



The Global LEI Initiative

Recording Relationship Data and More on Lapsed LEIs

**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 May 2017 reporting of LEI issuance.¹

May marked another milestone for GLEIF, having this month initiated the collection of relationship data (Level 2 data) or what is referred to as ‘who owns whom’ data – immediate parent and ultimate parent of each LEI renewed, renewal defined by the GLEIF as whether ‘reference data connected to an LEI is re-validated annually by the managing LEI issuer against a third-party source’. This milestone is occurring at the same time as a consistent pattern of approximately 30% of LEIs have not been renewed (Lapsed) as of their annual renewal dates.

It seems GLEIF and the LEI’s Regulatory Oversight Committee (ROC) management are content with allowing this issue of lapsed LEIs to go unresolved under the theory that an LEI’s ‘Entity Status = Active’, defined as “As of the last report or update, the **legal entity reported** that it was legally registered and operating”² would suffice. Nearly 97% of LEIs are reported as ‘Active’. But how one can determine if the LEI is active when it has been **reported by managing LOUs** that 30+% have fallen into a ‘Registration Status = Lapsed’ state, defined as “An LEI registration that has not been renewed by the Next Renewal Date and is not known by public sources to have ceased operation”.³

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) would not be the most reliable source it could be, certainly in 30% of the cases if renewals were rigorously enforced and timely.

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

Primary public sources, in the LEI context, are business registries where business formations are first registered. Official recordings of business registrations and subsequent changes are usually recorded by each country, or state as in the US, but are rarely recorded in a timely way.

The World Bank has surveyed business formations in 213 countries and concluded it takes on average 28 days to register a business, with the quickest at half a day and the longest 230 days.⁴ Therefore,

¹ GLEIF Data Quality Report – May, 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-may-2017#>, June 7, 2017

² GLEIF, LEI Common Data File format V2.1 FINAL V2.1 https://www.gleif.org/content/2-about-lei/5-common-data-file-format/1-lei-cdf-format/2-lei-cdf-format-version-2-1/2017-03-21_lei-cdf-v2-1.pdf, at page 90, 2017-03-21

³ GLEIF, LEI Common Data File format V2.1 FINAL V2.1 https://www.gleif.org/content/2-about-lei/5-common-data-file-format/1-lei-cdf-format/2-lei-cdf-format-version-2-1/2017-03-21_lei-cdf-v2-1.pdf, at page 100, 2017-03-21

⁴ The World Bank, DOING BUSINESS Measuring Business Regulations, <http://www.doingbusiness.org/data/exploretopics/starting-a-business>, June, 2016

LOU's ability to validate new legal entities will mostly lag their qualification as a legal entity for financial service regulatory purposes and, more importantly, for being assigned a LEI when 'no LEI no trade' rules go into effect. This may allow any number of newly created legal entities to be used in conducting financial transactions before it can be properly validated or, as is the case with some LOUs, being denied the issuance of a LEI until the recording of the entity in a business registry.

Another issue is that there is no measure of the time it takes to record in a business registry the fact that a business has ceased operations. This 'no-longer-in-business' is an issue that was warned against by the former Chairman of the ROC's Committee on Evaluation and Standards in a research paper authored as a Federal Reserve research analyst.⁵ In it, he warns that there is little incentive to inform the GLEIS users in a timely way when a 'lapsed' legal entity has gone out of business. This opens the financial system to the same issues the GLEIS was intended to solve, the Lehman issues, wherein companies doing business with Lehman-owned companies had no indication of its relation to Lehman, nor that it had ceased operation after Lehman had filed for bankruptcy protection.

It would appear that Managing LOUs need some regulatory help with legal entities to compel renewing or confirming their existing reference data, and reporting when an entity ceases operation. This is especially important as MiFid II allows Lapsed LEIs to be reported as valid LEIs opening up the possibility of permitting failed companies continued access to the financial system.⁶ In stark contrast to MiFid II's directive the ROC has reiterated its position that Lapsed LEIs should not be used in regulatory reporting, setting up the EU's financial regulators against the G-20's global standards entity, the Financial Stability Board and its empowered LEI ROC.⁷

With regard to relationship data It is early times and no indication yet of any patterns of compliance or non-compliance with LOUs supplying relationship data. It is, after all, only the first month of a six month test. Nevertheless we feel obligated to provide some sense of what is in the reported data so far.

Of the 513,177 issued LEIs as of May 31, 2017, 7,393 records were recorded with LEIs that had either an immediate parent LEI or both an immediate parent and ultimate parent LEI. 57,324 records were designated as LEIs with allowed exceptions such as no consolidating parent, non-reporting person, detriment not excluded, no LEI, natural persons own the LEI, and consent not obtained; some LOUs have provided corroborating sources for their relationship determinations, other have not; 13 out of 30 LOUs have yet to provide any information.⁸

We would argue that upon the conclusion of the six month test period, a renewed agenda for going forward should be one of the considerations for both the GLEIF and the ROC. At this same time the EU's EMIR and MiFid II directives will be nearly operational, IOSCO/CPMI work on the UTI and UPI will be concluded, and the US and Asia-Pacific regulatory conformity/harmonization issues should be resolved. This would be a good time to pause to reflect on whether objectives have been met, any flaws have appeared, any modifications are indicated, and most, importantly, determine whether and what the timing is of a 'go' or 'no go' decision. The debacle of the 'hurry up to pass regulations' for

⁵ Arthur B. Kinnekeell, Research Advisor to Federal Reserve Board of Governors, Identity, Identification and Identifiers: The Global Legal Entity Identifier System, <https://www.federalreserve.gov/econresdata/feds/2016/files/2016103pap.pdf>, at page 16, footnote 29, Nov. 8, 2016

⁶ESMA/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 at page 26, October 10, 2016

⁷ LEI ROC, Update by the LEI ROC, http://www.leiroc.org/publications/gls/roc_20170112-1.pdf, at page 2, Jan. 12, 2017

⁸ GLEIF LEI Data – Concatenated Files, <https://www.gleif.org/en/lei-data/gleif-concatenated-file/download-the-concatenated-file/detail?date=20170531>, May 31, 2017

swaps data repositories should be foremost in the minds of regulators and, especially industry groups in making this determination.

Finally, a little noticed entry of GS1 into the family of LOUs has occurred this year, in Mexico and in Germany. GS1 is the commercial and retail industry code creator best known for the codes they assign that are embedded in the ubiquitous barcodes, those dark striped bars presented in labels on physical products, boxes and other forms of containers and transportation.

It was my privilege to introduce GS1 to the opportunities available to aid the financial industry. It is gratifying to see this occurring. Still more is to be learned from GS1, especially in their code creation techniques and the responsibility they place on registrants to assign their own codes using a unique GS1 issued company prefix. This is an alternative, with some modifications that we are proposing as a substitute to the ROC-sponsored LOU prefix. In this regard see our research paper Risk Data and the Barcodes of Finance, recently published in the Journal of Financial Transformation.⁹

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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⁹A.D. Grody, Journal of Financial Transformation - April, 2017, Risk Data and the Barcodes of Finance, http://www.financialintergroup.com/cmsAdmin/uploads/downloads/JOURNAL45_15_Grody.pdf,