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Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Treasury of Australian Government for the Consultation Paper on Climate-related financial disclosure: exposure draft explanatory memorandum

February 8th, 2024

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Treasury of Australian Government for the Consultation Paper on Climate-related financial disclosure: exposure draft explanatory memorandum. GLEIF will focus its comments on how leveraging the Legal Entity Identifier (LEI), a machine-readable digital standard for entity identification, can help to bring more transparency in climate-related financial disclosures.

Some background information on the LEI and GLEIF:

- 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](#)' based on accounting consolidation. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.
- Established by the [Financial Stability Board](#) in June 2014, the [Global Legal Entity Identifier Foundation \(GLEIF\)](#) is tasked to support the implementation and use of the Legal Entity Identifier (LEI). GLEIF is a supra-national not-for-profit organization headquartered in Basel, Switzerland.
- The Global LEI System is overseen by over 71 public authorities (including Australian Securities and Investments Commission) participating in the [Regulatory Oversight Committee](#).

GLEIF would like to propose adding below item under 'General Rules' or any other appropriate sections of 'Part 1– Climate-related financial disclosures':

- ***An entity required to prepare a sustainability report and its related entities (its controlling or controlled entities, and entities related with Scope 3 greenhouse gas emissions) could be identified with Legal Entity Identifier (LEI).***

The identification of legal entities in a unique and unambiguous manner is crucial to identify (i) physical risk, (ii) transition risk and (iii) liability risk. This was underlined in the [Network for Greening Financial System \(NGFS\) Progress Report](#), authored by a network of 83 central banks and financial

supervisors, which highlights that **a major obstacle to accessing and making use of existing climate-related data is the lack of unique identifiers which are crucial for interlinking climate-related data and financial data.** When legal entities, such as investment funds and government entities, together with corporate events, are defined and tracked using different identifiers, it can be extremely challenging for investors and/or regulators to analyze the climate-related performance for a given entity over time as each tracker needs to be reconciled and mapped back to the underlying entity.

The draft legislation and explanatory memorandum highlighted who has to prepare the annual sustainability reports, where the consolidated revenue, consolidated gross assets and an value of the asset owner are being evaluated. Considering today's business landscape, it's not uncommon to have such entities having consolidated entities or being consolidated by entities outside of Australia. Therefore, it is important to have a unique identifier for all these entities on a global scale. The LEI as a unique identifier for all legal entities globally can help addressing the cross-border issue with its below unique characteristics:

- 1) The LEI provides updated and verified business registration information of legal entities in both local and translated (or transliterated) languages. The Common Data File Formats ensure LEI data is delivered consistently, in the same format, for every legal entity regardless its jurisdiction. This enables supervisors and investors to engage uniformly with local data presented in proprietary formats and with different character sets. Each LEI record displays the entity's name and address information in the entity's local language character set and often with transliteration or translation. This greatly simplifies the task of reviewing important entity information when it is presented to the reader in an unfamiliar language. Using the LEI code [353800KAJ02XNHLCJW79](#) as an example, the LEI provides comprehensive information on entity names and addresses in both Japanese Kanji and Latin characters. All users can access the data via [LEI Search](#) or [GLEIF API](#) without any cost. Via the LEI reference data, an investor can confirm when reference data was last corroborated by an authoritative source and the details of that authoritative source.
- 2) The LEI captures a legal entity's consolidated parent and child relationship data. This is also in line with the requirement of climate-related financial disclosure in the draft legislation and explanatory memorandum. This feature could help supervisors and investors to better understand an entity's emission situation. For example, the entity Liberty Media Corporation (LEI: [549300ZKUTPIBZLWLL89](#)) is an American mass media company which does not have any direct connection with emissions. However, through its LEI, users could identify its consolidated child entities, which includes FORMULA ONE WORLD CHAMPIONSHIP LIMITED (LEI: [5493001MWJ957B1G6582](#)) having exposure to emissions.
- 3) Leveraging the LEI can help to assess supplier or other counterparty activities, emissions and the resulting risks along the value chains across countries and aggregated data. This is particularly important in the context of Scope 3 Greenhouse Gas emission evaluation. The LEI will enable cross-border coordination and cooperation as authorities develop modalities,

datasets and reporting frameworks to exchange with each other given the global nature of climate-related risks. With the LEI, supervisory authorities can identify entities' exposure to economic activities impacted by transition risk. The LEI can also provide details regarding the geographical location of entities' exposures most prone to physical risk. Moreover, the LEI can facilitate data collection of entities with regards to suppliers/clients/counterparties. For example, the Financial Stability Board (FSB) [recommends](#) adding the LEI of financial institutions' counterparties in data reporting templates to help increase the reliability of climate-related data used and reported by financial institutions.

- 4) The LEI is being [mapped](#) with other key identifiers, among them the Business Identifier Code (BIC), International Securities Identification Number (ISIN), and S&P Global ID. An investor could access such mapping data directly through the LEI Search, which could help them to facilitate more efficient and precise analysis and enable better decision making.
- 5) The LEI as a machine readable identifier provides particular value when used in conjunction with structured, electronic reporting formats such as XBRL. In collaboration with the GLEIF, XBRL International has released the [LEI Taxonomy](#) to facilitate the consistent use of LEIs in [XBRL reports](#).

All of these qualities position the LEI perfectly to deliver some critical yet missing components of a robust, efficient and effective disclosure on climate-related financial data, enabling transparency, consistency and compatibility. And the LEI can further instill trust in climate-related reporting if it is embedded within the digital certificate signing a report and / or the digital signatures of its signing officers.

The LEI is already required, where available, under the final [EU Regulatory Technical Standards \(RTS\) under the Sustainable Finance Disclosure Regulation \(SFDR\)](#) . In China, the LEI is required based on the [Guidelines for Environmental Information Disclosure of Financial Institutions in Shenzhen](#). The XBRL U.S. has also [suggested](#) that the U.S. Environmental Protection Agency (EPA) should require the use of the LEI by facilities submitting the GHG emissions data so that parent companies can be appropriately associated with their subsidiary facilities. The Sustainability Accounting Standards Board (SASB) recommended usage of the LEI to identify legal entities in its [XBRL Taxonomy](#). Meanwhile, GLEIF has also been engaging with international standard organizations such as the International Sustainability Standards Board (ISSB) and Global Reporting Initiative (GRI) on the potential usage of LEI in international standards.