



# The Global LEI Initiative

LEI issuance, parent registration slows. FIG comments on Blockchain.

**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 February 2018 reporting of LEI Issuance<sup>1</sup>, the progress on Relationship Data collection, and our comments.

## LEI ISSUANCE

This month saw 39,760 LEIs issued, a continuing but not unexpected decline in the momentum of LEI issuance given the EU's late December 2017 six-month moratorium on their 'No LEI No Trade' rule.

After crossing into a first ever record of over one million LEIs issued in January, 2018 (1,071,693) the number of LEIs issued as of month-end February, 2018 now stands at 1,113,339. This is occurring at the same time that the 29% ratio of issued vs. lapsed LEIs at year-end 2016 has declined significantly to 15.8%, although the total lapsed LEIs at 175,540 is at an all-time high.

	2016 Monthly Average	2017 Monthly Average	Jan. 2018 Month-end	Feb. 2018 Month-end
Total LEIs (Year-end Total)	481,522	975,741	1,071,693	1,113,339
Newly Issued	5,334	40,237	92,029	39,760
Lapsed	6,300	7,134	7,494	8,296
Net Increase/decrease	-996	33,103	84,535	31,464
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end Total)	16.0%	15.8%
Total Lapsed (Year & month-end Totals)	139,461	169,778	171,472	175,540

With nearly 650,000 LEIs registered over the last year up to the present, we will come to know what percentage of these new registrations will fall into a lapsed status when last years' upsurge in LEI registrations meet their one-year anniversary. That upsurge generated a year-end momentum that saw the last three months of 2017 averaging 127,281 newly issued LEIs vs. the earlier nine months average of 7,476.

In the interim it is expected that the "Lapsed issue" will be dealt with through the Regulatory Oversight Committee's (ROC's) corporate action consultation whose comment period ended Sept. 29, 2017.<sup>2</sup> The consultation speculated on the number of Lapsed LEIs that might not be operational LEIs, perhaps dormant, inactive or expired. Hence, these LEIs may need a different categorization. It may have a profound impact on GLEIF's ability to control lapsed LEIs if the number is significant. If not other remedies need to be sought, especially as the ROC has stated

<sup>1</sup> GLEIF Data Quality Report – February 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-february-2018#>, Mar. 5, 2018

<sup>2</sup> LEI ROC, Consultation Document on Corporate Actions and Data History in the Global LEI System, [http://www.leiroc.org/publications/qls/roc\\_20170726-1.pdf](http://www.leiroc.org/publications/qls/roc_20170726-1.pdf), July 26, 2017

most emphatically that Lapsed LEIs should not be permitted to be used in transaction reporting while the EU has done the opposite, confirming Lapsed LEIs are permitted in their reporting regimes.

### **Relationship Data Collection**

February, 2018 was the tenth 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. The results so far have seen the registration of 119,438 Level 2 LEI records vs. 109,057 the previous month and 88,198 as of year-end 2017. This month marked the third month that all LOUs were reporting Level 2 data. Each registered legal entity must report two (2) records, one for the ultimate parent and one for the immediate parent. Where one or both do not have a LEI then the reporting entity must file an Exception record.

In their data quality reporting the GLEIF has begun to report figures on "LEIs with Parent Relationships" (70,564 this past month) which is the sum of unique LEIs for registration entities reporting both an immediate and ultimate parent of a registered legal entity. Also the GLEIF has begun to report figures on "LEIs with Complete Parent Information" (770,652 this past month). This latter figure is comprised of the earlier parent relationship figure plus the legal entities that reported reasons why they were not providing either an ultimate parent LEI and/or an immediate parent LEI.

In the recording of these relationship records, the definitions below are those used by GLEIF to instruct registrants and LOUs on their submission of data for the Reporting Exceptions file, currently containing 1,435,891 records vs. last month's 1,309,801.

For each DIRECT\_ACCOUNTING\_CONSOLIDATION\_PARENT and ULTIMATE\_ACCOUNTING\_CONSOLIDATION\_PARENT the following EXCEPTION REASON is to be provided: (A more detailed explanation of what each category includes is available in last month's LEI Research Note, [The Global LEI Initiative: Starting the Second Million New Year - Progress and Pitfalls](#))

NON\_CONSOLIDATING  
NO\_KNOWN\_PERSON  
NATURAL\_PERSONS  
NO\_LEI  
CONSENT\_NOT\_OBTAINED  
BINDING\_LEGAL\_COMMITMENTS  
LEGAL\_OBSTACLES  
DISCLOSURE\_DETRIMENTAL  
DETRIMENT\_NOT\_EXCLUDED

It is apparent that the ROC and GLEIF have more work ahead to obtain complete parent relationship data – out of 1,113,339 issued LEIs, just 70,564 have reported with complete parent data, the balance either not reporting at all or reporting the reasons why they could not do so.

Parent information is essential to aggregating transaction data for monitoring systemic risk, THE reason regulators had first embarked on this data standardization initiative. We will be analyzing this data further in future LEI Research Notes.

## **FIG COMMENTS**

One of the most profound, but least understood game changing financial industry regulatory initiative is the establishment of unique, unambiguous and universal data identification standards. The LEI is but one such identity standard. The current implementation of these newly established identity standards - the LEI, expanded ISIN, UTI, UPI, et al are being overseen organizationally through an innovative global government-industry partnership. However, the technology deployment of these game changing data standards are devoid of newer, distributed technologies, the Blockchain inspired Distributed Ledger in particular, even though it should be. Rather new standards' infrastructure is being deployed through legacy technologies within a legacy inspired wheel-and-spoke centralized communications architecture.

A most significant point of the global deployment of Blockchain technology in financial services is that it requires data standards. Read the fine print or the footnotes of any Blockchain white paper or consultation and you'll find such a statement, always in a matter-of-fact 'oh, by the way' manner, that data standards are a prerequisite.

Blockchain technology applied to identity recording, verification and protection can potentially eliminate the need for costly infrastructure and unnecessary supply chain intermediaries. Institutions, financial intermediaries, and customers could be enabled to control their digital identities. Most importantly it can maintain anonymity and eliminate identity theft.

Most recently the World Federation of Exchanges (WFE) and the Financial Conduct Authority (FCA) announced a collaboration on a FinTech global sandbox to fashion a globally coherent approach to FinTech.<sup>3</sup> They will be exploring a free space to examine global multi-lateral regulatory solutions as a counterpoint to unilateral silo-based sovereign countries' own solutions. This later approach is the dominant way regulators are now approaching experimentation of FinTech solutions.

Blockchain technology provides a potential solution to the problem of storing identity data on hackable computers subject to data breaches. Information stored on a Blockchain is secured

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<sup>3</sup> World Federation of Exchanges, Press Release, The World Federation of Exchanges responds to UK FCA consultation on global sandboxes to test FinTech applications, <https://www.world-exchanges.org/home/index.php/news/world-exchange-news/the-world-federation-of-exchanges-responds-to-uk-fca-consultation-on-global-sandboxes-to-test-fintech-applications>, March 2, 2018

cryptographically and is unalterable. Financial institutions can process financial transactions by accessing and verifying a golden copy of identity data from a Blockchain. Counterparties would protect sensitive data from its trading parties, competitors or supply chain intermediaries.

The Internet is a peer-to-peer, decentralized communications network. Blockchain's Distributed Ledger Technology is a peer-to-peer, decentralized database. Blockchain technology operates over the Internet. The potential of Blockchain technology is to communicate and store information securely on a peer-to-peer basis without relying on an intermediary.

More participants to the WFE/FCA collaboration on FinTech should be solicited, most assuredly the Financial Stability Board and IOSCO, two global standards setting bodies engaged in the identity standards initiatives mentioned above. The first agenda item needs to be the "fix the plumbing" issue of global data standards. Without it no efficient global FinTech solutions around Blockchain technology is possible.

#### **A FINAL FIG COMMENT - The LEI Handbook**

A new work, *The LEI Handbook: Exchange Data's Guide to Financial Codes*, has just been published by Exchange Data's imprint, Chancellor Publications – see <https://globalsymbology.chancellorpublications.com/>. It is the most comprehensive guide to financial codes, the key data elements that underpin all financial transactions. It is truly a remarkable work, detailing the LEI and over 40 other codes and their construction methodology.

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