



The Global LEI Initiative

July, 2019 monthly LEI issuance settling in at steady 15,000 a month pace while Lapsed LEIs still increasing. LEI use for risk management still a distant vision.

A Research Note by Financial InterGroup August 2019

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LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)

LEI registration reached another all-time high of 1,458,621 up from last month's 1,443,882. Recent monthly issued LEIs are repeatedly exceeding monthly lapsed LEIs although lapsed LEIs are at another all-time high of 385,371 up from last month's 378,900. Lapsed LEIs now represent 26.4 % of all registered LEIs vs. last month's 26.2 %.

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships (both ultimate and immediate) increased, now at 189,169 vs. last month's 185,424, representing 109,703 individual LEIs this month vs. last month's 107,687. Exceptions for not obtaining an LEI are stabilizing, although reaching another all-time high of 2,368,936 vs. last month's 2,342,699

CLOSING COMMENTS

Thoughts to the Risk Management community on the FSB's Thematic Review of the Legal Entity Identifier (LEI)



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

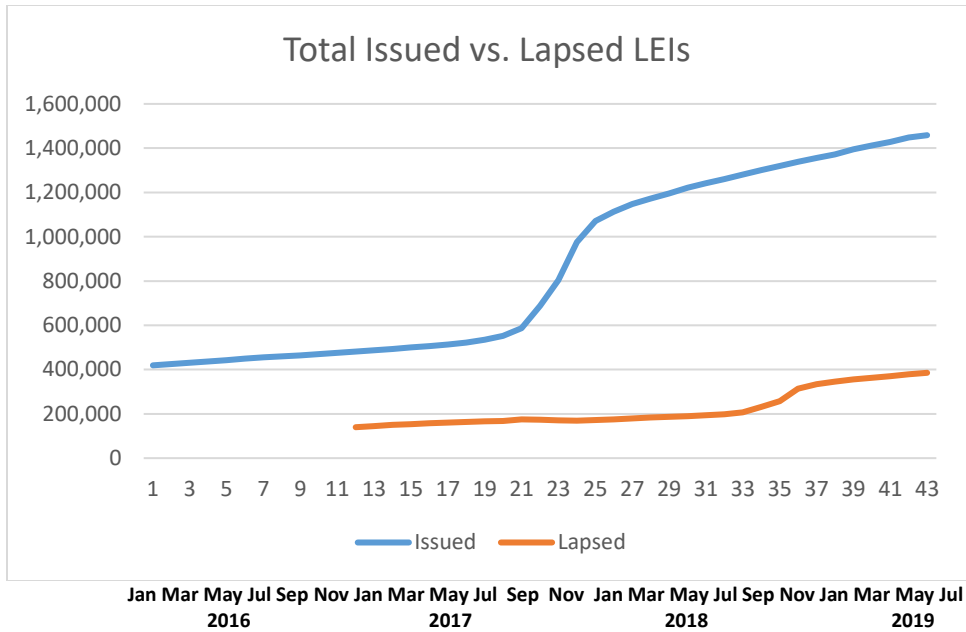
LEI ISSUANCE

This month LEI registration reached another all-time high at 1,458,621. We have now seen a half- year of a steadying of issuance of LEIs, settling in this month at 14,370 vs. the average of 15,827 per month since the beginning of this year. In prior years the average monthly LEI issuance was 29,016 (2018) and 40,237 (2017). This shift to lower LEI issuance appears to be the result of the end of the EU’s stricter EMIR and MiFid II mandates on LEI registration, which had accelerated issuance of EU registrations.

2016 – 2018 Year-to-Year & 2019 Month-by-Month Comparison

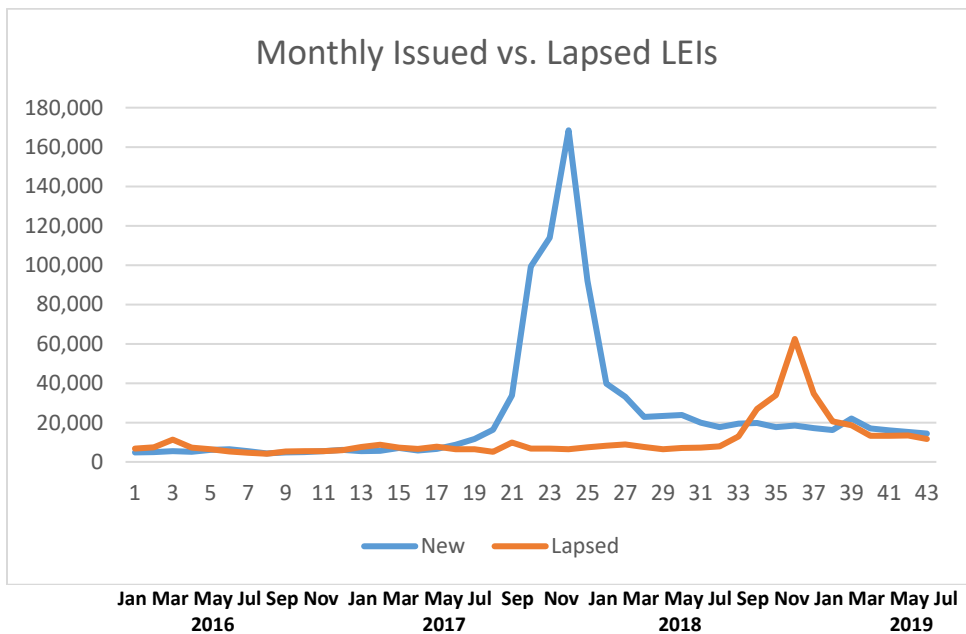
LEI Issuance and Lapsed LEIs – Year-to-Year & Month- by-Month Comparison	2016 Year-end	2017 Year-end	2018 Year-end	Jan 2019 Month-end & YTD	Feb 2019 Month-end & YTD	Mar. 2019 Month end & YTD	Apr 2019 Month end & YTD	May 2019 Month-end & YTD	Jun 2019 Month-end & YTD	Jul 2019 Month-end & YTD
Total LEIs 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
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
Lapsed	6,300	7,134	15,894	34,796	20,654	18,701	13,197	13,252	13,508	11,592
Net Increase/ decrease	-996	33,103	13,122	-17,677	-4,404	3,301	3,887	2,744	1,773	2,778
Lapsed rate	29.0%	17.4%	23.5%	24.7%	25.2%	25.5%	25.7%	26.0%	26.2%	26.4%
Total Lapsed LEIs	139,461	169,778	313,915	334,503	345,544	356,148	363,406	370,774	378,900	385,371

July was the fifth month of issued LEIs exceeding lapsed LEIs, although the overall rate of lapsed vs. issued LEIs, now at 26.4% vs. last year-end’s 23.5%, continues to climb. Lapsed LEIs are those LEIs that are not renewed at their one year anniversary of registration.



The EUs LEI issuance have now exceeded those in the Americas and Asia-Pacific regions. These regions have fallen behind those of the EU owing to the slower pace of mandating LEI registrations beyond the original OTC derivatives mandate. In the EU the necessity of aggregating data from the individual countries' national competent authorities (NCA's) to support the risk management of its single market concept was the key driver in proliferating LEIs across the region.

In 2019, for the first time beginning in March 2019 and continuing for the past five (5) months monthly LEI issuance exceeded lapsed LEIs, respectively by 2,778 this month vs. June's 1,773 vs. May's 2,744, vs. April's 3,887 and March's 3,301.



We anticipate a continuation of a slowly rising lapsed rate (now at 26.4% vs. June’s 26%.2 vs May’s 26.0%) 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.

The recent FSB’s Thematic Peer Review of the LEI (at page 14) found that only India, Japan, Switzerland, Spain, the Netherlands and Germany beat the average renewal rate but on average only slightly (74.4% vs. 73.8%) for all reporting countries. The renewal rates for the LEIs issued for the countries with the largest issuance is well below this average (the US at 46%, Canada at 56% and the UK at 52%. The FSB also reported that LEI coverage is concentrated in Canada, the EU and the US, where it spans just 2% to 7% of all eligible legal entities, and is much lower elsewhere. This low issuance rate is a major hurdle to the continued success of the LEI initiative.

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. July 2019 is the second 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%

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 shows signs of stabilizing. This month’s increase over last month’s at 3,745 compares near the average of around 4,105 month-over-month. March data appears to be an outlier.

A similar stabilizing pattern has emerged for the number of LEIs reporting both parents (column 3 above), with the percent increase (column 4 above) of 1.9% this month is close to the average of 2%. March data here also seems to be an outlier.

The ROC offered already existing LEI registrants and relationship data. The GLEIF reports on those registrants that have recorded relationship (Level 2) reporting exceptions (column 1 in chart on next page) and how many of each unique LEI registrant 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 on next page).

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%

*Note: Complete in this context means the registered LEI entity either registered a LEI or gave one of the following reasons that they either did provide or did not provide an immediate and/or ultimate parent LEI for one of the following reasons: 1. that the LEI registrant is controlled by natural person(s) without any intermediate legal entity; 2. that it is controlled by legal entities not subject to preparing consolidated financial statements; 3. that either the immediate or ultimate parent has diversified stakeholders controlling the entity; 4. where legal obstacles prevent providing or publishing this information; and 5. where providing this information would be detrimental to the legal entity or the relevant parent.

Relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. Importantly, 79% of those legal entities that are included in the “LEIs with complete parent relationships” category (1,264,688) include entities that do not report an immediate parent and/or ultimate parent.

According to the FSB’s recent Thematic Review of the LEI many jurisdictions and authorities report that relationship data is insufficient for their needs due to a lack of coverage of entities or a lack of relevant information. This is because the entity is not required to supply one 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. Ultimate parent information is only provided for 6.2% of entities for all FSB members.

Other reasons given for the lack of relationship data are the absence of a parent meeting the definition of accounting consolidation used in the GLEIS since, for example, control by natural persons is high in India (54% of LEIs) and Italy (39% of LEIs); that the controlling parent is not subject to consolidation (which can be the case of investment entities or government entities) is very high in the Netherlands (78% of LEIs) and Spain (84%); and that there is no parent controlling the entity according to accounting standards (e.g. a listed entity with diversified shareholders) is the most significant factor in Japan and Germany.

Also, according to the [Q1 2019 GLEIS Business Report](#) of the total legal entities reporting either an intermediate or ultimate parent entity (189,169), 62% report a LEI for an intermediate parent without Local Operating Unit (LOU) validation; and 55% for ultimate parents. This lack of validation is also an inhibitor to the success of the LEI initiative as the LEI is intended to be the highest quality ‘go-to’ data base of legal entity information.

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

Thoughts to the Risk Management community on FSB's Thematic Review of the LEI

The FSB recently completed a consultation, a Thematic Peer Review of the LEI, soliciting input from industry members, and analyzed responses to a questionnaire developed by regulatory members to survey their individual constituencies.

This Global Legal Entity Identifier (LEI) initiative was begun nearly a decade ago by the G20 when it requested "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks." The LEI was to uniquely, unambiguously and universally identify all financial market participants in the global financial supply chain.

The prior collective action inertia of industry members thwarting such a global goal was to be overcome by regulatory compulsion. However, regulators' own collective action issues have surfaced and stymied progress. Industry and the FSB now urges that it is time for assessing new business models to complete this important task.

One of the most significant segments of the affected parties in the industry, the risk managers, have not yet played any meaningful role in the LEI initiative, as regulators have demurred to the data managers in the industry for input and support. It is now time for the risk managers to step up and support new business models for risk aggregation that build on the LEI's successes. The LEI has not yet found its footing in aggregating financial transactions for risk management purposes, whether it be for regulatory or economic risk capital calculations, counterparty and credit risk analysis, trading risk or systemic risk.

The LEI initiative struggles just to get meaningful representation of LEI hierarchies of ownership and control around the accountant's account consolidation reporting rules that were chosen to represent hierarchical relationship information in the GLEIS. How the risk managers use this account consolidation relationship construct for risk management purposes is a work not yet in progress, best done by the risk managers in coordination with the accountants.

We hope by having just published articles in the journals of the two leading risk management trade associations, the Global Association of Risk Managers (GARP) and the Professional Risk Managers International Association (PRMIA) we will bring the risk management community into the mix for finding meaningful solutions.

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