

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission on the Public Consultation on the Revision of the Non-Financial Reporting Directive (NFRD)

June 2020

**The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission on the Public Consultation on the Revision of the Non-Financial Reporting Directive (NFRD). GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the NFRD.**

First, under the section “2. Standardization”, GLEIF would like to respond to Question 8: *“In your opinion, to what extent would a requirement on companies to apply a common standard for non-financial information resolve the problems identified?”*

In its conclusions on the Capital Markets Union, the European Council stressed the importance of reliable, comparable, relevant information on sustainable risks, opportunities and impacts, and called on the Commission to consider the development of a European non-financial reporting standard.

Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27th 2019 on sustainability-related disclosures in the financial services sector highlights as follows:

*“...Furthermore, the lack of harmonized rules relating to transparency makes it difficult for end investors to effectively compare different financial products in different Member States with respect to their environmental, social and governance risks and sustainable investment objectives...”*

Therefore, GLEIF thinks that the adoption of a common non-financial reporting standard, based on global standards, can help to address challenges related to comparability, reliability, and relevance of data.

Harmonization of rules relating to transparency should start with unique and unambiguous identification of all entities across markets, products, and regions for regulatory reporting and supervision. Therefore, requiring the LEI as a data element in a common non-financial reporting standard for all reporting entities enables three fundamental investor objectives:

First, the investor must be able to easily identify the entity in which she/he is investing. The LEI connects to key reference information that enables a 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

access the complete LEI data pool in real time directly 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 connect to other data sources easily. 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 conduct such analysis across multiple data sources more easily.

Third, the investor must be able to compare entities across national borders effectively. The Global LEI System supports all forms of legal entities, including trusts, funds, partnerships, Special Purpose Vehicles (SPVs), individuals acting in a business capacity. By leveraging the LEI, the investor can easily compare different entities, regardless of their entity forms or jurisdiction of formation. Another advantage of leveraging the Global LEI System is that each LEI record provides the name 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.

Therefore, requiring the LEI for all reporting entities as a first step could be fundamental for investors to make further analysis relative to the sustainability strategy of an entity. All EU corporates listed and traded in a regulated market already are required to have an LEI due to the Regulation (EU) 2017/1129 (Prospectus Regulation). Moreover, many other large corporates or financial institutions 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.

GLEIF also would highlight that the [European Supervisory Authorities \(ESAs\) Joint Consultation Paper on the draft regulatory technical standards \(RTS\), setting out the requirements under the Sustainable Finance Disclosure Regulation](#), suggests to include the LEI as a requirement for identifying entities to ensure that end-investors have access to reliable data that can be used and analyzed in a timely and efficient matter.

GLEIF was pleased to see that the Eurosystem also highlighted the importance of the LEI for linking financial and nonfinancial information and other data sources in [its response](#) to the European Commission (EC) public consultations on the Renewed Sustainable Finance Strategy and the Non-Financial Reporting Directive review. Eurosystem also emphasized that the LEI would enable digital-age innovation and thus foster potential growth in new markets, in addition to reducing costs and operational risks of the reporting entities.

Under "Section 5. Digitization" GLEIF would like to comment on the Question 35: *"Please provide any other comments you may have regarding the digitalization of sustainability information"*.

The EU has introduced a structured data standard, the European Single Electronic Format (ESEF) under the Transparency Directive. Starting from January 1st, 2020, all listed companies in the EU shall report their annual financial reports in XHTML. Additionally, if the consolidated financial statements are

prepared in IFRS, the XHTML document should also be tagged using iXBRL elements specified in the ESEF taxonomy. This ensures the information is machine-readable so as to bring greater speed, reliability, and accuracy of data handling, improved analysis, and better quality of information and decision-making.

The Commission Delegated Regulation (EU) 2018/815 relative to the RTS on ESEF requires that issuers identify themselves using the Legal Entity Identifier (LEI). Therefore, the XBRL International LEI taxonomy is imported in the ESEF taxonomy to provide the means to report and verify the validity of the LEI used by the issuer to identify itself in the Inline XBRL document.

GLEIF highlighted under Q8 that comparability of reported information enables potential investors to better compare companies across national borders. Such comparisons work best when data is machine-readable and structured. In its 2018 Annual Report, GLEIF pioneered 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 becomes 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 European Securities Market Authority (ESMA) will publish in its website the GLEIF's 2019 Annual Report as an example for all issuers who will submit their Annual Report in iXBRL format under the European Single Electronic Format (ESEF) Regulation. This could be equally applicable and relevant to the reporting of non-financial disclosures.

Most of the reporting entities under NFRD have subsidiaries and international branches outside Europe. Mandating the LEI for all subsidiaries and international branches in machine-readable XBRL reports would allow the extraction of data on corporate structures and increase visibility and transparency of the corporate structure. This would not only lower the cost and administrative burden for European corporates as these corporates could easily leverage the LEI for satisfying other reporting requirements, but also would allow easier access to the corporate data by regulators.

Regarding the Commission's consideration to establish a single access point for public corporate information, GLEIF understands that developing such an infrastructure is to make data easily accessible and usable for both the public and private sectors. GLEIF thinks that such an infrastructure can bring maximum benefits and efficiency if only data elements are based on global and well-recognized standards, instead of creating new ones or using local or regional ones. Use of the LEI as an additional key identifier would help users' access to a wider range of legal entity forms other than those defined by the EU Company ID. Through establishing a direct link between the single access point database and the Global LEI Repository via GLEIF API, users should be allowed to search any entity and this entity's direct and ultimate parent information through the LEI. Making the LEI a building block of this single access point could stretch users' data access across borders, particularly important for cases where a European entity's ownership and branch is located in non-EU jurisdictions. One application is to link information in the single access point with the wealth of other information assets, being it copyright restricted or open data. The LEI would be the linchpin, connecting multiple sources with a unique, unambiguous identifier.

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