Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Basel Committee on Banking Supervision (BCBS) Consultative Document Principles for the effective management and supervision of climate-related financial risk
February 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Basel Committee on Banking Supervision (BCBS) Consultative Document Principles for the effective management and supervision of climate-related financial risks. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) to underpin principles 4, 6, 7, 8, 14, and 17 provided in the consultation.

GLEIF would like to respond to Question 2: "Do you have any comments on the individual principles and supporting commentary?".

GLEIF welcomes the principles set out by BCBS for banks to manage climate-related financial risks. As highlighted in several principles (e.g., Principle 4, Principle 6, Principle 7, Principle 8), developing internal control frameworks is necessary for sound, comprehensive, and effective identification of material climate-related financial risks, including the counterparty risk.

In Principle 4, BCBS suggests that financial institutions should undertake climate-related risk assessments from the frontline during the client onboarding, credit application, and credit review processes. GLEIF proposes that unambiguous client identification is crucial to define climate-related risks.

GLEIF suggests that a holistic entity identification with the LEI as part of ESG data collection will enable identification of the companies in a unique and unambiguous way at the global level and is the foundational step to achieve transparency at the entity level. Adding the LEI in the client onboarding and then credit review processes can help financial institutions to increase the quality of data and strengthen their internal control frameworks.

When the financial institutions add the LEI of their corporate clients in their internal control frameworks, they can better generate risk profiles of each client and carry out a comprehensive assessment of climate-related financial risks. For example, the FSB noted in its Thematic Review on Implementation of the LEI from May 2019, "the regulatory uses of the LEI are multiple and the benefits can be substantial. The LEI standardises identification of legal entities at the global level, to support the management and analysis of large datasets. Implementation of the LEI enhances regulators’ surveillance by tracking market abuse across institutions, products and jurisdictions. The LEI can also assist regulators’ and market participants’ aggregation and more flexible retrieval of granular data on entities from multiple sources, as well as the analysis of counterparty risks, interconnectedness and complex group structures."

The LEI can help financial institutions better analyze and aggregate data pertaining to risks posed by concentrations, particularly those related to the industry, economic sectors, and geographic regions. It
enables financial institutions to more easily monitor entity and parent entity activity. And mitigates compliance and credit risks as financial institutions would have a more holistic view of clients across internal and external data sources. With the right measures in place, financial institutions can fulfill Principles 6, 7, and 8. Therefore, GLEIF urges BCBS to add the collection of LEIs as a best practice for financial institutions to achieve principles outlined in the consultative document. Moreover, GLEIF’s Validation Agent program allows financial institutions to generate and maintain LEIs as part of their client onboarding and customer identification processes. As the LEI population grows, all financial institutions can rely on the Global LEI Repository as a foundational source for client identification.

Additionally, GLEIF invites BCBS to call all financial institutions to report the LEI of all their subsidiaries across borders. GLEIF would like to provide the LEI record of a financial institution (Citigroup Inc.) with all its reported subsidiaries as an example: https://search.gleif.org/#/record/6SHGI4ZSSLXXQ5BB395. Having the LEI for each subsidiary would enable financial institutions to analyze their intra-group risks, exposures to climate change related financial risks and take mitigation measures accordingly.

In the future, similar to today's "sanctioned entities list", financial institutions or authorities might want to flag entities that fail to meet certain ESG criteria. Identifying such entities with a machine-readable, unambiguous and global identifier versus names or internal identifiers would enable data aggregation and information sharing efforts within the industry. When entities are precisely identified, certain common measures could be applied such as loan restrictions.

The creation of a data-enabled risk management framework will help supervisors to assess the materiality of climate-related financial risks. For example, the Eurosystem, which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro, highlighted that “the LEI would allow financial and nonfinancial information and other data sources to be linked. Progress in that endeavour would benefit all sectors of the economy and serve various types of data usage, both public and private”. In this regard, extending the LEI in financial institutions’ reporting to supervisory authorities can help to fulfill Principle 14 and 17.

Given the collection of the LEI would underpin all principles listed in the consultation, but specifically those referred above, GLEIF invites BCBS to provide the collection of the LEI as a best practice for financial institutions.