Financial InterGroup

The Global LEI Initiative –2023 Annual Report

January - December 2023

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

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Looking Back at 2023

This year, regrettably, the CEO of GLEIF, Stephan Wolf, has announced his leaving after over a decade of service. He and his team have accomplished a lot- standing up the GLEIF organization and its multiple LOUs; standardizing both the legal entity identifier and LOU data formats; implementing rules for organizational hierarchies for legal entity relationship data; implementing rules for fund relationships and legal entity event data; creating incentives for use of the LEI by evangelizing its acceptance amongst regulators and trade organizations; creating a digital version of the LEI (the vLEI); expanding the LEI's reach beyond financial institutions to global trade and digital commerce participants (see **Why adoption of the LEI/vLEI is key to enhancing risk management practices in the face of rapid digital transformation**; mapping the LEI to other prominently used legal entity identifiers; creating categories of Registration Agents and Validation Agents that expands the supply chain of those entities and software companies that assist LOUs in registering LEIs; and promoting the LEI for use as a data point in XBRL's taxonomy and SWIFT's ISO 20022 payment messages.

It was also a momentous year for major LEI events. The pioneering and largest LOU (DTCC), the first Local Operating Unit to issue Legal Entity Identifiers (LEIs), quit offering the service. Their US headquartered LEIs were transferred to Bloomberg and their international LEIs to six (6) other LOU's based upon their jurisdiction. The FDTA, Financial Data Transparency Act, tucked into the National Defense Authorization Act as Division H – Financial Transparency (**Congressional Bill HR 7900**) was one year into their two-year requirement to choose the data standards required for financial agency reporting to the Financial Services Oversight Committee. However, the CFTC, the pioneer of the use of the LEI was not included in the FDTA, and is still not, even though it is one of reporting agencies to the FSOC. The **FDIC's "Tech" Sprint to Modernize Bank Financial Reporting** was discontinued in 2023 after soliciting prototypes from 14 companies in 2020.

A first-of-its-kind regulatory requirement, the SEC's short position reporting, was passed requiring use of "non-lapsed" LEIs. This is unlike in the EU were Lapsed LEIs are still permitted in transaction reporting. The GLEIF Board took this non-renewal (lapsed) issue up at its May Board meeting **Board of Directors Meeting 04-05-2023**, recognizing this as a continuing and increasingly problematic issue.

Lapsed LEIs have reached 40.6% of total active LEIs and 38.6 % of issued LEIs from 35.3% and 33.6% respectively in 2021, the first year we started following both ratios. To solve this problem the Board approved a one-year test of a 'Rebate Scheme" wherein monetary incentives would be awarded for LOUs that improve this key metric. It is apparently getting worse not better. (see chart on next page)

The GLEIF Board has consistently named the lack of LEI growth and low LEI renewal rates as their highest risks. Average LEI issuance in 2023 was 20,015 per month. Without extraordinary efforts, historically consistent 20,000 monthly issued LEIs will fall far short of long-term goals for LEI issuance of 20 million by 2027.

This aspirational goal has mainly been driven by GLEIF segueing from the primary and motivating objective for the LEI, financial market systemic risk (see **A Data Standard for Systemic Risk Analysis)** to digital commerce (see **GLEIF's Digital Strategy for the LEI).** The systemic risk objective was contingent on LEIs being assigned to the ultimate and intermediate legal entities of financial market participants across the entire organizational chain. This would permit risk aggregation to be performed consistently across business silos within a single financial enterprise and across multiple financial enterprises.

This systemic risk objective was reinforced vigorously by regulators, industry members and academics as the motivating reason for establishing the LEI. The consensus was then, and still is, that the LEI project would not be considered a success unless the complete organizational relationship structures of financial enterprises were mapped together. This would be accomplished through issuing a unique LEI to each legal entity within an organization and identifying, consistently, the links between intermediate and ultimate LEIs. As can be seen in the below chart, the number of exception LEIs, those issued LEIs which do not identify either an ultimate parent or intermediate parent relationship, is significant (4,436,755 for 2,532,322 issued LEIs).

The realization that this organizational relationship objective was far off, even that it could ever be met, became obvious soon after the establishment of the GLEIF **(Relationship Data: The Missing Link of the Current Financial Infrastructure).** Early on, relationships of LEIs were to be deferred to a Phase 2 with a Phase 1 objective, exclusively, to issue as many LEIs as possible. When Phase 2 was initiated years later, its relationships model was to be based on consolidation rules for financial reporting, not on generally accepted risk aggregation and control methods.

Later, when issuance of LEIs stalled, GLEIF promoted the Validation Agent, a concept to allow financial institutions and software companies to help LOUs register legal entities for obtaining a LEI. How this Validation Agent concept is working is unknown. The GLEIF does not report on how many LEIs have been issued through Validation Agents.

The lynchpin of GLEIF's digital commerce initiative is the issuance of a Virtual LEI (the vLEI) for each LEI issued. However, here too, the GLEIF does not report on how many LEIs have been issued through this route. We should, however, be enlightened on these statistics from a second peer review on progress of the LEI effort, to be conducted in 2024 by the Financial Stability Board.

Annual Statistics on LEI Issuance, Renewals and Relationship Data 2016-2023

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**
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
Total Active LEIs						1,954,190	2,191,498	2,409,003
Total Lapsed (non-renewed) LEIs	139,461	169,778	313,915	459,436	585,029	690,397	824,796	978,481
Non-renewed rate /issued LEIs	29.0%	17.4%	23.5%	29.8%	32.9%	33.9%	36.0%	38.6%
Non-renewed rate /active LEIs						35.3%	37.6%	40.6%
Relationship Data								
Number of Immediate & Ultimate LEI Parent Records	n/a	88,198	152,318	208,139	230,755	264,013	414,253	506336
Number of Unique LEIs Reporting both Parent Relationships	n/a	51,944	89,826	119,637	132,096	123,079	126,052	124,600
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
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

Notification on Availability of Future Research Reports

Note: We will be discontinuing emailing of future reports but will be posting from time-to-time on our LinkedIn site and on our webpage. If you care to continue being informed periodically on events that follow the data standards and risk management space do sign up to our LinkedIn page at **Allan Grody - Owner - Financial InterGroup LinkedIn Site** or go to our website **www.financialintergroup.com**

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