

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Reporting Council (FRC) for the Future of Corporate Reporting Consultation

February 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Reporting Council (FRC) for the Future of Corporate Reporting Consultation. GLEIF will focus its comments on how making the Legal Entity Identifier (LEI) a building block in the design of corporate reporting can ensure that the entity's data more easily compared, linked and facilitate public access to corporate data.

First, GLEIF would like to respond to Question 2. *“What do you see as the key practical challenges of implementing our proposals? Do you have any suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?”*

First, GLEIF would like to provide background information on the LEI.

The LEI is the only global standard for legal entity identification. It is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. 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.

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 a broad public good. As such, the LEI and its associated reference data are accessible to all as open, public data. It is registered and regularly verified according to protocols and procedures established by the [Regulatory Oversight Committee](#).

GLEIF supports the FRC's proposal to create a blueprint for a corporate reporting system which is fit for purpose and digitization. FRC aims to create three reports, the Business Report, the full Financial Statements and a new Public Interest Report, instead of a single annual report for providing more accessible, digestible and useful information. If this proposal is adopted, as highlighted in the Discussion Paper, it is essential to be able to link these reports to each other and the reporting entity for ensuring transparency and consistency of the reporting regime.

GLEIF suggests that for fulfilling the proposed system level attributes in the Discussion Paper, namely accessibility, connectivity, consistency and transparency, it is essential to use the LEI of the reporting entity in all three reports. The intended reporting network only can be achieved if the entity is uniquely identified across various reports. When the LEI is used in all three reports as a matching-key, users can easily navigate across these reports of the same entity. LEI reference data includes business card information on an entity, including name and registered address and ownership information. This increased transparency relative to an entity's ownership structure means that relationship networks

between LEIs can be quickly and automatically established. The net result is a substantially more useful document for end users, which is also verifiable, trustworthy, authentic and integral.

For a technology enable reporting, FRC proposes that a full set of corporate reporting schemas/structures should support tagging of all reports in the reporting network. Once tagged, the preparer would then file the report to a single public filing location and its website. By including the LEI in these schemas, any recipient of this reporting would be able to connect and cross reference across the submitted reports.

GLEIF agrees that FRC's technology vision would need to be supported by a structured data framework such as eXtensible Business Reporting Language (XBRL). This would apply across all documents and content elements within the reporting network. Existing global standards, such as the LEI, shall be used to allow reuse of data and reduce the impact of the tagging effort.

For example, the European Securities and Markets Authority (ESMA) has published the Global LEI Foundation's 2019 annual report on its website to provide a best practice example of a report published in the European Single Electronic Format (ESEF), which other preparers can reference. The report is published in human and machine-readable Inline XBRL and Hypertext Markup Language (HTML) formats, with LEIs embedded within both the annual report and the digital certificates of the report's signing executive officers. The simple process of embedding an organization's LEI – or, indeed, that of its affiliates, subsidiaries and parent companies within the reporting network means that regulators, investors, traders and all other stakeholders, can consolidate and verify information on the filing entity faster and more conveniently than ever before.

Therefore, while GLEIF agrees that a blueprint for corporate reporting is needed to respond to the varying needs of stakeholders, it is essential to use the LEI to easily connect different reports.

GLEIF also would like to respond to Question 7. *"Do you believe that there is a need for regulatory standards for non-financial reporting? If so, what do you consider the scope of the information that should be covered by these standards?"*

GLEIF agrees 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. Therefore, there is a need for regulatory standards for non-financial reporting.

Investors must be able to quickly identify the entity and the entity's subsidiaries in which they are investing. Let us imagine a UK investor who plans to invest in a Danish solar energy company. Would this investor's investment decision change if the 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 corporate structure information 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 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/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. 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.

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 UK 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 UK 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.