The Global Legal Entity Identifier Initiative – Maybe Transformative – You Decide

October 2021

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

Introduction

The establishment of global data standards for financial transactions was a US sponsored initiative that was precipitated by the collapse of the US headquartered Lehman Brothers in 2008. In 2009 the G20's Financial Stability Board (FSB) endorsed the concept of global data standards after representations by a contingent of US regulators that data standards were essential for financial transaction reporting for systemic risk analysis. The FSB empowered the Global Legal Entity Identification Foundation (GLEIF) in 2012 to identify, design and implement a critical, foundational standard, the Legal Entity Identifier – LEI. Over a decade later, with most of the world's sovereign jurisdictions embracing the LEI, the US's companies and institutions have lagged behind in their commitments to implementing the LEI. We will discuss this later.

The LEI is a unique, unambiguous and universal identity code for each legal entity that participates in financial markets. Companies, institutions and other business entities are either mandated by enforceable regulation in some jurisdictions or requested to in other jurisdictions to register and obtain an LEI. The LEI is to be used in transacting in all financial markets, and to be embedded in transaction reports to regulators for risk analysis.

This Research Note reports on progress of LEI issuance. It is based on **GLEIF's Oct 7, 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.

LEI Historical and Current Statistical Comparison Chart

	Year - Year 2016-2020					**Monthly Q1 2021**			**Monthly Q2 2021**			**Monthly Q3 2021**		**Current Month**
LEI Issuance & Non-renewed (Lapsed) LEIs	**2016 Year-end**	**2017 Year-End**	**2018 Year-end**	**2019 Year-end**	**2020 Year-end**	**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**
Total LEIs issued at Yr/Mo-end	481,522	975,741	1,337,925	1,542,037	1,777,458	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**
Total Active LEIs at Yr/Mo-end												1,838,937	1,856,856	**1,877,480**
Total Non-renewed (Lapsed) LEIs issued at Year/Month-end	139,461	169,778	313,915	459,436	585,029	588,972	590,265	600,952	607,065	613,400	619,579	625,679	634,079	**641,656**
Non-renewed rate – issued LEIs	29.0%	17.4%	23.5%	29.8%	32.9%	32.8%	32.5%	32.7%	32.7%	32.7%	32.7%	32.6%	32.8 %	**32.8%**
Non-renewed rate – active LEIs												34.0%	34.0%	**34.2%**
							Monthly Averages							
Newly Issued	4,976	40,237	29,987	16,652	19,364	19,485	19,491	22,166	18,470	18,596	20,540	19,649	19,044	**21,908**
Non-renewed (Lapsed) LEIs	6,300	7,134	16,422	19,802	18,778	22,270	15,688	19,981	13,663	12,700	n/a	n/a	n/a	**n/a**
Net LEI Increase/Decrease	-1,324	33,103	13,565	-3,150	586	-2,785	3,803	2,185	4,807	5,896	n/a	n/a	n/a	**n/a**
Relationship Data														
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	230,755	232,516	234,116	236,715	236,144	238,593	243,133	247,503	250,598	**253,604**
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	133,025	133,471	134,596	134,034	134,575	123,043	122,567	122,505	**122,758**
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,965,315	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**
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,563,458	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**

Summary of Issued, Renewed and Relationship Data

Newly issued LEIs this month was 21,908, 13% above the monthly average of the past two years of 19,364 and nearly as high as March's 22,166. That month was the highest monthly number of issued LEIs in the past three (3) years. Registered LEIs in total this month reached 1,957,972.

The overall lapsed rate (non-renewal rate) comparing total non-renewed LEIs to total issued LEIs was 32.8%, a consistent rate over the last two years. The lapsed rate based upon comparison to active LEIs (1,877,480) now stands at 34.2%, slightly above the 34.0% over the last two months we have been 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 3,315,958 exceptions to providing an LEI for one or more of a legal entity's parents. Of all these exceptions, there are 1,764,658 legal entities that have either reported an exception or reported their parents LEI. There are 122,758 legal entities reporting both parents with LEIs.

Advancements and Impediments to Implementing the LEI

Growth of LEIs are consistently around 19,000 newly issued LEIs a month which, if continued, will top 2 million registered LEIs by year end 2021. The goal set by GLEIF is to have 20 million LEIs by 2027. This additional 18 million registered LEIs are to be accomplished by expanding LEI registrations to government entities and fund groups; through group signups of clients of 'Validation Agents" (there are currently four Validation Agents); through assistance to registrants by "Registration Agents" (there are nearly eighty of them); and through acceptance and registration of LEIs for use in the vLEI for commercial participants in digital commerce. This later use is beyond the boundaries of the original mandate of registering LEIs exclusively for financial market participants.

Other ways to get more LEI's registered is to promote changes to existing and in-development financial transaction formats or electronic documents so that the LEI can be placed within them. The SWIFT ISO 20022 Payment Messages; the XBRL LEI Taxonomy; and incorporating the LEI into signatures for document certification are examples of current efforts.

Completing the mission, that is the "who owns whom" component (the original purpose and still needed big-bang risk management benefit for this global LEI initiative) had been postponed early-on, admitting that the hierarchies of ownership based on accounting consolidation rules was an expedient means to begin the mission of registering LEIs. For risk management purposes the concept of control over legal entities within a hierarchy of entities is required. No agenda has yet been set for dealing with this omission.

On this later point this author has been researching the US Justice Department's Huawei complaints which revolve around a company called Sycom Tech Co. Ltd and whether or not it is a subsidiary of Huawei. The LEI data base has a few Huawei companies, all of which describe themselves as exempt from declaring a parent either because they are a ‘non-consolidating’ entity or ‘did not receive consent’ to report parents. Sycom, which Huawei finally admitted to as being an Iranian subsidiary, is not in the LEI data base.

US Commitment to LEI use

To date the US has been lagging in fulfilling its earlier commitment to use of the LEI. Only 13% of the nearly 2 million registered LEIs were registered by US companies. This is in comparison to over 70% registered by EU countries even though the CFTC and SEC were the first to suggest the need for a standard trade counterparty identifier. There was hope that the same identifier for each counterparty could be shared with the two agencies that would collectively oversee the over-the-counter (OTC) derivatives markets; the CFTC for futures related and the SEC for equity related derivatives. However, as these US centric regulators recognized, they shared their oversight with all the world’s other regulators who would also need such a counterparty identifier to oversee these truly global markets.

This observation of a global need was brought to the congressional framers of the new financial crisis legislation, later to be known as the Dodd-Frank Act (DFA). These observers, this author as well, noted that in early drafts of the DFA there was no ability to gain global acceptance of these US identifiers. The markets needed a global identifier to observe the contagion of systemic risk that was at the core of the financial crisis. Data standards for financial transactions reported to regulators was an essential means of observing systemic contagion.

The DFA established an Office of Financial Research (OFR) and gave it responsibility to set US financial data standards and to report on the financial stability of the US economy. The OFR embraced a standard trade counterparty, referring to it as the legal identity identifier (LEI). The DFA legislation was finalized with an additional clause that the President of the US was to foster legislation and regulation to enable global financial stability. With the US represented in the G20 by the US President, and with US regulators represented in their Finance sector advocating for data standards, the LEI concept became a global data standards initiative embraced by the G20. The G20 in-turn assigned this task to the new Financial Stability Board (FSB) which, in turn, asked for a study which resulted in the recommendations that gave birth to the GLEIF and the LEI.

The SEC and CFTC, over time, have refined their regulations to embrace the LEI as their counterparty identifier in deference to the FSB’’s global initiative. To date, the CFTC has resorted to fines to enforce the legislation, twice in the case of Citibank and once for Morgan Stanley. The EU countries have taken another tact, expanding the use of the LEI to most capital market transactions, with their regulations using the phrase “no LEI no trade” aptly describing the EUs technique. In Germany, the Deutche Borse stock exchange threatened to delist a new security to be listed on their exchange unless they registered a LEI for themselves.

Other US regulators, and many other sovereign countries have used the rubric “if you have an LEI, you must use it” in mandating reporting to regulators. However, many “request its use” vs. “require its use”. In the US, 36 federal agencies collectively use 50 different legal identifiers.

However, rather than moving toward less IDs, maybe even to get to one ID, it is set to get worse in the US. For example, the US Government's System for Award Management has recently created its own Unique Identity ID that replaces the existing DUNS number. The US Customs and Border Protection Agency has initiated the Global Business Identifier (GBI) Initiative. Here they have not yet chosen one format, but rather have qualified three (3) existing providers of business identifiers – GLEIF's LEI, Dun & Bradstreet's DUNS number and GS1's GLN (Global Location Number). Earlier, under the US's Foreign Account Tax Compliance Act (FATCA), a new ID, the Global Intermediary Identification Number (GIIN) was created for foreign financial institutions and their branches and subsidiaries. This was done even though the LEI was then in development; was to include all these categories; and was open to include additional requirements and categories.

Finally, the US Congress has taken on an aggressive new legislative initiative, the Financial Transparency Act (FTA), introduced in the US Congress as H.R.2989 . The legislation sets a three (3) year time frame for all the financial regulatory agencies to adopt 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 these agencies. It should be noted that there is neither any reference to the LEI in HR 2989 nor a definition of 'open license' in the section and title of the US code as referenced in the legislation. Further, for a year and a half the legislation has been stalled in Congress with no substantive action taken.

For further Information

Financial InterGroup

Allan D. Grody
Financial InterGroup - USA
New York, New York USA
Tele. +1 917 414 3608
Email agrody@financialintergroup.com