

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Sustainability Accounting Standards Board (SASB) XBRL Taxonomy Consultation

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Sustainability Accounting Standards Board (SASB) XBRL Taxonomy Consultation. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the Taxonomy on a mandatory basis for a more efficient and effective non-financial data collection at the global level. Use of the LEI will enhance machine-readability as well as the comparability and usability of the collected data.

GLEIF welcomes SASB's inclusion of the LEI taxonomy for companies which have reporting obligations under the European Single Electronic Format (ESEF) reporting guidelines, which require the use of the LEI. The LEI, a global digital identifier for entity identification, can provide a digital solution for tagging company information, not only at the European level, but at the global scale to build a smooth and efficient ESG taxonomy value chain.

First, some background information on the LEI and GLEIF.

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.

Established by the Financial Stability Board in June 2014 under the mission of improving financial stability and transparency due to the aftermath of the financial crisis, the Global Legal Entity Identifier Foundation (GLEIF) is tasked to support the implementation and use of the LEI. Even though the primary and initial usage and adoption of the LEI was around financial markets and financial instruments, the LEI is use agnostic and therefore has been embraced by different sectors and regulators since its introduction by the Regulatory Oversight Committee and the Financial Stability Board in 2012. Further details on the use of the LEI in regulatory initiatives is provided [here](#).

As a member of the XBRL International Board of Directors, GLEIF regularly coordinates with XBRL International to promote the use of standards such as the LEI to ensure consistent and effective data collection and reporting on a global basis.

First, GLEIF would like to provide comments to Question: Do you foresee any issues with the taxonomy being used globally across jurisdictions?

SASB sets out the guidelines of the taxonomy to accommodate different reporting formats and facilitate the digital ESG information reporting in a structured, machine-readable fashion, so as to create an optimal and efficient ESG information value chain across industries and jurisdictions.

GLEIF suggests that ensuring a holistic entity identification mechanism through global standards is the first foundational step in achieving this vision. There are innumerable national or regional standards for

entity identification across the world. Different identifiers might serve the national needs, however, create tremendous conflicts and inefficiencies when it comes to the reconciliation of data across borders. For example, the Central Index Key (CIK) number, suggested in the Taxonomy as one of the accepted identifiers for reporting entities, is used to track entities that file with the Securities and Exchange Commission's (SEC) EDGAR system while the SEC uses Commission File Numbers to track entities that are regulated under the Securities Exchange Act and the Investment Company Act¹. Research conducted by GLEIF and Data Foundation demonstrates that the U.S. federal government alone uses 50 distinct entity identification systems—all of which are separate and incompatible with one another. Therefore, the LEI responds to the critical need for a universal system of identifying entities across markets, products, and regions.

The LEI's value in non-financial reporting is already recognized by supervisors. For example, the Eurosystem highlighted the importance of the LEI for linking financial and non-financial information and other data sources in [its response](#) to the European Commission (EC) public consultations on the Renewed Sustainable Finance Strategy and the Non-Financial Reporting Directive review. Eurosystem also emphasized that the LEI would enable digital-age innovation and thus foster potential growth in new markets, in addition to reducing costs and operational risks of the reporting entities.

Moreover, the LEI as a data connector allows investors to conduct analysis across multiple data sources more easily. Therefore, the LEI promises to taxonomy users a simple, efficient and effective data comparison and usability in a machine-readable format. This is important as investors must be able to connect to other data sources easily to conduct research on an entity's goals, strategies, tangible and intangible assets, values, etc.

Secondly, from the investors' point of view, accurately understanding a company's corporate structure is the key to make the reasonable investment choices. A clear picture on a corporate structure is a basic requirement for an investor to easily identify the entity in which she/he is investing. This is particularly challenging for a multinational company which has subsidiaries across the globe (Example: PFIZER INC. with 9 direct and 113 ultimate children according to the Global LEI Repository, <https://search.gleif.org/#/record/765LHXWVGK1KXCLTFYQ30>). For example, a multinational such as Pfizer Inc. with headquarters in the U.S. might serve the investor's domestic information requirements through the SEC regulatory filing. However, it is essential to understand the overseas financial accounting information and non-financial information of Pfizer Inc., which is highly likely to be provided in another format of regulatory filing that is not 100% compatible with its domestic filing. In this scenario, knowing the ownership structure and understanding the corporate governance framework is necessary for investors.

The LEI is already widely available for listed companies. According to the European Central Bank (ECB), in January 2021 the LEI coverage in the global securities market stood at 85% in terms of outstanding amounts of securities.² Additionally, the ISIN-to-LEI Mapping Service provided by GLEIF and ANNA can be leveraged. As of March 2021, over 5.6 million ISINs are mapped to 82,000 unique LEIs. This free of charge mapping file is updated daily and incorporated into the GLEIF API for easy access. 52 percent of

¹ GLEIF and Data Foundation Research Report - Envisioning Comprehensive Entity Identification for the U.S. Federal Government: <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei/gleif-and-data-foundation-comprehensive-entity-id-for-u-s-federal-government#>

² LEI coverage is measured as the share of securities issuers with LEI, weighted by the outstanding amounts of their securities issuances. The LEI coverage statistics are calculated on the basis of micro data from the European System of Central Banks' (ESCB) Centralised Securities Database (CSDB).

all ISINs are included in the daily published mapping file. National Numbering Agencies continue to join the mapping program. The most recent additions include Euroclear Nederland and Euroclear France in first quarter 2021.

GLEIF encourages SASB to adopt a global approach to organizational identity so as to avoid the negative impacts of a siloed approach. Given multiple identification systems are recommended, users of ESG data will need to engage in name matching and dealing with differences in standards for translation, transliteration, and abbreviation, all of which are costly and prone to error. Therefore, GLEIF thinks the key issue is to ensure a digital, holistic and accurate identification system of knowing 'who is who' and 'who owns whom', which the LEI facilitates as a globally recognized identifier across 200+ jurisdictions.

Lastly, GLEIF would like to provide comments to Question: Do you have any recommendations to enable wider adoption of XBRL based SASB reporting?

To achieve a wider adoption of XBRL based SASB reporting, a key building block would be to ensure a trust chain in the 'digitally tagged' way, which the LEI could help to facilitate. In 2020, GLEIF showcased in its 2019 annual report how the LEI can be included within digital, machine-readable financial documentation based on the European Securities and Markets Authority (ESMA) ESEF mandate. The annual report is rendered in both human and machine-readable Inline XBRL and HTML formats, with the GLEIF LEI embedded within both the annual report and the digital certificates of GLEIF's signing executive officers. In this way, financial market participants can easily verify the filing entity's identity based on its LEI and automatically access the aggregated data of the filing entity.

Given accelerated digital transformation resulting from the Covid-19 pandemic, the role of trust is the key for successful investment and transaction. Combining XBRL based reporting with digital signature mechanisms enhances the value of the information for investors as it can be trusted. Further, including the LEI in both allows for automated verification and validation of that digital signature to the entity's financial information.

GLEIF believes that digital certificates with embedded LEIs are an important enabler of digital transformation. This is because the qualified digital certificate by itself guarantees the identity of the signer and its signature guarantees document integrity and frames it in time, using qualified time stamps. Incorporating LEIs into digital certificates and document e-signature processes, therefore, can provide an additional layer of trust proof, since the LEI is a global secure mechanism that provides reliable data on organizational identity and enables automated connection to a financial filing in XBRL format.

Using this model, data can be checked consistently using automation, regardless of the organization's location, in the same way certificate validation is performed. For example, recently, the China Financial Certification Authority (CFCA) became the first market participant to successfully demonstrate a commercial use case of LEIs being embedded in a digital certificate, specifically within the digital certificate issuance process for PDF documents. Established in 1998, China Financial Certification Authority (CFCA) is a leading authority of financial security authentication. It is a critical industry infrastructure of financial information security. More than 3,000 financial institutions are using CFCA electronic certification services, accounting for 98% of the China bank markets using digital certificates.

Therefore, considering how XBRL filings can be enhanced with digital signatures, while preserving the machine readability of the filing and trust proof, can enable wider adoption of the XBRL based SASB reporting.

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