

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Network for Greening the Financial System (NGFS) Survey Consultation on the NGFS Directory

May 2022

Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Network for Greening the Financial System (NGFS) Survey Consultation on the NGFS Directory. GLEIF will concentrate its comments on the use of the Legal Entity Identifier (LEI), a machine-readable, global standard for unique and unambiguous entity identification that can be leveraged for linking financial and non-financial information.

GLEIF would like to respond to Question 7: *“Could you flag the data items you consider to be actual gaps?”*.

First, GLEIF welcomes the inclusion of the LEI in the NGFS Progress report on bridging data gaps published in May 2021 for linking financial and non-financial information.

The LEI is a 20-character, alphanumeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI 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, answering the questions of ‘who is who’ and ‘who owns whom’. It provides a universally recognized identifier paired with essential entity data, rigorous verification processes and high data quality.

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 as a broad public good that provides unique identification of legal entities participating in financial transactions. GLEIF was established by the FSB in 2014 to support the implementation and use of the LEI. As outlined in the GLEIF’s Statutes, the Global LEI System is designed and developed to be used by the (i) public authorities and (ii) by the private sector to support improved risk management, increased operational efficiency, more accurate calculation of exposures and other needs. GLEIF, a supra-national not-for-profit organization, is overseen by more than 65 public authorities and 19 observers participating in the Regulatory Oversight Committee (ROC).

GLEIF agrees with the suggestions of the NGFS in the Progress Report. It is essential that the high quality, granular, reliable, consistent and comparable climate-related data is collected at entity, asset, or aggregate level for being able to assess physical and geographical risks. Leveraging the LEI can help to assess counterparty risks and emissions along the value chains across countries and aggregate data. GLEIF also agrees that leveraging publicly available open sources could be helpful for data collection and distribution. The LEI tackles data reconciliation problems across borders and promotes an interoperable network. GLEIF ensures that any interested party can access and search the complete LEI data pool free of charge and without the need to register. GLEIF also makes available the complete LEI data set free of charge via its file download service. Lastly, the free-of-charge GLEIF application programming interface (API) provides developers with the opportunity to access the complete LEI data pool in real-time directly and to perform on-demand checks for changes to specific LEI records in a convenient, easy-to-read

format. Since the LEI as a data connector allows users to connect to other data sources easily, investors or financial institutions can do more in-depth research on an entity's goals, strategies, tangible and intangible assets, values, and verify the legal entity and its subsidiaries in a seamless way. The investors could use the LEI as a data connector to mapped identifiers such as Business Identification Code (BIC) and International Securities Identification Number (ISIN) to access richer data regarding the companies.

The LEI is already used in financial reporting as required by 124 regulations worldwide. Extending the use of the LEI in non-financial reporting and data collection can help to reduce accessibility challenges that stakeholders reported: it is difficult to obtain information that already exists, and the data are not collected in a systematic manner. The Progress report also highlights that another 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 can help to 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 given, for example in the EU, all publicly listed companies shall report their LEI according to European Single Electronic Format (ESEF) requirements. ESEF's mandatory inclusion of an LEI within financial reports automatically links the filing entity to its annually verified LEI reference data – such as name, registered address and corporate ownership structure - held within the Global LEI Index, which is free to access online. This empowers market participants who rely on official documents to inform strategic decisions (e.g., traders, investors, regulators) to quickly and easily consolidate and verify information on a filing entity. When the LEI is extended to non-financial reporting, location of firms and supply chains can be collected through publicly available Global LEI Repository at a very granular and transparent manner, which is crucial for assessing physical and transition risks.

GLEIF suggests that current and prospective 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 the unique and unambiguous identification of legal entities by the LEI. Some supervisory authorities already recognize the LEI's value in non-financial reporting. For example, the Eurosystem highlighted the importance of the LEI for linking financial and non-financial information and other data sources in [its response](#) to the European Commission (EC) public consultations on the Renewed Sustainable Finance Strategy and the Non-Financial Reporting Directive review. Eurosystem also emphasized that the LEI would enable digital-age innovation and thus foster potential growth in new markets and reduce costs and operational risks of the reporting entities. The European Commission has adopted Commission Delegated Regulation (2022/1931) which supplements the Sustainable Finance Disclosure Regulation ((EU) 2019/2088), where the LEI is required under Article 2, *where available*, and, Appendix II (Environmental and/or social characteristics), Appendix III and V (Sustainable investment objective).

Similarly, the Sustainability Accounting Supervisory Board included the LEI in its proposed XBRL taxonomy for companies which have reporting obligations under the European Single Electronic Format (ESEF) reporting guidelines and thereby recognized the unique role of the LEI as a global and digital entity identification solution for ESG reporting. It is crucial that jurisdictions enacting new rules in sustainability reporting incorporate the existing global standards such as the LEI in their reporting requirements, instead of creating new rules and standards. NGFS Directory could help to reduce duplicate efforts across different jurisdictions by providing data points that enable a common language in non-financial information reporting and digitization of data reporting.

The European System Risk Board in its [recommendation](#) highlighted that the LEI can support the data collection on sustainable finance. *“A central harmonised database of relevant information on each company’s degree of sustainability and its exposures to climate risks would be beneficial for supporting the development of sustainable finance and ensuring investor protection by enabling easy access to the financial and environmental, social and governance (ESG) metrics describing the company. Such data would enable supply chains to be tracked (e.g. through the LEIs of suppliers and clients of companies). This would make it possible to estimate emissions across entire supply chains. In turn, it would help monitor the use of the proceeds of green bonds, make green labels more reliable and thus lower the reputational risk of “greenwashing” in green bonds markets.”*

Given banks, insurers, pension funds and other buy-side entities need to perform analysis and stress testing at both the portfolio level and at corporate level to analyze climate related risks, the identification of the counterparty in a unique and unambiguous way is the foundational step to achieve transparency at the entity level on a global basis. In the proposed NGFS Directory, GLEIF suggests that the LEI, with the [Global LEI Index](#) as the authoritative, central repository for all historical and current LEI records, could be added to uniquely identify counterparties (E.g., *Data item: Counterparty, Description: Any entity/corporate Data source: Global LEI Index*). Addition of the LEI can help to track the footprint of entities, which might be useful to understand physical and transition risks, including geographical data. Moreover, since the EU Single Access Point (ESAP) considers using the LEI in its design for identifying legal entities reporting on the platform, the addition of the LEI can create the natural interoperable environment globally, where the entity’s financial and non-financial information can be searched in an easy, quick and transparent manner.