

3 May 2023

CMFB opinion on the Legal Entity Identifier (LEI) as unique identifier of financial and non-financial companies for statistical purposes

Pursuant to Article 4 of Council Decision 2006/856/EC, the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) “may express opinions on its own initiative on any questions relating to those statistics that are of common concern to the Commission and national statistical authorities, on the one hand, and the ECB and national central banks, on the other. In the execution of its tasks, the Committee shall give its views to all interested parties”.

This opinion has been issued at the request of the CMFB and has been adopted with a very large majority of opinions expressed by the Committee after a consultation, as established in its Rules of Procedure¹, on 14 April 2023. A total of 38 institutions² provided their replies. A total of 34 opinions from institutions of EU countries were counted for the procedure, meeting the required quorum of 50% plus one vote (without counting the ‘no opinion’ votes).

Regarding the additional comments received during the CMFB consultation, they mainly further emphasize the need to reduce the LEI cost burden for European entities.³

Background

The consistency of monetary, financial and balance of payments statistics is at the core of the CMFB’s tasks, affecting statistics from both the European Statistical System (ESS) and the European System of Central Banks (ESCB), in particular financial and non-financial national accounts and balance of payments. The enhancement of cooperation between the users and producers of the aforementioned statistics is also a requirement for meeting the increased demand from the ESS and the ESCB for improved and consistent statistical information.

Furthermore, in a global economy, there is an important degree of interconnectedness among legal units, both within the financial sector and between the financial and non-financial sectors (trade and financial flows).

To explore the interconnectedness and foster consistency, when linking financial and non-financial data, it is key, on the one side, to identify individually all legal units, whether or not they belong to a group, by a unique identifier that can be recognized not only at the level of the

¹ Procedure for the expression of non-Excessive Deficit Procedure Opinions of the CMFB: <https://circabc.europa.eu/sd/a/b4f65156-28e6-4c66-8a81-9c53a0801fa2/2016-09-12%20-%20CMFB%20Rules%20of%20Procedure%20for%20the%20expression%20of%20non-EDP%20CMFB%20opinions.pdf>

² 25 National Central Banks (NCBs) and 9 National Statistical Institutes (NSIs) of the European Union, as well as the ECB, the NCB and NSI of Norway and the NSI of Switzerland.

³ The CMFB also collected individual comments which are forwarded to the Commission in an anonymized form.

European Union but also worldwide and, on the other side, to know how these entities are interlinked.

In 2015 the CMFB created two structures: a *technical group on business unit identifiers* and a *high level group on business registers*. As a result of the work of these two structures, the CMFB endorsed a set of six consolidated recommendations⁴, among them, the extension of the Legal Entity Identifier (LEI) governed by the LEI ROC⁵ and the GLEIF⁶ and fostering its use as an additional identifier in the administrative and statistical⁷ business registers both at national and EU⁸ levels.

Identifying a company by a LEI has two levels. With the level 1, each legal unit is identified by a unique code worldwide. The level 2 specifies the parent or subsidiary of the unit if it is involved in a group structure. Both levels are needed and are important for statistical purposes.

In 2018 and again in 2021, the CMFB monitored the progress of the implementation of the recommendations mentioned above, conducting two surveys to EU countries. The Committee recognized that some progress in the inclusion of LEIs in the statistical business registers was achieved, but also acknowledged some drawbacks that hampered the further expansion of the LEI, notably for small and medium non-financial enterprises.

It is obvious from the above that extending the use of the LEI will produce many benefits to statisticians. They would be able to profile multinational groups independently of their scope, European or worldwide, and – therefore – making the work of the large cases units (LCUs) easier. In addition identifying partners uniquely would help statisticians to reduce asymmetries between countries in international trade and balance of payments statistics. Last but not least, a global common identifier is crucial for the development of granular statistics and contributes to reducing the burden of respondents.

The LEI can help to address a number of EU policies. As an example, not only statisticians would benefit from identifying firms with a LEI and an easier access to (disclosed) firm level data (as foreseen in the European Single Access Point). Potential investors could easier find firm data and therefore lower their information cost for financial investments, which would foster the Capital Market Union. Besides, as the European Systemic Risk Board (ESRB)⁹ also recognized in 2021, the degree of interconnectedness among legal entities, both within the financial sector and between the financial and non-financial sectors needs to be monitored to better ensure financial stability, in order to measure and manage the risk of contagion among entities, sectors and countries. Integrating datasets is a statistical task, and the LEI plays a pivotal role in a global strategy on microdata. It makes it easier to combine different databases, since legal entities, in their various roles (as reporting agents, creditors, debtors, securities issuers, investors, protection

⁴ <https://circabc.europa.eu/sd/a/98871143-34f9-46a4-a642-a68e3461aeb8/2016-12-02%20-%20CMFB%20opinion%20on%20business%20identifiers%20and%20business%20registers%20-%20recommendations%20for%20statistical%20production.pdf>

⁵ The LEI Regulatory Oversight Committee (LEI ROC) is responsible for governance and represents financial market authorities from all over the world

⁶ The Global Legal Entity Identifier Foundation (GLEIF) was established by the Financial Stability Board in June 2014 and is tasked with supporting the implementation and use of the LEI

⁷ As defined in Regulation 2019/2152 of the Council and the European Parliament of 27 November 2019 on European Business Statistics (EBS Regulation)

⁸ The EuroGroup Register (EGR) and the Register of Institutions and Affiliates Database (RIAD)

⁹ The benefits of the Legal Entity Identifier for monitoring systemic risk. ESRB occasional paper n. 18. September 2021

providers, etc.) can be uniquely identified in many databases even beyond national borders. This also improves the consolidation of micro databases and is extensively used by the ESCB's Analytical Credit Database (AnaCredit)¹⁰, Securities Holdings Statistics Database (SHSDB)¹¹, Centralized Securities Database (CSDB)¹², Money Markets Statistical Reporting (MMSR)¹³, Register of Institutions and Affiliates Database (RIAD)¹⁴, European Market Infrastructure Regulation (EMIR)¹⁵ data and credit registers.

Furthermore, supporting the collection of data on sustainable finance is another potential use case for the LEI. Centrally harmonized access to databases with 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 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. With the help of a broader coverage of the LEI, statistics would be in a better situation to provide relevant and timely data for economic and political decision makers.

Broadening the use of the LEI

For statisticians, the LEI is clearly a public good. As a consequence of broader use cases and a greater coverage of the LEI, a higher quality of the LEI will be achieved. In addition, the LEI will become better suited for statistically combining financial and non-financial data for national, European and international statistical purposes.

To date, the number of LEI codes issued is around 2 million worldwide. This amount is clearly insufficient to be beneficial for statistical purposes. Besides, the legal entities having a LEI are mostly large financial institutions and affiliates of financial groups (and their counterparts that would be financial but, in some cases, also non-financial companies), because of existing regulations (e.g. the European Market Infrastructure Regulation (EMIR)¹⁶ and the Markets in Financial Instruments Regulation (MIFIR)¹⁷) making the use of LEI for the purposes of these legal acts obligatory.

However, the use of LEI in medium and small non-financial companies is not as extensive as the cost-benefit analysis is less straightforward for these companies. Indeed, if the companies are not legally obliged, they do not perceive, individually, benefits that justify having this identifier in addition to national identifiers which can be used for all administrative domestic transactions. In addition, the business model (pricing) for the issuance and renewals of LEI codes, by which companies have to front a fee for having a code, covering both, the service of the local operating

¹⁰ https://www.ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html

¹¹ Regulation (EU) No 1011/2012 of the European Central Bank of 17 October 2012 concerning statistics on holdings of securities (ECB/2012/24)

¹² The Centralized Securities Database in brief:

<https://www.ecb.europa.eu/pub/pdf/other/centralisedsecuritiesdatabase201002en.pdf>

¹³ https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_359_r_0006_en_txt.pdf

¹⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018O0016>

¹⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0648>

¹⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32012R0648>

¹⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0600>

unit (the issuer) and also the service of the GLEIF, as manager of the system, is perceived as too costly for many companies. Without any adjustments to GLEIF's business model, no fundamental changes to the low use of LEI by medium and small non-financial companies are to be expected.

Because of these reasons, the LEI needs a common strong approach at the EU level, as suggested by the ESRB¹⁸. The Board recommends that the Commission proposes that Union legislation incorporates a common Union legal framework governing the identification of legal entities established in the Union that are involved in financial transactions by way of a legal entity identifier (LEI), paying due regard to the principle of proportionality, taking into account the need to prevent or mitigate systemic risk to financial stability in the Union and thereby achieving the objectives of the internal market (Recommendation A.1).

As pointed out by the European Commission¹⁹:

A key element for ensuring data consistency is the full use of internationally accepted common identifiers, such as the unique product identifier (UPI), the unique transaction identifier (UTI) and the legal entity identifier (LEI). The LEI, which allows unique and unambiguous identification of entities and is the most widely used global entity identifier in the financial sector, is particularly helpful in linking individual data sets, thereby facilitating supervision. The Commission will therefore further expand and promote a more consistent use of the LEI in the financial sector by closing a number of key gaps and introducing requirements for its use in relevant legislation. Following a recommendation by the European Systemic Risk Board (ESRB), 26 the Commission will by 2023 report on whether or not to make the LEI mandatory for a wider range of legal entities across the EU. Finally, the Commission will pursue efforts in international fora to promote the uptake of the LEI and other common identifiers in the financial sector globally.

In order to minimize the cost for companies, there is a need for thinking of different, non-exclusive models, notably for non-financial small and medium enterprises:

- (a) for the large majority of them only LEI level 1 must be issued;
- (b) as the ESRB suggested²⁰, a system of cost-free LEI issuance and renewals for European enterprises as by-product of official registration could be developed, to keep them on an equal footing level of competitiveness with non-EU enterprises;
- (c) the LEI can be integrated in the mandatory data covered by the Company Law Directive (in this case it would become mandatory to issue an LEI to all limited liability companies which are governed by that Directive).

The maximum benefit of the LEI for the statistical community and, by extension, for the society as a whole, can only be achieved when its use is as broad as possible, especially by increasing coverage worldwide, so that the full global purpose of the LEI will be achieved.

¹⁸ Recommendation of the European Systemic Risk Board of 24 September 2020 on identifying legal entities (ESRB/2020/12)

¹⁹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Strategy on supervisory data in EU financial services, COM(2021) 798 final, Brussels, 15 December 2021, p.7

²⁰ See footnote 6

Opinion

Against this background,

- the CMFB encourages all initiatives which help broaden the coverage and use cases of the LEI, minimizing or even eliminating the cost of issuance and renewals for European companies;
- the CMFB asks the Commission to take into account the statistical usefulness of a broader LEI coverage when reporting on whether or not to make the LEI mandatory for a wider range of legal entities across the EU;
- the CMFB encourages a global use of LEI through various international fora, in the attempt to extend the benefits of the LEI implementation for statistical purposes beyond the EU boundaries.