



# The Global LEI Initiative

Starting the Second Million New Year – Progress and Pitfalls

**A Research Note by  
Financial InterGroup**

February 2018



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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 January 2018 reporting of LEI Issuance<sup>1</sup>, the progress on Relationship Data collection, and our comments.**

## **LEI ISSUANCE**

This month saw 92,029 LEIs issued, a not unexpected decline in the momentum of LEI issuance given the EU’s late December 2017 six month moratorium on their ‘No LEI No Trade’ rule. That rule generated a year-end momentum that saw the last three months of 2017 averaging 127,281 newly issued LEIs vs. the earlier nine months average of 7,476

A first ever record of over one million LEIs issued (1,071,693) has been achieved. This is occurring at the same time that the 29% ratio of issued vs. lapsed LEIs at year-end 2016 has declined significantly to 16.0%, although the total lapsed LEIs at 171,472 is at an all-time high.

	<b>2016 Monthly Average</b>	<b>2017 Monthly Average</b>	<b>January 2018 Month-end</b>
Total LEIs (Year-end Total)	481,522	975,741	1,071,693
Newly Issued	5,334	40,237	92,029
Lapsed	6,300	7,134	7,494
Net Increase/ <b>decrease</b>	<b>-996</b>	33,103	84,535
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end Total)	16.0%
Total Lapsed	139,461	169,778	171,472

Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates. With nearly 600,000 LEIs registered over the last year up to the present, we will come to know what percentage of these new registrations will fall into a lapsed status if not renewed only at their one year anniversary beginning in February 2018 and continuing throughout 2018.

GLEIF has still to deal with the Regulatory Oversight Committee’s finalization of two ROC consultations, one on how to organize hierarchies of fund relationships which ended on November 26,<sup>2</sup> and the other a corporate action consultation whose comment period ended Sept. 29, 2017.<sup>3</sup> The answers to the questions these consultations pose will have profound consequences to GLEIF’s ability to control lapsed LEIs and, most importantly, use the LEI for risk analysis, the LEIs primary regulatory objective.

<sup>1</sup> GLEIF Data Quality Report – January 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-january-2018#>, Feb. 5, 2018

<sup>2</sup> LEI ROC, Consultation Document on Funds Relationships in the Global LEI System , [https://www.leiroc.org/publications/gls/roc\\_20170926-1.copy-1.pdf](https://www.leiroc.org/publications/gls/roc_20170926-1.copy-1.pdf), Sept. 26, 2017

<sup>3</sup> 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](http://www.leiroc.org/publications/gls/roc_20170726-1.pdf), July 26, 2017

## Relationship Data Collection

January, 2018 was the ninth 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. Nine month's results so far have seen the registration of 109,057 Level 2 LEI records vs. 88,198 as of year-end 2017. This month marked the first month that all LOUs were reporting Level 2 data.

In their data quality reporting the GLEIF has begun to report figures on "LEIs with Parent Relationships" (63,237) which we assume to be the sum of unique LEIs for either one or both of the immediate or ultimate parents of a registered legal entity. Also the GLEIF has begun to report figures on "LEIs with Complete Parent Information" (702,154). We assume this latter figure is comprised of the earlier parent relationships figure plus the legal entities that reported reasons why they were not providing either an ultimate parent LEI and/or an immediate parent LEI.

In the recording of these relationship records, the definitions below are those used by GLEIF to instruct registrants and LOUs on their submission of data for the Reporting Exceptions file:

### DIRECT\_ACCOUNTING\_CONSOLIDATION\_PARENT

The legal entity has declined to report a direct accounting consolidation parent, based on applicable accounting standards.

### ULTIMATE\_ACCOUNTING\_CONSOLIDATION\_PARENT

The legal entity has declined to report an ultimate accounting consolidation parent, based on applicable accounting standards.

### EXCEPTION REASON

A single reason provided by the legal entity for declining to provide the mandatory report of a specified type of information (beyond the minimum reference data needed purely for identification of the legal entity). This element may contain any additional elements required to extend the Reporting Exception (description).

Listed below are the EXCEPTION REASONS available when declining to provide the mandatory report of the immediate and/or ultimate parent relationship record. The first four categories comprise the bulk of the reasons:

### NON\_CONSOLIDATING

There is no parent according to the definition used, because the entity is controlled by legal entities not subject to preparing consolidated financial statements

### NO\_KNOWN\_PERSON

There is no parent according to the definition used, because there is no known person controlling the entity (e.g., diversified shareholding)

### NATURAL\_PERSONS

There is no parent according to the definition used, because the entity is controlled by natural person(s) without any intermediate legal entity meeting the definition of accounting consolidating parent

#### NO\_LEI

The parent does not consent to have an LEI

#### CONSENT\_NOT\_OBTAINED

Obstacles in the laws or regulations of a jurisdiction prevent providing or publishing this information: the consent of the parent was necessary under the applicable framework and the parent did not consent or could not be contacted. Note: that it is a responsibility of a child entity to seek parent consent when necessary for disclosing the parent relationship, for instance by inviting in writing the parent entity to provide consent. The LOU is not expected to verify or analyze whether the legal framework constitutes a legal obstacle

#### BINDING\_LEGAL\_COMMITMENTS

Binding legal commitments (other than the laws or regulations of a jurisdiction), such as articles governing the legal entity or a contract, prevent providing or publishing this information. The LOU is not expected to verify or analyze whether the legal framework constitutes a legal obstacle -- this is not in itself a cause of opt out, but only one of the cumulative reasons for

#### LEGAL\_OBSTACLES

Obstacles in the laws or regulations of a jurisdiction prevent providing or publishing this information. This does not include cases where, under the applicable legal framework disclosing the parent relationship would require the consent of one of the entities in the relationship, or both, and such consent could not be obtained (in these cases "CONSENT\_NOT\_OBTAINED" is the applicable code). The LOU is not expected to verify or analyze whether the legal framework constitutes a legal obstacle

#### DISCLOSURE\_DETRIMENTAL

The disclosure of this information would be detrimental to the legal entity or the relevant parent. This will include reasons generally accepted by public authorities in similar circumstances, based on a declaration by the entity

#### DETRIMENT\_NOT\_EXCLUDED

The child entity has sought to consult the parent entity about the reporting of the parent information to the GLEIS but could not confirm the absence of detriment in a way that can appropriately prevent liability risks for the child entity (or those acting on its behalf) under the applicable legal framework. The disclosure of this information would be detrimental to the legal entity or the relevant parent. This will include reasons generally accepted by public authorities in similar circumstances, based on a declaration by the entity. This reason may be used only when all following cumulative circumstances apply:

- i) the parent could not be informed via the GLEIS and have the possibility to correct the relationship information before publication (including raising a cause for opt out, either because the parent does not have an LEI, or it has an LEI but the GLEIS has not yet implemented such system;
- ii) the relationship is not already in the public domain (information being in the public domain assumes here that the way the information came into the public domain did not infringe the applicable legal framework);
- iii) the child entity has reasons to believe that the parent may consider disclosure to be detrimental;
- iv) the child entity has sought to consult the parent entity of the reporting of the parent information to the GLEIS but could not confirm the absence of detriment in a way that can appropriately prevent liability risks for the child entity (or those acting on its behalf) under the applicable legal framework.

It is apparent that the GLEIF has more work ahead of it to obtain complete parent relationship data – out of 1,071,693 issued LEIs, just 63,237 have reported such data, the balance either not reporting at all or reporting the reasons why they could not do so. We will be analyzing this data further in a future Research Note.

## **FIG COMMENTS**

Last month we reported on the European Securities Market Association’s unexpected six month extension for obtaining an LEI, which some have attributed to the observed slowing down of the momentum of LEI issuance seen this past month. At the same time, in the US, legislators and executive branch cabinet members are questioning the Financial Stability Board’s sway over US financial regulations, primarily around frameworks involving risk management. Mostly unnoticed but a very important component of risk management is the global data standards initiatives sponsored by the FSB, of which the LEI is one of many such initiatives. Without allowing these initiatives to come to fruition, timely risk data aggregation at any granular level will be impossible, and an objective of detecting the contagion of systemic risk, the “Lehman Problem”, will remain a problem.

Already there is legislation in the US that would do away with the LEI’s biggest supporter in the US, the US Treasury’s Office of Financial Research. The CFTC, another staunch supporter of data standards and data harmonization, is being stretched by limited budgets to sustain the data standards initiatives they have championed in partnership with the FSB.

Educating US legislators and some Trump Cabinet members as to the importance of sustaining the global data standards initiative should be a priority. Lobbying efforts need to be taken up by those industry trade associations involved in these initiatives. Global standards bodies, the FSB surely, but IOSCO, the BIS and GLEIF as well need to be coordinated to participate in these lobbying efforts.

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