

The Global Legal Entity Identifier Initiative – The US Steps Up – Maybe?

November 2021

The LEI is but a small step in the global data standards landscape yet a giant leap forward for financial transparency.

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Introduction

With the House's bipartisan passage on Oct. 25th (400 Yeas, 19 Nays) of the Financial Transparency Act ([HR 2989](#)) it is now on to the Senate's Committee on Banking, Housing, and Urban Affairs to move it forward.

It has been a long time since the Dodd-Frank legislation, enacted in 2010, established the basis for financial transparency in financial reporting. The House's just passed Financial Transparency Act (FTA) adds necessary actions that will finally make it possible for federal regulators to see that which they are responsible for overseeing. However, like the earlier legislation, the FTA does not mention the GLEIF's LEI, only that "The common identifiers shall include a common nonproprietary legal entity identifier that is available under an open license". Further detail on FTA is presented later in this Research Note.

This Research Note summarizes progress of LEI issuance. It is based on [GLEIF's Nov 5, 2021 Global LEI Data Quality Report](#) and FIG's historical LEI database. GLEIF has been publishing statistics on the LEI since Jan, 2016 and LEI Relationship data since May, 2017.

Summary of Issued, Renewed and Relationship Data

Newly issued LEIs this month was 26,309, the highest this year and significantly above the monthly average of the past two years of 19,364 and the highest monthly number of issued LEIs in the past three (3) years. Registered LEIs in total this month reached 1,984,081 vs. last month's 1,957,972.

The overall lapsed rate (non-renewal rate) comparing total non-renewed LEIs to total issued LEIs was 33.0%. While the lapsed rate is now the highest since reporting began in 2006 it has steadily hovered around one-third of all registered LEIs. The lapsed rate based upon comparison to active LEIs (1,902,225) now stands at 34.4%, the highest over the last four (4) months since we began following this rate.

Relationship data is the recording of parent LEIs used for associating an LEI with either its immediate or ultimate parent. There are 3,366,130 vs. last month's 3,315,958 exceptions to providing an LEI for one or more of a legal entity's parents. Of all these exceptions, there are 1,790,120 vs. last month's 1,764,658 legal entities that have either reported an exception or reported their parents LEI. There are 122,761 vs. last month's 122,758 legal entities reporting both parents with LEIs.

This statistic of reporting of both parents having LEIs of a registered legal entity, that legal entity also registered with a LEI, has been decelerating over the last year, incrementally changing by first tens of digits then, this month, by single digits. This is occurring at the same time that monthly newly registered LEIs have reached all-time highs and exceptions to registering parent LEIs have also reached all-time highs.

GLEIF has been recording Provisional Node Identifiers (PNIs) since relationship data was first required to be recorded in 2006. The PNI was a substitute identifier to record a minimum amount of reference data of a parent which either had not received an LEI or was exempt from acquiring a LEI. That data was not to be made public. However, at some point the PNI database was to be reviewed for possible additional use. So far, neither the governing committee (the Regulatory Oversight Council – ROC) of the global LEI system nor the global LEI foundation (GLEIF) has placed this on its agenda.

If GLEIF and the ROC are to meet its original mandate to provide hierarchical organizational data for risk management purposes, it must deal with those entities identified with a PNI and those that are in the Exceptions data base.

LEI Historical and Current Statistical Comparison Chart

| LEI Issuance & Non-renewed (Lapsed) LEIs | Year - Year 2016-2020 | | | | |
|---|--------------------------|------------------|------------------|------------------|------------------|
| | 2016 Year-end | 2017 Year-End | 2018 Year-end | 2019 Year-end | 2020 Year-end |
| Total LEIs issued at Yr/Mo-end | 481,522 | 975,741 | 1,337,925 | 1,542,037 | 1,777,458 |
| Total Active LEIs at Yr/Mo-end | | | | | |
| Total Non-renewed (Lapsed) LEIs issued at Year/Month-end | 139,461 | 169,778 | 313,915 | 459,436 | 585,029 |
| Non-renewed rate – issued LEIs | 29.0% | 17.4% | 23.5% | 29.8% | 32.9% |
| No Non-renewed rate – active LEIs | | | | | |
| Newly Issued | 4,976 | 40,237 | 29,987 | 16,652 | 19,364 |
| Non-renewed (Lapsed) LEIs | 6,300 | 7,134 | 16,422 | 19,802 | 18,778 |
| Net LEI Increase/Decrease | -1,324 | 33,103 | 13,565 | -3,150 | 586 |
| Relationship Data | | | | | |
| Number of Immediate & Ultimate LEI Parent Records | n/a | 88,198 | 152,318 | 208,139 | 230,755 |
| Number of Unique LEIs Reporting both Parent Relationships | n/a | 51,944 | 89,826 | 119,637 | 132,096 |
| Number of Immediate & Ultimate LEI Parent Exception Records | n/a | 1,067,968 | 2,156,909 | 2,519,418 | 2,965,315 |
| Number of LEIs with Complete Parent Information | n/a | 572,818 | 1,146,554 | 1,341,015 | 1,563,458 |

| LEI Issuance & Non-renewed (Lapsed) LEIs | Monthly Q1 2021 | | | Monthly Q2 2021 | | | Monthly Q3 2021 | | | Current Month |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Jan 2021 Mo-end | Feb 2021 Mo-end | Mar 2021 Mo-end | Apr 2021 Mo-end | May 2021 Mo-end | Jun 2021 Mo-end | JUL 2021 Mo-end | Aug 2021 Mo-end | Sep 2021 Mo-end | Oct 2021 Mo-end |
| Total LEIs issued at Yr/Mo-end | 1,797,171 | 1,817,082 | 1,839,494 | 1,858,136 | 1,876,920 | 1,897,371 | 1,917,120 | 1,936,064 | 1,957,972 | 1,984,081 |
| Total Active LEIs at Yr/Mo-end | | | | | | | 1,838,937 | 1,856,856 | 1,877,480 | 1,902,225 |
| Total Non-renewed (Lapsed) LEIs issued at Year/Month-end | 588,972 | 590,265 | 600,952 | 607,065 | 613,400 | 619,579 | 625,679 | 634,079 | 641,656 | 654,465 |
| Non-renewed rate – issued LEIs | 32.8% | 32.5% | 32.7% | 32.7% | 32.7% | 32.7% | 32.6% | 32.8 % | 32.8% | 33.0% |
| No Non-renewed rate – active LEIs | | | | | | | 34.0% | 34.0% | 34.2% | 34.4% |
| Monthly Averages | | | | | | | | | | |
| Newly Issued | 19,485 | 19,491 | 22,166 | 18,470 | 18,596 | 20,540 | 19,649 | 19,044 | 21,908 | 26,309 |
| Non-renewed (Lapsed) LEIs | 22,270 | 15,688 | 19,981 | 13,663 | 12,700 | n/a | n/a | n/a | n/a | n/a |
| Net LEI Increase/Decrease | -2,785 | 3,803 | 2,185 | 4,807 | 5,896 | n/a | n/a | n/a | n/a | n/a |
| Relationship Data | | | | | | | | | | |
| Number of Immediate & Ultimate LEI Parent Records | 232,516 | 234,116 | 236,715 | 236,144 | 238,593 | 243,133 | 247,503 | 250,598 | 253,604 | 256,078 |
| Number of Unique LEIs Reporting both Parent Relationships | 133,025 | 133,471 | 134,596 | 134,034 | 134,575 | 123,043 | 122,567 | 122,505 | 122,758 | 122,761 |
| Number of Immediate & Ultimate LEI Parent Exception Records | 3,002,881 | 3,041,991 | 3,086,072 | 3,125,083 | 3,106,747 | 3,200,632 | 3,237,720 | 3,274,355 | 3,315,958 | 3,366,130 |
| Number of LEIs with Complete Parent Information | 1,580,985 | 1,600,106 | 1,621,675 | 1,639,858 | 1,657,862 | 1,704,792 | 1,724,636 | 1,743,172 | 1,764,658 | 1,790,120 |

The Financial Transparency Act (FTA)

The FTA requires financial regulators that are members of the US Treasury's Financial Stability Oversight Council (FSOC) to set and implement reporting standards. It states that each reporting financial institution has to present standard data to each of the seven (7) agencies that collectively oversee the entirety of the financial system here in the US - the SEC, FDIC, OCC, Federal Reserve, Bureau of Consumer Financial Protection, National Credit Union Administration and the Federal Finance Housing Agency. The transactions reported on will then get aggregated up to the FSOC, presumably through the Office of Financial Research (OFR) although the OFR is not explicitly mentioned in the FTA. The OFR was established to collect such standard information.

Prior to the FTA, the OFR was asked to do what FTA now mandates being done, but without the force of law. The OFR was never empowered to address directly what each financial institution needed to do to standardize data in order to report to its supervising agency, each supervising agency maintained that power. The FTA changes that dynamic by mandating that the financial institutions must report transactions with standard identifiers and standard formats to their reporting agencies. This would, in turn, makes possible the aggregation and reporting to the FSOC a direct computerized process.

In the Dodd Frank legislation, the Commodity Futures Trading Commission (CFTC) was explicitly singled out and given new powers to regulate the previously unregulated Over-the-Counter derivatives markets (Swaps and their many manifestations). Unlike the other agencies now under the mandate of the FTA, the CFTC was explicitly mandated in 2010 to require those financial entities that were newly required to report to them to provide data with standardized identity codes. No reporting to any federal agency existed at that time.

The FTA also requires the Treasury's data standards that is referred to in the FTA to be incorporated into reporting by Credit Agencies, the Municipal Rule Making Association, Investment Advisors National Exchanges, Financial Market Infrastructures, and corporate communications such as proxies, corporate disclosures and solicitations. In effect it requires that all financial transaction data be standardized with the same product or legal entity being identified the same way across all of these reporting entities, and formatted in the same way.

It will finally make this critical financial data computer literate, allowing computerized searching of multiple agencies' reports of the same financial institution, the same client or counterparty, and the same financial product across all the agencies.

US vs EU in the Use of a Common Legal Identifier

The US is well behind the EU in being able to access 'computer-understandable' data that is reported to their respective regulatory agencies. The EU has gone as far as not allowing transactions to flow into the financial system if critical data identifiers are not present. The German Stock Exchange (Deutsche Bourse) banned Coinbase from listing its stock if it did not register to acquire its unique identifier, known as the Legal Entity Identifier (the LEI).

The LEI identifier, administered under the Global LEI Foundation (GLEIF), a Swiss non-profit, was established by the G-20. The G-20, in turn, empowered the Financial Stability Board (FSB) to set up the GLEIF after the financial crisis of 2008. That crisis, precipitated by Lehman Brothers failure, exposed the

world to the absence of any one regulator's ability to see the totality of financial risk being taken by financial institutions, especially globe spanning multi-national ones.

The EU has registered more than 70% of the nearly 2 million LEIs, the US a mere 12%. The EU has gone as far as to mandate through legislation that if "no LEI no Trade" is permitted. The US through the Financial Transparency Act has moved a step closer to its ability to see into the data that is sent to them through computer means. A bolder step would be to add to the legislation that the standard legal entity identifier be the LEI, not just the mere mention of an undefined common standard for a legal entity.

A bolder step yet would be to broaden the definition of unspecified 'financial entities' as used in the FTA for applying its legal entity identifier to the definition used by the FSB for its "common standard for a legal entity". That common standard, as defined by the FSB includes:

"...a legal person or structure organized under the laws of any jurisdiction. Legal entities include, but are not limited to, unique parties that are legally responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g., trust, partnership, contractual, etc.). It excludes natural persons, but 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 financial intermediaries; banks and finance companies; all entities that issue equity, debt or other securities for other capital structures; all entities listed on an exchange; all entities that trade stock or debt; investment vehicles, including mutual funds, pension funds and alternative investment vehicles constituted as corporate entities or collective investment agreements (including umbrella funds as well as funds under an umbrella structure, hedge funds, private equities, etc.); all entities under the purview of a financial regulator and their affiliates, subsidiaries and holding companies; and counterparties to financial transactions"

For further Information



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