Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission European Strategy for Data Consultation

May 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission European Strategy for Data Consultation. GLEIF will focus its comments on consistent and standard legal entity identification in the European Strategy for Data.

In the EU Commission's Communication "A European Strategy for Data" document, it is stated that the EU ambitions to take a leading role model for a society empowered by data to make better decisions – in business and the public sector.

Fragmentation between the Member States is highlighted as a major risk for the vision of common data space and further development of a genuine single market for data. This fragmentation affects the usability of data and the value generation through data.

One of the major objectives of the European data strategy is to make data available to be used and re-used in B2B and B2G contexts. The usability of data will depend on its interoperability and standardization. When it comes to operationalizing those two fundamental principles of interoperability and standardization, we suggest that a critical question to address for EU authorities will be how to securely standardize the identification of entities looking to access/share data from/with other entities. A role for public authorities in that standardization is needed.

Whenever the question of identifying securely a third party arises, as is the case in data access or data sharing models, the Legal Entity Identifier (LEI) could play a useful role as EU authorities reflect on their future data strategy. The LEI, as a global standard for unique, unambiguous legal entity identification, makes it an attractive supra-sectoral solution.

What is the LEI?

- The LEI is a 20-character, alpha-numeric code, based on the ISO 17442 standard, is used for uniquely and unambiguously identifying legal entities globally. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.
- Following the financial crisis of 2008, financial supervisors were unable to reconcile positions and dependencies across financial marketplaces easily. Supervisory authorities can now identify parties to transactions across markets, products, and regions for regulatory reporting and supervision in a consistent and systematic way with the introduction of the LEI.
- The private sector, particularly financial institutions, use the LEI as part of their data-driven approach in their client management procedures for being able to identify their clients in a standardized way and connecting internal and external databases through the LEI; so as to speak the same language in entity identification and verification.
- The Global LEI System is overseen by over 71 public authorities (including DG FISMA representing the European Commission), under the auspices of the Financial Stability Board.

- In the European Union, the LEI is already required in regulatory reporting for entities subject to the EMIR, MIFID II, MAR, CRR, SFTR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Securitization Regulation, and Prospectus Regulation. At the global level, more than 100 rules are referring to the LEI in Financial Stability Board jurisdictions[1].

Why should the LEI be one of the building blocks of the EU data strategy?

- Trust is the main pillar of any economy. It matters more than ever in a digital and globalized economy – as the number of legal entities one transacts/interacts with is only increasing and will continue to do so. This new environment makes identity verification by citizens, businesses, and authorities more important but also more challenging to do accurately.
- This new environment is particularly challenging for European SMEs, which are the backbone of the European economy. According to the Factsheet Unleashing the full potential of European SMEs, only 40% of businesses in the EU are paid on time. This is the cause of one-fourth of SME bankruptcies in the EU. That is why SMEs must know who they are doing business with through a consistent, secure, and efficient legal entity identification across borders for enabling them to make smarter, less costly, and more reliable decisions on who they do business with.
- Data interoperability, harmonization, and standardization of entity data can be achieved by making the LEI a building block of the European data space:

  Open & non-proprietary - 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 all users can use the data without limitations.

  Machine-readable – The 'Look-up' application programming interface (API) allows developers to access the complete LEI data pool in real-time directly and perform on-demand checks for changes to specific LEI records in a convenient and easy-to-read format. The application, developed by the GLEIF, responds to the market needs of multiple LEI stakeholders, including financial institutions, regulators, fintech companies, and analysts seeking to include LEI data in their machine-readable and automated processes. The GLEIF LEI Look-up API can easily be integrated into internal systems based on the widely supported JSON data format. The use of the API is free of charge and does not require registration.

  Mapping with other identifiers - GLEIF has established a free of charge certification process – the GLEIF Certification of LEI Mapping service - to ensure that organizations that map the LEI to their own identifiers use state of the art methodologies to do so accurately. Data vendors engaging in the GLEIF Certification of LEI Mapping service provide their customers enhanced interoperability across parallel ID platforms, streamlined entity verification processes, and reduced data management costs for data users. With the launch of the open-source Business Identifier Code (BIC)-to-LEI relationship files in 2018, GLEIF and SWIFT pioneered a cooperation model that, for the first time, enabled market participants to link and cross-reference key entity identifiers free of charge. In April 2019, GLEIF and the Association of National Numbering Agencies (ANNA) piloted the first daily open-source International Securities Identification Number (ISIN)-to-LEI relationship files that link newly issued ISINs and LEIs. The Certification of

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[1] Financial Stability Board's Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report

Mapping service also supports the Global LEI System's integrity by ensuring that quality controls associated with mapping identifiers to the LEI meet or exceed requirements defined by GLEIF.

All-encompassing coverage - the Global LEI System supports all forms of legal entities, including trusts, funds, partnerships, SPVs, individuals acting in a business capacity, or governmental organizations.

Globally relevant - The digital space - and data spaces – are global by nature. That is why any standard adopted in this space should be able to respond to that global nature. Considering the LEI as the standard in that space would mean the EU is adopting a globally recognized and well-received standard for its data spaces. As proven by many EU rules in other sectors, this can only help the rest of the world follow the EU set standards as a best practice.

Further background on the LEI and digital initiatives

Beyond the data spaces, the LEI has potential in a variety of other initiatives when it comes to digital innovation and building the European Union's digital infrastructure.

LEI & eIDAS

The LEI plays an important role in extending the interoperability and usefulness of the EU's eIDAS scheme. GLEIF demonstrated in 2019 how an eIDAS compliant certificate can be linked to a company's annual financial reporting in a completely machine-readable fashion via the LEI through the GLEIF's Annual Report of 2018[2]. This allows any interested party to quickly and easily consolidate and verify information on a filing entity.

International Standardization Organization is considering a revision of the ISO 17442 standard to define how LEIs are technically integrated within different types of digital certificates in a standard way. The qualified digital certificate by itself guarantees the identity of the signer and its signature guarantees document integrity and frames it into a precise timing, using qualified time stamps in combination. Therefore, by adding LEIs into digital certificates, these are included in the document signature process, which brings an additional trust proof, as the LEI is a globally secure mechanism that provides reliable data for company identity. **Through LEI embedded digital certificates, legal entities can perform various corporate digital transactions, such as submitting e-invoicing, ordering goods and services, contracting with suppliers, or reporting tax statements to public authorities with an extra layer of trust.** This company's data check can be automated, consistently regardless of the country where the company is allocated, in the same way, certificate validation is done. The result is a reliable and robust validation of the company's data and people's identity acting on behalf of the company.

Digitally verifiable credentials

GLEIF partners with stakeholders in Europe and the rest of the world to pilot a solution which allows organizations to create and manage 'organization wallets,' containing digitally verifiable credentials that confirm an organization's identity and verify employees' authority and other representatives to act on behalf of the organization. These credentials can be used to securely identify authorized representatives

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[2] See for further detail : https://www.gleif.org/en/about/governance/annual-report

when they execute an increasing number of digital business activities, such as approving business transactions and contracts, including client onboarding, transacting within import/export and supply chain business networks and submitting regulatory filings and reports. What makes the LEI so attractive in both the world of digital certificates and Self Sovereign identity solutions is its unique value proposition, which connects to key reference information that enables clear and unique identification of legal entities including their ownership structure all over the world.

Increased availability and standardization of data should facilitate real-time and cross-border compliance, leading to reductions in administrative burdens and barriers to the Single Market. Data interoperability, harmonization, and standardization of entity data can be achieved by making the LEI a building block of the European data space. This would mean easier and smoother access to data by data users, regardless of they are from public or private sectors or whether they are big or micro-sized companies. The LEI could help the European Union's data landscape to be transformed in an open, democratic, and beneficial way for all participants in the ecosystem.