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

February 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the [name of consultation]. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First some background on the LEI.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose. The LEI is use case agnostic and can be used in any process of entity identification, from finance to healthcare to verifying all counterparties of businesses supply chain.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the Global Legal Entity Identifier Foundation (GLEIF) by the FSB in 2014. The GLEIF is overseen by a committee of currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC). Different European Union institutions such as European Commission, ESMA, ECB, EBA and EIOPA are represented in the LEI ROC.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used by all users without limitations.

It is stated in the Roadmap that in December 2019, 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 27 November 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..*."

GLEIF is of the opinion that 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. After reviewing the national, EU-based international frameworks which are referred to in the Guidelines on non-financial reporting (2017/C 215/01), GLEIF found out that some of these frameworks suggest more alignment of financial and non-financial information. The guidelines recognize the importance of connectivity and inter-relations of information between financial and non-financial information.

Therefore, it is not surprising that increasing number of investors do not only look for sustainability linked financial products; but they look beyond the product and focus on the general activities of the corporate in order to make sure that borrower's profile meet sustainability expectations of the investors.

Requiring the LEI for all reporting entities enables two 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 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.

Therefore, requiring the LEI for all reporting entities as a first step could be fundamental for investors to make further analysis relative to sustainability strategy of an entity. All EU corporates listed and traded at any marketplace already 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 is aware that current reporting obligations under NFRD do not create reporting obligations for SMEs in the supply chains of larger companies. It is stated in the Roadmap that additional reporting requirements could lead to additional demands for information from SMEs in supply chains of reporting entities, which could cause additional burden on SMEs. Capital Markets Union highlights that easier access of European SMEs to global capital markets is one of the priorities. Given investors very often do not originate from the EU but from the US, Asia and the UK, a globally recognized standard of identification, the LEI, will make SMEs more transparent vis-à-vis investors and therefore increases the chances for raising capital. This is also consistent with the once-only principle in the Single Digital Gateway.

Additionally, GLEIF thinks that requirements from SMEs could be designed in a way to help SMEs for accessing finance and supply chains, by simply creating more transparency about these entities particularly in jurisdictions where business registry information is not well organized. For instance, as stated in GLEIF's blog published in the Making Finance Work for Africa, many Africa based SMEs face an informality gap, which negatively affects their access to finance and join in global supply chains. Given trust is the key component of a thriving SME ecosystem, it is crucial for these entities to prove who they are and to know precisely who they are doing business with. 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.

The Roadmap also highlights that the 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 has 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. This could be equally applicable and relevant to the reporting of non-financial disclosures. 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 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.

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 regulators' easier access to the corporate data.

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