

## Response of GLEIF to the European Commission on the Consultation regarding FinTech, a more competitive and innovative European Financial Sector

June 2017

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide you with its comments on the consultation, entitled 'FinTech: A more competitive and innovative European Financial Sector' published by the European Commission in March 2017. GLEIF will limit its comments specifically to the GLEIF's views on the use of Legal Entity Identifier (LEI) in the consultation.

### 2. Bringing down operational costs and increasing efficiency for the industry

2.1. What are the most promising use cases of FinTech to reduce costs and improve processes at your company? Does this involve collaboration with other market players?

FinTechs bring automation to the financial industry and thus reduce the cost for manual labor. Based on global standards, automated processes can be interoperated across multiple companies and achieve synergies. For example, a globally accepted digital identity for legal entities can make party authentication way faster and easier and allows real-time communication.

2.2. What measures (if any) should be taken at EU level to facilitate the development and implementation of the most promising use cases? How can the EU play its role in developing the infrastructure underpinning FinTech innovation for the public good in Europe, be it through cloud computing infrastructure, distributed ledger technology, social media, mobile or security technology?

Global standards for FinTech innovation, such as a globally accepted digital certificates for legal entities, should be supported to facilitate development and implementation of the most promising use cases.

### Disintermediating financial services: is Distributed Ledger Technology (DLT) the way forward?

2.7. Which DLT applications are likely to offer practical and readily applicable opportunities to enhance access to finance for enterprises, notably SMEs?

Distributed Ledger Technology (DLT) could be used for the management of digital identities based on already existing global standards, such as the Legal Entity Identifier (LEI). Other possible applications are the storage of trades and their status to support easy and transparent reporting.

2.8. What are the main challenges for the implementation of DLT solutions (e.g. technological challenges, data standardisation and interoperability of DLT systems)?

To create meaningful DLT solutions which are non-proprietary and can be used globally, it is paramount that global standards for data formats are used. Equally important is the implementation of a digital identity based on already existing global standards, such as the Legal Entity Identifier (LEI).

Other technologies that may increase efficiency for the industry

2.12. Can you provide further examples of financial innovations that have the potential to reduce operational costs for financial service providers and/or increase their efficiency and of the related challenges?

The use of open and for free available, reliably validated reference data for legal entities could help financial service providers to reduce operations costs by eliminating the necessity to validate counter party or customer reference data on their own.

3. Making the single market more competitive by lowering barriers to entry

A key factor to achieving a thriving and globally competitive European financial sector that brings benefits to the EU economy and its society is ensuring effective competition within the EU single market. Effective competition enables new innovative firms to enter the EU market to serve the needs of customers better or do so at a cheaper price, and this in turn forces incumbents to innovate and increase efficiency themselves. Under the EU Digital Single Market strategy, the EU regulatory framework needs to be geared towards fostering technological development, in general, and supporting the roll-out of digital infrastructure across the EU, in particular. Stakeholder feedback can help the Commission achieve this goal by highlighting specific regulatory requirements or supervisory practices that hinder progress towards the smooth functioning of the Digital Single Market in financial services. Similarly, such feedback would also be important to identify potential loopholes in the regulatory framework that adversely affect the level playing field between market participants as well as the level of consumer protection.

3.2. What is the most efficient path for FinTech innovation and uptake in the EU?

Making use of existing standards helps innovation and avoids the necessity for FinTechs to reinvent the wheel for already existing technology and tools. One example is the Legal Entity Identifier (LEI) based on the ISO 17442 standard to unambiguously identify financial market participants as legal entities. Another example are digital certificates for authentication based on the ITU X.509/ISO/IEC 9594-8:2005.

Role of industry: standards and interoperability

3.12.1. Is the development of technical standards and interoperability for FinTech in the EU sufficiently addressed as part of the European System of Financial Supervision?

Please elaborate on your reply to whether the development of technical standards and interoperability for FinTech in the EU is sufficiently addressed as part of the European System of Financial Supervision.

The creation of a standard for a globally accepted digital identity could be supported to foster innovation and interoperability for FinTechs in the EU.

3.12.2. Is the current level of data standardisation and interoperability an obstacle to taking full advantage of outsourcing opportunities? Please elaborate on your reply to whether the current level of data standardisation and interoperability is an obstacle to taking full advantage of outsourcing opportunities.

Yes, the creation of a standard for a globally accepted digital identity could be supported to foster innovation and interoperability for FinTechs in the EU.

3.13. In which areas could EU or global level standards facilitate the efficiency and interoperability of FinTech solutions? What would be the most effective and competition-friendly approach to develop these standards?

EU or global level standards could facilitate the efficiency and interoperability of FinTech solutions in the area of digital identity. The integration of existing standards such as the Legal Entity Identifier (LEI, ISO 17442) and digital certificates for authentication based on the ITU X.509/ISO/IEC 9594-8:2005 could be addressed. The definitions and rules for reference data of both standards are very similar. This could create a globally accepted digital identity for financial market participants based on existing and accepted standards.

3.14. Should the EU institutions promote an open source model where libraries of open source solutions are available to developers and innovators to develop new products and services under specific open source licenses? Please elaborate on your reply to whether the EU institutions should promote an open source model where libraries of open source solutions are available to developers and innovators to develop new products and services under specific open source licenses, and explain what other specific measures should be taken at EU level.

Yes. Open source libraries and solutions can help the proper application of standard and ensure interoperability between organizations.

Storing and sharing financial information through a reliable tool

Question 4.2: To what extent could DLT solutions provide a reliable tool for financial information storing and sharing? Are there alternative technological solutions?

DLT solutions ensure immutable transactions and thus trust in data. At the same time, some DLT solutions support permissions for different roles to allow for a variety of financial use cases. A globally accepted digital identity can help to make DLT solutions even more reliable, as discussed above.

Question 4.3: Are digital identity frameworks sufficiently developed to be used with DLT or other technological solutions in financial services? Please elaborate on your reply to whether digital identity frameworks are sufficiently developed to be used with DLT or other technological solutions in financial services.

Digital identity frameworks are not yet sufficiently developed to be used with DLT or other technical solutions in financial services. A solution to this could be embedding the Legal Entity Identifier (LEI, ISO 17442) into digital certificates for authentication based on the ITU X.509/ISO/IEC 9594-8:2005. This way a cryptographically safe digital ID system would be connected with a globally accepted, life time number legal entities.