



# The Global LEI Initiative

## A Year-end 2019 Research Note and Predictions for 2020

by  
**Financial InterGroup**

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After three decades of unsuccessful financial industry attempts to create a legal entity identifier (LEI) to uniquely and unambiguously identify trading counterparties and other supply chain market participants, this persistent problem met up with a financial crisis and a Lehman bankruptcy. Regulators would blame the crisis on the failure of risk management and, in part, on the absence of such an identifier to allow aggregation of risk exposures. Now with 1.5 million LEIs already issued, in 2020 new models are to be tested for accelerating issuance of LEIs; new use cases for the LEI are to be presented; follow-up consultations from the LEI's Regulatory Oversight Committee (ROC) are expected; and Global LEI System's (GLEIS) improvements and mappings to alternate legal entity IDs are to be implemented.

### **Annual Reporting (2016- 2019) of LEI Registrations, Renewals and Relationship Data – see page 3**

The average monthly LEI issuance under the stewardship of the GLEIF is slowing, 4,976 in 2016, 40,237 in 2017, 29,987 in 2018 and 16,652 in 2019.

### **LEI Issuance and Non-Renewals (Lapsed LEIs) at year-end 2019 – see page 4**

LEI registration reached another all-time high of 1,542,037 registered LEIs at year-end 2019. While a major accomplishment in the nearly decade since US regulators first requested the LEI project, it is far from reaching the intermediate objective of 20 million registered LEIs and even further from the 200 million needed to accomplish 'full adoption'. Issued LEIs have resumed declining while Lapsed LEIs are accelerating. Lapsed LEIs are at another all-time high of 459,436 and now represent 29.8% of all LEIs. Without a solution, Lapsed LEIs will continue to impact the quality and value of the LEI.

### **Relationship Data Collection at year-end in 2019 – see page 5**

LEI registration for parent relationships (both ultimate and immediate) increased, now at 208,139 representing 119,637 individual LEIs. Exceptions for not obtaining LEIs are stabilizing, although at an all-time high of 2,519,418. Exceptions continue to thwart the mission of full adoption.

### **Month-by-month trends in LEI Issuance in 2019 – see page 5**

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**The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on Legal Entity Identifier (LEI) data since January, 2016. We are pleased to bring you this [Research Note on the GLEIF's December, 2019 month-end and year-to-date reporting of LEI issuance](#); on the progress of Relationship Data collection; and our Commentary.**

## **The LEI Initiative – A Decade in Review and Predictions For 2020**

Before there was the Legal Entity Identifier (LEI) there was chaos in identifying legal entities participating in financial transactions. Then, after three decades of unsuccessful industry attempts to uniquely and unambiguously identify trading counterparties and other supply chain market participants, this persistent problem met up with a financial crisis and a Lehman bankruptcy. Regulators would blame this failure, in part, on the absence of such an identifier.

That we came this far without having such a global identification system is quite remarkable. It was only by rummaging through the records of the collapsed Lehman Brothers did regulators come to recognize what the industry had known for nearly a quarter century. Regulators had no automated means to aggregate and monitor global financial transactions across multiple financial market participants for observing the risks they were exposed to.

LEI legislation was inspired by the revelation of what was found in the records of the wreckage of the Lehman Brothers bankruptcy. No consistency in identifying Lehman as a counterparty with others; no understanding of what relationships Lehman had with others; no mechanism to aggregate all of Lehman's products and businesses into a timely view of the risks Lehman was exposed to or that others had to Lehman should it fail.

All who looked into the books and records of Lehman, all the regulators, the forensic accountants, the bankruptcy lawyers, the creditors and the trading counterparties observed a huge swamp of risk and no way of measuring what they found. And it wasn't just Lehman; it was a fundamental flaw in the infrastructure of the global financial industry – no universal identification of counterparties, their hierarchies of business ownership, the products they own, the monies they owe, the collateral they have pledged, the risks they are exposed to.

Regulators learned that multiple identifiers for the industry's financial market participants and products were inhibiting the aggregation of information both within financial institutions and certainly across financial institutions.

It was thought that the many of the legal entity identifier efforts failed to be implemented because it met with resistance from industry members, individually and collectively. Economists refer to this as a 'collective action problem', that is no one benefits unless all participate in the effort. After the financial crisis regulatory compulsion was proposed to solve the collective action problem. First US regulators supported the effort. Then the G20 stepped in and assigned the problem to the Financial Stability Board (FSB). The FSB suggested that the LEI and other identity standards may well benefit all governments in observing risk in their own financial sectors by accommodating such a common identification system globally.

Regulators championed the effort as a way to bring transparency to financial markets. Benefits to industry, however, were not well understood at that time. The industries base case was not being made because

of the inertia of getting funding internally to retool the legacy financial systems that were at the heart of the problem. Our own research in 2004 identified the costs of non-unique identifiers and other non-standard data elements that made up financial transactions at nearly \$1 billion annually for each of the largest financial institutions. Later in 2012 we would update those costs to \$2 billion after nearly a decade of mergers and consolidations that created 'too-big-to-fail' and, some would say, 'too-big-to-manage' financial goliaths.

Now, after industry members spent nearly \$½ billion alone on registering 1.5 million LEIs in over 220 countries and territories, no industry member is reporting significant cost savings. Industry members are instead reporting that complete adoption of the LEI (GLEIF estimates this at 20-200 million LEIs) is necessary, along with full adoption of unique product identifiers (UPIs), unique transaction identifiers (UTIs) and standard critical data elements (CDEs) for identifying each financial transaction, for these cost savings to be realized.

Regulatory benefits have, likewise, fallen far short of the hoped for benefits of more accurate, complete and timely risk reporting, at the enterprise level across business silos, and across multiple financial institutions for observing systemic risk. For these benefits to be realized, additional LEIs must be registered for parent entities for the enterprises entire hierarchies of legal entities, both internally and to regulators. Finally, regulatory compulsion has not been the game changer expected as regulators themselves are caught up in their own collective action problem.

In this New Year new models have been proposed for accelerating issuance. Financial entities will be solicited by their upstream financial service companies to register their clients/counterparties. The largest multi-national entities' will be solicited to register LEIs for their own complete organizational hierarchies. Data vendors will be solicited to map their internal IDs to the LEI.

Other activities in the new year are also planned: new use cases for the LEI such as document certifications; improvements in accessing LEI accumulated systems data; commissioning specific market segment cost benefit studies; and further mappings to globally accepted alternate legal entity IDs.

Further guidance/consultations are expected from the LEI's Regulatory Oversight Committee (ROC) on corporate (legal) actions, fund relationships and government entities. Yet unknown is the impact of the recommendation by the FSB that the ROC assume the governance functions for the UPI and UTI, and CDEs, in addition to the LEI.

### **Annual Reporting (2016- 2019) of LEI Registrations, Renewals and Relationship Data**

In prior years, after the initial launch of forerunners to the LEI in 2012 in the US and in Germany, the average monthly LEI issuance under governance by the GLEIF was 4,976 in 2016, 40,237 in 2017, 29,987 in 2018 and 16,652 in 2019. The notable surge in issuance in 2017 was helped considerably by EU mandates from EMIR and MiFid regulations compelling issuance for trade reporting. Perhaps LEI registrations in 2020 will be accelerated by the EU's new mandate to require LEIs for collateral posting for securities financing transactions taking effect April, 2020.

## 2016 – 2019 Year-to-Year Comparison

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%
<b>Year-to-Year Monthly Average Comparisons</b>				
Newly Issued	4,976	40,237	29,987	16,652
Lapsed	6,300	7,134	16,422	19,802
Net Increase/ decrease	-1,324	33,103	13,565	3,150
<b>Year-to-Year Relationship Data</b>				
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139
Number of Unique LEIs 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

Lapsed (non-renewals) of LEIs has accelerated beyond the 29.0% recorded in 2016, now standing at 29.8% of all registered LEIs. Monthly average Lapsed LEIs vs. newly issued LEI has turned negative, such status not seen since 2016.

Relationship data has been collected since May 2017 and remains a work in progress. It is the most critical element in achieving regulators objectives for the LEI initiative of improved insights into global risk.

### LEI Issuance and Non-Renewals (Lapsed LEIs) at year-end 2019

LEI registration reached another all-time high of 1,542,037 registered LEIs, up from last month's 1,523,963. While a major accomplishment in the nearly decade since US regulators first requested the LEI project, it is far from the intermediate objective of 20 million registered LEIs and even further from the 200 million needed to accomplish 'full adaption', a term used to anticipate completing the mission of a universally adopted singular legal entity identifier.

Recent monthly issued LEIs are repeatedly below monthly lapsed LEIs. Lapsed LEIs are at another all-time high of 459,436 up from last month's 435,134. Lapsed LEIs month-to-month are accelerating and now represent 29.8% of all registered LEIs vs. last month's 28.6%, a 1.2% rise. This follows last month's 1% rise and the two prior months rise of .5% each. 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.

## Relationship Data Collection at year-end in 2019

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 an LEI are stabilizing, although reaching another all-time high of 2,519,418 vs. last month's 2,485,817. Here, too, allowing exceptions are thwarting the ability to complete the mission of full adaption. While allowing exceptions was seen as a means to continue the momentum of the LEI registration initiative, it is now important to revisit the issue lest the regulatory objective of aggregating transaction data for risk analysis will be permanently undermined.

## Month-by-month trends in LEI Issuance in 2019

This month LEI registration reached another all-time high of 1,542,037. We continue to see a pickup of issuance of LEIs over the entire year. However, this month's 17,771 was lower than last month's 19,106 vs. the average of 16,652 per month since the beginning of this year yet still lower than the monthly LEI issuance average over the last three years of 25,881.

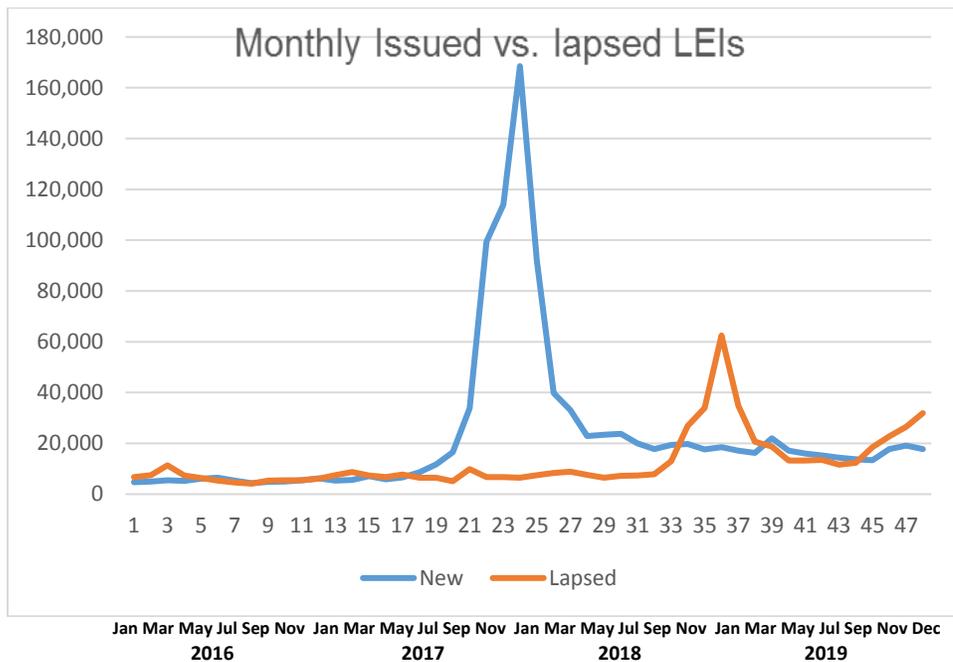
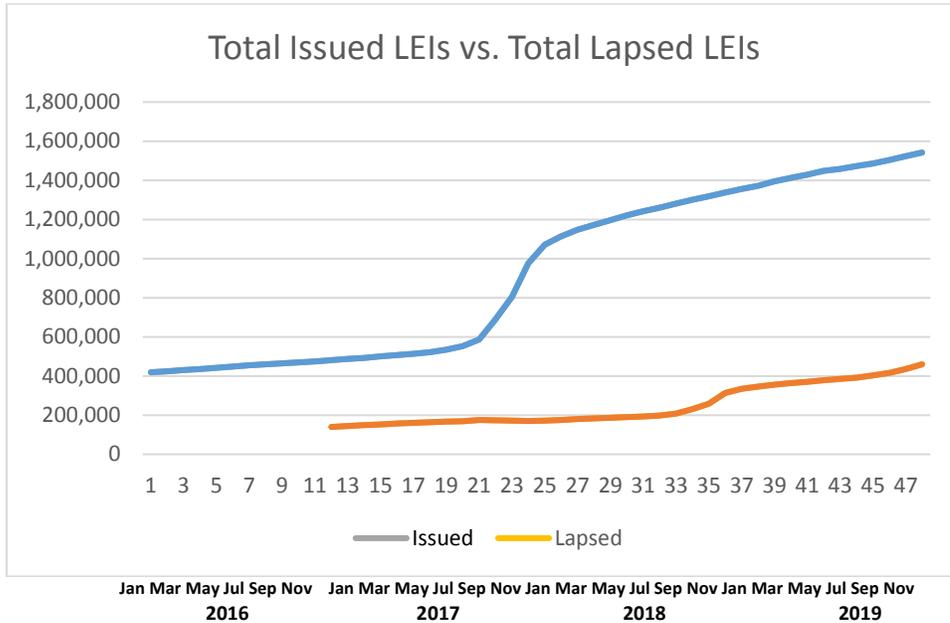
### 2019 Month-by-Month Comparison

LEI Issuance and Lapsed LEIs – Year-to-Year & Month-by-Month Comparison	Jan 2019 Month-end & YTD	Feb 2019 Month-End & YTD	Mar. 2019 Month-end & YTD	Apr 2019 Month-end & YTD	May 2019 Month-end & YTD	Jun 2019 Month-end & YTD	Jul 2019 Month-end & YTD	Aug 2019 Month-end & YTD	Sep 2019 Month-end & YTD	Oct 2019 Month-end & YTD	Nov 2019 Month-end & YTD	Dec 2019 Month-end & YTD
Total LEIs issued at Year-end & YTD	1,355,375	1,372,009	1,394,469	1,412,195	1,428,403	1,443,882	1,458,621	1,472,740	1,486,441	1,504,480	1,523,963	1,542,037
<b>Year-to-Year Averages/ Month-by-Month Comparisons</b>												
Newly Issued	17,092	16,250	22,002	17,084	15,996	15,281	14,370	13,782	13,406	17,678	19,106	17,771
Lapsed	34,796	20,654	18,701	13,197	13,252	13,508	11,592	12,364	18,447	22,700	26,558	31,857
Net Increase/decrease	-17,677	-4,404	3,301	3,887	2,744	1,773	2,778	1,418	-5,041	-5,022	7,452	14,086
Lapsed rate	24.7%	25.2%	25.5%	25.7%	26.0%	26.2%	26.4%	26.6%	27.1%	27.6%	28.6%	29.8%
Total Lapsed LEIs	334,503	345,544	356,148	363,406	370,774	378,900	385,371	391,382	402,090	415,491	435,134	459,436

However, December's data saw the fourth month of the reversal of lapsed LEIs exceeding newly issued LEIs. This comes at a time when, over the previous six months, issued LEIs exceeded lapsed LEIs. The overall rate of lapsed vs. issued LEIs is now at 29.8%, the highest rate since it reached 29.0% four years ago. While the lapsed rate had continued to climb slowly, it averaged .2% month-over-month in each of the last six months, it rose a full .5% in each of the last two months and then a full 1% last month and, finally, 1.2% this past month. Lapsed LEIs are those LEIs that are not renewed at their one year anniversary of registration.

While falling short of solving the Lapsed LEI problem, GLEIF contends that the GLEIS database is of greater value than other similar databases. It is the only legal entity database that is updated annually or, if not, can tell users if the information is not current. However, the non-current data (now nearly 1/3 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 (now at 29.8%) 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.

## Month-by-month trends in Relationship Data collection in 2019

Relationship data collection, the recording of LEIs for parents and ultimate parents of legal entities, and the reasons for opting out in doing so, has been recorded in the global LEI database since May, 2017. This collection effort is the most critical part of the LEI initiative yet left to be completed.

According to the latest **Q3 2019 GLEIS Business Report** issued Nov. 15, 2019 of the total legal entities reporting hierarchy (relationship) information, either an intermediate or ultimate parent entity, 61.9% report a LEI for an intermediate parent without Local Operating Unit (LOU) validation, while 5.3% report only partial LOU validation. For ultimate parents, 53.7% of LEIs are reported without any LOU validation while 5.8% report only partial LOU validation.

While these statistics seem to be stabilizing over the nearly three (3) years the GLEIF has been reporting them, it does not bode well for meeting the objectives of data aggregation for risk management. Complete validated relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. The ROC has recognized that the recording of ultimate and immediate parent information falls short of complete hierarchies as requested by the FSB. It is anticipated that this issue will be addressed in further consultations.

The number of immediate and ultimate parent records recorded in the GLEIS are seen in column 1 in the chart below. Of these, GLEIF also reports on how many of each unique LEI registrants reported both a parent and immediate parent (see column 3 in the same chart below).

Chart 1 - Level 2 Relationship Data	Number of Immediate & Ultimate LEI Parent Records (1)	Month-to-Month Change (2)	Number of Unique LEIs Reporting both Parent Relationships (3)	% Month-to-Month Change (4)
Year-end 2017	88,198	-	51,944	-
Year-end 2018	152,318	2,523	89,826	1.7%
Month-end Jan 2019	157,131	4,813	92,373	1.0%
Month-end Feb 2019	162,852	5,721	95,379	3.3%
Month-end Mar 2019	173,490	10,638	101,163	6.1%
Month-end Apr 2019	177,811	4,321	103,535	2.3%
Month-end May 2019	181,341	3,530	105,432	1.8%
Month-end Jun 2019	185,424	4,083	107,687	2.1%
Month-end Jul 2019	189,169	3,745	109,703	1.9%
Month-end Aug 2019	195,466	6,297	113,249	3.2%
Month-end Sep 2019	197,546	2,080	114,307	1.0%
Month-end Oct 2019	203,544	5,998	117,124	2.5%
Month-end Nov 2019	205,895	2,351	118,422	1.1%
<b>Month-end Dec 2019</b>	<b>208,139</b>	<b>2,244</b>	<b>119,637</b>	<b>1.0%</b>

As can be seen from the Month-to-Month Change Column (column 2) in the Chart 1 above, the monthly reporting of the number of registered LEIs reporting parent relationships has stabilized. This month's decrease to 2,244 vs. last month's 2,351 is at the low end of the average of 4,652 month-over-month for this year. It continues to show that LEI registrants are following the mandates to include parent relationship data where it is known by the registrant. Similarly, registrants report both parent relationships where they exist (column 3 in Chart 1 above). Here too the percent decrease (column 4 in Chart 1 above) of 1.0% is at the low end of the average month-to-month delta of 2.3% over the current year.

Chart 2 - Level 2 Reporting Exceptions	Number of Immediate & Ultimate LEI Parent Exception Records (1)	Month-to-Month Change (2)	Number of LEIs with Complete Parent Information (3)	% Month-to-Month Change (4)
Year-end 2017	1,067,968	-	572,818	-
Year-end 2018	2,156,909	38,952	1,146,554	1.7%
Month-end Jan 2019	2,187,337	30,428	1,163,111	1.4%
Month-end Feb 2019	2,215,647	28,310	1,179,625	1.4%
Month-end Mar 2019	2,250,448	34,801	1,201,202	1.8%
Month-end Apr 2019	2,282,691	32,243	1,218,932	1.5%
Month-end May 2019	2,312,875	30,184	1,235,212	1.3%
Month-end Jun 2019	2,342,699	29,824	1,250,360	1.2%
Month-end Jul 2019	2,368,936	26,237	1,264,688	1.1%
Month-end Aug 2019	2,394,314	25,378	1,277,504	1.0%
Month-end Sep 2019	2,418,057	23,743	1,289,519	1.0%
Month-end Oct 2019	2,449,422	31,365	1,306,391	1.3%
1.2Month-end Nov 2019	2,485,817	36,395	1,324,469	1.4%
<b>Month-end Dec 2019</b>	<b>2,519,418</b>	<b>33,601</b>	<b>1,341,015</b>	<b>1.2%</b>

The ROC provides for existing and new LEI registrants to record legitimate (approved by the ROC) exceptions for opting out of reporting parent relationship data. The GLEIF reports on those registrants that have recorded relationship (Level 2) reporting exceptions (column 1 in Chart 2 above). Also reported is how many of each unique LEI registrants reported either a parent and/or immediate parent or provided an exception reason for opting out from not providing either or both (see column 3 in Chart 2 above).

Importantly, only 208,139 of the LEIs that are included in the “LEIs with complete parent relationships” category (1,341,015) report an LEI for an immediate parent and/or ultimate parent. The LEIs in the category of complete parent relationships, in the main, appears to represent those registrants that have either registered an LEI; have registered one or more parent relationship LEIs; have no parents; and/or used the allowed exceptions to opt out of registering an LEI for one or both of their parents.

The ‘no parent’ and ‘opt-out exception’ categories included in the “LEIs with complete parent relationship” statistic gives a false sense that no more is required when, in fact, this category can be thought of awaiting further investigations and/or consultations. For example, In cases where a registrant is reporting no ultimate parent it is being observed that some of those so identified are erroneously reporting this. This may be due to the registrant not being aware of who the immediate or ultimate parent is and/or is unaware that it already has registered a LEI.

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.

The FSB in its **Thematic Peer Review of the LEI** recommended enhancing the scope and usability of Level 2 (relationship) data by:

“considering cost-effective and reliable ways to add relationship data that would increase the value of the LEI (e.g. confidential relationships subject to access rights and appropriate controls; beneficial owners; other definition of parents);” and

“expanding the coverage of such data, for instance by conducting targeted LEI adoption campaigns for large multinational firms and by facilitating relationship reporting by parents of their group entities.”

All of these items are on the GLEIF and ROC agendas for 2020 and beyond. But without timely solutions the LEI may become, as was feared at its inception, just another number and another source of identity reference data. It will fall far short of a globally accepted standard that would allow regulators, industry members and data vendors alike to abandon, over time, their own proprietary identifiers as they replace their legacy systems.

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