Response of the Global Legal Entity Identifier Foundation (GLEIF) to the International Organization of Securities Commission (IOSCO) Environmental, Social and Governance (ESG) Ratings and Data Providers Consultation
August 2021

Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the International Organization of Securities Commission (IOSCO) Environmental, Social and Governance (ESG) Ratings and Data Providers Consultation. GLEIF will focus its comments on using the Legal Entity Identifier (LEI) to enhance the transparency at the entity level and contribute to a more transparent, efficient, and comparable ESG data exchange.

GLEIF welcomes IOSCO’s call for more transparency around the sources of ESG ratings and data products and regular updates to the data as stated under Recommendation 2 in the Consultation Paper.

As highlighted in the Consultation paper, investors seek to assess the sustainability track record of companies in which they invest. Investors must be able to identify quickly 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 headquarters 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?

Despite the importance of leveraging a global, comparable, and unique identifier to identify legal entities, there are innumerable national or regional standards for entity identification across the world. Different identifiers might serve the national needs; however, they create tremendous conflicts and inefficiencies when it comes to the reconciliation of data across borders. Taking U.S. federal government as an example, research conducted by GLEIF and Data Foundation demonstrates that the U.S. federal government alone uses 50 distinct entity identification systems—all of which are separate and incompatible with one another. This inconsistency can hinder an accurate identification of the entities entitled to reporting of sustainability-related information, therefore, impedes the transparency and efficiency in supplying high-quality ESG data both to users and supervisory authorities. IOSCO already recognized the role of international standards in its Report on Sustainability-related Issuer Disclosures. It is highlighted in the report that "It will be important for individual jurisdictions to consider how the common global baseline of standards might be adopted, applied or otherwise utilized within the context of these arrangements and wider legal and regulatory frameworks, in a way that promotes consistent, comparable and reliable sustainability disclosures across jurisdictions."

GLEIF suggests that a holistic entity identification with the Legal Entity Identifier (LEI) as part of raw ESG data will enable identification of the reporting entity in a unique and unambiguous way at the global level and is the foundational step to achieve transparency at the entity level.
The 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/6SHG42SSSLXXQSBB395) and a corporate entity's LEI record (https://search.gleif.org/#/record/KY37LUS27QQX7BB93L28) 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.

The LEI tackles data reconciliation problems across borders and promotes an interoperable network. 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 complete 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. 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. The investors could use the LEI as a data connector to mapped identifiers such as Business Identification Code (BIC) and International Securities Identification Number (ISIN) to access richer data regarding the companies.

GLEIF agrees IOSCO's assessment that there is increasing reliance on the activities of ESG ratings and data products providers, which are not generally subject to regulatory oversight at the moment. There are concerns about potential risks to investor protection, the transparency and efficiency of markets, greenwashing or misallocation of assets. Therefore, GLEIF supports IOSCO's proposal to establishing a globally comprehensive corporate reporting system, which would provide a consistent and comparable global baseline of sustainability-related information that is investor-focused and material to enterprise value creation, while also providing flexibility for interoperability with reporting requirements that capture wider sustainability impacts. IOSCO identified one of the difficulties with entities' disclosure practices as the inconsistency (format, content and location of disclosures). 'The lack of standardization of corporate disclosures therefore impacts the quality and availability of information that can be used by ESG ratings and data products providers. There is an urgent need to improve the consistency, comparability, and reliability of sustainability reporting.'

GLEIF agrees with IOSCO's assessment that the lack of standardization of corporate disclosure impacts the quality and availability of information that can be used by ESG ratings and data products providers. GLEIF suggests that including the LEI as a mandatory data field in the data collection and submission from the very start is the key to achieve a consistent and comparable corporate disclosure and reporting regime and reduce current challenges in accessing reliable, comparable, and relevant information on sustainable risks.

Supervisors already recognize the LEI's value in non-financial reporting. For example, the Eurosystem 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. 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.

Similarly, Sustainability Accounting Supervisory Board included the LEI in its proposed XBRL taxonomy for companies which have reporting obligations under the European Single Electronic Format (ESEF) reporting guidelines and thereby recognized the unique role of the LEI as a global and digital entity identification solution for ESG reporting.

Bearing in mind these examples and support for the LEI, GLEIF suggests that the LEI also can help to streamline data collection, aggregation and analysis of ESG risks for private unlisted companies, where there is less systematic coverage compared to publicly listed companies. Inclusion of the LEI in the due diligence checklist by ESG ratings and data products providers can help to assess the information and screen inconsistencies during the pre-validation phase and contribute investors to inform their investment decisions.

Therefore, GLEIF recommends to IOSCO to add the LEI as a best practice in its guidelines for the industry. GLEIF would like to reiterate that adding the LEI in corporate disclosure regime and ESG data collection is the first foundational step for a consistent, comparable, and transparent ESG data usage.