

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission's Consultation on an action plan for a comprehensive Union policy on preventing money laundering and terrorist financing

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's Consultation on an action plan for a comprehensive Union policy on preventing money laundering and terrorist financing. 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: *The Commission has identified a number of provisions that could be further harmonized through a future Regulation. Do you agree with the selection? (p.12)*

GLEIF appreciates the harmonization efforts of the Commission for a comprehensive Union Policy on preventing money laundering and terrorist financing. Notably, the LEI can play a vital role in the harmonization and standardization of the following provisions suggested in this question: list of obliged entities, customer due diligence, electronic identification and verification, record keeping, beneficial ownership registers, and central bank account registers.

The lack of detail in the applicable rules and the division of responsibilities regarding cross-border issues results in differing interpretations of the Directive across the Member States. As an open, global, digitized standard for entity verification in the form of a 20-digit alpha-numeric code, use of the LEI in identifying obliged entities can significantly accelerate information sharing among financial intelligence units (FIUs) and with other competent authorities. Given the cross-border nature of money laundering and terrorism financing, the LEI can be used as the Rosetta Stone for legal entities involved in financial transactions thereby enabling more efficient information exchange between FIUs and other competent authorities. The use of the LEI in the FIU.net or suspicious activity reports or any other shared information can ensure precision about the legal entity in question and reinforce analysis to identify cross-border links.

Use of the LEI consistently at the Member State level and the EU level can diminish the margins-of-error related to language ambiguity, human interpretation, and manual intervention. The LEI's broad interoperability enables it to be integrated seamlessly into both centralized and decentralized digital identity management systems, together with the eIDAS-compliant digital certificates that are already harmonizing the use of e-signature technologies across the EU.

The [Report](#) submitted by EU Commission to the European Parliament confirms that recent money laundering cases in the European Union involved banking activities undertaken in different parts of a group structure, through branches established in different Member States or third countries, or through subsidiaries located in Member States different than the headquarters. Group structures often complicate customer due diligence and risk analysis. A starting point to reduce the complexity is to ensure that financial institutions effectively identify their customers during the due diligence phase to enable group-wide risk assessment. The Legal Entity Identifier (LEI - ISO 17446) is the only global

standard for legal entity identification. GLEIF suggests that the LEI should be a foundational step in all customer due diligence processes to ensure that the financial institution has clearly identified the customer and its parent relationships. This would greatly improve communication within the financial institution regarding transactions involving entities in group structures and with regulatory authorities receiving reporting on such transactions (e.g., suspicious transaction reports). GLEIF would like to share a financial institution's LEI record (<https://search.gleif.org/#/record/6SHGI4ZSSLCXXQSBB395>) and a corporate entity's LEI record (<https://search.gleif.org/#/record/KY37LUS27QQX7BB93L28>) as examples of displaying the branch/subsidiary information across different jurisdictions in the Global LEI Repository in an open and standardized way.

In a recent [report](#) published by the Bank of International Settlements, the Global LEI Repository is mentioned as a "non-documentary verification" source under the "Verification of identity of legal persons". The LEI was also added under the "potential additional information" column, next to "at a minimum" (basic requirements), and in the footnote, it is stated that subject to developments in the LEI project, this information may become required in the future.

If the Commission plans to leverage the existing Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing for the future EU rulebook, GLEIF would like to suggest the Commission consider requiring the LEI for all relevant entities under Article 13. Since all forms of entities involved in financial transactions are eligible for obtaining an LEI, be it a financial or non-financial entity, GLEIF suggests the Commission consider this broader LEI requirement. Recent alleged money laundering cases brought to light point to flawed supervision of non-financial entities and loopholes in the design of supervisory framework; therefore the Commission could consider non-financial entities as part of its harmonized customer due diligence requirements.

A broader requirement for the LEI would also help the Commission's planning of integration of central bank account mechanisms and beneficial ownership registries for facilitating cross border cooperation and strengthening the frontier against money laundering and terrorism financing. For these objectives, GLEIF suggests that the LEI, as an global identifier, should be embedded in these registries for the unique identification of legal entities behind the registered accounts and beneficial ownerships. 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 are available free of any charge or barrier. GLEIF operates under the Open Data Charter terms, which means the data can be used without limitations.

GLEIF's suggestion of using the LEI as an umbrella identifier for both the beneficial ownership registry and central bank account mechanism integration projects could also be considered in line with the Capital Market Union's High-Level Forum Recommendation to establish an EU-wide digital access platform (EU Single Access Point, or "ESAP").

The [Report](#) highlights that in the first stage ESMA will develop technical standards and formats using appropriate entity and document identifiers (LEIs, ISINs, etc.) to ensure that public information about issuers and securities can be easily interlinked and cross-referenced. In its [response](#) to the Commission's Digital Finance Consultation, ESMA emphasized that the key prerequisite for wide reliance on digital identities is the introduction of a unique standardized and harmonized means of identification. Such means already exists in the financial sector with the LEI, a global standard. ESMA reiterated that the LEI should be promoted and exploited to the maximum extent possible while avoiding the introduction and

exploitation of other competing identifiers. The European Systemic Risk Board set up a Task Force to make recommendations on greater adoption of the LEI across the EU. These recommendations include introducing legislation requiring all legal entities to have an LEI and making the LEI mandatory for financial transaction and public reporting.

For the identification of senior managing officials and beneficial owners, GLEIF would like to provide an update on its latest work in Verifiable Credentials (VCs). 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 Self Sovereign Identity (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 VCs issued to persons in their official roles within or in relation to the legal entity are tied to the organization and its LEI. Critical to this is the fact that the contents of the wallet credentials, in the form of a 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 VCs 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. Work recently has begun on an [international standard](#) for identifying official organizational roles, that is planned to be used within these credentials to clearly state the roles of persons acting on behalf of legal entities, is under development at the International Standardization Organization (ISO).

In the Action Plan, the Commission highlighted that the scope of EU legislation needs to be expanded to address the implications of technological innovation and developments in international standards; such as virtual assets service providers (VASPs). GLEIF would like to provide information on its work in the [Joint Working Group on interVASP Messaging Standards \(JWG\)](#). Recently, the LEI was adopted as an optional field in inter-VASP Messaging Standard IVMS101. The interVASP messaging standard is intended for use in the exchange of required data between VASPs. This opens the door for leveraging the LEI to bring transparency and enhance consumer protection for crypto-assets and tokenization transactions.

Lastly, GLEIF would like to bring to the attention of the Commission the recently published [Stage 2 report to the G20: Enhancing cross-border payments: building blocks of a global roadmap](#). The report highlights that the most significant enhancements are likely to arise if over time all building blocks are advanced and implemented in a coordinated manner. While providing a globally standardized approach supporting the LEI for legal entities and establishing proxy registers based on unique identifiers is part of the *Building Block D, Increase data quality and straight through processing by enhancing data and market practices*; ensuring more effective and robust implementation and application of AML/CFT frameworks while continuing to pursue a risk-based approach is placed under *Block B: Coordinate regulatory, supervisory and oversight frameworks*.

The EU can lead the way and play a prominent role in reinforcing global standards by bringing together these Blocks at the EU level and incorporate the LEI requirement as part of customer due diligence into its future EU Rulebook.