

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the International Accounting Standards Board Request for Information Third Agenda Consultation September 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the International Accounting Standards Board (Board) Request for Information Third Agenda Consultation. GLEIF will focus its comments on using the Legal Entity Identifier (LEI) in new standard-setting and standard-setting work in progress to achieve a consistent application across standards that require clear and unique legal entity identification. Making the LEI a building block in developing various standards can ensure that the entity's data is more easily compared, linked, and facilitates public access to corporate data.

First, GLEIF would like to provide background information on the LEI.

The LEI is the only global standard for legal entity identification. It is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.

The drivers of the LEI initiative, i.e. the Group of 20, the Financial Stability Board and many regulators around the world, have emphasized the need to make the LEI a broad public good. As such, the LEI and its associated reference data are accessible to all as open, public data. LEIs are registered and regularly verified according to protocols and procedures established by the [Regulatory Oversight Committee](#).

First, GLEIF would like to respond to Question 1 "*Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities. (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.*"

GLEIF suggests that the consistent use of the LEI in standard-setting could help link reported information, thereby increasing the value of individual standards to users. LEI reference data includes business card information on an entity, including name and registered address and ownership information. When the LEI is used in reports (e.g., topics listed in Appendix B) as the matching-key, users can easily navigate across reports of the same entity. This increases transparency as the user can paint a rich picture of the reported entity. For example, the entity's ownership structure and relationship networks can be quickly and automatically established via the LEI. The net result is a substantially more useful standard and application of the standard for end-users.

GLEIF appreciates the Board's existing activities and efforts to improve consistency in applying IFRS Standards and suggests that the Board consider increasing the current level focus for the "*Digital financial reporting Objective*" given the accelerated trend towards digitization within financial markets.

A complete set of corporate reporting schemas/ structures should support tagging of all reports in the reporting network for digitally-enabled reporting. Once tagged, the preparer would then file the report to a single public filing location and its website. By including the LEI in these schemas, any recipient of this reporting would be able to connect and cross-reference across the submitted reports.

GLEIF suggests that digital reporting could be supported by a structured data framework such as eXtensible Business Reporting Language (XBRL). The XBRL standard already provides a taxonomy for the LEI, both for the reporting entity, its subsidiaries and business partners. Mandating this standard taxonomy could create huge transparency gains and bring ease of operations. This would apply across all documents and content elements within the reporting network. Existing global standards, such as the LEI, should be used to allow the reuse of data and reduce the impact of the tagging effort.

For example, the European Securities and Markets Authority (ESMA) has published the Global LEI Foundation's 2019 annual report on its website to provide a best practice example of a report published in the European Single Electronic Format (ESEF), which other preparers can reference. The report is published in human and machine-readable Inline XBRL and Hypertext Markup Language (HTML) formats, with LEIs embedded within both the annual report and the digital certificates of the report's signing executive officers. The simple process of embedding an organization's LEI – or, indeed, that of its affiliates, subsidiaries and parent companies within the report means that regulators, investors, traders and all other stakeholders, can consolidate and verify information on the filing entity faster and more conveniently than ever before.

Since the Board aims to increase the understandability and accessibility of the Standards on a global level, an explicit direction to use a persistent, machine-readable, globally recognized legal entity identification standard, the LEI, in its standard-setting work should be a fundamental and foundational addition to its current work. This work would support the transparency, accountability and efficiency of financial markets. Thanks to the LEI, regulators, auditors, investors, data aggregators and other data users could compile, analyze and compare data in an easier manner.

Moreover, since the LEI is already required by over 120 regulations globally, the use of the LEI in standard report formats would support the survey finding of the IFRS Foundation that stakeholders need simple, practical, and workable Standards. The consistent use of a standard that can be used for all legal entity identification needs would satisfy the needs of IFRS stakeholders regarding understandability, accessibility and usability of standards. In parallel with IFRS' "understandability and accessibility of the Standards Objective", the IFRS could leverage the LEI to reduce unnecessary complexity and inconsistency across different reporting regimes regarding the legal entity identification and achieve a more articulated and consistent terminology internally.

Lastly, GLEIF would like to respond to Question 3 "*Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan. (a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your*

prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority."

GLEIF suggests that "climate-related risks" and "cryptocurrencies and related transactions" could be given higher priority by the Board.

GLEIF understands that the Trustees of the IFRS Foundation are assessing the future strategy for the Foundation as a separate workstream and already consider a potential expansion of the Foundation's role into setting sustainability reporting standards. Although this consultation document specifically highlights that it does not ask for feedback regarding sustainability reporting, due to its link with "climate-related risks", GLEIF would like to offer its perspective on making climate-related risks reporting more effective, comparable and consistent.

The industry accepts that access to sufficient, reliable, and comparable information from financial and non-financial entities on their climate, environmental, and social risks and impacts is still a challenge. Moreover, the ESG reporting is global by nature. In order to understand a reporting entity's submission, all relevant subsidiaries and business partners must be identified properly. This challenge to identify all relevant subsidiaries on a global basis properly hinders investors from making sound investment decisions based on sustainable investment objectives. Therefore, we need clear standards for overcoming these challenges.

First, investors seek to assess the sustainability track record of companies they invest in. Investors must be able to quickly identify the entity and the entity's subsidiaries in which they are investing. Let us imagine a British investor who plans to invest in a Danish wind energy company. Would this investor's investment decision change if this Danish wind energy company's subsidiary runs nuclear power stations in Germany or another subsidiary runs a copper mine in Chile? How could an investor assess the material sustainability impacts of the reporting entity? How can this investor access the relationship information on the headquarter company and subsidiaries through a single data source, ideally in an easily consumable and machine-readable format? A similar scenario can be extended to financial institutions. Imagine that this Danish wind energy company applies for a sustainability-linked loan with a financial institution. How can this financial institution analyze the entity's eligibility for this type of loan and make its environmental, social, and governance (ESG) risk assessment ideally in an easy and transparent way? The Global LEI System makes this analysis easy, quick and transparent for everyone without any restrictions. Please see the LEI of the Danish wind energy company Vestas as an example: <https://search.gleif.org/#/record/549300DYMC8BGZC8844>. The transparency the LEI brings will help reduce "greenwashing" – when a reporting entity tries to aggregate and report 'at the most convenient level for them' – by allowing recipients of a report to easily navigate a corporate structure.

GLEIF thinks that current challenges in accessing reliable, comparable, and relevant information on sustainable risks, opportunities and impacts can be greatly reduced by ensuring that the very first step in data collection and submission starts with unique and unambiguous identification of legal entities by the LEI.

Regarding the "cryptocurrencies and related transactions" standard to be developed, GLEIF would like to share its perspective for a reliable, transparent and efficient reporting regime.

[The European Securities and Markets Authority \(ESMA\) Advice on Initial Coin Offerings \(ICOs\) and Crypto-Assets](#) highlights that there are concerns around fraudulent ICOs, whereby crypto-assets either do not exist or issuer/developers disappear after the ICO. These could represent up to 80% of ICOs, according to some sources. Identifying such parties with an LEI would enable clear identification of who one is doing business with and a means to investigate the entity given an issue arises with the ICO. The crypto-asset issuer or sponsor is the organization that typically has developed the technical specifications of a crypto-asset and set its features. In some cases, their identity is known, while in some cases, those promoters are unidentified.

For example, the European Commission has already required that the issuer of crypto-assets and service providers be identified with the LEI, as outlined in its Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets and amending Directive (EU) 2019/1937.

Investment in crypto-assets often involve cross-border transactions and data reconciliation. The situation that different national authorities use different identifiers causes opaqueness and heavily hinders the smoothness of the whole compliance process. GLEIF would like to provide a hypothetical example to demonstrate the importance of having one and only unique identifier in crypto-asset reporting. For example, a crypto-asset service provider based in France reports to the Autorité des Marchés Financiers (AMF) and provides crypto-asset services to investors in the Netherlands. The AMF could quickly identify this legal entity and share information relative to this legal entity with the French tax administration by using the LEI. When the French tax administration records the LEI of this entity, it can exchange information about this entity with its Dutch counterparty in a seamless way. Thereby, the Dutch authority can identify the entity easily and decide for the eligibility of this service provider for exempting it from certain tax requirements. The use of the LEI from the beginning reduces the administrative burden for all parties substantially.

The challenge is that the current reporting regimes accept multiple identifiers and hinder the efficiency of verifying and validating the service provider's identity in a seamless and transparent way. This inefficiency and opaqueness open the door for tax fraud and illicit activities. Therefore, the Board could consider these inefficiencies and add the LEI requirement in its new standard.