



LEI Issuance Update and a note to the new GLEIF Chair on Progressing the LEI Initiative
by
Financial InterGroup
July 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 July, 2020 Global LEI Data Quality Report](#) and FIG's historical LEI database.

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 1,668,996 LEIs). The average new LEIs per month this year is 20,801 (this month it is 16,798). Also, a fairly stable non-renewal (lapsed) rate of 30% has been the norm this year (this month it is 30.8% vs. last month's 30.7%), sustaining its high historical average.

LEI registration for parent relationships (the sum of ultimate and immediate parent LEIs registered) increased, now at 219,369, representing a total of 125,587 individual LEIs. 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" (an overly positive use of the word 'complete') is 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. This month that number was 1,461,023.

Opt-out exceptions in providing a LEI is permitted when the:

- LEI registrant is not subject to consolidating its financial information using accountant's financial reporting consolidation rules,
- LEI registrant has no knowledge of or no known controlling parent entity,
- parent is a natural person (natural persons are not required to get a LEI),
- parent, while known, does not yet have a LEI, and
- registrant of the LEI has not gotten consent to supply a LEI for its parent

Allowing opt-out exceptions was seen as a means to continue the momentum of the LEI registration initiative without encumbering registrants from first obtaining their parents LEIs. Had this been a condition of LEI registration at the outset (to prohibit LEI issuance without also registering a parent LEI) it was felt the LEI initiative would stall. However, it is now important to revisit the issue of opt-out exceptions lest the regulatory objective of aggregating transaction data at the ultimate parent level for risk of analysis (the original regulatory intent prompted by the bankruptcy of Lehman Brothers) will be permanently undermined.

Now a major shift in direction on how to retain interest in the global LEI initiative is taking place. Voluntary registration by industry members is now recognized as critical in realizing the promised economic benefits of the LEI (see GLEIF's CEO statement at page 11 of the recently released [GLEIF 2019 Annual Report](#)). Voluntary adoption is now replacing regulatory compulsion as the critical means to achieve both full adoption of the LEI and renewal of LEIs. Previously, it was thought that regulatory compulsion was required to solve the collective action problem of industry members' inertia in not adopting such a legal entity standard themselves. Now, the collective action problem has shifted to regulators who are either not motivated by its benefits to mandate fully the use and renewal of the LEI, are not moving fast enough to legislate or decree change, or are not feeling compelled by the Financial Stability Board's admonition to fully embrace the LEI.

With a stalled effort in front of them, the GLEIF has elected a new Chairman, Steven A. Joicham (see [Press Release](#)) to lead the LEI initiative in its new 'voluntary' awareness to solicit industry members to participate more fully. The press release states his immediate priority is to achieve significant benefits of wider LEI usage in banking beyond regulatory reporting, even though 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, products nor for hierarchies of 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. Over half of the data currently available for parent information has been supplied without any validation by the intermediaries (local operating units) that were supposed to validate this data.

It is also timely to review the method accepted by the GLEIF of providing parent relationships 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.

Recently [GLEIF has opened a US office](#). In its press release announcing the office GLEIF is encouraging the larger financial institutions to join the [GLEIF Globally Important Financial Institutions \(GIFI\) Relationship Group](#). A key to forming that group is to build a strong relationship between GLEIF and globally important financial institutions and to use the LEI as a foundation for digitizing unique organizational identities under a regulatory umbrella. Here, the financial industry has recommended that they be allowed to register LEI requests on behalf of their clients. This activity is already conducted by 72 Registration Agents in collaboration with the 35 local operating units (LOUs) that actually issue LEI codes. Permitting financial market entities to become Registration Agents for their clients would ease industry members' stated inability to transfer liability to an "outsourced entity" (the GLEIF) for Know-Your-Customer (KYC) validation. Industry members will, presumably, retain their liability for their client's information upon their client's representations to the industry member introducing the registrants LEI data.

An even more compelling step would be for the largest multi-LEI structured financial entities to become LOUs and issue their own LEI codes to themselves. This would give them the capability of tying the LEI immediately to their own internal code used in aggregating the same entity across multiple internal business units, thus eliminating mapping.

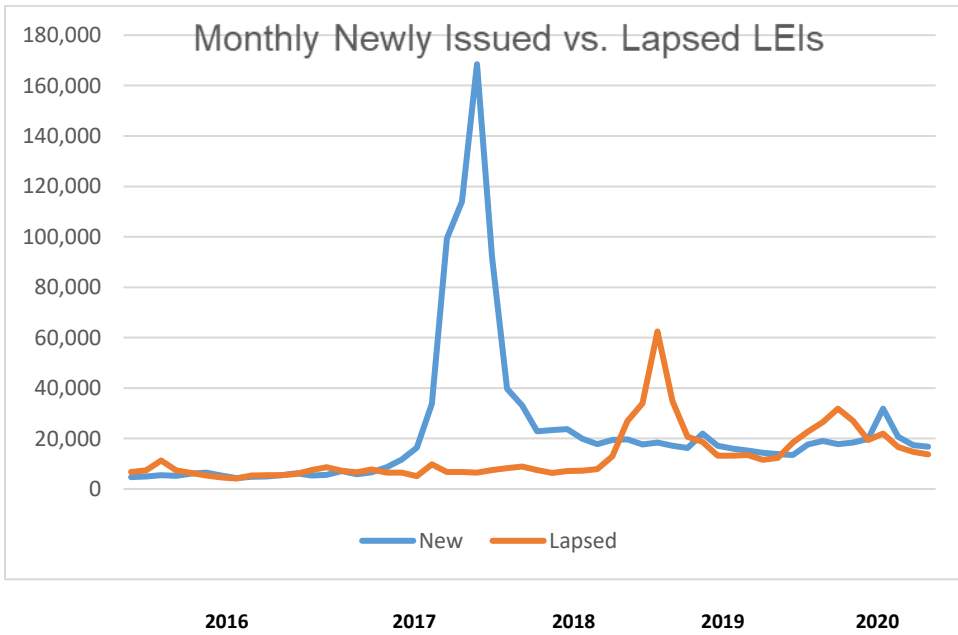
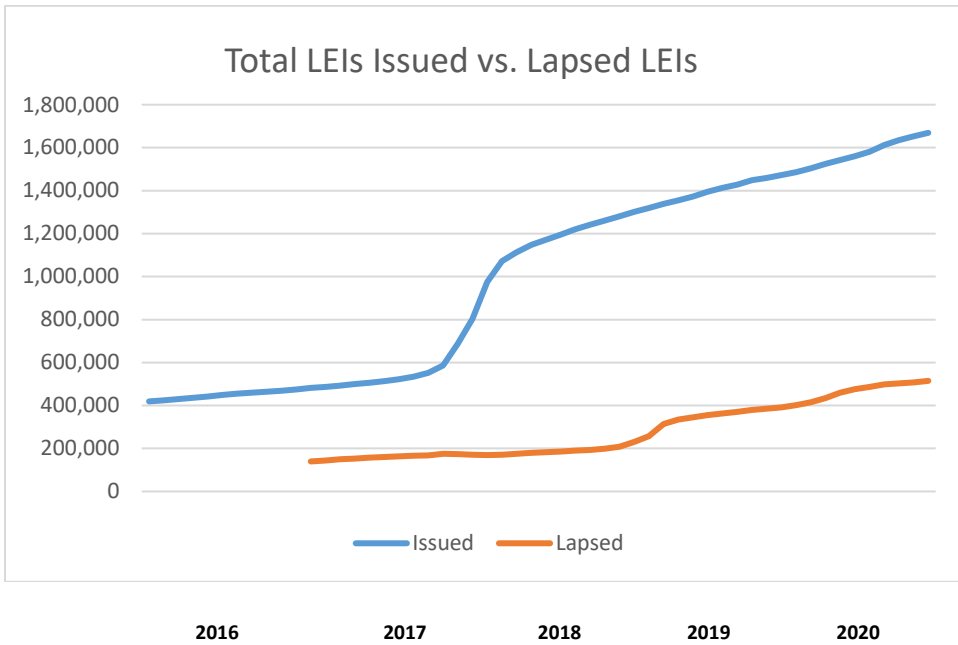
To this end we have long advocated for completing the mission of the LEI to identify “who is who” and “who-owns-whom” with an initial focus on a complete set of LEIs and their hierarchies for the Global Systemically Important Financial Institutions (G-SIFIs). With financial products yet to be identified 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.

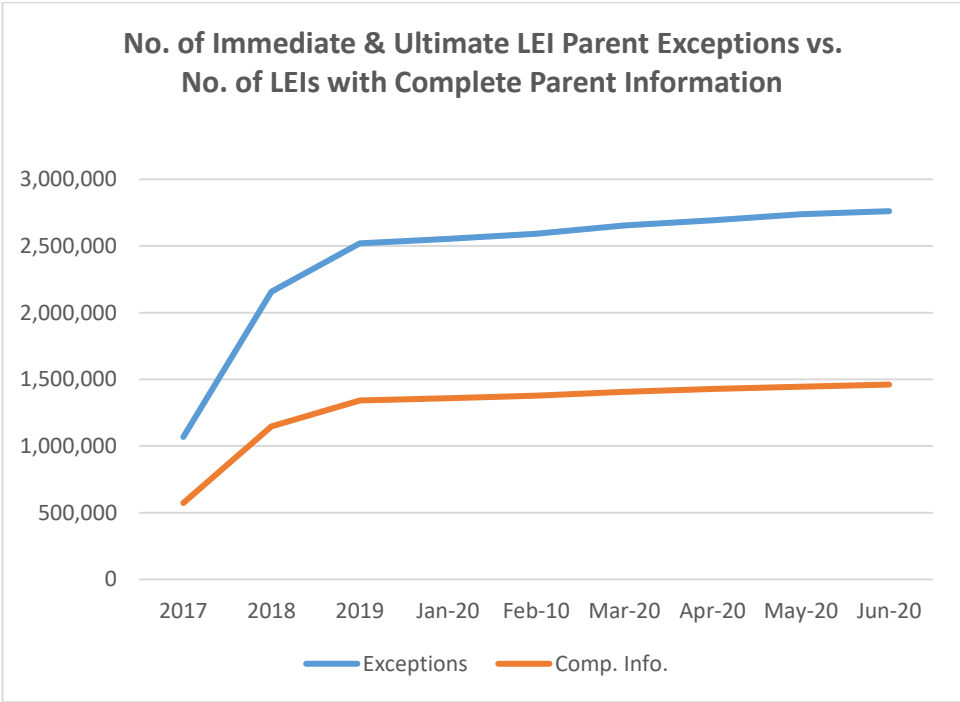
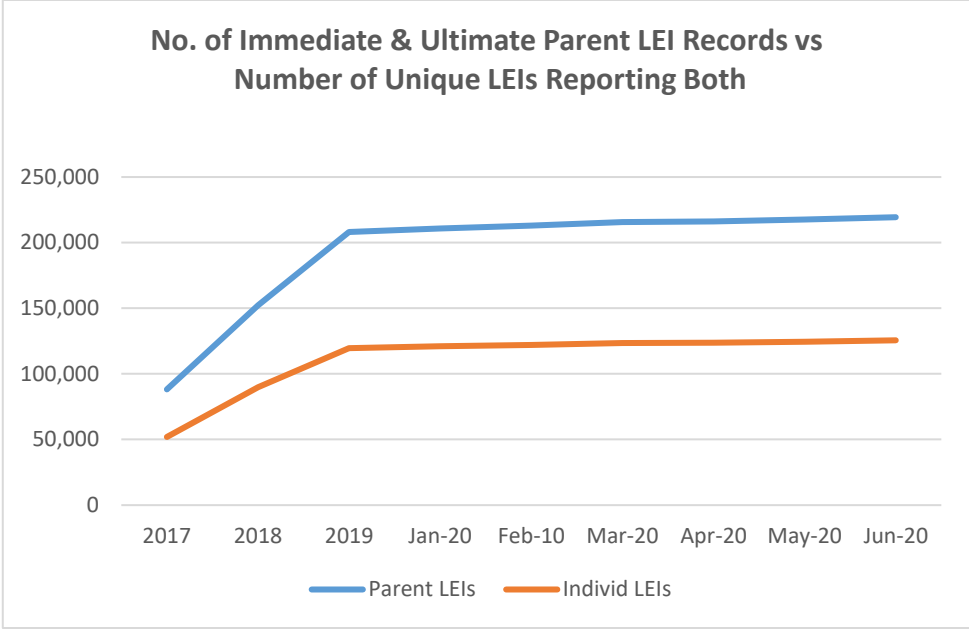
These giant global entities are the ones that interface with most of the world’s financial market participants. They do credit evaluations on their clients, introduce their trades into market infrastructure entities such as clearing facilities and payment systems and, most importantly, are responsible 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 all coming under a single headquarters oversight regulator, the Federal Reserve, for risk analysis and risk capital requirements. Enlisting the Fed to complete the LEI mission through further targeted regulation around use of the LEI of these 8 banks is an easier effort than enlisting regulators in 200 countries. Operational risk capital relief incentives can be offered. To further the effort, have the G-SIFI banks 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. These efforts would be a worthwhile undertaking for the new US GLEIF office’s proof-of-concept (POC) ambitions and a worthy ‘redirection’ of the global LEI initiative that a newly appointed Chairman would be ideally suited to undertake.

LEI Statistics in Charts and Graphs 2016 – 2019 Year-to-Year Comparison vs. Jan – June 2020 Month-end data

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	Feb 2020 Month-end	Mar 2020 Month-end	Apr 2020 Month-end	May 2020 Month-end	June 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	1,580,862	1,613,119	1,634,150	1,652,111	1,668,996
Total Lapsed LEIs issued at Year-end and month-end	139,461	169,778	313,915	459,436	476,637	486,546	498,917	503,522	507,993	514,724
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%	30.8%	30.9%	30.8%	30.7%	30.8%
Year-to-Year Monthly Average Comparisons										
Newly Issued	4,976	40,237	29,987	16,652	18,447	19,864	31,839	20,655	17,383	16,798
Lapsed	6,300	7,134	16,422	19,802	27,045	19,365	21,996	16,636	14,746	13,752
Net LEI Increase/ decrease	-1,324	33,103	13,565	-3,150	-8,598	499	9,843	4,019	2,637	3,046
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	212,877	215,655	216,185	217,548	219,369
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637	120,961	122,046	123,529	123,803	124,558	125,587
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,553,656	2,592,289	2,653,260	2,693,406	2,739,020	2,761,054
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,357,419	1,376,589	1,407,147	1,426,894	1,444,800	1,461,023





For further Information Contact



Allan D. Grody

Financial InterGroup - USA

New York, New York USA

Tele. +1 917 414 3608

Email agrody@financialintergroup.com

www.financialintergroup.com

Copyright © 2020 Financial InterGroup. All rights reserved