Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Supervisory Authorities (ESAs) for the Joint Consultation Paper on ESG Disclosures

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Supervisory Authorities (ESAs) for the Joint Consultation Paper on ESG Disclosures. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the proposed Regulatory Technical Standards (RTS) with regard to the content, methodologies and presentation of sustainability-related disclosures.

GLEIF would like to provide its comments for the “Question 4: Do you have any views on the reporting template provided in Table 1 of Annex I?”.

First, GLEIF welcomes the inclusion of the LEI in Article 2 of the RTS as one of the unique identifiers that the financial market participants shall provide, where available. However, GLEIF thinks that “where available” condition might limit the benefits to end-investors and supervisory authorities. GLEIF suggests that benefits would be maximized if the LEI is mandated for all financial market participants to which the adverse sustainability impacts statements relate as divergent standards for identifying the reporting entity makes it difficult for end-investors to effectively compare the reporting of different entities and reach conclusions regarding their environmental, social and governance risks and sustainable investment objectives.

The ESAs confirm that data constraint is one of the biggest challenges when it comes to sustainability-related information to end-investors, especially in the case of principal adverse impacts of investment decisions. Yet, even the very first fundamental step in any investment decision, the ability to identify and compare the entity and the entity's subsidiaries in which investors are investing across national borders effectively, is challenging without a single, reliable and publicly available source of identity in a machine-readable and digital format.

GLEIF thinks that the Global LEI Repository is the solution to overcome this challenge. With the LEI, the end-investors easily can access both data regarding the legal entities themselves as well as specific relationship data which would allow investors to compare different entities, regardless of their entity forms or jurisdictions of formation. Another advantage of leveraging the Global LEI System is that each LEI record provides the entity name(s) and addresses in their original character sets in addition to transliterations to the Latin alphabet. For example, it might be challenging for a German investor to compare a Polish and a Hungarian entity by only relying on their names due to different characters in these languages. With the LEIs of these two entities, the German investor can easily retrieve these entities’ data in a machine-readable format and with transliterated names and addresses in the LEI reference data.
Since the LEI as a data connector allows users to connect to other data sources easily, investors or financial institutions can do more in-depth research on an entity's goals, strategies, tangible and intangible assets, values, and verify the legal entity and its subsidiaries in a seamless way.

Therefore, GLEIF suggests that current challenges in accessing reliable, comparable, and relevant information on sustainable risks, opportunities and impacts can be greatly reduced by ensuring that the very first step in data collection and submission starts with a mandatory unique and unambiguous identification of legal entities by the LEI and suggests that the ESAs add the LEI as a mandatory data field in the reporting template in Table 1 of Annex I.

The LEI is already required for financial market participants due to different EU regulatory requirements such as EMIR, MIFID II, MAR, CRR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Prospectus Regulation, Securities Financing Transactions Regulation and Securitization Regulation. Given these entities are also covered under the Sustainable Finance Disclosure Regulation, making the LEI as a mandatory field in the reporting template in Table 1 of Annex I would bring consistency and further standardization in the EU with minimal burden.

GLEIF sees a strong synergy across different EU initiatives which already make use of the LEI. For example, the Capital Markets Union High-Level Forum recommends the establishment of an EU-wide digital access platform (EU Single Access Point, or "ESAP") to companies' public financial and non-financial information. The Recommendation Report highlights that in the first stage ESMA will develop technical standards and formats using appropriate entity and document identifiers (LEIs, ISINs, etc.) to ensure that public information about issuers and securities can be easily interlinked and cross-referenced. Therefore, incorporating a mandate for the LEIs in the RTS from the very beginning would facilitate data integration with the ESAP.