



# The Global LEI Initiative

LEI issuance peaking, lapsed LEIs still rising, parent registration stalls

**A Research Note by  
Financial InterGroup  
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## **In this Issue:**

### **LEI ISSUANCE**

LEI registrations stabilizing at 1 1/4 million while lapsed LEIs inch up nearing 200,000.

### **RELATIONSHIP DATA COLLECTION**

LEI registration for parent relationships slows, now at 141, 694 while exceptions stabilize at 2 million

### **COMMENTARY**

What's next?

The FSB's Review of the LEI

The BIS's OTC standards evaluation

GLEIF takes a leap into 'who owns what'



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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 August, 2018 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

August is the second consecutive month of a slight decline in issued LEIs after a progressive, yet declining increase over the previous three months of 2018. This decline follows the run-up in LEI registrations precipitated by the EU’s year-end 2017 MiFid II LEI “No LEI No Trade” requirements and the EU’s six month moratorium on those requirement that ended at month-end June 2018.

This leveling off of LEI issuance at this lower rate is occurring while the ratio of issued vs. lapsed LEIs has shown a slight yet progressive increase over the last three (3) months to 15.8%. Total lapsed LEIs are on a steady yet small monthly uptick to another all-time high of 198,719.

| LEI Issuance and Lapsed LEIs – see Note below | 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 |
|---|--------------------|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|------------------------|
|   | 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               | <b>1,260,541</b>       |
|   | 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     |
| Newly Issued                                  | 5,334              | 40,237             | 92,029                  | 39,760                  | 33,120                  | 22,882                  | 23,412                 | 23,801                  | 19,951                  | <b>17,719</b>          |
| Lapsed  | 6,300              | 7,134              | 7,494                   | 8,296                   | 8,904                   | 7,529                   | 6,409                  | 7,166                   | 7,278                   | <b>7,838</b>           |
| Net Increase/decrease                         | <b>-996</b>        | 33,103             | 84,535                  | 31,464                  | 24,216                  | 15,353                  | 17,003                 | 16,635                  | 12,673                  | <b>9,881</b>           |
| Lapsed rate                                   | 29.0% (Year-end %) | 17.4% (Year-end %) | 16.0%                   | 15.8%                   | 15.7%                   | 15.7%                   | 15.5%                  | 15.5%                   | 15.6%                   | <b>15.8%</b>           |
| Total Lapsed (Year & month-end Totals)        | 139,461            | 169,778            | 171,472                 | 175,540                 | 179,803                 | 183,466                 | 186,021                | 189,712                 | 193,657                 | <b>198,719</b>         |

This leveling off of LEI issuance is most likely caused by the lack of compelling legislation in all jurisdictions. Toward exploring this premise further the Financial Stability Board has commenced a survey by its member’s supervisory authorities to determine how LEI adaption can be accelerated.<sup>2</sup>

In addition the FSB is inviting feedback from industry members. We encourage all to respond, particularly on the FSB’s request to describe the main obstacles faced by market participants to adoption and implementation of the LEI; and ways to promote further adoption of the LEI, including specific areas where increased LEI uses would be the most favorable from a cost-benefit perspective. A further discussion of this consultation is described in the Commentary section of this Research Note.

<sup>1</sup> GLEIF Data Quality Report – August 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-august-2018#>, Sept. 5, 2018

<sup>2</sup> FSB, Thematic peer review on implementation of the Legal Entity Identifier <http://www.fsb.org/2018/08/thematic-peer-review-on-implementation-of-the-legal-entity-identifier-summary-terms-of-reference/>, August 16, 2018

## RELATIONSHIP DATA COLLECTION

August 2018 was the fourth month of data collection after a full year 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 below) and of these, how many of each unique LEI registrant reported both a parent and immediate parent (see the third column in the chart below).

| 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%                    |
| <b>Month-end Aug 2018</b> | <b>141,694</b>                                    | <b>2,567</b>          | <b>83,652</b>   | <b>1.4%</b>             |

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 six months, averaging 3,709 per month for this period from the first two months average of 15,620. A similar pattern has emerged for the number of LEIs reporting both parents (column 3), with the percent increase also showing a slowing trend in these same two periods, now at its lowest month-to-month increase of 1.4%.

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%                   |
| Adj. Month-end Jun 2018 - see Note | 1,899,368   | 85,027                | 914,543   | -5.1%                   |
| Month-end Jul 2018                 | 1,952,927   | 53,559                | 1,043,199                                       | 14.1%                   |
| <b>Month-end Aug 2018</b>          | <b>1,998,077</b>  | <b>45,150</b>         | <b>1,066,405</b>                                | <b>2.2%</b>             |

Note: month-end figures for June 2018 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). According to the GLEIF this change in reporting is erroneous and will be remediated during the third quarter of 2018.<sup>3</sup>

<sup>3</sup> Global LEI System Business Report Q2 2018., <https://www.gleif.org/en/lei-data/global-lei-index/download-global-lei-system-business-reports#> August 8, 2019, at page 2

The Level 2 Reporting exceptions column in the chart on the previous page 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 (see the first numeric column). This metric nearly doubled, from year-end 2017 at 1,067,968 to Month-end August 2018 at 1,998,077.

Also, GLEIF 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).

## **COMMENTARY**

### **What's next?**

In our Research Notes over the course of the years of GLEIF statistical reporting we have been recording the number of LEIs issued and lapsed LEIs; and the number of parent relationships and exceptions to same. We have charted month-to-month comparisons that show trends and commented on such trends.

Further, we have made comments on issues that present obstacles to achieving the industry's objective for the LEI - aggregation of financial transactions for improved risk analysis, both for financial institutions and for regulators; and fixing the fundamental infrastructure of the financial system through standardizing data definitions of financial transaction identifiers and data components.

It now seems to me that the LEI initiative, a noble effort, part of a global data standards initiative, is not yet being measured against these original objectives. Rather success is being measured based upon the number of LEIs issued. This is not unreasonable as it was an early requirement to first establish a standard version of identification and reference data for legal entities participating in the financial industry, locally and globally.

In building the LEI data base of global legal entities, we are still at what systems folks call the conversion phase, converting or transferring data from an existing system (the data already recorded in the clients or financial intermediaries data base) into the GLEIS's databases. Thereafter, the main functions of the GLEIS will be to renew LEI data by confirming existing entries; maintaining existing entries by updating reference data; maintaining the LEI code itself through timely transformation and recording of the history of corporate reorganization events; and providing parent relationship data for use in data aggregation for various risk analysis requirements. All has yet to be done while still not sure primary objectives will be met.

Most importantly, the GLEIS at some point in its evolution will be dependent on newly defined legal entities entered into the data base for its growth, not the conversion of existing legal entities as is now the case. Therefore the current procedures for validating newly formed LEIs may prove untimely.

The primary source of validation of legal entities, as the GLEIS currently instructs, is through secondary sources - business registries or the registries of financial regulators in the jurisdiction of approval, or data vendor sources. Will this be timely enough for these first time legal entities? Will errors or delays in posting into these or other secondary data bases prove a hindrance to transacting? The default validation source

right now is original documents. Should we change this instruction as we enter the era when newly organized legal entities will be the primary source of growth of the GLEIS data bases?

Should legal documents properly notarized, prepared at inception be used as the primary validation tool? Will this lower or increase costs. Will data quality be improved? We believe these and other issues we have described here and in our other Research Notes need airing. This is especially timely as nearly a decade has transpired since the original conceptualization of the LEI, the GLEIS and the organizational framework for the ROC, the GLEIF and federation of LOUs.

Toward this end, the FSB has just asked for such a review –not inviting a rethink of the LEI initiative, but rather improvements to it. We think all that we have commented on and made suggestions for improvements throughout our Research Notes are doable within the existing GLEIS. We comment on the FSB’s LEI review below.

### **The FSB’s Thematic Peer Review of the LEI**

The Financial Stability Board (FSB), a Standards Setting Body (SSB) charged by the G20 to enhance global financial stability has initiated, through its Standing Committee on Standards Implementation (SCSI), a thematic review of the implementation of the global Legal Entity Identifier (LEI) initiative.<sup>4</sup> The review will: (1) take stock of the approaches and strategies used by FSB members to implement the LEI, including its adoption for regulatory requirements; (2) assess whether current levels and rates of LEI adoption are sufficient to support the ongoing and anticipated needs (particularly financial stability objectives) of FSB member authorities; and (3) identify the challenges in further advancing the implementation and use of the LEI, and make recommendations to address common challenges.

The objective of the review is to evaluate the progress made by FSB members – both national authorities and international bodies in response to the G20 Leaders’ 2012 call for “global adoption of the LEI to support authorities and market participants in identifying and managing financial risks”.

However, the adoption of the LEI by itself is but one of many components necessary to aggregate financial transactions to enable risk management. A comprehensive set of data identification and data element standards is required to achieve the long sought means to efficiently aggregate data into meaningful and timely input for analyzing any single firm’s enterprise risk and, ultimately, multiple firms’ systemic risk.

The LEI initiative cannot stand by itself as it is but one component of a financial transaction. The LEI initiative must, therefore, be observed in the context of the other global data initiatives. Toward this end the Bank for International Settlements (BIS) has similarly advanced a consultation, posted the same days as the FSB’s review. See below

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<sup>4</sup> FSB, Thematic peer review on implementation of the Legal Entity Identifier: Summary Terms of Reference, <http://www.fsb.org/2018/08/fsb-launches-thematic-peer-review-on-implementation-of-the-legal-entity-identifier-and-invites-feedback-from-stakeholders/>, 16 August 2018

## **The BIS's OTC standards evaluation**

The BIS, in conjunction with CPMI (Committee on Payments and Market Infrastructures) and IOSCO (International Organization of Securities Commissions) are seeking public comment on possible governance arrangements for critical OTC derivatives common data elements (CDEs) other than the Unique Transaction Identifier (UTI), and the Unique Product Identifier (UPI). CDEs are the key data elements for reporting over-the-counter (OTC) derivatives transactions.<sup>5</sup>

The consultation assesses proposed governance arrangements for CDEs against other OTC derivatives data elements (the UTI, the UPI and the LEI). CDEs, as well as the UTI, UPI and LEI, all require a reliable technical implementation of their related data standards, which affects any related governance arrangements. Beyond this, however, the CDE, UTI, UPI and LEI exhibit similarities or differences on a number of key dimensions that have implications for the CDE governance arrangements. For this reason the consultation assesses the CDE's similarities and differences with the UTI, UPI and LEI across key dimensions.<sup>6</sup>

It is notable that this consultation is the first attempt to understand the breadth of the data standards activities going on under new regulations. It is also the first time a broad understanding of what it will take to aggregate financial transaction data is presented by regulators.

Noticeable in its absence, however, is some missing understandings about the LEI initiative. The first is that there is no reference or consideration of the GLEIF having proposed to be the governance body for the UPI and no reference to the LEI being proposed as being the mint (creator of uniqueness) for the UTI.

Finally, there is no reference to the international security identification number (ISIN), a critical identifier of derivatives underliers and products under EU regulations, notwithstanding it as a critical identifier for aggregating financial transaction data. Toward this end, the GLEIF has taken steps to formally bring the ISIN along with the LEI into the solution for data aggregation. See GLEIF and ANNA's activity in this regard below.

### **GLEIF takes a leap into 'who owns what'**

The Association of National Numbering Agencies (ANNA) and GLEIF announced a new initiative to link ISINs and LEIs. The initiative is intended to help improve transparency of risk exposures by linking the issuer and issuance of securities (who owns what).<sup>7</sup>

This global initiative will map new and legacy ISINs to their corresponding LEIs. By linking the two standards together, firms will be able to aggregate the data required to gain a view of their securities exposure within a given issuer and its related entities. The ability to relate entities, however, has still not been implemented in the GLEIS, it awaits parent relationship data and hierarchy linkages to be further defined and recorded in the GLEIS.

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<sup>5</sup> BIS, CPMI/IOSCO, Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI), <https://www.bis.org/cpmi/publ/d182.htm> 16 August 2018

<sup>6</sup> *Ibid*, footnote 5, Annex 1: Preliminary comparison of CDE against UTI, UPI and LEI across key dimensions, at page 20

<sup>7</sup> ANNA and GLEIF join forces on ISIN LEI initiative, <https://www.anna-web.org/anna-and-gleif-join-forces-on-isin-lei-initiative/>, 4 September 2018

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