



The Global LEI Initiative –

Moving in the right direction but still another month of
Lapsed LEIs Exceeding New 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. We are pleased to bring you this Research Note on the GLEIF's January – November, 2016 reporting on LEI issuance.¹

| Report of LEI Population | | | | | | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|------------|
| 2016 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov |
| Total LEIs Issued | 419,175 | 424,559 | 430,338 | 436,019 | 442,186 | 449,027 | 454,699 | 459,136 | 464,321 | 469,370 | 474,961 |
| Newly Issued | 4,747 | 4,992 | 5,459 | 5,178 | 6,067 | 6,512 | 5,387 | 4,308 | 4,847 | 4,920 | 5415 |
| Lapsed | 6,742 | 7,418 | 11,330 | 7,318 | 6,383 | 5,364 | 4,614 | 4,141 | 5,346 | 5,466 | 5454 |
| Increase/decrease | -1,995 | -2,426 | -5,871 | -2,140 | -276 | +1,148 | +773 | +167 | -499 | -546 | -39 |

The chart above follows the eleven (11) 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 month's reporting period, the month of November continues a third month of net new LEIs issued and resumes a net loss in LEIs issued vs LEIs lapsed since GLEIF started reporting in January, 2016.

Obtaining a LEI is not yet the regulatory compulsion that was intended when sponsoring regulators and industry trade associations signed on to this ambitious but long overdue initiative. Failure to renew nearly one-third of these already issued LEIs was also not what was expected. Regulatory compulsion will become even more critical as the GLEIF prepares to add ultimate/immediate parent LEIs to the GLEIS which also will need to be renewed.

The integrity and timeliness of the GLEIS data is at stake if regulators are not on board with making the LEI and its renewal mandatory. In similar manner industry trade associations must support regulatory initiatives. Regulators, in the main, and industry trade associations are falling down on both counts.

Of the top seven (7) issuers of LEIs, the GMEI issuer has been far and away the least able to get registrants of originally issued LEIs to renew (see chart below). Also, the US regulators, with early enthusiasm for the LEI has backed away from making LEIs mandatory beyond participants in swaps markets.

The Board of Governors of the Federal Reserve System, a very early supporter of the LEI, moved cautiously in recommending its reporting entities to register for LEIs, stating that "...The Federal Reserve is only proposing requiring the reporting of an LEI if one has already been issued for the reportable entity at the time of collection."²

¹GLEIF Data Quality Report – November, 2016, <https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-data-quality-report-november-2016>

² Federal Reserve Press release, <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20150316a1.pdf>, at page 7, March 16, 2015

| Top LEI ISSUERS with Highest LAPSED LEIs * | | | | |
|--|-------------|-------------|----------------------------------|-------------------------------------|
| LOU | Issued LEIs | Lapsed LEIs | Lapsed LEIs as % of Total Lapsed | Lapsed LEIs as % of Own Issued LEIs |
| GMEI (US) | 118,479 | 51,705 | 37 | 44 |
| WM DatenService (DE) | 46,499 | 46,499 | 7 | 22 |
| Italy LOU | 46,063 | 46,063 | 7 | 21 |
| INSEE (FR) | 31,259 | 31,259 | 6 | 27 |
| UK | 26,287 | 26,287 | 3 | 13 |
| GMEI (CA) | 20,750 | 20,750 | 4 | 29 |
| Spain | 18,102 | 18,102 | 2 | 18 |
| | | | | |
| Sub-Total | 307,439 | 92,695 | X | 30 |
| Total | 475,782 | 137,726 | 29 | X |
| % Top LEI ISSUERS to Total | 65% | 67% | X | X |

*Data compiled December 5, 2016 from GLEIF LEI Statistics

It was a further disappointment that the Securities Industry & Financial Markets Association (SIFMA), one of the very first trade association supporters of the LEI, declined to endorse the LEI for its non-swaps reporting members. When asked by the Securities & Exchange Commission (SEC) whether its broker-dealer members should be compelled to obtain an LEI for use in uniquely identifying themselves in the newly planned Computer Audit Trail System (CATS) it declined to do so.³ The SEC subsequently rejected the use of the LEI to identify financial market participants in the CAT initiative.⁴

Most recently the US. Treasury, which houses the OFR, failed to make the LEI mandatory for reporting ownership of financial contracts for resolution reporting. It made use of the LEI contingent on the entity already having a LEI.⁵

In Europe, there is renewed enthusiasm for mandating the issuance of LEIs for swaps market participants to a broader swatch of financial market participants. The EU Prospectus Directive will require a machine readable LEI for issuers and guarantors of securities sold through prospectuses in the EU.⁶

³ SIFMA, Comments to SEC on File No. 4-698: Joint Industry Plan; Notice of Filing of the National Market System Plan Governing the Consolidated Audit Trail, <https://www.sec.gov/comments/4-698/4698-11.pdf>, at pages 36-37, July 18, 2016

⁴ SEC, Commissioner Kara M. Stein, Statement on the Joint Industry Plan on the Consolidated Audit Trail ("CAT") <https://www.sec.gov/news/statement/stein-statement-open-meeting-111516.html>, Nov. 15, 2016

⁵ US Treasury, Qualified Financial Contracts Recordkeeping Related to Orderly Liquidation Authority, Final rule. Federal Register / Vol. 81, No. 210 / Monday, / Rules and Regulations <https://www.federalregister.gov/documents/2016/10/31/2016-25329/qualified-financial-contracts-recordkeeping-related-to-orderly-liquidation-authority#footnote-13-p75625> at page 75669, October 31, 2016

⁶ European Parliament, 2014-2019, DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION on the proposal for a regulation of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bREPORT%2bA8-2016-0238%2b0%2bDOC%2bPDF%2bV0%2f%2fEN> at pages 36, 57, July 19, 2016

Other legislation requires all clients who trade financial products on organized markets throughout the EU to have an LEI, the concept of “no LEI no trade”. However, these mandates are deficient as they allow lapsed LEIs to be used in financial transactions.⁷

The original intent of the global LEI initiative was to get regulators and industry trade associations on board, not only initially but throughout the process until its final objectives are met, transparency for regulators and lower risk and costs for industry members. With the GLEIF delivering on its interim objectives, the latest being the initiation of accepting immediate and ultimate parents into the GLEIS, it is time regulators and industry trade associations step up their game.

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⁷ ESMA/2016/1451, Final Report Guidelines on transaction reporting, order record keeping and clock synchronisation 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