



The Global LEI Initiative

Lapsed LEI's resume exceeding monthly issuance

A Research Note by Financial InterGroup

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In this Issue:

LEI ISSUANCE

LEI registrations leveling off, reaching all-time high of 1.3 million (1,300,832) while lapsed LEIs begin to accelerate, now at 230,679

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships slows, now at 147,292 while exceptions for not obtaining an LEI are stabilizing at 2 million (2,081,128)

COMMENTARY

ROC Reports on Approaches to Assist with Lapsed LEIs

ROC Reports on their Consultation of Legal Entity Events (formerly Corporate Events)

Advancing Straight-Through-Processing in Identity Management

Owning the Outcome – the LEI's Role in Data Aggregation



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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 October, 2018 month-end and year-to-date reporting of LEI Issuance ¹; on the progress of Relationship Data collection; and our Commentary.

LEI ISSUANCE

October, 2018 saw the resumption of lapsed LEIs exceeding issued LEIs. May, 2017 was the last month that this occurred. May, 2017 was also the first month of implementing the new requirement to register parent LEIs. This net increase of lapsed vs. issued was anticipated as the net increase of issued vs. lapsed LEIs had been progressively decreasing over the entire year. This turnabout portends a continuing rise in the lapsed rate, certainly through the remaining months of 2018. It is during this last quarter of 2018 that the first group of anticipated renewals from the accelerated LEI issuance of last year comes due.

Total lapsed LEIs have been on a steady monthly uptick, more than doubling this month to 26,853 from last month’s 12,971. Lapsed LEIs reached another all-time high of 230,679 representing 17.7% of all issued LEIs.

LEI Issuance and Lapsed LEIs –	2016 Year-end	2017 Year-end	Jan. 2018 Month-end & YTD	Feb. 2018 Month-end & YTD	Mar. 2018 Month-end & YTD	Apr. 2018 Month-end & YTD	May 2018 Month-end & YTD	June 2018 Month-end & YTD	July 2018 Month-end & YTD	Aug 2018 Month-end & YTD	Sep. 2018 Month-end & YTD	Oct. 2018 Month-end & YTD
	481,522	975,741	1,071,693	1,113,339	1,148,170	1,172,295	1,195,780	1,221,330	1,242,095	1,260,541	1,280,462	1,300,832
	2016 Monthly Avg.	2017 Monthly Avg.	Jan. 2018 Month-end	Feb. 2018 Month-end	Mar. 2018 Month-end	Apr. 2018 Month-end	May 2018 Month-end	June 2018 Month-end	July 2018 Month-end	Aug. 2018 Month-end	Sep. 2018 Month-end	Oct. 2018 Month-end
Newly Issued	5,334	40,237	92,029	39,760	33,120	22,882	23,412	23,801	19,951	17,719	19,398	19,700
Lapsed	6,300	7,134	7,494	8,296	8,904	7,529	6,409	7,166	7,278	7,838	12,971	26,853
Net Increase/decrease	-996	33,103	84,535	31,464	24,216	15,353	17,003	16,635	12,673	9,881	6,427	-7,153
Lapsed rate	29.0% (Year-end %)	17.4% (Year-end %)	16.0%	15.8%	15.7%	15.7%	15.5%	15.5%	15.6%	15.8%	16.2%	17.7%
Total Lapsed (Year & month-end Totals)	139,461	169,778	171,472	175,540	179,803	183,466	186,021	189,712	193,657	198,719	207,462	230,679

RELATIONSHIP DATA COLLECTION

October 2018 was the 1½ year anniversary of data collection of registration and collection of the immediate parent and ultimate parent of each LEI (Level 2 Relationship Data). GLEIF reports statistics on how many immediate and ultimate parent records were reported (see the first numeric column in the chart on the following page) and of these, how many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the same chart on the following page).

¹ GLEIF Data Quality Report – October 2018, <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-october-2018#>, Nov. 5, 2018

Level 2 Relationship Data	Number of Immediate & Ultimate LEI Parent Records	Month-to-Month Change	Number of Unique LEIs Reporting both Parent Relationships	% Month-to-Month Change
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%

As can be seen from the Month-to-Month Change column in the chart above, the monthly reporting of the number of registered LEIs with parent relationships has leveled off over the last three quarters of this year. A similar pattern has emerged for the number of LEIs reporting both parents (column 3), with the percent increase also showing a stabilizing trend.

The GLEIF also reports on LEIs that have recorded Level 2 reporting exceptions and total legal entities that either recorded an exception or recorded a LEI for either parent (see chart below).

Level 2 Reporting Exceptions	Number of Immediate & Ultimate LEI Parent Exception Records	Month-to-Month Change	Number of LEIs with Complete Parent Information	% Month-to-Month Change
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%

Note: month–end figures for June 2018 in the chart above 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 32% 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 this issue will be resolved by year-end 2018.²

² GLEIF, Global Systems Business Report, 3rd Quarter 2018, https://www.gleif.org/content/4-lei-data/2-global-lei-index/2-download-global-lei-system-business-reports/20181106-download-global-lei-system-business-report-q3-2018/2018-11-06_quarterly_business_report.pdf, Nov. 6, 2018 at page 2

GLEIF also reports on 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 the third column in the same chart on the previous page). This metric, too, is at an historic high of 1,109,258.

The latest GLEIF business report (Q3 2018) presents the percent of direct and ultimate parent ‘entity supplied only’ data (direct parent 61%, ultimate parent 68%) as opposed to this data being completely or partially validated by the LOU.³ This percentage, since inception of relationship reporting in 2017, has been consistently in the range of 2/3 of all relationship records. These represent relationship records not validated by LOUs even though LOUs are expected to do this validation. This lack of validation of LEI relationship records persists alongside another persistent issue, that of LEI registrants reporting a relationship record under valid exception reasons, that either does not have any LEI or is not required to under existing protocols.

The reasons for reporting exceptions are indicated in the columns in the chart below. The data shown is the sum of records indicating legitimate reasons why LEI registrants failed to provide either an ultimate parent LEI and/or an immediate parent LEI. The two columns list exceptions at the one (1) year and 1 1/2 year anniversary of recording such information. This metric is now at an historic highs of 2,094,255.

It still remains to be understood how such permitted ‘opt-out’ arrangements will affect the FSB’s long term objective of aggregating financial transaction data for risk management and systemic risk analysis.

EXCEPTION REASONS Reported by LEIs	For all LEIs at 1st year Anniversary – (at inception - May 1, 2017 to Month-end April 2018)	Number of LEIs From inception to 1 ½ year Anniversary (May 1, 2017 to Month-end Oct 2018)
NON_CONSOLIDATING	542,692	696,399
NO_KNOWN_PERSON	447,844	532,560
NATURAL_PERSONS	384,418	491,621
NO_LEI *	263,105	152,259
CONSENT_NOT_OBTAINED *	45,331	196,222
BINDING_LEGAL_COMMITMENTS	6,141	7,374
LEGAL_OBSTACLES	6,770	8,269
DISCLOSURE_DETRIMENTAL	3,966	4,881
DETRIMENT_NOT_EXCLUDED	3,226	4,670
Total Exception Reasons found in Total Exception Records	1,703,493	2,094,255 *

Note: the above data was supplied in collaboration with **pTools (www.ptools.com)** a Dublin, Ireland and UK domiciled technology company driving digital transformation in finance. May 1, 2017 is the date GLEIF began accepting Level 2 data from prior and newly registered LEIs.

* This number when compared to the number of exception records reported by GLEIF at 2,081,128, shows a 13,127 difference. The difference is reflected in the exclusion of 106 duplicate record from the Total Exception Reasons but recorded in the Total Exception Records; 64 reporting Exception Records without a corresponding LEI record; and 11,678 LEIs Reporting Exceptions with more than one Exception Reason.

³ *Ibid*, at page 9

COMMENTARY

ROC Reports on Approaches to Assist with Lapsed LEIs

The ROC recently issued its views on their earlier consultation “Consultation Document on Corporate Actions and Data History in the Global LEI System”⁴ after considering input from respondents to the consultation on reclassifying inactive LEIs. In that consultation the ROC sought clarification from the industry on the definition of inactive entities, those legal entities that are still legally in existence but have no operations. The ROC proposed a further definition of an entity’s status to include ‘dormant’ entities. It was thought that this further definition may support a better classification of entities that are currently reported in a lapsed status. This could then help detect cases where entities currently appearing as “lapsed” are actually inactive or expired.

A “dormant” entity may be less likely to renew its LEI registration on the appointed due date, and currently any entity that fails to renew its LEI registration is treated as “lapsed”. More finely defining these two categories might be helpful, both in providing more meaningful information to users of the GLEIS and in providing a clearer basis for LOUs in pursuing renewals of lapsed LEIs.

In their response to the consultation⁵ the ROC adopted a policy that the definition of inactive entities in the GLEIS should be clarified to adequately capture entities that are still legally in existence but have no operations. In their policy they make no judgment about the number of Lapsed LEIs that will turn out to have been dormant, nor how to deal with the accelerating rate of lapsed LEIs.

The underlying causes of the lapsed issue is quite relevant because lapsed LEIs are allowed to be used for transaction reporting even though the ROC has admonished regulators not to allow lapsed LEIs to be used. This is a very critical issue because it pits a global standards body, the FSB which has no compulsory authority, against a regulator, the European Securities and Markets Authority with such authority, albeit within their own sovereign domains.

At the technical level and because the LEI is to be combined with the UTI (Unique Transaction Identifier) to uniquely identify trades, the quality of the LEI is especially important. Lapsed LEIs open up the possibility of untimely and incomplete maintenance of the GLEIS database and ultimately the quality of and the credibility of the GLEIS database as the industry’s golden standard. It also undermines a critical funding source for the GLEIS, the annual renewal fees.

ROC Reports on their Consultation of Legal Entity Events (formerly Corporate Events)

The ROC in its earlier public consultation⁶, defined corporate actions as including ‘mergers, spinoffs, acquisitions, and name and address changes that affect the LEI, its reference data and its data history’. The ROC, through this consultation, was attempting to answer the question, ‘how maintenance updates of the GLEIS data base will be managed’. Corporate actions, mainly reorganization events, now newly redefined by the ROC as “legal entity events” are at the core of the most important ongoing maintenance

⁴ ROC, Consultation Document on Corporate Actions and Data History in the Global LEI System, http://www.lei.org/publications/gls/roc_20170726-1.pdf, July 26, 2017

⁵ ROC, Legal Entity Events (formerly referred to as “Corporate Actions”) and Data History in the Global LEI System, https://www.lei.org/publications/gls/roc_20181030-1.pdf, Oct. 30, 2018

⁶ See footnote 4

function for maintaining the quality (and relevance) of the LEI system for properly aggregating financial transactions up through their controlling or owning parent legal entity.

In its recent response⁷, the ROC has proposed to represent effective dates for legal entity events in the GLEIS, and whether and how to reflect the range of definitions of effective dates, depending on sovereign regulation. Placing effective dates into the GLEIS is not a trivial task. How does the same effective date get placed into all the LEIs maintained by multiple LOUs that maintain the affected LEIs that are collectively part of the affected parent? What is the timing of the effective date being placed into the GLEIS? One solution proposed by the ROC is to have this done centrally by the GLEIF.

The ROC also recognized that the principle of self-registration would require the LOUs to be notified by the LEI registrant of legal entity events and its effective date. To this end the ROC approved the use of commercial data feeds by LOUs to support updating of legal entity events. They also approved LOUs to update records directly from a data feed where the source of the data feed is from a business registry when the LOU is itself also a business registry. To affect this the legal entity must be under that business registry's remit and that the change in the business registry is triggered by the entity itself.

Finally, the ROC prioritized implementation of legal entity events, starting with mergers. However, it deferred to an optimal implementation priority and timeline that should be developed cooperatively. It also left the resolution of all issues and their implementation to the GLEIF noting that what remains to be finalized belongs to the area of technical standards which are the responsibility of the GLEIF. To this end the ROC reminded the GLEIF that the role of GLEIF is to consult LOUs and industry on the most cost-effective way for implementing these ROC policies. To this end, the ROC noted that workshops, further consultations, and pilot projects may be used as implementation proceeds.

Advancing Straight-Through-Processing in Identity Management

Straight-through-processing (STP), described as the means to completely automate the lifecycle of a financial transaction, has been the unfulfilled vision of the financial services industry for decades.⁸ With computers handing off financial transactions throughout the financial supply chain, it is imperative that each intermediary know the precise digital fingerprint of each financial transaction. Each product or contract, each business identity, and the details of each transaction must be exactly and identically known. Lacking such precision too many automated processes fail, manual reconciliations intervene, delays in payments occur, risk is increased and the STP vision remains unfulfilled. Regulators, faced with aggregating all this non-conforming, non-standard data cannot aggregate this data to see that which they are mandated to oversee.

STP for the financial services industry had long been viewed from the perspective of the life-cycle of financial transactions – creating machine readable direct inputs that lead seamlessly to direct outputs. This is thought of as the processing details of each transaction, from order input to payment and settlement and then onto regulatory reporting.

Left out in this STP scenario is entity and product identification, the starting point of all financial transactions. Here we need to involve securities prospectuses; entity formation documents; derivatives master agreements; and corporate event notifications. One should note that these activities, unlike the

⁷ See footnote 5

⁸ https://en.wikipedia.org/wiki/Straight-through_processing, sourced Oct. 14, 2018

former processing activities are not under the control of financial institutions. Rather they originate as paper or word processed documents with a financial institution's client – whether an issuing corporation; a business entity registering as such prior to becoming a financial institution's client; a corporate hedger; or a business undergoing a corporate reorganization (legal entity event).

The registration of the LEI, required by the FSB to be controlled by the registrant, has been given over to be administered by financial intermediaries (LOUs). Here in lies the problem of achieving STP. The LOUs are one level removed from the paperwork and process that goes into forming a new legal entity. They must, therefore, find a means to input this data or, at a minimum, validate this data. Requiring source documents to accompany inputted data, or to be used to input data is one way. Checking a secondary source, like a business registry, is another.

However, if that paperwork and process was automated at the source, under the registrant's control, direct set up of the LEI and its reference data components could be affected seamlessly (that is in an STP way). The only things needed would be a standard template to conform the data and a trusted professional validator (notary) at source (a second pair of eyes) to confirm the data. XBRL is available to be used in developing the conforming template and auditors' third party assurance services are available as the validator at source.

Only when we are able to engage the registrants of these documents directly in this way will we be able to achieve STP.

Owning the Outcome – the LEI's Role in Data Aggregation

The Bank for International Settlements' (BIS's) Basel Committee on Banking Supervision (BCBS) has asked regulators to oversee formal technology upgrade programs and data aggregation processes for financial institutions. The initiative is focused initially on global systemically important banks (G-SIBs). This initiative is known as BCBS239 'Principles for effective risk data aggregation and risk reporting'.⁹

BCBS239 has generated new and significant demands for data standards and technology upgrades at financial institution. However, after spending US \$4 billion each annually to meet regulatory mandates¹⁰, large global banks have yet to streamline their legacy systems to eliminate US \$250 billion spent on maintaining and translating hundreds of non-standard identifiers and data elements that are represented in financial transactions¹¹.

BCBS along with US and EU regulators have advanced regulatory thinking on data aggregation and focused on a foundational missing data standard, the Legal Entity Identifier (LEI). Under Financial Stability Board (FSB) leadership the LEI code was developed to uniquely, unambiguously and universally identify a financial market participant. It was established as a standard to eventually replace all proprietary codes used to identify business entities across the global financial supply chain. Mostly importantly it was intended to lead the way to aggregating financial transaction data for more granular risk management.

⁹ BIS, BCBS239 Principles for effective risk data aggregation and risk reporting, <https://www.bis.org/publ/bcbs239.pdf>, Jan., 2013, sourced Oct. 14, 2018

¹⁰ White & Case, 'RegTech rising: Automating regulation for financial institutions', <https://www.whitecase.com/publications/insight/regtech-rising-automating-regulation-financial-institutions>, p. 1, Sept. 20, 2016, sourced Sept. 20, 2018

¹¹ Chan, K. K. and Milne, A. (2013), 'The global legal entity identifier system: Will it deliver?' 12th August, available at: <https://ssrn.com/abstract=2325889>, page 32, sourced Sept. 20, 2018.

Here knowing the ownership and control of each LEI in an organization's hierarchical structure was critical to using the LEI for its intended purpose, systemic risk analysis.

We are in need of more advanced thinking in order to achieve this objective. Getting the largest financial institution's and their auditors to advance this leg of the LEI initiative would certainly be helpful, and may be the only way to progress this effort toward its objective of better risk management and systemic risk analysis.

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