The Global LEI Initiative

A Research Note by Financial InterGroup

November 2019

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LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)

LEI registration reached another all-time high of 1,504,480 up from last month's 1,486,441. Recent monthly issued LEIs are repeatedly exceeding monthly lapsed LEIs although lapsed LEIs are at another all-time high of 415,491 up from last month's 402,090. Lapsed LEIs month-to-month are accelerating and now represent 27.6% of all registered LEIs vs. last month's 27.1 %.

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships (both ultimate and immediate) increased, now at 203,544 vs. last month's 197,546, representing 117,124 individual LEIs this month vs. last month's 114,307. Exceptions for not obtaining an LEI are stabilizing, although reaching another all-time high of 2,449,422 vs. last month's 2,418,057.

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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 October, 2019 month-end and year-to-date reporting of LEI issuance; on the progress of Relationship Data collection; and our Commentary.

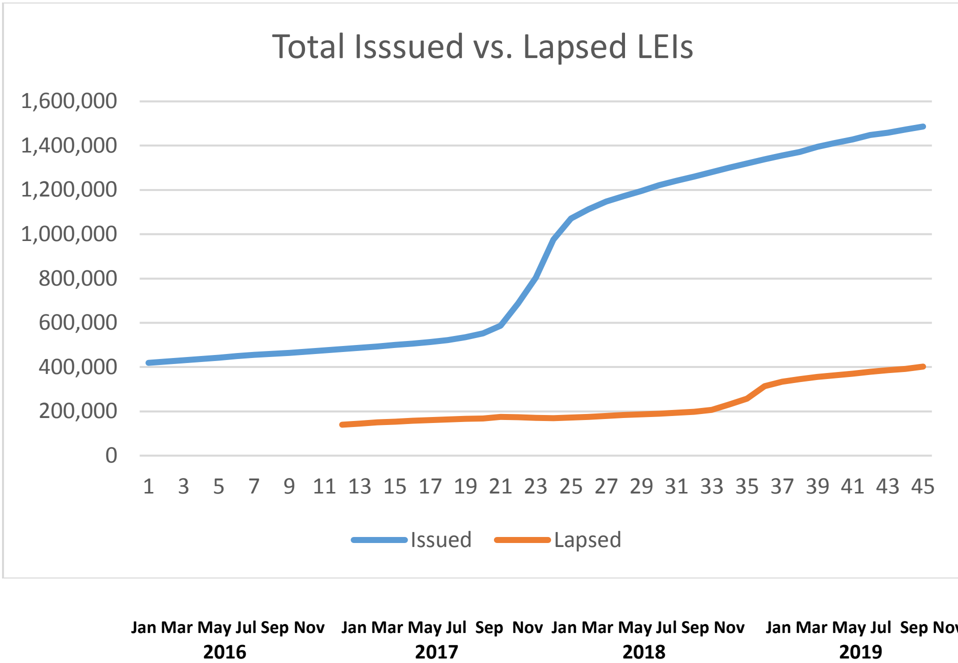
LEI ISSUANCE

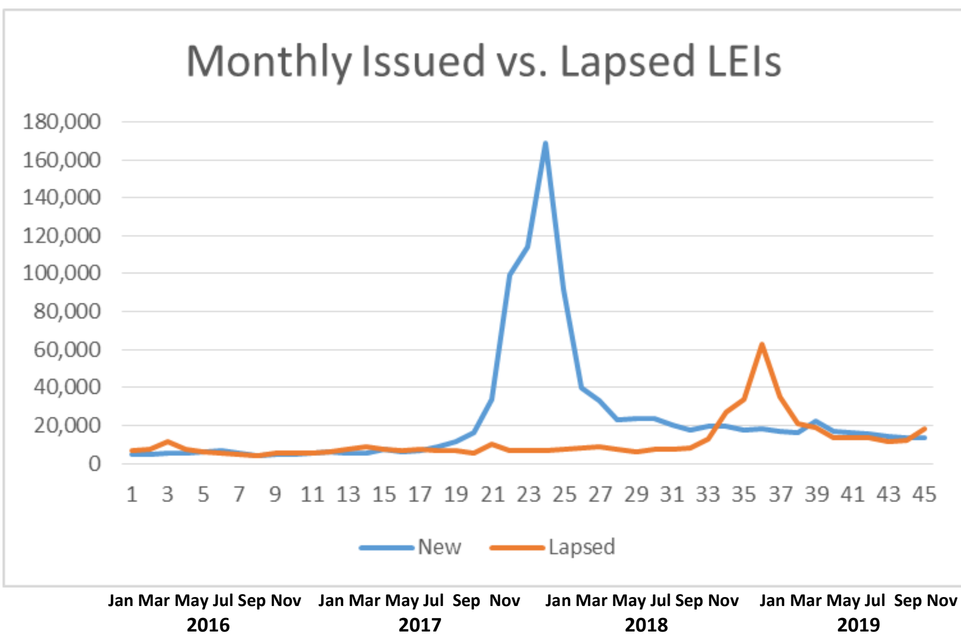
This month LEI registration reached another all-time high at 1,504,480. We continue to see a steadying of issuance of LEIs, settling in this month at 17,678 vs. the average of 16,230 per month since the beginning of this year. In prior years the average monthly LEI issuance was 29,016 (2018) and 40,237 (2017) helped considerably by EU mandates compelling issuance. Perhaps the EU's new mandate to require LEIs for collateral posting for securities financing transactions should accelerate LEI issuance, as was the case when EMIR and MiFid II mandates accelerated LEI registration for trade reporting.

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	Jul 2019 Month-end & YTD	Aug 2019 Month-end & YTD	Sep 2019 Month-end & YTD	Oct 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	1,458,621	1,472,740	1,486,441	**1,504,480**
Year-to-Year Averages/ Month-by-Month Comparisons													
Newly Issued	5,334	40,237	29,016	17,092	16,250	22,002	17,084	15,996	15,281	14,370	13,782	13,406	**17,678**
Lapsed	6,300	7,134	15,894	34,796	20,654	18,701	13,197	13,252	13,508	11,592	12,364	18,447	**22,700**
Net Increase/ decrease	-996	33,103	13,122	-17,677	-4,404	3,301	3,887	2,744	1,773	2,778	1,418	-5,041	**-5,022**
Lapsed rate	29.0%	17.4%	23.5%	24.7%	25.2%	25.5%	25.7%	26.0%	26.2%	26.4%	26.6%	27.1%	**27.6%**
Total Lapsed LEIs	139,461	169,778	313,915	334,503	345,544	356,148	363,406	370,774	378,900	385,371	391,382	402,090	**415,491**

October's data saw the second month of the reversal of lapsed LEIs exceeding newly issued LEIs over the previous six months of issued LEIs exceeding lapsed LEIs. The overall rate of lapsed vs. issued LEIs is now at 27.6% vs. last year-end's 23.5% and last month's 27.1%. 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. Lapsed LEIs are those LEIs that are not renewed at their one year anniversary of registration.





We anticipate a continuation of a rising lapsed rate (now at 27.6%) until renewing LEIs becomes more broadely 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. In this later regard a new business model is being proposed where financial institutions will issue LEIs to their clients/counterparties. This is discussed later in the **Closing Comments** section.

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. September 2019 is the third 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%
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%**

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 has stabilized. This month's increase to 5,998 vs. last month's 2,080 is consistent with the average of 5,340 month-over-month. It continues to show that LEI registrants are following the mandates to include parent relationship data. Similarly, registrants report both parent relationships where they exist (column 3 above). Here too the percent increase (column 4 above) of 2.5% is consistent with the average month-to-month delta of 2.2%.

The ROC provides for existing and new LEI registrants 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). 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 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%
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%**

Relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. Importantly, only 203,554 of the LEIs that are included in the "LEIs with complete parent relationships" category (1,306,391) 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 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. 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 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 systemic risk analysis (the FSB's concern). Both organizations have reported on their inability to use the LEI data for such purposes. In the matter of analyzing systemic risk, a large gap in reporting via LEI was opened when the ROC declared sovereign entities would not be required to obtain a LEI. This is discussed further in the **Closing Comments** sections below.

CLOSING COMMENTS

GLEIF hopes to ramp up a 'new' business model for registering LEIs.

At a recent GLEIF and Data Foundation sponsored forum "Accelerating into a Digital Future: Simplifying Entity Identification for the Digital Age," in Washington, D.C. on Thursday, October 24. Amongst a number of agenda items the GLEIF proposed having financial institutions assign LEIs to their clients/counterparties. Also discussed was distributed ledger prototypes; using the LEI for cost reduction; and the benefits of growing the number of LEIs from 1.5 million currently to 40 million in a few years. Forum attendees asked many questions, some lingering from earlier consultations, some generated from the presentations:

- How to overcome government agencies' maintaining control of ID system
- Are financial institutions being proposed as registration agents, joining with LOUs, in order to assign LEIs to their clients
- Are financial institutions being proposed as LOUs
- How GLEIF will align with ISO codes i.e. SWIFT, ANNA, ISO 3166
- How does GLEIF reconcile DVC (Data Verification Credential) with legal requirements of various regulatory filings
- What standard is used to issue credentials
- Why is 'issuer' needed to create the LEI credential
- Does the LEI eliminate the requirement or demand for other IDs
- How does GLEIF plan to close gap between current 1.5 million LEIs and 200 million
- How does GLEIF plan to identify parent(s) with fractional interest of other companies
- The Bank of England will incorporate the LEI in their real-time gross settlement system. Should the Clearing House do the same
- Why doesn't the SEC switch from their CIK code to the LEI
- What is the key to driving LEI adaption
- Will limiting the LEI to formation documents add value to the customer experience

- What is GLEIF's plan to get complete parent information for its ultimate use in data aggregation for risk management
- Will maintaining legal events by GLEIF be useful for timely updating of internal (financial institution) data bases
- Is there any movement to engage data vendors in providing legal event (corporate action) updates
- Has any progress been made in creating a new category 'non-operational' to classify LEIs to clarify non-renewals

From this forum and the earlier FSB consultation, a Thematic Peer Review of the LEI, GLEIF took on the the industry's challenge to consider alternate business models to accelerate the further adaption of the LEI. This has resulted in GLEIF's adaption of an old "new" business model of having financial institutions issue LEI codes to their clients/counterparties.

Proposed early in initial LEI dialogue (2010), it was dismissed in favor of clients/counterparties exclusively self-registering through a multitude of disbursed global infrastructure intermediaries termed Local Operating Units (now comprised of 33 entities of varying skill sets: business registries, patent agencies, clearing agencies, data vendors, central securities depositories; payment system operators and national numbering agencies).

Having financial institutions involved in LEI registration is the hoped for way in which LEI registrations will be accelerated from its current 1.5 million to perhaps 20 million by 2025 and on to its 40 million in total for the capital and derivatives markets. Further on GLEIF intends to register all 200 million entities involved in both the financial and trade payment systems.

It is heartening to see the formation of the Globally Important Financial institutions (GIFI) Relationship Group established by GLEIF to engage with global asset managers, banks, insurers, and reinsurers. This group is intended to represent the largest, most systemically important financial institutions. Focusing initially on them to follow the lead of the largest retailers and manufacturers who required barcodes to do business with them. Like these large commercial organizations, GIFIs can require clients, and even their data vendors, to obtain a LEI to do business with them.

Larger financial market participants can directly register LEIs into the GLEIS data base, along with their hierarchical structures, and perhaps engage its auditors to validate the data at its source. LOU's second and third level sources of validation data would be replaced by validation of a professional set of eyes at the source of registration. This would resolve the issue of a lack of any LOU validation for what the GLEIF reports is 62.1% of intermediate parents and 53.9% for ultimate parent. This validation at source should markedly improve overall data quality and lower lapsed renewal rates.

Auditors, particularly the Big 4 audit firms with their global reach and on-the-ground presence throughout the world had, in the past, organized themselves to provide a client data base for all their combined clients. They also wield ultimate professional judgment over what entities are controlled by others in a hierarchy of subsidiaries and affiliates that are used in consolidating such entities for financial reporting. Accounting consolidation techniques are the agreed of method for providing hierarchical information (parent/ultimate parent) to the GLEIS database.

A Big 4 driven utility can be organized as a combined LOU and registration agent starting with registering and organizing the hierarchies of a subset of all GIFIs, the 134 financial entities designated as either global

(G-SIFIs) or domestic systemically important financial institutions (D- SIFIs). This combined LOU/registration agent in a partnership with the Big 4 and these GIFIs could provide centralized services, distributed and delivered locally, at lower cost than the current configuration of 33 LOUs each having charged $200 for an initial registration and $100 for each renewal. That model has already cost the industry $½ billion for just the current 1.5 million LEIs. Alternatively, direct financial market registration into a distributed ledger, a permissioned ledger whose members are the 134 SIFIs, would lower the overall cost of maintaining the GLEIS and the network of LOUs.

If these SIFIs were to place their hierarchical database into the GLEIS as a single 'object' any financial or government entity doing business with or monitoring the risk of a SIFI could quite easily aggregate its own data by LEI.

Accelerating completion of the recording of LEIs and their hierarchies in the GLEIS for the SIFIs would give regulators a means of aggregating transaction data more immediately for this important segment of the global financial system. This was the segment singled out as systemically important to the stability of the financial system. The FSB's mandate is to stabilize the financial system. Starting here could yield a great early success.

McKinsey/GLEIF survey identifies $4 billion global financial industry savings from LEI through enabling onboarding work flow improvements.

This joint survey was a good next step in the McKinsey/GLEIF series of collaborative consultations. The first identified savings of $150 million within the investment banking industry and up to U.S. $500 million for banks in the issuance of letters of credit. This latest analysis, of onboarding workflows across the financial supply chain, projected savings of $2-$4 billion across the global financial industry. A most prescient quote from the study by an industry observer sums up both the aspirations and the frustration of getting universal adaption of the LEI:

> "Different IDs across our different systems and our data providers causes a significant burden – If I had a magic wand, I would make every entity have an LEI."

We hope that solutions short of literally finding a 'magic wand' will arise.

McKinsey, in another consultative collaboration, this one with the World Federation of Exchanges Fintech Decoded: Capturing the opportunity in capital markets infrastructure had identified the necessity of a common taxonomy (standards for describing data contained in financial transactions) in order for Artificial Intelligence, Distributive Ledger Technology and other advanced digital enabled technologies to be effectively and efficiently applied.

Perhaps further collaboration between McKinsey, GLEIF and the other principle entity that collectively govern the financial identity space, ANNA, will focus on the cost savings of implementing the complete set of data identifiers and associated reference data that collectively make up 60% - 70% of a financial transaction.

In our own research we estimate that the industry would save much of the $250 billion spent on buying duplicate data sets; reconciling multiple identifiers and reference data; providing capital to be set-aside for losses associated with errors from poor data quality; and the cost of computers, space, manpower, benefits and software associated with data management operations.

ROC new consultative document eliminates assigning LEIs to government entities that issue debt because they are 'especially difficult'

As with all previous ambitious efforts to tame the data identification and data maintenance issues of financial market participants, the LEI initiative has met with many roadblocks. The ROC has chosen by their actions to either push their resolution out to a later date or not to deal with the issue at all.

Those issues that have been pushed aside include how to define the controlling parent of special purpose vehicles; how to define parents within fractional interest entities; completing the 'who owns who' hierarchies of ownership and control; resolving those LEIs exempted from recording an ultimate parent; and dealing with PNIs (Provisional Node Identifiers) assigned by the GLEIF for LEIs that have identified their parent but without a LEI.

In other cases the ROC has agreed to incorporate previously dismissed approaches allowing data vendors, BIG 4 audit firms and GS1 (the barcode ID assigners), to become LOUs; creating a Registration Agent category to assist registrants; and declaring sole practitioners as eligible for a LEI.

In still other cases the ROC has backtracked on earlier decisions and now declared that legal event data vendors can interface with the GLEIS; that a new category, that of a registered but non-operational legal entity, is to be permitted to allow for the non-renewal of the LEI of such entities; and that it is now optional (not required) for funds registered with a LEI to identify their hierarchical relationships.

Finally, the ROC has declared one of the fundamental issues of the day, that of sovereign risk causing systemic risk, "beyond the scope of the LEI reference data base". This then means that there will be no LEIs for government entities that issue debt like EU countries that needed to be bailed out - Portugal, Greece, Italy; or that defaulted on their debt- Puerto Rico, Argentina, Venezuela, Russia, et al. See ROC statement below:

LEI Eligibility for Entities General Government Consultative Document (25 October 2019) states at page 10:

> "While it may be useful to identify the issuer of government debt, it was considered especially difficult. Different types of entities may participate in the process of issuing government debt with different roles (risk bearer, technical manager). In that context, government debt implies to identify the final risk bearer, which involves a complex and thorough analysis and is beyond the scope of the LEI reference database."

This is a significant retraction of the original intent of the FSB's acceptance of the consultative report A Global Legal Entity Identifier for Financial Markets (6 June 2012) where, at page 35, it states that the issuance of a LEI:

> … includes governmental organizations; and supranationals, defined as governmental or non-governmental entities established by international law or treaty or incorporated at an international level. Examples of eligible legal entities include, without limitation: … all entities that issue equity, debt or other securities for other capital structures; … all entities that trade stock or debt …

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