



The Global LEI Initiative –

A 2016 year-end Review of Progress and Issues

**A Research Note by
Financial InterGroup**



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Report of LEI Population 2016												
Month/	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
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	481,522
Newly Issued	4,747	4,992	5,459	5,178	6,067	6,512	5,387	4,308	4,847	4,920	5,415	6,180
Lapsed	6,742	7,418	11,330	7,318	6,383	5,364	4,614	4,141	5,346	5,466	5,454	6,026
Increase/decrease	-1,995	-2,426	-5,871	-2,140	-316	+1,148	+773	+167	-499	-546	-39	+154

The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on LEI data. We are pleased to bring you this year-to-date 2016 Research Note on the GLEIF's monthly January – December¹ reporting on LEI issuance.

The chart above follows the twelve (12) 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 last month's reporting period, the month of December, a marginal upturn (154) of net new LEIs issued vs LEIs lapsed was recorded.

Since GLEIF started reporting in January, 2016, 62,347 LEIs were issued as of year-end 2016. The newly issued LEIs month-by-month total is 64,012, the difference of 1,665 being those in the current year of the total of 14,855 LEIs over the life of the GLEIS that were merged, annulled, retired, found to be duplicates or pending transfer.

There were eight (8) months of higher lapsed LEIs reported than issued LEIs, for a total of 13,792 lapsed LEIs. There were four (4) months of more new LEIs issued than lapsed LEIs for a total of 2,242 newly issued LEIs. For the entire year there was a net of 11,590 lapsed LEIs over newly issued LEIs.

The Lapsed rate was persistent over the year, remaining stubbornly fixed at 29% of total issued LEIs (75,602 lapsed this year, 139,641 over the life of the GLEIS.) This failure to renew nearly one-third of already issued LEIs was not expected. Broad 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 and the industry are not on board with making the LEI and its renewal mandatory. However, as reported previously many regulators, particularly in the US, are conditioning mandating use of the LEI for their reporting purposes only if a legal entity already has obtained an LEI. To date the only way a legal entity is required to obtain a LEI is if it is to be used for reporting by a swaps market participant to swaps trade repositories. No regulator yet is mandating renewals of LEIs nor renewals when LEIs go into a lapsed state.

A recent research paper by a Federal Reserve analyst, a very early supporter of the LEI and a member of the LEI Regulatory Oversight Committee (ROC) addressed the lapsed issue, stating that:

“At least some entities that are marked as lapsed appear to be no longer in existence. Absent external motivation, LOUs appear to have little incentive to research such

¹ GLEIF Data Quality Report – December, 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-december-2016#>, Jan. 4, 2017

entities, and generally users of LEI data should tend to have fewer interactions with data on defunct entities that might lead to a formal challenge to the data. Additional work is needed to determine the most efficient means of addressing this problem.”²

While some of these legal entities may no longer be in existence, others may be active. Have they been assigned to entities not compelled to have a LEI and by which LOU and for what purpose; did nefarious actors obtain one and are hiding in plain sight by not renewing given they have had a full year to renew; how many lapsed LEIs have actually been used in trade reporting and what are the implications for fulfilment of their contractual commitments; or is it simply, as the research notes, that some legal entities are not prioritizing renewals given there is no regulatory compulsion to do so? These and other issues need to be attended to.

In addition, a new Q&A issued by ESMA in December, 2016 further clarifies the acquisition and renewal of the LEI of an issuer of a financial instrument.³ While noting a new concept created by the GLEIF, a Registration Authority as a new intermediary, to assist in acquiring an LEI⁴, it continues the theme of so many other regulatory mandates that the financial institution (in this case the trading venue or internal systemiser) is not responsible for assuring the renewal of the LEI, this time of the issuer.

The original intent of the global LEI initiative was universal coverage of the entire supply chain of financial market participants. It was premised on the fact that regulators provide the compulsion and industry trade associations and their members get on board.

The prize cannot be greater – transparency for regulators and lower risk and costs for industry members. With the GLEIF preparing to accept immediate and ultimate parents into the GLEIS, it is time regulators and industry trade associations’ step up their game.

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² Arthur B. Kennickell, Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C., *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, November 8, 2016

³ Questions and Answers On MiFIR data reporting, https://www.esma.europa.eu/sites/default/files/library/2016-1680_gas_mifir_data_reporting.pdf, at pages 8-9, Dec. 20, 2016

⁴ GLEIF, Registration Agents, <https://www.gleif.org/en/lei-focus/how-to-get-an-lei-find-lei-issuing-organizations/registration-agents>