



The Global LEI Initiative:
An experiment of a global industry/private sector systems initiative still in beta
April 2021

LEI Statistics and Comparisons	2
The Global Public-Private Partnership Model in Financial Services.....	3
The Collective Action Problem of Regulators	3
The Global LEI Model.....	4
The Regulatory Oversight Committee (ROC) – A New Governance Body for Regulator- Industry Cooperation	6
GLEIF Reaches Beyond its Financial Borders	6
For further Information.....	8

LEI Statistics and Comparisons

The Global Legal Entity Identification Foundation (GLEIF) has been reporting registration statistics on the Legal Entity Identifier (LEI) since January, 2016 and LEI Relationship data since May, 2017. This Research Note on annual, month-end and year-to-date LEI issuance is based on [GLEIF's April 9, 2021 Global LEI Data Quality Report](#) and [April 21, 2021 1st Q 2021 Business Report](#), and FIG's historical LEI database, now accumulating data into its sixth year.

Registered LEIs this month reached 1.839 million vs last month's 1.817 million. Newly issued LEIs this month was 22,166 vs. last month's 19,491, somewhat above the monthly average of last year of 19,364. This month's non-renewal (lapsed) LEIs were 19,981, somewhat higher than last month's 15,688 and also higher than last year's monthly average of 18,778. An overall lapsed rate comparing total non-renewed LEIs to total issued LEIs is 32.7% this month vs. last month's 32.5%. For two months now the number of newly issued LEIs has exceeded non-renewed LEIs after five months of the reverse, non-renewed LEIs exceeding monthly newly issued LEIs. If non-renewals continue to grow and exceed new issuance the ability to fund the GLEIF will be compromised. This may be one reason GLEIF is entering new, non-financial markets for issuing LEIs.

Relationship data is following past patterns: the recording of permitted exceptions to opt-out of identifying a LEI for either or both parents is consistently growing at approximately twice the number of monthly newly issued LEIs; and the recording of unique LEIs reporting both parents increasing by about 1000 per month.

LEI Issuance & Non-renewed (Lapsed) LEIs	Year - Year 2016 - 2020					Monthly Q 4 2020			Monthly Q1 2021		
	2016 Year-end	2017 Year-End	2018 Year-end	2019 Year-end	2020 Year-end	Oct 2020 Mo-end	Nov 2020 Mo-end	Dec 2020 Mo-end	Jan 2021 Mo-end	Feb 2021 Mo-end	Mar 2021 Mo-end
Total LEIs issued at Year/Month-end	481,522	975,741	1,337,925	1,542,037	1,777,458	1,735,040	1,756,978	1,777,458	1,797,171	1,817,082	1,839,494
Total Non-renewed (Lapsed) LEIs issued at Year/Month-end	139,461	169,778	313,915	459,436	585,029	546,546	564,253	585,029	588,972	590,265	600,952
Non-renewed (Lapsed) rate	29.0%	17.4%	23.5%	29.8%	32.9%	31.5%	32.1%	32.9%	32.8%	32.5%	32.7%
	Monthly Averages										
Newly Issued	4,976	40,237	29,987	16,652	19,364	18,109	21,676	20,448	19,485	19,491	22,166
Non-renewed (Lapsed) LEIs	6,300	7,134	16,422	19,802	18,778	20,499	25,228	26,782	22,270	15,688	19,981
Net LEI Increase/Decrease	-1,324	33,103	13,565	-3,150	586	-2,390	-3,552	6,344	-2,785	3,803	2,185
Relationship Data											
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	230,755	225,173	227,462	230,755	232,516	234,116	236,715
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	128,878	130,164	132,096	133,025	133,471	134,596
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,965,315	2,886,841	2,927,493	2,965,315	3,002,881	3,041,991	3,086,072
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,563,458	1,524,235	1,544,567	1,563,458	1,580,985	1,600,106	1,621,675

The Global Public-Private Partnership Model in Financial Services

The global LEI initiative is the first global financial data standards initiative promoted as a global government/private sector partnership. It is also the first global financial technology effort under such a public/private partnership model. Such partnerships are a foundational way in which financial regulators accomplish their mission of overseeing those they regulate.

In public-private sector initiatives, regulators consult with the private sector and, thereafter, make their decisions, not necessarily in democratic fashion with industry members as they have legal status to compel private sector compliance with agreements, at least in their own territories. These partnerships, however, are fragile as they require those who are regulated to carry out the agreements. Not all agreements are seen by individual firms, or collectively by their trade associations, as beneficial to their own interests nor to their stakeholders. Fines, increased capital charges, imposition of outside monitors, forced management changes, compelled divestitures and, at the extremes, forced liquidations, disbarments and criminal charges of executives are the sticks of compliance. It may be that a better alternative would be to provide positive regulatory incentives directly related to the benefits expected, such as a reduction in operational risk capital.

What complicates global public-private partnerships, especially in the financial services industry, is that there is no global regulator to compel compliance or provide positive incentives. Instead, there exists at the global level only the power of persuasion through the bully-pulpits of the G-20's Financial Stability Board (FSB); the International Organization of Securities Commissions (IOSCO); and the Bank for International Settlements (BIS) which hosts the Committee on Payments and Market Infrastructures (CPMI), the International Association of Insurance Supervisors (IAIS), and the Basel Committee on Banking Supervision (BCBS).

The Collective Action Problem of Regulators

In many sovereign jurisdictions, multiple regulators oversee a myriad of regulations for the same ultimate financial parent. It gets further complicated when data sent to each regulator has to be aggregated to see a comprehensive view of risk building up within a single enterprise across its many business silos and across its many regulators within its own sovereign boundaries. The final complication arises when regulators wish to observe systemic risk building up across multiple financial enterprises across multiple sovereign jurisdictions.

In 2009 the G-20, in their first post-financial crisis meeting, set a goal of stabilizing the financial system. In this effort, they empowered the FSB as the working group of financial regulators and central bankers to carry out this mandate. The FSB, in turn, would first turn to setting global data standards. This was necessary for regulators to receive both consistent balance sheet data and, for the first time, consistent financial transaction data. Receiving granular transaction data was a pre-requisite for aggregating data across regulatory jurisdictions to assure that regulators could, in the future, observe the contagion of systemic risk building up across the global financial system.

The cornerstone of this data standards effort was a singularly unique, standardized identifier for each financial market participant wherever they do business across the globe – the legal entity identifier (LEI). The first use would be in aggregating over-the-counter derivatives transactions (Swaps) for reporting to regulators. Swaps was a global business that had grown significantly without much regulation and was deemed one of the causes of the financial crisis. Beyond Swaps it was anticipated the LEI would be used to report other financial instrument data so that granular and standardized transaction data could be collected by regulators.

The origins of the need for a standardized legal entity identifier go back nearly four decades. Financial industry trade groups, the International Standards Organization, multiple standards groups, and various ad-hoc collaborative groups attempted to devise a universal standard identifier for business participants in financial markets. None succeeded, mainly because standards groups were competitive with each other, still are, and no one wanted to change their legacy systems to accommodate a new identifier, each arguing in favor of the one their organizations used or supported. This obtains as well for regulators who also operate with legacy systems and proprietary data standards.

With a near collapse of the financial system as their tail wind, regulators pushed an agenda that only regulatory compulsion could overcome the collective action problem of the industry. But with over 200 sovereign entities in the world, all having their own financial regulator, some having multiple financial regulators, it now becomes a collective action problem for regulators. Having nodded approval to implement the LEI within a public-private sector model, it remained (and still does) for many of them to do so.

The Global LEI Model

To report a full picture of activities by any one trading participant or counterparty in a financial transaction, each regulation in each jurisdiction must either be changed to accommodate the use of the LEI, or where no regulation exists, new regulations written. To achieve a full global picture of the same legal entity operating under multiple regulations in one jurisdiction or in multiple jurisdictions, the legal entity itself must be compelled to use the same LEI for each communication to each of its regulators.

What is striking is that in the US, where the LEI was first championed by both the SEC and the CFTC, the LEI has failed to be enthusiastically endorsed by legislators. The first instance of this apathy toward the LEI can be found at the draft stage of the Dodd-Frank legislation when reference to the LEI in the newly established Data Center of the newly organized Office of Financial Research (the “Office”) was exorcised from the legislation without any public discussion immediately before it went to the floor for passage. In its place was this general statement *“The Data Center shall prepare and publish, in a manner that is easily accessible to the public— (i) a financial company reference database; (ii) a financial instrument reference database; and (iii) formats and standards for Office data, including standards for reporting financial transaction and position data to the Office (of Financial Research).”*

It was left, in a subsequent consultation, to the Office of Financial Research (OFR) to define the general parameters and eligibility for registering an LEI. This eligibility was incorporated into subsequent work by the FSB where its specific characteristics were more granularly defined and a public-private partnership proposed and accepted to oversee and implement the LEI. The eligibility for an LEI was specifically and exclusively focused on financial entities and financial transactions as described below in the FSB's "Recommendation 8 - Scope of Coverage"

Eligibility of 'legal entities' to apply for an LEI should be broadly defined, in order to identify the legal entities relevant to any financial transaction. No more than one LEI may be assigned to any legal entity.

For purposes of this definition, the term 'legal entity' refers to a legal person or structure organised under the laws of any jurisdiction. Legal entities include, but are not limited to, unique parties that are legally responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (eg trust, partnership, contractual, etc). It excludes natural persons, but includes governmental organizations; and supnationals, defined as governmental or non-governmental entities established by international law or treaty or incorporated at an international level.

Examples of eligible legal entities include, without limitation: all financial intermediaries; banks and finance companies; all entities that issue equity, debt or other securities for other capital structures; all entities listed on an exchange; all entities that trade stock or debt; investment vehicles, including mutual funds, pension funds and alternative investment vehicles constituted as corporate entities or collective investment agreements (including umbrella funds as well as funds under an umbrella structure, hedge funds, private equities, etc); all entities under the purview of a financial regulator and their affiliates, subsidiaries and holding companies; and counterparties to financial transactions.

The OFR championed the LEI, took ownership of the LEI as its originator and embraced the work of the FSB in further promoting the LEI. Later a US congresswoman, Rep. Maloney of NY, would chide the then OFR Director, Richard Berner, during his annual report to Congress, for pursuing the LEI. Noting she was the author (more probably the editor) of the section in Dodd-Frank pertaining to such data, she said no such reference to the LEI was contained in the legislation. As noted previously, she was right, its reference in the legislation was pulled out in its drafting stage even though the promoters of it (and the authors of the draft) believed it was there.

In 2019 Rep. Maloney authored the Financial Transparency Act (H.R.4476 - Financial Transparency Act of 2019) "to promulgate data standards, meaning a standard that specifies rules by which data is described and recorded, for the information reported to member agencies by financial entities...". The language calls for "a common nonproprietary legal entity identifier". This legislation, yet again makes no reference to the FSB's globally sponsored LEI. This is in stark contrast, for example, to the European Union's (EU's) legislative language that mandates a LEI exclusively as the legal entity identifier across all its directives for regulatory reporting.

The EU has championed the LEI for all its regulatory reporting, starting with its derivatives directive but extending it to all subsequent directives for the reporting of financial transactions of any financial instrument. To the EU countries it was an easy decision as each needed to send financial transactions to then evolving central EU authorities. Required EU oversight demanded a standard for each country's reporting and the timing and development of the LEI fit in well with this need.

The Regulatory Oversight Committee (ROC) – A New Governance Body for Regulator-Industry Cooperation

The Regulatory Oversight Committee (ROC) is a group of more than 65 financial markets regulators and other public authorities and 19 observers from more than 50 countries. It promotes the broad public interest by improving the quality of data used in financial data reporting, improving the ability to monitor financial risk, and lowering regulatory reporting costs through the harmonization of these standards across jurisdictions.

The ROC was stood up by the FSB in 2012 to oversee the Global Legal Entity Identifier (LEI) System since its establishment in 2012. In 2020 the FSB announced an expanded mandate for the ROC to become the International Governance Body (IGB) of the globally harmonized Unique Transaction Identifier (UTI), the Unique Product Identifier (UPI) and the Critical Data Elements (CDE). As IGB of the UTI, UPI and CDE, the ROC also becomes the overseer of the designated UPI service provider, The Derivatives Service Bureau (DSB).

At some point, to complete and centralize global financial data standards oversight, the FSB should consider the ROC for overseeing the Association of National Numbering Agency (ANNA) and its International Securities Identification Number (ISIN). This should include ANNA's associated service bureau that maintains the data base of ISIN's and associated identifiers - the Market Indicator Code (MIC), the Categorization of Financial Instrument (CFI) code, and the Financial Instrument Short Name (FISN). This is meaningful as ANNA registers and maintains most of the underlying financial instruments (securities such as stocks, bonds, warrants, rights, etc.) of which derivatives are derived from and linked to in financial transaction reporting.

Already this consolidation of regulatory oversight in the global financial services industry at the more granular operating level is without precedent and long overdue. Global data standards need a central point of global governance. Prior to this the only place such global governance took place was within a myriad of committees of voluntary industry members within the International Standards Organization (ISO), itself a voluntary, independent, non-governmental international organization with a membership of 165 national standards bodies.

GLEIF Reaches Beyond its Financial Borders

To support more use cases for the LEI, GLEIF has created a digital signature certificate containing the LEI and a virtual LEI (vLEI) that is a digitally verifiable, cryptographical secure, privacy

respecting LEI. These additional LEI services will be offered to enable automated identity verification between counterparties of financial market participants and in signing of digital documents submitted to financial regulators. In a broad reinterpretation of the LEI to support the public good beyond its original financial industry mission given to it by the G-20 and the FSB, GLEIF is extending its mission to support all business sectors globally with a LEI.

GLEIF intends to solicit non-financial businesses not engaged as financial market participants as well as business registries, digital certification authorities, and trust service providers to obtain a LEI for their clients, much like the Validation Agent will do for its financial clients. The business case presented to these non-financial entities is to use the digital certificate LEI for signing documents and the vLEI in secure digital communications.

GLEIF was the first entity to use the digital certificate to sign its annual report. Recently, China Financial Certification Authority is the first entity to agree to use the digital certificate and also to test the vLEI. They have also become the second Validation Agent, JP Morgan being the first.

While the digital certificate and the vLEI efforts are laudable as another use case for adoption of the LEI, the use of the LEI as the underlying cryptographically secure trusted identifier in the vLEI may already be vulnerable to intrusion. The central data base of LEIs, a single source of LEIs, is vulnerable to disruption and hacking. It is not timely updated when legal entity reorganizations take place and at any time only two-thirds of the LEIs are confirmed accurate on its annual renewal date.

The presence of the LEI as a key in what is supposed to be anonymous financial transactions in some 25 Trade Warehouses scattered around the globe is susceptible to cyber intrusion. The LEI is attached to the transaction and thus has the potential of both manual and electronic observation of who are the counterparties to a specific trade, a potential violation of regulations if this information is shared with the transaction's non-participating counterparties.

In extending the LEI registration to all industry sectors globally it has the potential of deflecting from the LEIs still unfulfilled primary mission of its use for cost reduction in industry infrastructure, better risk management in financial enterprises, and improvements in regulators' risk oversight. However, using the relationship data for risk management is, at this time, an unfulfilled objective.

The benchmark used for defining such relationship data (accountants' financial reporting consolidation rules) is not consistent with control and ownership rules used for risk management. GLEIF reports that 84% of registrants opt out of providing an LEI for either an immediate parent or its ultimate parent because they are not defined as such in using account consolidation definitions.

It has always been said that the cost and risk missions can only be accomplished by registering all financial market participants and their organizational structures of ownership and control, significant tasks yet remaining.

Perhaps it would be wiser to concentrate first on the global systemically important financial institutions (there are only 30 G-SIFIs) and, through them, their financial market participant clients. Focusing on the G-SIFI's through their becoming Validation Agents would complete the mission in this one most significant and systemically important segment of finance. It would be the quickest way to provide the majority of the benefits envisioned for the LEI initiative.

For further Information



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