Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Financial Reporting Advisory Group (EFRAG) Due Process Procedures for EU Sustainability Reporting Standard-Setting Consultation

September 14th, 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Financial Reporting Advisory Group (EFRAG) Due Process Procedures for EU Sustainability Reporting Standard-setting consultation. GLEIF will focus the comments on how the inclusion of the LEI in sustainability standards for reporting entities can help to facilitate a more efficient, transparent, comparable and digitally enabled sustainability reporting mechanism.

In Paragraph 4.11. it is stated that the "EFRAG SRB may use the European Lab activities in the form of task forces to identify good practices and stimulate innovation and debate related to sustainability reporting". Paragraph 4.12 continues "Depending on the availability of resources, the European Lab activities may also go beyond identification of good practice and consider proactive research on some topics or help with the development of education-oriented material. Through its attachment to both the Financial and Sustainability Reporting Pillars, the European Lab activities may also help to foster interconnectivity between financial and sustainability reporting."

GLEIF welcomes EFRAG SRB to identify good practices to stimulate innovation in sustainability reporting and highlight the role of the LEI to foster interconnectivity between financial and sustainability reporting based on Paragraph 4.11 and 4.12 above.

As highlighted in the report issued in March 2021 by the Project Task Force on Preparatory work for the elaboration of possible EU nonfinancial reporting standards (PTF-NFRS), established by EFRAG, the ESS should develop clear guidelines regarding the levels of reporting to guide its own standard-setting processes as well as the data gathering and reporting processes of reporting entities. That being said, it is stated in the report that the right balance between a general principle-based approach consistent with the EU legal environment and the need for more detailed and prescriptive disclosure requirements should be ensured for the relevance and comparability of reported information.

The determination of the level (within a company and its value chain) where a material sustainability matter arises should be informed by the reporting entity's materiality assessment and the impact materiality of a sustainability matter is evidence of a direct link between the impact and the entity's own activities, products, services through the value chain. Since how the entity reports its own materiality assessment and its links with other entities in the value chain are significant for accurate sustainability reporting, GLEIF suggests that the guidelines should start with unique and unambiguous identification of all entities across markets, products, and regions for regulatory reporting and supervision. GLEIF invites EFRAG to be prescriptive in terms of using global data standards given the overall comparability is only possible when standards prescribe common mandatory requirements for all reporting entities. The LEI is a sector and use-case agnostic global data standard for legal entity identification which is sector and use-case agnostic. Therefore, GLEIF suggests that requiring the LEI as a mandatory data element in a common sustainability reporting standard/template for all reporting entities enables to collect relevant, comparable and reliable information reported by entities and satisfies three fundamental investor objectives:

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/549300DYMC8BGZZC8844. The transparency the LEI brings will help reduce “green washing” because it reduces the chances of entities trying to aggregate and report ‘at the most convenient level for them where ESG numbers look better at an aggregate level’.

The LEI connects to key reference information that enables a clear and unique identification of legal entities participating in financial transactions and answers the questions of 'who is who’ and ‘who owns whom’. 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 available for the wider public good. This is contingent upon ensuring easy access to the global LEI population. 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 full LEI data set free of charge via its file download service. Lastly, the free of charge GLEIF LEI ‘Look-up’ 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. Second, the investor must be able to connect to other data sources easily. For example, an investor may like to research an entity’s goals, strategies, tangible and intangible assets, values, etc. The LEI as a data connector allows investors to conduct such analysis across multiple data sources more easily.

Third, the investor must be able to compare entities across national borders effectively. The Global LEI System supports all forms of legal entities, including trusts, funds, partnerships, Special Purpose Vehicles (SPVs), individuals acting in a business capacity. By leveraging the LEI, the investor can easily compare different entities, regardless of their entity forms or jurisdiction of formation. Another advantage of leveraging the Global LEI System is that each LEI record provides the name and addresses in their original character sets in addition to transliterations to the Latin alphabet. For example, it might be challenging for a German investor to compare a Polish and a Hungarian entity by only relying on their names due to different characters in these languages. With the LEIs of these two entities, the German investor can easily retrieve these entities’ data in a machine-readable format and with transliterated names and addresses in the LEI reference data.

Therefore, requiring the LEI for all reporting entities as a first step could be fundamental for investors to make further analysis relative to the sustainability strategy of an entity. All EU corporates listed and traded in a regulated market already are required to have an LEI due to the Regulation (EU) 2017/1129 (Prospectus Regulation). Moreover, many other large corporates or financial institutions have already obtained an LEI due to different EU regulatory requirements such as EMIR, MIFID II, MAR, CRR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive and Securitization Regulation. The EU Sustainable Finance Disclosures Regulation (SFDR) recognizes the global nature of ESG as it brings some non-EU entities into reporting scope for SFDR. European Supervisory Agencies (ESAs) already included the LEI in Article 2 of the draft RTS of the SFDR as one of the unique identifiers that the financial market participants shall provide, where available. GLEIF suggested in its response to the consultation of ESAs that the "where available" condition might limit the benefits to end-investors and supervisory authorities.

The use of the LEI, instead of national/regional data standards in the sustainable reporting templates, could contribute to the global convergence of sustainability reporting given the very global nature of ESG and sustainability concerns.

Moreover, as highlighted in the Taskforce report, all dimensions of corporate reporting need to be interconnected under an integrated approach. Sustainability 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 sustainability reporting and financial reporting given, 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.

Additionally, GLEIF would like to comment on *Chapter 5.15, 5.16 Digital guidance: "Further to the proposal for a CSRD, companies will have to 'tag' their reported sustainability information according to a digital categorization system to be developed together with the sustainability reporting standards. The implications for the ESRS digital categorization system are considered by the EFRAG SR Board and EFRAG SR TEG during the development and drafting of new or amended draft standards. The Technical Advice provided to the European Commission is accompanied by the proposed digital guidance."*

GLEIF agrees that digitization should be at the core of the sustainability reporting from the very start. Digitization of sustainability information would improve the accessibility, comparability and aggregation of sustainability information. For example, the Sustainability Accounting Supervisory Board (SAS) 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.

Supervisors also recognize the LEI's value as a digital enabler 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, in addition to reducing costs and operational risks of the reporting entities.

Lastly, GLEIF suggests EFRAG to include the LEI in its first set of standards, as a global, machine-readable, use case/sector agnostic legal entity identification data standard for all reporting entities.

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