



The Global LEI Initiative

LEI issuance and parent registration stalls, lapsed LEIs still rising

A Research Note by Financial InterGroup

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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 September, 2018 month-end and year-to-date reporting of LEI Issuance ¹; on the progress of Relationship Data collection; and our Commentary.

LEI ISSUANCE

September saw a slight uptick in issued LEIs and a rather large increase in Lapsed LEIs. The net increase of issued vs. lapsed LEIs has shown a progressive decrease over the entire year with this month being its lowest increase at 6,427. Total lapsed LEIs are on a steady monthly uptick, rising 65% to 12,971 from last months 7,838, to another all-time high of 207,462. This may portend a rising lapsed rate in the next quarter as the first group of renewals from the accelerated LEI issuance of last year comes due for renewal.

LEI Issuance and Lapsed LEIs – see Note below	2016 Year-end	2017 Year-end	Jan. 2018 Month-end YTD	Feb. 2018 Month-end YTD	Mar. 2018 Month-end YTD	Apr. 2018 Month-end YTD	May 2018 Month-end YTD	June 2018 Month-end YTD	July 2018 Month-end YTD	Aug 2018 Month-end YTD	Sep. 2018 Month-end YTD
	481,522	975,741	1,071,693	1,113,339	1,148,170	1,172,295	1,195,780	1,221,330	1,242,095	1,260,541	1,280,462
	2016 Monthly Avg.	2017 Monthly Avg.	Jan. 2018 Month-end	Feb. 2018 Month-end	Mar. 2018 Month-end	Apr. 2018 Month-end	May 2018 Month-end	June 2018 Month-end	July 2018 Month-end	Aug 2018 Month-end	Sep. 2018 Month-end
Newly Issued	5,334	40,237	92,029	39,760	33,120	22,882	23,412	23,801	19,951	17,719	19,398
Lapsed	6,300	7,134	7,494	8,296	8,904	7,529	6,409	7,166	7,278	7,838	12,971
Net Increase/decrease	-996	33,103	84,535	31,464	24,216	15,353	17,003	16,635	12,673	9,881	6,427
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end %)	16.0%	15.8%	15.7%	15.7%	15.5%	15.5%	15.6%	15.8%	16.2%
Total Lapsed (Year & month-end Totals)	139,461	169,778	171,472	175,540	179,803	183,466	186,021	189,712	193,657	198,719	207,462

The Financial Stability Board will commence a survey by its member’s supervisory authorities to determine how LEI adaption can be accelerated. A questionnaire will be developed for the survey and a working group conveniend. Thereafter, a report will be produced sometime in 2019.

The comment period for input from the industry ended Sept. 21, 2018. Because the FSB will not be posting these responses, we have gathered those that have been made public by their authors and included them along with our Commentary in a later section of this Research Note.

RELATIONSHIP DATA COLLECTION

September 2018 was the fifth month of data collection after a full year of registration and collection of the immediate parent and ultimate parent of each LEI (Level 2 Relationship Data). GLEIF reports statistics on how many immediate and ultimate parent records were reported (see the first numeric column in the

¹ GLEIF Data Quality Report – September 2018, https://www.gleif.org/content/4-lei-data/7-gleif-data-quality-management/1-about-the-data-quality-reports/1-download-data-quality-reports/20181004-download-global-lei-data-quality-report-september-2018/2018-10-04-lei-data-quality-report-september-2018_v1.jpg, Oct. 4, 2018

chart below) and of these, how many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the chart below).

Level 2 Relationship Data	Number of Immediate & Ultimate LEI Parent Records	Month-to-Month Change	Number of Unique LEIs Reporting both Parent Relationships	% Month-to-Month Change
Year-end 2017	88,198	-	51,944	-
Month-end Jan 2018	109,057	20,859	63,237	21.7%
Month-end Feb 2018	119,438	10,381	70,584	3.7%
Month-end Mar 2018	122,806	3,368	72,953	3.4%
Month-end Apr 2018	129,128	6,322	76,268	4.5%
Month-end May 2018	134,141	5,013	79,270	3.9%
Month-end Jun 2018	136,403	2,262	80,718	1.8%
Month-end Jul 2018	139,127	2,724	82,487	2.6%
Month-end Aug 2018	141,694	2,567	83,652	1.4%
Month-end Sep 2018	143,602	1,908	84,898	1.5%

As can be seen from the Month-to-Month Change column in the chart above, the monthly reporting of the number of registered LEIs with parent relationships has leveled off over the last seven months. A similar pattern has emerged for the number of LEIs reporting both parents (column 3), with the percent increase also showing a slowing trend.

The GLEIF also reports on LEIs that have recorded Level 2 reporting exceptions and total legal entities that either recorded an exception or recorded a LEI for either parent (see chart below).

Level 2 Reporting Exceptions	Number of Immediate & Ultimate LEI Parent Exception Records	Month-to-Month Change	Number of LEIs with Complete Parent Information	% Month-to-Month Change
Year-end 2017	1,067,968	-	572,818	-
Month-end Jan 2018	1,309,801	241,833	702,154	22.6%
Month-end Feb 2018	1,435,891	126,090	770,652	9.8%
Month-end Mar 2018	1,560,558	124,667	834,384	8.3%
Month-end Apr 2018	1,700,551	139,993	909,859	9.0%
Month-end May 2018	1,814,341	113,790	963,991	5.9%
Month-end Jun 2018 –see Note	2,099,985	285,644	1,115,160	15.7%
Adj. Month-end Jun 2018 - see Note	1,899,368	85,027	914,543	-5.1%
Month-end Jul 2018	1,952,927	53,559	1,043,199	14.1%
Month-end Aug 2018	1,998,077	45,150	1,066,405	2.2%
Month-end Sep 2018	2,041,663	43,586	1,088,521	2.1%

Note: month–end figures for June 2018 was distorted due to a change in reporting by one LEI Issuer, Business Entity Data B.V. (known in the US as the GMEI Utility). According to the GLEIF this change in reporting is erroneous and will be remediated during the third quarter of 2018.²

² Global LEI System Business Report Q2 2018., <https://www.gleif.org/en/lei-data/global-lei-index/download-global-lei-system-business-reports#> August 8, 2019, at page 2

The Level 2 Reporting exceptions column in the chart on the previous page is the sum of records indicating legitimate reasons why LEI registrants failed to provide either an ultimate parent LEI and/or an immediate parent LEI (see the first numeric column). This metric is now at an historic high of 2,041,663.

Also, GLEIF reports on how many of each unique LEI registrant reported either a parent and/or immediate parent or provided an exception reason for not providing either or both (see the third column in the same chart on the previous page). This metric, too, is at an historic high of 1,088,521.

The significance of these exceptions has yet to be determined. We expect that the FSB's review (see below) will bring some clarity to the issues remaining in further gathering of relationship data.

COMMENTARY

The FSB's Thematic Peer Review of the LEI

The Financial Stability Board (FSB), has initiated a thematic review of the implementation of the global Legal Entity Identifier (LEI) initiative.³ The review will: (1) take stock of the approaches and strategies used by FSB members to implement the LEI, including its adoption for regulatory requirements; (2) assess whether current levels and rates of LEI adoption are sufficient to support the ongoing and anticipated needs (particularly financial stability objectives) of FSB member authorities; and (3) identify the challenges in further advancing the implementation and use of the LEI, and make recommendations to address common challenges.

The objective of the review is to evaluate the progress made by FSB members – both national authorities and international bodies in response to the G20 Leaders' 2012 call for "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks".

However, the adoption of the LEI by itself is but one of many components necessary to aggregate financial transactions to enable risk management. A comprehensive set of data identification and data element standards is required to achieve the long sought means to efficiently aggregate data into meaningful and timely input for analyzing any single firm's enterprise risk and, ultimately, multiple firms' systemic risk.

Responses to the review was due from industry members and other stakeholders by Sept. 21, 2018. Below are those that have been made public by its authors, summarized on the following page:

ISDA/GFMA⁴

World Council of Credit Unions⁵

XBRL US⁶

Federation of European Securities Exchanges⁷

Financial InterGroup⁸

³ FSB, Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference, <http://www.fsb.org/2018/08/fsb-launches-thematic-peer-review-on-implementation-of-the-legal-entity-identifier-and-invites-feedback-from-stakeholders/>, 16 August 2018

⁴ [SDA GFMA FSB Peer Review LEI Implementation 3 October 2018 FINAL Public... \(pdf\)](#)

⁵ https://www.woccu.org/documents/FSB_Peer_Review_of_Legal_Entity_Identifier

⁶ [XBRL US Letter RE FSB Peer Review On LEI 9-21-18 FINAL](#)

⁷ http://www.fese.eu/images/180921_FESE_Feedback_to_FSB_on_LEIs_-_Final.pdf

⁸ [Financial Stability Board - FIG response to review of legal entity identifier \(LEI\) initiative - September 21, 2018](#)

- The International Swaps and Derivatives Association (ISDA) and the Global Financial Markets Association (GFMA) filed a comprehensive joint response. They encourage the FSB to take a stronger hand in regulatory mandate of the LEI world-wide; recognize that many non-proprietary entity codes exist and that the LEI promises to replace them over time; accepts that expanding mapping of the LEI to other codes will support an interim method of interoperability on the way to the longer term goal of replacing proprietary codes with full adoption of the LEI; suggests strengthening intermediary involvement over direct registration; encourages improvements in renewal processes and changes to reference data; and reinforces importance of linkages of LEI relationship data for risk and credit monitoring .
- The World Council of Credit Unions has stated that they do not want the LEI to be mandatory. They cite considerable costs to retool their systems.
- The XBRL US response is that a singular business identity is desirable, and that the mapping of multiple codes is risk prone and costly. XBRL makes two specific recommendations, that the LEI should be mandatory across all US regulators and that it should be made mandatory for inclusion in state business registries.
- The Federation of European Securities Exchanges asks the FSB to clarify two inconsistencies - non-EU issuers have no obligation for issuers to obtain LEIs but trading venues are required to report LEIs for all tradable instruments; and there is no consistent approach to the application of LEIs to investment funds.
- Financial IntereGroup’s (FIG’s) response is supportive of the LEI initiative but points out the considerable hurdles ahead in fulfilling the stated objective the FSB has in using the LEI for risk analysis. FIG presents concrete steps to overcoming them for the short term, the longer term and for truly realizing the objective of risk analysis. The FSB is encouraged to view the LEI not as a stand-alone data component of a financial transaction, even though the most critical component. Rather the LEI initiative must be considered in the context of the other global data initiatives.

Hopefully, the FSB will reinforce this objective when they report on the results of their thematic review of the LEI. Toward this later point the Bank for International Settlements (BIS) has similarly advanced a consultation. See below.

The BIS’s OTC standards evaluation

The BIS, in conjunction with CPMI (Committee on Payments and Market Infrastructures) and IOSCO (International Organization of Securities Commissions) sought public comments on possible governance arrangements for critical OTC derivatives common data elements (CDEs) other than the Unique Transaction Identifier (UTI), and the Unique Product Identifier (UPI). CDEs are the key data elements for reporting over-the-counter (OTC) derivatives transactions.⁹ Responses were due by September 27, 2018.

⁹ BIS, CPMI/IOSCO, Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI), <https://www.bis.org/cpmi/publ/d182.htm> 16 August 2018

The responses will be made public by IOSCO and CPMI. Financial InterGroup has responded and includes its response¹⁰ and a summary of it below:

It is notable that this CDE consultation is the first attempt to understand the breadth of the data standards activities going on under new regulations. A comprehensive set of data identification and data element standards is required to achieve the long sought means to efficiently aggregate data into meaningful and timely input for analyzing any single firm's enterprise risk and, ultimately, multiple firms' systemic risk.

Toward this end this consultation assessed proposed governance arrangements for CDEs against other OTC derivatives data elements (the UTI, the UPI and the LEI). Each exhibit similarities or differences on a number of key dimensions that have implications for the CDE governance arrangements. Noticeable in its absence is any reference or consideration of the GLEIF having proposed to be the governance body for the UPI and no reference to the LEI being the creator of uniqueness for the UTI.

Taken together with the LEI's parent relationship project and the consideration of the LEI in the Bank for International Settlements (BIS's) data aggregation initiative "Principles for effective risk data aggregation and risk reporting" (referred to as BCBS239) the LEI and the other standards initiatives collectively become critical to the ability to aggregate data. This suggests consideration of a greater role for the governance structure of the LEI initiative, in what the FSB has seen as possible benefits in a common governance structure.

The FSB, in its January, 2018 "Governance Arrangements for the UTI" stated that "The FSB believes there may be benefits to having a common governance framework, consisting of one or more international bodies, for the UTI and UPI. Therefore, the FSB considers that the final identification of the International Governance Body should take place contemporaneously with the FSB making its conclusions on the UPI Governance Arrangements."

A central global point of governance over financial data will serve to integrate these disparate standards activities into a single dictionary of the industry's and regulators data standards. It would seem the governance structure and proven implementation resources of the global LEI initiative is suited for such a role in the industry's digital future.

¹⁰ <http://www.financialintergroup.com/cmsAdmin/uploads/Response-to-CPMI-IOSCO-CDE-Consultation-Sept-2018.pdf>

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