Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Stability Board Supervisory and Regulatory Approaches to Climate-related Risks Interim Report

June 30th, 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Stability Board Supervisory and Regulatory Approaches to Climate-related Risks Interim Report. GLEIF will concentrate its comments on the use of the Legal Entity Identifier (LEI), a machine-readable, global standard, in creating high-quality, granular, reliable and comparable company information. Building a global climate information architecture requires a global way of identifying and authenticating the involved legal entities. And that is where the LEI and its digital twin, the vLEI, can become a foundational element that enables transparency and interoperability across climate-related data collection efforts.

GLEIF would like to respond to Q5: "*Do the proposed recommendations help accelerate the identification of authorities' climate-related information needs from financial institutions and work towards common regulatory reporting frameworks? Please elaborate on areas where the recommendations could be enhanced, if any*."

GLEIF agrees that to promote further consistency across jurisdictions and sectors, authorities should consider using common definitions. The identification of legal entities in a unique and unambiguous manner is crucial to identify (i) physical risk, (ii) transition risk and (iii) liability risk. As the NGFS Progress Report highlights high quality, granular, reliable, consistent and comparable climate-related data collected at the entity, asset, or aggregate level is essential 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. Investors can use the LEI as a data connector to key financial markets identifiers such as the Business Identification Code (BIC) and the International Securities Identification Number (ISIN).

The LEI could be added to the mandatory reporting templates that supervisory authorities ask financial institutions to report. The consistent use of the LEI to identify counterparties/clients can help to aggregate counterparty level data, to assess risks and to perform qualitative and quantitative analysis both financial institutions and supervisory authorities perform.

Furthermore the Verifiable LEI (vLEI) can be used to sign a filing thereby attesting digitally that a document is associated with a reporting entity. The vLEI gives government organizations, companies, and other legal entities worldwide the capacity to use non-repudiable identification data pertaining to their legal status, ownership structure and authorized representatives in any kind of digital interaction, transaction, or e-signature scenario. While the objective of this report is to assist supervisory and regulatory authorities in developing their approaches to monitor, manage and mitigate risks arising from climate change, it is also relevant to consider how supervisory authorities could leverage a common mechanism for ensuring trust in the filed information.

It is stated in the consultation report that for the IAIS collected ad-hoc quantitative and qualitative data as part of the IAIS' annual Global Monitoring Exercise (GME) from IAIS members. Banks' exposures to the top carbon-intensive companies in the world, including the average maturity of the exposures is also mentioned. GLEIF would like to highlight the importance of the LEI, the FSB-backed unique, globally accepted legal entity identification standard, for identifying top carbon intensive companies in a unique, unambiguous and consistent way. How are these top carbon intensive companies identified? Is the identification of the company based on the carbon emission of a single entity at the group level or does it include also subsidiaries within the group chain? This very question ties to the challenges highlighted under "Other measures" in the consultation. The correct identification based on the LEI can change insurers' exposure calculation to these companies and reveal interconnection across these companies. Therefore, GLEIF suggests that the LEI should be referenced in the data elements needed for regulatory reporting and data consistency.

The LEI will enable cross-border coordination and cooperation, as authorities develop modalities to exchange with each other given the global nature of climate-related risks. With the LEI, the supervisory authorities can identify financial institutions' exposures to economic activities impacted by transition risk or the geographical location of financial institutions' exposures most prone to physical risk drivers. Moreover, the LEI can facilitate data collection of financial institutions with regards to counterparties/borrowers. In system-wide cross-border cooperation, LEI can help to mitigate systemic risks and support global identification of all counterparties in line with the Recommendation 6. When financial institutions add their corporate clients' LEI to their internal control frameworks, they can better generate risk profiles of each client and carry out a comprehensive assessment of climate-related financial risks. For example, the FSB noted in its Thematic Review on Implementation of the LEI from May 2019, "*the regulatory uses of the LEI are multiple and the benefits can be substantial. The LEI standardises identification of legal entities at the global level, to support the management and analysis of large datasets. Implementation of the LEI enhances regulators' surveillance by tracking market abuse across institutions, products and jurisdictions. The LEI can also assist regulators' and market participants' aggregation and more flexible retrieval of granular data on entities from multiple sources, as well as the analysis of counterparty risks, interconnectedness and complex group structures*."

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*."

GLEIF agrees that the supervisory and regulatory authorities should consider the need for third-party verification to strengthen the reliability of climate-related data. The LEI can help to link financial and non-financial information and contribute to the work of third-party verifiers. 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 the global standard that serves 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 the publicly available Global LEI Repository at a very granular and transparent manner, which is crucial for assessing physical and transition risks.

Moreover, the Verifiable LEI (vLEI) allows multi-signature capabilities, which enables different officers to sign different parts of the same report. For example, the company's Chief Sustainability Officer signs the non-financial data and CFO signs the financial data of the company in the report with their vLEI credentials. Application of the vLEI confirms both the authenticity of document and the key individuals responsible for the specific content.

The LEI can help supervisory authorities to paint the broader macroprudential picture by looking at risks from an aggregate level based on consistent and standardized entity level data. With the LEI, supervisory authorities can better assess spillover impact and if the risk is changing hands across the financial system market participants. From the approaches highlighted in the consultation paper, a bottom-up, top-down or a hybrid-approach, GLEIF has no particular preference. However, GLEIF wants to highlight that in the past, particularly for initiatives pertaining to transparency in financial markets, the top-down approach and mandatory disclosure requirements set by the supervisory authorities in coordination with each other facilitated meaningful, granular and consistent data collection and mitigation of risks.

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