, citing industry sources predicts this should produce anywhere from 50% - 500% additional LEIs. The GLEIF has projected a 5% increase to year end over its mid-year base of 500,000. It is expected that some portion will be registered prior to year-end 2017 and the remainder on a continuous basis over the full year 2018. However, GLEIF is

¹ GLEIF Data Quality Report – July, 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-july-2017#>, Aug. 3, 2017

rightly concerned that should registrants hold off until late in the year the GLEIS might be overwhelmed and face a repeat of the run-up to the EU's EMIR Swaps and OTC derivatives directive for reporting swaps transactions.²

Notwithstanding this, the Global Legal Entity Identification System (GLEIS) has now achieved its final milestones. In May it initiated the request for registering additional LEIs for 'who owns whom' relationship data and now this month, the Regulator Oversight Committee (ROC) issued a consultation on corporate actions. These two initiatives, left for last in the overall Global LEI initiative, are the two most intellectually difficult issues to deal with and its successful outcome is still not assured.

The ROC, which oversees the GLEIF on behalf of the G-20's Financial Stability Board (FSB), issued its public consultation, defining corporate actions as including mergers, spinoff, acquisitions, and name and address changes that affect the LEI, its reference data and its data history.³ Importantly the ROC, through this consultation, is attempting to answer the question, 'how maintenance updates of the GLEIS data base will be managed'. Corporate actions, mainly reorganization events, are at the core of maintaining 'who is who' and 'who owns whom'. This is perhaps the most important ongoing function for maintaining the quality (and relevance) of the LEI system. To date the GLEIF has been focused on defining and then building the data base of LEI registrants and adding relationship data to connect the LEIs in meaningful ways. The ultimate objective is to allow aggregation of transactional data for risk analysis.

Also importantly, the ROC is tackling the lapsed issue as part of the corporate action consultation. To this end the ROC seeks clarification of the definition of inactive entities to adequately capture entities that are still legally in existence but have no operations. The ROC is proposing a further definition of an entity's status to include 'dormant' entities. It is thought that this definition may support a better classification of entities that are currently reported in a lapsed status. This could then help detect cases where entities currently appearing as "lapsed" are actually inactive or expired.

A "dormant" entity may be less likely to renew its LEI registration on the appointed due date, and currently any entity that fails to renew its LEI registration is treated as "lapsed". More finely defining these two categories might be helpful, both in providing more meaningful information to users of the GLEIS and in providing a clearer basis for LOUs in pursuing renewals of lapsed LEIs.

The underlying causes of the lapsed issue is quite relevant in the run-up to the MiFid implementation scheduled for January 3, 2018. This is because lapsed LEIs are allowed to be used for transaction reporting even though the ROC has admonished regulators not to allow lapsed LEIs to be used. This is a very critical issue because it pits a global standards body, the FSB which has no compulsory authority, against a regulator, the European Securities and Markets Authority with such authority, albeit within their own sovereign domains.

² Roland. N, Mlex, Global LEI Authority warns it may not be able to issue enough codes by year-end, <http://www.mlexfs-core.com/?r=EAAAAN81xEgA%2Bb2O8DwXfgjwPdQ%2FEH5z0VJVmUeFKm0nAv9>, July 25, 2017

³ ROC, Consultation Document on Corporate Actions and Data History in the Global LEI System, http://www.leiroc.org/publications/gls/roc_20170726-1.pdf, July 26, 2017

At the technical level and because the LEI is to be combined with the UTI (Unique Transaction Identifier) to uniquely identify trades, the quality of the LEI is especially important. Lapsed LEIs open up the possibility of untimely and incomplete maintenance of the GLEIS database. To this end, the DTCC LOU (the GMEI) should be looked to for cleaning up the lion's share of lapsed LEIs as it has the most lapsed LEIs by far (62% as of Feb 1, 2017)⁴. This problem occurred because they were the first to be authorized to issue LEIs by the first regulatory authority to do so, the CFTC, long before the FSB had defined the LEI protocols. In doing so they issued LEIs to all those in theirs' and other cooperating data vendors' databases without acknowledgements from those registered for an LEI. However, without compulsory requirements from a sovereign authority the registrants who have lapsed LEIs might not be inclined to be responsive.

A most critical next step after registration of LEIs and cleaning up lapsed LEIs is proving the LEI's corporate reorganization maintenance functions and hierarchical aggregation capabilities work, both of which are critical to observing systemic risk, the main objective regulators have championed for pursuing this global data standards regime.

When a final tally of the steady state of registered LEIs is determined it would appear that some further regulatory help will be needed in maintaining the quality of the GLEIS database. Legal entities must be compelled to renew or confirm their existing reference data; to timely report corporate reorganizations across all affected LOUs; to comprehensively report changes in relationship data; and to immediately report when an entity ceases operation.

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Financial InterGroup Research Note, The Global LEI Initiative - The New Year Starts with Lapsed LEIs Exceeding New LEIs, <http://www.financialintergroup.com/cmsAdmin/uploads/downloads/FIG-Research-Note-A-Progress-report-on-LEI-Issuance-Feb-2017.pdf>, February, 2017