

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission's Consultation on a new digital finance strategy for Europe / FinTech action plan

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's Consultation on a new digital finance strategy for Europe / FinTech action plan. GLEIF would like to provide its comments for the Question 19: *“Would a further increased mandatory use of identifiers such as Legal Entity Identifier (LEI), Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI) facilitate digital and/or automated processes in financial services?”*

GLEIF thinks that using global standards is crucial for facilitating automated processes in financial services. Given the LEI is a globally recognized standard based on open data for unique entity identification across borders, it is crucial that the EU Commission mandates the LEI for any subject relevant for the legal entity identification. Broader adoption of the LEI would ensure an open, interoperable future of the digital finance which is the objective of both public and private sectors. While the private sector is a significant stakeholder in digital finance area, it is very hard to expect the industry to come up with an agreed standard, unless there is a mandate from public authorities, due to existing legacy systems, proprietary data and conflict of interests. Nevertheless, GLEIF is actively working with financial institutions to reduce the cost and shifting the responsibility of obtaining and maintaining the LEI from registrants to financial institutions, to the benefit of both parties.

GLEIF fully supports a further increased mandatory use of identifiers such as Legal Entity Identifier (LEI), Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI) to **facilitate digital and/or automated processes in financial services** and would like to comment specifically on **how the LEI can help automation in KYC, AML, payments and RegTech and SupTech areas.**

Short introduction about the Global LEI System

First GLEIF would like to provide a short background about the LEI and the Global LEI System.

The LEI is a 20-character, alpha-numeric code, based on the ISO 17442 standard, is used for uniquely and unambiguously identifying legal entities globally. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace. The Global LEI System is overseen by over 71 public authorities (including DG FISMA representing the European Commission), under the auspices of the Financial Stability Board. GLEIF is a non-for-profit organization and the Global LEI System is based on a cost recovery model.

In the European Union, the LEI is already required in regulatory reporting for entities subject to the EMIR, MIFID II, MAR, CRR, SFTR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Securitization

Regulation, and Prospectus Regulation. At the global level, more than 100 rules refer to the LEI in Financial Stability Board jurisdictions¹.

Recently, the Financial Stability Board stated in its [Enhancing Cross-border Payments - Stage 1 report to the G20](#) that to improve the efficiency and reduce costs of AML/CFT and other compliance processes without compromising on the quality of compliance and to ensure adequate oversight, greater use of the Legal Entity Identifier (LEI) for firms and digital IDs for individuals and stronger regulatory frameworks that reduce unnecessary barriers to cross-border data sharing are necessary when implementing the Financial Action Task Force (FATF) standards and other regulatory and supervisory requirements.

Use of the LEI in AML screening

The ability of the world's financial system to curb fraud, terrorist financing and other illicit financial activity, is **hindered by its reliance on outdated processes for identity verification**.

Financial institutions face the following fundamental challenge in identity management: low quality, non-uniform data sources are not easy to implement, prevent interoperability and promote inefficiency, which limits the capacity to add value to the surveillance process. International banking group structures and cross border activities are difficult to monitor and pose an important money laundering (ML) and financing of terrorism (FT) risk factor.

In some countries, it is possible that several entities/persons have exactly the same names which makes it difficult to identify the particular payer and payee without additional information. Today, name-matching techniques for AML screening work either through deterministic or probabilistic matching technology. For instance, a matching relationship between two records is only direct or deterministic when a customer name exactly matches with the name in the sanction list(s). However, the existence of more than one "John Brown" or "John Trading Inc" causes a tremendous number of false positives for financial institutions and other payment service providers. In reality, matching software may report possible matches when customer information is the same or similar to the watch list entity information. In order to reduce false positives, additional information such as identification number is needed for further investigation.

GLEIF suggests that leveraging the LEI for legal entity AML screening would greatly enhance efficiency for authorities as well as private sector firms.

If entity sanctions list in the context of the AML/CFT to include the LEI, authorities could more easily communicate with each other, and private sector firms could put in place more efficient surveillance processes. This would substantially reduce cost, time and effort in cleaning up false positives. 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. This avoids inaccuracies and can also be a value added for customers in countries using non-Latin alphabets.

¹ [Financial Stability Board's Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report](#)

Use of the LEI in Know Your Customer processes

As GLEIF already highlighted under Question 16, mandating the use of the LEI as part of Customer Due Diligence (CDD) process for all financial institutions at the EU level would greatly facilitate interoperability for digital onboarding across borders as legal entity identification needs a global standard, more than ever.

GLEIF is aware through discussions with its [Globally Important Financial Institutions Stakeholder Group](#) members that **remote onboarding of entities is becoming an established norm in financial services**, not only due to the emergence of FinTech companies in recent years, but also due to restrictions resulting from the Covid-19 crisis and the preference of clients. Financial firms that remotely onboard client organizations stress that unique identifiers can greatly streamline remote onboarding of their clients. Through integration of the LEI in their onboarding processes, they could easily (1) validate the client record, (2) pre-populate the client record with information that must be stored within the financial institution and (3) verify the information that has been collected.

Financial Institutions can easily connect to the Global LEI Repository via the GLEIF Look-up application programming interface (API), which allows developers to access the complete LEI data pool in real-time directly and perform on-demand checks for changes to specific LEI records in a convenient and easy-to-read format. The application, developed by the GLEIF, responds to the market needs of multiple LEI stakeholders, including financial institutions, regulators, fintech companies, and analysts seeking to include LEI data in their machine-readable and automated processes. The GLEIF LEI Look-up API can easily be integrated into internal systems based on the widely supported JSON data format. The use of the API is free of charge and does not require registration.

Through connecting the GLEIF API at the stage of onboarding, financial institutions could ask client to provide their LEI. The verified and quality controlled LEI data would automatically bring data fields in GLEIF's Common Data File format without requiring the client to enter such details again. Removing redundancy for the client to resubmit all the information that is being already represented in the LEI data would bring mean better customer experience for the financial institution.

Under the "Validation Agent" framework, GLEIF pilots the applicability of financial institutions issuing an LEI for each onboarded client through partnering with accredited LEI Issuing Organizations. With this framework, GLEIF would like to break the link between the "LEI registration and annual renewal fee" and "ensuring accuracy of reference data" thus minimizing the cost burden on registrants. Optimizing the quality, reliability and usability of LEI data empowers market participants to benefit from the wealth of information available with the LEI population and is at the core of GLEIF's mission. GLEIF believes the new operating model involving financial institutions will result in a revenue model based on a macro indicator – for example the number of records processed – rather than the current model which is driven by individual interactions with the legal entities. GLEIF is currently engaging in several pilot projects with financial institutions to evaluate jointly the operational, legal, and technical adjustments required to make this model a success.

Use of the LEI in Payment Messages

Every payment system requires a payment standard. The only way to enable fully automated, straight-through processing in payments messages is to consistently use the LEI for uniquely and clearly identifying parties to payment transactions. In parallel to changes in international payments messaging for adopting a more common international payment messaging standard, ISO 20022 standard, the industry [supports](#) broader adoption of the LEI along with the ISO 20022 standard.

Broader adoption of the LEI in payments landscape can help to overcome cross-border challenges associated with names and addresses in non-Latin character sets often lacking a single and consistent form or convention; so causing confusion and inefficient processing.

Payment services providers can increase the efficiency of compliance checks processing through the LEI in an automated way:

- identity-based compliance made possible by LEI adoption increases the effectiveness of financial institutions screening thereby facilitating better, more robust compliance checks.
- inclusion of the LEI in payment messages of a payment scheme facilitates the automatic AML, CTF and sanction checking process that Payment Service Providers need to comply with (inclusive the reports of suspicious transactions to the Financial Intelligence Unit).
- facilitating information sharing in a standard format in correspondent banking; so as to reduce the risk and cost associated with due diligence process.

Payment service operators can access to richer data through the adoption of the LEI in ISO 20022 payments messages.

Additionally, the LEI is a unique identifier linked to a legal identity and issued by an accredited organization. This means that when it is used in financial flows, compliance verification can be based on actual identity. A legal entity may have several associated BICs; but only one LEI. The open source BIC-to-LEI relationship file published monthly by SWIFT and GLEIF demonstrates this.

GLEIF thinks it is critical that the LEI also should be specified as an identifier of parties within payment transactions. BICs plays a key role in addressing messages to operational desks and routing financial transactions on the SWIFT network as well as identifying the operating parties in payment transactions. Domestic and international payment systems within financial and non-financial institutions or regional and global payments market infrastructures such as Automated Clearing House, Real-Time Gross Settlement Systems and Payment Clearing Systems are based on legacy identifiers or the BIC. So since BICs do not provide the authoritative source of entity identification like the LEI, it is critical to have both identifiers in the payment message, to identify parties both as the operating parties within payment transactions, which may or may not be legal entities, while including LEIs to identify the legal entities responsible within payment transactions.

From an end user perspective, having the LEI code in addition to the BIC in the payment information would enable assurance of the correct recipient of the payment and substantially reduce the potential

for fraud and error. The addition of the LEI of payment sender can enable reconciliation of payments to individual invoices in an automated and efficient way.

Use of the LEI in RegTech and SupTech

In the [European Commission's Staff Working Document on the Fitness Check of EU Supervisory Reporting Requirements](#), the Commission highlighted that inefficiencies in reporting frameworks arise due to the lack of clarity in requirements and insufficient use of standards, common formats and identifiers. The Document highlights that consistent definitions and standards enhance comparability, communication and streamlined processes, both within firms and with supervisors, facilitating automation and reducing costs related to data collection and analysis.

The Commission's [analysis of the expert group on Regulatory Obstacles to Financial Innovation](#) confirms that technology-enabled regulatory and supervisory processes have the potential to create efficiencies in compliance, regulatory reporting and risk analysis.

The adoption of global standards, including the LEI, and creating a common language for RegTech and SupTech is necessary for achieving greater accuracy and efficiency in reporting and data analysis. As very accurately highlighted in the [analysis of the expert group on Regulatory Obstacles to Financial Innovation](#), currently FinTech, RegTech and SupTech are not underpinned by a common language and common rulebook. **Over the years, the industry and regulators have created a *Tower of Babel*, in which the same actors, products or objects are identified by heterogenous concepts and terms. Therefore, the solution does not lie in digitizing the existing Tower of Babel based on the status quo; but creating a new dictionary based on well recognized, global standards which enable a common language, interoperability and understanding for all parties.**

Considering the LEI, a globally recognized and well-received standard, as a building block for this new dictionary and common language can only help the rest of the world follow the EU set standards as a best practice, as already proven by many EU rules in other sectors.

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