

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission on the Public Consultation on the Renewed Sustainable Finance Strategy

July 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission on the Public Consultation on the Renewed Sustainable Finance Strategy. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the Renewed Sustainable Finance Strategy.

GLEIF would like to respond to Question 6: "*What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?*".

GLEIF thinks that access to sufficient, reliable, and comparable information from financial and non-financial entities on their climate, environmental, and social risks and impacts is still a challenge. This challenge hinders investors from making sound investment decisions based on sustainable investment objectives.

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. GLEIF suggests the same principles apply for mainstreaming sustainability in the financial sector.

Investors must be able to quickly identify the entity and the entity's subsidiaries in which they are investing. Let us imagine a British investor who plans to invest in a Danish solar energy company. Would this investor's investment decision change if this Danish solar energy company's subsidiary runs nuclear power stations in Germany or another subsidiary runs a copper mine in Chile? How can this investor access the relationship information on the headquarter company and subsidiaries through a single data source, ideally in an easily consumable and machine-readable format? A similar scenario can be extended to financial institutions. Imagine that this Danish solar energy company applies for a sustainability-linked loan with a financial institution. How can this financial institution analyze the entity's eligibility for this type of loan and make its environmental, social, and governance (ESG) risk assessment ideally in an easy and transparent way?

The Legal Entity Identifier (LEI) is a tool that can be used to link different data sources describing a legal entity. 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'. GLEIF would like to share a financial institution's LEI record (<https://search.gleif.org/#/record/6SHGI4ZSSLCXXQSBB395>) and a corporate entity's LEI record (<https://search.gleif.org/#/record/KY37LUS27QX7BB93L28>) as examples of the open and public reference data associated with the Global LEI System. 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 broader 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.

Investors 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), and individuals acting in a business capacity. By leveraging the LEI, the investor can easily 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.

GLEIF thinks 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 unique and unambiguous identification of legal entities by the LEI. Therefore, GLEIF suggests the European Commission to put the LEI in the foundation of the sustainable finance reporting.

GLEIF would like to comment on Question 14: *"In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?"*

GLEIF suggests the European Commission consider the LEI as a mandatory data element in a publicly accessible data space for all companies. The Commission could also consider providing the public link to each entity's LEI reference data thereby allowing users to access the entities' basic reference data and relationship information in an easy and seamless way. Through a single click or call to the GLEIF Application Programming Interface (API), data users could be directed to the Global LEI Repository and access the open public reference data and relationship information of the entity without any fee or barrier.

GLEIF sees synergies between this initiative and the Capital Markets Union High-Level Forum Recommendation to establish an EU-wide digital access platform (EU Single Access Point, or "ESAP") to companies' public financial and non-financial information. GLEIF understands from the Report that a broader range of sustainability-related companies' public information disclosed according to sustainable finance legislation, such as the entity- and product-level information on sustainability risks and impacts disclosed under the Regulation (EU) 2019/2088 on sustainability-related disclosures. This would make the ESAP a repository for all current sustainability-related public information by listed companies. All EU corporates listed and traded in a regulated market already are required to have an LEI due to the Regulation (EU) 2017/1129.

The [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. In its [response](#) to Commission's Digital Finance Consultation, ESMA emphasized that the key prerequisite for the wide reliance on digital identities is the introduction of a unique standardized and harmonized means of identification. Such means already exist in the financial sector with the LEI, a global standard. ESMA reiterated that the LEI should be promoted and exploited to the maximum extent possible while avoiding the introduction and exploitation of other competing identifiers. The European Systemic Risk Board set up a Task Force to make recommendations on greater adoption of LEI across the EU, one of which was to introduce legislation requiring all legal entities to have an LEI and that the LEI is also mandatory for financial transaction and public reporting.

GLEIF was pleased to see that the Eurosystem also highlighted the importance of the LEI for linking financial and non-financial 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. The Eurosystem stated that a key element of aligning reporting obligations should be a unique identifier of the reporting entity, such as the globally established LEI, which would align already existing reporting obligations and allow financial and non-financial information and other data sources to be linked both in the EU and with jurisdictions beyond the EU. By using the LEI on a consistent basis, public and private institutions can ensure interoperability and link their respective databases. The Eurosystem also emphasized that the LEI would enable digital-age innovation and thus foster potential growth in new markets and reduce costs and operational risks of the reporting entities.

Indeed, the LEI is already required for many large corporates or financial institutions due to different EU regulatory requirements such as EMIR, MIFID II, MAR, CRR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Prospectus Regulation, and Securitization Regulation. Therefore, making the LEI as a mandatory field in the data space for identifying legal entities would bring consistency and further standardization in the EU.

GLEIF would like to comment on the *Question 48: "Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?"*.

GLEIF thinks that due to the global nature of supply chains, due diligence requirements should start with unique and unambiguous identification of all legal entities in the whole supply chain, including small and medium-sized enterprises. Although some large companies establish their own due diligence protocol, an explicit mandate and standards to be implemented within this mandate are essential to prevent friction and develop a standardized approach in overseeing the supply chain.

GLEIF proposes that the LEI should be a building block for due diligence requirements in the supply chain, given due diligence starts with the identification and verification of a counterparty. As stated in the [EU Commission's Final Report](#) on due diligence requirements through the supply chain, the Commission could consider recognizing that certain third-party verification schemes could be used as part of the risk assessment and risk mitigation process. The LEI can be used as part of these third-party verification mechanisms. The report provides an interesting example of how certain provisions of the EU Timber Regulation were interpreted and applied in the German Administrative Court in Cologne. The Court found against a German company that sourced timber from a supplier in Democratic Republic of

Congo, based on the fact that the company should have recognized that the certificate produced by the supplier was fake. As the defendant company failed to recognize this, they were found not to have met the due diligence requirement, which the Court emphasized is "not merely a purely formal requirement". The Court also referred to the seriousness of these requirements in light of the role of illegal logging in climate change.

This example shows the importance of easy, fast, and transparent access to a central open data source about legal entities' identity. The Global LEI System solves the problem of trust for legal entities on a global scale. From banking to supply chain management, industries everywhere are adjusting to the digitization of processes and transactions. As in the physical world, transacting within this new digital economic landscape requires trust and transparency. All players operating within the global supply chain need to trust that the person or organization they are interacting with, is who they say they are. Identity management sits at the heart of digital transformation. With an increasingly siloed digital identity management landscape, there is a risk that proprietary platforms and solutions may hamper innovation and frustrate users.

Therefore, GLEIF thinks that requirements from SMEs could be designed in a way to help SMEs access finance and supply chains, by simply creating more transparency about these entities particularly in jurisdictions where business registry information is not well organized. In some developing countries, local systems for entity identification are not easily accessible, may not be transparent, and sometimes lack quality standards. In countries that lack transparency and identity, more than 50% of economic activity is conducted by unregistered businesses. As a result, firms remain cut off from essential services such as payments, credit facilities, and supply chains. Given that trust is the key component of a thriving SME ecosystem, it is crucial for these entities to prove who they are as part of supply chain due diligence. The requirement of the LEI for such entities would also satisfy the Regulation (EU) 2017/821 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas, given Union importers of minerals or metals shall provide the name and address of the supplier to the Union importer. LEI reference data comprise the most essential elements of identification including:

- The official name of the legal entity as recorded in the official registers.
- The registered address of that legal entity.
- The country of formation.
- The codes for the representation of names of countries and their subdivisions.
- The date of the first LEI assignment; the date of last update of the LEI information; and the date of expiry, if applicable.

Moreover, each LEI record includes the 'Level 2' data that answers the question of 'who owns whom'. Specifically, legal entities that have or acquire an LEI report their 'direct accounting consolidating parent' as well as their 'ultimate accounting consolidating parent'.