



The Global LEI Initiative

Monthly LEI issuance stabilizing while Lapsed LEIs increasing. Industry associations still seeking benefits of relationship data and industry cost savings

A Research Note by Financial InterGroup May 2019

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LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)

New LEI registration reaches another all-time high of 1,412,195. Issued LEIs exceeded monthly lapsed LEIs by 3,887, the second time this has occurred in the past seven months. Lapsed LEIs are at another all-time high of 363,406 representing 25.7 % of all registered LEIs

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships increases, now at 177,811 while exceptions for not obtaining an LEI are stabilizing, reaching another all-time high of 2,282,691

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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 April, 2019 month-end and year-to-date reporting of LEI issuance¹; on the progress of Relationship Data collection; and our Commentary.

LEI ISSUANCE

April, 2019 was the tenth month of a steadying of issuance of LEIs, settling in this month at 17,084, below the past months new high of 22,002 and slightly below the average of 19,543 per month over the previous ten months. April was the second month over the last seven months when lapsed LEIs did not exceed 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 25.7% vs. the past month's 25.5% and the prior month's 25.2% until renewing LEIs becomes required by regulation or some other means of compulsion surfaces.

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

LEI Issuance and Lapsed LEIs – Year-to-Year & Month- by-Month Comparison	Year-end Comparison			Previous Month	Prior Month	Past Month	Current Month	Month-to-Month Comparison Quarter 4 – 2018		
	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	Oct. 2018 Month- end & YTD	Nov.2018 Month- end & YTD	Dec.2018 Month- end & YTD
Total LEIs issued at Year-end	481,522	975,741	1,337,925	1,355,375	1,372,009	1,394,469	1,412,195	1,300,832	1,319,120	1,337,925
Year-to-Year Averages/ Month-by-Month Comparisons								Oct. 2018 Month- end	Nov.2018 Month- end	Dec.2018 Month- end
Newly Issued	5,334	40,237	29,016	17,092	16,250	22,002	17,084	19,700	17,616	18,454
Lapsed	6,300	7,134	15,894	34,796	20,654	18,701	13,197	26,853	33,853	62,473
Net Increase/ decrease	-996	33,103	13,122	-17,677	-4,404	3,301	3,887	-7,153	-16,237	-44,019
Lapsed rate	29.0%	17.4%	23.5%	24.7%	25.2%	25.5%	25.7%	17.7%	19.5%	23.5%
Total Lapsed LEIs	139,461	169,778	313,915	334,503	345,544	356,148	363,406	230,679	257,678	313,915

¹ GLEIF Data Quality Report – March, 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-april-2019#>, May 8, 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. April 2019 is the twenty-third 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	-
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%

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 month-over-month. The nearly doubling from the past months of February and March (10,638 vs. 5,721) appears to be an outlier even though the number of LEIs with parent relationships had doubled from year-end 2017.

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 2.3% this month closer to the average. The nearly doubling from past months of February and March (6.1 vs. 3.3) also seems to be an outlier.

It is hoped that this may be an early indication of a more disciplined approach on the part of registrants to supplying such information and LOUs validating it. However, as noted in earlier FIG Research Notes and in GLEIF Business Reports, the LOUs in approximately two-thirds of the cases are not validating parent registration information.

The ROC offered already existing LEI registrants and potential new registrants the ability 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) 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 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%

*Note: Complete in this context means the registered LEI entity gave one of the following reasons that they either did provide, could not provide nor register 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.

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).

The GLEIF has retained the names or other identifying information for these opted-out parent entities in a separate database, assigned a PNI (Provisional Node Identifier) and kept that information confidential to this point. What use will be made of this data remains to be seen, to be sorted out by the ROC in collaboration with the GLEIF and, perhaps, industry members. No deadline on resolving this issue has been published by either organization, nor by the FSB.

CLOSING COMMENT

Parsing the ISDA/GFMA response to the FSB's Thematic Review of the Legal Entity Identifier (LEI)

The review of the LEI now underway by the FSB is scheduled for release in May 2019. To contribute to this effort we had published a Special Report on Industry Responses, including our own, in response to the FSB's Thematic Review of the Legal Entity Identifier (LEI).²

To facilitate this review we thought to delve more deeply into the findings and recommendations of two important spokesperson's on industry issues, the International Swaps and Derivatives Association (ISDA) and the Global Financial Markets Association (GFMA) which chose to respond jointly to the FSB's LEI review. The below commentary is excerpted verbatim from their review document.

It should be noted that the ISDA/GFMA response is extremely positive, as is all the other seven responses, on the progress made and the aspirations for the LEI. Not to diminish the successes to date, our excerpting of only the improvements recommended by ISDA/GFMA are intended to inform the FSB of potential considerations of next steps. As such, these excerpts do not highlight the very positive benefits already achieved and commented on extensively in the ISDA/GFMA response.

From the ISDA/GFMA response:³

Failure to gain acceptance of LEI by non-financial companies and occasional users of capital and derivatives markets

.....some firms that have limited reporting obligations may find system development costs to fully implement the LEI as an additional attribute to their client account database as too high..... Such firms don't see the benefits from using the LEI for their internal operations, especially if they have little interaction internationally or with third party vendors.

² FIG's summary of, and comments on industry responses to the FSB's Thematic Review of the LEI, <http://www.financialintergroup.com/cmsAdmin/uploads/FIG-Summary-and-comments-of-responses-to-Thematic-Review-of-LEI-Mar-2019.pdf>

³ ISDA/GFMA response to the FSB's Thematic Review of the LEI https://www.isda.org/a/brvEE/ISDA_GFMA_FSB-Peer-Review_LEI-Implementation_3-October-2018_FINAL_Public.pdf

The industry and regulators may need to reassess the current LEI self registration business model to determine if there are other approaches that may help reduce the administrative burden to improve adoption by clients and smaller firms.One possible model to consider for improved maintenance of the lapsed reference data is that the responsibility could be shared between registrants, financial firms, other market participants, LOUs and the GLEIF, rather than solely by the registrant.

Continued lack of regulatory mandates, both for registering and renewing LEIs

The lack of regulatory mandates for parties in financial transactions to obtain and maintain an LEI is still cited by market participants as the obstacle which most prevents the ubiquitous adoption of the LEI. Multiple regulators across jurisdictions have not included the mandate for an LEI in reporting rules, and therefore not all entities are obligated, or do not view themselves as obligated, to obtain one.

The industry has highlighted on many occasions that without global regulatory mandates, the LEI will continually face significant challenges in achieving wide adoption of the LEI.

.....the FSB should urge local regulators to mandate the use of the LEI and further require that the LEI be maintained in a current status (i.e., not lapsed). Until this happens, the patchwork of LEI requirements for different jurisdictions and unique market activities will not provide the foundation for sound systemic risk management.....

..... the FSB should also explore additional mechanisms for regulated entities, such as banks, to obtain LEIs on behalf of the legal entities who are their customers the FSB can help by working with regulators to amend current regulations to allow reliance on LOU validations rather than requiring that banks collect documentation to satisfy KYC requirements.

Improving Data Quality

.....market information on Corporate and other legal entity actions (like name changes, etc.), could be better integrated into the GLEIS processes. This provides a key opportunity for data maintenance even without the involvement of the registrant this should be considered as a different approach to keeping the reference data more up to date. We urge the FSB to be a catalyst to create such dialogue.

Standardizing representation of data at LOUs would eliminate the need for industry participants to perform multiple searches

Cost-reduction

If regulators were to permit reliance on LOU due diligence, the utility of LEI could be greatly enhanced and could help streamline the client on-boarding process. The FSB should initiate a dialog with regulators to find a way eliminate such duplication by either permitting financial firms to rely on the due diligence of the LOUs or vice versa. Eliminating such duplication would save considerable industry cost, time and effort.

Further Improvements

If authorities were to use the LEI centralized database to pull and consume the data, the industry would save time and improve operational efficiencies.

Further efficiency gains will be achieved by adding better information about fund relationships and using corporate actions and legal entity data history information in the GLEIF to enhance LEI accuracy and utility.

.... successor entity LEIs should be linked to the prior entity so there is no uncertainty in identities It would be useful if the successor entity record could include an audit trail of what has occurred prior, or a link to access a source of that information.

.... the GLEIF already has certain mechanisms in place for users of LEI data to request changes of data that appears inaccurate the FSB should explore ways to enhance those mechanisms....

... further time and cost savings could be realized if all business registries began to add the LEI as a required element to their entity records regardless of whether a regulatory mandate exists for an entity to have an LEI.

If an LEI were attached to entities in both a risk hierarchy and an accounting consolidation hierarchy, there would be no need to perform additional due diligence within the firm This would save the industry significant time and effort. In addition, some vendors provide hierarchical information which could vary from that of a firm's internal view. Use of LEIs would allow for prompt verification that entities are in fact the same.

.... the current iteration of the Level 2 database is very difficult to use and the industry would like to see the GLEIF make near-term improvements to the usability of the database ... we urge the FSB and relevant authorities to socialize completed Level 2 work and the LEI ROC policy on including data on international branches.

Future Uses

LEIs could (1) be used in a distributed ledger (2) be embedded into electronic seals and (3) provide a way to construct an audit trail

For further Information Contact



Allan D. Grody

Financial InterGroup - USA

New York, New York USA

Mobile +1 917 414 3608

Email agrody@financialintergroup.com

www.financialintergroup.com

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