



The Global LEI Initiative

LEI Registrations reach record as regulators bear down

**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 October 2017 reporting of LEI issuance.¹

This month marked the fifth successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 92,634 LEIs. This is over four (4) times the earlier months all-time high of 23,901. This milestone is occurring at the same time that the nearly 30% ratio of issued vs. lapsed LEIs has declined significantly to 25.2%. (Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates).

The increase of LEI registrations was expected as MiFID's 'No LEI No Trade Rule' for counterparties and trading partners and 'No LEI No Issuance Rule' for contract and securities issuing entities goes into effect January 3, 2018. The lowering of the lapsed rate was also expected as nearly 200,000 LEIs were issued this year. These new registrations will only fall into a lapsed status at their one year anniversary sometime in 2018 if not renewed.

October, 2017 was the sixth 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. Six month's results so far have seen the registration of 50,684 relationship records vs. 19,383* in September, 24,816 in August, 19,356 relationship records in July, June's month-end 14,478 and May's 7,393, the first full month of gathering relationship data. This month again the same four LOUs have consistently failed to provide Level 2 data – the Netherlands, Australia, Argentina and Japan.

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, while monthly lapsed LEIs had consistently exceeded the new issued rate in the past, this has now turned around in the last five months.

	2016	2017									
	Monthly Average	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
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
Newly Issued	5,334	5,390	5,580	7,123	5,820	6,614	8,655	11,669	16,430	33,720	99,359
Lapsed	6,300	7,511	8,680	7,278	6,666	7,719	6,436	6,450	5,101	9,819	6,725
Net Increase/decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219	11,329	23,901	92,634
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%

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

¹ GLEIF Data Quality Report – October 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-october-2017#>, Nov. 3, 2017

Importantly, two ROC consultations await finalization, how to organize hierarchies of associated collective investment vehicles, due November 26,² and the ROC's corporate action consultation whose comment period ended Sept. 29, 2017.³

Most recently, a research report by McKinsey & Co. and the GLEIF on the value of the LEI⁴ summarized its industry-wide cost savings as upwards of \$650 million in just three areas - on boarding of counterparties, trade processing and issuance of letters of credit. As significant as these savings are, they pale in comparison to solving the data management issues of the financial industry overall, of which the LEI is just one part. Our own estimates and those of other academics put this savings figure as high as \$250 billion.⁵

On October 13 the Global Financial Markets Association (GFMA) presented an information Webinar and progress report on MiFID II and LEI issues. Presenters included industry practitioners, LOU representatives, GLEIF members and regulators.⁶ Takeaways from the Webinar included polling of participants. At least 50% of the participants polled (the number of participants were not revealed) indicated a lack of clarity on when or for whom a LEI is mandatory (53%) and a lack of clarity on who is the immediate/ultimate parent (54%).

Also of the 56,277 legal entities reporting Level 2 data as of month-end June, 2017, 50% had no direct parent entity according to the three definitions the GLEIF provided for classifying such Level 2 data – either the parent was a natural person, a non-consolidating entity as per accounting rules for financial statement consolidations, or there was no known person as the parent entity. Only 4% described their inability to provide direct parent information because of legal obstacles. Also on the Webinar ESMA reported on final rules for LEI for the updated MiFIR and MiFID II mandates, the former to be implemented on Nov. 1, 2017 and the later on Jan. 3, 2018.

ESMA subsequently issued clarifying use cases for LEI usage under MiFID II when interacting with non-EU clients and when non-EU trading firms are acting in their own capacity vs. on behalf of clients.

Click on the image below:

² 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

³ 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

⁴ McKinsey & Company and GLEIF White Paper: The Legal Entity Identifier: The Value of the Unique Counterparty ID, https://www.gleif.org/_documents/blog/20171017-mckinsey-company-and-gleif-identify-significant-savings-efficiencies-and-greater-reliability-in-entity-verification-processes/Legal_Entity_Identifier_McKinsey_GLEIF_2017_FINAL.pdf,

⁵ Chan, Ka Kei and Milne, Alistair, The Global Legal Entity Identifier System: Will It Deliver? <https://ssrn.com/abstract=2325889>, at pages 28-33, August 12, 2013

⁶ GFMA, MiFID II and Other Important LEI Issues, http://www.gfma.org/uploadedFiles/Events/2017/LEI_Webinar_October_MiFid/20171013_GFMA_LEI_Webinar.pdf, Oct. 13, 2017



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.

A most critical next step after registration of LEIs is cleaning up of lapsed LEIs. This activity, according to the ROC's consultation on corporate actions, is thought partially to be an issue of adding a further category of LEIs – dormant LEIs to accommodate issued LEIs that have become non-operational. A more difficult issue is proving the LEI's corporate reorganization maintenance functions and hierarchical aggregation capabilities work and does so in time frames acceptable to industry and regulators. Here, LOUs are reporting a more time consuming effort to obtain valid sources to verify hierarchical parent information.

Hierarchical ownership information, following account consolidation accounting rules for financial statement reporting, 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 work with these firms to obtain and categorize legal entities as to their materiality thus having to be notified of any change or new entity, albeit but once a year. They, along with their clients are the originating source and final arbiters of the hierarchies of legal entities that are consolidated into the 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. ⁷ 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, not data vendors and other secondary sources of such data.

⁷ GLEIF, <https://www.gleif.org/en/about-lei/how-to-get-an-lei-find-lei-issuing-organizations/registration-agents>

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