Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Conduct Authority Sustainability Disclosure Requirements (SDR) and Investment Labels Consultation Paper

January 24th, 2023

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Conduct Authority Sustainability Disclosure Requirements (SDR) and Investment Labels Consultation Paper. GLEIF will focus the comments on how the inclusion of the Legal Entity Identifier (LEI) in sustainability reporting disclosure for both product and entity level can help to facilitate a more efficient, transparent, comparable and digitally enabled sustainability reporting mechanism.

Specifically, GLEIF would like to respond to Q14: Do you agree with the proposal that we should not mandate use of a template at this stage, but that industry may develop one if useful? If not, what alternative do you suggest and why?

GLEIF suggests that the creation of a template with certain mandatory data fields is crucial to ensure standardization, comparability and consistency of the required information. GLEIF suggests that FCA could mandate use of certain ISO standards as a means to ensure consistency with international sustainability and financial reporting. This would ensure maximum usability to investors and also reduce compliance costs for reporting entities. FCA could mandate the use of certain ISO standards either via FCA creation of templates or as guidance to industry in creating templates.

Given the foundational nature of entity identification in ESG reporting, GLEIF suggests that the Legal Entity Identifier (ISO 17442) is a critical international standard that should be mandated in sustainability reporting. Industry experts highlighted that in addition to the efforts for standardizing ESG data, identifiers that do not change over time and enable interoperability are key foundational tools for seamlessly connecting ESG data with existing data infrastructures so firms can glean valuable insights faster. To analyze a company’s performance across ESG factors, investors need to unambiguously identify the entity in question to understand hidden climate-related risks or Scope 3 greenhouse gas emissions. When legal entities, such as investment funds, government entities, or corporate events, are defined and tracked using different identifiers, it can be exceedingly challenging for investors or regulators to analyze the ESG performance for a given entity over time since all those different trackers need to be reconciled and mapped back to the underlying entity.

Without a clear, standardized, and global entity identification system, sustainability disclosures cannot achieve the trust and transparency required by regulators, investors, lenders, and creditors. Suppose the globally recognized LEI is used to identify all reporting entities and parties in the value chains across borders. In that case, sustainability-related financial data can enable transparency and interoperability at the global level.

Ensuring the connectivity between various sustainability-related risks and opportunities and information in the general-purpose financial statements is essential for the complete picture of the
entity. The Progress report on bridging data gaps published by the Network for Greening the Financial System (NGFS), a network of 83 central banks and financial supervisors, highlights that an 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. The LEI serves as that global international standard that can link financial and non-financial information. GLEIF agrees that non-financial reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. The LEI is in a perfect position to connect non-financial reporting and financial reporting and creating the missing connectivity between various sustainability-related risks and opportunities. When the LEI is extended to non-financial reporting, location of firms and supply chains can be collected through the publicly available Global LEI Index in a very granular and transparent manner, which is crucial for assessing physical and transition risks.

Under “Basic information” for product level disclosure in the consultation, GLEIF welcomes the inclusion of the International Securities Identification Number (ISIN) for identifying products. At the same time, GLEIF strongly suggests supplementing ISIN with the LEI for the identification of investment product issuers or reporting firms, as well as distributors. The LEI and ISIN can be used in tandem to identify the issuer and the product. Additionally, the firm’s name and the product name can be retrieved from both LEI and ISIN records, respectively. To achieve consistency in reporting, we also recommend eliminating “…or any other unique identifier” and instead mandate the inclusion of both LEI and ISIN.

It is stated in the consultation paper that FCA wants the UK regulatory regime to be compatible with other initiatives internationally as far as possible, while remaining appropriate for the UK market. GLEIF highlights ESMA’s Final Report on the draft Regulatory Technical Standards for the Sustainable Finance Disclosure Regulation (SFDR), where ESMA introduces a standardized template for pre-contractual disclosure. The LEI is requested in Annex I, II, III and IV. This level of prescription is needed for achieving consistency and standardization in disclosure frameworks.

In a recent publication, Financial Stability Board called regulators to require the addition of the LEI in financial institutions’ counterparties in data reporting templates, given the LEI could contribute to increasing the reliability of climate-related data used and reported by financial institutions. Therefore, GLEIF recommends FCA to reconsider its stance on mandatory data collection and suggest adding the LEI in the sustainability reporting templates.