

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission's roadmap for its Capital Markets Union Action Plan

August 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's roadmap for its Capital Markets Union Action Plan. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation. GLEIF will make comments for recommendations presented in clusters A, B, C and D in the Final Report.

A. Creating a vibrant and competitive business environment

GLEIF welcomes that the LEI is already recommended by the High-Level Forum (HLF) as one of the technical standards to develop the data fields and formats of the European Single Access Point (ESAP) to ensure the information can be easily interlinked and cross-referenced.

As rightly highlighted in the report, today the lack of easily accessible, reliable, understandable and comparable public information is one of the reasons why companies, in particular smaller Member States, struggle to attract investors. Today's fragmented, siloed and non-standardized entity data formats require investors to put in additional effort to access financial and non-financial information. Most of the times, the information that they access is expensive, proprietary, not in an easily consumable format and/or not interoperable.

However, investors must be able to compare entities across borders effectively. The Global LEI System encompasses 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, etc. and verify the legal entity and its related entities in a seamless way.

Therefore, GLEIF suggests the European Commission consider the LEI as a mandatory data element for all entities in the ESAP. The Commission could also consider providing the public link to each entity's LEI reference data in the ESAP architecture 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.

In addition, the Final Report suggests that ESMA will leverage the Business Register Interconnection System (BRIS) when developing the ESAP architecture. To be able to use BRIS in the best possible way on a global scale, it would be best to add the LEI to the available data in BRIS. This would ensure BRIS can be accessed for other information not already available in the Global LEI System and it would enhance the interoperability of BRIS both within Europe and globally. Furthermore, it is useful to understand that BRIS only comprises limited liability companies from the EU/EEA countries. Information on other types of legal entities is not available in BRIS. In order to ensure consistent identification of entities involved in the European CMU, it would be better to use a global standard that is also available for other types of entities.

GLEIF suggests that the EU has a unique opportunity to improve the business environment for European companies of all sizes by embedding the LEI into the harmonized legislation on companies and their registration (the Company Law Directive as codified in Directives 2017/1132 and 2019/1151). By offering an LEI to all companies in Europe, counterparty identification and verification would be more efficient and effective in many sectors, including—but not limited to—banking, supply chain, e-commerce and many other parts of the digital economy. Offering an LEI to each legal entity would also be consistent with ESMA's and the EBA's suggestions to mandate the use of the LEI for all legal entities in its responses to the Commission's Digital Finance Consultation. ESMA highlighted 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.

Identification of all legal entities via the LEI, a global standard which is recognized across borders, can help European SMEs to verify their identity to third party investors in an easy and standard way. This would help SMEs to attract investments from outside of the Europe, which is one of the objectives of the Capital Markets Union.

B. Building stronger and more efficient market infrastructure

The Final Report states that a consolidated tape would require a comprehensive coverage, improved quality of data and data standardization in order to consolidate data in a meaningful manner.

GLEIF believes that for further improving data quality and the use of harmonized standards, strong collaboration and coordination among all involved stakeholders are needed. Today, also largely due to technological advancements, the demand for market data is increasing. Therefore, an industry led initiative with ESMA's guidance would help to achieve high quality consolidated data, which is useful for all market participants. GLEIF is of the opinion that the LEI, not only a global standard for unique identification of legal entities as parties to equity transactions, but also an established data connector among different datasets, either regulatory or vendor products, can substantially contribute to the aggregation of granular data that is collected, consolidated and analyzed.

C. Fostering retail investments in capital markets

The HLF recommends that the Commission introduces a harmonized open finance regulatory framework covering financial and non-financial information relevant to facilitating financial planning or encouraging investment.

GLEIF thinks that sine-qua-non features of an open finance regulatory framework are digital, standardized and interoperable technical standards. The Report also highlights that in order to ensure a secure and smooth access to data and limit costs, any technical standards that may be developed to facilitate data sharing would need to take account of existing formats as much as possible and also be compatible with relevant global standards.

Given authentication and identity management will be important issues for open finance, the LEI, a global, open and interoperable standard, can support consumers to authenticate multiple providers across borders and service providers can perform customer due diligence for entity customers by leveraging the LEI. The LEI as a required preliminary information for both service providers and customer legal entities can assist to achieve greater transparency and standardization in an open finance environment. Only consistent use of the LEI across regulations can help to fulfill the objective of facilitating data sharing.

For example, the Bank of England considers the LEI as a building block for its open finance vision, which would enable businesses to move around the financial system seamlessly. The Bank envisions that businesses could pull their data together under a single identity, the LEI, into a portable credit file to shop around for their financing needs. And because of its global recognition, the LEI will help businesses access finance for cross-border trade.

Regarding the HLF recommendation on crypto-assets and tokenization, GLEIF agrees that consumers should have adequate knowledge of these assets but also their issuers. The HLF suggests that trusted third parties (TTP) could be considered as it could create trust in the market and ensure investor protection. GLEIF would like to reiterate that for achieving trust and expected efficiencies from these new financial instruments requires a common language based on global standards for identification in crypto-asset or digital asset transactions. This would also ensure investor and consumer protection. The LEI is already recognized as an open and transparent way of identifying originator and beneficiary virtual asset service providers in the [interVASP messaging standard](#).

D. Going beyond boundaries across the internal market

The HLF highlighted that high-quality, well-resourced and convergent supervision based on a single rulebook is a key pre-requisite for a well-functioning Capital Markets.

Regulatory fragmentation, non-harmonization of Know Your Customer (KYC) requirements with regards to identification and verification of clients, and limited interoperability between systems used by different operators are the major obstacles to fully reap the opportunities of innovative technologies in the European financial sector.

Adoption of global standards, such as the LEI for unique legal entity identification, will be the key feature of a successful digital transformation of the financial sector in the EU and facilitation of cross border investments, while reducing administrative burden and costs. A “global approach” and adoption of global standards should be adopted as opposed to local and regional ones.

In the European Commission's Staff Working Document on the Fitness Check of EU Supervisory Reporting Requirements, the Commission highlighted that inefficiencies in reporting frameworks arise due to the lack of clarity in requirements and insufficient use of standards, common formats and identifiers. The Document highlights that consistent definitions and standards enhance comparability, communication and streamlined processes, both within firms and with supervisors, facilitating automation and reducing costs related to data collection and analysis. Specifically, the Report highlights that there is still room for implementing the LEI in different areas and reinforcing the role of the LEI in regulatory reporting.

Over the years, the industry and regulators have created a Tower of Babel, in which the same actors, products or objects are identified by heterogenous concepts and terms. Therefore, the solution does not lie in digitizing the existing Tower of Babel based on the status quo; but creating a new dictionary based on well recognized, global standards which enable a common language, interoperable standards and understanding for all parties.

Considering the LEI, a globally recognized standard, as a building block for this new harmonized dictionary would help to achieve efficiencies in compliance, regulatory reporting and risk analysis and innovation in business processes and technological products in the EU.