



The Global LEI Initiative

Reporting on LEI Registrations, Renewals and Relationship Data

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 **March, 2020 Global LEI Data Quality Report** and FIG's historical LEI data.

Total LEI registration at the end of March reached another all-time high. The exciting part of the increase is that 31,839 newly registered LEIs were recorded this month, the eighth largest monthly increase since the LEI project was initiated back in 2012. This monthly increase is due largely to LEI registrations being accelerated by the EU's new mandate to require LEIs for collateral posting under the Securities Financing Transaction Regulation (SFTR). This rule, and others set to go into force in the US mid-year should take full effect and increase LEI registration through 2021.

Lapsed LEIs are at another all-time high, now representing 30.9% of all LEIs vs. last month's 30.8%. While total Lapsed LEIs should increase, the percentage should show a decline over the next twelve months as new LEI registrations ramp up for meeting the SFTR rule. In the US, the CFTC recently mandated renewals for the 151 significant financial entities engaged in the swaps markets while passing on mandating the same for thousands of smaller participants based on cost considerations.

LEI registration for parent relationships (both ultimate and immediate) also increased, in line with new registrations and renewals. Exceptions will continue to thwart the mission of establishing hierarchical entity risk structures for analysis of global systemic risk. This is a major issue still unresolved from the 2007-2008 financial crisis and again arises as an issue in this Coronavirus Pandemic crisis. The buildup of a financial contagion resulting from global systemic risk was THE issue regulators had hoped to be able to monitor at a more granular level through the LEI and other global data standards initiatives.

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 exceptional cost to be borne by the LOUs who are not trained to interpret accounting rules to validate hierarchical structures. Even so, the data that third parties utilize comes directly from registrants, and are either placed directly by them with a business registry (many require notarization) or sourced from them and interpreted by data vendors.

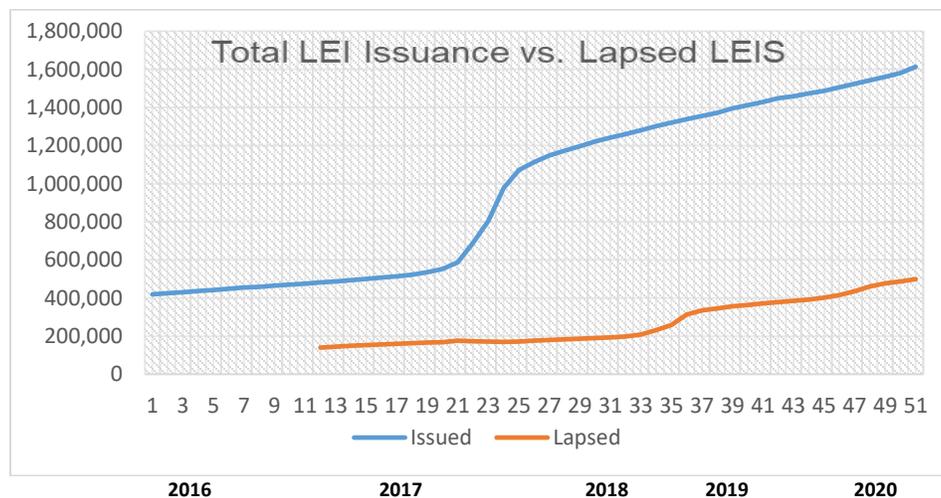
In the best of cases it is validated by auditors for all material entities in a corporate structure in their certification role for submitting financial data to regulators. In determining materiality under account consolidation rules, they must review all new entities. Auditors are in the right place 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.

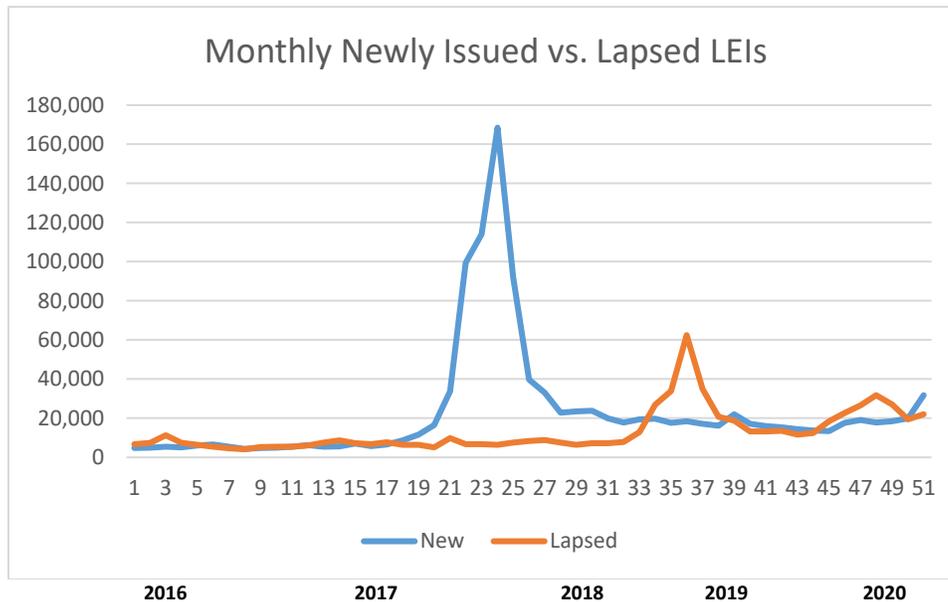
LEI Issuance and Non-Renewals (Lapsed LEIs)

LEI registration reached another all-time high of 1,613,119 registered LEIs. Lapsed LEIs are at another all-time high of 498,917. Lapsed LEIs have increased slightly by .1% and now represent 30.9% of all registered LEIs. Without solving this high lapsed rate, the data quality of the GLEIS database will increasingly become suspect, negating the expected value of the LEI as the best-in-class source for legal entity identification.

2016 – 2019 Year-to-Year Comparison vs. Jan & Feb 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
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
Total Lapsed LEIs issued at Year-end and month-end	139,461	169,778	313,915	459,436	476,637	486,546	498,917
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%	30.8%	30.9%
Year-to-Year Monthly Average Comparisons							
Newly Issued	4,976	40,237	29,987	16,652	18,447	19,864	31,839
Lapsed	6,300	7,134	16,422	19,802	27,045	19,365	21,996
Net LEI Increase/decrease	-1,324	33,103	13,565	3,150	8,598	499	9,843
Year-to-Year and Month-end Relationship Data							
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	210,886	212,877	215,655
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637	120,961	122,046	123,529
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
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





Relationship Data collection

Relationship data collection, the recording of LEIs for parents and ultimate parents of legal entities, and the reasons for opting out in not doing so, has been recorded in the global LEI database since May, 2017.

The LEI ROC defines “ultimate accounting consolidating parent” as the highest-level legal entity preparing consolidated financial statements, as well as their “direct accounting consolidating parent”. In both cases, the identification of the parent would be based on the accounting definition of consolidation applying to this parent.

In the recording of these relationship records, the definitions below are those used by GLEIF to instruct registrants and LOUs on their submission of parent relationship data for the Reporting Exceptions file when there is no LEI being reported for the direct and/or ultimate parent

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.

Listed in the chart on the next page are the EXCEPTION REASONS and number of exceptions reported in the last two (2) years when declining to provide an the immediate and/or ultimate parent relationship record. Notable over the two-year period is the decline in the number of new LEI registrants and/or renewed LEIs that have reported a LEI when first reporting NO LEI. Also notable is the nearly fivefold increase in the CONSENT NOT OBTAINED category. Finally, the largest exception categories NON-CONSOLIDATING, NO KNOWN PERSON and NATURAL PERSONS are all dependent on adhering to the method of consolidation for accounting purposes which is different from aggregation for risk purposes, the regulators objective for the LEI project. These categories need to be understood more granularly and repurposed for obtaining LEIs for risk hierarchies. (A definition of all exception categories follows immediately after the Chart).

EXCEPTION REASON	From Inception until March 2018 Month-end	From Inception until March 2020 Month-end
NON_CONSOLIDATING	516,175	906,030
NO_KNOWN_PERSON	427,734	693,225
NATURAL_PERSONS	365,066	660,808
NO_LEI	189,161	165,538
CONSENT_NOT_OBTAINED	43,345	220,645
BINDING_LEGAL_COMMITMENTS	5,971	8,933
LEGAL_OBSTACLES	6,271	10,330
DISCLOSURE_DETRIMENTAL	3,755	6,567
DETRIMENT_NOT_EXCLUDED	3,062	5,684
Total Exception Records	1,560,540*	2,656,576**
Total LEIs Issued	1,148,170	1,613,119

Note: GLEIF began accepting Level 2 data from prior and newly registered LEIs as of May 1, 2017. The above data was supplied in collaboration with **pTools (www.ptools.com)** a Dublin, Ireland and UK domiciled technology company driving digital transformation in finance.

* *GLEIF reports 1,560,558 Exception Records*, the difference of 18 records attributed to timing differences in receipt and processing of the files.

** *GLEIF reports 2,653,260 Exception Records*, the difference of 3,316 records attributed to timing differences in receipt and processing of the files

EXCEPTION REASONS are generally defined by GLEIF as:

“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).”

The specific EXCEPTION REASONS are defined as:

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 a 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 a LEI, or it has a 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.

Additionally, statistics on non-validated parent LEIs over the three (3) years the GLEIF has been reporting relationship data has been consistently in the same 50% - 60% range. This has resulted in the industry and regulators reporting limited use of the relationship data maintained in the Global LEI System for risk assessment. The LEI ROC has recognized that the recording of ultimate and immediate parent information has, so far, fallen short of complete hierarchies of LEIs as requested by the FSB.

It still remains to be understood how such permitted exceptions and non-validated parent LEIs will affect the FSB's and the BIS's (Bank for International Settlements) long term objective of aggregating financial transaction data for risk management at the enterprise level (the BIS's concern) and for systemic risk analysis (the FSB's concern). Both organizations have reported on their inability to use the LEI parent relationship data for such purposes.

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