

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the UK Department for Business, Energy and Industrial Strategy on the Corporate Transparency and Register Reform Consultation on improving the quality and value of financial information on the UK companies register

February 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the UK Department for Business, Energy and Industrial Strategy on the Corporate Transparency and Register Reform Consultation on improving the quality and value of financial information on the UK companies register. GLEIF will focus its comments on how the Legal Entity Identifier (LEI) in annual reports can ensure that the entity's data is more easily shared across different government agencies and bring greater consistency.

First, GLEIF would like to respond to Q4: *"What challenges do you envisage for filing once across government?"*.

GLEIF agrees that the once only principle (filing once across government) can substantially reduce reporting burden for legal entities as currently they have to submit financial reports to various government agencies throughout the year.

GLEIF understands from the consultation that the government considers two options: (i) Enabling companies to file their accounts in one central place and for all government bodies to extract the information they need from that central source; or (ii) Developing technology that would send the relevant information to each government organization at the relevant time.

Designing a secure and reliable mechanism is crucial for an efficient and effective filing experience for both the entity and the recipients of the report. Adding the LEI as a required data element for the company, its subsidiaries and major relationships in annual filings brings trust and transparency to the process through use of a globally recognized identifier for a company. Identifying major relationship with the LEI can strengthen the corporate governance framework of companies. Moreover, it facilitates the usability of the data. For example, of the more than 200,000 subsidiaries created globally by 2,000 large multinational corporations, nearly a third of them have been sited in the US. UK is in the second in the ranking, followed by China with 17,508 subsidiaries. Global dispersion of subsidiaries simply show that national identification schemes are not sufficient to precisely identify and aggregate data of large corporates from a user perspective.

Consistent use of the LEI for reporting entities and its subsidiaries in annual reports also ensures interoperability at the national and international levels. This is especially important for enabling digital communications. GLEIF would like to highlight that the mandatory use of the LEI in planned iXBRL tagging could help government agencies to uniquely identify the legal entity who submits its filing. That is why the European Securities and Markets Authority (ESMA) has mandated that annual financial reports published from the start of 2020 follow a consistent digital configuration, known as the European Single Electronic Format (ESEF) and, in them, embed their LEI, a unique, digital, machine-readable global

standard. This mandate heightens transparency, enhances trust, and provides instant and non-repudiable verification that the organization filing the report is, indeed, who they claim to be. These benefits are all enabled with the inclusion of the LEI, a 20-digit alphanumeric code, that links to the filing entity's verified LEI reference data held within the Global LEI Index.

Thanks to the publicly available Global LEI Repository, government agencies can better parse data in annual reports and regulate, monitor and prevent fraudulent activity based on the LEI. Additionally, the information filed by legal entities can easily be aggregated with other company filings both in the UK and outside the UK for use by investors, financial intelligence units, and any other private or public party that may have an interest in the legal entity.

GLEIF also would like to respond to "Q15: What other information should Companies House collect that would be useful for:

- Combating economic crime;
- Increasing the value of the information available on the register?"

With the digitisation and automation of financial systems, financial crime and fraud have become electronically sophisticated and more complex. In return, there is a growing consensus that the current global framework for fighting financial crime is not as effective as it could be. As highlighted in the consultation, economic crime often uses obscure company vehicles to hide illicit financial flows. Criminals exploit any loopholes, including inconsistencies in filing practices.

Therefore, GLEIF suggests that Companies House associates the LEI as the first foundational step in combating financial and economic crime.

The recently published [Centre for European Policy Studies \(CEPS\) European Credit Research Institute \(ECRI\) Taskforce Report](#) confirms the following benefits of the LEI for improving efficiency and accuracy in anti-money laundering compliance:

- Facilitating know-your-customer (KYC) processes, especially on a cross-border basis;
- Facilitating more efficient screening and a reduction in false positives, enabling screening of real-time transactions;
- Simplifying the management of lists;
- Providing enhanced data analytics by using the LEI as a correlation identifier;
- Enabling more reactive capacity and better communication across investigative organizations;
- Serving to validate beneficial owners where they have legal identifiers.

For example, Piers Haben, Director of Banking Markets, Innovation & Consumers from the European Banking Authority highlighted that *"The mandatory use of common identifiers in reporting frameworks but also in all public information would allow to improve the quality of the data, reduce redundancy, enable data processing, aggregation and calculation, as well as assure the comparability between data from different sources and times. A further increased use of LEI could potentially support the fight against money laundering and terrorist financing during both onboarding and subsequent monitoring of the business relationship and associated transactions to detect suspicious transaction and make the application of CDD measures more efficient."*

The use of the LEI tackling against financial crime and strengthening AML/CFT frameworks also is being discussed by several UK organizations. For example, GLEIF has recently shared its comments with the UK

HM Treasury Innovation Working Group for its Legal Entity Identifiers Survey and how the UK Government could take to realise the opportunities offered by LEIs in preventing money laundering and financial crime.

The LEI reference data includes business card information on an entity, including name and registered address, together with relationship data which confirms the entity's ownership structure. 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 resource for end users.

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 ESEF format, which other preparers can reference. The report is published in human and machine-readable Inline XBRL and HTML formats, with LEIs embedded within both the annual report and the digital certificates of the report's signing executive officers. The combination of these two features provides something completely unprecedented and sets a best practice: instantly available, digitally verifiable features that confirm both the authenticity of the document and the key individuals responsible for its content.

Integrating the LEI into the annual accounts filing process can help Companies House to have a more effective role in assisting the UK Government's wider efforts to tackle economic crime affecting the UK by improving the interoperability of the information available about companies and other business entities.

Lastly, GLEIF would like to respond to Q28: *"What non-financial information would you like to see on the company overview page?"*.

GLEIF suggests that adding the LEI on the company overview page can bring multiple benefits for data users. With the LEI, aggregating information on companies from multiple sources is dramatically simplified, making the job of comparing standardized financial information both faster and easier. This can be accomplished either manually, by 'clicking through' to view the LEI reference data, or via an automated process, saving yet more time and eliminating the risk of human error.

In its response to the Corporate Transparency and Register Reform Consultation, the UK Government confirmed the usefulness of the LEI and highlighted that it will consider the benefits and practicalities of requiring LEI on exempt publicly listed companies and relevant legal entities.

Expanding the LEI requirement for all legal entities, including SMEs, on the company overview page would contribute to the broader digital agenda of the UK government. The LEI makes it easier for UK companies to participate in global financial transactions. The mapping of the LEI should happen at the source, Companies House level, in order to avoid false positives and negatives. The Bank of England has suggested that businesses could pull their data together under a single identity, the LEI, and create 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. This is only one example of how the SMEs can use data, their own data, effectively and how the Companies House can serve to its core purpose, making the register as complete and accurate as possible.