



The Global LEI Initiative

A Research Note by Financial InterGroup

October 2019

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LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)

LEI registration reached another all-time high of 1,486,441 up from last month's 1,472,740. Recent monthly issued LEIs are repeatedly exceeding monthly lapsed LEIs although lapsed LEIs are at another all-time high of 402,090 up from last month's 391,382. Lapsed LEIs now represent 27.1% of all registered LEIs vs. last month's 26.6 %.

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships (both ultimate and immediate) increased, now at 197,546 vs. last month's 195,466, representing 114,307 individual LEIs this month vs. last month's 113,249. Exceptions for not obtaining an LEI are stabilizing, although reaching another all-time high of 2,418,057 vs. last month's 2,394,314.

CLOSING COMMENTS

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

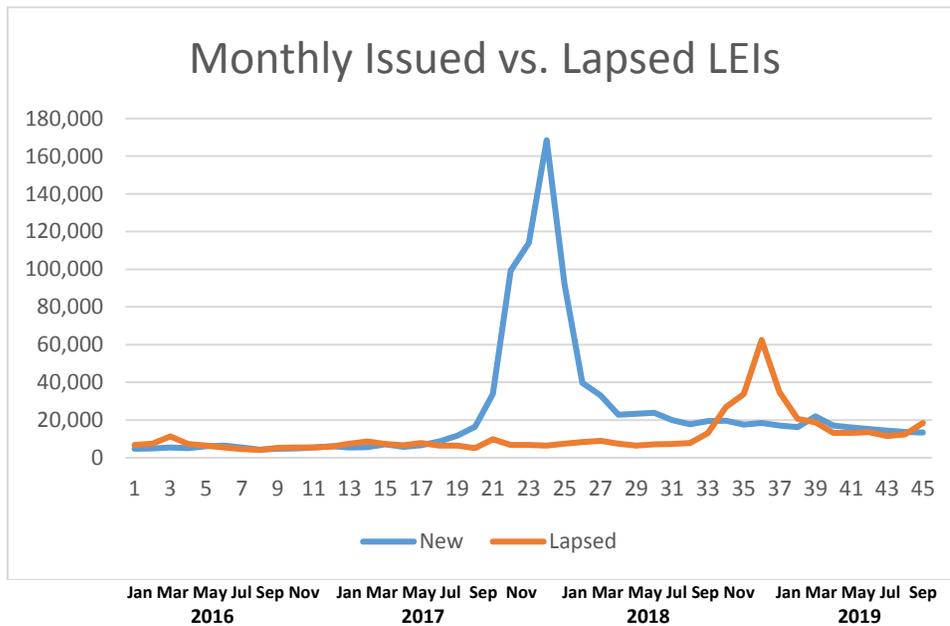
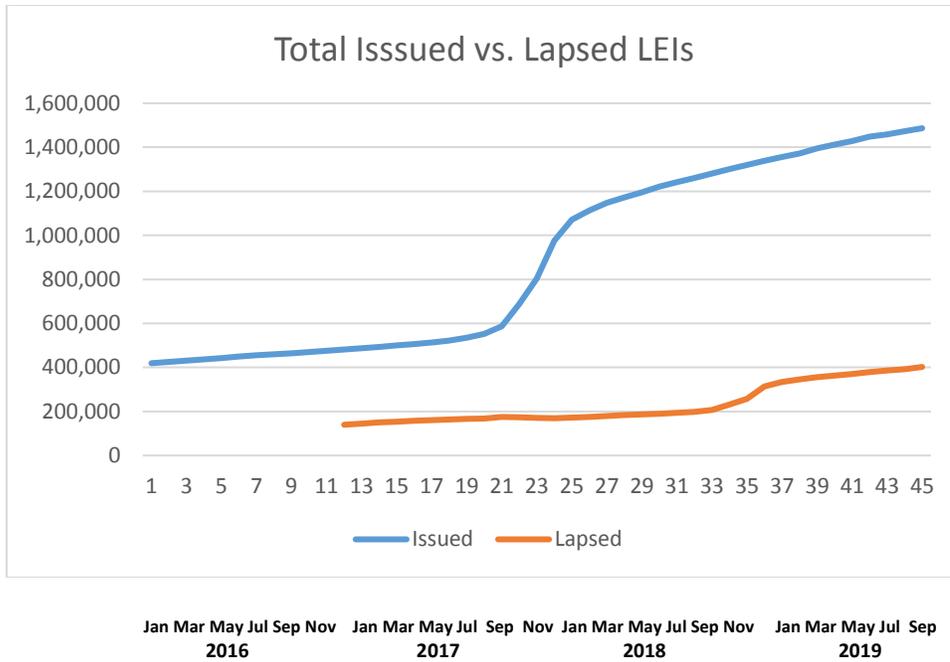
LEI ISSUANCE

This month LEI registration reached another all-time high at 1,486,441. We have now seen a half- year of a steadying of issuance of LEIs, settling in this month at 13,782 vs. the average of 14,782 per month since the beginning of this year. In prior years the average monthly LEI issuance was 29,016 (2018) and 40,237 (2017). 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
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
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
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
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
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%
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

September saw the first 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 27.1% vs. last year-end's 23.5%. While the lapsed rate continues to climb slowly, it averaged .2% month-over-month in each of the last six months, it rose a full .5% in this last month. Lapsed LEIs are those LEIs that are not renewed at their one year anniversary of registration.



We anticipate a continuation of a slowly rising lapsed rate (now at 27.1%) until renewing LEIs becomes 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 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%

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 decline to 2,080 vs. last month's 6,297 compares to the average of 4,681 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). However, the percent increase (column 4 above) of 1.0% has brought the average month-to-month delta down to 1.95% vs. 2.9%.

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%

Relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. Importantly, only 197,546 of the LEIs that are included in the “LEIs with complete parent relationships” category (1,289,519) 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.

The registering of an LEI for a parent legal entity is not required if the legal entity is controlled by natural persons (not required to have a LEI), is controlled by legal entities not subject to preparing consolidated financial statements, or has no known person controlling the entity such as in diversified shareholdings. The FSB reports that ultimate parent information is only provided for 6.2% of entities for all FSB members.

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).

CLOSING COMMENTS

Beyond the Financial Stability Board’s Peer Review

Following up from the extensive survey and report by the Financial Stability Board on the LEI initiative, industry members and regulators are responding with thoughts as to how to proceed to realize promised benefits of risk mitigation and cost reduction. See below:

Industry and regulators ask for more action on data standards

This month the IOSCO-CPMI issued its report on Governance Arrangements for critical OTC derivatives data elements (other than UTI and UPI) selected the LEI ROC as the governance body for the OTC derivatives critical data elements standards.

“Furthermore, in coordination with the Financial Stability Board (FSB) in its capacity as the international body in charge of defining the Governance Arrangements for the UTI and the UPI, the CPMI and IOSCO conclude that the Regulatory Oversight Committee of the Global Legal Entity Identifier System (LEI ROC) is, subject to some necessary adaptations to its existing governance to make it fit for purpose for CDE governance, best positioned to take on the role of the International Governance Body for CDE by mid-2020, and, in the interim, the FSB will take on the functions that are allocated to the International Governance Body.”

In a recent position paper prepared by the German Ministry of Finance Necessary amendments and revisions to secondary market provisions in MiFID and MiFIR, these important points were raised:

“Improvement of the quality of reference data; golden source: In order to improve the quality of reference data, further analysis is needed on the question of how to ensure the provision of accurate, reliable and timely reference data. The analysis should also explore ways to make the Financial Instruments Reference Data System (FIRDS) the golden source for reference data.”

“An overall assessment of MiFID/MiFIR requirements needs to be conducted with a view to strengthening the principle of proportionality. For example, small operators of regulated markets with unsophisticated trading models might not need to be subject to sophisticated trading requirements targeted towards high-frequency or algorithmic trading, when such trading does not take place on those markets. Small non-profit organizations with limited trading activities should not be required to obtain a legal entity identifier (LEI).”

The US’s House of Representative’s Financial Services Committee reintroduced its Financial Transparency Act on September 25, 2019. The Act mandates the use of data standards for reporting by all US financial agencies, including the use of a legal entity identifier. It deferred to the agencies to select such a common identifier. Noteworthy is the absence in the Act of a mandate to use the LEI as such a common identifier.

“The data standards promulgated under subsection (a) shall include common identifiers for information reported to member agencies or collected on behalf of the Council, including a common nonproprietary legal entity identifier that is available under an open license (as defined under section 3502 of title 44, United States Code) for all entities required to report to member agencies.”

GLEIF along with the Data Foundation is sponsoring a 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 will discuss the LEI and distributed ledgers, using the LEI for cost reduction, and the benefits of growing the number of LEIs from 1.4 million currently to 40-50 million in a few years.

Some things to think about going forward

The recently completed FSB consultation, a Thematic Peer Review of the LEI, describes industry members and the FSB urging new business models to complete the important task of a more complete adaption of the LEI. The FSB and GLEIF have found only a small percent of LEIs have been registered - 1.5 million vs. estimates of full adaption. Full adaption is estimated by GLEIF at 40 million. The FSB estimates that LEI registration in Canada the EU and the US now spans just 2% to 7% of all eligible legal entities. The FSB concludes this low issuance rate is a major hurdle to the continued success of the LEI initiative.

To focus on a meaningful approach to tackling the global adaption issue shouldn’t the agency’s charged with this task, notably the Regulatory Oversight Committee (ROC) and GLEIF, focus on meaningful market segment targets of opportunity – by size, by expected degree of acceptance, and by largest benefit for effort expended?

To get us started we should understand the potential total number of LEI registrations by financial market supply chain component (onboarding, anti-money laundering, capital financing and secondary market pricing, capital and derivatives market trading, foreign exchange trading, commercial trade finance, securities financing transactions, payment/deliver vs. payment, lending/credit extension, insurance and re-insurance, public sector finance, pension/trust sectors, financial data vendors, et al).

This understanding will permit two competing approaches to gain wider adaption: further regulatory mandates - whether by global mandate (tried and failed), by country or regional mandate (suffers from collective action problem) or by country/regulation (suffers from

legislative fatigue); and those driven by industry-wide/private sector initiatives that may now be more approachable— see below.

The FSB report also found that the effort to register LEI relationship data is not yet useful, a prerequisite for aggregating financial transactions for risk management purposes. The LEI initiative struggles just to get meaningful representation of LEI hierarchies of ownership and control. Many permitted exemptions are inhibiting fulfilling this important component of the LEI mission.

Two examples of the registration of relationship data were given in the report, those of Citibank and the ECB's Centralized Securities Database (CSDB). The report describes Citibank having recorded in the GLEIS all the entities included in its consolidated US GAAP direct and ultimate parent structure, totaling approximately 700 LEIs. The ECB is described as having begun associating the LEI (when available) as a 'grouping identifier' in the CSDB's six (6) million securities data base, which is used to group securities under the same issuing entity. There are many issuing legal entities in a multi-LEI ultimate parent entity.

The groupings by LEIs as practiced in the CSDB's issuance groupings and the groupings by the ultimate parent LEI as reflected in Citibank's own hierarchical structure of its LEIs is quite different. For risk management purposes the aggregation aligning single 'securities issuance' entities must be further aligned to understand all issuance by the ultimate/intermediate parent entity. While the FSB reports a large number of multi-LEI entities have an ultimate parent LEI, they have incomplete LEI data for many of its subordinate legal entities.

If Citibank, and others, were to place their hierarchical database onto the GLEIF as a single 'object' any financial or government entity doing business with or monitoring the risk of Citibank 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 (Systematically Important Financial Institutions as is Citibank) 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. Start here.

The FSB's report took the lead from the industry's responses to their consultation, challenging the GLEIF to consider alternate business models to accelerate the further adaption of the LEI.

Citibank and the other SIFIs are the largest financial institutions. Focusing initially on SIFIs would follow the lead of the largest retailers to require barcodes to do business with them. Like these retailers, SIFIs can require clients, and even their data vendors, to obtain a LEI to do business with them.

Financial Institutions can expand their offerings to their clients and counterparties to provide LEI registration services, competing with stand-alone LOUs for those registrants who intend to Register one or a few LEIs

Larger financial market participants can directly register LEIs into the GLEIS data base, along with their hierarchical structures, and 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 62.1% of intermediate parents and 53.9% for ultimate parents.

Auditors, particularly the Big 4 audit firms, need to be engaged. The Big 4 had, in the past, organized themselves to provide a client data base for all their combined clients. In combination, as an LOU and registration agent, they can start the process with the 134 global and domestic SIFIs by registering and organizing their hierarchies for entry into the GLEIS.

A combined LOU/registration agent run by the Big 4 could provide centralized services at lower cost than the current configuration of 33 LOUs each charging \$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.

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