



# The Global LEI Initiative

Making progress this month –  
largest number of net new LEI's issued

**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 June 2017 reporting of LEI issuance.<sup>1</sup>**

June, 2017 was the second full 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. This month also marked the highest net increase in newly issued LEIs, a net increase of 2,219 vs. the earlier highest of 1,146 recorded in June 2016. This marks only the fourth month of positive LEI net issuance vs. lapsed LEIs in the 18 months the GLEIF has been issuing their data quality reports. This milestone is occurring at the same time as a consistent pattern of ever increasing lapsed rates of approximately 31%. Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates.

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 the lapsed rate has consistently exceeded the new issued rate, setting up a scenario where the Global Legal Entity Identification System (GLEIS) may not be considered the most reliable source of quality financial participant information as it is intended to be. Renewals need to be rigorously enforced and timely, not only for completeness and quality but for financial sustainability of the GLEIF.

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

The GLEIF's revenue was premised on fees for first time-time registrations and annual renewals. With the GLEIF reporting a net surplus in 2016 of \$14,700 there is little margin for lagging registrations of immediate/ultimate parent LEIs. Two month's results so far have seen the registration of 14,478 relationship records. Eleven of thirty LOUs are still not reporting relationship data. If progress continues throughout this year this may sustain revenues for the full year 2017 while still being able to sustain a lapsed rate of 31%.

What remains to be determined is the number of new registrations for EU implementations that will adhere to the 'No LEI No Trade Rule' and the 'No LEI No Issuance Rule'. DTCC, the

<sup>1</sup> GLEIF Data Quality Report – June, 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-june-2017#>, July 5, 2017

largest LOU, predicts this should produce anywhere from ½ million to 2 million additional LEIs. Some portion will be registered prior to year-end 2017 and the remainder on a continuous basis over the full year 2018.

It is hoped that those needing LEIs will not wait until the mandated January 2018 date to register. That would mirror the rush to register LEIs in the EUs earlier mandated OTC derivative rules for use of LEIs for swaps trade reporting submissions. That resulted in operational glitches that trade repositories have still to work themselves out of.

The history so far for OTC derivatives implementations, where the basic data standard of the LEI identifier code was first used, is a dysfunctional set of yet unproven and still in development identity data standards and data elements used to record swaps transactions in trade repositories. Trade repositories still lack the ability to aggregate the billions of transactions in them. Toward this goal the CFTC is setting out on a new effort to review swaps data reporting regulations with the goal of improving the quality and content of data reported to it.<sup>2</sup>

Still to be completed and proven functional is identity standards for the UTI, UPI and Derivatives ISIN and, most importantly, the harmonized data elements for swaps and other financial transactions. A most critical next step in data standardization is proving the LEI's reorganization maintenance function and hierarchical aggregation capability, both of which are critical to observing systemic risk, the main objective regulators have championed for pursuing the global data standards regime. Imposing potentially millions of additional LEIs on each newly reported financial transaction, especially in a yet to be tested or proven system, may not be prudent.

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; timely report corporate reorganizations across all affected LOUs; comprehensively report changes in relationship data; and immediately report when an entity ceases operation.

The quality of data is especially important as Lapsed LEIs in the EU regime is to be accepted as valid LEIs opening up the possibility of untimely and incomplete maintenance of the GLEIS database. Allowing Lapsed LEIs to persist could also permit failed companies to continue to access the financial system.<sup>3</sup> Failed legal entities associated with Lehman Brothers were not identified until long after Lehman filed for bankruptcy, leaving the financial system unknowingly transacting business with such entities for some time. In stark contrast to the EU's directives, the ROC has reiterated its position that Lapsed LEIs should not be used in regulatory reporting.<sup>4</sup>

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<sup>2</sup> CFTC, Division of Market Oversight Announces Review of Swaps Reporting Regulations, <http://www.cftc.gov/PressRoom/PressReleases/pr7585-17>, July 10, 2017

<sup>3</sup> ESMA/2016/1451, Final Report Guidelines on transaction reporting, order record keeping and clock synchronization under MiFID II, [https://www.esma.europa.eu/sites/default/files/library/2016-1451\\_final\\_report\\_on\\_guidelines\\_mifid\\_ii\\_transaction\\_reporting.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-1451_final_report_on_guidelines_mifid_ii_transaction_reporting.pdf) at page 26, October 10, 2016

<sup>4</sup> LEI ROC, Update by the LEI ROC, [http://www.lei.org/publications/gls/roc\\_20170112-1.pdf](http://www.lei.org/publications/gls/roc_20170112-1.pdf), at page 2, Jan. 12, 2017

Under all circumstances the bulk of future GLEIF revenues will come from renewals not new LEI issuances. Maintenance not new registrations. It is incumbent upon industry members and their regulators to see to it that renewals are promptly maintained. Renewals will not only be the mainstay of GLEIF's future revenues but also its ability to sustain a high quality, timely and, and most importantly, an ever-evolving GLEIS.

This later point is made most relevant as new technologies already being deployed in finance is obsoleting centralized concepts of data aggregation in favour of distributed concepts. The most disruptive of these technologies is the distribute ledger technology (DLT) of the Blockchain. While the GLEIS was premised on a distributed technology architecture, it evolved into a distributed organizational architecture with a daily download to the centralized GLEIF platform. This effort was led by the CFTC's prior management and their early embrace of the centralized model.

With the CFTC's current Chairman embracing Blockchain technology and conducting a review of data content and the quality of swaps data reported to it, new thinking may be in order. This should be foremost in the minds of regulators and, especially, industry groups, as yet another major implementation milestone is only six months away.

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