

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the HM Treasury Payments Landscape Review: Call for Evidence

October 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the HM Treasury Payments Landscape Review: Call for Evidence. GLEIF will focus its comments on using the Legal Entity Identifier (LEI) in the UK payments landscape and how consistent use of the LEI, a global open standard for entity identification, can unlock benefits for government, regulators and end-users.

First, GLEIF would like to respond *“Question 2: What do you think industry, regulators and government should do in order to further ensure that UK payments networks operate for the benefit of end-users?”*.

As rightly set out in the Consultation, the UK Government has already embarked on a journey to modernize UK payments as demonstrated in the Pay.UK Standards Authority’s National Payment Architecture or Bank of England’s new Real Time Gross Settlement (RTGS) system. Aiming for wider interoperability by prioritizing global standards, improved user functionality, and room for innovation sets UK’s modernization efforts in the payments landscape as a leading best practice.

GLEIF is pleased to see that the Pay.UK Standards Authority made the LEI one of the pillars of the data enhancement building blocks. Similarly, the Bank of England has integrated the LEI into the Bank’s RTGS system and has mandated using the LEI initially for financial institutions in payment messages¹. The Bank of England suggested that Companies House generate LEIs as a unique global identifier either for all entities on a systematic basis as a primary identification number, or on an ad-hoc basis for entities who wish to have LEIs as a secondary identification number in its response to the UK Department for Business, Energy & Industrial Strategy Corporate Transparency and Register Reform Consultation Paper.

That being said, inclusion of the LEI in payments networks would enable faster, cheaper, and more secure transactions. The LEI should be used to identify any originator or beneficiary legal entity, especially in complex scenarios such as the following: payer to payment institution A, from payment institution A to payment institution B, from payment institution B to payee. Improved payment transparency is paramount for all users in this network. In particular, for cross-border transactions, tracking the status of payments involves **lengthy** and **manual** processes for both senders and recipients due to differing time zones, reliance on multiple intermediaries, and limitations in consistent tracking information. Given the LEI were the global unique identifier for originators and beneficiaries, manual processes would be eliminated thereby contributing to **faster** and **cheaper** (no human intervention) payments. Imagine in a consumer-to-business (C2B) transaction, John Brown, a UK citizen, can send a payment with certainty to a specific legal entity identified with an LEI. John Brown could validate the LEI of the beneficiary corporate in India via the open, publicly available Global LEI Repository and then initiate the payment process with **greater certainty**. Or furthermore, his bank could set up an

¹ Bank of England highlighted that the LEI can bring maximum benefits if all parties in a payment chain can be identified by the LEI. Therefore, the Bank considers mandating the LEI for all legal entities in the future depending on the growth of the Global LEI System.

automated verification process based on the LEI. This example demonstrates the contribution of the LEI to a more **secure** payments infrastructure where all endpoints are identified by 1 consistent, open global identifier. This example can be extended to business-to-business (B2B) transactions, often requiring manual reconciliation of receivables. If the LEI, a 20-digit alphanumeric code, is added as a structured data element in payment systems universally in the UK (and globally), financial institutions or payment service providers would not need manual efforts to locate the beneficiary.

GLEIF is aware of the recently adopted the Confirmation of Payee (CoP), an account name checking service, that helps make sure payments are not sent to the wrong bank or building society account. Although the logic and objective of the CoP are right, GLEIF would like to suggest an improvement. Currently, the match criteria are the account name and account type (consumer/business) which currently used as the match criteria. Given some business names might be similar to each other, a manual reconciliation is often still required because the account name might not match the legal name of the entity (although it is the right entity). What if a global unique identifier, the LEI, be used instead of the name match? Since an entity can only have 1 LEI, even if the entity has a similar name with the other 100 entities, its LEI can give the exact payer result without any doubt. Precision in CoP service should be considered as one of the main objectives for the faster payments environment. Again, faster, cheaper, and more secure transactions.

Therefore, GLEIF invites HM Treasury to adopt the LEI for the identification of legal entities in payment messages and CoP service. SWIFT's Payment Markets Practice Group also calls the payment industry to action at this time to begin its adoption of the LEI. Coupled with the other changes happening around the LEI to make it cheaper and easier to obtain, the migration to ISO 20022 provides the right opportunity for the industry to move to add the LEI into payments messages, infrastructures, and processes in a low cost, efficient manner. Furthermore, GLEIF recently announced the validation agent operating model which empowers financial institutions to extend the LEI to their full customer base. There is no excuse for financial institutions not to enable this important transformation of the payments landscape.

GLEIF would also like to provide comments for the *“Question 22: What do you think industry, regulators and government should do in order to improve the functioning, speed and cost of cross-border payments for consumers taking into account the G20 work?”*.

GLEIF is pleased to see the global coordination and cooperation led by G20 Leaders for a more transparent, inclusive, cheaper, and efficient cross-border payments landscape. Making global, digital identity solutions for payment authentication purposes sits at the heart of this collaboration, as demonstrated in Stage 1, Stage 2, and the Stage 3 reports published by the Financial Stability Board.

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 at 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 as well), 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 Small and Medium Enterprises (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 natural persons 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 a contract, confirming orders, and agreeing on delivery makes sure that payment is made from a legitimate business to a legitimate counterparty.

In the [Stage 2 Report published by the FSB](#), the LEI is suggested as a unique identifier for precisely identifying the beneficiary and originator in payment messages. As part of the "Focus area D: Increase data quality and straight-through processing by enhancing data and market practices", the Report highlighted that poor data quality and limited standardization of data exchange make cross-border payments more complex to process, in turn affecting their speed, price and transparency. Promoting the adoption of common message formats, including conversion and mapping from legacy formats and the use of LEIs and common protocols for data exchange, directly mitigates the friction around fragmented and truncated data.

As set out in building block 14, adopting common message formats can play an important role in interlinking payment systems and addressing data quality and quantity restrictions in cross-border payments. It can also enhance automated straight-through processing functionalities, supporting quicker and more efficient payments. Standardization of the payer, payee, payment service providers, and other actors in the payment network with the LEI can bring efficiencies in other building blocks, such as building block 8: Information sharing and know your customer efficiencies.

Bank of England's Victoria Cleland rightly [said in a recent conference](#) that "no single building block or focus area can act as a silver bullet, but together they form a holistic solution to the long-standing frictions which have been on the agenda for many years". The LEI could be the catalyst to trigger synergies among different building blocks.

In the [recently published Stage 3 Report](#), the FSB provided indicative timelines for achieving previous reports' objectives. Starting from June 2021, the FSB will explore options to improve adoption of the LEI with GLEIF, LEI Regulatory Oversight Committee, and national authorities. Beginning in October 2020, FSB, in Consultation with Committee on Payments and Market Infrastructure, International Monetary Fund, World Bank, GLEIF, ISO and other stakeholders, will explore the scope for, and obstacles to develop, a global digital Unique Identifier for cross-border payments, and potentially other financial transactions, that takes into account existing identifiers, including the LEI for legal entities and identifiers for individuals.

Broader adoption of the LEI in payments landscape can help overcome cross-border challenges associated with names and addresses in non-Latin character sets often lacking a single and consistent form or convention, causing confusion and inefficient processing. In some countries, several entities/persons may have exactly the same names, making it challenging 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 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. This results in long payment processing timing and frustration for end-users.

Therefore, GLEIF appreciates the positive steps taken for the adoption of a common language in cross border payments based on global standards, including the LEI for legal entities, at the global level. GLEIF believes that this common global language will improve the functioning, speed, cost, and security of cross-border payments for all involved parties.