

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission's Consultation on a new digital finance strategy for Europe / FinTech action plan

June 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's Consultation on a new digital finance strategy for Europe / FinTech action plan. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First, GLEIF would like to thank the European Commission for organizing a series of online roundtables during the last couple of months, which provided opportunity for different stakeholders to engage with each other and the Commission in an open and inclusive discussion environment. GLEIF participated in these roundtables and was pleased to see the support from various stakeholders for further data standardization to ensure interoperability across EU reporting and regulatory frameworks through adopting global standards in the European digital finance infrastructure design.

First, GLEIF would like to respond the Question 1: *“What are the main obstacles to fully reap the opportunities of innovative technologies in the European financial sector (please mention no more than 4)? Please also take into account the analysis of the expert group on Regulatory Obstacles to Financial Innovation in that respect.”*

From our continued dialogue with the financial industry, we would point to regulatory fragmentation, non-harmonization of Know Your Customer (KYC) processes and requirements with regards to identification and verification of clients, and limited interoperability between systems used by different operators as the major obstacles to fully reap the opportunities of innovative technologies in the European financial sector. Adoption of global standards will be the key feature for the digital successful transformation of the financial sector in the EU. A “global approach” and adoption of global standards, as opposed to local and regional ones, is the preferred method according to most respondents to the EU’s FinTech Consultation.

In every phase of the digital finance, from digital onboarding to post-trade settlement, from proxy voting and shareholder transparency to identification of crypto-asset issuers, there is a need for a consistent and standard way of entity identification. For legal entity identification in digital transactions, the Legal Entity Identifier is the only global standard that meets all the criteria mentioned above. The Legal Entity Identifier (LEI) is the global standard for unique and unambiguous identification. It links to open, public reference data describing the legal entity which is verified and validated by LEI Issuers. It is a foundational building block for client verification and identification process. Using the LEI, instead of a plethora of regional, national, or local identifiers, is particularly essential for financial firms operating across borders. **The LEI data is structured and machine readable; so, it can be easily used by any user in digital environment.**

Adopting the LEI and other global standards would help the financial sector extend its common language in a wide range of areas, such as payments, securities, lending, capital raising, investment management, trading and post-trade, and trade finance and reporting. The financial sector is engaging in many

initiatives aiming to simplify these transactions such as adoption of distributed ledger technologies or removing regulatory fragmentation. **Ensuring full interoperability across these initiatives will be crucial for these new applications' success.**

GLEIF also would like to provide its comments for the *“Question 16: What should be done at the EU level to facilitate interoperable cross-border solutions for digital onboarding?”*

The emergence of new players in the financial sector such as FinTech and digital identity management firms has set new standards in customer onboarding. Customer experience has emerged as a major differentiator in this new landscape, where customers expect a seamless experience from their banks, and high quality and customized service during and after the onboarding process.

According to a [research](#) done by Fenergo, the fragmented nature of the onboarding process might cost up to 22,000 Euros per institutional client for financial institutions. Fenergo also highlights in this research that institutional clients are contacted on average 10 times during the onboarding process and asked to submit between five and **up to 100 documents** (either directly or through external sources). In the UK, 40% of consumers abandoned bank applications before they were complete, due to dissatisfaction with onboarding processes. More than 1 in 3 of these abandonments were due to the amount of time it took to complete the details required.

Financial firms are reviewing client onboarding processes for cost and efficiency savings, particularly due to digitization of processes and workflows. However, the crucial question is how (and if) financial institutions will achieve digitization before adopting a data-driven approach in their client lifecycle management processes? As financial firms adapt their processes and workflows for digitization, there is a genuine risk that siloed, proprietary approaches again serve as the foundation for transformation – and this is where the action from policy makers in setting interoperable standards can help ensure an open interoperable future.

Similarly, a [research](#) report produced by Loudhouse on behalf of GLEIF found that financial institutions on average use on average 4 different identifiers for identifying 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 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 crux of the problem is the lack of a standardized approach to legal entity verification. This is a problem even without considering the digitalization of the sector – but adds further obstacles to digitalization.

A recent [research](#) report conducted by McKinsey demonstrated the value of obtaining the LEI of clients at the start of onboarding process, instead of the current practice of obtaining the LEI at the end of the onboarding process for compliance purposes. This includes:

- Three to seven fewer days to revenue due to faster onboarding.
- Improved client retention due to delivery of a better customer experience. Financial institutions make one fewer round trip to request and collect documents during onboarding.

- A more holistic view of clients across internal and external data sources.
- More efficient lifecycle management by extending the LEI to KYC refresh, transaction verification/AML compliance and risk reporting.

GLEIF's discussions with financial institutions and KYC utilities always point to the same problem - while they can relatively easily identify "companies" through their local business registry numbers within an EU jurisdiction, the challenge comes with different entity structures such as funds, SVPs, trusts, foundations or charities as business registry information is not straightforward for these different entity types. Another challenge is the identification of subsidiaries, branches or parents in non-EU jurisdictions, in which access to business registry is sometimes not free of charge and cumbersome due to language barriers and restrictions to access from third countries.

Therefore, GLEIF suggests that **mandating the use of the LEI as a required data element in Customer Due Diligence (CDD) process for all financial institutions at the EU level would greatly facilitate interoperability for digital onboarding across borders.** The Global LEI Repository 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. GLEIF operates under the Open Data Charter terms, which means the data can be used without limitations.

GLEIF would like to respond to the Question 18: *"Should one consider going beyond customer identification and develop Digital Financial Identities to facilitate switching and easier access for customers to specific financial services? Should such Digital Financial Identities be usable and recognized throughout the EU? Which data, where appropriate and in accordance with data protection rules, should be part of such a Digital Financial Identity, in addition to the data already required in the context of the anti-money laundering measures (e.g. data for suitability test for investment services; data for creditworthiness assessment; other data)? Please explain your reasoning and also provide examples for each case you would find relevant."*

Often the debate on digital identity focuses on issues linked to personal identity. GLEIF would like to point to the importance of also tackling now the issues related to legal entities' digital identity.

Increased digital identification can help reduce the cost of finance to less advantaged groups and better digital identification can only be achieved by embracing existing and globally recognized industry standards.

For example, the [Bank of England](#) considers the LEI as a building block for its "Open Finance" vision, which would enable businesses to move around the financial system seamlessly. Businesses could pull their data together under a single identity, the Legal Entity Identifier, into a portable credit file to shop around for their financing needs. And because of its global recognition, the LEI will help businesses access finance for cross-border trade.

The LEI helps with digital identification and representation of legal entities as the LEI is already integrated into machine-readable financial statements, digital certificates and distributed ledger applications. For example, an LEI embedded in a digital certificate enables the recipient to conduct identity proofing for persons and entities, as well as the association between the two, in the digital sphere. By embedding the LEI in the digital certificate, the recipient has the benefit of holding

cryptographically strong binding information about the legal entity and then performing the tasks of authentication and authorization independent of being online.

Through embedding LEIs in digital certificates, legal entities can perform various corporate digital transactions, such as submitting e-invoicing, ordering goods and services, contracting with suppliers, or reporting tax statements to public authorities with an extra layer of trust. Checking the validity of the company's data can be automated, consistently regardless of the country where the company is allocated, in the same way, certificate validation is done. The result is reliable and robust validation of the company's data and people's identity acting on behalf of the company.

GLEIF demonstrated in 2019 how an eIDAS compliant certificate can be linked to a company's annual financial reporting in a completely machine-readable fashion via the LEI through the GLEIF's Annual Report of 2018¹. 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. This allows any interested party to quickly and easily consolidate and verify information on a filing entity. The European Securities Market Authority (ESMA) will publish the GLEIF's 2019 Annual Report as an example for all issuers who will submit their Annual Report in iXBRL format under the European Single Electronic Format (ESEF) Regulation, which also requires that issuers identify themselves using the Legal Entity Identifier (LEI).

GLEIF partners with stakeholders in Europe and around the world to pilot a solution which allows organizations to create and manage 'organization wallets' that confirm an organization's identity and verify employees' authority and other representatives to act on behalf of the organization. When digital credentials conform to the World Wide Web Consortium's (W3C) [Verifiable Credentials Data Model](#), they are called verifiable credentials (VCs). These credentials can be used to securely identify authorized representatives when they execute an increasing number of digital business activities, such as approving business transactions and contracts, including client onboarding, transacting within import/export and supply chain business networks and submitting regulatory filings and reports. What makes the LEI so attractive in both the world of digital certificates and Self Sovereign Identity (SSI) solutions is its unique value proposition – a globally recognized standard for legal entity identification which connects to key reference information including their ownership structure for the legal entity.

Therefore, for fulfilling any objective that requires unique and unambiguous identity verification in a digital environment, the LEI can form the basis for ensuring interoperability across different system operators and making sure that these identities can be re-used in a wide range of financial services within the EU and across borders.

Lastly, GLEIF would like to provide its comments for the Question 19: *“Would a further increased mandatory use of identifiers such as Legal Entity Identifier (LEI), Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI) facilitate digital and/or automated processes in financial services?”*

GLEIF thinks that using global standards is crucial for facilitating automated processes in financial services. Given the LEI is a globally recognized standard based on open data for unique entity identification across borders, it is crucial that the EU Commission mandates the LEI for any subject

¹ See for further detail : <https://www.gleif.org/en/about/governance/annual-report>

relevant for the legal entity identification. Broader adoption of the LEI would ensure an open, interoperable future of the digital finance which is the objective of both public and private sectors. While the private sector is a significant stakeholder in digital finance area, it is very hard to expect the industry to come up with an agreed standard, unless there is a mandate from public authorities, due to existing legacy systems, proprietary data and conflict of interests. Nevertheless, GLEIF is actively working with financial institutions to reduce the cost and shifting the responsibility of obtaining and maintaining the LEI from registrants to financial institutions, to the benefit of both parties.

GLEIF fully supports a further increased mandatory use of identifiers such as Legal Entity Identifier (LEI), Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI) to **facilitate digital and/or automated processes in financial services** and would like to comment specifically on **how the LEI can help automation in KYC, AML, payments and RegTech and SupTech areas.**

Short introduction about the Global LEI System

First GLEIF would like to provide a short background about the LEI and the Global LEI System.

The LEI is a 20-character, alpha-numeric code, based on the ISO 17442 standard, is used for uniquely and unambiguously identifying legal entities globally. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace. The Global LEI System is overseen by over 71 public authorities (including DG FISMA representing the European Commission), under the auspices of the Financial Stability Board. GLEIF is a non-for-profit organization and the Global LEI System is based on a cost recovery model.

In the European Union, the LEI is already required in regulatory reporting for entities subject to the EMIR, MIFID II, MAR, CRR, SFTR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive, Securitization Regulation, and Prospectus Regulation. At the global level, more than 100 rules refer to the LEI in Financial Stability Board jurisdictions².

Recently, the Financial Stability Board stated in its [Enhancing Cross-border Payments - Stage 1 report to the G20](#) that to improve the efficiency and reduce costs of AML/CFT and other compliance processes without compromising on the quality of compliance and to ensure adequate oversight, greater use of the Legal Entity Identifier (LEI) for firms and digital IDs for individuals and stronger regulatory frameworks that reduce unnecessary barriers to cross-border data sharing are necessary when implementing the Financial Action Task Force (FATF) standards and other regulatory and supervisory requirements.

Use of the LEI in AML screening

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

² [Financial Stability Board's Thematic Review on Implementation of the Legal Entity Identifier Peer Review Report](#)

Financial institutions face the following fundamental challenge in identity management: 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. International banking group structures and cross border activities are difficult to monitor and pose an important money laundering (ML) and financing of terrorism (FT) risk factor.

In some countries, it is possible that several entities/persons have exactly the same names which makes it difficult to identify the particular payer and payee without additional information. Today, name-matching techniques for AML screening work either through deterministic or probabilistic matching technology. For instance, a matching relationship between two records is only direct or deterministic when a customer name exactly matches with the name in the sanction list(s). However, the existence of more than one “John Brown” or “John Trading Inc” causes a tremendous number of false positives for financial institutions and other payment service providers. In reality, matching software may report possible matches when customer information is the same or similar to the watch list entity information. In order to reduce false positives, additional information such as identification number is needed for further investigation.

GLEIF suggests that leveraging the LEI for legal entity AML screening would greatly enhance efficiency for authorities as well as private sector firms.

If entity sanctions list in the context of the AML/CFT to include the LEI, authorities could more easily communicate with each other, and private sector firms could put in place more efficient surveillance processes. This would substantially reduce cost, time and effort in cleaning up false positives. Another advantage of leveraging the Global LEI System is that each LEI record provides the name and addresses in their original character sets in addition to transliterations to the Latin alphabet. This avoids inaccuracies and can also be a value added for customers in countries using non-Latin alphabets.

Use of the LEI in Know Your Customer processes

As GLEIF already highlighted under Question 16, mandating the use of the LEI as part of Customer Due Diligence (CDD) process for all financial institutions at the EU level would greatly facilitate interoperability for digital onboarding across borders as legal entity identification needs a global standard, more than ever.

GLEIF is aware through discussions with its [Globally Important Financial Institutions Stakeholder Group](#) members that **remote onboarding of entities is becoming an established norm in financial services**, not only due to the emergence of FinTech companies in recent years, but also due to restrictions resulting from the Covid-19 crisis and the preference of clients. Financial firms that remotely onboard client organizations stress that unique identifiers can greatly streamline remote onboarding of their clients. Through integration of the LEI in their onboarding processes, they could easily (1) validate the client record, (2) pre-populate the client record with information that must be stored within the financial institution and (3) verify the information that has been collected.

Financial Institutions can easily connect to the Global LEI Repository via the GLEIF Look-up application programming interface (API), which allows developers to access the complete LEI data pool in real-time directly and perform on-demand checks for changes to specific LEI records in a convenient and easy-to-read format. The application, developed by the GLEIF, responds to the market needs of multiple LEI

stakeholders, including financial institutions, regulators, fintech companies, and analysts seeking to include LEI data in their machine-readable and automated processes. The GLEIF LEI Look-up API can easily be integrated into internal systems based on the widely supported JSON data format. The use of the API is free of charge and does not require registration.

Through connecting the GLEIF API at the stage of onboarding, financial institutions could ask client to provide their LEI. The verified and quality controlled LEI data would automatically bring data fields in GLEIF's Common Data File format without requiring the client to enter such details again. Removing redundancy for the client to resubmit all the information that is being already represented in the LEI data would bring mean better customer experience for the financial institution.

Under the "Validation Agent" framework, GLEIF pilots the applicability of financial institutions issuing an LEI for each onboarded client through partnering with accredited LEI Issuing Organizations. With this framework, GLEIF would like to break the link between the "LEI registration and annual renewal fee" and "ensuring accuracy of reference data" thus minimizing the cost burden on registrants. Optimizing the quality, reliability and usability of LEI data empowers market participants to benefit from the wealth of information available with the LEI population and is at the core of GLEIF's mission. GLEIF believes the new operating model involving financial institutions will result in a revenue model based on a macro indicator – for example the number of records processed – rather than the current model which is driven by individual interactions with the legal entities. GLEIF is currently engaging in several pilot projects with financial institutions to evaluate jointly the operational, legal, and technical adjustments required to make this model a success.

Use of the LEI in Payment Messages

Every payment system requires a payment standard. The only way to enable fully automated, straight-through processing in payments messages is to consistently use the LEI for uniquely and clearly identifying parties to payment transactions. In parallel to changes in international payments messaging for adopting a more common international payment messaging standard, ISO 20022 standard, the industry [supports](#) broader adoption of the LEI along with the ISO 20022 standard.

Broader adoption of the LEI in payments landscape can help to overcome cross-border challenges associated with names and addresses in non-Latin character sets often lacking a single and consistent form or convention; so causing confusion and inefficient processing.

Payment services providers can increase the efficiency of compliance checks processing through the LEI in an automated way:

- identity-based compliance made possible by LEI adoption increases the effectiveness of financial institutions screening thereby facilitating better, more robust compliance checks.
- inclusion of the LEI in payment messages of a payment scheme facilitates the automatic AML, CTF and sanction checking process that Payment Service Providers need to comply with (inclusive the reports of suspicious transactions to the Financial Intelligence Unit).
- facilitating information sharing in a standard format in correspondent banking; so as to reduce the risk and cost associated with due diligence process.

Payment service operators can access to richer data through the adoption of the LEI in ISO 20022 payments messages.

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.

GLEIF thinks it is critical that the LEI also should be specified as an identifier of parties within payment transactions. BICs plays a key role in addressing messages to operational desks and routing financial transactions on the SWIFT network as well as identifying the operating parties in payment transactions. Domestic and international payment systems within financial and non-financial institutions or regional and global payments market infrastructures such as Automated Clearing House, Real-Time Gross Settlement Systems and Payment Clearing Systems are based on legacy identifiers or the BIC. So since BICs do not provide the authoritative source of entity identification like the LEI, it is critical to have both identifiers in the payment message, to identify parties both as the operating parties within payment transactions, which may or may not be legal entities, while including LEIs to identify the legal entities responsible within payment transactions.

From an end user perspective, having the LEI code in addition to the BIC in the payment information would enable assurance of the correct recipient of the payment and substantially reduce the potential for fraud and error. The addition of the LEI of payment sender can enable reconciliation of payments to individual invoices in an automated and efficient way.

Use of the LEI in RegTech and SupTech

In the [European Commission's Staff Working Document on the Fitness Check of EU Supervisory Reporting Requirements](#), the Commission highlighted that inefficiencies in reporting frameworks arise due to the lack of clarity in requirements and insufficient use of standards, common formats and identifiers. The Document highlights that consistent definitions and standards enhance comparability, communication and streamlined processes, both within firms and with supervisors, facilitating automation and reducing costs related to data collection and analysis.

The Commission's [analysis of the expert group on Regulatory Obstacles to Financial Innovation](#) confirms that technology-enabled regulatory and supervisory processes have the potential to create efficiencies in compliance, regulatory reporting and risk analysis.

The adoption of global standards, including the LEI, and creating a common language for RegTech and SupTech is necessary for achieving greater accuracy and efficiency in reporting and data analysis. As very accurately highlighted in the [analysis of the expert group on Regulatory Obstacles to Financial Innovation](#), currently FinTech, RegTech and SupTech are not underpinned by a common language and common rulebook. **Over the years, the industry and regulators have created a *Tower of Babel*, in which the same actors, products or objects are identified by heterogenous concepts and terms. Therefore, the solution does not lie in digitizing the existing Tower of Babel based on the status quo; but creating a new dictionary based on well recognized, global standards which enable a common language, interoperability and understanding for all parties.**

Considering the LEI, a globally recognized and well-received standard, as a building block for this new dictionary and common language can only help the rest of the world follow the EU set standards as a best practice, as already proven by many EU rules in other sectors.