



The Global LEI Initiative
Entering the Fifth year of Reporting on LEI Progress
by
Financial InterGroup
February 2020
Summary

LEI Registrations, Renewals and Relationship Data

This past month (January, 2020) there were 18,447 newly issued LEIs, higher than the average monthly LEI issuance over the past year of 16,652. This followed the dramatic pick-up in average monthly LEI registrations to 40,237 in 2017 and 29,987 in 2018 owing to a boost from the EU's MiFid II "No LEI no Trade" edict.

At the initiation of reporting LEI progress by the GLEIF in 2016, on average 4,976 LEIs were issued monthly. At that time the EU's EMIR and the US's CFTC's Swaps legislation was the driving force, requiring over-the-counter derivatives transactions to be reported with a LEI to regulatory prescribed trade repositories.

LEI registration at the end of January reached another all-time high of 1,560,689 vs. 1,542,037 registered LEIs at year-end 2019. LEI registrations in 2020 will be moderately accelerated by the EU's new mandate to require LEIs for collateral posting under the Securities Financing Transaction Regulation (SFTR). While the rule takes effect in April, 2020 financial market participants are not required to implement the regulation until 12 months later (by April 2021).

Lapsed LEIs are at another all-time high of 476,637 vs. last month's 459,436 and now represent 30.5% of all LEIs vs. last month's 29.8%. Without a solution to compelling renewals, Lapsed LEIs will continue to increase and impact the quality and, hence, reliability and value of the LEI.

LEI registration for parent relationships (both ultimate and immediate) also increased, now at 210,886 representing 120,886 individual LEIs. Exceptions noted by registrants for not obtaining LEIs also reached another all-time high of 2,553,656 vs. last month's 2,519,418. Exceptions will continue to thwart the mission of establishing hierarchical entity risk structures for analysis of systemic risk.

Commentary

GLEIF awaiting EU's boost to LEI registrations through Securities Financing Transaction Regulation (SFTR)

Further LEI registrations expected from US's Financial Transparency Act which requires a common nonproprietary legal entity identifier for all entities reporting to member regulatory agencies

The LEIROC, the multi-regulatory global overseer of the LEI, has been nominated for a governance responsibility for other newly established global data standards

Report

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; on the progress of Relationship Data collection; and our Commentary. Data sources include the latest reports - GLEIF's **January, 2020 Global LEI Data Quality Report** and GLEIF's **Global LEI System Business Report | Q4 2019**.

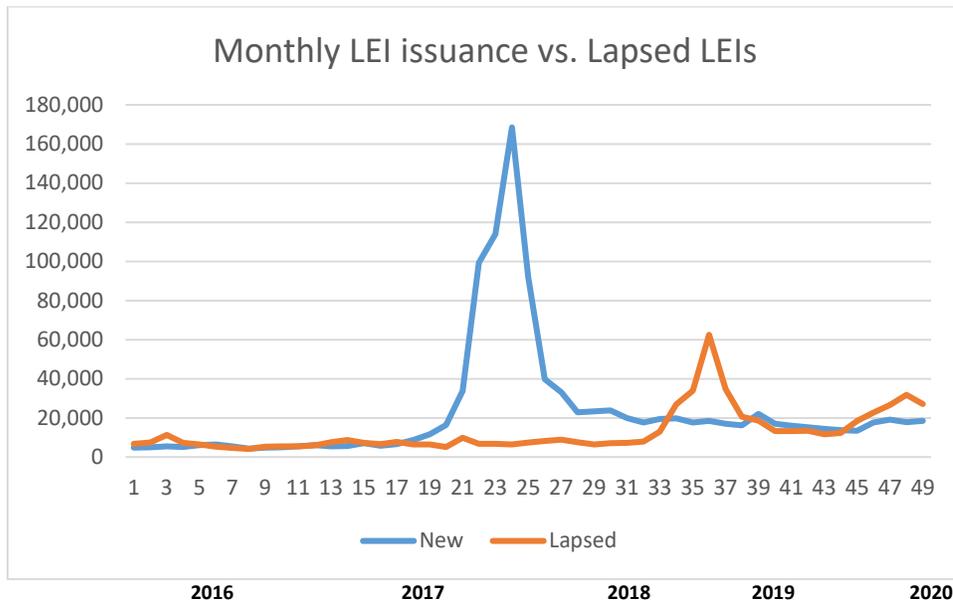
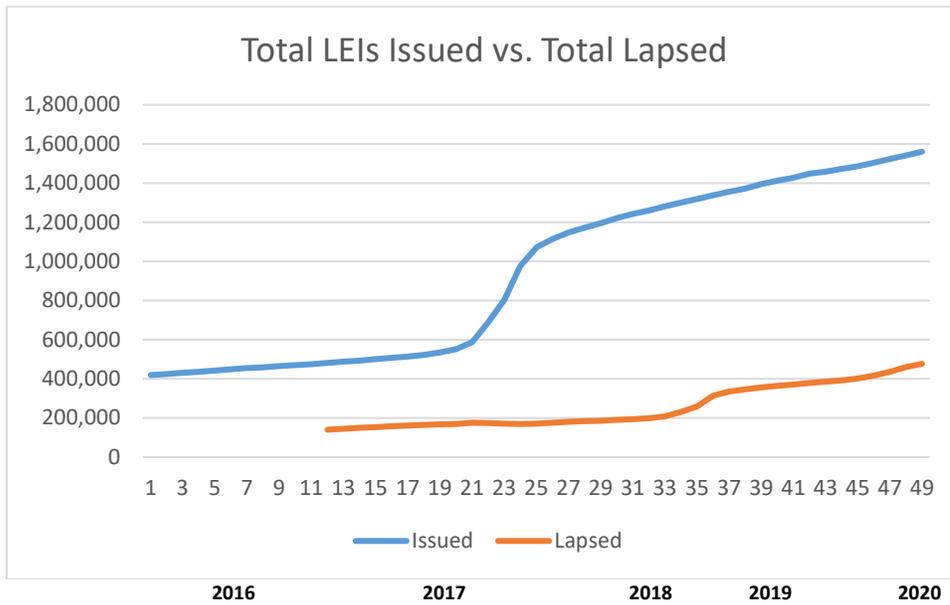
2016 – 2019 Year-to-Year Comparison vs. Jan 2020 Month-end

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
Total LEIs issued at Year-end and month-end	481,522	975,741	1,337,925	1,542,037	1,560,689
Total Lapsed LEIs issued at Year-end and month-end	139,461	169,778	313,915	459,436	476,637
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%
Year-to-Year Monthly Average Comparisons					
Newly Issued	4,976	40,237	29,987	16,652	18,447
Lapsed	6,300	7,134	16,422	19,802	27,045
Net LEI Increase/ decrease	-1,324	33,103	13,565	3,150	8,598
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
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	120,961
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,553,656
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,357,419

LEI Issuance and Non-Renewals (Lapsed LEIs)

LEI registration reached another all-time high of 1,560,689 registered LEIs, up from last month's 1,542,037. Recent monthly issued LEIs are repeatedly below monthly lapsed LEIs. Lapsed LEIs are at another all-time high of 476,637. Lapsed LEIs month-to-month are accelerating and now represent 30.5% of all registered LEIs. Without solving this accelerating lapsed rate problem, 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.

While falling short of solving the Lapsed LEI problem, the legal entity database can tell users if the information is not current. However, the non-current data, 30.5% of the database, is problematic. For example, when the name of an entity is not timely updated it can result in a new LEI being issued; when parent LEIs are not registered for lapsed LEIs even though lapsed LEIs are permitted; and when trades, permitted to contain a Lapsed LEI, are executed when the legal entity has lost its financial registration, is not operational or has abruptly gone out of business.



We anticipate a continuation of a rising lapsed rate until renewing LEIs becomes more broadly required by regulation or some other means of compulsion surfaces or some other business model is agreed upon to accommodate renewals as well as to compel issuance.

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.

LEI registration for parent relationships (both ultimate and immediate) increased, now at 208,139 vs. last month's 205,895, representing 119,637 individual LEIs this month vs. last month's 118,422. Exceptions for not obtaining a LEI are stabilizing, although reaching another all-time high of 2,519,418 vs. last month's 2,485,817.

Allowing exceptions (opt-outs) was seen as a means to continue the momentum of the LEI registration initiative. However, it is now important to revisit the issue lest the regulatory objective of aggregating transaction data for risk analysis will be permanently undermined. This collection effort is the most critical part of the LEI initiative yet left to be completed.

The latest Global LEI System Business Report | Q4 2019 issued Jan. 23, 2020 reports on legal entities reporting hierarchy (relationship) information, through reporting an intermediate or ultimate parent entity for each LEI registered. 61.8% report a LEI for an intermediate parent without Local Operating Unit (LOU) validation, while 5.2% report only partial LOU validation. For ultimate parents, 53.6% of LEIs are reported without any LOU validation while 5.6% report only partial LOU validation.

Statistics on non-validated parent LEIs over the nearly three (3) years the GLEIF has been reporting relationship data has been consistently in the same 60% range. The LEIROC has recognized that the recording of ultimate and immediate parent information falls short of complete hierarchies as requested by the FSB.

This non-validated or partially validated categories can be thought of as awaiting further investigations and/or consultations. Such a consultation should consider having a 'certification agent' or a notary (ideally a certified auditor) assisting in this effort at source. An out-of-hand early rejection in 2012 of this idea by the LEIROC was made long before the issue of non-validated LEIs of parents was ever understood. At the time an additional decision to put off relationship data collection as a Phase 2 item was also made. It was only in 2017 that relationship data collection was begun and the issue of non-validation surfaced.

That early decision must be weighed against limited use the relationship data for risk assessment because 60% of the data is suspect. Alternatively, as there is no public availability of this legal entity lineage, LOUs should be considering alternatives for doing the work of validating parent relationships. To do this work they would need to obtain original source documents, interpret the lineage of a registered legal entity to another entity, and understand accountant's account consolidation rules in multiple jurisdictions. This latter option would probably entail each LOU hiring its own audit firm. Better to have the GLEIF under a contract with the BIG 4 audit firms to do this work centrally – they have the expertise, the LOUs don't.

It still remains to be understood how such permitted exceptions 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 data for such purposes.

Commentary

GLEIF is anticipating running a deficit in 2020, awaiting the SFTR boost to registrations, originally anticipated in 2020 but now scheduled for 2021. This circumstance arises as the fees paid by the LOUs to GLEIF has steadily been progressively reduced from \$19 dollars in 2016, to \$11 for both 2019 and 2020. The large boost in registrations peaking in 2017 added almost \$10 million in revenues between 2017 and 2018, mainly from new European registrations which was used for new development projects and additional staffing.

New LEI registrations should also get a boost from the proposed US legislation, the Financial Transparency Act, that requires a 'common nonproprietary legal entity identifier that is available under an open license for all entities required to report to member agencies.' Note that the legislation does not say to use the LEI and, thus, opens the door to competition to the use of the LEI. This is perhaps the reason GLEIF has decided to open an office in the US, to 'lobby' for the LEI and forestall any approach from others to use its own legal entity identifier.

Finally, the LEIROC, the multi-regulatory global overseer of the LEI, has been nominated for governance responsibility for other newly established global data standards, specifically, the Unique Transaction Identifier (UTI), the Unique Product Identifier (UPI), and the set of data elements known as Critical Data Elements (CDE's). This can lead to developing a new government/private sector entity to manage implementation of these global data standards for identifying: financial market participants; the financial instruments and contracts they trade, own and process; and the common data components assembled to define each financial transaction uniquely. GLEIF is uniquely positioned to take on this role.

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