



## The Global LEI Initiative

### Reporting on LEI Registrations, Renewals, Relationship Data and Issues yet to be addressed

by  
**Financial InterGroup**  
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The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on the Legal Entity Identifier (LEI) since January, 2016 and on the LEI's Relationship data since May, 2017. We are pleased to bring you this Research Note on annual, month-end and year-to-date LEI issuance based on GLEIF's **May, 2020 Global LEI Data Quality Report** and **Q1 2020 Business Report**, and FIG's historical LEI data.

Total LEI registration at the end of April inched up by 20,655 (vs. last month's 31,839) to reach another total all-time high while Lapsed LEIs, at this month's 16,636, represented 30.8% of all LEIs (vs. last month's 30.9%).

LEI registration for parent relationships (both ultimate and immediate) also increased, in line with new registrations. However, of all the new LEI's registered this month (20,655) only 530 parent relationship LEIs were recorded and only 274 unique LEIs where registered with both parents. Of the 20,665 LEIs registered this month there were 40,146 recorded exceptions that allowed the registrant to not provide one or both parent LEIs.

Also, as reported in the most recent GLEIF's Quarterly Business Report (see link above), over half of registration entities submitting their parent data are not validated by LOUs. LOUs attempt to use third party sources for this validation and when not available are classified as not fully corroborated or 'registrant sourced'. If validation is done correctly it would be an additional cost to be borne by the LOUs who are not trained to interpret accounting rules to validate hierarchical structures. LOUs doing so would be a cost burden that would be shared throughout the GLEIS, probably passed on to registrants in additional fees. This could thwart the stated efforts of the GLEIF to reduce costs for LEI registrations and renewals.

The five years of accumulated statistics presented in the charts and tables that follows show data that is stabilizing around 1.6 million LEIs, 20,000 new LEIs each month and a 30% non-renewal rate. While new regulations across the world are expected to encourage registering and renewing LEIs, this appears to be a very long-term process with a dubious outcome in pursuit of the universal adoption of the LEI, estimated at 20 million LEIs. More importantly, even having accomplished this, it's still needs to be proven that the LEI will keep pace with the real-time demands of evolving technologies being increasingly deployed across front, middle and back-office financial systems.

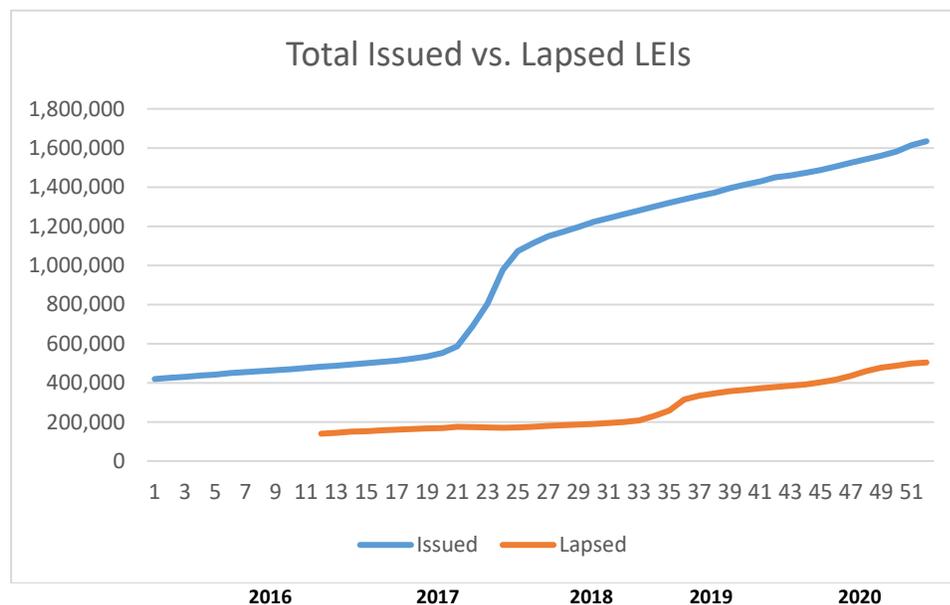
Finally, the LEI and the other global data standards currently being deployed must fundamentally reduce industry infrastructure costs and materially improve managing enterprise and systemic risk, the dual objectives set for these ambitious efforts.

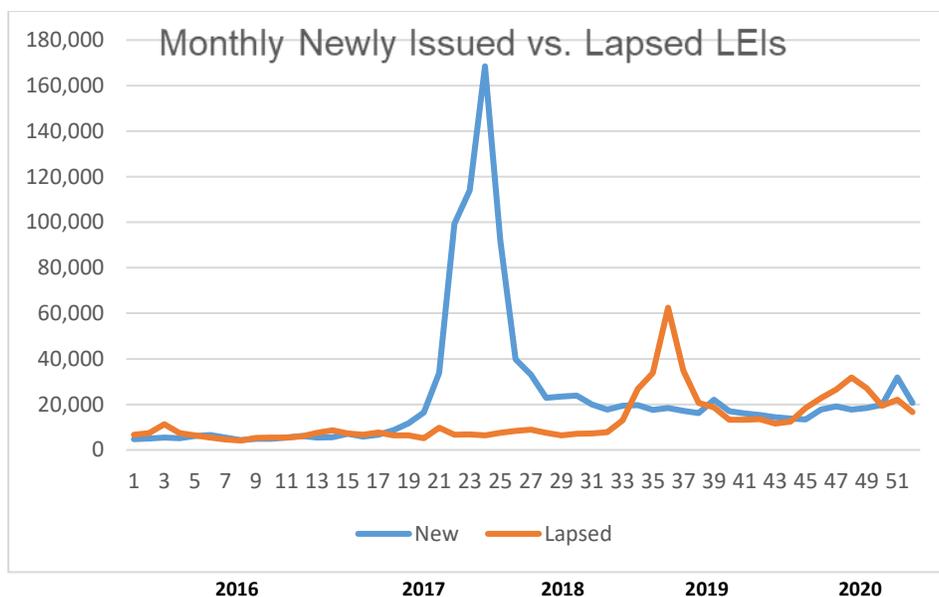
Our **Commentary** follows the **LEI Statistics in Charts and Graphs** on the following pages.

## LEI Statistics in Charts and Graphs

### 2016 – 2019 Year-to-Year Comparison vs. Jan – Apr. 2020 Month-end data

LEI Issuance and Lapsed LEIs – Year-to-Year and Jan 2020 Comparison	2016 Year-end	2017 Year-End	2018 Year-end	2019 Year-end	Jan 2020 Month-end	Feb 2020 Month-end	Mar 2020 Month-end	Apr 2020 Month-end
Total LEIs issued at Year-end and month-end	481,522	975,741	1,337,925	1,542,037	1,560,689	1,580,862	1,613,119	<b>1,634,150</b>
Total Lapsed LEIs issued at Year-end and month-end	139,461	169,778	313,915	459,436	476,637	486,546	498,917	<b>503,522</b>
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%	30.8%	30.9%	<b>30.8%</b>
<b>Year-to-Year Monthly Average Comparisons</b>								
Newly Issued	4,976	40,237	29,987	16,652	18,447	19,864	31,839	<b>20,655</b>
Lapsed	6,300	7,134	16,422	19,802	27,045	19,365	21,996	<b>16,636</b>
Net LEI Increase/decrease	<b>-1,324</b>	33,103	13,565	<b>-3,150</b>	<b>-8,598</b>	499	9,843	<b>4,019</b>
<b>Year-to-Year and Month-end Relationship Data</b>								
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	210,886	212,877	215,655	<b>216,185</b>
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637	120,961	122,046	123,529	<b>123,803</b>
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,553,656	2,592,289	2,653,260	<b>2,693,406</b>
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,357,419	1,376,589	1,407,147	<b>1,426,894</b>





### Commentary

It may be that the progress of LEI adoption (and perhaps all of the global data standards) will be too slow to create benefits of the magnitudes envisioned (fundamental infrastructure redesign and a systemic risk management capability) and, therefore, in need of a fundamental rethink. Some can see the GLEIS locked into an incremental approach based on a systems architecture of a decade old organizational strategy, relevant at the time given the politics resulting from the financial crisis. At that time, regulators felt the industry abused their self-regulated governance model. Regulators, generally, had left the financial industry to regulate itself, especially around the theories and implementation techniques of risk management that proved ineffective.

One of the revelations to regulators was the absence of a unique and standard identity of legal entities, an essential component of aggregating financial transaction data for both enterprise risk and systemic risk analysis. Risk calculations needed to be done on aggregated financial transaction data that were consistent across the many independent segments (silos) of financial enterprises and across the territorial barriers of global financial institutions. Today, while that insight still obtains, the approach to accomplishing this objective may need to be reconsidered in light of new technologies, new systems and network architectures, and the new realities of an accelerating digital economy fostered by an unlikely black swan event, a pandemic.

One of the early expectations for the LEI was that it would be the responsibility of registrants to record their identities and the reference data associated with it in a centralized repository. That concept, a centralized repository, was delegitimized by multiple regulators who could not see giving up control of the identity of their legal entities registered in their own jurisdictions. The ‘big elephants’ in the room on this issue at the time was SWIFT and DTCC, dominate utilities in their own spheres of influence (payments, and securities depositories and clearance respectively), that wanted to exercise control of data standards in general, and the LEI specifically, in such a centralized utility.

As was pointed out to the FSB then, such a centralized utility needn't be controlled by a single entity. Rather it was proposed that a virtualized centralized database should be implemented. In the words of the FSB's accepted recommendations in the Final Report To the FSB on the LEI "... as with the Internet, the database will appear to users to be from a single seamless system, but again as with the Internet, the data will be physically stored on different systems across the globe. Technology will deliver the logical centralisation."

Such a database could be distributed across regulatory jurisdictions controlled by each regulator, but aggregated electronically in real time. This was and still is the recommendations made to and accepted by the Financial Stability Board. It has yet to be implemented, having been swayed to the view of implementing the GLEIS the 'legacy way' (proven 'batch' methods from a bygone technology era), even though it was known at the time distributed technologies were the means by which the Internet brings together disparate data bases and the way permissioned Distributed Ledger Technology (DLT) works.

The concept of registrants responsible for recording their own identities and reference data still obtains but the LOU concept of an intermediary assigning and validating reference data compromised this requirement. Rather than a notary assuring the data validity at source (preferably an auditor), which is the way most business registry inputs are validated, that capability was assigned to multiple new entities, local operating units (LOUs). LOUs were given the authority to construct and assign the LEI code thus limiting the registrant to do so itself, which would have allowed an internal systems identifier to be synchronized with the external identifiers recognized throughout the global financial supply chain. This synchronization issue, specifically timing of legal entity code acknowledgements and updates, is an impediment to using the GLEIS as a single source golden copy, a key to the promised era of structural cost reductions global standards were to usher in.

In addition, GLEIF has been demonstrating the use of the LEI in Blockchain applications, a much-needed standard that is just being understood as a critical component of distributed digital ledgers. Without the same identity being used by all participant nodes in a blockchain for financial transactions pertaining to the same counterparty, the straight-thru-processing efficiency promised from the Blockchain's DLT cannot be realized.

However, deploying DLT for the operation of the GLEIS itself, where the LEI is the one and only identity code, would be the most practical way to solve many of the problems of the GLEIS recognized today. These problems include untimely unsynchronized databases between internal financial enterprise systems and the GLEIS; an organizationally federated LOU network that relies on periodic batch processes to update the centralized consolidated GLEIS database while operational processes at financial institutions are increasingly moving to real-time; and the confining legacy architecture of the GLEIS that will prevent global systemically important financial institutions (G-SIFIs) to act as nodes on a distributed ledger that can register and update their clients and their own LEI reference data and, most importantly, hierarchical parent relationships directly to the distributed ledger. A focus on registering the full hierarchy of legal entities of each G-SIFI can result in a more immediate benefit to themselves and to regulators than waiting to first realize full LEI adoption for all entities globally.

In the best of cases hierarchies are validated by auditors for all material entities in a corporate structure in their certification role for submitting financial data to regulators. Auditors are in the right place with the right skills and judgment to 'validate' parent relationships at source, especially since the GLEIS requires parent relationships to follow accountant's account consolidation rules. However, it still remains a question as to how such consolidation-rule hierarchies can be transformed into risk hierarchies.

Without complete hierarchies the mission of establishing hierarchical entity risk structures for analysis of global systemic risk will be thwarted. In this regard, the most prevalent thinking by industry members is to assure validation of entities through their presence on the GLEIS database. But if done on current, individual firm proprietary risk hierarchies, this does nothing to assure the same risk exposures are being consolidated at the regulatory level.

An “issue” has arisen as to access to the GLEIS database as the authoritative source (the ‘golden copy’) of legal entity data and its substitution for internal/proprietary legal entity information. This desire, deeply embedded in hoped for structural cost savings, is being thwarted by the industry members stated inability to transfer liability to an “outsourced entity” (the GLEIF) for Know-Your-Customer (KYC) validation. This is being dealt with by the GLEIF proposing to have financial institutions themselves validate LEI registration data for their clients and then register this data with a LOU. Industry members will, presumably, retain their liability for their client’s information in the GLEIS based upon their client’s representations to the industry member.

Another approach to this KYC issue, an accepted method of liability transfer, is the central counterparty (CCP), an organizational construct that passes liability to a collective entity, in this case it could be the GLEIF or an affiliated entity (not yet in existence). Such an entity would have minimum capitalization requirements, unlike CCP’s guaranteeing financial transactions. It will only guarantee fraudulent LEIs and its monetary consequences, up to a limit, but first reduced by losses incurred and recovered from CCPs guaranteeing associated financial transactions and, secondarily, from financial institutions that introduced the legal entity into the financial system.

Another issue, that of maintenance of LEI reference data in the GLEIS affected by legal events (mergers, acquisitions, spin-offs, recapitalizations, etc.) that change ownership or control has still to be addressed. This is a critical function of the GLEIS that can affect the risk and control hierarchies of legal entities. Timing of those changes, synchronized between updates in industry members own systems and in the GLEIS, is a critical aspect of the GLEIS usefulness.

Otherwise, the GLEIS database will be viewed as just another source and the LEI being just another code adding additional cost and complexity to the industry’s infrastructure. That infrastructure has already been bloated with the costs associated with 25 new trade repositories, a new Derivatives Service Bureau, 33 LOUs, 75 Registration Agents standing between the registrants and the LOU, and the GLEIF itself.

A final set of issues, really early accomplishments of the GLEIF, is the incorporation of the LEI into the XBRL taxonomy and the use of the LEI in certified messages. These LEI ‘use cases’ are critical for the digital economy, especially in financial services where an increasingly at-home financial industry work force and on-line remote customer access caused by the Pandemic economic lock down is dependent on secure and trusted data, communications and identity.

Finally, the GLEIF has recently begun using a digital LEI certificate to sign their annual audit report, the first time such a certified digital signature was used to sign an annual report. The report is also now being rendered in the Inline XBRL format, demonstrating the use of an immutable and secure legal entity code embedded in a single machine and human readable format.

Many of these issues and accomplishments cited above were addressed in a recent [GFMA and GLEIF webinar](#) on the LEI that featured the CEO and a Board member of the GLEIF.

**For further Information Contact**



**Allan D. Grody**

Financial InterGroup - USA

New York, New York USA

Tele. +1 917 414 3608

Email [agrody@financialintergroup.com](mailto:agrody@financialintergroup.com)

[www.financialintergroup.com](http://www.financialintergroup.com)

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