

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission on the Digital Europe Program Consultation**

**October 2019**

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission on the Digital Europe program consultation. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First some background 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 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, authorities, working with the private sector, have developed the framework of a Global LEI System that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose. 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 businesses 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 that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC). Different European Union institutions such as European Commission, ESMA, ECB and EIOPA are represented in the LEI ROC. Mr. Gaetano Chionsini from the European Banking Authority represents the European Union in the LEI ROC Executive Committee.

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. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. 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 used by all users without limitations.

Trust is the key for any economy. It matters more than ever in a digital and globalized economy – as the number of legal entities one transacts with is only increasing and will continue to do so. This new environment makes identity verification by citizens, businesses and authorities more important but also harder to do accurately. An economy where legal entity identification is done in a consistent, secure and efficient way brings several benefits – all of which can help better prepare the EU economy for the digital revolution.

In the consultation paper, European Commission underlines the importance of the deployment of interoperable solutions in areas of public interest. Interoperability covers all levels of administration: Union, national, regional and local. GLEIF believes that interoperability among different systems across Member States only can be achieved through the deployment of a global standard given business relationships today are not limited by where a legal entity is domiciled. According to the World Trade Organization’s “World Trade Report 2016: Levelling the Trading Field for SMEs”, the spread of online platforms and electronic commerce promises to give SMEs the ability to reach customers around the world. On average, 97% of internet-enabled small businesses export.

Therefore, integration of the LEI in any online transaction, where entity verification is needed, would provide unambiguous certainty of identity. Using LEI on a consistent basis for identifying and verifying legal entities also would allow to connect businesses and public administrations in the Union. This is also consistent with the once-only principle in the Single Digital Gateway. By using an LEI and its associated reference data, a European SME can reach a decision that a supplier is a legitimate entity that exists and could be engaged in commerce, regardless of where the supplier is located.

Use of the LEI presents cross sectoral use benefits across the European Union. GLEIF proposes that the LEI can be leveraged for different use cases, where digital transformation is sought. In the *Explanatory Memorandum of the Proposed Regulation 2018/0227*, it is stated that deploying eInvoicing across the EU would mean providing digital public services to companies that have the necessary connectivity and skilled workers, while guaranteeing public trust, and thus, support for transactions in a secure environment. GLEIF thinks that consistent use of the LEI in e-invoices and payments lifecycle would provide verified, authoritative information about the entities involved in payment transactions and guarantee security. GLEIF also has taken the necessary steps to include the LEI on the EU Electronic Address Scheme (EAS) code list so that the LEI can be used in EU eInvoicing.

Adoption of the LEI in payments is supported by several EU industry groups and representatives. For example, the European Payments Council proposed LEI as a data element in E-invoice Electronic Presentment and Presentment Service Messages. The Payments Market Practice Group highlighted in the [White Paper on Adoption of LEI in Payment Messages](#) that the LEI would facilitate the use of artificial intelligence (AI) for financial crime compliance by both the public and private sectors given technologies such as machine learning have the best outcomes when they can rely on high quality standardized data in their processes.

Developing cross border deployment of Anti-Money Laundering/Know Your Customer blockchain-based solutions and fighting against fraud and counterfeiting through technology solutions are listed as public-private initiatives to be supported in the context of the European Blockchain Partnership. Integrating the LEI into entity verification methods for supply chain, trade finance and KYC business processes will allow anyone to easily connect all records associated with a business and identify who owns whom. By becoming the common link, the LEI would provide certainty of identity in any online interaction, making it easier for everyone to participate in the global digital marketplace. Ensuring a common link is

especially important for emerging technologies, like blockchain, to ensure interoperability across applications.

Given the European Commission plans to conduct a pilot of innovative digital forensic and investigation tools for law enforcement purposes, GLEIF proposes the Commission consider LEI as a required data field for legal entities.

GLEIF also would like to highlight that the LEI is already being embedded into digital certificates, allowing it to be used for digital financial documentation. In partnership with XBRL International, GLEIF has published its 2018 annual report in human and machine-readable Inline XBRL and HTML format, with GLEIF's LEI embedded into the financial information for the first time. It becomes the first official business report globally which automatically links the filing entity to its verified LEI reference data held within the Global LEI Index.

Within [GLEIF's 2018 annual report](#), GLEIF's LEI is also embedded within the digital certificates of GLEIF's signing executive officers. These certificates, for the first time, connect the role of the signatory to an organization through the LEI and can therefore be used to verify – automatically, through the shared LEI – that the filed document and the signatories represent the same organization. Incorporating a company's LEI within digital certificates of its executive officers used to sign financial statements provides reassurance on the data's reliability and that the information has not been tampered with, despite permitted access to the filed document via any public server globally. Deploying digital signatures, including that of the auditor, also enables efficient report production and distribution processes, the elimination of paper and increased certainty and trust.

The digital certificates of GLEIF's signing executive officers included with its 2018 annual report are compliant with the European Union's Electronic Identification and Trust Services (eIDAS) Regulation. ETSI (European Telecommunications Standards Institute) has published the technical standards for the inclusion of LEIs in eIDAS certificates and seals in August 2019.

GLEIF also is conducting further research on the use of LEIs for digital transactions focusing on the use of the LEI in digital verifiable credentials which can be secured cryptographically and contribute to overall cybersecurity. Decentralized identity management systems offer an alternative to centralized identity management. Such systems run using distributed ledger technology. Entities represent themselves via digital verifiable credentials. Such credentials allow for real time access to services or applications. DVCS are interoperable, cryptographically-verifiable and facilitated by distributed ledger or blockchain technology. By leveraging the LEI within digital verifiable credentials, counterparties can more easily accomplish the tasks of identity verification, authentication, and authorization.

If successful, this research could lead to legal entities having digital identities that could be used in a chain of trust for numerous use cases from regulatory and supervisory filings to business contracts and transactions.

GLEIF believes that this use case of the LEI is also in line with the intended ecosystem in the European Union that cross-cutting instruments to support the European digital government through involvement of both public and private institutions.

In the Consultation Paper, the EU Commission underlines that digitization of the justice system is among the priorities for upcoming years. The Commission plans to enhance the interoperable connections to national databases and business registers based on the existing Business Registers Interconnection System.

Currently, in the Global LEI System, 6 out of 33 GLEIF accredited LEI Issuing Organizations, are also official business registers in the European Union (Italy, Spain, France, Slovenia, Finland and Netherlands). GLEIF believes that there is a natural synergy between these organizations and the Global LEI System. Embedding the LEI into EU legislation that is relevant to cross border business operations (e.g. company law), can help increase the communication between business registers and standardize the information available to companies, notably SMEs. The Global LEI System supports all forms of legal entities, including trusts, funds, partnerships, SPVs or governmental organizations. Therefore, leveraging the LEI into the Business Registers Interconnection System would help to support innovative solutions in justice and enhance enforcement capacities of enforcement bodies in the Union.

Finally, GLEIF would like to emphasize that Digital Single Market needs trust to function as also highlighted by the European Commission. Consistent use of the LEI for entity identification across different sectors would help to create coherence between the Digital Europe Program and the Single Market Program. The LEI, being a public good, supported by both public and private institutions, can help to maximize the benefits of digital transformation to all European consumers, public bodies and businesses.