



The Global LEI Initiative

A Year-end 2017 Summary on Current and Future Progress

**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 December 2017 reporting of LEI issuance¹, our year-end summary and our comments.

This month marked the seventh successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 162,052 LEIs. This is the fourth consecutive month of all-time highs. This milestone is occurring at the same time that the 29% ratio of issued vs. lapsed LEIs at year-end 2016 has declined significantly to 17.4% although the total lapsed LEIs at year-end 2017 has increased 20% (30,137 Lapsed LEIs) to a new high of 169,778.

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	Dec
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	975,741
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	168,500
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	6,448
Net Increase/ decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219	11,329	23,901	92,634	107,207	162,052
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%	17.4%

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 had been expected to go into effect January 3, 2018. With over 500,000 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.

Why care about lapsed LEIs? The GLEIF ongoing funding plan is solely dependent on renewal revenues. Also, the LEI is the 'passport' to the global financial system. Annual renewal opens the LEI data base to a full year in which a legal entity can be hidden from: its failure; from perpetrating a fraud; from its un-renewed LEI being used by others.

Unexpectedly the governing body of MiFID, ESMA, on December 20, 2017 granted a six-month extension owing to their 'recent' awareness of the industry's unexpected unpreparedness. This action was taken after repeatedly declaring no extension would be granted. Later, the ESMA Chairman offered an explanation for waiting to the last minute to

¹ GLEIF Data Quality Report – December 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-december-2017#>
Jan. 4, 2018

grant an extension. It was done, he said at the last moment so as not to diminish the momentum of industry participants in their last-minute rush to register for an LEI to meet the deadline.²

December, 2017 was the eight 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. Eight month's results so far have seen the registration of 88,198 relationship records vs. 67,178 at month-end November, 50,684 in October, 19,383 (sic) in September, 24,816 in August, 19,356 in July, 14,478 in June and 7,393 in May, the first full month of gathering relationship data. This month only one LOU, Argentina is still not providing Level 2 data.

GLEIF Should be Encouraged to Extend its Governance Approach to Other Financial Data

In last month's Newsletter³ we reported on GLEIF and industry members 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)⁴ many trade associations and GLEIF itself suggested that the UPI follow a similar governance structure for the UPI as with the LEI⁵. GLEIF unabashedly had 'asked for the order' to oversee and operate the UPI.⁶ With the FSB now endorsing the LEI as the Prefix for the UTI,⁷ 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.

Toward this end the FSB just published its recommendations on the governance of the UTI. In it, it recognized the role of GLEIF in governance of the LEI, commented on the FSB's need to decide on the governance of the UPI (GLEIF as reported above is in the running) and on other data elements, and left open a final determination of the governance of the UTI.⁸

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

² Risk.Net, Maijor defends late LEI relief amid industry frustration, <https://www.risk.net/regulation/5379066/majoor-defends-late-lei-relief-amid-industry-frustration>, Jan.3, 2018

³ FIG Research Note, The Global LEI Initiative: LEI registrations reach record - GLEIF expands its vision - Collecting Level 2 data being questioned, <http://www.financialintergroup.com/cmsAdmin/uploads/downloads/FIG-Research-Note-The-Global-LEI-Initiative-Dec-Report-Nov-Data-2017.pdf> December, 2017

⁴ FSB, Governance arrangements for the unique product identifier (UPI): key criteria and functions <http://www.fsb.org/wp-content/uploads/P031017.pdf>, Oct. 3, 2017

⁵ 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

⁶ 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

⁷ 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

⁸ FSB, Governance arrangements for the unique transaction identifier (UTI) Conclusions and implementation plan, <http://www.fsb.org/wp-content/uploads/P291217.pdf> at page 14 and footnote 14, Dec. 29, 2017

distributed facility (as when assigning suffixes) and as a real-time facility as necessary to support real-time trading and reporting.

It would be most useful for GLEIF to begin discussions on taking over governance of ESMA's Financial Instruments Reference Data System (FIRDS). This landmark reference data base can be extended from EU traded products to other global market centre products. FIRDS novel approach of updating reference data from input from its original sources (the issuer) at each listing venue follows closely the LEI registration process. FIRDS needs to become a global standard for reference data, especially as the US Treasury's Office of Financial Service (OFR) has its own mandate to create such a data base.

Rounding out GLEIF's agenda for the new year is its existing commitments. It has been engaged with SWIFT on BIC-LEI mapping with an announced 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. Finally, GLEIF will be dealing with 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

The Fund relationship consultation, as reported on in last month's Newsletter¹¹, has been publically commented on in a joint statement by the 'Associations' (SIFMA-AMG, IAA, ICI and MFA).¹² It is quite instructive to understand their objections. It informs the obstacles facing GLEIF's journey to use the LEI for risk analysis, the LEI's primary regulatory objective.

FIG Comment

Hierarchical ownership information following account consolidation accounting rules for financial statement reporting has been accepted by regulators as the means to aggregate financial data associated with the unique legal entity identifier. If it is to be useful and accepted by industry members this hierarchical ownership information must be extrapolated into hierarchies for monitoring counterparty, credit and trading risk. If this root hierarchical ownership information is not accurate it will be the Achilles heel in this bold initiative to use the LEI, the UPI, the UTI and the ISIN for aggregating financial transactions for risk management purposes.

To this end, it has been our consistent 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 this hierarchical information is most significant. 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.

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 See footnote 3

¹² 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

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.¹³ The Big 4 have direct experience, having in the past developed their own combined global legal entity data base. This was done for determining potential conflicts of interest in security ownership issues with their audit clients. They could again collaborate and become a global registration agent and even a global LOU. 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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¹³ GLEIF, Registration Agents, <https://www.gleif.org/en/about-lei/how-to-get-an-lei-find-lei-issuing-organizations/registration-agents>