

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission's Retail Payments Strategy for the EU

June 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's Retail Payments Strategy for the EU. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First, GLEIF would like to respond to the Question 19: *“Do you see a need for action to be taken at EU level with a view to promoting the development of cross-border compatible digital identity solutions for payment authentication purposes? Please specify what other need(s) for action you would foresee or what other type(s) of action you would recommend”.*

GLEIF sees a need for public action to promote global, digital identity solutions for payment authentication purposes, and the EU can lead the way by pioneering the use of globally recognized international standards.

Currently, cross-border payments are managed through a network of correspondent banks. These correspondent banks ensure that payments reach their destination anywhere in the world; but not in the same level of transparency, efficiency, cost, and speed, as domestic payments. Business to business (B2B) cross border payments suffer from patchy and fragmented regulations and local standards, which result in inefficient, slow, opaque, and costly cross-border payment transactions. This situation is particularly relevant for entities in developing countries, where local systems for entity identification are not easily accessible, may not be transparent, and sometimes lack quality standards. For such entities, correspondent banks either impose a high cost fee on the payer (or sometimes on the payee), which makes the business relationship less desirable, or reject the payment transaction since the correspondent bank does not want to devote time and additional resources for verifying and validating the recipient entity. The result is de-risking (i.e. less appetite for financial institutions to provide credits to SMEs and entities in developing countries), loss of the business relationship, missing business opportunities for entities in developed countries, and financial exclusion of entities in developing countries.

As already highlighted in the [Financial Stability Board's Enhancing Cross-border Payments Stage 1 report to the G20](#), GLEIF agrees that greater use of the Legal Entity Identifier (LEI) for firms and digital IDs for individuals in cross border payment arrangements can reduce unnecessary barriers to cross-border data sharing when implementing the Financial Action Task Force (FATF) standards and other regulatory and supervisory requirements. The use of the LEI consistently as a common data standard would ensure interoperability among different payment system operators or providers regardless of their jurisdiction.

The payment is the last step of a B2B transaction. Therefore, ensuring quality control in counterparty verification and validation by using the LEI in previous steps such as the selection of providers, agreeing on contract, confirming orders and agreeing on delivery makes sure that payment is made from a legitimate business to a legitimate counterparty.

With the emergence of new actors in the financial sector, traditional banks compete against more agile and fast payment service providers in the digital environment. However, since many traditional banks rely on legacy systems and often proprietary identifiers in client onboarding instead of structured data for enabling a 360-degree view of each client, these systems cannot gain the maximum benefit from digitization. For example, many financial institutions have developed behavioral assessments for tracking anomalies in customer behavior and being alerted against fraud or financial crime. However, all the efficiency of such assessments is hindered by lack of a consistent means to uniquely and unambiguously identify the client as well as an efficient means for the client to digitally authorize transactions. Today, the Legal Entity Identifier (LEI) is the only global and open data standard, overseen by 71 regulators through its LEI Regulatory Oversight Committee. Therefore, the LEI can bring assurance of unique legal entity identification across borders and in digital identity management solutions.

The LEI can help the European payment landscape to be more digital. In last years, GLEIF has developed digital identity management solutions. As an example of how the LEI is digitally agile, GLEIF would like to share these examples in digital certificates and self-sovereign identity solutions:

- **Digital certificates:** For the second consecutive year, GLEIF has published its [annual report](#) in human and machine-readable Inline XBRL and HTML format, with its LEI embedded within both the annual report and the digital certificates of GLEIF's signing executive officers. The GLEIF's signing executive officers' digital certificates were eIDAS qualified certificates. This was delivered in partnership with XBRL International and Workiva, and in cooperation with the European Securities and Markets Authority (ESMA). By embedding the LEI in both the certificate and the financial filing, any recipient of the document can, in a completely automated way, verify the authenticity and integrity of the annual report via the digital certificate and tie that certificate to the aggregated data of GLEIF.
- **Self-sovereign identity (SSI):** Thanks to advances in distributed ledger/blockchain technology, digital identity management with the additional feature of decentralized identity verification is now possible. Based on a concept known as SSI, this new approach to authentication and verification of digital identity began as a means by which a person, the identity owner, has ownership of his/her personal data together with control over how, when, and to whom that data is revealed. In several proof of concepts (PoCs), GLEIF challenged SSI providers to extend the basic concept of 'individual wallets' and to create 'organization wallets'. In these wallets, the basis for identity is the organization's LEI, and the verifiable credentials issued to persons in their official roles within or in relation to the legal entity would be tied to the organization and its LEI. Critical to this is the fact that the contents of the wallet credentials, in the form of digital schema, can be designed by each organization to cover the particular identification and verification needs that the organization may have. The initial PoCs conducted by GLEIF simulated a regulatory filing. In this scenario, the SSI provider and GLEIF enabled a trust chain by connecting verifiable credentials anchored in the blockchain. The regulator was able to verify the authenticity of the VCs of persons in official roles at the legal entity, the legal entity itself, the LEI Issuer, as well as GLEIF.

Therefore, the European Union can pioneer the LEI as an open and global legal entity identification standard that can support payment authentication across borders.

GLEIF would also like to comment on the Question 29: *Do you see a need for further action at EU level promoting the standardization of dedicated interfaces (e.g. Application Programming Interfaces – APIs) under PSD2?*

The LEI could be leveraged to enable more efficient digital transactions under PSD2.

PSD2 introduces a mix of approaches for identifying legal persons. For example, it introduces a new identifier for Third Party Payment Service Providers (TPPs) (the PSP identifier) – this is administered and maintained nationally by the National Competent Authority (NCA). The PSP identifier must be embedded in the TPP's eIDAS/PSD2 Certificate to enable authentication between TPPs and banks. So within one regulation the following results:

- the eIDAS/PSD2 certificate is not usable for any other digital transaction partly because it contains an identifier customized for the PSD2 implementation
- each NCA maintains a register with its own identifiers for banks, TPPs, and the NCA itself thereby rendering it difficult to aggregate data within the PSD2 ecosystem
- the PSP ID identifier cannot be used to connect to other data sources, enable analysis, or facilitate any other digital communications outside the PSD2 protocol.

**What if the LEI were used instead?** The eIDAS/PSD2 certificate could be parsed and, using the publicly available LEI lookup API, banks could get a clearer picture of the TPP it is engaging with. TPPs would not need to put in place another process for managing another company identifier. NCAs could implement a less complex structure for recognizing TPPs. In total, all parties gain in efficiency and the PSD2 framework is rendered more interoperable, thereby also facilitating a more integrated EU payments market.

Therefore, the Commission could consider mandating the LEI in any context of entity identification needs in the PSD2, particularly under Articles 14, 46 and, 52.

Lastly, GLEIF would like to submit comments for the Question 40: *Taking into account that the industry is developing or implementing solutions to facilitate cross-border payments between the EU and other jurisdictions, to what extent would you support the following actions? Please explain.*

The cross-border payments landscape is evolving in the direction of increasing efficiencies, richer data utilization and greater international harmonization through the adoption of the ISO 20022 standard. The ISO 20022 standard was updated in 2016 to include the ability to verify financial institutions using an LEI code instead of a BIC. BICs are primarily bank codes and LEIs can be obtained by any company wishing to trade on the financial market.

This addition allows a much broader range of companies (e.g. FinTech) to standardize their payment messaging in line with the ISO 20022. It also allows companies to speed up current Know Your Customer requirements that are often too costly and ineffective. There is a general industry support for broader adoption of the LEI along with the ISO 20022 standard.

The Bank of England [announced](#) that it will mandate the inclusion of the LEI in payment messages between the financial institutions, provisionally around 2023. In Pay.UK's [questionnaire](#) on ISO 20022 transition has displayed that 60% of the respondents wanted enhanced data and the most commonly requested enhanced fields were, in order: enhanced remittance data, LEIs, 'track and trace' and purpose codes.

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 which causes confusion and inefficient processing. 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.

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 more automated AML, CTF and sanctions screening processes 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, in which the LEI is a dedicated field. Moreover, the SEPA data formats rely on the global open standard ISO 20022. Not only is ISO 20022 increasingly used among financial institutions worldwide, it has also become the true language of payments in Europe.

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 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. However, the BIC itself does not ensure unique counterparty identification. 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.

Based on these examples, GLEIF thinks that the industry is aware of the merits of standardization in the cross-border payments landscape, despite one-time costs for system changes, and requests more standardization and harmonization in cross border payments based on the LEI and other global standards. However, a wider adoption of the LEI in payment messages in ISO 20022 could be ensured through a mixture of regulation and self-regulation.