

The additional comments of the Global Legal Entity Identifier Foundation (GLEIF) for the Question 56

Taking this opportunity GLEIF would like to bust 5 myths with regards to the use of the LEI in payments:

Myth #1: LEI is not needed in payments, since BICs and IBANs are used in payment transactions GLEIF agrees that today IBANs are used for uniquely identifying payer/payee accounts and BICs are used for routing the payments to the relevant divisions/sub-divisions of financial institutions. However, despite their importance in processing payments, neither BICs nor IBANs are designed for identifying parties to the transaction. Today's highly digitized payment networks require faster, cheaper, and more secure transactions. When the LEI is added as a data attribute in the payment messages, any originator or beneficiary legal entity can be instantly and automatically identified. There is no comparable identifier for individuals, so there needs to be a distinctly different approach towards natural person identity and legal entity identity in payments. This is aligned with the FSB cross-border payments initiative. As Europe moves towards instant payments, the LEI is a natural solution for B2B and C2B payments so as to reduce manual interventions and facilitate a framework that could be considered "instant". Without the LEI for such payments the frequency of manual interventions to investigate similar names/addresses remains the same and Europe cannot really achieve instant payments.

For example, Dr. Franz Kaiser, former Head of Treasury Reporting & Middle Office, Finance FTR at Airbus [commented](#) that *"Corporates need to be able to transparently identify counterparties when making and processing payments. This is challenging when dealing with legal entities in different jurisdictions. Airbus payment and KYC processes could be eased if transaction counterparties could easily be uniquely identified, alongside their ultimate beneficiary owners. LEI usage in cross-border payments would bring significant benefits to corporates globally."*

Myth 2: LEI is not available for individuals in business capacity

Individuals acting in a business capacity are eligible to obtain LEIs, provided they conduct an independent business activity as evidenced by registration in a business registry. Therefore, any B2B transactions can be covered with the LEI. Moreover, for any C2B transaction, consumers can easily and quickly verify and validate the recipient business to which they transfer money. Verification through the LEI will enhance consumer protection and prevent fraud attempts.

Myth 3: Adding the LEI as an additional identifier in payment messages could hamper automation

GLEIF suggests that the LEI is the only pan-European solution that can enable automation of legal entity identification within payment chains. Given GLEIF API is free of charge and without any barriers to access, any user can verify and validate the LEI of a counterparty within milliseconds. Therefore, having LEI matched with the IBAN of a payment account can prevent fraud attempts and facilitate straight-through processing without any inconsistencies.

Moreover, both at the European level and global level, as market infrastructures move to the ISO20022 framework, the LEI can easily be added into the payment messages as a mandatory data field, which would require minimal technical changes for financial institutions within this transition period.

Myth 4: LEI is not easy to obtain and costly

The ESRB in its [first recommendation report](#) recommended that all legal entities established in the European Union that are involved in financial transactions obtain and maintain an LEI. ESRB particularly recommends ‘to seek the introduction of a Union legal framework to uniquely identify legal entities engaged in financial transactions by LEIs and to make the use of the LEI more systematic in respect of supervisory reporting and public disclosure’.

The ESRB recommends two models for mass LEI adoption in the EU for increasing availability and reducing costs particularly for SMEs. First, an entity can obtain an LEI at the point of registration at the local business registry; and second, financial institutions can provide LEIs to their clients at the stage of onboarding if they become Validation Agents of GLEIF.

Once the financial institutions tag their clients with the LEI at the stage of onboarding as part of the GLEIF’s Validation Agent model, for no or minimal additional cost for their clients, any business with a banking relationship can obtain an LEI. Today, the Validation Agent model is up and running and large financial institutions such as Citi, JPM and fintech organizations are already onboarded.

Another way for mass adoption is that companies obtain an LEI at the point of registration from national business registries.

Moreover, today, the weighted average retail price of the LEI, without two models discussed above, is around 65 EUR, which is way below 220 EUR, when the Global LEI System was launched eight years ago. Requiring companies to obtain one, digitally-enabled, globally recognized and regulatory backed identifier will allow them to get rid of the maintenance costs of other propriety identifiers.

Myth 5: There are not enough LEIs to require the LEI as a data field

GLEIF emphasizes that the Global LEI System has grown due to regulatory requirements around the world. While Europe was a leader in consistently using the LEI in its regulatory and supervisory frameworks, other jurisdictions have used the LEI in new areas such as payments (e.g., China, India).

GLEIF suggests that a phased approach for obtaining the LEI can be developed by the Commission. The LEI could be required only for large companies above a certain market cap and then extended to smaller entities.

In line with the ESRB recommendation, Europe has an opportunity to introduce a Union wide legal framework for making LEI more accessible by June 2023. Therefore, a phased approach could be developed around this important milestone.

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