Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Organization for Economic Cooperation and Development (OECD) Public Consultation on Draft Revisions to the G20/OECD Principles of Corporate Governance

October 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Organization for Economic Cooperation and Development (OECD) Public Consultation on Draft Revisions to the G20/OECD Principles of Corporate Governance.

First, GLEIF would like to provide background information on the Legal Entity Identifier (LEI). GLEIF suggests that the LEI has a strong potential to contribute to the efficient use of digitial technologies for better supervision, effective cross border cooperation, transparency within company groups, linking financial and non-financial information of a company and thereby contribute to the comparable, reliable and good quality corporate disclosure frameworks.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to financial transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, public authorities, working with the private sector, have developed the Global LEI System with a global governance framework to enable the unambiguous identification of legal entities engaged in financial transactions. The LEI is use case agnostic and can be used in any process of entity identification, from finance to healthcare to verifying all counterparties of a business supply chain.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System as a broad public good and the subsequent establishment of the GLEIF by the FSB in 2014. As outlined in the GLEIF's Statutes, the Global LEI System is designed and developed to be used by the (i) public authorities and (ii) by the private sector to support improved risk management, increased operational efficiency, more accurate calculation of exposures and other needs. The GLEIF, a supra-national not-for-profit organization, is overseen by a committee of more than 65 financial markets regulators and other public authorities and 19 observers from more than 50 countries, known as the Regulatory Oversight Committee (ROC). The OECD joins the ROC as an observer and is represented by Mr. Graham Pilgrim from the Statistics and Data Directorate.

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. The complete database of LEIs and the associated LEI 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 the data can be accessed and used by all users without limitations. GLEIF makes the LEI and LEI reference data available via full file download, webpage search and API. Today, the LEI is widely used in reporting regimes globally, as demonstrated by the adoption of the LEI in 233 regulations and 61 policy recommendations across the globe.

GLEIF agrees that a sound framework for corporate governance is crucial to support sustainability of corporates and in turn sustainability of the broader economy. A recent B20, Business at OECD and IOE paper on the sustainability highlights that with the LEI, investors can access both the data regarding the legal entities themselves and the specific relationship data that would allow them to compare different entities, regardless of their legal forms or jurisdictions of formation. The LEI can act as a data connector allowing users to link and verify data across 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 understands that the Principles are non-binding and do not aim to provide detailed prescriptions for national legislation. However, to ensure comparable and reliable data across borders, GLEIF suggests that OECD add the collection and reporting of the LEI among best practices that can underpin good corporate governance.

The use of the LEI on a consistent basis can enable efficient and effective digitally-enabled supervisory and enforcement processes. In 2021, B20, Business at OECD and IOE proposed to G20 that the promotion of the LEI as a worldwide unique identifier standard can facilitate more effective counterparty identification and verification on a global scale. And thereby, a company's financial fingerprint can be retrieved, regardless of where the company is located, across borders within milliseconds, thanks to the publicly available Global LEI Repository. The report highlighted that it is possible to reduce the regulatory burden on entities if all entities have a global identity – the LEI. The LEI is linked to the entity's local identity. For example, each LEI record contains information on the registration authority (e.g. business register, chamber of commerce, etc) where the entity is registered as well as the local registration number. The LEI acts as the umbrella identifier connecting national and regional identifiers as required. This greatly enhances efficiency for companies who today have to manage dozens of identifiers to respond to regulatory and business partner due diligence demands all while allowing regulators to move seamlessly from a global to local identifiers. Furthermore, the Bank of International Settlements report *Corporate digital identity: no silver bullet, but a sliver lining* describes how Corporate digital ID is foundational for operational efficiency, market integrity, financial stability and inclusion. The report asserts that a unique legal entity identifier is essential for any corporate digital ID solution. Corporations are often identified by their business registration or company registry number. However, these systems are not standardised, generally not interoperable and often not digitised. The LEI is identified as a sounder starting point for corporate ID as it is global, unique and widely recognised.

Consistent LEI data collection and reporting could facilitate cross-border data sharing and make the corporate structure of companies transparent and visible, another principle highlighted in the consultation paper. GLEIF would like to provide well-known food manufacturer Nestlé S.A. as an example. According to the publicly available Global LEI Repository, Nestlé S.A has 63 direct, 106 ultimate children – subsidiaries around the world. Given the LEI removes the complexity of language, transliteration and access to local business registries, it supports the principle of bringing transparency to complex corporate structures; thereby ensuring better regulatory oversight. GLEIF suggests that the OECD guidance proposes the LEI as an effective tool to bring transparency that can help to reveal different layers within company structures instead of merely encouraging jurisdictions to develop their own definition and criteria for the identification of company groups. GLEIF would like to highlight further that if all jurisdictions independently create their own definitions, data cannot be compared across jurisdictions. Additionally this approach is in direct conflict with the goal of achieving digitially enabled reporting.

Lastly, GLEIF would like to comment on the principles related to disclosure and transparency within the consultation document. As highlighted above, complicated group structures tend to increase the opaqueness inherent in related party transactions and may increase the possibility of circumventing disclosure requirements. Given that the LEI makes the parties to any transaction transparent, adding the LEI to company disclosure requirements can ensure that all related parties in any transaction are properly identified.

It is also discussed within this section how to make financial and non-financial reporting relevant to each other. The FSB describes in its recent report *Supervisory and Regulatory Approaches to Climate-related Risks* how the LEI can be used to support a more accurate and timely aggregation of data on the same entity from different sources, especially on a cross-border basis. The LEI can help to link financial and non-financial information. Today, non-financial reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. The LEI is the global standard that serves to connect non-financial reporting and financial reporting given, for example in the EU, all publicly listed companies shall report their LEI according to European Single Electronic Format (ESEF) requirements. ESEF's mandatory inclusion of an LEI within financial reports automatically links the filing entity to its annually verified LEI reference data – such as name, registered address and corporate ownership structure - held within the Global LEI Index, which is free to access online. This empowers market participants who rely on official documents to inform strategic decisions (e.g., traders, investors, regulators) to quickly and easily consolidate and verify information on a filing entity. When the LEI is extended to non-financial reporting, financial and non-financial data can easily be combined thereby enabling data users to construct a 360 degree view of an entity.