



## The Global LEI Initiative

LEI issuance slows while Lapsed LEI's continue increasing.  
Relationship data collection slowing.  
Data aggregation for risk management a far off objective

### A Research Note by Financial InterGroup

February 2019

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New LEI registration continues to level off while reaching another all-time high of 1,355,375 . Lapsed LEIs continue exceeding monthly issuance, now by 17,677. Lapsed LEIs are at another all-time high of 334,503 representing 24.7% of all registered LEIs

#### **RELATIONSHIP DATA COLLECTION**

LEI registration for parent relationships slows, now at 157,131 while exceptions for not obtaining an LEI are stabilizing, now reaching another all-time high of 2,187,337

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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 January, 2019 month-end and year-to-date reporting of LEI issuance<sup>1</sup>; on the progress of Relationship Data collection; and our Commentary.

## LEI ISSUANCE

January, 2019 was the seventh month of a steadying of issuance of LEIs, settling in at an average of 17,949 per month. January was also the fourth month of the resumption of lapsed LEIs exceeding issued LEIs. The net increase of issued LEIs exceeding lapsed LEIs was positive over the first three quarters, progressively decreasing over the entire previous year and then turning negative in the last quarter. We anticipate a continuing rise in the lapsed rate (now at 24.7% vs. last month's 23.5%) until renewing LEIs becomes required by regulation or some other means of compulsion surfaces.

Total non-renewed (lapsed) LEIs have been on a steady monthly uptick reaching an all-time high of 334,503 this month. This month's lapsed LEIs of 34,796 represents the second highest monthly total, eclipsed only by the 62,473 lapsed LEIs recorded in December, 2018, the highest monthly number of lapsed LEIs ever. The last quarter of 2018 saw lapsed LEIs exceeding issued LEIs in each of the quarter's months, an average of 22,470 more lapsed LEIs than issued LEIs per month. The trend continues into 2019, January having recorded 17,667 more lapsed LEIs than issued LEIs. Even though the net lapsed LEIs over issued LEIs in January was down from the highest record of 44,019 set in Dec. 2018, if left unchecked, lapsed LEIs can significantly impact GLEIS data quality and its ability to fund itself from renewal revenues.

### Year-to-Year & Month-by-Month Comparison

| LEI Issuance and Lapsed LEIs –<br>Year-to-Year & Month- by-Month<br>Comparison | Year-end<br>Comparison |                  |                  | Current<br>Month                | Month-to-Month Comparison<br>Quarter 4 – 2018 |                                |                                |
|--|------------------------|------------------|------------------|---------------------------------|---|--------------------------------|--------------------------------|
|  | 2016<br>Year-end       | 2017<br>Year-end | 2018<br>Year-end | Jan. 2019<br>Month-end<br>& YTD | Oct. 2018<br>Month-end<br>& YTD               | Nov.2018<br>Month-end<br>& YTD | Dec.2018<br>Month-end<br>& YTD |
| Total LEIs issued at Year-end  | 481,522                | 975,741          | 1,337,925        | 1,355,375                       | 1,300,832                                     | 1,319,120                      | 1,337,925                      |
| <b>Year-to-Year Averages/<br/>Month-by-Month<br/>Comparisons</b>               |                        |                  |                  |                                 | Oct. 2018<br>Month-end                        | Nov.2018<br>Month-end          | Dec.2018<br>Month-end          |
| Newly Issued   | 5,334                  | 40,237           | 29,016           | 17,092                          | 19,700  | 17,616                         | 18,454                         |
| Lapsed   | 6,300                  | 7,134            | 15,894           | 34,796                          | 26,853  | 33,853                         | 62,473                         |
| Net Increase/<br>decrease  | -996                   | 33,103           | 13,122           | -17,677                         | -7,153  | -16,237                        | -44,019                        |
| Lapsed rate  | 29.0%                  | 17.4%            | 23.5%            | 24.7%                           | 17.7%   | 19.5%                          | 23.5%                          |
| Total Lapsed LEIs  | 139,461                | 169,778          | 313,915          | 334,503                         | 230,679                                       | 257,678                        | 313,915                        |

<sup>1</sup> GLEIF Data Quality Report – January, 2019, <https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-global-lei-data-quality-report-january-2019#>, Feb. 6, 2019

## RELATIONSHIP DATA COLLECTION

Relationship data collection, the collection of information on the immediate parent and ultimate parent of each LEI (Level 2 Relationship Data ) began in May, 2017. January 2019 is the twenty-first month of GLEIF reporting on the number of immediate and ultimate parent records recorded in the GLEIS (see the first 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  | -                           |
| 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%                        |
| Month-end Oct 2018        | 147,292   | 3,690                     | 86,965  | 2.4%                        |
| Month-end Nov 2018        | 149,795   | 2,503                     | 88,333  | 1.6%                        |
| Month-end Dec 2018        | 152,318   | 2,523                     | 89,826  | 1.7%                        |
| <b>Month-end Jan 2019</b> | <b>157,131</b>  | <b>4,813</b>              | <b>92,373</b>   | <b>1.0%</b>                 |

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 leveled off over the past year while increasing in total by 78% from year-end 2017. A similar pattern has emerged for the number of LEIs reporting both parents (column 3 above), with the percent increase (column 4 above ) showing a stabilizing trend and also increasing 78% from year-end 2017. The GLEIF also reports on LEIs that have recorded Level 2 reporting exceptions (column 1 in chart below) and 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 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   | -                           |
| 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%                       |
| 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%                        |
| Month-end Oct 2018           | 2,081,128   | 39,465                    | 1,109,258   | 1.9%                        |
| Month-end Nov 2018           | 2,117,957   | 36,829                    | 1,127,211   | 1.6%                        |
| Month-end Dec 2018           | 2,156,909   | 38,952                    | 1,146,554   | 1.7%                        |
| <b>Month-end Jan 2019</b>    | <b>2,187,337</b>  | <b>30,428</b>             | <b>1,163,111</b>                                    | <b>1.4%</b>                 |

Note: month–end figures for June 2018 for the last chart on the previous page 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). GMEI, which has issued 31% of all LEIs, adjusted the status of a significant number of historic LEIs under its management from ‘fully corroborated’ to ‘entity-supplied only’. Also GMEI informed GLEIF that it had erroneously over-reported 100,000 LEIs that would have provided parent information in that quarter. According to the GLEIF’s latest Business Report this issue is being resolved.<sup>2</sup>

It is significant that the ROC, GLEIF and most regulators are focused on registering LEIs but less on renewing them. Most critically there is no understanding yet of how to turn the potential LEI registrants that opted out of providing LEIs for parents and ultimate parents into LEI registrants.

These potential LEI registrations had been offered legitimate reasons by the ROC for opting out. The ROC first provided a definition of parent in the Global LEI System as “an entity that has a controlling financial interest in at least one other entity”. Under this definition they then provided a series of reasons for any entity to opt-out. These reasons included an entity: that is controlled by natural person(s) without any intermediate legal entity; that is controlled by legal entities not subject to preparing consolidated financial statements; where there are diversified stakeholders controlling the entity; where legal obstacles prevent providing or publishing this information; and where this information would be detrimental to the legal entity or the relevant parent.

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 and systemic risk analysis.

Toward this end the BIS reports a lack of progress by G-SIBs (Global Systemically Important Banks) in using industry-wide data taxonomies (the LEI was referenced as an example) to aggregate corporate and counterparty data in their own internal risk management processes. This issue along with others was reported on in June, 2018 in the BIS’s fourth survey on risk data aggregation and risk reporting.<sup>3</sup> We summarize that report below.

## COMMENTARY

### FIG Summary of BIS Report on Progress in adopting the "Principles for effective risk data aggregation and risk reporting"

This progress report is based on the results of a self-assessment survey completed by authorities with supervisory responsibility for global systemically important banks (G-SIBs). The report, referred to as the Basel Committee on Banking Supervision 239 Principles (BCBS239), reviews G-SIBs' progress in implementing the Principles in 2017. The assessment covered 30 G-SIBs designated in 2011-12 that were required to adopt the Principles by January 2016. It notes that in 2017 most G-SIBs made, at best, marginal progress in implementing the Principles. G-SIBs have found it challenging to comply with the Principles, due mainly to the complexity and interdependence of IT improvement projects.

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<sup>2</sup> GLEIF, Global Systems Business Report, 4<sup>th</sup> Quarter 2018, <https://www.gleif.org/content/4-lei-data/2-global-lei-index/2-download-global-lei-system-business-reports/20190206-download-global-lei-system-business-report-q1-2019/2019-02-06-quarterly-business-report.pdf>, Feb. 6, 2019 at page 2

<sup>3</sup> BIS, Progress in adopting the "Principles for effective risk data aggregation and risk reporting", <https://www.bis.org/bcbs/publ/d443.htm>, June 21, 2018

Overall, most banks have made, at best, marginal progress in their implementations which is unsatisfactory. It is clear that banks will require more time than previously indicated to achieve full compliance with the Principles. However, looking beyond the quantitative results, banks have accelerated their efforts and taken positive action to comply with the Principles.

Banks have found it challenging to comply due mainly to the complexity and interdependence of IT improvement projects. As a result, the expected date of compliance has slipped back for many banks. The 2017 assessment showed that even though the implementation deadline of 1 January 2016 has passed, only three G-SIBs have been assessed by their supervisors as achieving full compliance with all Principles.

The lengthening of the G-SIBs' expected time line to achieve full compliance can be attributed in part to underestimation of efforts needed to fully comply with the time needed to address IT legacy issues. This includes consolidation of data categorization approaches and structures as well as integrated data taxonomies.

An example of effective risk data aggregation demonstrated by banks that were rated as fully or largely compliant are proper data quality controls. For example, there is appropriate data element certification, data quality documentation, data quality assurance mechanisms, assessment of data quality per risk type, documented and effective controls for manual processes. In this respect, one bank introduced units responsible for data quality for all entities globally.

Also improving capabilities in automating the production of risk data. For instance, enhancing the use of integrated data taxonomies and dictionaries and providing data lineage to a common pool of key data facilitates the automation of risk report production. Key data facilities would include a data dictionary and a single data repository or data warehouse for each risk type, each counterparty and each financial institution. These latter two customer categories would utilize an industry-wide data taxonomy (e.g. the Legal Entity Identifier (LEI)). The availability of the LEI could enhance information across legal entities, facilitate a comprehensive assessment of risk exposures at the global consolidated level and improve the speed at which information is available internally and to supervisors, especially after a merger or acquisition.

Other examples of effective risk data aggregation include continued/increased resource commitments to implementation and greater clarity on the resources to be committed for: the enhancement of IT systems and data architecture; strategic solutions for data architecture and IT infrastructure; and dedicated appointments of Chief Data Officers.

Examples of ineffective risk data aggregation and key compliance gaps include lack of progress due to dependence on strategic IT systems yet to be rolled out and lack of standardization of reference data for risk aggregation and reporting by risk and finance functions.

A specific example of ineffective risk data aggregation demonstrated by banks that were rated as fully or largely non-compliant was their inability to integrate data taxonomies and architecture from certain foreign subsidiaries into the banking group. This can arise from non-existent, inconsistent, unintegrated, and/or imprecise data dictionaries, data models, data taxonomies, and/or definitions. For example, inconsistent customer codes are used within the bank or there is a lack of data dictionaries for certain risk types, such as operational risk.

Banks should consider how implementation would benefit other initiatives. As banks proceed with implementation in relation to their internal risk reporting processes, they are encouraged to consider how the upgrades on their risk data aggregation and risk reporting practices will allow them to comply more effectively with other initiatives and requirements relating to data (e.g. recovery and resolution plans).

## **CLOSING COMMENT**

How the LEI will support the stated risk management mission of the FSB and BIS is still a work in progress. While successfully creating a global network and government/private sector governance structure for issuing LEIs there remains significant hurdles. Of significance is renewing LEI reference data (mainly name, address and entity classification data); and completing the hierarchical relationships amongst LEI's for determining ownership and control particularly of multi-registered LEIs of a single entity structure. This later point is critical to the capability to aggregate transactional data for performing risk analysis.

A review of the LEI now underway by the FSB and the follow up on the ROC's consultation on fund relationships are both promised to be concluded in 2019. The recommendations that result, along with the remaining follow up on the ROC's 'Legal Entity Events (Corporate Actions) and Data History in the Global LEI System' consultation, should shed more light on how close regulators and the industry will get to meeting the risk management objectives pledged to the G20. That pledge encouraged the G20 to support the "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks".

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