



The Global LEI Initiative

LEI issuance tapers off, lapsed LEIs and parent registration inch up.

**A Research Note by
Financial InterGroup
July 2018**

Inside this report:

LEI ISSUANCE

New LEI issuance tapers off as six-month European market reprieve expires.
Lapsed LEIs continue minimum yet steady increase to new record high

RELATIONSHIP DATA COLLECTION

LEIs for parent relationships inch up, however exceptions surpass two million

COMMENTARY

Keeping the Risk Analysis Objective in Site
A Fully Operational GLEIS
The Role of the Registration Agent
A Further Role for Auditors
Following the FIG Script



www.financialintergroup.com

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 June, 2018 month-end and year-to-date reporting of LEI Issuance¹, the progress on Relationship Data collection, and our comments.

LEI ISSUANCE

This is the second month of a slight uptick of issued LEIs after a progressive decline over the last four months of 2018. This decline preceded the run-up in LEI registrations precipitated by year-end 2017 MiFid II LEI “No LEI No Trade” requirements. The current uptick is probably being impacted by the EU’s six month moratorium on the requirement to obtain a LEI, originally set for year-end 2017, now coming into force at month-end June, 2018.

This is occurring while the ratio of issued vs. lapsed LEIs at year-end 2016 of 29% has declined significantly to 15.5%, although the total lapsed LEIs are on a steady yet small monthly uptick to another all-time high of 189,712. We will continue to monitor lapsed rates and particularly of those LEIs registered in the last quarter of 2017 which is coming due for annual renewal in the last quarter of 2018. The monthly average of registered LEIs leapt to 127,281 in the last quarter of 2017 from the 7,476 monthly average from the prior three quarters of 2017.

	2016 Year-end	2017 Year-end	Jan. 2018 Month-end YTD	Feb. 2018 Month-end YTD	Mar. 2018 Month-end YTD	Apr. 2018 Month-end YTD	May 2018 Month-end YTD	June 2018 Month-end YTD
	481,522	975,741	1,071,693	1,113,339	1,148,170	1,172,295	1,195,780	1,221,330
	2016 Monthly Avg.	2017 Monthly Avg.	Jan. 2018 Month-end	Feb. 2018 Month-end	Mar. 2018 Month-end	Apr. 2018 Month-end	May 2018 Month-end	June 2018 Month-end
Newly Issued	5,334	40,237*	92,029	39,760	33,120	22,882	23,412	23,801
Lapsed	6,300	7,134	7,494	8,296	8,904	7,529	6,409	7,166
Net Increase/decrease	-996	33,103	84,535	31,464	24,216	15,353	17,003	16,635
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end %)	16.0%	15.8%	15.7%	15.7%	15.5%	15.5%
Total Lapsed (Year & month-end Totals)	139,461	169,778	171,472	175,540	179,803	183,466	186,021	189,712

* Monthly average Jan. - Sept. 7,476 vs. monthly average Oct. – Dec. 127,281

RELATIONSHIP DATA COLLECTION

June 2018 was the second month of data collection after a full year of the GLEIF calling for the registration and collection of the immediate parent and ultimate parent of each LEI (Level 2 Relationship Data). GLEIF reports statistics on how many immediate and ultimate parent records were reported (see the first numeric column in the chart on the next page) and of these, how

¹ GLEIF Data Quality Report – June 2018, <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-june-2018>, July 4, 2018

many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the chart below).

As can also be seen from the Month-to-Month Change column in the chart below the monthly reporting of the number of registered LEIs with parent relationships has resumed declining over the last two months after an uptick in April. A similar pattern has emerged for the number of LEIs reporting both parents, with the % increase also showing a slowing trend. Both statistics are significantly off from the first month's surge, since postponed for six months to July 1, 2018, when fear of missing the year-end deadline for registering LEIs was facing registrants.

Level 2 Relationship Data	Number of Immediate & Ultimate LEI Parent Records	Month-to-Month Change	Number of Unique LEIs Reporting both Parent Relationships	% Month-to-Month Increase
Year-end 2017	88,198	-	51,944	-
Month-end Jan 2018	109,057	20,859	63,237	21.7%
Month-end Feb 2018	119,438	10,381	70,584	3.7%
Month-end Mar 2018	122,806	3,368	72,953	3.4%
Month-end Apr 2018	129,128	6,322	76,268	4.5%
Month-end May 2018	134,141	5,013	79,270	3.9%
Month-end Jun 2018	136,403	2,262	80,718	1.8%

The GLEIF also reports on reasons why LEI registrants failed to provide either an ultimate parent LEI and/or an immediate parent LEI (see the first numeric column in the below chart). This metric nearly doubled, from year-end 2017 at 1,067,968 to Month-end June 2018 at 2,099,985. Also, GLEIF reports on how many of each unique LEI registrant reported either a parent and/or immediate parent or provided an exception reason for not providing either or both (see the third column in the chart below).

Level 2 Reporting Exceptions	Number of Immediate & Ultimate LEI Parent Exception Records	Month-to-Month Change	Number of LEIs with Complete Parent Information	% Month-to-Month Increase
Year-end 2017	1,067,968	-	572,818	-
Month-end Jan 2018	1,309,801	241,833	702,154	22.6%
Month-end Feb 2018	1,435,891	126,090	770,652	9.8%
Month-end Mar 2018	1,560,558	124,667	834,384	8.3%
Month-end Apr 2018	1,700,551	139,993	909,859	9.0%
Month-end May 2018	1,814,341	113,790	963,991	5.9%
Month-end Jun 2018	2,099,985	285,644	1,115,160	15.7%

COMMENTARY

Keeping the Risk Analysis Objective in Site

Compiling entire hierarchies of LEIs was always intended to be the defining and ultimate objective for the success of the global LEI data initiative. Thereafter its use in transactional data aggregation will make possible the analysis of systemic risk.

Fulfilling this objective was embedded in the charter of the Financial Stability Board by the G20 after the financial crisis of 2007-2008. Realizing that risk analysis objective requires that not only must the LEI effort be concluded, but that the Unique Product Identifier (UPI), Unique Transaction Identifier (UTI) and Common Data Element (CDE) standards be concluded as well and work in an integrated way with these other standards.

A Fully Operational GLEIS

Perhaps regulators have jumped the gun on declaring the global LEI system fully operational. A fully operational GLEIS must be timely updated from changes in control resulting from corporate reorganizations and from renewals. These two remaining objectives along with the completion of the network of legal entity parent hierarchies (aka relationship data) has been the responsibility of the Regulatory Oversight Committee (ROC) to provide guidance to the GLEIF. The ROC is a 70 member committee representing financial regulators from around the world that, in turn, was empowered by the FSB to oversee and complete work on the global LEI initiative.

The GLEIF still awaits such guidance from the ROC on the resolution of these three issues which regulators had chosen to delay to this late date and then postponed responses to their own consultations on these issues. However, with the LEI issuance process still ongoing it may be beneficial to turn the ROC's attention to first resolving the obvious – the missing segments of the LEI universe. Sovereign, municipal and provincial governments and corporate securities issuing entities are the largest known of the underrepresented LEI registrants notwithstanding the still uncounted financial institutions and financial counterparties that are outside the reach of compelling regulations.

The Role of the Registration Agent

Toward this end a Registration Agent was authorized by the ROC as a category of intermediary to help legal entities to access the network of LEI issuing organizations (Local Operating Units - LOUs) responsible for performing LEI issuance and related services. The Registration Agent may choose to partner with one or more LOUs to ensure its clients' needs for LEI services are met but does not relieve the responsibility of the registrant to provide correct and timely information.

In addition and depending on who performs the Registration Agent function, an assurance of privacy can be provided. This may be necessary to compel not-yet-participating legal entities and/or parents of legal entities already issued an LEI to come forward.

A Further Role for Auditors

One of the Registration Agents, Deloitte AG has been approved to register LEIs on behalf of the Swiss markets while Deloitte Managed Services operates the Swiss Legal Entity Identifier service (LOU). Expanding the use of such a trusted professional organization to validate official source documents, provide timely awareness of corporate reorganizations and monitor renewals would be a major step in assuring high quality, timely updated data.

A further role for Deloitte and the other Big 4 audit, accounting and professional service firms would be to assure that the correct hierarchies of LEIs are entered into the GLEIS following the required financial statement account consolidation reporting rules.

Finally, the Big 4 as Registration Agents can provide assurance of privacy both as a trusted advisor and through technical means. Such technical means could be as the keeper of private keys for authentication through hashing, and for assurances of approved redactions through encryption. As noted above this may be necessary to compel not-yet-participating legal entities; parents of legal entities not covered by financial regulations; and parents of legal entities already issued an LEI to come forward.

Following the FIG Script

As the LEI initiative proceeds incrementally it is worth noting that FIG had presented a detailed operating, governance and systems design of a Global Identification Standard for Counterparties and other Financial Market Participants² not dissimilar to what is evolving now as the ROC builds its case for each next step. That proposal, issued at the request of regulators and trade associations, was presented first to the OFR, the SEC and the CFTC in 2011.

Later in 2011 FIG was invited to propose its approach to a collaborative group of trade associations led by the Securities Industry and Financial Markets Association. In 2012 FIG was one of four organizations asked to propose to the CFTC to operate their LEI system as the first LOU. The CFTC deferred to the industry trade associations' preferences of a specific vendor to support the LEI initiative, demonstrating a degree of 'regulatory capture' by the industry although their chosen vendor at the time had little awareness of the issues.

Continuing on in 2012, 2013 and finally in 2015 FIG's proposal, modified to meet changing global requirements as they evolved, was made to the Financial Stability Board. At the time regulators considered the proposal, if they considered it at all, they had not yet gotten their arms around the issues, most critically the way data management and, in this specific case the way the LEI was to support risk management, let alone the solutions we proposed.

² Final Report on Global Identification Standards for Counterparties and Other Financial Market Participants, Journal of Risk Management in Financial Institutions - Special Issue on Counterparty Risk, Vol. 5, No. 2., <https://ssrn.com/abstract=2016874>, March 10, 2015.

Why we were prepared to offer solutions ahead of others at that time was simply because we had been researching these issues since 2004; understood the data requirements of risk management through early academic work³; consulted with many industry experts; had dialogue with trade groups and financial regulators before the financial crisis brought the issue to the fore; researched and considered features of most of the world's global standards initiatives; and leveraged our firms own long standing knowledge of the issues and proprietary solutions of financial firms and data vendors.

Even to this day as reported by the global Risk Data Network (RDN) of Supervisors monitoring progress on the implementation of BCBS's "Principles for effective risk data aggregation and risk reporting" ⁴ data aggregation practices vary considerably across banks, depending on their business models, organizational structure and/or risk profiles. The progress report repeats its long-standing view of the benefits of standardizing risk data aggregation practices by using the LEI to facilitate the assessment of risk exposures at the global consolidated level and improve the speed at which information is available internally and to supervisors, especially after a merger or acquisition.

We encourage readers to look at FIG's proposal in light of its proposed solutions to already considered issues yet to be resolved; approaches to distributed ledgers now being considered; and solutions to facilitating data aggregation, still left to be done.

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

www.financialintergroup.com

Copyright © 2018 Financial InterGroup. All rights reserved.

³ Operational Risk and Reference Data: Exploring Costs, Capital Requirements and Risk Mitigation, Journal of Operational Risk, Vol. 1, No. 3, 2006, <https://ssrn.com/abstract=849224>, Nov. 18, 2005

⁴ Basel Committee on Banking Supervision (BCBS), Progress in adopting the Principles for effective risk data aggregation and risk reporting, <https://www.bis.org/bcbs/publ/d443.pdf>, June 2018