

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Board of the International Organization of Securities Commissions (IOSCO) on the Consultation Report on Voluntary Carbon Markets (VCMs)

February 2024

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Board of the International Organization of Securities Commissions (IOSCO) on the Consultation Report on Voluntary Carbon Markets (VCMs)

Firstly, GLEIF would like to respond to Q8: *“Are the Good Practices set out under the section on Primary Markets appropriate? Is there anything else IOSCO should take into account?”*

When it comes to the appropriate requirements that regulators should put in place to enhance standardization, transparency, disclosure, soundness of registries and due diligence in Primary Markets (as per the recommendations 5 to 9), IOSCO could recommend the use of global standards for the unique identification of those legal entities that issue carbon credits and of those who buy carbon credits – such as the ISO 17442 Legal Entity Identifier (LEI).

In the context of complex corporate structures established across multiple jurisdictions, it is key to effectively identify issuers of carbon credits in order to ensure the credibility of net-zero projects and the integrity of such carbon credits. In turn, the increased credibility and integrity would boost investors’ confidence – thus supporting the channeling of investments into net-zero projects and the broader development of VCMs.

Furthermore, the effective identification of Primary Market participants including both issuers and buyers of carbon credits would provide a direct contribution to the enhancement of supervision and the risk identification by supervisors and regulators.

The [ISO 17442 LEI](#) is the right tool to achieve these goals.

The ISO 17442 LEI is the global and machine-readable standard for the unique legal identification of legal entities worldwide. It consists of a 20-digit, alpha-numeric code that enables clear and unique identification of legal entities. The code is linked to a set of key reference information relating to the legal entity in question e.g., name, legal form, headquarter address, parent company, child entities. This 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.

As such, using the LEI to identify issuers and buyers of carbon credits will have direct benefits across the Good Practices identified by IOSCO for Primary Markets, such as the following:

- **Increased standardisation (Good Practice 5)** – Considering the *global* nature of the LEI, which comes in contrast to the more limited remit of national/regional identifiers, which are only applicable to specific jurisdictions.
- **Increased transparency around the creation of a carbon credit (Good Practice 6)** – Given that identity verification is a key aspect of the broader project verification and auditing process.
- **Enhanced disclosures and soundness/accuracy of registries (Good Practices 7 and 8)** – Given that the identity of the issuers is a key element in the broader information related to the primary issuance of carbon credits.
- **Enhanced due diligence (Good Practice 9)** – By ensuring the secure and effective identification of the companies undertaking net zero projects and issuing carbon credits, the LEI will improve the ability to perform appropriate know-your-customer (KYC) and due diligence procedures within carbon crediting programs.

Additionally, the use of the LEI on a consistent basis can enable efficient and effective digitally-enabled supervisory and enforcement processes. In particular, the LEI can ensure maximum transparency, interoperability and clear communication with investors, issuers and supervisory authorities – as it provides a real-time picture of the counterparties involved in financial transactions.

For additional context on the LEI, 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.

Secondly, GLEIF would like to respond to Q15: “Are the Good Practices set out under the section on Secondary Markets appropriate? Is there anything else IOSCO should take into account?”

When it comes to the Good Practices identified as regards Secondary Markets involving the trading of carbon credits, IOSCO could recommend the use of global identification standards such as the ISO 17442 LEI, with a view to enhancing the transparency and the supervision of carbon credits trading – in line with what has been discussed above with respect to Primary Carbon Markets.

In this context, as a global and machine-readable standard for unique legal entity identification, the LEI would be especially useful in terms to improve the quality of public reports (Good Practice 12), enhancing pre-and post-trade disclosure (Good Practice 13), and fostering standardisation in the carbon credits derivatives market (Good Practice 14).

In the context of secondary markets of carbon credits, enhanced transparency benefits would also be related to the fact that the LEI is mapped with the ISIN code (please see for more details: <https://www.gleif.org/en/lei-data/lei-mapping/download-isin-to-lei-relationship-files>). The freely downloadable file contains 7,4 million LEI-ISIN mappings. The ISIN is used for the identification of tradeable securities – including carbon credits and/or derivatives whose underlying is a carbon credit – which means that securities can be linked to the legal entities purchasing, issuing and selling that security.

More broadly, integrating the LEI within Secondary Carbon Markets would help secure regulatory and supervisory outcomes aligned with those of traditional markets, where the LEI is already embedded. In this context, adopting the LEI within Secondary Markets would result in a cost reduction, as most secondary markets participants are already provided with an LEI.