

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission Inception Impact Assessment titled Commission Delegated Regulation on a Climate Change Mitigation and Adaptation Taxonomy

April 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission Inception Impact Assessment titled Commission Delegated Regulation on a Climate Change Mitigation and Adaptation Taxonomy. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the Impact Assessment.

In the [Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance](#) it is stated that the eligibility under the Taxonomy should be assessed according to the economic activity, for which industry classification is structured around EU's NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) system for guiding and assisting companies and financial market participants. This system is selected for its compatibility with EU member states and international statistical frameworks.

Similar to the use of a standard for industry classification in the Taxonomy, GLEIF suggests the Technical Expert Group adopt an international standard, the Legal Entity Identifier (LEI), for clear and consistent identification of entities that are required to provide company level disclosures under Taxonomy Regulation. As stated in the Final Report of the Technical Expert Group, the [International Platform on Sustainable Finance](#) aims to encourage dialogue and where appropriate coordination on development of new taxonomies. Therefore, use of international standards, such as the ISO 17742 LEI standard, would help harmonization efforts of international taxonomies and creating the common vocabulary and understanding for investors and policy makers.

The starting point for assessing a company's taxonomy alignment in the EU taxonomy is to break down of entity's economic activities. Therefore, it is crucial to demonstrate that, for example, activity A, activity B, activity C are performed by the Company A but not Company A's Branch B or Company A's Parent Z. Therefore, GLEIF suggests the Commission require the Legal Entity Identifier of the company as the first building block for assessing a company's taxonomy alignment. Making the LEI mandatory as part of the company disclosure and creating a common language for all entity actors would help data comparability and consistency not only for regulators but also for investors across borders.

Incorporating the LEI within the EU Taxonomy for all reporting entities enables two fundamental investor objectives:

First, the investor will be able to easily identify the entity in which she/he is investing. The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions and answers the questions of 'who is who' and 'who owns whom'. The drivers of the LEI initiative, i.e. the Group of 20, the Financial Stability Board and many regulators around the world, have emphasized the need to make the LEI available for the wider public good. This is contingent upon ensuring easy access to the global LEI population. GLEIF ensures that any interested party can

access and search the complete LEI data pool free of charge and without the need to register. GLEIF also makes available the full LEI data set free of charge via its file download service. Lastly, the free of charge GLEIF LEI 'Look-up' application programming interface (API) provides developers with the opportunity to directly access the complete LEI data pool in real time and to perform on-demand checks for changes to specific LEI records in a convenient, easy-to-read format.

Second the investor must be able to easily connect to other data sources. For example, an investor may like to research an entity's goals, strategies, tangible and intangible assets, values, etc. The LEI as a data connector allows investors to more easily conduct such analysis across multiple data sources.

It is also stated that the Taxonomy Regulation is built on the existing EU legal framework and regulations. The final Taxonomy Regulation introduces a new disclosure requirement for companies already required to provide a non-financial statement under the Non-Financial Reporting Directive (NFRD), which covers listed companies, banks and insurance companies with more than 500 employees. All EU corporates listed and traded at any marketplace should have an LEI due to the Regulation (EU) 2017/1129 (Prospectus Regulation). Moreover, many other legal entities from varying sectors have already obtained an LEI due to different EU regulatory requirements such as EMIR, MIFID II, MAR, CRR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive and Securitization Regulation. Additionally, Commission Delegated Regulation (EU) 2018/815 relative to the RTS on European Single Electronic Format (ESEF) requires that issuers identify themselves using the Legal Entity Identifier (LEI). Therefore, the XBRL International LEI taxonomy which will be imported in the ESEF taxonomy will provide the means to report and verify the validity of the LEI used by the issuer to identify itself in the Inline XBRL document. This means that a large portion of the reporting entities that are required to submit their company disclosure under the Taxonomy Regulation already have an LEI.

Given the EU Commission aims to harmonize reporting frameworks and standards in the EU, reduce administrative burden of reporting institutions and facilitate stakeholders' access to sustainability information, leveraging the LEI as a common standard identifier for the reporting entities would be logical and beneficial for all reporting institutions and investors.