



The Global LEI Initiative

Progress on Legal Entity Registrations and Means to Advance the Mission

by

Financial InterGroup

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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 June, 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 1,652,111 LEIs). The average new LEIs per month this year is 22,640 (this month it is 17,383). Also, a fairly stable non-renewal (lapsed) rate of 30% has been the norm this year (this month it is 30.7%), returning to near its historical average.

While new regulations across the world are expected to encourage registering and renewing LEIs, this appears to have run its course according to the CEOs statement in the recently released [GLEIF 2019 Annual Report](#). Voluntary registration has now replaced regulatory compulsion as the means to achieve both full adoption of the LEI and renewal of LEIs. Previously, regulatory compulsion had been required, it was thought necessary to solve the collective action problem noted as the reason industry members had not themselves adopted a standard, universal legal entity identifier. Full adoption is now estimated to take an additional 5 -8 years to reach 20 million LEIs.

With voluntary registration of LEIs comes voluntary renewal of the reference data associated with each LEI. This will continue to affect data quality as nearly one-third of the LEIs are not renewed even though many of these LEIs are allowed to be used with potentially inaccurate data. At best, renewals are only expected to be done once annually; legal event updates (mergers, acquisitions and other reorganizations) are after-the-fact; and authoritative validation sources (the main one being business registries) is at times both late and inaccurate. Crowdsourcing of challenges to each LEI's accuracy is the method the GLEIF has chosen for a final check-off.

The promise of the LEI and the other global data standards is to fundamentally reduce financial industry infrastructure costs and materially improve managing enterprise and systemic risk. Over time the financial industry would have a single source of legal entity data. Industry trade associations have stated that a single LEI source is the only way to eliminate the multiple versions currently being used that requires mapping between different versions, increasing costs and inhibiting straight-through-processing. This latter point is increasingly important as the financial industry moves to real-time post trade settlement and deploys distributed ledger technology that requires standardized identity data to be effective.

However, for the foreseeable future mapping (matching) of hundreds of proprietary entity identifiers between financial institutions, regulators and data vendors will be required until legacy systems and

industry infrastructure systems are modernized. Mapping uses alphanumeric literal names of the entities to determine a match of each identifier code to another. This method has its own issue of accuracy as each mapping technique is different, some is done manually, others use algorithmic best fit methods, still others use artificial intelligence.

To foster a degree of standardization in these mapping activities, the Regulatory Oversight Committee (ROC), the 70 strong multi-regulator committee that oversees the GLEIF, has just published a document, **ROC Statement on GLEIF Mapping Service**, encouraging all third-party data vendors to voluntarily map their proprietary codes to LEIs to obtain a GLEIF mapping certification.

It now appears that the main thrust of the LEI initiative for financial industry members is settling in to providing a base line of quality data for each legal entity from which other databases can be benchmarked against for data quality comparisons. However, for this to become the desired single source for legal entity identification the GLEIF database must be as timely updated as those maintained by others. There does not appear to be a plan nor a time frame for this to be accomplished even though that was to be the desired outcome of the LEI initiative.

The main thrust of the regulatory imperative for the LEI is that of improving enterprise and systemic risk by creating a single source of hierarchical LEI structures for each ultimate legal entity parent. These structures are to be used to accurately and consistently aggregate risk data for reporting to regulators.

However, hierarchical LEI data is sorely lacking. 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. About 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. Here, too, there does not appear to be a plan nor a time frame for this to be accomplished even though that was to be the desired outcome of the LEI initiative.

Finally, **GLEIF has opened a US office** to support its strategy to drive broad voluntary adoption of the LEI by banks and other financial institutions. The focus is to educate on the value of LEIs beyond regulated use in capital markets and to foster the LEI more broadly across all financial services business lines, such as trade financing, corporate banking and payments. The press release announcing the office concludes by encouraging the larger financial institutions to join the **GLEIF Globally Important Financial Institutions (GIFI) Relationship Group**. A key goal is to build a strong relationship between GLEIF and globally important financial institutions.

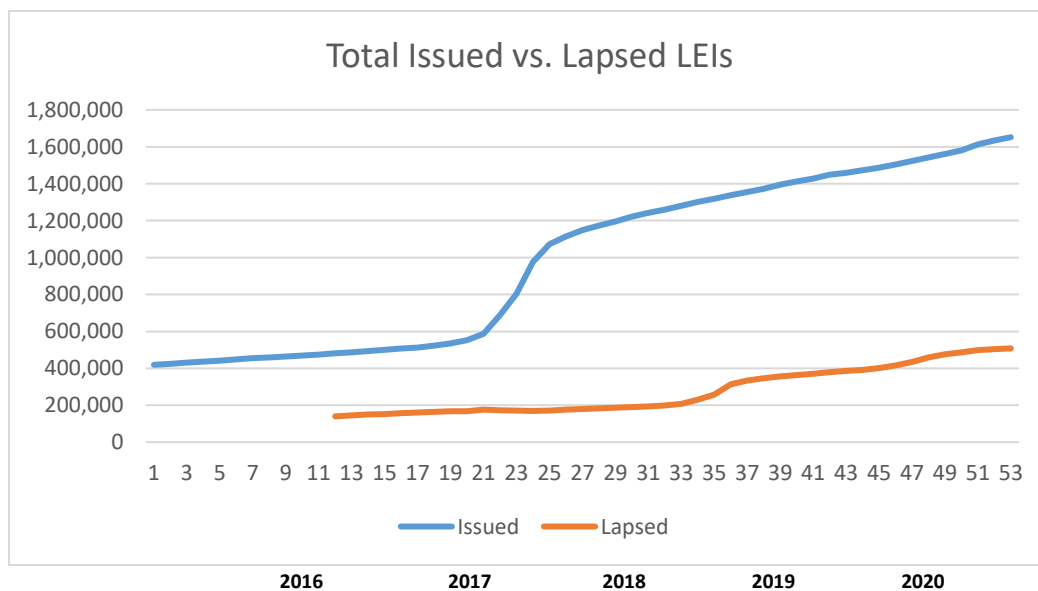
To this end we have long advocated for completing the mission of “who is who”, who-owns-whom”, and ‘who owns what’ with a complete set of LEIs and their hierarchies for the Global Systemically Important Financial Institutions (G-SIFIs). These institutions have had a unique status among regulators since the financial crisis. These are the ones that can spread the contagion of systemic risk.

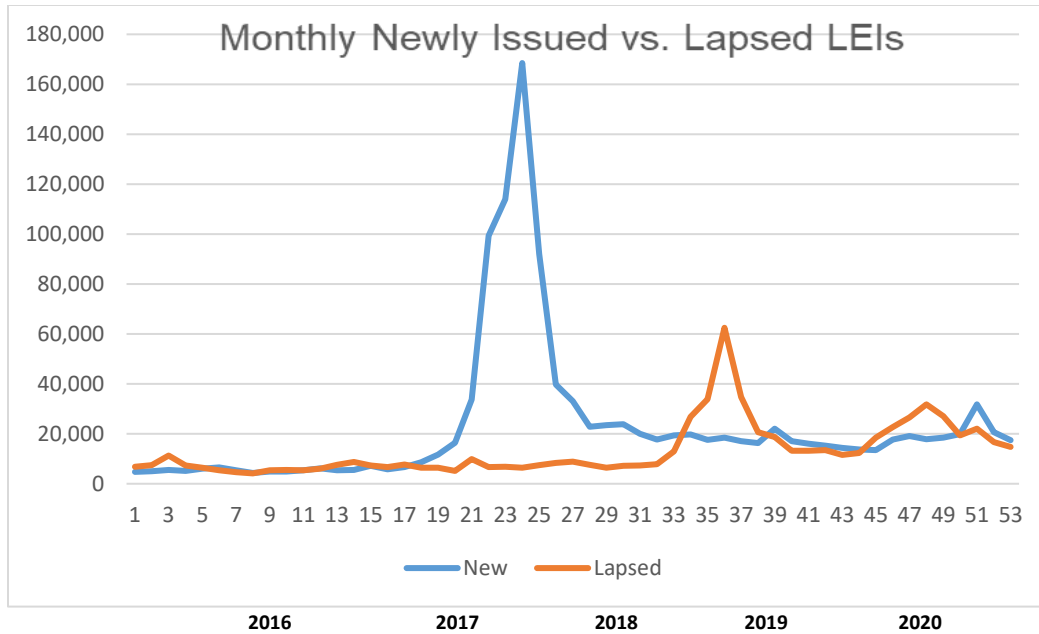
There are 30 **G-SIFI banks**, 8 headquartered in the US all coming under a single headquarters regulator, the Federal Reserve. Enlisting the Fed to complete the LEI mission through further targeted regulation of these 8 banks is a worthy effort. Finally, enlist the 4 largest public auditors that audit one or more of these banks to interpret the accounting consolidation rules for LEI hierarchies and assure the completeness of the LEI data. This would be a worthwhile undertaking for the new US office’s proof-of-concept (POC) ambitions. It would be a belated POC that the LEI mission as originally intended can be accomplished.

LEI Statistics in Charts and Graphs

2016 – 2019 Year-to-Year Comparison vs. Jan – May 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
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
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
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%	30.8%	30.9%	30.8%	30.7%
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
Lapsed	6,300	7,134	16,422	19,802	27,045	19,365	21,996	16,636	14,746
Net LEI Increase/decrease	-1,324	33,103	13,565	-3,150	-8,598	499	9,843	4,019	2,637
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
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
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
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





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