



The Global LEI Initiative

Approaching Year-end Deadline as the
Rate of LEI Issuance Accelerates

**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 August 2017 reporting of LEI issuance.¹

This month marked the third successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 11,329. This is over twice the earlier months all-time high of 5,219. This milestone is occurring at the same time as a 30.5% ratio of issued vs. lapsed LEIs persists, although the ratio has declined to match March's figure after increasing almost steadily until this month. (Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates).

August, 2017 was the fourth 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. Four (4) month's results so far have seen the registration of 24,816 relationship records vs. 19,356 relationship records last month, 4,878 more than month end June's 14,478 and nearly 3 ½ times May's 7,393, the first full month of gathering relationship data. However, 9 of 30 LOUs are still not reporting relationship data down from 12 not reporting in May when relationship data was first reported.

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 have consistently exceeded the new issued rate, this has now turned around in the last three months.

	2016 Monthly Average	Month-end 2017							
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Total LEIs Issued	481,522 (Year-end Total)	486,989	492,801	500,235	506,456	513,177	522,241	534,376	551,752
Newly Issued	5,334	5,390	5,580	7,123	5,820	6,614	8,655	11,669	16,430
Lapsed	6,300	7,511	8,680	7,278	6,666	7,719	6,436	6,450	5,101
Net Increase/decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219	11,329
Lapsed rate	29.0% (Year-end %)	29.7%	30.4%	30.5%	31.0%	31.2%	31.3%	31.2%	30.5%

This turnaround is occurring as LEI registrants are being prodded by the EU's MiFid II directive to obtain a LEI in order to transact and report on financial business beyond swaps transactions with clients or financial institutions in the Eurozone. MiFid's 'No LEI No Trade Rule' for counterparties and trading partners, and 'No LEI No Issuance Rule' for contract and securities issuing entities is seen as the motivating factor for accelerated LEI issuance.

However, trade associations and local operating units are emphasizing the need to register for a LEI prior to the year-end deadline so as not to overwhelm the GLEIS LOUs, the network

¹ GLEIF Data Quality Report – August, 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-august-2017#>, Sept. 5, 2017

of thirty (30) LEI issuing entities.^{2 3} GLEIF is rightly concerned that should registrants hold off until late in the year the GLEIS might be overwhelmed and face a repeat of the run-up to the EU's EMIR Swaps and OTC derivatives directive for reporting swaps transactions.

Notwithstanding this, as of May, 2017 the Global Legal Entity Identification System (GLEIS) had achieved its final milestone for gathering LEI registration data. It initiated the request for registering additional LEIs for 'who owns whom' relationship data. So far the GLEIF has been focused on defining and then building the data base of LEI registrants and adding relationship data to connect the LEIs in meaningful ways. Whether the GLEIF will step up to complete the mission first tasked to it by the FSB, to define ownership and control aspects of the relationship data, remains to be seen. The ultimate objective here is to allow aggregation of transactional data for risk analysis.

Also importantly, the ROC is tackling the lapsed issue as part of its corporate action consultation. The comment period ends Sept. 30, 2017. The underlying causes of the lapsed issue is quite relevant in the run-up to the MiFid implementation scheduled for January 3, 2018. This is because lapsed LEIs are allowed to be used for transaction reporting even though the ROC has admonished regulators not to allow lapsed LEIs to be used.

At the technical level and because the LEI is to be combined with the UTI (Unique Transaction Identifier) to uniquely identify trades, the quality of the LEI is especially important. Lapsed LEIs open up the possibility of untimely and incomplete maintenance of the GLEIS database.

A most critical next step after registration of LEIs and cleaning up lapsed LEIs is proving the LEI's corporate reorganization maintenance functions and hierarchical aggregation capabilities work, both of which are critical to observing systemic risk, the main objective regulators have championed for pursuing this global data standards regime.

For further Information Contact

Allan D. Grody

Financial InterGroup - USA
169 East 69th Street - 18th floor
New York, New York 10021 USA

Mobile +1 917 414 3608
Email agrody@financialintergroup.com

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² Evans-Pritchard, Blake, Risk.Net, Asia Warned of LEI crunch over MiFid II deadline, <http://r.smartbrief.com/resp/jghcBWhNpECZAbasCieudaCicNufcc?format=standard>, Sept. 4, 2017

³ ISDA, GFMA, For Immediate Attention: It is Time to Obtain a Legal Entity Identifier (LEI), <https://www.afme.eu/globalassets/downloads/briefing-notes/gfma-isd-lei-faq-outreach-2017.pdf>, June 28, 2017