

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission for European Partnership for Innovative Small and Medium Enterprises (Horizon Europe Program) Public Consultation

November 2019

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission for European Partnership for Innovative Small and Medium Enterprises (Horizon Europe Program) Public Consultation. 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 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. The LEI is use case agnostic and can be used in any process of entity identification, from finance to healthcare to verifying all counterparties of businesses supply chain.

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). Different European Union institutions such as European Commission, ESMA, ECB and EIOPA are represented in the LEI ROC. Mr. Gaetano Chionsini from the European Banking Authority represents the European Union in the LEI ROC Executive Committee.

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.

GLEIF would like to suggest the European Commission Directorate General for Research and Innovation to consider the value of LEI that can bring for two key points, SMEs' access to finance and SMEs' internationalization efforts.

According to the World Trade Organization's "World Trade Report 2016: Levelling the Trading Field for SMEs", the spread of online platforms and electronic commerce promises to give SMEs the ability to reach customers around the world. On average, 97% of internet-enabled small businesses export.

Therefore, integration of the LEI in any online transaction, where digital entity verification is needed, would provide unambiguous certainty of identity. Using LEI on a consistent basis for identifying and verifying legal entities also would allow to connect businesses and public administrations in the Union. This is also consistent with the once-only principle in the Single Digital Gateway. By using an LEI and its associated reference data, a European SME can reach a decision that a supplier is a legitimate entity that exists and could be engaged in commerce, regardless of where the supplier is located. A similar decision making process can apply to the evaluation of doing business with customers. Unambiguous identification of businesses matters more than ever in a digital and globalized economy – as the number of legal entities one transacts with increases and the transactions are mostly in the global scale.

Although SMEs represent 99% of businesses in Europe, these entities still have difficulties in accessing financing. Banks spend a significant amount of time and resources performing entity identification verification procedures on their clients as part of on-boarding and ongoing KYC. GLEIF has launched a project for overcoming this problem and integrating banks into the Global LEI System, where the LEI is used in a standardized way for identifying legal entities.

GLEIF continues to conduct further research on the use of LEIs for digital transactions focusing on the use of the LEI in digital verifiable credentials (DVCs) which can be secured cryptographically and contribute to overall cybersecurity. Decentralized identity management systems offer an alternative to centralized identity management. Such systems run using distributed ledger technology. Entities represent themselves via digital verifiable credentials. Such credentials allow for real time access to services or applications. DVCs are interoperable, cryptographically-verifiable and facilitated by distributed ledger or blockchain technology. By leveraging the LEI within digital verifiable credentials, counterparties can more easily accomplish the tasks of identity verification, authentication, and authorization.

Adoption of this approach could lead to legal entities having digital identities that could be used in a chain of trust for numerous use cases from regulatory and supervisory filings to business contracts and transactions.

Use of the LEI could enable automation of identity verification and enable the digitization of several of the activities required to undertake a commercial transaction – including ordering goods, sending invoices, obtaining trade financing, reconciling payment and delivering goods through the whole business value chain. The use of the LEI would reduce transactional and operational friction and bring more certainty in SMEs’ dealings with counterparties in Europe and beyond.

The LEI already allows for easier usage of modern technologies such as Artificial Intelligence, digital verification of identity and Blockchain, which helps to protect retail investors and lower costs for regulatory reporting. Standards for embedding LEIs in eIDAS compliant digital certificates and seals are already available. ETSI (European Telecommunications Standards Institute) has published the technical standards for the inclusion of LEIs in eIDAS certificates and seals in August 2019.