



The Global LEI Initiative – Are we turning the corner?

**A Research Note by
Financial InterGroup**



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The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on LEI data. We are pleased to bring you this Research Note on the GLEIF's first half year of reporting on LEI issuance.

The chart below follows the six month period, month-by-month, of reports of total issued LEIs, newly created LEIs and lapsed LEIs (failure to renew LEIs on first or subsequent annual anniversary of LEI registration).

In this six month reporting period, the month of June is the first month of a net gain in LEIs issued vs. LEIs lapsed since GLEIF started reporting in January, 2016.

At the June, 2016 end of reporting period, 449,027 LEIs had been "Issued", of which 69.9% or 313,870 had been "Validated".

Semi-annual Report of LEI Population						
2016	January	February	March	April	May	June
Total LEIs Issued	419,175	424,559	430,338	436,019	442,186	449,027
Newly Issued	4,747	4,992	5,459	5,178	6,067	6,512
Lapsed	6,742	7,418	11,330	7,318	6,383	5,364
Increase/decrease	-1,995	-2,426	-5,871	-2,140	-276	+1,148

Besides LEIs being issued, sustaining those registered LEIs is a critical determinant of success of the LEI initiative. At this time many, but not all regulators require a swaps market participant under their jurisdiction to obtain a LEI. The LEI when used in a swaps transaction remains active whether the LEI is renewed or not. This can be one reason the issued vs. validated LEIs are at variance by 30%.

Let's now explore why continuing to renew the LEI is not a first priority, not even important to those market participants that are compelled to initially register for a LEI. Simply stated there is no economic consequence for not renewing a LEI. The LEI remains active, allowing the swap to continue its payouts over the life of the contract, years and even decades into the future.

Even when, as some regulators are contemplating, firms will be compelled to have a LEI in order to place trades in markets other than swaps, the 'no LEI no trade' rule, once a trade is entered into, there is no compulsion to renew. Asset servicing functions and economic events that require either updating of LEI data or replacement of LEIs will take place outside

the LEI renewal process of the GLEIF. Collateral owned by the LEI will be hypothecated for stock lending, repos and margining; dividends and interest will be paid to the LEI owner; proxies will be voted; and newly merged companies will transfer new shares to existing LEI registrants. Renewing a LEI on its anniversary date plays no part in these post LEI registration transactions. The LEI's will rapidly become stale and out of synch with the actual operations of the financial system.

Not until the LEI and, more importantly, the LEI data base is incorporated into internal financial systems as the de-facto global identity standard will significant progress be made in the lapse rate even though regulatory compulsion will surely increase the issuance rate.

To gain acceptance as the global standard the GLEIF must transition the LEI from a once-a-year renewal to a more timely updating cycle. Registrants themselves are responsible for the accuracy of the LEI data, they therefore, should be responsible for the maintenance of the LEI as well, not LOUs.

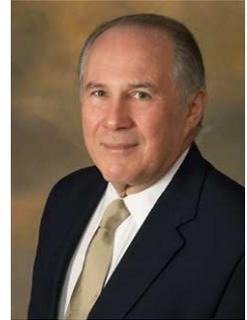
To their credit, XBRL International is leading the charge here in giving registrants the tools. Two working groups, the Corporate Action Working Group and the LEI Working Group are set to make direct at-source digitization of LEI registration and maintenance information directly accessible to consumers of this data and exportable to the data bases of the Global LEI System (GLEIS) through XBRL Taxonomies, the same technique that digitizes financial statements at-source.

With these tools timely preparation and reporting of new registrations and maintenance updates of LEIs is made practicable. The GLEIF should incorporate such plans and itself lay plans to evolve the GLEIS into the virtual real-time global utility its Regulatory Oversight Committee proposed to and was accepted by its governing global standards setter, the Financial Stability Board.

Financial InterGroup Principals

Allan D. Grody

Allan is the founder of the Financial InterGroup companies. He has been active in the financial industry for nearly five decades and has had hands-on experience in multiple sectors of the financial industry. He advises on domestic (USA) and international issues related to financial institutions' global strategies, restructuring and acquisition needs, information systems, communications infrastructures and risk management systems.



In an earlier career, he was the founder and Partner-in-Charge of Coopers & Lybrand's Financial Services Consulting Practice, which was subsequently merged with Price Waterhouse and eventually sold to IBM. Professor Grody founded and taught the only graduate level Risk Management Systems course at NYU's Stern Graduate School of Business. He is a former founding Board member of the Technology Committee of the Futures Industry Association. He is currently an editorial board member of the Journal of Risk Management in Financial Institutions and a board member of the Blue Ribbon Panel of the Professional Risk Managers International Association. He writes, speaks and advises on issues where data management, risk management and technology converge. He has participated in expert panels sponsored by local and global regulators on these subjects.

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Peter is a Principal of Financial InterGroup and Managing Director of its UK based company. He is a former country/regional executive with JPMorgan Chase, Fellow of the Institute of Chartered Accountants in England & Wales, an advisory board member of Durham University Business School's Banking, Risk & Intermediation (BRI) research group and a Visiting Fellow at the Leeds University Business School (UK).



At Financial InterGroup he leads consulting projects and provides advisory and training services to some of the globe's leading banks, global IT and consulting firms, trade associations and banking institutes with particular emphasis on cross-enterprise risks, operational risk, Basel II & III, capital management (including the Internal Capital Adequacy Assessment Process - ICAAP), finance transformation, accounting (including IFRS), data management, risk measurement and management systems and risk based auditing.

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