The Global LEI Initiative

August, 2019 monthly LEI issuance continues steady average monthly pace while Lapsed LEIs still increasing. Half of LEI parent data still not corroborated.

A Research Note by Financial InterGroup

September 2019

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LEI ISSUANCE and NON-RENEWALS (Lapsed LEIs)

LEI registration reached another all-time high of 1,472,740 up from last month's 1,458,621. Recent monthly issued LEIs are repeatedly exceeding monthly lapsed LEIs although lapsed LEIs are at another all-time high of 391,382 up from last month's 385,371. Lapsed LEIs now represent 26.6 % of all registered LEIs vs. last month's 26.4 %.

RELATIONSHIP DATA COLLECTION

LEI registration for parent relationships (both ultimate and immediate) increased, now at 195,466 vs. last month's 189,169, representing 113,249 individual LEIs this month vs. last month's 109,703. Exceptions for not obtaining an LEI are stabilizing, although reaching another all-time high of 2,394,314 vs. last month's 2,368,936.

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Financial InterGroup

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

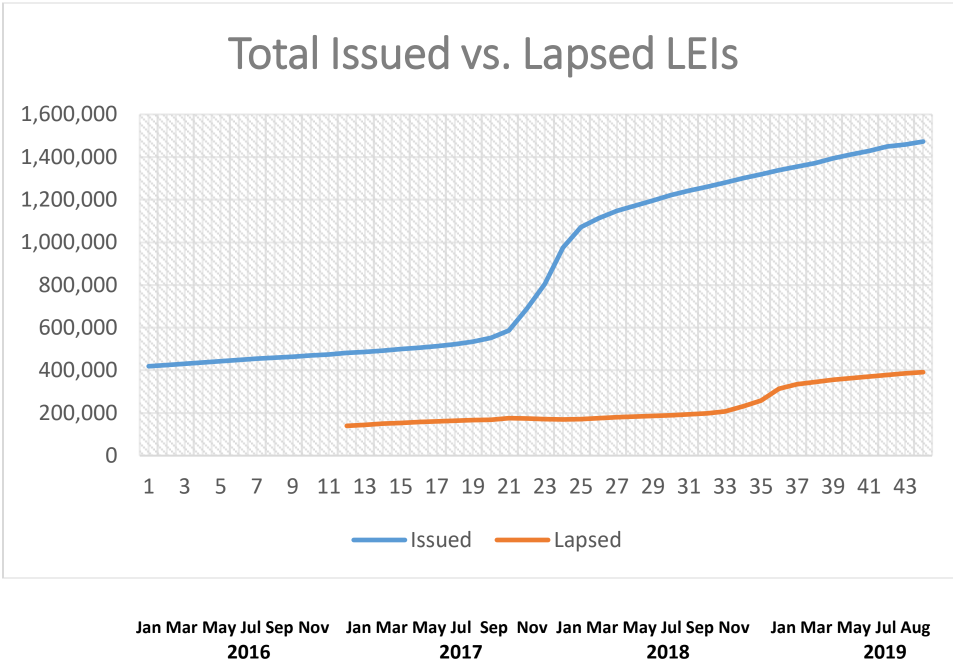
LEI ISSUANCE

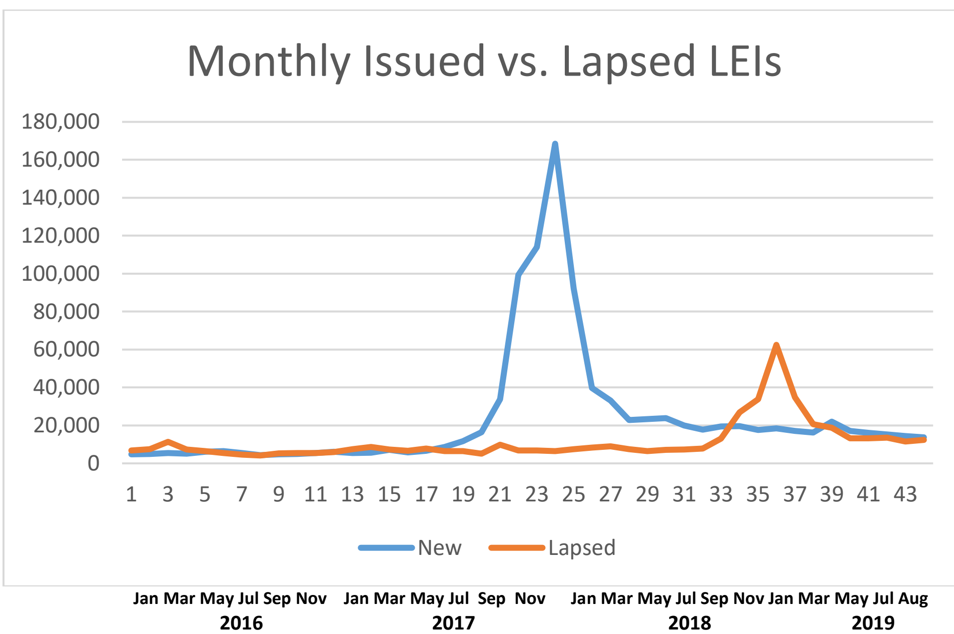
This month LEI registration reached another all-time high at 1,458,621. We have now seen a half- year of a steadying of issuance of LEIs, settling in this month at 13,782 vs. the average of 14,782 per month since the beginning of this year. In prior years the average monthly LEI issuance was 29,016 (2018) and 40,237 (2017). Perhaps the EU's new mandate to require LEIs for collateral posting for securities financing transactions should accelerate LEI issuance, as was the case when EMIR and MiFid II mandates accelerated LEI registration for trade reporting.

2016 – 2018 Year-to-Year & 2019 Month-by-Month Comparison

LEI Issuance and Lapsed LEIs – Year-to-Year & Month- by-Month Comparison	**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**	**May 2019 Month-end & YTD**	**Jun 2019 Month-end & YTD**	**Jul 2019 Month-end & YTD**	**Aug 2019 Month-end & YTD**
Total LEIs issued at Year-end & YTD	481,522	975,741	1,337,925	1,355,375	1,372,009	1,394,469	1,412,195	1,428,403	**1,443,882**	**1,458,621**	**1,472,740**
Year-to-Year Averages/ Month-by-Month Comparisons											
Newly Issued	5,334	40,237	29,016	17,092	16,250	22,002	17,084	15,996	15,281	**14,370**	**13,782**
Lapsed	6,300	7,134	15,894	34,796	20,654	18,701	13,197	13,252	13,508	**11,592**	**12,364**
Net Increase/ decrease	-996	33,103	13,122	-17,677	-4,404	3,301	3,887	2,744	1,773	**2,778**	**1,418**
Lapsed rate	29.0%	17.4%	23.5%	24.7%	25.2%	25.5%	25.7%	26.0%	26.2%	**26.4%**	**26.6%**
Total Lapsed LEIs	139,461	169,778	313,915	334,503	345,544	356,148	363,406	370,774	378,900	**385,371**	**391,382**

August saw the smallest net increase in newly issued Leis over lapsed LEIs over the six months of issued LEIs exceeding lapsed LEIs. However, the overall rate of lapsed vs. issued LEIs is now at 26.4% vs. last year-end's 23.5%. The lapsed rate continues to climb, averaging .2% month-over-month in each of the last six months. Lapsed LEIs are those LEIs that are not renewed at their one year anniversary of registration.





We anticipate a continuation of a slowly rising lapsed rate (now at 26.6%) until renewing LEIs becomes required by regulation or some other means of compulsion surfaces or some other business model is agreed upon to accommodate renewals as well as to compel issuance.

RELATIONSHIP DATA COLLECTION

Relationship data collection, the recording of LEIs for parents and ultimate parents of legal entities, and the reasons for opting out in doing so, has been recorded in the global LEI database since May, 2017. August 2019 is the third month of the third year of GLEIF reporting on this relationship data.

The number of immediate and ultimate parent records recorded in the GLEIS are seen in 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%
Month-end May 2019	181,341	3,530	105,432	1.8%
Month-end Jun 2019	185,424	4,083	107,687	2.1%
Month-end Jul 2019	189,169	3,745	109,703	1.9%
Month-end Aug 2019	**195,466**	**6,297**	**113,249**	**3.2%**

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. This month's increase over last month's at 6,297 compared to the average of 5,201 month-over-month is a hopeful sign that more LEI registrants are including parent relationship data. Similarly a hopeful sign is an increasing number of LEIs reporting both parents (column 3 above), with the percent increase (column 4 above) of 3.2.% this month exceeding the average of 2.9% over the entire year.

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 on next page). Also reported is how many of each unique LEI registrants 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%
Month-end May 2019	2,312,875	30,184	1,235,212	1.3%
Month-end Jun 2019	2,342,699	29,824	1,250,360	1.2%
Month-end Jul 2019	2,368,936	26,237	1,264,688	1.1%
Month-end Aug 2019	**2,394,314**	**25,378**	**1,277,504**	**1.0%**

Relationship data is critical if the LEI is to be used for hierarchical constructions of legal entities for risk management. Importantly, only 195,466 of the LEIs that are included in the "LEIs with complete parent relationships" category (1,277,504) report an LEI for an immediate parent and/or ultimate parent. The LEIs in the category of complete parent relationships, in the main, appears to represent those registrants that have registered an LEI; have registered one or more parent relationship LEIs; have no parents; and/or used the allowed exceptions to opt out of registering an LEI for one or both of their parents.

The registering of an LEI for a parent legal entity is not required if the legal entity is controlled by natural persons (not required to have a LEI), is controlled by legal entities not subject to preparing consolidated financial statements, or has no known person controlling the entity such as in diversified shareholdings. Ultimate parent information is only provided for 6.2% of entities for all FSB members.

Also, according to the Q2 2019 GLEIS Business Report issued Aug. 8, 2019 of the total legal entities reporting either an intermediate or ultimate parent entity (189,169), 62.1% report a LEI for an intermediate parent without Local Operating Unit (LOU) validation; and 53.9% for ultimate parents. This lack of validation is also an inhibitor to the success of the LEI initiative as the LEI is intended to be the highest quality 'go-to' data base of legal entity information.

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).

CLOSING COMMENTS

What's next for the LEI?

The FSB recently completed a consultation, a Thematic Peer Review of the LEI, soliciting input from industry members, and analyzed responses to a questionnaire developed by regulatory members to survey their individual constituencies.

The report describes industry members and the FSB urging new business models to complete the important task of a more complete adaption of the LEI. The FSB and GLEIF have found only a small percent of required LEIs have been registered with coverage concentrated in Canada, the EU and the US, where it spans just 2% to 7% of all eligible legal entities, and is much lower elsewhere. This low issuance rate is a major hurdle to the continued success of the LEI initiative.

Also, the report found the effort to register LEI relationship data is not yet useful, a prerequisite for aggregating financial transactions for risk management purposes. The LEI initiative struggles just to get meaningful representation of LEI hierarchies of ownership and control around the accountant's account consolidation reporting rules that were chosen to represent hierarchical relationship information in the GLEIS. How the risk managers use this account consolidation relationship construct for risk management purposes is not clear. The prevailing thought on this issue is to be able to make sure the LEI is valid within each firms chosen hierarchy. The issue of how to align every ones hierarchies on the same company to the same structure is still a work in progress. This is an important issue as it was THE issue that was discovered during the Lehman collapse that led to the LEI initiative to accommodate systemic risk analysis.

Finally, the report describes Citibank having recorded in the GLEIS all the entities included in its consolidated US GAAP direct and ultimate parent structure, totaling approximately 700 LEIs. LEI hierarchy information on other entities are also included in Citibank's central client master data, potentially providing visibility into other firms' accounting consolidated corporate hierarchies.

Noting the above three significant themes from the FSB report we proceed to organize a new business model in the next section found in the selected excerpts (below) from the FSB report at Annex 5: Summary of public feedback and roundtable with market participants (pages 59 – 64):

> Large financial institutions consider the LEI as very beneficial for their own processes, such as making sure that the entity they are dealing with has been adequately identified and has up-to-date contractual documentation, and managing limits applying to that entity. However, small banks with local customers see less benefits in the LEI.
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> Regulatory mandates were seen by a majority as a necessary and preferred approach, at least until a tipping point of adoption is reached. Otherwise institutions do not have the incentive to rework their processes, especially given the increased benefits that accrue with joint adoption by all participants
>
> Some participants wondered whether it made sense to require the LEI in all cases, especially for small entities that trade infrequently. The cost of acquiring an LEI may be perceived as disproportionate for very small accounts and these entities do not see any use of the LEI. However, a majority of participants considered that it was preferable to cover all entities, as all would ultimately benefit from operational efficiencies, for instance if the LEI supports the straight-through processing of cross-border payments and reduces false positive in sanction screening, which delay payments.
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> Small entities may also be the first impacted in case of a financial crisis, and the LEI helps to assess the impact of a shock, or to ensure that the collateral posted by a customer can be appropriately traced. Some regulators noted that small transactions may be relevant from a conduct perspective, and a large number of small risks can together be systemic. In addition, one regulator observed that the millions of records collected would not be manageable without the LEI.
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> The identification by accounting firms of the entities their customers are related to would benefit greatly from the LEI, as these processes currently rely on vendors' data from multiple source and a large amount of manual work.
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> While some LEI benefits materialize even with partial coverage, a large coverage justifies additional investment in processes. In addition, as long as the LEI cannot be used for all entities, other identifiers need to be maintained.
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> In Spain, where many LEIs are managed by the local business registry, LEI renewals, which are above 90%, are perceived to be part of the annual process by which entities submit their financial statements to the registry.
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> Bar codes were required by large retailers, as this helped those retailers to manage more efficiently their sales and inventories. This market requirement forced companies that wanted to sell through them to tag their goods with such codes.

Participants suggested that getting all data vendors to include the LEI in their feeds on entities would support adoption.

A number of other parties perform similar tasks as LOUs, such as: banks in their customer due diligence; issuers of digital certificates; tax authorities; and business registries. There would be scope for removing some of these duplications, for instance by accepting that LOUs rely on banks to perform the verification of the LEI record: banks already perform such verifications, generally with a frequency of one, two or three years, and go even beyond the information required in the GLEIS. Banks would not replace LOUs, as they would be unlikely to want to manage the LEI record, respond to challenges, etc.

A new business model

Here is a new business model to consider that can accelerate the adoption of the LEI, taking the above thoughts expressed by industry leaders into consideration:

Accountants, particularly the Big 4 audit firms, need to be engaged. The Big 4 had, in the past, organized themselves to provide a client data base for all their combined clients. In combination, as an LOU and registration agent, they can start the process with the 134 global and domestic SIFIs by registering and organizing their hierchies for entry into the GLEIS as described for Citibank.

Citibank and the other SIFIs are the largest financial institutions. Focusing initially on SIFIs would follow the lead of the largest retailers to require barcodes to do business with them. Like these retailers, SIFIs can require clients, and even their data vendors, to obtain a LEI to do business with them.

The rapid completion of recording LEIs and their hierarchies in the GLEIS for the SIFis would give regulators a means of aggregating transaction data more immediately for this important segment of the global financial system. This was the segment singled out as systemically important.

We also believe that a combined LOU/registration agent run by the Big 4 could provide services at lower cost than the current configuration of 33 LOUs each changing $200 for an initial registration and $100 for each renewal. That model has already cost the industry $½ billion for just the current 1.5 million LEIs.

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