

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Action Task Force (FATF) Draft Guidance on Digital Identity

November 2019

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Action Task Force (FATF) Draft Guidance on Digital Identity. 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. The LEI is use case agnostic and can be used in any process of entity identification, from finance to healthcare to verifying all counterparties of businesses supply chain.

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.

GLEIF is aware that FATF's Draft Guidance on Digital Identity exclusively aims to create a digital ID guidance for the identification of individuals (natural persons). Nevertheless, since FATF confirms that reliable, independent, digital ID systems are important for all Customer Due Diligence (CDD) functions,

GLEIF would like to take the opportunity to comment on several items in the draft guidance and provide an update on digital journey of the LEI.

It is stated in the Draft Guidance that FATF is committed to ensuring that the global standards encourage responsible financial innovation and new technologies, which strengthen the implementation of anti-money laundering/counter financing of terrorism (AML/CFT) standards and financial inclusion goals. In a joint [report](#) published by the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), the LEI is highlighted among three initiatives, which allows unique identification of large and small firms at low cost and helps to improve transparency on anti-money-laundering and know-your-customer concerns.

Additionally, the LEI has been identified as one of the emerging innovations for efficiency and effectiveness of a bank's efforts at AML/CFT compliance in the report of the International Finance Corporation (IFC) of the World Bank, *'Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism Requirements in Trade Finance: A Guide for Respondent Banks'*. Further, to bring transparency on entities and their transactions, the LEI is being recommended for conducting due diligence on borrowers, on-boarding clients in securities and fixed-income markets and for verifying buyers and sellers in cross-border trade in the T20 Argentina Report, *'A global framework for tracing Beneficial Ownership.'*

GLEIF is of the opinion that the LEI has the potential to support financial inclusion goals and correspondent banking with high quality legal entity reference data.

GLEIF would like to emphasize that proposed components of a digital ID system largely overlap with the questions that the Global LEI System addresses for legal entities. In the draft Guidance, Component 1 aims to provide an answer to "Who are you?" and the Component 2 responds to the question "Are you who you say you are?". In today's Global LEI System, verification of the legal entity or an individual acting in business capacity is done exactly by using these same components. First, the LEI Issuing Organizations collect, validate and verify the information via an authoritative source, mainly business registries. The LEI Issuers also check the signatory authority of the person applying for an LEI on behalf of a legal entity, bringing the validation process of the Global LEI System in line with both CA/B Forum and eIDAS rules. Both encouraging legal entities to provide updates to their LEI reference data and the requirement to renew the LEI at least on an annual basis guarantees ongoing due diligence. Given the required components for identification are already in place, GLEIF would like to propose to FATF to include in its Guidance the LEI for individuals acting in business capacity.

In the draft Guidance, FATF highlights that reliable, independent digital ID systems potentially can reduce the possibility of human error in identifying and verifying the identity of a person, provide more efficient, user friendly experiences for potential customers at onboarding and can help lower on-boarding costs. GLEIF would like to bring into FATF's attention a [recent research](#) undertaken by McKinsey. After almost 100 "Voice of the customer" interviews with financial institutions, McKinsey found that the biggest pain point of the banking industry is manual linkage of entity data from disparate sources (internal and external). The research estimates that use of the LEI as the data connector among different sources can unlock 2-4 billion USD annually in client onboarding. GLEIF suggests to FATF to consider recommending the use of the LEI as the data connector for more transparent, granular identification of individuals acting in business capacity. Extensive use of the LEI as the data connector

would greatly contribute more holistic view of client pre-onboarding, as well as better customer experience given customers are not requested for data or documentation several times.

GLEIF also would like to highlight that the LEI is already being embedded into digital certificates, allowing it to be used for digital financial documentation. Within [GLEIF's 2018 annual report](#), GLEIF's LEI is embedded within the digital certificates of GLEIF's signing executive officers. These certificates, for the first time, connect the role of the signatory to an organization through the LEI and can therefore be used to verify – automatically, through the shared LEI – that the filed document and the signatories represent the same organization. Incorporating a company's LEI within digital certificates of its executive officers used to sign financial statements provides reassurance on the data's reliability and that the information has not been tampered with, despite permitted access to the filed document via any public server globally. Deploying digital signatures, including that of the auditor, also enables efficient report production and distribution processes, the elimination of paper and increased certainty and trust.

The digital certificates of GLEIF's signing executive officers included with its 2018 annual report are compliant with the European Union's Electronic Identification and Trust Services (eIDAS) Regulation. ETSI (European Telecommunications Standards Institute) has published the technical standards for the inclusion of LEIs in eIDAS certificates and seals in August 2019. To achieve this, GLEIF applied for Object Identifiers (OIDs) for the LEI and the role of the person acting on behalf of the legal entity so that these could be embedded in digital certificates. GLEIF also has contributed to the working group of the International Organization for Standardization (ISO) currently revising the ISO 17442 LEI standard to include details in this standard to embed LEIs and roles in digital certificates in a standard way.

Use of the LEI in digital certificates connecting the role of the signatory to an organization could be an answer to possible risks, impersonation and synthetic identities, listed in the draft Guidance.

GLEIF has conducted further research on the use of LEIs for digital transactions focusing on the use of the LEI in digital verifiable credentials (DVCs) which can be secured cryptographically and contribute to overall cybersecurity. Decentralized identity management systems offer an alternative to centralized identity management. Such systems run using distributed ledger technology. Entities represent themselves via digital verifiable credentials. Such credentials allow for real time access to services or applications. DVCs are interoperable, cryptographically-verifiable and facilitated by distributed ledger or blockchain technology. By leveraging the LEI within digital verifiable credentials, counterparties can more easily accomplish the tasks of identity verification, authentication, and authorization and digitally identify persons able to act officially on behalf of a legal entity. Proofs of concept were conducted for the Hyperledger Indy blockchain, in partnership with the Sovrin Foundation, Evernym and developer Business Reporting-Advisory Group and on the Ethereum blockchain with partner/developer uPort/Consensys.

Adoption of this approach could lead to legal entities having digital identities that could be used in a chain of trust for numerous use cases from regulatory and supervisory filings to business contracts and transactions.

Lastly, GLEIF would like to offer its full support for a similar FATF digital ID guidance for legal entities and propose to FATF to consider including the LEI starting with the design process as a required data field and connector.