Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Bank of England Discussion Paper Transforming Data Collection from the UK Financial Sector

April 2020

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Bank of England Discussion Paper Transforming Data Collection from the UK Financial Sector. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation and would like to provide response to the Questions E, H and K.

First of all, GLEIF applauds the Bank of England for its 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. This includes:

- Integrating the LEI in the Bank's new Real Time Gross Settlement system and mandating its use in payment messages.
- Suggesting 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.
- Recognizing the LEI supports cross-border identification and digitization in its recent open data for SME finance paper.

This Discussion Paper emphasizes that one of the main challenges in data collection is the reconciliation of regulators' needs for efficient, timely and good quality data and reporting firms' ability to reuse the data that they submit and minimize duplication efforts. Data should be useful, granular and easy to consume for regulators and, at the same time, it should allow reporting firms to either reuse data in other reporting requirements and/or for enhancing the firm's internal data management capabilities. As already recognized by the Bank of England publications noted above, the LEI can bridge these two needs.

First, GLEIF would like to respond Question E. *What do you see as the most significant benefits to firms or to the financial system from improvements to data collection, beyond cost reduction*?

Similar to the examples given in the Discussion Paper related to the challenges involved in reconciling different data sources (e.g., Ernst & Young (EY) survey on challenges related to multiple data sources), 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.

Since the regulatory reporting aims to assess large exposures to a single counterparty or a group of connected clients and develop regulatory policies accordingly, standardized and consistent identification of legal entities is crucial for regulators, so for the Bank of England. That is exactly the reason the LEI system developed in the aftermath of 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risks, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System that, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions.

While the benefits associated with the mandatory collection of the LEI in regulatory reporting have been quite obvious since the beginning from a regulatory point of view, the benefits for the reporting firms have not always been apparent to all registrants.

The LEI, is a neutral international standard for entity identification that can be used in any process and provide tangible benefits for reporting firms.

First, the reporting firms can employ the LEI as an umbrella identifier in their data model across their different business units and systems. Incorporating the LEI consistently across their internal data management systems would enable better communication across business units, improve the client experience, and ensure key reference data is kept up to date along with the open public LEI reference data.

Moreover, 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. Please see below practical benefits for financial institutions of obtaining the LEI at the start of onboarding:

- 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.

Therefore, GLEIF agrees that additional costs arise where the information requested is not used for other purposes. However, in case of the LEI, the financial institutions have multiple use cases and opportunities to leverage the LEI in their data management systems and processes, which would deliver greater efficiency and transparency for gaining a full picture of customers, including ownership changes.

There is also an opportunity for GLEIF to provide comments to Question I. *What additional benefits and challenges would arise from seeking to use industry data standards as the basis for defining reporting* *requirements? What should the role of regulators be in the development and adoption of such standards?*

GLEIF acknowledges that the Bank of England provided the LEI as an example of joint efforts of regulators for driving adoption of an international standard. The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC), including the Bank of England and the Financial Conduct Authority from the UK.

Given today's business relationships are quite complex, multi-layered and with business partners located in various jurisdictions, legal entity identification needs a global standard, more than ever. The LEI 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 on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used without limitations.

Therefore, GLEIF thinks that adoption of global standards as the basis for defining reporting requirements can also help UK firms to fulfill their reporting obligations in other jurisdictions. For instance, in the European Union, the LEI is already required in different EU regulatory requirements such as EMIR, MIFID II, MAR, CRR, Solvency II, AIFMD, CRAR, CSDR, Transparency Directive and Securitization Regulation. Across the globe, 101 rules published by FSB members refer to the LEI.

GLEIF also agrees that the Global LEI System sets a very good example of how international coordination and cooperation can help adoption of international standards, which strengthen regulatory supervision and avoid fragmentation both in national and international levels. That being said, given the LEI is use case agnostic, it can be leveraged in multiple use cases in addition to its original use in derivatives market and can create multiple benefits. However, these benefits can be most materialized if the LEI population reaches to a tipping point with continuing support of regulators.

GLEIF sees the vision of the regulators for a transparent financial markets, when they agreed to develop the LEI for standardized, consistent and reliable identification for legal entities in financial transactions, now is being embraced by industry, having seen that the LEI and other international standards can improve their internal data management and processes. Regulators can see better how actually they have contributed to the development of a data driven approach in individual firms.

Furthermore, GLEIF believes a similar approach is required for digitization. As financial firms adapt their processes and workflows for digitization, there is a risk that siloed, proprietary approaches again serve as the foundation for transformation. For example in the EU, European Commission in co-operation with the European Supervisory Authorities and the European System of Central Banks, aim to facilitate initiatives that promote standardization of legal terminology and digital standards-based common classifications of actors, services, products and processes in the financial sector.

GLEIF works with regulators and industry for displaying the value of the LEI in digitization. Within GLEIF's 2018 annual report, GLEIF's LEI is embedded within the digital certificates of GLEIF's signing executive officers. 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. Incorporating a company's LEI within digital certificates of its executive officers used to sign financial statements provides reassurance on the data's reliability and that the information has not been tampered with regardless of the access point to the document. Deploying digital signatures, including that of the auditor, also enables efficient report production and distribution processes, the elimination of paper and increased certainty and trust. The European Securities Market Authority (ESMA) plans to use GLEIF's 2018 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 also contributes to the working group of the International Organization for Standardization (ISO) currently revising the ISO 17442 LEI standard to include details in this standard to embed LEIs and roles in digital certificates in a standard way. The development of a role for standards relates to GLEIF's recent work on the use of the LEI within digital verifiable credentials (DVCs). Such credentials allow for real time access to services or applications. DVCs are interoperable, cryptographically-verifiable and facilitated by distributed ledger or blockchain technology. By leveraging the LEI within digital verifiable credentials, counterparties can more easily accomplish the tasks of identity verification, authentication, and authorization and digitally identify persons able to act officially on behalf of a legal entity. Proofs of concept were conducted for on both the Hyperledger and Ethereum blockchains with regulators and financial institutions. These proof of concepts aimed to achieve the same endpoint – a regulatory filing secured via digital verifiable credentials. To get to this endpoint the following requirements were fulfilled:

1. Identify the legal entity associated with the particular filing
2. Authenticate that the legal entity is indeed who it claims to be
3. Confirm that the persons signing and submitting the filing are authorized to do so on the legal entity's behalf.

As the Bank of England notes in its Open data for SME finance paper, the ability to identify a business quickly, easily and digitally enables a more seamless user experience as they move around the financial system. The LEI plays a role in interoperability across identity management products such as digital certificates and verifiable credentials. GLEIF believes that the regulators play a role in ensuring a play for all market participants to have access to financial markets and ensure that barriers based on proprietary products do not emerge. The LEI enables this. Therefore, a similar coordination and spirit achieved between regulators at the aftermath of the financial crisis can be achieved again for ensuring standardized, consistent and transparent legal entity identification through LEI in digitization.

Lastly, GLEIF would like to share its views for the Question K. *What are your views on the benefits and challenges of the possible changes to architecture and governance set out in the paper – in particular moving to a "pull" model for certain types of data, or moving some functions to a central service provider?*

The Bank mentioned in the Consultation Paper that sometimes data are collected on a purely ad-hoc basis, such as data on an emerging risk for a firm, sector or market data. The Bank suggests pulling data from reporting firms either through an API or a central service provider.

Taking this opportunity, GLEIF would like to provide information about its new GLEIF API facility.

In 2019, GLEIF provided access to the beta version of its new GLEIF API to a selected number of users. After receiving and incorporating feedback from our user groups to date, GLEIF is making the API now available as a public beta. This new beta API gives developers access to the full LEI Data search engine functionality, including filters, full-text and single-field searches of legal entity and ownership data, and "fuzzy" matching of relevant data fields such as names and addresses.

For example, through the GLEIF API, any user, including providers, can search for LEIs via entity names, find LEIs by BIC code or investigate corporate structures (search for parent and child relationships).

Therefore, regarding data collection for counterparties, the Bank of England can leverage the GLEIF API. By simply receiving a 20-digital alphanumeric code from reporting institutions, Bank of England can then clearly identify the reported entity and understand the history of changes in the legal entities basic reference data as well corporate structure. However, as mentioned in the Discussion Paper, the reporting firms would still be responsible for accurately identifying their counterparties or clients with an LEI carrying up-to-date reference data.

Lastly, GLEIF would like to reiterate its willingness to cooperate with the Bank of England for further adoption of the LEI in the UK.