



The Global LEI Initiative

LEI Registrations reach record, GLEIF expands its vision, Collecting Level 2 funds data being questioned

**A Research Note by
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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 November 2017 reporting of LEI issuance.¹

This month marked the sixth successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 107,207 LEIs. This is the second consecutive month of all-time highs. This milestone is occurring at the same time that the nearly 30% ratio of issued vs. lapsed LEIs has declined significantly to 21.3%. (Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates).

The decline of the lapsed rate was expected as the registration of LEIs accelerated due to MiFID's 'No LEI No Trade Rule' for counterparties and trading partners and 'No LEI No Issuance Rule' for contract and securities issuing entities which goes into effect January 3, 2018. With over 300,000 LEIs issued this year these new registrations will only fall into a lapsed status at their one year anniversary sometime in 2018 if not renewed.

November, 2017 was the seventh 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. Seven month's results so far have seen the registration of 67,178 relationship records vs. 50,684 in October, 19,383* in September, 24,816 in August, 19,356 relationship records in July, June 14,478 and May's 7,393, the first full month of gathering relationship data. This month three LOUs have not provided Level 2 data – the Netherlands, South Africa**, and Argentina. Japan, did not previously provide Level 2 data, but has just begun to do so in November.

The chart below follows newly issued LEIs vs. lapsed LEIs for each month in 2017 and compares it to last year's monthly average.

	2016	2017										
	Monthly Average	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Total LEIs Issued	481,522 (Year-end Total)	486,989	492,801	500,235	506,456	513,177	522,241	534,376	551,752	586,878	688,346	803,708
Newly Issued	5,334	5,390	5,580	7,123	5,820	6,614	8,655	11,669	16,430	33,720	99,359	113,983
Lapsed	6,300	7,511	8,680	7,278	6,666	7,719	6,436	6,450	5,101	9,819	6,725	6,776
Net Increase/decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219	11,329	23,901	92,634	107,207
Lapsed rate	29.0% (Year-end %)	29.7%	30.4%	30.5%	31.0%	31.2%	31.3%	31.2%	30.5%	29.9%	25.2%	21.3%

*The data of one LOU, GMEI, was improperly recorded at September's month end

** South Africa was improperly referenced as Australia in last month's report

¹ GLEIF Data Quality Report – November 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-november-2017#>, Dec. 5, 2017

As can be seen from the chart, while monthly lapsed LEIs had consistently exceeded the new issued rate in the past, this has reversed in the last six months and in the last two has accelerated.

GLEIF Expands its Horizons

With the increasingly successful registration of LEIs now underway, primarily in EU countries, and with Japan's LOU now providing Level 2 data, GLEIF and industry members are promoting the success of the governance structure of GLEIF. In their comments to the FSB's consultation on proposed governance arrangements for the Unique Product Identifier (UPI)² many trade associations and GLEIF itself are suggesting that the UPI follow a similar governance structure for the UPI as with the LEI³. GLEIF unabashedly has 'asked for the order' to oversee and operate the UPI.⁴ With the LEI already considered for the Prefix for the UTI,⁵ it would seem the GLEIF is nearing fulfilling its destiny as the open source global data center for all manner of unique identification of financial products, financial market participants and financial transactions.

The potential to establish the GLEIF as the central focal point for a global utility for entity, product and transactional identification, and further financial transaction data elements, and definitional data taxonomies is in sight. The flexibility GLEIF could be granted as a global standards setter under G20 mandates is to evolve this set of data for universal use, both as a centralized utility when appropriate to a particular function (as in assigning prefixes), as a distributed facility (as when assigning suffixes) and as a real-time facility as necessary to support real-time trading and reporting

Referenced in the GLEIF's response to the UPI consultation is the GLEIF's interest in the distributed ledger model (the Distributed Ledger Technology – DLT)⁶. GLEIF sees the current organizationally federated operating model (indigenous LOUs sourcing data locally for consolidation by the GLEIF) upgraded to a technically federated operating model. This was always a goal for the GLEIS - that was what was meant when the report to the FSB back in 2012 stated that the design of the GLEIS would be premised on the distributed networking concept underpinning the Internet (*and DLT*) emulating a 'logically' centralized database appearing to users to be from a single seamless system.⁷ The ability to leverage distributed ledger technology for a global data utility is the easiest and most consequential use of DLT for fixing global financial infrastructure.

² FSB, Governance arrangements for the unique product identifier (UPI): key criteria and functions <http://www.fsb.org/wp-content/uploads/PO31017.pdf>, Oct. 3, 2017

³ FSB, Public Responses to consultation on proposed governance arrangements for the Unique Product Identifier (UPI), <http://www.fsb.org/2017/11/public-responses-to-consultation-on-proposed-governance-arrangements-for-the-unique-product-identifier-upi/>, Nov. 23, 2017

⁴ GLEIF response, Governance arrangements for the unique product identifier (UPI): key criteria and functions <http://www.fsb.org/wp-content/uploads/GLEIF-1.pdf>, Nov. 23, 2017

⁵ BIS, Committee on Payments and Market Infrastructures, Board of the International Organization of Securities Commissions, Technical Guidance, Harmonisation of the Unique Transaction Identifier <https://www.bis.org/cpmi/publ/d158.pdf>, February, 2017

⁶ See footnote 4, Question 13, at page 17; Question 22, at pages 28, 29

⁷ FSB, A Global Legal Entity Identifier for Financial Markets, https://www.lei.org/publications/gls/roc_20120608.pdf, footnote 3, Page 4, June 8, 2012

Further broadening its usefulness, GLEIF has become the code maintenance agent of the ISO 20275: Entity Legal Forms Code List.⁸ Sixteen hundred (1,600) legal entity forms (i.e. Corp., GmbH, plc, et al) across more than fifty (50) jurisdictions will be available via the reference data maintained by GLEIF.

Rounding out GLEIF's agenda is the end of the comment periods for two ROC consultations, one on how to organize hierarchies of fund relationships which ended on November 26,⁹ and the other a corporate action consultation whose comment period ended Sept. 29, 2017.¹⁰ Finally, GLEIF has been engaged with SWIFT on BIC-LEI mapping with a target date for publishing an open source catalogue at year end 2017. GLEIF has also reported on plans for an ISIN-LEI mapping, publish date yet to be defined.

Fund Relationships

The responses to the consultation document on funds relationships in the Global LEI System, as with the responses to the corporate action consultation, is not made public, which has been the ROC's practice. However, individual responders have no restriction on publishing their comments. The only response that has surfaced so far is the combined SIFMA-AMG (Securities Industry and Financial Markets Assoc. – Asset Management Group), Investment Advisor Association (IAA), Investment Companies Institute (ICI) and Managed Futures Assoc. (MFA) (the 'Associations') comments on the consultation document on Funds Relationships in the GLEIS.¹¹ It is quite instructive to the GLEIF's final journey - to use the LEI for risk analysis, its primary objective.

The Associations disagreed with a significant portion of the proposals in the fund relationship consultation. They believe the fund and fund management companies will be overly burdened in providing relationship information. They state that when considered across all types of fund and fund management relationships globally, the collection and maintenance effort will be 'extraordinary'.

Additionally, the Associations are concerned that the data collected would not be sufficiently standardized to be relied upon, thus leading to data quality concerns and potential misinformation. The Associations were early backers of the LEI initiative. However, they believe that the current ease of obtaining an LEI and its current broad use will be undermined by adding requirements that go beyond requiring entities consolidated on financial statements to report their accounting parent information.

⁸GLEIF, Entity Legal Forms Code List, Version 1.0

https://www.gleif.org/documents/blog/20171130-iso-20275-entity-legal-forms-code-list/2017-11-30_elf-code-list-publication-version-1.pdf, November 2017

⁹ LEI ROC, Consultation Document on Funds Relationships in the Global LEI System , https://www.leiroc.org/publications/gls/roc_20170926-1.copy-1.pdf, Sept. 26, 2017

¹⁰ LEI 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

¹¹ SIFMA AMG Comments on the Consultation Document on Funds Relationships in the Global Legal Entity Identifier System, <https://www.sifma.org/resources/submissions/sifma-amg-comments-on-the-consultation-document-on-funds-relationships-in-the-global-legal-entity-identifier-system/>, Dec. 1, 2017

Hierarchical ownership information, following account consolidation accounting rules for financial statement reporting, as with fund and fund management relationships, if not accurate will be the Achilles heel in this bold initiative to use the LEI to aggregate financial transactions for risk management purposes. To this end, it is our opinion that a concerted effort be made by the GLEIF to engage with accounting firms, certainly the Big 4. They audit the largest, global systematically important financial institutions (G-SIFIs) where much of the hierarchical information is to be obtained. They already audit these firms' funds and fund relationships globally. They, along with their clients are the originating source and final arbiters of the hierarchies of legal entities that are consolidated in fund disclosures and public financial statements.

More current notice of new or changed legal entities could be obtained by auditors thus enabling them to work with LOUs under the qualification of the newly created category of Registration Agent set up for such purpose by the GLEIF.¹² Certified Public Accountants (CPAs) and Chartered Accountants (CAs) are professionally trained and licensed. They are accepted as experts to apply their judgment to such matters.

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¹² GLEIF, Registration Agents, <https://www.gleif.org/en/about-lei/how-to-get-an-lei-find-lei-issuing-organizations/registration-agents>