



The Global LEI Initiative

Record LEI issuance while Lapsed LEI's continue to increase. FSB reviews issues and opportunities for LEIs. BIS surveys use of LEIs in trade repositories.

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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 November, 2018 month-end and year-to-date reporting of LEI issuance¹; on the progress of Relationship Data collection; and our Commentary.

LEI ISSUANCE

November, 2018 was the second month of the resumption of lapsed LEIs exceeding issued LEIs. This net increase of lapsed LEIs exceeding issued LEIs was anticipated as the net increase of issued vs. lapsed LEIs had been progressively decreasing over the entire year. We anticipate a continuing rise in the lapsed rate (now approaching 20%) through the remaining months of 2018. It is during this last quarter of 2018 that the first group of anticipated renewals from the accelerated LEI issuance of parent LEI registrations of last year comes due.

Total lapsed LEIs have been on a steady monthly uptick, increasing 50% since last month, following the earlier month's doubling of lapsed LEIs over the previous month. Lapsed LEIs reached another all-time high of 257,678 representing 19.5% of all issued LEIs.

LEI Issuance and Lapsed LEIs –	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	July 2018 Month-end & YTD	Aug 2018 Month-end & YTD	Sep. 2018 Month-end & YTD	Oct. 2018 Month-end & YTD	Nov.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	1,242,095	1,260,541	1,280,462	1,300,832	1,319,120
	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	July 2018 Month-end	Aug. 2018 Month-end	Sep. 2018 Month-end	Oct. 2018 Month-end	Nov.2018 Month-end
Newly Issued	5,334	40,237	92,029	39,760	33,120	22,882	23,412	23,801	19,951	17,719	19,398	19,700	17,616
Lapsed	6,300	7,134	7,494	8,296	8,904	7,529	6,409	7,166	7,278	7,838	12,971	26,853	33,853
Net Increase/decrease	-996	33,103	84,535	31,464	24,216	15,353	17,003	16,635	12,673	9,881	6,427	-7,153	-16,237
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end %)	16.0%	15.8%	15.7%	15.7%	15.5%	15.5%	15.6%	15.8%	16.2%	17.7%	19.5%
Total Lapsed (Year & month-end Totals)	139,461	169,778	171,472	175,540	179,803	183,466	186,021	189,712	193,657	198,719	207,462	230,679	257,678

RELATIONSHIP DATA COLLECTION

November 2018 was the nineteenth month of data collection of information on 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 following page) and of these, how many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the same chart on the following page).

¹ GLEIF Data Quality Report – November 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-november-2018#>, Dec. 5, 2018

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 Change
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%
Month-end Jul 2018	139,127	2,724	82,487	2.6%
Month-end Aug 2018	141,694	2,567	83,652	1.4%
Month-end Sep 2018	143,602	1,908	84,898	1.5%
Month-end Oct 2018	147,292	3,690	86,965	2.4%
Month-end Nov 2018	149,795	2,503	88,333	1.6%

As can be seen from the Month-to-Month Change column in the chart above, the monthly reporting of the number of registered LEIs with parent relationships has leveled off over the last nine months of this year. A similar pattern has emerged for the number of LEIs reporting both parents (column 3), with the percent increase also showing a stabilizing trend.

The GLEIF also reports on LEIs that have recorded Level 2 reporting exceptions and total legal entities that either recorded an exception or recorded a LEI for either parent (see 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 Change
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 –see Note	2,099,985	285,644	1,115,160	15.7%
Month-end Jul 2018	1,952,927	53,559	1,043,199	14.1%
Month-end Aug 2018	1,998,077	45,150	1,066,405	2.2%
Month-end Sep 2018	2,041,663	43,586	1,088,521	2.1%
Month-end Oct 2018	2,081,128	39,465	1,109,258	1.9%
Month-end Nov 2018	2,117,957	36,829	1,127,211	1.6%

Note: month–end figures for June 2018 in the chart above was distorted due to a change in reporting by one LEI Issuer, Business Entity Data B.V. (known in the US as the GMEI Utility). GMEI, which has issued 32% of all LEIs, adjusted the status of a significant number of historic LEIs under its management from ‘fully corroborated’ to ‘entity-supplied only’. Also GMEI informed GLEIF that it had erroneously over-reported 100,000 LEIs that would have provided parent information in that quarter. According to the GLEIF this issue will be resolved by year-end 2018.²

² GLEIF, Global Systems Business Report, 3rd Quarter 2018, https://www.gleif.org/content/4-lei-data/2-global-lei-index/2-download-global-lei-system-business-reports/20181106-download-global-lei-system-business-report-q3-2018/2018-11-06_quarterly_business_report.pdf, Nov. 6, 2018 at page 2

GLEIF also 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 same chart on the previous page. It still remains to be understood how such permitted exceptions ('opt-out' arrangements to supplying parent relationship information) will affect the FSB's long term objective of aggregating financial transaction data for risk management and systemic risk analysis.

COMMENTARY

With over 1.3 million LEIs issued, 19.5% of them in a lapsed (non-renewal) status, and 6.7% unique legal entities reporting parent relationships, the global standards bodies Financial Stability Board (FSB) and the Bank for International Settlements (BIS) are 1. reviewing implementation issues and further opportunities for use of the LEI, and 2. a survey describing the implications of the LEI in the use of trade repository data. Below is FIG's summaries of the additional responses to the FSB's review made public (the final report will be published in the first half of 2019 and not contain these submissions) and the BIS's survey:

FIG's Summary of Additional Responses to FSB's Thematic Review of LEI³

The Financial Stability Board (FSB) has initiated a thematic review of the implementation of the global Legal Entity Identifier (LEI) initiative. Responses were due by Sept. 21, 2018. In our October, 2018 Research Note⁴ we summarized the thematic review and the five (5) responses to the FSB's consultation made public at that time (ISDA/GFMA, World Council of Credit Unions, XBRL US, Federation of European Securities Exchanges, and our own, Financial InterGroup). Since then three additional responses (BVI, Swedish Securities Dealers Association and SWIFT) have been made publically available. A summary of these responses follows:

BVI⁵

BVI represents the interests of the German fund industry. BVI believes the Global LEI System (GLEIS) has worked very well but seeks wider acceptance of the LEI to achieve its full potential through a mix of further regulatory measures and private initiatives, and in expanding into other sectors of the global economy.

The LEI responds to the critical need for a universal system of identifying entities across financial markets, products, and jurisdictions. However, in the supervision of non-financial sectors and tax identification, the use of proprietary identifiers is prevalent.

BVI recommends that that the mandated use of the LEI must increase globally beyond FSB and G20 jurisdictions. BVI is aware that several G20 countries do not have regulation in place that mandate the usage of the LEI, or only regulation where the LEI is one of several choices of entity identification. BVI

³ FSB, Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference, <http://www.fsb.org/2018/08/fsb-launches-thematic-peer-review-on-implementation-of-the-legal-entity-identifier-and-invites-feedback-from-stakeholders/>, 16 August 2018

⁴ FIG Research Note October 2018, <http://www.financialintergroup.com/cmsAdmin/uploads/downloads/FIG-Research-Note-The-Global-LEI-Initiative-Oct-2018-Report-Sep-2018-data.pdf>,

⁵ BVI, FSB Thematic Peer Review on Implementation of the LEI" BVI reply, https://www.bvi.de/fileadmin/user_upload/Regulierung/Positionen/LEI_und_RIC/2018_09_20_BVI-position_FSB_Consultation_LEI.pdf, Sept. 20, 2018

believes that there is an opportunity within the G-20 countries of leveraging the LEI as a global identifier stretching the usage and the benefits beyond the financial sector.

To address the issues of data quality and lapsed LEIs what is needed is regulations mandating renewing LEIs and re-validating the associated reference data. Without this quality issues arise where companies that have merged or retired are not appropriately identified; company names or legal form are not updated; and direct and ultimate parent information is not recorded.

BVI is concerned with the still high cost of registration of LEIs. Their members register LEIs for hundreds of investment funds and face considerable cost compared to single LEI corporations. To lower costs they suggest new ways of registration, e.g. by providing the LEI in the context of a first time business registry entry and enabling trusted parties to issue LEIs under guidelines from GLEIF to achieve low or no cost registrations.

Swedish Securities Dealers Association (SSDA)⁶

The SSDA represents banks and investment services firms active in Sweden's securities market. The SSDA's position is that LEI's are quite expensive for non-financial counterparties noting as an example that when small import/export companies want to hedge their foreign currency their price sensitivity causes them to consider refraining from hedging. They also point out that while its simple to acquire a LEI, companies that have several LEIs creates significant difficulties when choosing which one to use when reporting their transactions.

In Sweden national requirements, including higher security and quality requirements then is present in the GLEIS, are obstacles to more general implementation of the LEI at the national level. These national ID's are also used by the tax authorities and cost nothing to obtain.

The SSDA reports that the yearly renewal of LEIs (Lapsed LEIs) is time consuming, costly and creates unnecessary reporting and administrative burdens. The process for investment firms handling lapsed LEIs of clients (when clients have delegated the reporting to a financial institution) is extremely cumbersome given the fact that LEI lapses from one day to the next. Clients can postpone renewal action until the day before it lapses which leaves a minimum of time for financial institutions to react. SSDA members also experience a time lag from the day a LEI is renewed until it is registered in the GLEIF database - which causes the lapsed LEI to trigger trading restrictions for clients who had already renewed their LEI.

The SSDA also reports that there is a lack of guidelines from regulators as to how to treat a lapsed LEI in multiple reporting scenarios e.g. where a client holds an open derivative position also held at a trade repository (TR) and where a subsequent lapsed LEI does not permit that client to trade. They note that TR's are slow to process LEI renewal notifications. The SSDA also states they do not understand the consequences for an investment firm having active trading clients with lapsed LEIs and what is expected of them regarding notifying clients of lapsed LEIs.

SSDA members have experienced challenges with some non-EU counterparties not willing to provide a LEI by notifying members that these counterparties needn't follow MIFIDII/MiFIR nor EMIR mandates. Some

⁶ SSDA,

Response to FSB Thematic peer review on implementation of the LEI, http://www.fondhandlarna.se/files/4615/3753/6551/2018-09-21_Letter_from_SSDA_to_FSB_re_Thematic_peer_review_on_implementation_of_the_LEI_002.pdf, Sept. 21, 2018

third country governmental counterparties refuse to allow regulatory transaction reporting in the event SSSA members were to trade with them. They appear to view it as information regarding their market activities to which other governmental authorities should not have knowledge about.

Because of these factors the SSSA sees the LEI as a parallel identifier not a replacement of the national identification number.

SWIFT⁷

SWIFT is a member-owned cooperative headquartered in Belgium. SWIFT is organized under Belgian law and is owned and controlled by its shareholders, comprising more than 2,000 financial institutions.

SWIFT notes that the LEI is becoming the most commonly used entity identifier in Europe, and is recognized in a variety of financial regulations. However, there are other regulatory contexts in which entities must be recognized by other identifiers. While the GLEIS has included the BIC (SWIFT's Bank Identifier Code)-to-LEI mapping, SWIFT describes its own efforts to map some of those mostly used identifiers to get a central view on entities for usage across multiple regulations. The identifiers included are the LEI, the BIC, the GIIN (the Global Intermediary Identification Number), the BRN (the business registration number – which is collected with the LEI) and the MIC (the Market Identifier Code). Data is sourced directly from data originators, including central banks, code issuers and financial institutions.

SWIFT and the Payments Market Practice Group (PMPG) consulted the industry on proposing to add the LEI to the identification element within SWIFT payment messages (currently the identification element contains only the BIC), so that the LEI can be used in addition to the BIC. This will allow an LEI to be used as an identifier for parties within a payment e.g. the debtor, ultimate debtor, creditor or ultimate creditor. After approval the change will be implemented in the production environments in November 2019. SWIFT believes that this will facilitate broader adoption of the LEI as a global identifier across the financial industry.

FIG's Summary of BIS's Survey of Central Banks Use of Trade Repository Data⁸

A key issue found through this survey is the limited quality of the data collected in Trade Repositories (TRs), in particular when dealing with transactions that are reported to different TRs and with different attribute values when reconciling the data collected by different TRs. This also highlights the need for common identifiers and greater harmonization when collecting the various attributes of the transactions.

A major challenge is to reconcile the data collected by different TRs. This also highlights the need for common identifiers and greater harmonization when collecting the various attributes of the transactions.

Developing global common identifiers and increasing access to foreign TRs are also key objectives, highlighting the importance of international coordination and in particular of the ongoing initiatives led by international regulatory groups.

⁷ SWIFT, Comments on the Financial Stability Board's Thematic peer review on implementation of the Legal Entity Identifier <https://www.swift.com/resource/swifts-comments-fsbs-thematic-peer-review-implementation-lei>, Sept. 21, 2018

⁸ BIS-IFC, Central banks and trade repositories derivatives data, https://www.bis.org/ifc/publ/ifc_report_cb_trade_rep_deriv_data.pdf, Oct. 2018

TRs collect data on a transaction-level basis. This is referred to as “micro data”, i.e. the most granular type of information. Micro data are very sensitive because they can allow the identification of the counterparties involved in transactions, which may be confidential. For instance, for each trade a large number of attributes can be recorded, often covering counterparty details (identifier, sector) and various attributes related to the transaction itself (e.g. collateral, notional amount, type of contract, price etc.).

Reflecting these issues, there are strong legal restrictions limiting the access to transaction-level data to non-authorized parties. Still, some degree of access can be assured while preserving confidentiality. One possibility is to provide access to the micro data set itself but mask part of the information, for instance through encryption or the deletion of attributes that could reveal the counterparties involved in the transactions.

Even when TR data are available, this information cannot be effectively used if it is not sufficiently comprehensive. For instance, if there are gaps in the trades being reported, there may be difficulties in aggregating transaction-level data at the firm level. This would prevent any meaningful measuring of actual corporate risk exposures, especially if one cannot include all the transactions made by a group’s affiliates, or if there is too little information on important elements of the transactions (e.g. termination dates).

The survey shows that the vast majority (72%) of central banks accessing TR data are facing such difficulties. In theory, the gaps can be grouped into three categories: incomplete coverage in terms of market segments and/or instruments, absence of counterparty information, and missing details on critical elements of the derivatives transactions.

The main data gaps relate to both counterparty information and transaction level elements. As regards first counterparty coverage, the vast majority of central banks point to significant data gaps (only 20% report that there is no gap). This situation reflects various factors, including the absence of a Legal Entity Identifier (LEI), in 35% of the reported cases, and the fact that transactions are organized between unregulated entities (30%) or cannot be matched (20%). A number of central banks also highlighted the difficulty of identifying the foreign counterparties of their domestic financial institutions, mainly due to legal restrictions on reporting.

Second, central banks also point to significant information missing on the critical elements of derivatives transactions: only 30% feel that there is no related data gap. Some 35% and 20% report difficulties due to, respectively, limited clearing information and lack of data on notional values. Various “other” limitations are recognized, for instance as regards missing elements on collateral information and the market value of the transactions. Moreover, important difficulties relate to ambiguities in reporting requirements. For instance, 25% of the central banks report issues in identifying key transaction dates, preventing the correct identification of novated and/or compressed trades. To deal with these issues, it would be useful to collect information to track (and keep updated) the life-cycle events affecting the derivative contracts, for instance to get information on the prior Unique Transaction Identifier (UTI) when assessing the impact of trade compression.

CLOSING COMMENT

How the LEI will support the mission of identifying and managing risk is still a work in progress. While successfully creating a global network and government/private sector governance structure for issuing LEIs there remains significant hurdles.

The first hurdle is to expand the universe of LEI registrants to include municipal, provincial and sovereign government agencies; pension funds and other eleemosynary institutions; and non-financial companies involved in issuing securities and as hedgers in derivatives markets. The LEI focus has initially been on counterparties and others involved in the global derivatives supply chain. In the EU the LEI focus has additionally been on capital markets trading participants.

Three other prominent hurdles remain: developing a timely and efficient way to maintain the LEI throughout a legal entities corporate reorganization lifecycle; renewing accompanying LEI reference data (mainly name & address data); and completing the hierarchical relationships amongst LEI's for determining ownership and control of LEIs and particularly of multi-registered LEIs of a single parent entity. This later point is critical to the capability to aggregate transactional data for performing risk analysis.

These issues and possible solutions were addressed in our recently published paper "Can a globally endorsed business identity code be the answer to risk data aggregation?"⁹ See table of contents and link to this paper below:

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⁹ Grody, Allan D., Can a Globally Endorsed Business Identity Code be the Answer to Risk Data Aggregation? (November 8, 2018). Journal of Risk Management in Financial Institutions, (2018) Vol. 11, 4 . Available at SSRN: <https://ssrn.com/abstract=3275700>

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

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