



The Global LEI Initiative

LEI issuance slows while Lapsed LEI's increases significantly. Relationship data for Funds now subject of new consultation by LEI ROC.

A Research Note by Financial InterGroup

January 2019

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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, 2018 month-end and year-to-date reporting of LEI issuance¹; on the progress of Relationship Data collection; and our Commentary.

LEI ISSUANCE

December, 2018 was the sixth month of a steady of issuance of LEIs, averaging 18,806 per month. December was also the third month of the resumption of lapsed LEIs exceeding issued LEIs. This net increase of lapsed LEIs exceeding issued LEIs was anticipated as this metric had been progressively decreasing over the entire year. We anticipate a continuing rise in the lapsed rate (now at 23.5% vs. last month's 19.5%) through the first quarter of 2019 as the first quarter issuance of LEIs in 2018 averaged 54,970, nearly triple the last half years average of 18,806. It is during this last quarter of 2018 that the first group of anticipated renewals from the accelerated LEI issuance of parent LEI registrations of last year came due

Total lapsed LEIs have been on a steady monthly uptick reaching another all-time high of 313,915 vs. last month's 257,678. This represents an increase of 62,473 lapsed LEIs recorded in December, the highest monthly number of lapsed LEIs ever. The last quarter of 2018 saw lapsed LEIs exceeding issued LEIs in each of the quarter's months, an average of 22,470 more lapsed LEIs than issued LEIs per month. This is an alarming acceleration in lapsed LEIs that, if left unchecked, can significantly impact GLEIS data quality.

Month-to-Month Comparison 2018

LEI Issuance/ Lapsed LEIs	Jan. 2018 Month- end & YTD	Feb. 2018 Month- end & YTD	Mar. 2018 Month- end & YTD	Apr. 2018 Month- end & YTD	May 2018 Month-end &YTD	June 2018 Month- end & YTD	July 2018 Month- end & YTD	Aug 2018 Month- end & YTD	Sep. 2018 Month- end & YTD	Oct. 2018 Month- end & YTD	Nov.2018 Month- end & YTD	Dec.2018 Month- end & YTD
	1,071,693	1,113,339	1,148,170	1,172,295	1,195,780	1,221,330	1,242,095	1,260,541	1,280,462	1,300,832	1,319,120	1,337,925
	Jan. 2018 Month- end	Feb. 2018 Month-end	Mar. 2018 Month-end	Apr. 2018 Month- end	May 2018 Month-end	June 2018 Month- end	July 2018 Month- end	Aug. 2018 Month- end	Sep. 2018 Month- end	Oct. 2018 Month- end	Nov.2018 Month- end	Dec.2018 Month- end
Newly Issued	92,029	39,760	33,120	22,882	23,412	23,801	19,951	17,719	19,398	19,700	17,616	18,454
Lapsed	7,494	8,296	8,904	7,529	6,409	7,166	7,278	7,838	12,971	26,853	33,853	62,473
Net Increase/ decrease	84,535	31,464	24,216	15,353	17,003	16,635	12,673	9,881	6,427	-7,153	-16,237	-44,019
Lapsed rate	16.0%	15.8%	15.7%	15.7%	15.5%	15.5%	15.6%	15.8%	16.2%	17.7%	19.5%	23.5%
Total Lapsed (Year & month- end)	171,472	175,540	179,803	183,466	186,021	189,712	193,657	198,719	207,462	230,679	257,678	313,915

¹ GLEIF Data Quality Report – December 2018, <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-2018#>, Jan. 8, 2019

Comparing year-over-year metrics LEI Issuance doubled between 2016 and 2017 then fell to a third more between 2017 - 2018. Total Lapsed LEIs increased nearly 22% between 2016 and 2017 but nearly doubled between 2017 – 2018.

Year-to-Year Comparison – 2016, 2017, 2018

LEI Issuance and Lapsed LEIs – Year-to-year Comparison	2016 Year-end	2017 Year-end	2018 Year-end
Total LEIs issued at Year-end	481,522	975,741	1,337,925
Monthly Averages			
Newly Issued	5,334	40,237	29,016
Lapsed	6,300	7,134	15,894
Net Increase/ decrease	-996	33,103	13,122
Year-end Lapsed rate	29.0%	17.4%	23.5%
Total Lapsed LEIs at year-end	139,461	169,778	313,915

RELATIONSHIP DATA COLLECTION

December 2018 was the twentieth month of data collection of information on the immediate parent and ultimate parent of each LEI (Level 2 Relationship Data). GLEIF reports statistics on how many immediate and ultimate parent records were reported (see the first numeric column in the chart on the following page) and of these, how many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the same chart on the following page).

Level 2 Relationship Data	Number of Immediate & Ultimate LEI Parent Records	Month-to-Month Change	Number of Unique LEIs Reporting both Parent Relationships	% Month-to-Month Change
Year-end 2017	88,198	-	51,944	-
Month-end Jan 2018	109,057	20,859	63,237	21.7%
Month-end Feb 2018	119,438	10,381	70,584	3.7%
Month-end Mar 2018	122,806	3,368	72,953	3.4%
Month-end Apr 2018	129,128	6,322	76,268	4.5%
Month-end May 2018	134,141	5,013	79,270	3.9%
Month-end Jun 2018	136,403	2,262	80,718	1.8%
Month-end Jul 2018	139,127	2,724	82,487	2.6%
Month-end Aug 2018	141,694	2,567	83,652	1.4%
Month-end Sep 2018	143,602	1,908	84,898	1.5%
Month-end Oct 2018	147,292	3,690	86,965	2.4%
Month-end Nov 2018	149,795	2,503	88,333	1.6%
Month-end Dec 2018	152,318	2,523	89,826	1.7%

As can be seen from the Month-to-Month Change column in the chart on the previous page, the monthly reporting of the number of registered LEIs with parent relationships has leveled off over the last ten (10) months of this year. A similar pattern has emerged for the number of LEIs reporting both parents (column 3), with the percent increase also showing a stabilizing trend.

The GLEIF also reports on LEIs that have recorded Level 2 reporting exceptions (column one in below chart) and how many of each unique LEI registrant reported either a parent and/or immediate parent or provided an exception reason for not providing either or both (see the third column in chart below).

Level 2 Reporting Exceptions	Number of Immediate & Ultimate LEI Parent Exception Records	Month-to-Month Change	Number of LEIs with Complete Parent Information	% Month-to-Month Change
Year-end 2017	1,067,968	-	572,818	-
Month-end Jan 2018	1,309,801	241,833	702,154	22.6%
Month-end Feb 2018	1,435,891	126,090	770,652	9.8%
Month-end Mar 2018	1,560,558	124,667	834,384	8.3%
Month-end Apr 2018	1,700,551	139,993	909,859	9.0%
Month-end May 2018	1,814,341	113,790	963,991	5.9%
Month-end Jun 2018 –see Note	2,099,985	285,644	1,115,160	15.7%
Month-end Jul 2018	1,952,927	53,559	1,043,199	14.1%
Month-end Aug 2018	1,998,077	45,150	1,066,405	2.2%
Month-end Sep 2018	2,041,663	43,586	1,088,521	2.1%
Month-end Oct 2018	2,081,128	39,465	1,109,258	1.9%
Month-end Nov 2018	2,117,957	36,829	1,127,211	1.6%
Month-end Dec 2018	2,156,909	38,952	1,146,554	1.7%

Note: month-end figures for June 2018 in the chart above was distorted due to a change in reporting by one LEI Issuer, Business Entity Data B.V. (known in the US as the GMEI Utility). GMEI, which has issued 32% of all LEIs, adjusted the status of a significant number of historic LEIs under its management from ‘fully corroborated’ to ‘entity-supplied only’. Also GMEI informed GLEIF that it had erroneously over-reported 100,000 LEIs that would have provided parent information in that quarter. According to the GLEIF this issue will be resolved by year-end 2018.²

It still remains to be understood how such permitted exceptions (‘opt-out’ arrangements to supplying parent relationship information) will affect the FSB’s long term objective of aggregating financial transaction data for risk management and systemic risk analysis.

COMMENTARY

There are now over 1.3 million LEIs issued, 23.5% of them in a lapsed (non-renewal) status, and 6.7% unique legal entities reporting parent relationships. It is timely that the Financial Stability Board (FSB), which oversees the LEI on behalf of the G20, is reviewing implementation issues and further opportunities for use of the LEI. The report is to be available in the first half of 2019. At this same time the Bank for International Settlements (BIS) has published the results of a survey describing the LEI’s role in the usability of trade repository data. FIG has summarized these consultations in last month’s research report.³

² GLEIF, Global Systems Business Report, 3rd Quarter 2018, <https://www.gleif.org/content/4-lei-data/2-global-lei-index/2-download-global-lei-system-business-reports/20181106-download-global-lei-system-business-report-q3-2018/2018-11-06-quarterly-business-report.pdf>, Nov. 6, 2018 at page 2

³ FIG LEI Research Note – December, 2018, <http://www.financialintergroup.com/cmsAdmin/uploads/downloads/FIG-Research-Note-The-Global-LEI-Initiative-Dec-2018-Report-Nov-2018-data.pdf>

A most recent consultation, the ROC's Second Consultation Document on Fund Relationships in the Global LEI System, is another critical document that we summarize and comment on below. It challenges the principal reason for creating the LEI - to facilitate more effective regulatory oversight of risk in the financial system. To do this it is essential to build a network of identity relationships between LEIs that represent the risk that multiple entity structures are presenting in the global financial system. Fund entities represent a large segment of LEI multi-entity structures.

FIG Summary of the Second Consultation Document on Fund Relationships in the Global LEI System

The LEI ROC (the "ROC") received four (4) industry responses from seven (7) industry entities to the Consultation on fund relationships (the 'Consultation') issued in November, 2018.⁴ These included responses from an individual custodian bank and industry associations covering large sections of the asset management industry in the United States, European Union and Japan. While the ROC does not identify these respondents individually we have identified them in this report. They are the Securities Industry and Financial Markets Association – Asset Management Group (SIFMA-AMG), Investment Advisor Association (IAA), Investment Companies Institute (ICI) and Managed Futures Association (MFA), which collectively filed a single response as the "Associations"; BVI – the German asset management association; Japan Bankers Association (JBA); and State Street Bank.

While the ROC has chosen not to identify their names or responses, they have chosen to make their individual responses public. These responses and a summary of each are posted in the next section 'Fund Relationships Summary and Individual Responses'. We have taken to summarize their responses individually and collectively.

Fundamentally four of the five asset management industry respondents, the Associations (SIFMA-AMG, ICI, IAA, and MFA) are questioning the premise of why the ROC wants to collect relationship data of any funds, given they do not pose any systemic risk. The Associations consider that many of the Consultation's stated objectives are premised upon the erroneous assumption that funds and fund managers are interconnected and therefore may pose a systemic risk.

The Associations also question the ROC's desire to go beyond their original requirement for entities consolidated on financial statements to report their accounting parent information. The parent information collected in the GLEIS is based on accounting consolidation and funds typically are not consolidated with their management entities. They also believe the ability to capture this data is too complicated on a global scale and that relationship data would not be available in all cases to improve the quality of information on fund relationships.

The Associations have stated that fund family and fund management relationships are complicated and non-standard and, thus, would not be easy to map and report on. The Associations view the ROC's additional fund relationship requirements as significantly increasing compliance costs as LEIs need to be obtained and renewed. Fund family structures vary from jurisdiction to jurisdiction across retail and

⁴ LEI ROC, Second Consultation Document on Fund Relationships in the Global LEI System, https://www.leiroc.org/publications/gls/roc_20181119-1.pdf, Nov. 19, 2018

private fund organizations. Cataloguing and accurately reporting fund family relationships beyond the accounting parent, where applicable, would require significant work to capture across jurisdictions and to update for organizational changes.

Further, the Association along with the JBA and BVI believe that collection of relationship data is not compelling enough to warrant the significant operational and cost burdens of capturing and validating such fund relationships. State Street cautions that mandating relationship data upon registering for an LEI will increase the burden on LEI registrants and thus be a barrier for LEI uptake and adoption.

In a rebuttal to the responses of industry members, the ROC members believe that collecting fund relationship information in the GLEIS is important to observing systemic risks - those posed by a single manager of different funds and by multiple managers of multiple fund structures. They believe this is important to understanding how the activities of funds might be interconnected. In an example the ROC identifies such risk stemming from unusually concentrated transactions, particularly large transactions, or patterns of trading irregularities from funds managed by the same or a group of related fund managers.

The ROC believes relationship information is useful for data analytics and economic analyses and, most importantly, for risk aggregation to be able to perform risk assessments. Risk aggregation is one of the objectives of the GLEIS. The ROC further asserts that the identification of fund managers is considered relevant for the global aggregation of OTC derivatives data to monitor the potential for systemic risks and market conduct abuses.

The ROC suggests that the GLEIS could offer a single repository that would avoid duplications (to the extent multiple regulators would use it exclusively and give up their separate collections) and for industry members to avoid having to record in every trade the same information that is largely static assuming they access the GLEIS database exclusively. The GLEIS could also facilitate managing the history of changes which will further enhance the efficiency of gathering and assessing fund relationship data.

Registering LEIs and their relationships once into the GLEIS would support another objective, common identity for interoperability and data mapping. This objective is of operational interest to most financial institutions and their data vendors. For financial institutions it is for cost containment and in meeting BIS's risk and data aggregation principles. For data vendors it is supplemental revenue from these same financial institutions for more data mapping and reconciliation services.

While the FSB's mandate is to manage systemic risk through the use of the LEI and other standards, the ROC appears to be seeing their mission to this point as expediting LEI coverage (issuance). Thus the eight percent (8%) of entities that have a Legal Entity Identifier (LEI) that are investment funds are a substantial new source of LEI registrations if their sub-structures are also registered. To sort the industry's almost unanimous opposition to the views of the ROC on relationship data collection of funds, the ROC has published another consultation to drill down further into these and other issues. Responses to this follow-up consultation is due by January 14, 2019.

It should be noted that at this time the FSB is conducting a review of the LEI⁵ to be concluded sometime in mid-2019. As part of this review they have solicited industry input. To date seven (7) responses have been made public by the responders. Most responders see the LEI as a mechanism to eventually eliminate proprietary codes with mapping to existing codes as an interim step toward this ultimate realization. Validating the quality of the data and renewing changes to reference data on a timely basis would be most essential if such ambitions are to be realized. In essence the industry supports the globally unique identification of financial market participants through registering of LEIs for each but are less inclined, many opposed, to support collecting relationship data for fund structures beyond that which can be addressed through accounting's consolidation rules.

The ROC is now recognizing a better validation sources than Business Registries - Supervisory (financial regulators) Registries, for identity of LEI registrants and for properly vetted prospectuses for relationship data. The ROC states that current LOU validation methods are falling short, reporting that some of the LEI records recorded in the GLEIS as "fully corroborated" are not. In these cases the LEI record does not match the legal address in the corroboration source, the Business Registry.

The ROC reports not all financial market participants are registered in Business Registries and some are registered in more than one authoritative source, not always identical and not always updated at the same time - a Business Registry and a Supervisory Registry. It is likely that these separate registers, maintained by different authorities, will not be updated in a perfectly synchronized manner, and that there could be discrepancies.

Incorporated funds will generally appear both on the official national business register as well as on the list of the supervisory authorities (which generally covers all entities authorized to provide financial services in a given jurisdiction). On the other hand, funds with no legal personality will only appear on the list published by the supervisory authority. This can also be the case for sub-funds. The ROC has always contended that the Registration Authority should always be the Business Registry, when the entity is registered there. However, the Registration Authority (business registry) is not applicable for non-incorporated funds. In these cases the data field was to be filled in with "not applicable" instead of the ID of the supervisory authority.

The ROC has now concluded that the Registration Authority for these funds should always be the supervisory authority. We have always advocated supervisory registries as the means to validate information in the GLEIS. After all these are entities of financial market participants, they must be registered as such in their supervisory jurisdictions.

Business Registries are now the main source of validation in the GLEIS. We have always advocated for a second pair of trusted eyes, the at-source notary concept for validating information. We see auditors performing this validation function through their well-developed third-party assurance practices. We have been reporting in our monthly Research Notes on the consistently high 2/3rd rate of non-validated relationship records going into the LEI. We have also been reporting on the increasing lapsed rate (now 23.5%) that, taken together with the non-validated LEI data rate, are discrediting the data quality percentages that the GLEIF reports (the latest Data Quality Report had data quality at 99%).

⁵ FSB, Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference, <http://www.fsb.org/2018/08/fsb-launches-thematic-peer-review-on-implementation-of-the-legal-entity-identifier-and-invites-feedback-from-stakeholders/>, 16 August 2018

The ROC concludes that data of a fund should only be declared “fully corroborated” in the GLEIS if the validation authority is the one specialized in funds, and all the data is found in that source. If this criteria is not met, the LOUs should verify that the prospectus (or similar documents) had been approved by its supervisory authority and has been published before. Investment fund’s data should only be validated against data published by the home country Registration and/or Validation Authority.

Otherwise in cases where no official registry is available, and other documents not meeting the earlier described conditions need to be used, the validation status should be “entity supplied only”. This may happen if a legal entity needs an LEI in its application, before the prospectus is approved. LOUs have the responsibility to encourage necessary updating and should verify, after the customary delay, whether the fund was authorized and registered, so that the reference data can be checked against the official source, and the Validation Authority ID and Validation Authority Entity ID can be added.

The solution to the many cases described in the ROC consultation where cases exist of no official registry being available, or timing of need for a LEI is delayed by the current LOU registration process could be simply resolved. Identifying a ‘trusted notary’ as a validation authority for the ‘entity supplied only’ category’, especially when it would be auditors performing this validation function through their well-developed third-party assurance practices.

The ROC report proposes to replace the current optional reporting of a single “fund family” relationship as part of Level 1 (reference data of the entity), and eliminating the previously proposed generic category “Other Fund Family” (except for past records), replacing it with the following relationship definitions, as part of “Level 2” data (relationship data):

- **Fund Management Entity** is the main management entity of a fund which is legally responsible for the constitution and operation of the fund. Such responsibility will include the day-today management of a fund's investments and management of a fund’s risks, or the appointment of others for that purpose. In the latter case, the entity to which these functions may have been delegated is **not** considered to be a Fund Management Entity. This latter exclusion is due to the fact that the data collection is not designed to capture the entity in charge of managing the investments of a fund, but to improve the identification of funds. Respondents noted that capturing all entities involved in the management of the same fund would require a more detailed description of the nature of these other relationships, rather than an unstructured listing of any kind of delegated services to the fund.
- **Umbrella Structures** are legal entities with one or more than one sub-funds/compartments where each sub-fund/compartment has its own investment objectives, separate investment policies and strategies, segregation of assets, separate investors and which has segregated liability between sub-funds/compartments. This would cover a range of cases, such as UCITS compartments in the EU, series funds and insurance company separate account in the U.S, “non-investment management funds in Japan, where the trustee would be the umbrella structure. To the extent possible, these different situations would be identified through the legal form of the entity, which is another data element recorded in the GLEIS.
- **Master-Feeder** is a Feeder Fund is exclusively, or almost exclusively, invested in a single other fund (e.g. U.S, EU UCITS), or several funds that have identical investment strategies (e.g. some alternative investment funds in the EU) referred to as a Master Fund. This covers only cases where

this relationship is organized in the legal documentation of the feeder fund, and does not cover relationships where a fund's assets are invested in multiple other funds (fund of fund structure).

The ROC proposes that the collection of these relationships would be mandatory for the relationship between an umbrella structure and a sub-fund or compartment. The registrant could be the umbrella entity or the sub-component. For the other categories the relationship to be reported to the GLEIS would be optional, even though the relationship may be mandated to be reported and publicly available in the relevant jurisdiction and the LEI is mandatory for the related entity in the relevant jurisdiction. This optional approach was chosen because it is difficult to have meaningful, workable definitions that would cover all possible fund legal structures in all jurisdictions around the globe. There were also concerns that the mandatory reporting of these relationships could make registrations more costly and complicated, and would go against the priority objective of increasing LEI coverage.

The reporting of the relationship between an umbrella structure and its sub-funds or compartment should always include the name of the umbrella structure in the name of the sub-structure. The ROC recommended tentatively that this naming process should be done in a more systematic, structured and transparent manner.

Where the relationship with the umbrella structure is recorded in the GLEIS, there should be a data format or process ensuring that the name of the substructure is updated without delay when the name of the umbrella structure changes. This idea of relating a parent entity (Umbrella Structure) directly with its corresponding legal entity (the sub-structure name) is identical to having the parent LEI associated with each of the underlying LEIs of a multi-LEI entity. We have always advocated that this association be done by the registrant using a parent prefix to be attached to the subordinate legal entity LEIs.

Fund Relationships Summary and Individual responses:

Below is FIG's summary and a reference to each of the responses made public on the Consultation Document on Funds Relationships in the Global Legal Entity Identifier System.

The single response from the four (4) US-based associations: SIFMA AMG (SIFMA AMG), the Investment Adviser Association (IAA) the Investment Company Institute (ICI), and the Managed Funds Association (MFA) ⁶ represent globally regulated funds and US and multinational asset management firms. State Street⁷ is one of the largest asset managers and global custodians of fund assets. The Japanese Bankers Association ("JBA")⁸ represents banks that oversee Japanese trust structures that manage fund assets. The BVI⁹ is the German asset management association.

SIFMA-AMG, IAA, ICI and MFA (the "Associations")

⁶ <https://www.sifma.org/resources/submissions/sifma-amg-comments-on-the-consultation-document-on-funds-relationships-in-the-global-legal-entity-identifier-system/>

⁷ <http://www.statestreet.com/content/dam/statestreet/documents/RIGA/Global/LEI%20ROC%20Consultation-Funds%20Relationships%20in%20Global%20LEI%20System.pdf>

⁸ <https://www.zenginkyo.or.jp/fileadmin/res/en/news/news171124.pdf>

⁹ https://www.bvi.de/fileadmin/user_upload/Regulierung/Positionen/LEI_und_RIC/20171124_BVI_position_Consultation_Funds_Relationships_Questionnaire.pdf

The Associations disagreed with a significant portion of the proposals in the ROC's 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 Association is 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.

The Association very strongly opposed any form of mandatory collection of relationship data in the GLEIS, especially if it involves requiring LEIs from a related entity that is itself not subject to a regulatory requirement to obtain an LEI. They recognize the importance of LEI data, but are not convinced that the regulatory benefits cited outweigh the significant operational and cost burden that such detailed data collection would impose on funds and investment managers.

They consider that many of the Consultation's stated objectives are premised upon the erroneous assumption that funds and fund managers are interconnected and therefore may pose a systemic risk. Such objective is not compelling enough to warrant the significant operational and cost burdens of capturing and validating such fund relationships. They consider that the ROC's stated goals of monitoring market conduct and avoiding largely static fund management information in transaction reporting will not be achieved through collecting information at the LEI level, in particular in cases where several fund management entities are involved in initiating trades for the same fund, which will make it necessary to continue reporting the information at trade level.

The ease in obtaining an LEI is being undermined by the imposition of more and more complex requirements that must be met before an entity can obtain an LEI. Their members' experience is that reporting certain accounting parent relationships, was and continues to be a significant hurdle for entities obtaining or renewing LEIs.

Because fund family and fund management relationships are complicated and nonstandard, they would be burdensome to map and report on an annual basis (and even more burdensome to maintain on a real-time basis). The reporting of information that cannot be standardized or made comparable would prompt misinterpretation of the information reported.

State Street

State Street specializes in providing institutional investors with investment servicing, investment management, data and analytics, and investment research and trading. With \$32.110 trillion in assets under custody and administration and \$2.673 trillion in assets under management as of September 30, 2017, State Street operates in more than 100 geographic markets worldwide. State Street is organized as a United States ("U.S.") bank holding company, with operations conducted through several entities, including its wholly-insured depository institution subsidiary, State Street Bank and Trust Company, and its asset management business, State Street Global Advisors ("SSGA"). SSGA Funds Management, Inc., a U.S. registered investment adviser, and other affiliates of State Street form SSGA.

State Street strongly believes that custody banks, such as State Street, should be represented during discussions related to reference data, including the LEI. Custody banks can provide a unique perspective in these discussions, as we have the unique ability to aggregate information from thousands of clients and are focused on the overall infrastructure of reference data. Therefore, such custodians can advocate on behalf of their clients as a whole by looking across their client base and providing insight, whereas a singular firm has a more limited perspective. Additionally, custody banks play a critical role in the post-execution lifecycle of all financial transactions between entities and also provide services beyond just the custody of physical assets and cash, such as middle office outsourcing, fund accounting, and regulatory reporting on behalf of clients. Moreover, custodians have significant experience in reference data and already commit substantial resources to such important efforts.

State Street supports the development of the GLEIS as a means of improving the quality of entity data and their relationships within the global financial system and therefore enhancing the ability to uniquely identify and address the sources of potential systemic risk. The ability to obtain relationship data, such as fund relationships, is a laudable goal. However, the future success of incorporating funds relationships data into the GLEIS is contingent on completing other phases of LEI initiatives, including the incorporation of legal hierarchy structures.

In State Street's opinion, there must be facilitation of broader use of LEIs in regulatory reporting and other supervisory requirements. Additionally, they believe that mandating relationship data upon registering for an LEI will increase the burden on LEI registrants and thus has the potential to increase the barriers for LEI uptake and adoption, a factor the ROC should take into consideration as it proceeds with this initiative.

State Street supports the standardization of definitions proposed by the ROC for fund relationships. State Street notes it would be critically important to define other relationship types such as Corporate Sponsor and Trustee if the LEI ROC were to include pension funds and sovereign wealth funds.

State Street strongly supports the strict use of LEIs when identifying funds relationships in order to ensure data integrity in the GLEIS. Relationship entities are all party to an entity in question and thus to the transaction. State Street believes that commonalities across many other entities will appear once a critical mass is established.

Bank of Japan

The Japanese Bankers Association ("JBA") believes that the LEI will function more effectively if information is recorded in accordance with a uniform framework and thus support the ROC's proposal that ensures consistency of, and standardizes, on a global level, funds relationships information to be recorded in the global LEI system ("GLEIS") as part of Level 2 data.

JBA believes it preferable that the LOUs require submission of documents to prove an entity is a fund and verifies the content of such documents. However, the JBA asks the ROC to consider whether there are any benefits for collecting Level 2 relationship data in light of verification costs. If verifications is not performed that the entity is a fund, the accuracy of Level 2 data cannot be assured, and thus this practice would become meaningless since Level 2 data varies depending on whether an entity is a fund or a legal entity. Costs associated with this validation process must be assessed against benefits, in order to prevent such Level 2 data collection from becoming meaningless.

BVI

BVI represents the interests of the German fund industry at both the national and international levels. BVI has over 100 members managing assets of nearly 3 trillion euros for private investors, insurance companies, pension and retirement schemes, banks, churches and foundations.

BVI supports the standardization of definitions proposed by the ROC for fund relationships. BVI believes that a relationship should only be included in GLEIS if it provides higher added value than the related costs and efforts. This seems not to be the case with heterogeneous domestic-oriented relationships as they provide less value to international recipients of the corresponding information if required to be registered. An in-depth analysis and public consultation should therefore take place before any addition of new FSB required reporting into “Other Fund Relationship” fields.

CLOSING COMMENT

How the LEI will support the stated risk management mission of the FSB is still a work in progress. While successfully creating a global network and government/private sector governance structure for issuing LEIs there remains significant hurdles.

Three of the more prominent hurdles are: developing a timely and efficient way to maintain the LEI throughout a legal entities corporate reorganization lifecycle; renewing accompanying LEI reference data (mainly name, address and entity classification data); and completing the hierarchical relationships amongst LEI’s for determining ownership and control particularly of multi-registered LEIs of a single entity structure. This later point is critical to the capability to aggregate transactional data for performing risk analysis.

The FSBs review of the LEI now underway and the follow up on the ROC’s consultation on fund relationships are both promised to be concluded in 2019. The recommendations that result, along with the remaining follow up on the ROC’s Legal Entity Events (Corporate Actions) and Data History in the Global LEI System consultation¹⁰, should shed more light on how close regulators and the industry will get to meeting the risk management objectives pledged to the G20. That pledge encouraged the G20 to support the “global adoption of the LEI to support authorities and market participants in identifying and managing financial risks”.

For further Information Contact



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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

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