

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Federal Reserve Board New Message Format for the Fedwire Funds Service Request for Comment

August 2018

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Federal Reserve Board New Message Format for the Fedwire Funds Service Request for Comment. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First some background on the LEI.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System (GLEIS) that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose in identity management for legal entities both by the public and private sectors. This includes but is not limited to supply-chain, digital markets, trade finance, and many more.

The LEI initiative is driven by the Financial Stability Board (FSB) and the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of global regulators known as the LEI Regulatory Oversight Committee (LEI ROC), including the Federal Reserve Board, with Joseph Tracy as a current Vice Chair of the LEI ROC (having completed a previous term as Chair), and William Treacy as a member for the Board.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization, specifically ISO/TC 68, Financial services.

The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions, including in payments and correspondent banking.

The LEI offers both public and private sectors users a one-stop approach to identifying legal entities, which has the potential to take the complexity out of business transactions. Via the Global LEI Index, GLEIF makes available the largest online source that provides open, standardized and high quality legal

entity reference data. No other global and open entity identification system has committed to a comparable strict regime of regular data verification.

GLEIF would like to recommend that the LEI be included, if not already envisioned in current drafting, in the ISO 20022 payment messages developed for the Fedwire Funds Service as an identifier for each party that is legal entity. This could be accomplished by adding the LEI to the Fedwire Funds Service messages in phase 3 of the implementation. As part of phase 3, the LEI can be added as an additional element for each party that is a legal entity present in the like-for-like messages that were implemented in phase 2. And the additional entities that are new data elements, specified in Table 3, can be implemented along with their LEIs.

Focusing on some of the benefits of implementing ISO 20022 outlined in the Request for Comment, inclusion of the LEI would allow the Board, the Reserve Banks and Fedwire participants to know the legal entities behind each party in the payments messages through the use of richer, structured data.

Inclusion of the LEI will improve interoperability between the Fedwire and other U.S. dollar and non-U.S. dollar payments systems. Domestically, the LEI will insure interoperability with the Clearing House to support the payment chain in the US and possibly with other important Financial Market Infrastructures (FMIs), such as CLS. Also, from a cross-border perspective, the European Central Bank and the Bank of England already are in the process to include the LEI in the payment messages for their respective RTGS systems.

Further, usage of the LEI upholds the recommendations of the Committee on Payments and Market Infrastructures (formerly known as the Committee on Payments and Settlement Systems (CPSS)) and the International Organization of Securities Commissions in their Principles for financial market infrastructures (CPMI-IOSCO). Specifically, principle 22: Communication procedures and standards, recommends that ‘An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.’ In addition to the use of messaging standards (like ISO 20022), usage of ‘reference data standards relating to counterparty identification’ are recommended, and the ‘relevant standards promulgated by the International Organization for Standardization should be carefully considered and adopted by an FMI.’

Benefits also could be seen for the private sector as the inclusion of the LEI could allow banks to provide useful services to their customers, like improvements to the flow of payments processes based on a global standard for extended remittance information (the purpose and details behind payment transactions).

The large firms that are directly connected to the RTGS systems (of any central bank) and to several FMIs would benefit from receiving incoming messages with an LEI. Knowing the identity of the legal entities behind these transactions will make the firms’ liquidity management, risk management and assessment of compliance risks easier to manage both for payment services, including correspondent banking.