

Response of the Global Legal Entity Identifier Foundation (GLEIF) to European Commission for the Initiative Titled *Communication on Europe's digital decade: 2030 digital targets*

March 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission for the Initiative Titled *Communication on Europe's digital decade: 2030 digital targets*. GLEIF will focus its comments on how leveraging the Legal Entity Identifier (LEI), a machine-readable digital standard for entity identification, can help to address cross-border and transnational frictions in upgrading Europe's digital infrastructure and capacity.

GLEIF thinks that fragmentation of data space and single market for data among the Member States is a major risk for creating an EU fit for digital age and digital transformation. This fragmentation affects the usability of data and the value generation through data.

The usability of data will depend on its interoperability and standardization. When it comes to these two fundamental principles, GLEIF suggests that a critical question 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. The [report](#) on shaping the digital transformation in Europe highlights a lack of common standards for data and interoperability contributes to a lag in next-generation digital infrastructure. Secondly, regulation pertaining to the digital sector is not fully harmonized across the Member States (especially for emerging, high-impact technologies), which risks hindering the Digital Single Market in the EU.

GLEIF would like to emphasize that the LEI can play a substantial role in creating an interoperable Digital Single Market within the EU. Whenever the question of identifying securely a third party arises, as is the case in data access or data sharing models, the 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. It also ensures interoperability across member states as well as firms participating in EU solutions from third countries.

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 financial 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 approaches to client management procedures. The LEI is used to identify their clients in a

standardized way thereby 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, the European Central Bank, the EU supervisory authorities, and 16 member state authorities), under the auspices of the Financial Stability Board.
- In the European Union, the LEI is already required in regulatory reporting for entities subject to EMIR, MIFID II, MAR, CRR, SFTR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Securitization Regulation, Prospectus Regulation and SFTR. At the global level, more than 100 rules are referring to the LEI in Financial Stability Board jurisdictions¹.

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

- 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, starting with a consistent, secure, and efficient legal entity identification scheme applicable across EU and international borders. This enables them to make smarter, less costly, and more reliable decisions on who they do business with.
- As highlighted in the Communication, Covid-19 showed the urgent need for moving to digitization; but also the loopholes in the related governance frameworks. For instance, in the EU, the European Anti-Fraud Office (OLAF) has opened an inquiry concerning the imports of fake COVID-19 related products. OLAF announced that approximately 20,000 businesses have been set up on e-commerce platforms that allow the selling of medical equipment without checking and verifying their identity. GLEIF is aware that the Commission aims to address gaps in this area through the Digital Services Act. However, GLEIF would like to reiterate the importance of leveraging a global standard for verification of entities considering the global nature of cross border trade and suppliers.
- [European Systemic Risk Board's Recommendation](#) to the Commission of 24 September 2020 on identifying legal entities (ESRB/2020/12) calls on the Commission to adopt the LEI for all legal entities in the EU:
*"The Commission is **recommended to propose that Union legislation incorporates a common Union legal framework** governing the identification of legal entities established in the Union that are involved in financial transactions by way of a legal entity identifier (LEI)..." and until then
 "...the relevant authorities require or, where applicable, continue to require, all legal entities involved in financial transactions under their supervisory remit to have an LEI; 2. **the authorities, when drafting, imposing, or amending financial reporting obligations include or, where applicable, continue to include, in such obligations an obligation to identify by way of an LEI:** (a)*

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

the legal entity subject to the reporting obligation; and (b) any other legal entity about which information must be reported and which has an LEI”.

- Data interoperability, harmonization, and standardization of entity data can be achieved by making the LEI a building block of the European data space and digital transformation:

Open & non-proprietary - The complete database of LEIs and the associated 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 LEI serves as an important element of interoperability. All LEI reference data is available as open data, easily accessible via web search, full file download or API. The API, 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 automated processes. 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 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. Therefore, the LEI goes beyond the coverage of the EUID. The EUID is a good instrument for the goal it was designed for: create a EU-wide unique identifier for business registries to be able to communicate through Business Registry Interconnection System (BRIS) in a digital way between themselves on cross border mergers in the EU and on branches in other Member States. It was never designed to be used outside these goals. According to research done by the European Commission around the time of the implementation of the BRIS Directive, the number of entities covered by the Company Law Directive (and thus having an EUID) was around 45% of the total number of entities in the business registers in the Member States. And that figure included the United Kingdom, where the registry only contains companies, which means that the percentage for the current EU is even lower.

Globally relevant – Digital ecosystems are global by nature. That is why any standard adopted in digital ecosystems should be able to respond to that global nature. Considering the LEI as the

standard for legal entity identification in digital transactions would mean the EU is adopting a globally recognized and well-received standard for its digital ecosystems. 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

Additionally, the LEI has potential in a variety of other initiatives when it comes to digital innovation and building the EU's digital infrastructure and capacity.

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 LEI². This allows any interested party to quickly and easily consolidate and verify information on a filing entity. All the while benefiting from the trust environment established by eIDAS.

The International Standardization Organization revised 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 the recipient can conduct an additional trust proof using the LEI as a globally secure mechanism for reliable data. 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. 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 (vLEI)

GLEIF recently unveiled the issuance and technical infrastructure models for its recently announced vLEI infrastructure. A vLEI is a secure digital attestation of a conventional LEI, which is digitally signed by the owner and cryptographically secured with the owner's private key. By combining three concepts – the organization's identity, represented by the LEI, a person's identity represented by their legal name, and the role that the person plays for the legal entity, vLEI credentials can be issued and become part of organizational wallets. With the vLEI, companies can easily testify the counterparties that are making transactions with and remediate issues especially associated with payment processes. This allows GLEIF and its vLEI issuing ecosystem to take advantage of all blockchain, distributed ledger, self-sovereign identity and other cloud-based public utilities to notarize cryptographic actions or transactions, maximizing interoperability and flexibility in for the specific Community/Ecosystem/Exchange.

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

Increased availability and standardization of data should facilitate real-time and cross-border compliance, leading to reductions in administrative burdens and barriers to the Digital 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 and digital transformation. This would mean easier and smoother access to data by data users, regardless if 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.