

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Central Bank of Bahrain on Proposed Amendments to its Anti-Money Laundering and Combating Financial Crime Module (Module AML) Consultation

October 2019

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Central Bank of Bahrain on Proposed Amendments to its Anti-Money Laundering and Combating Financial Crime Module (Module AML) Consultation. 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 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 spanning all industries and sectors.

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 currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC).

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 code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used by all users without limitations.

The ability of the world's financial ecosystem to curb fraud, terrorist financing and other illicit financial activity, is hindered by its reliance on outdated processes for identity verification. While identity

verification support is available through partnerships with service providers, these often face the same fundamental challenge: low quality, non-uniform data sources are not easy to implement, prevent interoperability and promote inefficiency, which limits the capacity to add value to the surveillance process.

Given this background on the LEI and the Global LEI System, GLEIF would like to propose that the Central Bank of Bahrain consider requiring the LEI for legal entities and legal arrangements as outlined in *AML-1.2.7 of the Module* (p.23-24) to ensure the unique identification of all legal entities, including trusts. By requiring the LEI for all legal entities, the following information that are currently required would be no longer be necessary to collect:

- (a) The entity's full name and other trading names used;
- (b) Registration number (or equivalent);
- (c) Legal form and status and proof of existence;
- (d) Registered address and trading address (including a branch where applicable);
- (e) Objectives and type of business activity;
- (f) Date and place of incorporation or establishment;

The value of the LEI in combatting financial crime and enhancing AML framework has already been confirmed by several market participants and regulators. For example, in the recent Payments Market Practice Group (PMPG) [White Paper on Adoption of LEI in Payment Messages](#), it is underlined that SEPA, FATCA, AML and sanctions regulations all require extensive data cleansing, data validation, conversion exercises and customer screening. Under FATF standards, it is compulsory that payment messages identify the originator and beneficiary of cross border wire transfers. In the Global LEI System, the name and address are available in their original character sets in addition to transliterations in Latin Alphabet. This avoids inaccuracies and can be value added for customers in countries using non-Latin Alphabet, such as Bahrain. The LEI removes the ambiguity associated with names and helps avoids false positives in sanctions screening. With the current 1.5 million and continuously expanding LEI population, "white lists" of non-sanctioned legal entities can be created.

In the [Financial Stability Board's Thematic Review on Implementation of the Legal Entity Identifier](#), it is stated that higher LEI coverage for all entities would support regulatory uses such as for AML/CFT, as well as other business and industry uses such as know your customer (KYC) processes and the transfer of funds, especially across borders.

The Wolfsberg Group underlined that it is important to know the branch information of a legal entity for further transparency. The LEI provides both the branch and direct and ultimate parent information of a legal entity.

Victoria Cleland of the Bank of England underlined in one of her [speeches](#) that LEIs provide valuable data and support anti-money laundering and combating the financing of terrorism efforts. The inclusion of LEIs could, if linked to portable credit files, improve access to the domestic and global financial system, support greater choice and competition for business finance.

GLEIF also would like to comment on the new section of the Module, *AML-2.A: Money Transfers and Accepted Crypto-asset Transfers* (p.48). GLEIF would like to propose that requiring use of LEIs as part of disclosure requirements for firms offering crypto-asset exchange services could contribute significantly to the transparency in this largely unregulated market. Given the originator and/or beneficiary is a legal entity in an accepted crypto-asset transfer, the LEI could be used to identify legal entities on crypto-asset exchanges.

Identification of legal entities through a valid LEI, a globally accepted unique identifier, is also consistent with the Central Bank of Bahrain's goals for strengthening the AML framework to fight against financial crime. The LEI itself can be considered a relevant attribute in many applications where authenticated transactions are relevant.

The LEI is a quality-controlled unique identifier supported by a transparent infrastructure of local identity validation and a centralized open data challenge service. The LEI also acts as an identification key between databases/platforms. Use of the LEI requires no special access arrangements to use the LEI data and no concern to expose any confidential information.