

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

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Federal Reserve Bank of New York Best Practices for Payments, Clearing and Settlement Activities Report of the Payments Risk Committee Draft for Consultation.

GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) to identify participants in large value payment systems.

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) with William Treacy as a member for the Board and Joseph Tracy having served as a previous Chair and Vice Chair of the LEI ROC. 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 LEI can be leveraged in identity management for payments transactions as a key foundation for the clear and unambiguous identification of parties to payments transactions. In the context of the best practices as the focus of this report, GLEIF sees benefits for the use of the LEI as a key component in Know Your Customer processes, particularly in the domain of correspondent banking. Therefore, the usefulness and benefits of using the LEI will be seen most clearly in the area of indirect participation in which participants are engaged in correspondent banking and are exposed to the risks of this activity. Direct participants which are subject to existing regulatory reporting requirements as financial institutions are likely already to have registered for LEIs.

As the report cites, the implications of a failure of a correspondent bank to execute payments must be understood across international boundaries. It is here that the usefulness and applicability of the LEI as a global unique identifier for legal entities engaged in financial transactions can be seen.

There also focus on the international level regarding the risks of correspondent banking. GLEIF has engaged with the Committee on Payments and Market Infrastructures (CPMI) regarding the use of the LEI in correspondent banking. More concretely, the CPMI has raised 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 link between the identities of parties responsible for executing payments transactions then can be made to the identities of the parties legally responsible for the payment transactions if the parties have registered for LEIs.

The LEI also could be added to ISO 20022 financial messages and carried along with the details of the

payments transactions themselves. GLEIF previously 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.

While the benefits and usefulness of the LEI can most clearly be seen in the area on indirect participation and correspondent banking, GLEIF encourages the PRC to consider identification of parties using the LEI in both direct and indirect participation to its large value payment system.

Submitted by:

Stephan Wolf, CEO GLEIF

Stephan.Wolf@gleif.org