The Global LEI Initiative –2024 Annual Report

Financial InterGroup

January- December 2024

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

Table of Contents

Introduction

The year 2024 was the 10th anniversary of GLEIF, the **Global Legal Entity Identifier Foundation**. It was also the 50th year since the founding of SWIFT, the **Society for Worldwide Interbank Financial Telecommunication**.

These two events are the bookend years of the international financial community's numerous and long-standing attempts by both the private and public sectors to standardize financial data globally. The sought-after goal is to create a set of data elements that can be assembled in varying ways to understand who owns what financial instrument; how to value them, separately and in a portfolio; how to communicate this data when they are traded or transferred between counterparties; and how to report this information to regulators.

A further standards requirement, of who controls the counterparty, came to be emphasized when global interest in quantitative methods of risk management came about due to the formulation of the **Basel Capital Accords in 1988**. This information was needed to aggregate financial instrument values across multiple counterparties owned or controlled by a parent entity. This requirement was reinforced subsequently during the global financial crisis of 2008. Also, about this same time Anti-money Laundering laws were promulgated requiring controlling parent entities (beneficial owners) to be identified.

These standards are the bedrock of each financial institution's ability to oversee its businesses and the government agencies' ability to oversee the financial institutions assigned to them to regulate.

The international financial industry and its regulators have been struggling for a half century to uniquely identify owners and their hierarchy of ownership, and the financial instruments they possess. GLEIF, along with its international oversight committee, the ROC (**Regulatory Oversight Committee)**, comprised of 65 world-wide financial regulators, is the most recent actor in this half century collective 'project'.

We communicated with you last year when we issued our 2023 year-end report **An Update on the Legal Entity Identifier initiative - A 2023 Retrospective** in January, 2024. This report updates that report and covers the GLEIF initiatives in 2024.

Looking Back at GLEIF in 2024

The year 2004 saw organizational changes both at the ROC and at GLEIF. The founding Chairman of GLEIF and its CEO retired earlier, its next management generation rotated out and now its new executive team is in place: GLEIF Chairman, Dessa Glasser and GLEIF CEO Andrew Klech. The Chairmanship of ROC was also passed from Mike Willis of the SEC, Director of the Office of Data Science and Innovation to Robert Peterson, Senior Advisor for International Affairs at the Office of Financial Research in the U.S. Treasury Department.

Also, in 2004 the **Financial Stability Board**, founded in 2009 by the Group of 20 (G20) to oversee financial stability globally after the financial crisis of 2008, authored the **Implementation of the Legal Entity Identifier: Progress Report.** The FSB is the regulatory overseer of the ROC and, in turn, GLEIF. The report, released in October 2024, summarized and updated the findings and recommendations of the FSB's previous 2019 report, **Thematic Review on Implementation of the Legal Entity Identifier**, and the 2022 report, **Options to Improve Adoption of the LEI, in particular for use in Cross-border Payments**.

Broader Adoption Remains Challenging

Throughout these reports one can find anecdotal examples of successes in use of LEIs and the vLEI, and new marketing schemes that hold out promise of increasing adaption of LEIs. Despite these accomplishments, the FSB's latest report finds that "…broader adoption of the LEI remains a challenge" as there is a "… lack of perceived incentives for voluntary adoption". To this latter point, in addition to the 39 Local Operating Units (LOUs) initially designated to register and maintain LEIs, there are now 100 Registration Agents and 22 Validation Agents, created to assist LOUs, and two (2) vLEI issuers. These entities have been licensed to provide functionally enhanced features and more efficient processes to incentive market participants and end users to voluntarily adapt LEIs. While the LOU's operate as non-profit organizations, these entities do not. Global annual revenue to LOUs collectively is estimated at $80 million based on an average of $50 for the 60% of active LEIs that are not renewed as of year-end 2024.

Improving Data Quality

Also, in the report, the FSB commented on the persistent high lapsed rate (see charts and graphs on the following pages) which is "an important prerequisite for LEI use" while noting that "… both GLEIF and the ROC are establishing initiatives to improve the quality of the reference data…". With Lapsed Rates persistently around 40% it remains a source of concern that the quality of data will continue to deteriorate over time. A very recent example is the rapid increase of over 100,000 LEI registrations by China, followed in subsequent years of nearly all of them falling to be renewed. Further government mandates for updating LEI reference data annually, now mainly a voluntary request by GLEIF, will be needed.

It is a laudable accomplishment to have stood up the ROC and GLEIF and its organization and systems, and having overseen the registration of nearly 3 million LEIs in a little more than a decade. However, the overall objective of 20 million LEIs by 2027 seems far off from the former CEO's stated LEI goal. However, perhaps in recognition of the improbability of reaching that goal, in a **recent article published on GARP's website**, an unnamed representative of GLEIF denied such a goal. Further, the overwhelming number of LEIs and renewals have been issued in European countries, representing 83% of GLEIF's $15.5 million fee revenue reported in their latest available annual report (2023). Many obstacles exist and much remains to be done.

Parent Entity Registration Also Challenging

Gathering parent reference data to allow aggregation across organizational hierarchies for risk management and anti-money laundering activities has proven difficult. Nearly half the parent information placed with an LOU is sourced exclusively by the reporting entity rather than verified through a legitimate third-party authoritative source. Also, the category "Number of LEIs with Complete (underlining added) Parent Information" in the chart below is a misnomer as it counts the reporting of exceptions that allow the reporting entity to exclude parent information. The magnitude of these exceptions can be seen in the chart on the next page where the category "Number of Immediate & Ultimate LEI Parent Exception Records" is close to double the number of issued or active LEIs. (This category includes LEIs that have registered an ultimate and/or immediate parent or that recorded exceptions to one or both).

Financial Data Transparency Act (US) Still Not Finalized

The US Financial Data Transparency Act's (FDTA's) period for solicitation of comments ended October, 2024. The FDTA compels standardized data reporting by financial regulatory agencies to the Financial Stability Oversight Council (FSOC). Regulators and advisers who participated in its recommendations chose GLEIF's LEI to identify legal entities and Bloomberg's FIGI to identify financial instruments.

Over 100 unique comments were submitted, many more in duplications to the requesting agencies. One quarter were from municipal market participants (state treasurers, municipal bond issuers, et al). The rest were from a broad range of industry groups. With few exceptions there was an overwhelming consensus that the FIGI was not acceptable as a financial instrument identifier. With few exceptions, there was overwhelming consensus that the LEI was acceptable as a legal entity identifier.

It now appears that the two (2) year FDTA implementation requirement will be postponed given the almost unanimous rejection of the FIGI. While it is still possible that the use of the LEI would be (and should be) mandated, agreement on a financial instrument identifier will need to be rethought and agreed to within the two-year implementation window.

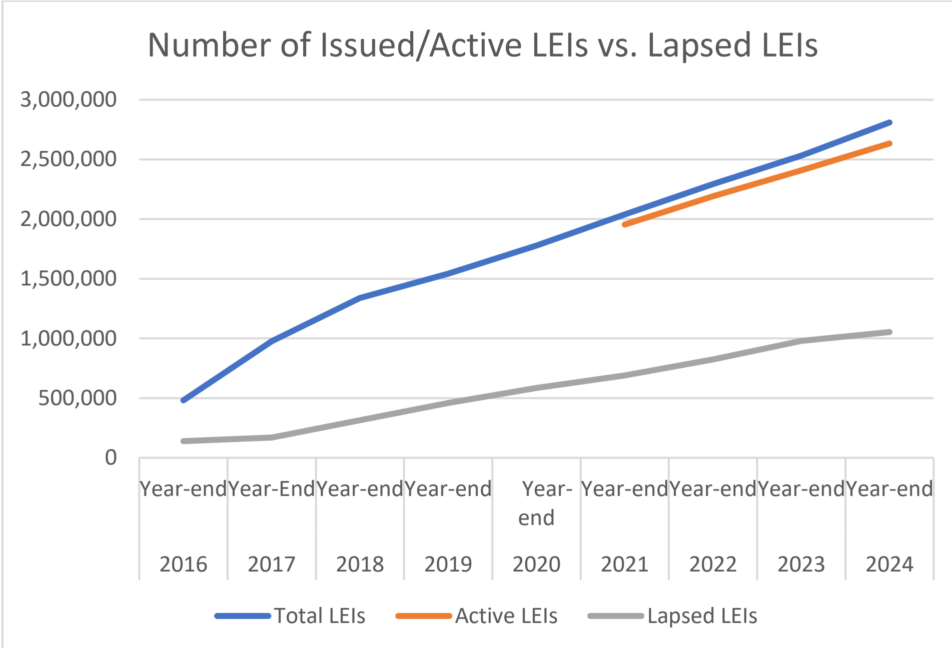
US Customs and the LEI

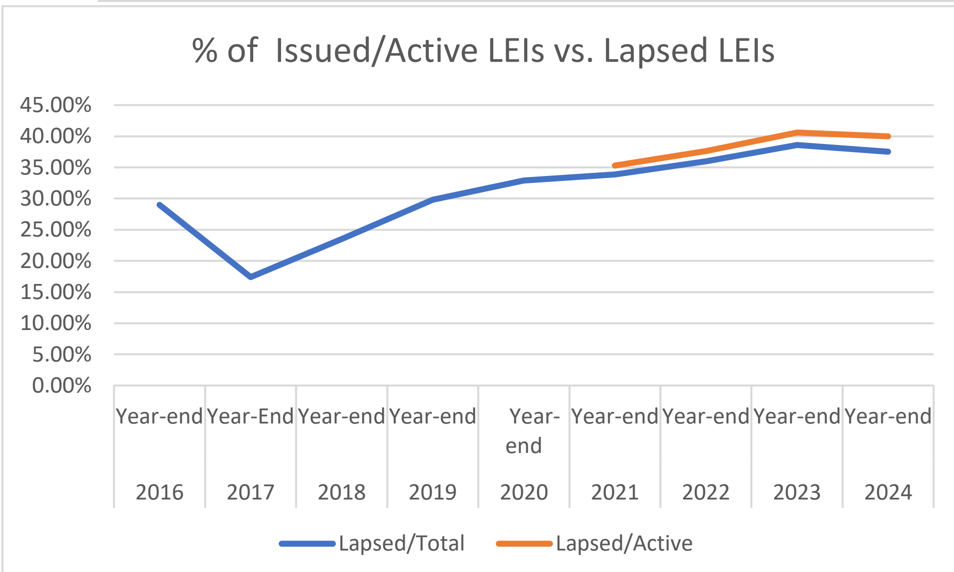
A further LEI initiative is the US Customs Global Business Identifier (GBI) project to select a new identifier for identifying trade participants. They are testing use of the DUNS number from D&B, the GLN from GS1 and GLEIF's LEI. The test period runs through February 2027.

Annual Statistics on LEI Issuance, Renewals and Relationship Data 2016-2024

Yearly Comparison **LEI Issuance & Non-renewed (Lapsed) LEIs**	**2016 Year-end**	**2017 Year-End**	**2018 Year-end**	**2019 Year-end**	**2020 Year-end**	**2021 Year-end**	**2022 Year-end**	**2023 Year-end**	**2024 Year-end**
Total LEIs issued	481,522	975,741	1,337,925	1,542,037	1,777,458	2,038,661	2,292,142	2,532,322	2,809,870
Total Active LEIs						1,954,190	2,191,498	2,409,003	2,633,721
Total Lapsed (non-renewed) LEIs	139,461	169,778	313,915	459,436	585,029	690,397	824,796	978,481	1,053,580
Non-renewed rate /issued LEIs	29.0%	17.4%	23.5%	29.8%	32.9%	33.9%	36.0%	38.6%	37.5%
Non-renewed rate /active LEIs						35.3%	37.6%	40.6%	40.0%
Relationship Data									
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	230,755	264,013	414,253	506336	564,259
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	123,079	126,052	124,600	131,004
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	3,952,830	4,436,755	4,952,638
Number of LEIs with Complete Parent Information (includes those reporting exceptions)	n/a	572,818	1,146,554	1,341,015	1,563,458	1,786,117	2,090,329	2,334,498	2,601,433

LEIs Issued/Active vs. Lapsed LEIs





Recommendations for 2025

GLEIF, its overseers the ROC and, in turn, its overseer the FSB, have now given its approval to register LEIs for payments of all types - for trade documents, bills of lading, contract terms, pallets, containers, et al vs. its original intent of 'financial transaction related assets'. It seems to me that the global community of non-financial data standards-setters will not accept a standard conceived amongst financial industry members and governed by financial regulators to solve a financial risk management problem. The LEI does have the potential to inspire its use throughout the financial community. However, it has to show further progress in use of the LEI for analyzing the potential for systemic risk.

The LEI has drifted far afield from its original systemic risk management objective. The G20 and its Financial Stability Board gave GLEIF a mandate within the context of the global financial crisis: assign a unique code and relate each code within its organizational hierarchy so that risk can be aggregated up through and across global financial institutions. GLEIF has now become the champion for identifying entities involved in all manner of trade and digital commerce.

Rather than detracts from its still unaccomplished original mission, GLEIF should focus on the basics of solving the nearly 40% lapsed LEI rate and the 50% non-verified parent relationship LEIs so that the LEI meets its original mandate of better risk management in the financial industry.

Finally, consider GLEIF partnering with a standards setting body (SSB) with global authority to better expand the LEI's reach beyond the financial services sector. Using the LEI as its standard, partner with an appropriate global, neutral institution, perhaps the World Trade Organization (WTO) which has a history of embracing standards of other SSBs. The WTO has 166 member governments, accounting for 98% of world trade and, in my opinion, is a unique and singular entity better positioned to extend the LEI for commercial trade and digital commerce. This could augment or even replace the myriads of marketing forays GLEIF is engaged in today as its principal means of expanding the adaption of the LEI to these other sectors of the global economy.

The WTO is especially important as it may have the global legitimacy to attach LEIs to each country's business registries and gain an important ability to increase trade transparency by aggregating trade flows for a country, a government agency or a commercial entity. These registries are the authoritative sources for legal entities that LEI reference data is validated against. The involvement of the WTO will also lessen the distraction of the GLEIF and allow it to focus solely on the financial sector, especially the 30 globally systemically important financial institutions (SIFIs) and the 100 domestic SIFIs, where there is still lot's left to do.

For Further Information

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