The Global LEI Initiative:
Beginning 2021 with Much Accomplished and an Ambitious Agenda

February 2021

LEI Statistics and Comparisons

The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on registration of the Legal Entity Identifier (LEI) since January, 2016 and on the collection of 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 February 5, 2021 Global LEI Data Quality Report** and FIG's historical LEI database, now accumulating data into its sixth year.

Registered LEIs this month reached 1.797 million vs last month's 1.777 million. Newly issued LEIs this month was 19,485, about equal to the monthly average of last year of 19,364. This month's lapsed rate was 22,270, much higher than last year's monthly average of 18,778. An overall lapsed rate comparing total lapsed LEIs to total issued LEIs is 32.8% this month vs. last month's 32.9%. At the same time the number of lapsed LEIs has exceed newly issued LEIs for the fourth month in a row.

Relationship data is following past patterns: recording permitted exceptions to opt-out of identifying a LEI for their parents; and recording non-validated parent LEI data. In the **Global LEI System Business Report for Q4 2020** 7% of registrants cited legal obstacles preventing them from providing either direct or ultimate parent information and LOUs reported that non-validated 'Entity supplied only' relationship data was 58.6% for ultimate parent and 50.1% for direct parent.

	Year - Year Comparison 2016 - 2020					Monthly Q 4 2020			Month-end 2021
LEI Issuance & Lapsed LEIs	**2016 Year-end**	**2017 Year-End**	**2018 Year-end**	**2019 Year-end**	**2020 Year-end**	**Oct 2020 Month-end**	**Nov 2020 Month-end**	**Dec 2020 Month-end**	**Jan 2021 Month-end**
Total LEIs issued at YE	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**
Total Lapsed LEIs issued at YE	139,461	169,778	313,915	459,436	585,029	546,546	564,253	585,029	**588,972**
Lapsed rate	29.0%	17.4%	23.5%	29.8%	32.9%	31.5%	32.1%	32.9%	**32.8%**
			Monthly Averages						
Newly Issued	4,976	40,237	29,987	16,652	19,364	18,109	21,676	20,448	**19,485**
Lapsed	6,300	7,134	16,422	19,802	18,778	20,499	25,228	26.782	**22,270**
Net LEI Increase/Decrease	-1,324	33,103	13,565	-3,150	586	-2,390	-3,552	6,344	**-2,785**
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**
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	128,878	130,164	132,096	**133,025**
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**
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**

The Consequences of Disregarding the Lapsed LEI issue

Lapsed LEIs has proven to be an intractable problem. If not resolved it will affect the core principle of the GLEIS database, that of legal entities and their associated reference data being the highest quality database for identifying financial market participants. GLEIF apparently has chosen to avoid dealing with it at this time, as it has stopped reporting total lapsed LEIs (this month's total lapsed LEIs has again been provided by **pTools**). Instead GLEIF began reporting total Valid LEIs which adds lapsed LEIs to total issued LEIs and further adds a few minimal transitional categories (pending transfer and pending archiving). Importantly two of the five jurisdictions with the highest non-renewal (lapsed) rates include the United Kingdom (57.8%) and the United States (54.7%). The lapsed rate in the EU is 32.7% equal to the overall lapsed) rate of 32.8% These rates have been consistently high in all six years of our reporting in what is the three most important global financial market centers.

These three market centers present separate issues in completing the mission of adopting the LEI. The US has been reluctant to mandate the LEI in new regulatory endeavors. Neither the GIIN (Global Intermediary Identification Number) of the IRS, the Beneficial Owner ID of FINCEN nor the CAT (Consolidated Audit Trail) use the LEI as the definitive legal entity identifier even though it was offered for such use. In fact, even the Financial Transparency Act, now before Congress, while requiring a standard counterparty identifier does not name the LEI as its mandated choice.

The United Kingdom, post-Brexit, now divorced economically from the EU, is charting its own course with its intentions to accelerate the adoption of the LEI. The EU has long had and still has a need for the LEI in uniting and standardizing reporting across all the remaining EU countries. They among all the G-20 countries and regions had this need independent of the global data standard's initiative as they attempted to unite the disparate reporting regimes of EU countries.

Promise of LEI improving risk management still a work-in-progress

Collecting relationships between a legal entity and its immediate and ultimate parent requires each of the three entities to have a LEI. This requirement was established as a compromise when the original requirement of complete hierarchies of risk and control was postponed till a later phase. That phase, the "Phase 2" relationship data phase was begun in 2017, evolved as an activity of 'who owns who' not 'who puts who' at risk. The former structure was proscribed in hundred-year-old accounting consolidation standards, the later structure was never standardized. The LEI was to be the means toward standardizing risk hierarchies. Issuing LEIs was not to be the end onto itself as it appears to have become.

The original expert groups that provided input on this issue, myself included, knew the challenge the G20 and then the FSB set down. It was to provide the means to assess systemic risk, the risk that almost collapsed the global economy. As was uncovered in the forensic analysis of the causes of the precipitating event, the bankruptcy of Lehman Brothers, the devil was found to be in the details of misidentified legal entities and undetected risks.

Those undected risks were found to be inherent in transactions that were not apparent through aggregated views of balance sheet data, the prevalent inputs to the risk management systems of that period. Individual, granular transaction data sent to data warehouses were proposed and organized to capture these transactions containing the LEI of the legal entity that participated in the transaction. Standardized hierarchies of these LEIs would be used to aggregate the transactions across individual firms and across multiple firms to analyze systemic risk.

The data in these trade warehouses, there are 25 across the world containing billions of transactions, is not yet fit for purpose. The data contains alternate legal entity identifiers and lapsed LEIs. There is no template of LEI hierarchies of risk and no possibility of getting there unless solutions to relationship data collection, which allows opting out of providing an LEI for what is currently 78% of all relationship LEI's, is found. What is needed is **input from the risk management community** (see Risk Intelligence – Feb. 2021 at pages 14-16) which has been largely silent in adding their expertise to the data discussions even though they are responsible for implementing the global **Principles for Effective Risk Data Aggregation and Risk Reporting**.

Another ask of Validation Agents

Most recently a **Validation Agent** (VA), a new category of intermediaries in the global LEI initiative, was introduced to the GLEIF's Globally Important Financial Institutions (GIFI) Relationship Group. These large financial institutions are being solicited for their willingness to validate credentials of their clients and introduce them to a LOU for obtaining an LEI.

While commendable as a new tool to accelerate LEI issuance, many members of the GIFI Group are also G-SIFI's, Global Systematically Important Financial Institutions. These institutions have had a unique status among regulators since the financial crisis. These are the ones that can most easily spread the contagion of systemic risk. They should be incented to register all their legal entities and their complete hierarchies of LEIs.

This approach of first engaging with G-SIFIs to aggregate financial transactions would give the LEI initiative a short-term win in meeting the G20's original mission objectives of observing systemic risk for this critical market segment. When coupled with operational risk capital reduction incentives, it would allow G-SIFIs to accelerate the adoption of all global data standards for meeting the other mission objective of significant cost reduction.

A closer look at the vLEI as a certification tool for the digital age

The vLEI (virtual LEI) is a GLEIF proposed digital age encrypted LEI certification identifier. It is being built on the premise that the LEI is immutable over its lifetime. However, this premise does not hold up when mergers, acquisitions and spin-offs (corporate reorganizations) change the controlling parties and either one LEI survives or another LEI is created for the new entity. Also lapsed LEIs will affect the usefulness of the LEI as a base of the proposed vLEI.

Waiting for the LEI database to be updated with new information, perhaps as long as a year (annual renewal), when a party wants to use the vLEI for real-time digital certification will most probably encounter an old LEI or lapsed LEI in the GLEIF data base and, consequently, in the vLEI database. Separate LEI databases, one used within a firm, the other the 'golden copy' in the GLEIF database and the third copy in the vLEI database may be out of synch for some period of time.

An Ambitious Plan to accelerate LEI adoption

GLEIF has made it a priority to reach 20 million issued LEIs by 2027 by augmenting regulatory initiatives with industry voluntary efforts. It will require regulators to continue to mandate use of the LEI in each of their sovereign jurisdictions and for GLEIF to extend the voluntary Validation Agent concept beyond the larger financial institutions to Business Registrars, Certification Authorities and other potential bulk issuers of LEIs.

This will require issuing over 2.5 million LEIs for each year for the next seven years when only 1.8 million have been issued in the past ten years. What is hoped may make this happen is adoption of the vLEI, a new use case for the LEI, yet to be tested. It will also require overcoming the collective action problem that dominated past industry failures to standardize legal entity identifiers.

For further Information

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