

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Bank of England Discussion Paper Central Bank Digital Currency

June 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Bank of England Discussion Paper Central Bank Digital Currency. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the Discussion Paper and would like to respond Question 2: *“How could CBDC be designed in a way that improves the efficiency and speed of payments, while also facilitating competition and innovation?”*.

GLEIF agrees with the Bank of England’s approach that the Central Bank Digital Currency (CBDC) payment system should be designed to avoid creating closed-loop payment systems, in which payments can only be made between users of the same payments provider. Instead, the CBDC payment system should be designed in a way to support cross border payments. This design would ensure interoperability among different payment operators and system providers across borders, and it can only be secured by mandating the use of well-recognized global standards and frameworks. GLEIF applauds the Bank of England for suggesting the LEI in the Discussion Paper as a building block for the payment scheme that would apply to CBDC.

GLEIF understands that AML and CFT regulations and requirements shall apply to a CBDC payment system. Payment service provider should apply Know Your Customer checks to verify the identity of users or outsource these checks to an authorized third-party service provider.

In today’s financial system, KYC checks and identification of entities are still challenging for financial institutions due to the lack of a standardized approach to legal entity verification. A [research](#) report produced by Loudhouse on behalf of GLEIF found that financial institutions on average use 4 different identifiers for a legal entity client. Using multiple identifiers leads to inconsistent information, a drain on resources as reconciliation of different identifiers requires manual intervention, and lack of transparency due to reliance on proprietary identification systems. Identifiers of legal entities are easily obtained from a host of different issuers but the associated reference data are not kept up-to-date in a systematic way. The challenges for keeping the client reference data up-to-date continue even after the client is onboarded. This includes regular verification of business card information and changes to the ownership structure. Overall, only two thirds of financial institutions believe they hold accurate client information.

The Bank of England indicates in its Discussion Paper that the Bank might allow an appropriate level of anonymity, but rules out truly anonymous payments. GLEIF agrees with the Bank that for ensuring transparency in financial markets and fulfilling the Bank’s mission of providing financial stability to the UK economy, that unique identification of all parties to payment transactions should be required. The only way to enable fully automated, straight-through processing is to use the LEI in payment transactions and financial messaging on a consistent and standard basis.

The benefits of the LEI in payments were elaborated in [a joint paper](#) published by the GLEIF Chairman, Gerard Hartsink and Bank of England’s Executive Director, Victoria Cleland. In this paper, Hartsink and Cleland highlighted that consistent use of the LEI in the payments landscape could bring several benefits for stakeholders, including payment service providers, payment service operators, and end-

users. Payment service operators can access richer data through the adoption of the LEI in ISO 20022 payments messages. Through integrating the LEI in their automated processing, payment service providers could support their KYC and client entity onboarding processes, reduce false positives in AML alerts and enhance their correspondent banking relationships.

Given the aim of CBDC is to make a new form of central bank money available for end-users (e.g., businesses), the use of the LEI would assist end-users by speeding up payments processing times and ensuring that the payments are made to the correct counterparty and the correct legal entity within a large organization or a group. This is particularly a challenge for cross border payments.

Additionally, the LEI is a unique identifier linked to a legal identity and issued by an accredited organization. This means that when it is used in financial flows, compliance verification can be based on actual identity. A legal entity may have several associated BICs; but only one LEI. The open source BIC-to-LEI relationship file published monthly by SWIFT and GLEIF demonstrates this. Therefore, GLEIF thinks it is critical that the LEI also should be specified as an identifier of parties within payment messages.

GLEIF is pleased to see that the Bank of England has a progressive approach towards interoperable entity identification management via the LEI as a globally recognized and unique identifier for all businesses in the UK since its response to the van Steenis review on the Future of Finance. Making the LEI as a building block for a CBDC payment system would be consistent and complementary with the requirements and standards adopted in other initiatives in the UK payments landscape, such as the Pay.UK's New Payments Architecture and the RTGS Renewal.