



The Global LEI Initiative

Reporting on LEI Progress

by

Financial InterGroup

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Summary

LEI Registrations, Renewals and Relationship Data

LEI registration at the end of February reached another all-time high of 1,568,862 vs. the 1,542,037 registered LEIs at year-end 2019. LEI registrations in 2020 will be moderately accelerated by: the EU's new mandate to require LEIs for collateral posting under the Securities Financing Transaction Regulation (SFTR); the US's Financial Transparency Act when passed later in the year; and the Swaps Data Reporting (SDR) and Recordkeeping Requirement when it's mandatory comment period ends mid-year. These rules should take full effect on LEI registration in 2021.

Lapsed LEIs are at another all-time high of 486,546 vs. last month's 476,637 and now represent 30.8% of all LEIs vs. last month's 30.5%. In the US, the CFTC has dealt with this in their proposed Swaps Data Reporting amendments, mandating renewals but just for the 151 significant financial entities engaged in the swaps markets. While this is the first time any US regulator is mandating any requirement for renewing LEIs, without a complete solution to compelling renewals, Lapsed LEIs will continue to increase and impact the quality and, hence, reliability and value of the LEI.

LEI registration for parent relationships (both ultimate and immediate) also increased, now at 212,877 representing 122,046 individual LEIs. Exceptions noted by registrants for not providing LEIs also reached another all-time high of 2,592,289 vs. last month's 2,553,656. Exceptions will continue to thwart the mission of establishing hierarchical entity risk structures for analysis of systemic risk.

Commentary

Relationship Data – A second look required

Director of OFR champions LEI ROC for expanded role in data standards

Amendments to the Swaps Data Recordkeeping and Reporting Requirements

Report

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 [February, 2020 Global LEI Data Quality Report](#).

2016 – 2019 Year-to-Year Comparison vs. Jan & Feb 2020 Month-end data

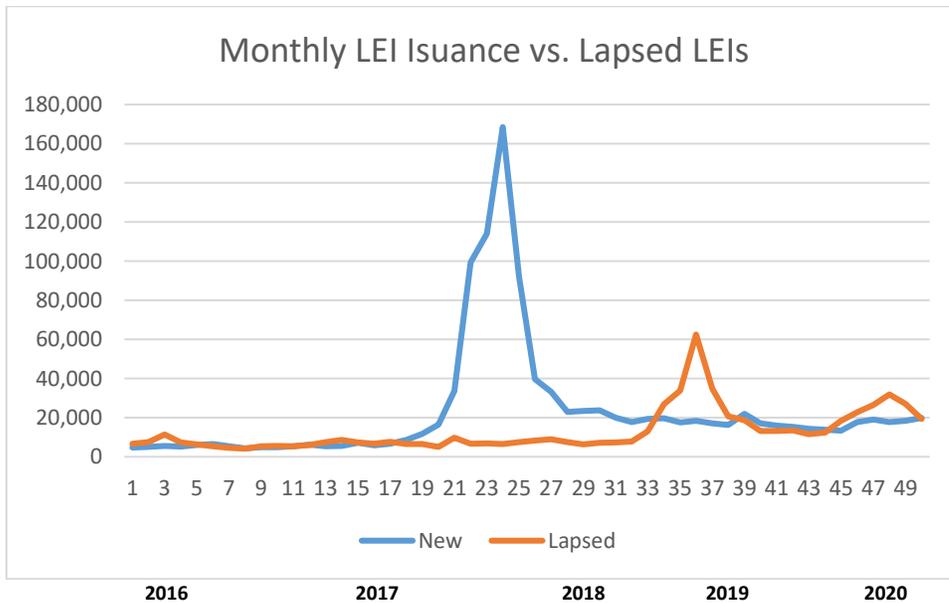
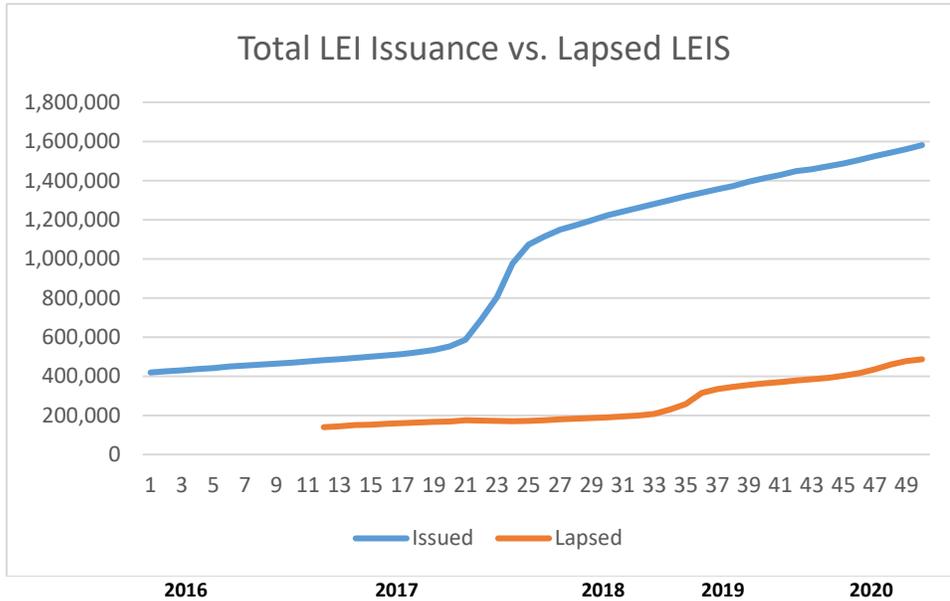
LEI Issuance and Lapsed LEIs – Year-to-Year and Jan 2020 Comparison	2016 Year-end	2017 Year-end	2018 Year-end	2019 Year-end	Jan 2020 Month-end	Feb 2020 Month-end
Total LEIs issued at Year-end and month-end	481,522	975,741	1,337,925	1,542,037	1,560,689	1,580,862
Total Lapsed LEIs issued at Year-end and month-end	139,461	169,778	313,915	459,436	476,637	486,546
Lapsed rate	29.0%	17.4%	23.5%	29.8%	30.5%	30.8%
Year-to-Year Monthly Average Comparisons						
Newly Issued	4,976	40,237	29,987	16,652	18,447	19,864
Lapsed	6,300	7,134	16,422	19,802	27,045	19,365
Net LEI Increase/ decrease	-1,324	33,103	13,565	3,150	8,598	499
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
Number of Unique LEI s Reporting both Parent Relationships	n/a	51,944	89,826	119,637	120,961	122,046
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
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,357,419	1,376,589

LEI Issuance and Non-Renewals (Lapsed LEIs)

LEI registration reached another all-time high of 1,560,689 registered LEIs, up from last month's 1,542,037. Recent monthly issued LEIs are repeatedly below monthly lapsed LEIs. Lapsed LEIs are at another all-time high of 476,637. Lapsed LEIs have declined significantly month-to-month resulting in a positive net increase of LEIs issued over lapsed LEIs. However, the overall rate of Lapsed LEIs increased slightly by .3% and now represent 30.8% of all registered LEIs.

While falling short of solving the Lapsed LEI problem, the legal entity database can tell users if the information is not current. However, the non-current data, 30.8% 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 in use; 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.

Without solving this high lapsed rate, 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. We comment on the CFTC’s attempt to deal with Lapsed LEIs (non-renewals) in their most recent amendments to their Swaps regulations (see Commentary section later in this Research Note)



We anticipate a continuation of a rising lapsed rate 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.

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 not doing so, has been recorded in the global LEI database since May, 2017.

LEI registration for parent relationships (both ultimate and immediate) increased, now at 212,877 vs. last month's 208,139, representing 122,046 individual LEIs this month vs. last month's 119,637. Exceptions for not obtaining a LEI are stabilizing, although reaching another all-time high of 2,592,289 vs. last month's 2,519,418. The reported number of LEIs with "Complete Parent Information" is a number that reports 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 1,376,589 vs. last month's 1,357,419.

Commentary

Relationship Data – a second look required

Allowing exceptions (opt-outs) was seen as a means to continue the momentum of the LEI registration initiative. However, it is now important to revisit the issue lest the regulatory objective of aggregating transaction data for risk analysis will be permanently undermined.

For example there are [five categories of Exceptions permitted](#) (see page 10) that represent over 90% of the reasons for not providing a parent entity LEI:

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

Additionally, statistics on non-validated parent LEIs over the nearly three (3) years the GLEIF has been reporting relationship data has been consistently in the same 60% range. This has resulted in the industry and regulators reporting limited use of the relationship data maintained in the Global LEI System for risk assessment. The LEI ROC has recognized that the recording of ultimate and immediate parent information has, so far, fallen short of complete hierarchies of LEIs as requested by the FSB.

It still remains to be understood how such permitted exceptions and non-validated parent LEIs 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.

Director of Office of Financial Research (OFR) Champions LEI ROC for expanded role with other data standards

Dino Falaschetti, the new Director of the OFR, has championed the LEI ROC, the multi-regulatory global overseer of the LEI, for governance responsibility for other newly established global data standards,

specifically, the Unique Transaction Identifier (UTI), the Unique Product Identifier (UPI), and the set of data elements known as Critical Data Elements (CDE's). This should lead to the GLEIF managing implementation of one or more of these global data standards for identifying: financial market participants; the financial instruments and contracts they trade, own and process; and the common data components assembled to define each financial transaction uniquely. GLEIF is uniquely positioned to take on this role.

"I would also like to commend the LEI ROC for considering a governance role in other data standards and identifiers, particularly the Unique Product Identifier, the Unique Transaction Identifier, and the Critical Data Elements for derivatives transactions. These nascent identifiers and standards may well increase the LEI's utility to the financial industry, offering both more transparency in the market and greater cost savings through automation and better risk management."

Remarks by Dino Falaschetti,
Director, Office of Financial Research,
at the Global Legal Entity Identifier Foundation Forum on
["Accelerating into a Digital Future: Simplifying Entity Identification for the Digital Age"](#),
October 24, 2019

Commodity Futures Trading Commission Amends Swaps Data requirements

Amendments to the Swap Data Recordkeeping and Reporting Requirements

Voting Draft – As approved by the Commission on 2/20/2020 (subject to technical corrections)

A summary of the data components of the regulation and excerpted passages from it are provided below:

LEI (Legal Entity Identifier)

A LEI is to be required for all significant swaps financial entities (see list of categories below). Those that are currently ineligible to receive a LEI based on the standards of the Global LEI System must provide an alternate identifier.

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Use of the legal entity identifier. (1) Each swap execution facility, designated contract market, derivatives clearing organization, swap data repository, entity reporting pursuant to § 45.9, and swap counterparty shall use legal entity identifiers to identify itself and swap counterparties in all recordkeeping and all swap data reporting pursuant to this part. If a swap counterparty is not eligible to receive a legal entity identifier as determined by the Global Legal Entity Identifier System, such counterparty shall be identified in all recordkeeping and all swap data reporting pursuant to this part with an alternate identifier as prescribed by the Commission pursuant to § 45.13(a).

At page 85

...if a swap counterparty is not eligible to receive a LEI, such counterparty should be identified with an alternate identifier pursuant to § 45.13(a). Because some counterparties, including many individuals, are currently ineligible to receive a LEI based on the standards of the Global Legal Entity Identifier System, the Commission believes that this sentence will provide clarity as to how LEI ineligible counterparties should be identified.

Lapsed LEIs

Renewals mandated only for 151 major regulated CFTC financial entities

At page 188 (renewals of LEIs)

The Commission is proposing to amend § 45.6 to: (i) require SDs, MSPs, DCOs, SEFs, DCMs, and SDRs to maintain and renew LEIs; (ii) required registered entities and financial entities to obtain LEIs for swap counterparties that do not have one; and (iii) update unnecessary and outdated regulatory text. The Commission believes accurate LEIs are essential for the Commission to use swap data to fulfill its regulatory responsibilities.

Mandating LEI renewal will benefit the swaps market by improving the Commission's ability to analyze activity in the swaps market. Reference data provides valuable identification and relationship information about swap counterparties. Accurate reference data allows for robust analysis of swaps risk concentration within and across entities, as well as a way to identify the distribution or transfer of risk across different legal entities under the same parent. The Commission also believes accurate reference data is essential for it to satisfy its regulatory responsibilities because it clearly identifies entities involved in the swaps market, as well as how these entities relate to one another – both key requirements for monitoring systemic risk and promoting fair and efficient markets. In addition, LEIs have already been broadly adopted in swaps markets and their widespread use has shown promise by reducing ambiguity engendered by market participants previously using a variety of non-standard reporting identifiers. However, the Commission recognizes LEI renewals impose some costs.

Currently, the Commission understands that LEI renewals cost each holder \$50 per year. To limit burdens for counterparties that are smaller or less-active in the swaps market, the Commission has proposed limiting the renewal requirement to the estimated 151 SDs, MSPs, SEFs, DCMs, DCOs, and SDRs, resulting in an aggregate cost of approximately \$7,550 for this requirement. The Commission believes the activities of these entities have the most systemic impact on the Commission's ability to fulfill its regulatory mandates and thus warrant this small additional cost.

Relationship Data (Parent/Ultimate parent)

Comments requested on counterparties reporting relationship data to Swaps Data Repositories

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The CFTC needs the ability to link swap counterparties to their parent entities to aggregate swap data to be able to monitor risk. Given the complicated nature of how some entities are structured within a larger legal entity, the CFTC also needs information related to the ultimate parent entity. The Commission believes this information is necessary to collect for both swap counterparties. The Commission requests specific comment on whether commenters believe this data could be reported as part of swap data reporting.

Given the static nature of these relationships, the Commission requests comment on whether reporting counterparties should report parent and ultimate parent information for each swap trade or in a regularly updated (e.g., monthly or quarterly) reference file maintained by SDRs.

UTI (Unique Transaction Identifier)

Requiring Unique Transaction Identifiers

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Unique Swap Identifiers The Commission is proposing to amend § 45.5 to: (i) require reporting counterparties use UTIs instead of USIs for new swaps; (ii) require SD/MSP entities that are financial entities to generate UTIs for off-facility swaps; and (iii) permit SD/MSP/DCO reporting counterparties that are not financial entities to ask their SDR to generate UTIs for swaps. In general, as described in section II.E, the Commission believes transitioning to the globally-standardized UTI system will benefit SDRs, SEFs, DCMs, and reporting counterparties by reducing the complexity associated with reporting swaps to or in multiple jurisdictions.

UPI (Unique Product Identifier)

Continuing to report product-related data elements required by each Swaps Data Repository until UPIs are available

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The Commission is currently heavily involved in separate international efforts to introduce UPIs. The Commission preliminarily expects UPIs will be available within the next two years. Until the Commission designates a UPI pursuant to § 45.7, the Commission is proposing SDRs continue to accept, and reporting counterparties continue to report, the product-related data elements unique to each SDR. The Commission believes this temporary solution would have SDRs change their systems only once when UPI becomes available, instead of twice if the Commission proposes standardized product data elements in this release before UPIs are available and then later designates UPIs pursuant to § 45.7.

CDE (Common Data Elements)

Comments requested on requiring use of CDEs

At page 133

DMO is proposing to establish technical standards for certain swap data elements according to the CDE Technical Guidance, where possible. Commenters are invited to comment on both the technical standards and the swap data elements proposed in appendix 1.

The swap data elements proposed to be reported to SDRs would therefore consist of: (i) the data elements implementing the CDE Technical Guidance; and (ii) additional CFTC-specific data elements that support the Commission's regulatory responsibilities.

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