

Response of the Global Legal Entity Identifier Foundation (GLEIF) to UK Department for Business, Energy and Industrial Strategy on the Corporate Transparency and Register Reform Consultation on options to enhance the role of Companies House and increase the transparency of UK corporate entities

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the UK Department for Business, Energy and Industrial Strategy on the Corporate Transparency and Register Reform Consultation on options to enhance the role of Companies House and increase the transparency of UK corporate entities. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First some background on the LEI.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System (GLEIS) that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose in identity management for legal entities, individuals representing these legal entities both by the public and private sectors spanning all industries and sectors.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC). UK is represented by Mr. Beju Shah from Bank of England and Ms. Carmel Deenmamode from the Financial Conduct Authority in the LEI ROC.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. LEI Issuers are required to upload the list of all LEIs issued to legal

entities and related LEI reference data on a daily basis. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used by all users without limitations.

One of the benefits of using the LEI also is the fact that many more legal entity types than companies and partnerships are eligible to register for LEIs such as funds, trusts, foundations and associations in the Global LEI System.

The ability of the world's financial ecosystem to curb fraud, terrorist financing and other illicit financial activity, is hindered by its reliance on outdated processes for identity verification. While identity verification support is available through partnerships with service providers, these often face the same fundamental challenge: low quality, non-uniform data sources are not easy to implement, prevent interoperability and promote inefficiency, which limits the capacity to add value to the surveillance process.

In the consultation paper, it is stated that a majority of UK companies will go through customer due diligence checks on incorporation carried out by a third party agent. It is also highlighted in the document that some UK registered entities can avoid checks by UK regulated bodies by operating largely or exclusively overseas. Most of the cases of UK registered entities being used in prominent international money laundering schemes have seen the entities registered in the UK but then set up bank accounts overseas.

Taking this opportunity, GLEIF would like to highlight that GLEIF responded to the consultation paper released by HM Treasury on the Transposition of the Fifth Money Laundering Directive Consultation. GLEIF proposed to HM Treasury to consider mandating the use of LEI as part of customer due diligence (CDD) obligations. Mandatory use of the LEI as part of CDD process would greatly enable the compatibility of disparate data sources that is so severely lacking in today's financial and business environment. Given the LEI is already mapped to other identification systems used in payments, financial instruments and trade finance transaction processing such as Business Identifier Codes (BICs), the LEI system enables stakeholders, be it at national or international level, to act with greater confidence that all parties involved in a transaction are unambiguously identified.

Furthermore, GLEIF welcomes Bank of England's vision to champion the Legal Entity Identifier (LEI) as a globally recognised and unique identifier for all businesses in the UK¹. Bank of England states that *"...if adopted widely, the LEI could vastly increase the value of data for companies. Its potential is further enhanced by virtue of being a global standard, endorsed by the G20 group of Governments and recognised across the world. Building a globally recognised and unique corporate identifier into this vision for 'Open Finance' would enable businesses to move around the financial system seamlessly. They could pull their data together under a single identity, into a portable credit file to shop around for the*

¹ New economy, new finance, new Bank; Bank of England (June 2019). <https://www.bankofengland.co.uk/-/media/boe/files/report/2019/response-to-the-future-of-finance-report.pdf>

finance they need. And because of global recognition, it will help businesses access finance for cross-border trade.”

GLEIF would like to recommend to the Ministry for Small Business, Consumers and Corporate Responsibility to authorize the Companies House to issue LEI to each legal entity upon the registration in addition to the Companies House ID. This would enable different governmental organizations in UK to achieve the common aim for more transparent, open and high-quality data regime for legal entities and associated individuals and build on the existing awareness in UK about the advantages presented by LEI.

Leveraging the LEI also will support the government’s plan to use technological solutions that offer maximum reward for limited additional cost to business or government. GLEIF has initiated the “Project Zero”, which aims to drastically minimize the burden of LEI for registrants compared to today. Once the LEI is issued for each legal entity as part of the registration process, the cost of LEI would be limited to the GLEIF Service Fee. GLEIF envisions the GLEIF Service Fee to be limited to a few cents. This will enable UK companies to enjoy the benefits of the LEI as an international standard at a very low cost, which would cover both domestic transactions and transactions outside of the UK.

GLEIF would like to respond to the Question 3: *“Are there other options the government should consider to provide greater certainty over who is setting up, managing and controlling corporate entities?”*.

In the consultation paper, it is stated that overall trust in the register will improve if users have full confidence that only verified individuals are filing information on the register and that only verified individuals can be a director of, or file on behalf of, a company. Companies House will also include a better link the records of people with multiple roles across different companies.

GLEIF recognizes that verification of the identity of individuals is the first step to take. After this step is taken, a good connection between the company and individual acting on behalf of the company can be created.

GLEIF suggests an approach that would identify and verify an individual in their role acting in an official capacity on behalf of a legal entity. This could be accomplished in two ways. GLEIF has developed a standard way to assign digital certificates to individuals which identify the legal entity in which the individual is acting in an official role. Specifying the LEI within digital certificates allows easy identification of the digital identities tied to specific legal entities. GLEIF will outline in more details use of these types of digital certificates to digitally identify individuals authorized to file certain information on behalf of the legal entities in Question 17 and Question 23. The second method is identifying the individuals acting in official roles on behalf of the legal entities through the use of digital verifiable credentials tied to legal entities’ LEIs. The advantage of this approach is that in addition to digital identification of these individuals, digital verification through automation also is possible. GLEIF will provide more details about this method in response to Question 4.

GLEIF would like to extend its support for the Question 4: *“Do you agree that the preferred option should be to verify identities digitally, using a leading technological solution? Please give reasons”*.

GLEIF agrees that using digital verification solutions should be at the centerpiece of the identity verification. Digital solutions offer fast, reliable identity verification and screening through Applied

Programming Interface (API) technology. As suggested above, using LEI in digital verifiable credentials would allow an improved signing-in experience across different devices and only trusted and identifiable persons can make filings as desired.

Digital verifiable credentials are defined as the format for interoperable, cryptographically-verifiable digital credentials being defined by the W3C standards organization (Verifiable Claims Working Group). A Proof of Concept (POC) conducted by GLEIF will produce digital verifiable credentials and prove identity (based on the LEI) cryptographically recorded using distributed ledger technology, establishing a secure trust framework for these credentials. The POC will allow verification of identity both of legal entities having LEIs and for individuals and their official roles within these legal entities.

GLEIF would like to comment on the Question 17: *“Do you agree that verification of a person’s identity is a better way to link appointments than unique identifiers?”*.

It is stated in the consultation paper that the Companies Act 2006 contains a power to introduce unique identifiers for directors and secretaries. This power was intended to be used to enable those who inspect the register to distinguish between individuals with the same, or similar, name. The 2006 Act only allows for public unique identifiers, which would be available for all to see. Using the LEI, a globally accepted unique identifier, would satisfy this requirement by issuing LEI for all legal entities at the phase of registration in addition to the Companies House ID and then individuals acting in official roles could be connected to the LEI record.

The consultation paper states that there are concerns relative to the reliability of data such as company filing inaccurate information (e.g., audit reports), companies set up to trade on the good name of others, companies using addresses they are not entitled to use for their registered office; and companies appointing individuals that have no association with the company. GLEIF thinks that two steps are necessary to address these concerns. First, the identity of individuals has to be verified properly and after that the connection between the company and the individuals acting on behalf of their companies can be made by connecting the official role to the company.

In the Global LEI System, it is mandatory that LEI application on behalf of a legal entity can only be submitted by the authorized person of a legal entity. This requirement provides an important foundation for being able to link official appointments to different individuals in a reliable way through using LEI as the basis.

Further leveraging this with digital capability, with the Annual Report 2018, GLEIF pioneers the inclusion of a Legal Entity Identifier (LEI) within digital financial documentation in partnership with XBRL International. GLEIF published its 2018 annual report in human and machine-readable Inline XBRL and HTML format, with GLEIF’s LEI embedded into the financial information for the first time. It is the first official business report globally which automatically links the filing entity to its verified LEI reference data held within the Global LEI Index. The process of embedding an organization’s LEI – or that of its affiliates, subsidiaries and parent companies – within digital financial reports, allows market participants who rely on official documents to inform strategic decisions (e.g., traders, investors, regulators) to quickly and easily consolidate and verify information on a filing entity. Within GLEIF’s 2018 annual report, GLEIF’s LEI is also embedded within the digital certificates of GLEIF’s signing executive officers.

These certificates, for the first time, connect the role of the signatory to an organization through the LEI and can therefore be used to verify – automatically, through the shared LEI – that the filed document and the signatories represent the same organization. Incorporating a company’s LEI within digital certificates of its executive officers (e.g., CEO) used to sign financial statements provides reassurance on the data’s reliability and that the information has not been tampered with, despite permitted access to the filed document via any public server globally. Deploying digital signatures, including that of the auditor, also enables efficient report production and distribution processes, the elimination of paper and increased certainty and trust. Please see below the brief video GLEIF CEO Stephan Wolf demonstrating the benefits of including the LEI in digital business reports:

<https://www.youtube.com/watch?v=w4muYdNIQ-Q>

The identification as well as verification of individuals entitled to file reports such as annual reports on behalf of a legal entity also could be supported using digital verifiable credentials, as specified in the response to Question 4.

The primary role of Companies House currently is to take information from companies and make available to searches of the register. However, now, Companies House plans to move into the direction in which inaccurate and fraudulent information should be spotted before its entry onto the registry. The requirement of the Global LEI System that an LEI application only can be filed by an authorized representative of a legal entity prevents unauthorized employees or people not officially representing the company to file the application. The supporting documentation submitted by the legal entity is verified against reliable data sources and the verified reference data is published in the Global LEI System accordingly.

The above response also addresses the Question 19: *“Do you agree that Companies House should have more discretion to query information before it is placed on the register, and ask for evidence where appropriate?”*.

GLEIF would like to comment on Question 23: *“How can the financial information available on the register be improved? What would be the benefit?”*.

As stated above, digital certificates with embedded LEIs could improve the submission of financial information by companies through digitally securing the content of these reports and official roles of the submitting individual. Both the EU and the UK will be implementing frameworks, e.g., the European Single Electronic Format and the UK equivalent, which all companies in their respective regulated markets will be required to prepare their annual financial reports by using the iXBRL format. Companies can follow the example of GLEIF pioneering the filing of its 2018 Annual Report in an and machine-readable iXBRL and HTML format with the inclusion of a Legal Entity Identifier (LEI) within digital financial documentation.

Significant benefits of this approach include:

- Easy verification of the filing entity’s identity based on its LEI, resulting in greater end-user trust in the authenticity and integrity of the documents.

- Automated access to aggregated data on the filing entity. This will create multiple benefits including: enhanced visibility of the entity's reference data available within the Global LEI Index; opportunities to create new online databases that collate key data assets of entities with an LEI; and easy aggregation of information on companies obtained from multiple sources supporting comparability of standardized financial information.
- Increased transparency for end users on an entity's ownership structure. Relationship networks between LEIs can be quickly and automatically established when the LEIs of the filing entity, its affiliates, subsidiaries and parent companies are provided in machine-readable financial reports.
- Improved ability for regulators to minimize market abuse.
- The GLEIF annual report 2018 has been signed with eIDAS (electronic IDentification, Authentication and trust Services, an EU regulation) compliant certificates. It represents the use of an LEI embedded in a certificate to provide lifetime trust and (technically) non-repudiation. These certificates, for the first time, connect the role of the signatory to an organization through the LEI and can therefore be used to verify – automatically, through the shared LEI – that the filed document and the signatories represent the same organization. Incorporating a company's LEI within digital certificates of its executive officers (e.g., CEO) used to sign financial statements provides reassurance on the data's reliability and that the information has not been tampered with, despite permitted access to the filed document via any public server globally. Deploying digital signatures, including that of the auditor, also enables efficient report production and distribution processes, the elimination of paper and increased certainty and trust.

Given all these benefits, GLEIF encourages Companies House to make the LEI mandatory to identify all legal entities that will be contained in XBRL filings for both UK domestic and foreign companies. Once the LEI is present in filings to identify the legal entities, automatic retrieving of information about related entities as well as individuals acting on official roles could be possible.

In the consultation paper, it is stated that further opportunities exist for information on the companies register to be compared to other data sets. GLEIF thinks that there is an opportunity to comment on Question 32: *“Do you agree that there is value in Companies House comparing its data against other data sets held by public and private bodies? If so, which data sets are appropriate?”*.

To conduct business digitally, counterparties must be identified accurately, without any ambiguity. For this purpose, many businesses use mapping solutions. These mapping solutions match “entity identifier A” against “entity identifier B” to ensure that both are recognized as referring to the same organization. However, the kind of mapping needed to pinpoint the entities has not always been totally accurate or transparent enough. GLEIF has established a free of charge certification process which ensures that organizations use state of the art methodologies to accurately map the LEI to their own identifiers as LEI provides the opportunity to be the “data connector” across different datasets. LEI is already mapped to other identification systems such as Business Identifier Code (BIC) and International Securities Identification Numbers (ISIN). As highlighted in responses to Question 17 and Question 23, the XBRL standard supports LEI, which allows users to understand the role of the signatory to an organization through the LEI and can therefore be used to verify that the filed document and the signatories represent the same organization. The use of LEI, a global unique identifier, would also be beneficial in creating links of companies in UK with their related entities and their branches in other countries.

It is stated in the consultation paper that Companies House can provide a “Good Standing” statement for a fee. The statement confirms that based on the information that had been filed with Companies House the company has been in continuous, unbroken existence since its incorporation. GLEIF would like to provide a comment on Question 43: *“What would be the impact if Companies House changed the way it certifies information available on the register?”*.

Although the Good Standing statement confirms that the company has been in continuous, unbroken existence since its formation, Companies House currently does not have the practice of validating this information. The requirements to maintain the quality and accuracy of LEI data in the Global LEI System includes that entities at least annually renew and confirm their LEI reference and relationship data. Renewal of the LEI record is only done after the re-validation of the submitted data. Therefore, all “Issued” LEIs in the Global LEI System are required to be validated at least once a year.

Finally, GLEIF would like to highlight that GLEIF is ready to work directly with the Companies House for supporting its reforms in company registration and information maintenance processes to include the LEI and is willing to respond any further inquiries that Company House might have.