

The Global LEI Initiative – Keeping it All in Balance

February 2022

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



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Summary of this Month's Issued, Renewed and Relationship Data

In 2016 the GLEIF began recording LEIs and in 2017, LEI Relationship data, in its databases. Since 2016 the GLEIF has been publishing statistics on LEI issuance and renewals, and since May, 2017, on LEI Relationship data. This Research Note summarizes progress of LEI issuance and its corresponding Relationship Data initiative based on [GLEIF's Feb 7, 2022 Global LEI Data Quality Report](#) and FIG's historical LEI database

Newly issued LEIs this month was 30,777, a 41% gain from last month's 21,767. The six (6) year monthly average is 22,043 . Registered LEIs in total reached 2,050,428 vs. last month's 2,038,661.

The overall lapsed rate (non-renewal rate) comparing total non-renewed LEIs to total issued LEIs was 34.3%, a rate .4% higher than last month's 33.9%. The Lapsed rate has averaged 27.8% over the last six (6) years. The lapsed rate based upon comparison to active LEIs stands at 35.8%, a .5% increase from last month's 35.3%.

Relationship data is the recording of LEIs or permitted exceptions for opting-out of identifying a LEI for either one or both parents. This month, there was a total of 3,508,031 LEI exceptions vs. last month's 3,468,286. GLEIF's representation of LEIs having 'Complete Parent' information was 1,863,483 this month vs. last month's 1,786,117. Complete parent information includes those LEI registrants recording exceptions in not reporting an LEI for one or both parents plus those reporting LEIs for both parents (123,438 this month vs. last month's 123,079). How these numbers may be distorted by the recent elimination of the Provisional Node Indicators and associated reference data, discussed later, is not yet known as this information had been collected with the restriction of not making it public.

GLEIF's To-Do List - Many Spinning Plates in the Air

Last month's Research Note ["The Global LEI Initiative – A 2021 Year-end Report and a Look Back on its History"](#) listed the remaining items GLEIF was planning to implement; those they needed to implement but had not yet planned for; and a few items not on their radar as yet.

- Accomplish stated objective of registering 18 million more LEIs, from 2 million currently to 20 million LEIs by 2027.
- Improve renewal rates of LEIs, from current 66.1% of all registered LEIs
- Improve LOU's ability to validate approximately half of parent LEIs not now validated
- Set objective for completing parent LEI relationship data project
- Reconcile account consolidation rules for parent hierarchies with risk management hierarchies
- Implement legal entity events
- Implement fund family structures
- Implement government entity LEI registrations
- Resolve Provisional Node Identifiers
- Publish number of LEIs created by Validation Agents
- Publish number of LEIs created through the vLEI regime

Since we published January's Research Note, the Regulatory Oversight Committee (ROC), the overseer of the Global Legal Entity Identifier (LEI) initiative (and now the recently appointed regulatory overseer of all the global standards initiated after the financial crisis) has commented on many of the items on that list.

The ROC Steps Up

The ROC is a body made up of 70 appointees representing 50 regulatory bodies across the globe. The ROC, in turn, reports to the Financial Stability Board (FSB). The FSB is comprised of regulatory heads of G20 nations. The FSB was given the responsibility to stabilize the financial system by the G20 after the financial crisis. The G20 is made up of the heads of state of the 20 largest world economies. With this lineage, the ROC is fast becoming the central focal point for regulation of global financial data standards, a much needed and long overdue governance body.

In January, 2022 the ROC published two statements on the LEI, one on [Relationship Data](#) and the other on its own analysis of its [progress in the past two years](#). This later statement focused on the ROC's future role in overseeing the LEI and the other newly created global data standards initiatives, the UTI and UPI identifiers, the Common Data Elements (CDEs), and the Derivatives Service Bureau (DSB).

In their statements on the LEI the ROC has said that more work is currently planned to explore innovative ways to deal with Level 2 (parent relationships) data. Creating relationship data was the key objective established by the G20 for the LEI initiative. To achieve this objective the process constructed for creating relationship data was for each financial market participant and their intermediate parent in the organization's hierarchy that contributes to the risk of its ultimate parent was to register a LEI. Thereafter, it would be possible to associate each LEI with other LEIs that collectively and individually can accumulate unacceptable risks to the entity and to the financial system as a whole. This aggregation capability, within a single financial enterprise and across many, was to be the mechanism to resolve the systemic risk issue that the financial crisis exposed.

Observing systemic risk was always the G20's goal for the global LEI initiative. That objective is far from being realized as it relies initially on all financial market participants obtaining and maintaining a LEI and reporting its intermediate LEIs and ultimate parent LEI. And even if all such LEIs were registered by financial market participants (the current estimate is that 20 million LEIs would have to be issued and renewed periodically) the ability to aggregate risk data would still be hindered. This is because the aggregation rules (intermediate/ultimate parent) in the Global LEI System (GLEIS) is based on the accounting profession's consolidation rules, not on the principles of the risk management professions' risk data aggregation practices as defined in BCBS239, the Bank for International Settlements ['Principles for effective risk data aggregation and risk reporting'](#).

Expectations for Growth in LEI Registrations

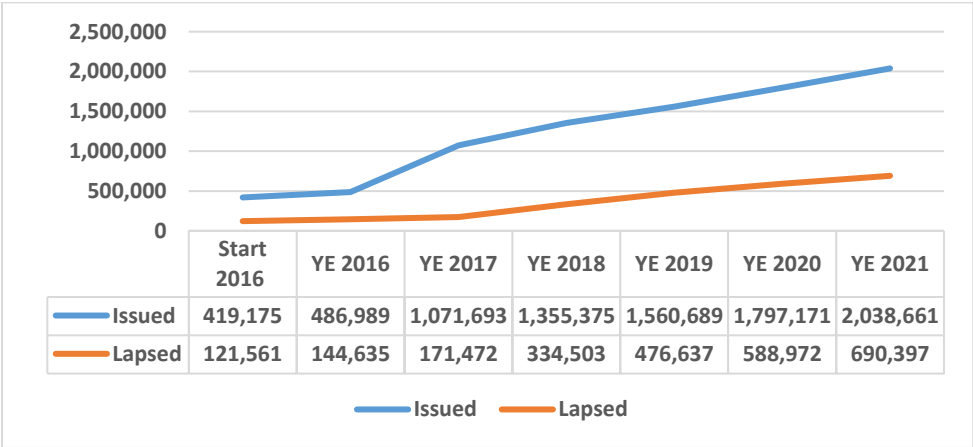
As of year-end 2021 just a bit over 2 million LEIs have been registered in the six years GLEIF has been assigning LEIs and reporting on this data. During this period, the average number of monthly newly registered LEI have been about 20,000. The hurdle rate to get to 20 million by 2017, GLEIF's objective, is 250,000 a month which is about the same number of LEIs registered each year for the six years that it took to get to 2 million! This objective seems aggressive while not yet have a corresponding objective of renewing LEIs. Only about 2/3 of LEIs are renewed each year as required while the renewal rate continues to decline.

The low rate of newly issued LEIs and rates of renewal are the two highest risks identified by the GLEIF Board. The ROC and GLEIF now state that they will rely more on voluntary vs. regulatory mandated adherence to protocols of data registration and renewal, relying on the collective action of the financial industry. That strategy, however, never worked and was dismissed early in the deliberations on the LEI initiative in favor of regulatory compulsion. However, with over a decade of focus on the LEI, it may well be that there is enough momentum now to push industry’s collective voluntary action forward and, if seen as such by regulators, to motivate regulators to issue more regulatory mandates.

Six Year Summary: Primary LEI Issuance, Renewals and Parent LEIs

LEI Issuance & Non-renewed (Lapsed) LEIs	2016 Year-end	2017 Year-End	2018 Year-end	2019 Year-end	2020 Year-end	2021 Year-end
Total LEIs issued at Yr/Mo-end	481,522	975,741	1,337,925	1,542,037	1,777,458	2,038,661
Total Active LEIs at Yr/Mo-end						1,954,190
Non-renewed rate – issued LEIs	29.0%	17.4%	23.5%	29.8%	32.9%	33.9%
No Non-renewed rate – active LEIs						35.3%
Newly Issued	4,976	40,237	29,987	16,652	19,364	30,777
Relationship Data						
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	230,755	264,013
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	123,079
Number of Immediate & Ultimate LEI Parent Exception Records	n/a	1,067,968	2,156,909	2,519,418	2,965,315	3,468,286
Number of LEIs with Complete Parent Information	n/a	572,818	1,146,554	1,341,015	1,563,458	1,786,117

Six Year LEI Comparison Issued vs. Non-renewed



Monthly 2021 and Current Month (January 2022) LEI Issuance, Renewals and Parent LEIs

LEI Issuance & Non-renewed (Lapsed) LEIs	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	Oct 2021 Mo-end	Nov 2021 Mo-end	Dec 2021 Mo-end	Jan 2022 Mo-end
Total LEIs issued at Yr/Mo-end	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	1,984,081	2,008,191	2,038,661	2,050,428
Total Active LEIs at Yr/Mo-end							1,838,937	1,856,856	1,877,480	1,902,225	1,925,130	1,954,190	1,973,745
Total Non-renewed (Lapsed) LEIs issued at Year/Month-end	588,972	590,265	600,952	607,065	613,400	619,579	625,679	634,079	641,656	654,465	671,991	690,397	706,066
Non-renewed rate – issued LEIs	32.8%	32.5%	32.7%	32.7%	32.7%	32.7%	32.6%	32.8 %	32.8%	33.0%	33.5%	33.9%	34.3%
Non-renewed rate – active LEIs							34.0%	34.0%	34.2%	34.4%	34.9%	35.3%	35.8%
Monthly Averages													
Newly Issued	19,485	19,491	22,166	18,470	18,596	20,540	19,649	19,044	21,908	26,309	23,803	30,777	21,767
Non-renewed (Lapsed) LEIs	22,270	15,688	19,981	13,663	12,700	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Relationship Data													
Number of Immediate & Ultimate LEI Parent Records	232,516	234,116	236,715	236,144	238,593	243,133	247,503	250,598	253,604	256,078	260,659	264,013	266,408
Number of Unique LEIs Reporting both Parent Relationships	133,025	133,471	134,596	134,034	134,575	123,043	122,567	122,505	122,758	122,761	122,939	123,079	123,438
Number of Immediate & Ultimate LEI Parent Exception Records	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	3,366,130	3,409,980	3,468,286	3,508,031
Number of LEIs with Complete Parent Information	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	1,790,120	1,755,756	1,786,117	1,863,483

Clearing the Way for Parent LEI relationship Data

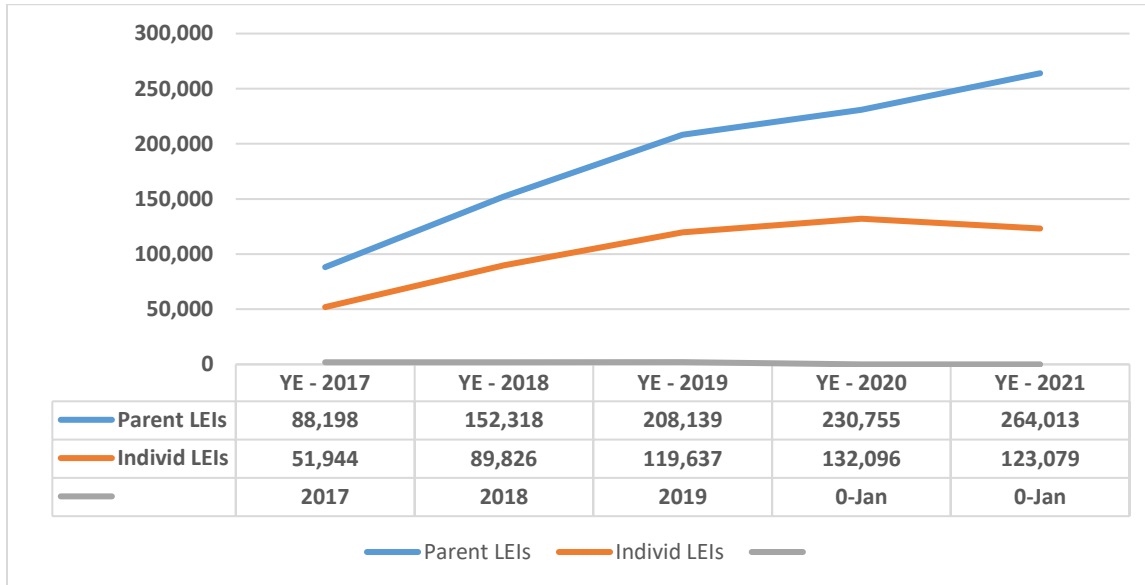
The ROC's attempt to resolve parent relationship issues as noted in their statement on Parent Relationships falls short of risk aggregation goals. This is because the current definition of relationships is based on universal accounting standards for consolidating financial reports for regulators, not on consolidation of relationships for risk management, one based on control, and where there are no universal standards.

This choice of account consolidation method has necessitated those registered LEI entities who are not obliged to consolidate the entity with another for accounting purposes (basically having no obligation to satisfy the accountants materiality rule) to be given optout privileges and not declare an LEI for a parent. They were obliged, however, to report known reference (meta) data voluntarily about a known parent and have a non-public Provisional Node Identifier (PNI) number assigned as a substitute LEI for the parents having no-LEI. Further, about half of the number of LEIs that have been reported as parent LEIs have not been corroborated fully by the Local Operating Units (LOUs) who are responsible for verifying their accuracy. The entity itself is being allowed to register the LEI and self-proclaim its relationship.

The ROC in their statement is simply chipping away at the edges of this relationship data conundrum, not dealing with it head on. How to obtain LEI relationship data was problematic when it was presented at the start of the LEI initiative. Then it was decided to postpone the issue to a later second phase. That phase had encompassed a number of partial solutions that have not provided a complete solution.

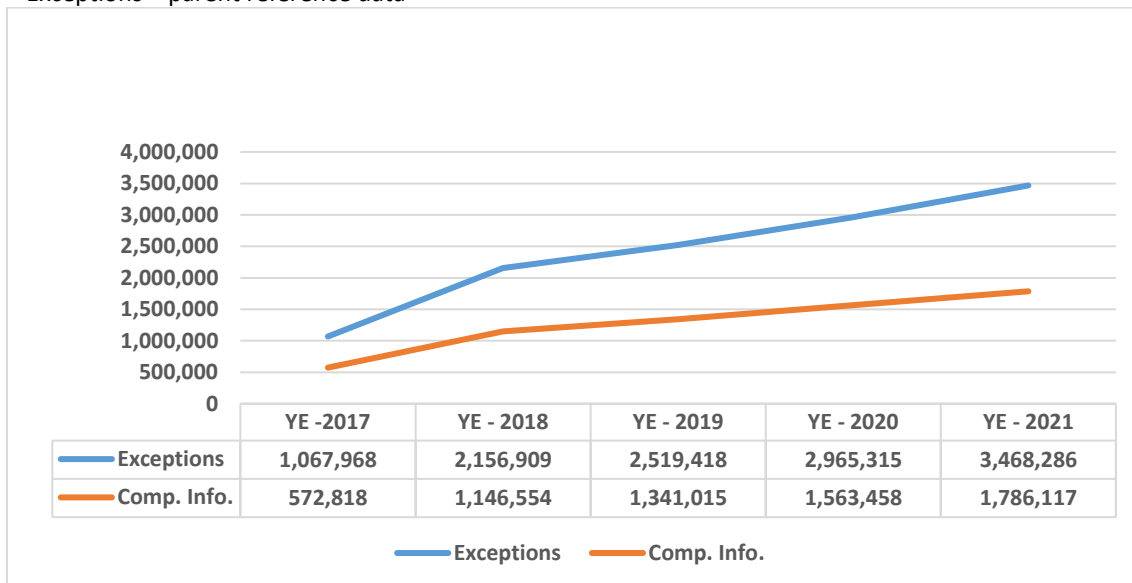
In attempting to deal with the issue now, the ROC regrouped the list of acceptable reasons for legal entities to optout from providing information on direct and ultimate parent LEIs. They are consolidating five of the existing optout reasons into a single category. They also abandoned the collection of parent metadata for parents without LEIs and their assigned PNIs.

Unique, Ultimate and Immediate LEIs Represented in Relationship Data



Parent Exceptions for Non-Reporting LEIs and those Reporting "Complete"* Information

* Exceptions + parent reference data



A New Goal “GURT”

In their review of their progress over the last two years, the ROC identified a major new long-term goal, Global, Universal coverage and Real Time accuracy (the “GURT” goal). However, in its Real-time goal it must deal with the LEI system’s current federated business model, a legacy wheel and spoke periodic daily batch update model. This was accepted as the architectural design even though financial transactions were already being conducted in real-time, and distributed networks were well established in the infrastructure of the financial system. There are now 39 local operating units each of which would have to adopt to real-time, an easier task that could have been done at the outset when regulatory pressure was extremely high and no system was in place. As a goal now, it may be easier to accomplish GURT by adopting the distributed network ledger pilot that GLEIF has demonstrated but has not yet been forcefully promoted.

As to the GURT goal, the ROC seems to be drawn to accepting GLEIF’s turn to supporting the global digital commerce markets rather than exclusively supporting financial markets, its original mandate from the FSB. With potential growth in the issuance of LEIs in financial markets driven by regulatory compulsion slowing, GLEIF is turning to voluntary action from its Validation Agent concept to spur growth in financial markets and to support a bigger market through its vLEI initiative for issuance of the LEIs for digital commerce.

We have yet to see the number of LEIs generated by Validation Agents or from its vLEI initiative. GLEIF reports that seven (7) of the largest financial institutions, global systemically important banks (G-SIBs), have signed on to its pilot as Validation Agents to issue LEIs to its client institutions. Previously they had named the first set of four (4) Validation Agents which included the China Financial Certification Authority; the NMB Bank (Zimbabwe); Ubisecure, a Vendor of LEI services; and JP Morgan Chase. The GLEIF has also reported a number of strategic partnerships with digital commerce trade organizations and vendors for its vLEI initiative.

The previous Chairman of the ROC (there is now a new Chairman, Mike Willis of the SEC) and the current Chairman of GLEIF, Steven Joachim, have been on the record as closely monitoring the long-term viability of this strategy ... as they should be, given the LEI initiative is yet to succeed in financial markets, and the significant competition from other identity schemes present in the digital commerce space. A smarter strategy may be to focus on G-SIB’s first, both to record all their LEIs and associated relationship hierarchies. Then prove that risk data can be aggregated within and across these 30 systemically important financial institutions in a standard way (the FSB objective). Seven of the total of 30 are already Validation Agents and all 30 are being held accountable to adhere to the BCBS239 risk aggregation principles.

For further Information



Allan D. Grody

Financial InterGroup - USA

New York, New York USA

Tele. +1 917 414 3608

Email agrody@financialintergroup.com

www.financialintergroup.com

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