

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Federal Reserve Bank of New York Payments Risk Committee Report on Best Practices for Payments, Clearing and Settlement Activities Consultative chapter on Payment Lifecycle

October 2018

**The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Federal Reserve Bank of New York Payments Risk Committee Report on Best Practices for Payments, Clearing and Settlement Activities Consultative chapter on Payment Lifecycle. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the payment lifecycle.**

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI code connects to key reference information that enables clear and unique identification of legal entities by means of an internationally unique identifier. GLEIF makes available the [Global LEI Index](#), which is the only global online source that provides open, standardized and high quality legal entity reference data. Each LEI contains information about an entity's ownership structure, answering the questions of '[who is who](#)' and '[who owns whom](#)'.

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.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of 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 ROC coordinates and oversees the worldwide framework of legal entity identification that is the Global LEI System. Its members sign the LEI ROC Charter and commit to support the introduction of the Global LEI System for official or international identification purposes.

The usefulness of the LEI can be leveraged in identity management within the payment lifecycle as a key foundation of the lifecycle is the clear and unambiguous identification of parties to payments transactions.

The draft chapter makes reference to the CPMI-IOSCO *Principles for financial market infrastructures*, (<https://www.bis.org/cpmi/publ/d101a.pdf>). GLEIF has engaged more recently with the CPMI in discussions focusing on the use of the LEI as a key component in Know Your Customer processes, particularly in the domain of correspondent banking. Specifically, for the payments process, the requirement has been raised to rely on the LEI at a minimum to be able to identify the legal entity responsible for originating payment transactions (the originating party) and the ultimate receiver of the funds of the payment transaction (the beneficiary).

This transparency, and more, can be gained by instituting the best practice that parties to payments transactions that are legal entities must register for LEIs and maintain (meaning duly renew) the key reference data that enables clear and unique identification of legal entities participating in financial transactions.

The Business Identifier Code (BIC) is the primary identifier used within payments processing and the related financial messaging to identify parties to payments transactions. In February 2018, GLEIF announced a mapping program for the first monthly open source [Business Identifier Code \(BIC\)-to-LEI relationship file](#). The file is built upon a mapping process established by SWIFT and certified by GLEIF which matches BICs assigned to an organization to its LEI. With the launch of the open source BIC-to-LEI relationship files, GLEIF and SWIFT pioneered a cooperation model that, for the first time, enabled market participants to link and cross-reference key entity identifiers free of charge.

The LEI also could be added to ISO 20022 financial messages and carried along with the details of the payments transactions themselves. GLEIF recently responded to the Federal Reserve Board New Message Format for the Fedwire Funds Service Request for Comment proposing that the LEI could be added to the ISO 20022 payment messages being developed for this service as an identifier for each party that is legal entity.

The PRC has sought feedback on enhancements to the payment lifecycle that promote best practices related to risk management in the payment lifecycle that will insure the safety and efficiency of the payment market infrastructure and reduce systemic risk. The use of the LEI is one such tool that can be used to achieve these goals.