



Progress in LEI Issuance, Renewals and Recording of Parent LEIs
by
Financial InterGroup
August 2020

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 August, 2020 Global LEI Data Quality Report](#) and FIG's historical LEI database.

Summary of LEI Statistics

The five years of accumulated statistics presented in the charts and tables that follows show data that is stabilizing around 1.6 million registered LEIs (this month's year-to-date count is 1,685,721 vs. last month's 1,668,996 LEIs). The average new LEIs per month this year is 20,214 (this month it is 16,511 vs. last month's 16,798). Also, a fairly stable non-renewal (lapsed) rate around its historical high of nearly 31% has been the norm this year (this month it is 30.9% vs. last month's 30.8% and the prior month's 30.7%).

LEI registration for parent relationships (the sum of ultimate and immediate parent LEIs registered) increased, now at 221,11 vs. last month's 219,369, representing a total of 126,554 individual LEIs vs. last month's 125,587. Exceptions for not obtaining a LEI are stabilizing, although reaching another all-time high of 2,761,054. The reported number of LEIs with "Complete Parent Information" is 1,477,032 vs. last month's 1,461,023. This number is the sum of all ultimate parent/intermediate parent LEIs and the number of opt-out exceptions for one or more ultimate and intermediate parents.

LEI Hierarchies for Risk Analysis

The completeness concept of hierarchies of LEIs adopted by GLEIF is a bit of a misnomer as it allows for the action of not supplying a LEI for a parent because it is permitted not to under exception rules. Thus, the regulatory mission of improving enterprise and systemic risk still remains unfulfilled. A critical component of such regulatory capability was to be vested in the GLEIF's database of hierarchical LEI structures for each ultimate legal entity parent. These structures were to be used to accurately and consistently aggregate transactional data from newly created trade repositories containing newly standardized data. To date trade repository data is unusable for risk purposes as there still no complete set of standardized data - for entities, for products nor for hierarchies of LEI ownership.

The FSB in their peer review found that only 6% of the financial enterprises in their Group of 20 member countries have recorded parent relationships. Getting this information, and getting it accurately, is a major concern. The GLEIF as recently as July 23 of this year and have consistently reported in their [Global LEI System Business Report Q2 2020](#) that over half of the data currently available for parent LEI identification has been supplied without any validation by the intermediaries (local operating units) that

were supposed to validate this data. The method accepted by the GLEIF of providing parent relationships is through the use of accountant's account consolidation rules for financial reporting. While following standard global accounting rules, a convenience at the time of the decision, it was left to be determined how such hierarchical structures could be useful in risk analysis where different LEI aggregation methods obtain.

A compelling step to this would be for the largest multi-LEI structured financial entities to complete the mission by an initial focus on a complete set of LEIs and their hierarchies for the Global Systemically Important Financial Institutions (G-SIFIs). With financial products yet to be identified with its issuers (the mapping of product identifiers [ISINs] to LEIs is only for new issues) the final phase of the global LEI initiative of 'who owns what' will languish unless accelerated by collaborating G-SIFIs.

These giant global entities are the ones that interface with most of the world's financial market participants. They do credit evaluations on their clients, introduce their trades into market infrastructure entities such as clearing facilities and payment systems and, most importantly, are responsible for their default within these infrastructure entities. Therefore, these G-SIFIs are prime candidates for spreading the contagion of systemic risk and, therefore, have had a unique status among regulators since the financial crisis.

There are 30 [G-SIFI banks](#), 8 headquartered in the US, 8 in the European Union, and 3 in the UK, each group coming under a single headquarters oversight regulator for risk analysis and risk capital requirements. Enlisting the Federal Reserve, European Central Bank and Financial Conduct Authority respectively for each of the three groups to complete the LEI mission is an easier effort than enlisting regulators in 200 countries. To further the effort, these G-SIFI banks should be compelled to enlist the assurance services of the four largest public auditors that audit one or more of these banks. They are best able to interpret the accounting consolidation rules for LEI hierarchies. This will assure the completeness of the LEI data.

Completing the Mission

To complete the mission standards will be needed across all reportable financial transactions: UPIs (Unique Product Identifiers) for categorizing derivatives; financial transaction data element CDE's (critical data elements) for identifying a derivative transaction; UTIs (Unique Transaction Identifiers (UTIs) for identifying specific derivative transaction pairs; standards for payments, payments vs. delivery, and payment transfers; standards for margin, repurchase agreements and collateral postings and substitutions; standards for currency exchange transactions; and reference data for equities, bonds, collective funds, indices and exchange traded funds.

The good news is all of these standards are being acted upon, some well advanced others not so. The bad news is that these efforts, in their implementation, are being driven by multiple trade associations, hundreds of committees and advisory groups, hundreds of regulators, and thousands of practitioners whose knowledge is solicited and accepted based upon best practices, a consensus-producing concept that perpetuates past legacy ideas not future innovations.

The overall standards project is run by the Financial Stability Board which was given the responsibility by the G-20 nations to stabilize the global financial system. They operate on the consensus method which lowers the barrier to implementation by accepting legacy knowledge as best practices. However, in

today's rapidly digitizing, real-time gig economy looking backward for things that worked in the past, that being the consensus concept of moving forward, no longer obtains.

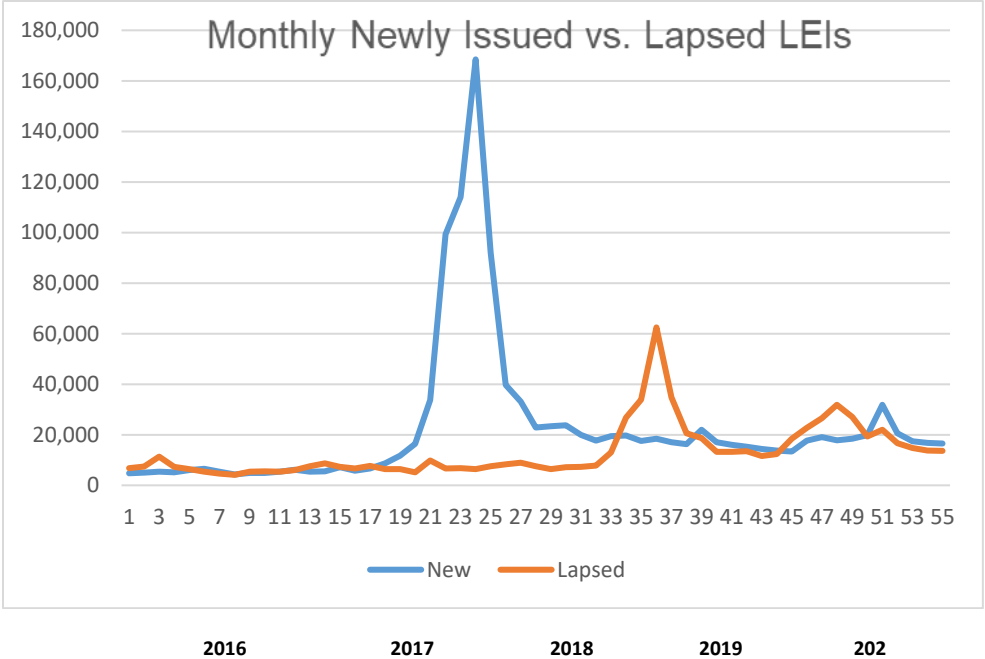
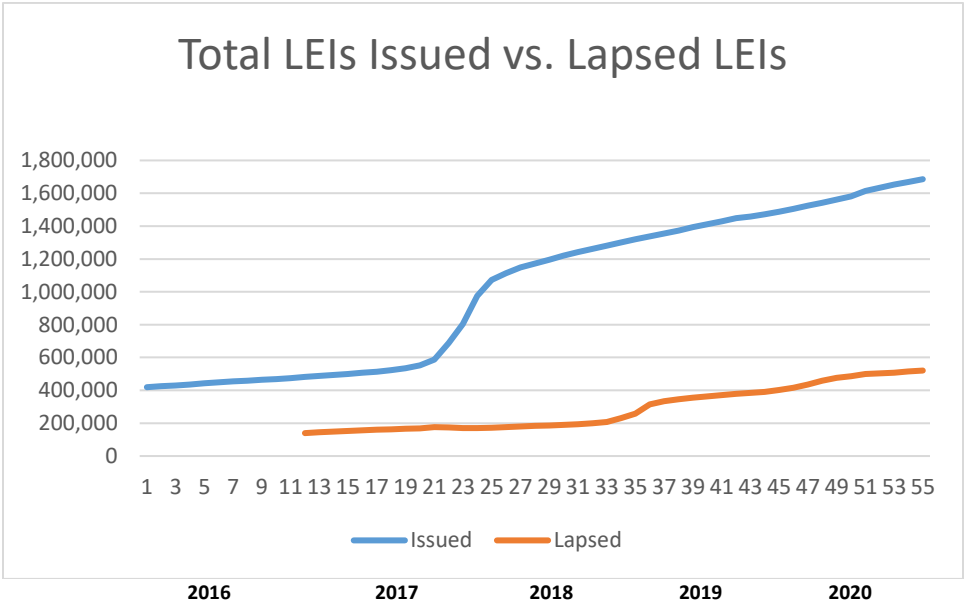
We need to look to a better, faster, more innovative way. That way is soliciting the 19 G-SIB banks referenced above, or some sub-set, enticed by operational risk capital relief incentives and the huge infrastructure cost savings that are available by standardizing financial transaction data. Sitting around a table, convened by their CEOs, along with their Big 4 auditors and three regulators, it will establish importance and give direction to these efforts.

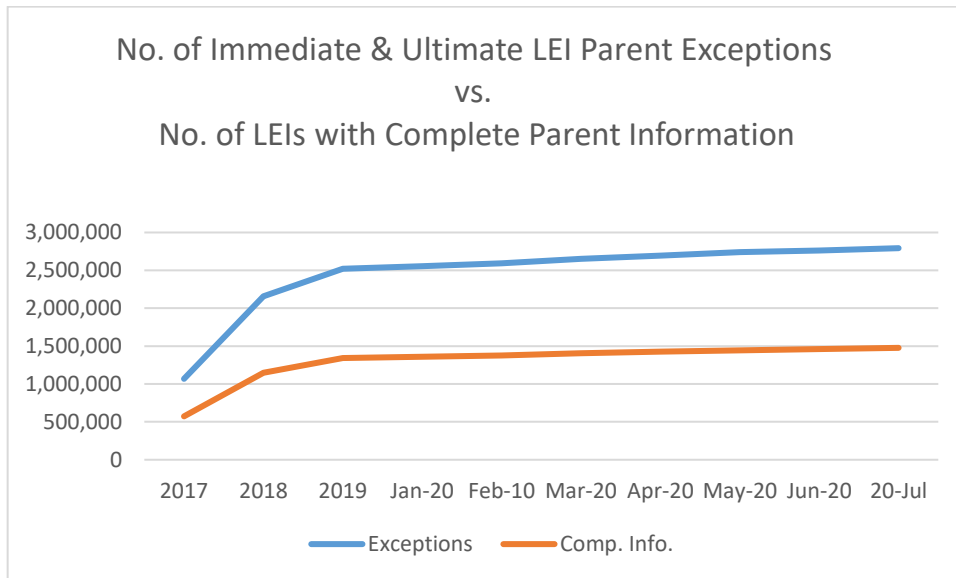
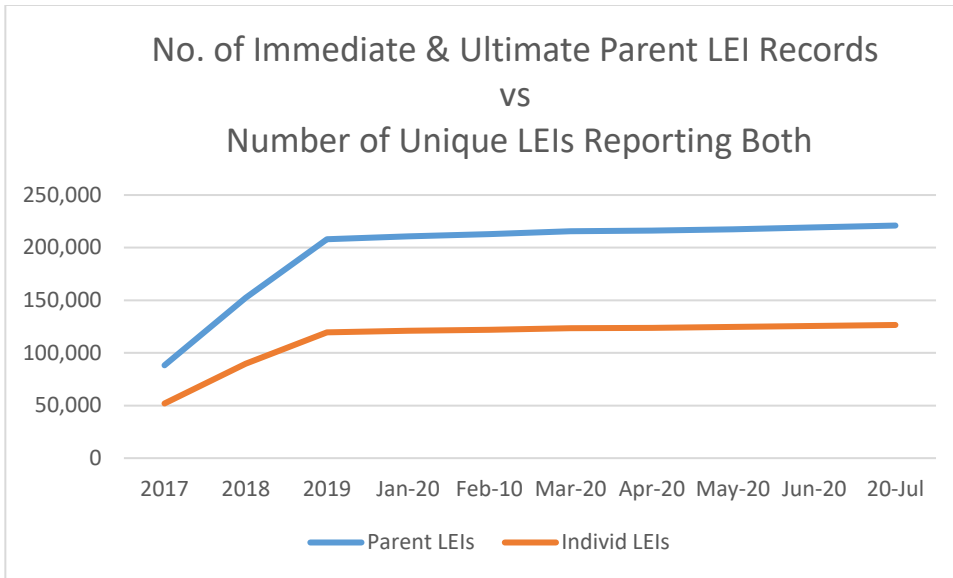
LEI Statistics in Charts and Graphs

LEI Issuance and Lapsed LEIs – Year-to-Year Comparison	2016 Year-end	2017 Year-End	2018 Year-end	2019 Year-end
Total LEIs issued at Year-end	481,522	975,741	1,337,925	1,542,037
Total Lapsed LEIs issued at Year-end	139,461	169,778	313,915	459,436
Lapsed rate	29.0%	17.4%	23.5%	29.8%
Year-to-Year Monthly Average Comparisons				
Newly Issued	4,976	40,237	29,987	16,652
Lapsed	6,300	7,134	16,422	19,802
Net LEI Increase/Decrease	-1,324	33,103	13,565	-3,150
Year-to-Year Relationship Data				
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015

January – July 2020 Month-end LEI Issuance and Renewal (Lapsed) Data	Jan 2020 Month-end	Feb 2020 Month-end	Mar 2020 Month-end	Apr 2020 Month-end	May 2020 Month-end	June 2020 Month-end	July 2020 Month-end
Total LEIs issued at month-end	1,560,689	1,580,862	1,613,119	1,634,150	1,652,111	1,668,996	1,685,721
Total Lapsed LEIs issued at month-end	476,637	486,546	498,917	503,522	507,993	514,724	520,459
Lapsed rate	30.5%	30.8%	30.9%	30.8%	30.7%	30.8%	30.9%
Monthly Average Comparisons							
Newly Issued	18,447	19,864	31,839	20,655	17,383	16,798	16,511
Lapsed	27,045	19,365	21,996	16,636	14,746	13,752	13,584
Net LEI Increase/decrease	-8,598	499	9,843	4,019	2,637	3,046	2,927

January – July 2020 Month-end Relationship Data	Jan 2020 Month-end	Feb 2020 Month-end	Mar 2020 Month-end	Apr 2020 Month-end	May 2020 Month-end	June 2020 Month-end	July 2020 Month-end
Number of Immediate & Ultimate LEI Parent Records	210,886	212,877	215,655	216,185	217,548	219,369	221,011
Number of Unique LEI's Reporting both Parent Relationships	120,961	122,046	123,529	123,803	124,558	125,587	126,554
Number of Immediate & Ultimate LEI Parent Exception Records	2,553,656	2,592,289	2,653,260	2,693,406	2,739,020	2,761,054	2,792,972
Number of LEIs with Complete Parent Information	1,357,419	1,376,589	1,407,147	1,426,894	1,444,800	1,461,023	1,477,032





For further Information Contact



Allan D. Grody
 Financial InterGroup - USA
 New York, New York USA
 Tele. +1 917 414 3608
 Email agrody@financialintergroup.com