

Response of GLEIF to the European Central Bank on the Market Consultation on the TARGET Instant Payments Settlement User Requirements.

January 2017

GLEIF would like to thank the ECB and the Eurosystem for the opportunity to provide feedback to the Market Consultation on the TARGET Instant Payments Settlement User Requirements. GLEIF's response will be limited specifically to GLEIF's views on the use of Legal Entity Identifiers (LEIs) in regard to the topic of the user requirements for TIPS as the subject of the consultation.

The GLEIF has been established to act in the public and private interest as the operational arm of the Global LEI System. Consequently, we appreciate the opportunity to provide comments on the possible use of LEIs in the identification purposes within TIPS. For our feedback, GLEIF would like to concentrate on the following three principles set out for TIPS in the Market Consultation - principles 6, 7 and 10.

The following Principles can be found in 'Target Instant Payments Settlement User Requirements', 1.4 General principles, page 8.

Principle 6:	TIPS shall be a lean, harmonized and standardized pan-European service with common functionality across different countries and jurisdictions.
Principle 7:	For the settlement of instant payments in euro, TIPS shall follow the participation criteria of TARGET2. For other currencies, participation criteria shall be defined by the Central Banks responsible for the RTGS. <i>Clarification:</i> TIPS accounts in euro shall legally be opened in the TARGET2 component of the responsible Central Bank and shall be dedicated to the settlement of instant payments on TIPS.
Principle 10:	TIPS shall be based on the ISO 20022 message standard for instant payments settlement and shall support Participants to be compliant with the SCT Inst scheme for instant payments in euro <i>Clarification:</i> Succeeding ISO standards are not excluded and might be adopted in the future, if deemed necessary. TIPS messages shall be in line with SCT Inst, if applicable, insofar as to allow easy translation; all payment messages shall use the same format. However, other schemes in other currencies are not excluded and might be supported in the future, if deemed necessary.

Principle 6 states that TIPS should be a 'harmonized and standardized pan-European service with common functionality across different countries and jurisdictions' and principle 7 states that

'participation criteria shall be defined by the Central Banks responsible for the RTGS'. Since the coverage of TIPS is pan-European, TIPS would benefit from using the LEI for identity and identification management. The use of the LEI would allow standard identification of legal entities linked to TIPS data and transactions, by any Central Bank within the EU as well as by the ECB. The LEI data record includes the elements that are specified in the required list of minimum information to be obtained in verifying the identity of a legal entity. This data is available to all users in an open system for public access to LEIs and their related data records and would eliminate the duplication of effort in the collection, validation and maintenance of data on legal entities. Using the LEI as the foundation to identify parties in payment transactions would give the ECB and the Central Banks access to the relationship data that is being implemented in the GLEIS which can improve risk management. Beginning with the collection of relationship data of ultimate and direct parents on an accounting basis, implementation of relationship data is scheduled to begin on 1st May 2017 for all newly registered entities and entities renewing their LEIs.

The ability to identify legal entities to TIPS data and transactions derives even more meaning when taking into account, as the consultation states, 'TIPS will be integrated into TARGET2' and 'The liquidity in TIPS account can be sourced from TARGET2' with the expectation that the 'implementation of this project is expected to significantly enhance the availability of TIPS liquidity management in the future'. The implications for the standardization of data on liquidity at the EU level and for Central Banks across the EU are significant and the foundation for these can be put in place by leveraging the LEI for TIPS data and transactions.

Most recently, the Financial Stability Board (FSB) has recognized the benefits brought and the progress made in the use of common global identifiers, most notably the LEI, to both the private sector and to policymakers such as the FSB itself and the authorities working under the FSB. The role of common identifiers has been specified by the FSB as key to supporting aggregation and a global view. The most active of these FSB authorities with respect to using the LEI in payments is the Committee on Payments and Market Infrastructures (CPMI) to support the requirement by CPMI to include the LEI as additional information in the relevant payment messages to unambiguously identify the originator and the beneficiary for correspondent banking activity. Here is where the mapping of LEIs to the BICs used both in instant payments, as is specified for TIPS, and correspondent banking could be leveraged, producing similar benefits from an identity and identification management perspective.

The consultation also states the TIPS will offer reporting tools to Participants and notes that 'TIPS as part of European Market Infrastructure Vision, the Eurosystem is in the investigation phase of another project to modernize, harmonize and enhance its market infrastructural services.' Further, principle 10 states that future versions of ISO standards may be leveraged. Through the use of the LEI, TIPS also could improve the process of collecting and reporting data for regulatory purposes, especially in the area of liquidity as noted above. The way to eliminate the duplication of effort necessary in trying to reconcile different data sets is not to create different data sets in the first place. So consideration could be given to enhancing the ISO 20022 messages used in TIPS with the LEI prior to the 2018 implementation date so that LEI data will be present for TIPS from the initial implementation.

The benefits of this would be realized by both the private sector participants as well as the market infrastructure and regulatory authorities who will be able to devote their time conducting substantive analysis rather than reconciling different data sets. In addition, the level of transparency for payments market activity will be increased overall by leveraging the LEI to identify legal entities in the instant payments framework and in correspondent banking.