



## The Global LEI Initiative

Monthly LEI issuance stabilizing while Lapsed LEIs still increasing. FSB's recent review of LEI leaves future progress up for grabs. Will regulators and/or industry members step up?

### **A Research Note by Financial InterGroup July 2019**

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#### **LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)**

LEI registration reached another all-time high of 1,443,882 up from last month's 1,428,403. Recent monthly issued LEIs are repeatedly exceeding monthly lapsed LEIs although lapsed LEIs are at another all-time high of 378,900 up from last month's 370,774. Lapsed LEIs now represent 26.2% of all registered LEIs vs. last month's 26.0 %.

#### **RELATIONSHIP DATA COLLECTION**

LEI registration for parent relationships (both ultimate and immediate) increased, now at 181,341, representing 107,687 individual LEIs vs. last month's 105,432. Exceptions for not obtaining an LEI are stabilizing, although reaching another all-time high of 2,342,699 vs. last month's 2,312,875

#### **CLOSING COMMENTS**

Final thoughts on the FSB's Thematic Review of the Legal Entity Identifier (LEI)

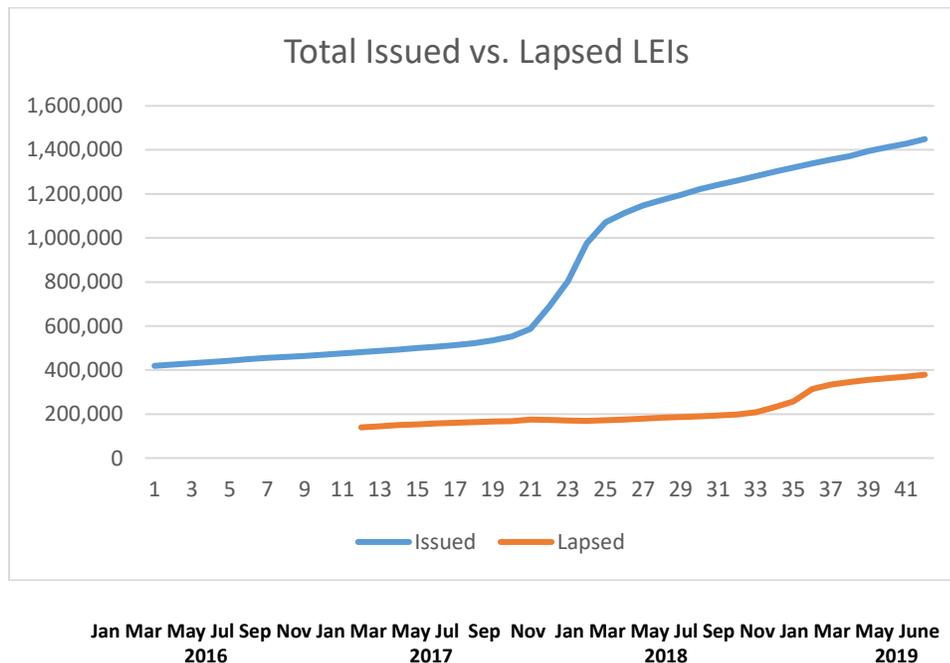


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The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on Legal Entity Identifier (LEI) data since January, 2016. We are pleased to bring you this **Research Note on the GLEIF’s June, 2019 month-end and year-to-date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

## LEI ISSUANCE

This month LEI registration reached another all-time high at 1,443,882. We have now seen a half- year of a steadying of issuance of LEIs, settling in this month at 15,281 vs. the average of 17,284 per month since the beginning of this year.

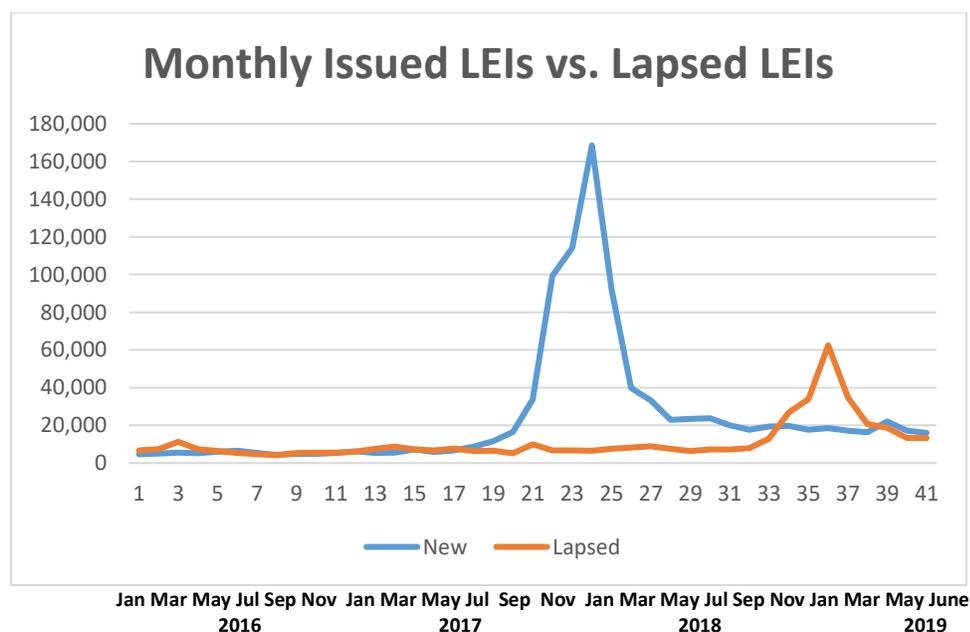


June was the fourth month of issued LEIs exceeding lapsed LEIs. This shift appears to be the result of the EU’s stricter EMIR and MiFid II mandates on LEI registration, which has resulted in EU registrations now overtaking other countries’ and regions registrations, most notably those in the Americas and Asia-Pacific regions. These regions have fallen behind those of the EU owing to the slower pace of mandating LEI registrations beyond the original OTC derivatives mandate. In the EU the necessity of aggregating data from the individual countries national competent authorities (NCA’s) to support the risk management of its single market concept was the key driver in proliferating LEIs across the region.

## 2016 – 2018 Year-to-Year & 2019 Month-by-Month Comparison

LEI Issuance and Lapsed LEIs – Year-to-Year & Month-by-Month Comparison	2016 Year-end	2017 Year-end	2018 Year-end	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
Total LEIs issued at Year-end & YTD	481,522	975,741	1,337,925	1,355,375	1,372,009	1,394,469	1,412,195	1,428,403	1,443,882
<b>Year-to-Year Averages/ Month-by-Month Comparisons</b>									
Newly Issued	5,334	40,237	29,016	17,092	16,250	22,002	17,084	15,996	<b>15,281</b>
Lapsed	6,300	7,134	15,894	34,796	20,654	18,701	13,197	13,252	<b>13,508</b>
Net Increase/ decrease	-996	33,103	13,122	-17,677	-4,404	3,301	3,887	2,744	<b>1,773</b>
Lapsed rate	29.0%	17.4%	23.5%	24.7%	25.2%	25.5%	25.7%	26.0%	<b>26.2%</b>
Total Lapsed LEIs	139,461	169,778	313,915	334,503	345,544	356,148	363,406	370,774	<b>378,900</b>

Lapsed LEIs are those LEIs that are not renewed at the one year anniversary. We anticipate a continuation of a slowly rising lapsed rate (now at 26.2% vs. May's at 26% vs April's 25.7%) until renewing LEIs becomes required by regulation or some other means of compulsion surfaces. Since the beginning of 2019, for the first time beginning in March 2019 and continuing thereafter, monthly LEI issuance exceeded lapsed LEIs respectively by 1,773 this month vs. May's 2,744, vs. April's 3,887 and March's 3,301.



## 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 doing so, has been recorded in the global LEI database since May, 2017. June 2019 is the first month of the third year of GLEIF reporting on this relationship data.

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).

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%
<b>Month-end Jun 2019</b>	<b>185,424</b>	<b>4,083</b>	<b>107,687</b>	<b>2.1%</b>

As can be seen from the Month-to-Month Change Column (column 2) in the chart above, the monthly reporting of the number of registered LEIs with parent relationships shows signs of stabilizing month-over-month. March data appears to be an outlier.

A similar stabilizing pattern has emerged for the number of LEIs reporting both parents (column 3 above), with the percent increase (column 4 above) of 2.1 % this month closer to the average of 2.6%. March data here also seems to be an outlier.

The ROC offered already existing LEI registrants and potential new registrants the ability to record legitimate 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 below) and how many of each unique LEI registrant 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 below).

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%
<b>Month-end Jun 2019</b>	<b>2,342,699</b>	<b>29,824</b>	<b>1,250,360</b>	<b>1.2%</b>

\*Note: Complete in this context means the registered LEI entity either registered a LEI or gave one of the following reasons that they either did provide or did not provide an immediate and/or ultimate parent LEI for one of the following reasons: 1. that the LEI registrant is controlled by natural person(s) without any intermediate legal entity; 2. that it is controlled by legal entities not subject to preparing consolidated financial statements; 3. that either the immediate or ultimate parent has diversified stakeholders controlling the entity; 4. where legal obstacles prevent providing or publishing this information; and 5. where providing this information would be detrimental to the legal entity or the relevant parent.

Relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. Importantly, 79% of those legal entities that are included in the “LEIs with complete parent relationships” category (1,250,360) include entities that do not report an immediate parent and/or ultimate parent. This is because the entity is not required to supply one if the legal entity is controlled by natural persons (not required to have a LEI), is controlled by legal entities not subject to preparing consolidated financial statements, or has no known person controlling the entity such as in diversified shareholdings.

Also, according to the [Q1 2019 GLEIS Business Report](#) of the 185,425 legal entities reporting either an intermediate or ultimate parent entity, 62% that report a LEI for an intermediate parent report it directly without Local Operating Unit (LOU) validation; 55% for ultimate parents. This lack of validation is also an inhibitor to the success of the LEI initiative as the LEI is intended to be the highest quality ‘go-to’ data base of legal entity information.

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 systemic risk analysis (the FSB’s concern).

Further, the GLEIF has retained the names or other identifying information for some of these opted-out parent entities in a separate database, where they assign a PNI (Provisional Node Identifier) to each. They have kept that information confidential to this point. What use will be made of this data remains to be seen, to be sorted out by the ROC in collaboration with the GLEIF and, perhaps, industry members. No timeline on dealing with this has been published by either organization, nor by the FSB.

Finally, the Number of LEIs with Complete Parent Information (column 3) seems to be consistently falling short of the total number of issued LEIs (this month 1,250,360 vs. 1,448,882). We wonder how to account for this discrepancy. Most probably it may be the number of PNIs recorded which are used to designate the registrant of a LEI that has a parent who has no LEI (yet).

## **CLOSING COMMENTS**

### **Final thoughts on publication of FSB’s Thematic Review of the Legal Entity Identifier (LEI)**

The FSB recently completed a consultation, a [Thematic Peer Review of the LEI](#), soliciting [input from industry members](#), and analyzed responses to a questionnaire developed by regulatory members to survey their individual constituencies.

This Global Legal Entity Identifier (LEI) initiative, begun a decade ago to uniquely, unambiguously and universally identify all financial market participants in the global financial supply chain, has resulted in a unique government/industry partnership across the globe. Seventy (70) members of 50 individual country and regional interests are represented on the G20’s Financial Stability Board’s LEI Regulatory Oversight Committee (ROC). This committee oversees the Global LEI Foundation, made up of industry and academic members, which has issued 1.4 million unique identifiers for participants in financial markets through thirty-three (33) local operating units (LOUs). The issuance of LEI’s and establishment of this organizational structure and its defining rules, processes and systems characterizes most of the activities of this initiative to this point.

This success is laudable, but, as pointed out in the FSB review, the hard parts, mainly conformity and participation across all the global participants in the financial supply chain, are still a work-in-process.

The FSB has yet to understand the problem of conformity, the issue of ‘silos of understanding’ that is informing the deliberations on data management in general, of which the LEI is but one of the issues that are in need of resolution. Because large complex financial institutions have evolved from the consolidation of multiple segments of the financial services industries, each has its separate vocabulary and jargon and each has its perceived unique data issues. Each has evolved its own data solutions by creating its own infrastructure institutions and associations to solve its separate data problems and, in the current dialogue with the FSB, fostered such solutions in its own self-interest.

However, the FSB, in attempting to fulfill its mission to provide an ability to observe instability occurring in the global financial system, has correctly chosen a path of describing a common ‘language’ across all of these silos. Unfortunately, given the current dialogue between the FSB and ‘business silo’ experts the only path to success will be perpetuating the risk-prone and costly method of mapping. Mapping is the matching of multiple identifiers of the same financial product or contracts and the multiple identifiers for the same financial market participant.

The single most important use of the LEI is in trade aggregation across sovereign borders, first to be affected for the OTC derivatives markets. Trades with the LEI included, along with other identifiers and associated financial transaction data, are being reported to one of 25 trade repositories. Aggregation across these repositories is not yet functional due in large part to the inability to match common data elements and identifiers, including the LEI.

Several FSB jurisdictions – particularly in Asia and emerging economies – have not taken steps to mandate use of the LEI in any area, or have adopted rules requiring LEI use only if the entity already has one. Few jurisdictions have plans for new strategies to increase adoption. The FSB states that without regulatory mandates, such low issuance limits the ability to effectively support further regulatory uses.

Regulatory uses were set for the LEI by the G20 when it requested “global adoption of the LEI to support authorities and market participants in identifying and managing financial risks.” To realize this objective, each financial transaction, originated within a FSB member jurisdiction, must contain the LEI code of each financial counterparty, each financial reference entity and the LEI of the transactions' supply chain participants. Without such a common financial market participant identity, universally applied, the buildup of a contagion leading to systemic risk cannot be detected, nor can individual risks of financial institutions' common counterparties be assessed.

Certainly a broader adaption of the LEI is necessary, along with standardization and use of a unique product identifier (UPI) and unique transaction identifier (UTI). These three identifiers, along with an international standard for a broader array of financial products, the International Securities Identification Number (ISIN) or the Financial Information Global Identifier (FIGI), and standards for critical data elements of each financial transaction, are required before regulators can aggregate transactions for meaningful analysis of risk. This is also essential so that financial institutions can eliminate significant costs of mapping and maintenance of multiple silos of data.

The LEI is the first significant step toward the realization of the digital age of straight-through-processing finance. Needed is a longer term planning effort leveraging all the global data standards initiatives initiated by the FSB to engage across the current limited 'silos of understanding' that have informed the deliberations on these issues to date.

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