

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission Legislative Initiative for Corporate reporting – improving its quality and enforcement**

February 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to respond to the European Commission Legislative Initiative for Corporate reporting – improving its quality and enforcement. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

GLEIF agrees that high-quality and reliable corporate reporting by listed companies is crucial for the efficiency of EU financial markets. The unambiguous identification of these companies from the very start is of great importance to prevent fraudulent or incorrect corporate reporting and strengthen the three pillars, namely corporate governance, statutory audit and supervision of corporate reporting.

GLEIF welcomes the fitness check report published by the Commission staff. The report highlights that digitization increases users' demand for quicker and easier access to company information. A range of public and private-sector actors contribute to the digital dissemination of company information. Private data providers are commonly used but are a costly source of information.

GLEIF suggests that although the EU has a very comprehensive business register system and took essential steps to make the company information available for listed companies via Business Registers Interconnection System (BRIS). Still small investors or data users will need to overcome certain barriers (e.g., language, cost) for being able to obtain information on companies, particularly for unlisted ones.

The Global LEI System provides a solution to these barriers. It endorses the International Open Data Charter, which means the LEI data is to be freely used, reused, and redistributed by anyone, anytime, anywhere. Besides, the LEI data provides entity reference data in the native local language of the entity and in the transliterated version (as applicable). This enables users to understand the language used to represent the entity and also have a roman character representation of the name. And the [GLEIF API](#) is a globally accepted protocol for accessing identity information for legal entities in a digital and machine-readable fashion. The use of the Global LEI System by everyone, including, smaller and retail investors, is free of charge and without any barriers. Therefore, broader use of the Global LEI System enables investors to make informed decisions in a least costly manner.

LEI issuers, also referred to as Local Operating Units (LOUs), supply registration, renewal and other services, and act as the primary interface for legal entities wishing to obtain an LEI. The process of ensuring LEI data quality starts with the registering entity. Through self-registration, the registering entity must provide accurate legal entity reference data. It is then the responsibility of the LEI issuers to verify the legal entity reference data with the local authoritative source, e.g., a Business Register, and issue an LEI compliant with the LEI standards. Only organizations duly accredited by GLEIF are authorized to issue LEIs. [Accreditation](#) is the process by which GLEIF evaluates the suitability of

organizations seeking to operate as LEI issuers. At the moment, in the EU, there are 5 LOUs<sup>1</sup> in the EU, who are at the same time business registries or statistical offices in their respective jurisdictions.

With the LEI, Europe has a unique opportunity to improve the transparency of the business environment, for the benefit of both companies and public authorities. Such an opportunity can be seized by taking a holistic approach to further embed the LEI into harmonized EU legislation across different policy areas – as demonstrated by this consultation and by similar EU initiatives running in parallel, such as the consultation on “*Upgrading digital company law*”<sup>2</sup> to review the Company Law Directive.

By having each national business register offer an LEI to all companies in Europe, counterparty identification and verification would be more efficient and effective in many sectors, including—but not limited to—banking, supply chain, e-commerce and many other parts of the digital economy. The result would be to give all EU companies – of any size – a ‘tool’ to do business globally and digitally in a secure way, with the LEI serving as an international digital passport in addition to the national ID number. Stakeholder consultation showed that digitalization plays an essential role in increasing users’ efficiency. For users, key features are whether data is i) digitally readable (enabling easier use); ii) properly disseminated (where and when information can be accessed); and iii) secure (i.e., ensuring reliability, identification and integrity of information).

For example, regarding the usability of regulated information, ESEF requires LEI to be embedded within financial reports. GLEIF demonstrates in its annual report that by going one step beyond compliance and using LEIs in digital signatures too, organizations can greatly enhance trust in document integrity. GLEIF’s 2020 Annual Report is available in human and machine-readable Inline XBRL and HTML format, with the organization’s LEI embedded within the financial information. It also embeds the organization’s LEI within the digital certificates of the electronic signatures of the signing officers. Under the Company Law Directive, limited liability companies (regardless of whether they are listed or not) must file the audited financial statements with the national Business Register. GLEIF suggests that if an auditing company’s LEI is embedded with the auditor’s digital signature within the report, this can enable efficient report production and distribution processes, the elimination of paper and increased certainty and trust.

ESMA [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. The use of inline XBRL to allow for group structure reporting will allow legal entity names to be tagged with the corresponding LEI. Thereby, group structures as well as strategic partnerships could be gathered automatically, which is essential for risk management.

<sup>1</sup> Colegio de Registradores de la Propiedad, Mercantiles y Bienes Muebles de España (CORPME), InfoCamere, KvK, Patentti-ja Rekisterihallitus, Insee.

<sup>2</sup> As codified in Directives 2017/1132 and 2019/1151.

Mandating the issuing of an LEI to all companies by the national business registers would enable easier counterparty identification and verification for tasks such as opening a bank account, corporate reporting, engaging a new supplier, and establishing an account for selling goods online across the EU.

- By exchanging the LEI, firms would no longer need to develop business registry specific checks for each country, taking away a significant operational burden for EU companies;
- Verification could be automated by linking to the open and free data in the Global LEI System;
- Trust in online transactions could be more easily established by providing transparency in who one is doing business with.

Broader use of the LEI enables interoperability within the EU and across borders based on a global standard, an essential component of the Digital Single Market. In line with the Capital Markets Union, SMEs access to capital markets requires global transparency on identification. Many potential investors are located outside the EU. Having the LEI could contribute to easier access to capital and money markets, including but not limited to venture capital and private equity, credit and issuing fixed income instruments.

GLEIF is aware that the Commission has started work to establish a European Single Access Point (ESAP) to fill this gap. While the ESAP is making a big leap towards standardizing data for the benefit of the public, the European Supervisory Authorities would still need to decide which legal entity identifier can best serve this purpose. GLEIF suggests that the Legal Entity Identifier (LEI) (ISO-17442) is the right tool for the job given the Commission's aim to create digitally structured, easily accessible and searchable data.

A recent example is significant to show the importance of transparency in facilitating cross-border investments. In 2021, Deutsche Boerse Group stopped trading in US crypto-asset giant [Coinbase Global Inc.](#) shares as the LEI provided by the company was an incorrect LEI and it was not linking to the company who will be listed. The EU Transparency Directive and its LEI requirement ensures the transparency of publicly traded companies' and satisfies investors' need for reliable and timely information about the companies they invest in. Without this requirement, the investors could unintentionally invest in a company.

Requiring the LEI as a foundational step for all companies is crucial to ensuring reliable reporting and strengthening tax transparency and fairness, an objective highlighted in the consultation. A recent [blog](#) published by the Banque de France highlights that the LEI can be quite instrumental to monitor groups' ownership structure of large entities in offshore financial centers, which offer a high degree of financial secrecy and thereby facilitate tax evasion and the financing of illicit activities.

Lastly, GLEIF invites the Commission to take into consideration the [recommendations of the European Systemic Risk Board \(ESRB\)](#) on creating a framework for sustainable finance reporting. Among other benefits, the ESRB highlighted that the LEI can support the data collection on sustainable finance. *"A central harmonised database of relevant information on each company's degree of sustainability and its exposures to climate risks would be beneficial for supporting the development of sustainable finance and ensuring investor protection by enabling easy access to the financial and environmental, social and governance (ESG) metrics describing the company. Such data would enable supply chains to be tracked (e.g. through the LEIs of suppliers and clients of companies). This would make it possible to estimate emissions across entire supply chains. In turn, it would help monitor the use of the proceeds of green*

*bonds, make green labels more reliable and thus lower the reputational risk of “greenwashing” in green bonds markets.”*

Use of the LEI is an important component of an effective and efficient framework for high-quality corporate reporting by companies. Better data aggregation and analysis based on the LEI can support investor protection against incorrect reporting and reduce due diligence costs for reporting entities.