

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Action Task Force (FATF) Enhancing Cross-border payments- Questionnaire for input from the private sector

January 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Action Task Force (FATF) Enhancing Cross-border payments- Questionnaire for input from the private sector. In parallel with the Financial Stability Board's recommendation to leverage the Legal Entity Identifier (LEI) as a unique digital identity for legal entities in cross border payments under the [Building Block 16](#), GLEIF will focus its comments on how use of the LEI in cross-border payments can ensure data interoperability, consistency and comparability and enhance information sharing capabilities among financial institutions.

First, GLEIF would like to respond to *Question 10: How significant are divergent AML/CFT rules (including related divergent technical protocols) in raising the cost, reducing the speed, limiting access or reducing the transparency of cross-border payments? (on a scale of 1- 5, with 1 implying the least significant and 5 the most significant). Please provide comments with examples on your ratings above.*

Raising cost	Reducing speed	Limiting access	Reducing transparency
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1 2 3 4 5			

GLEIF believes that divergent AML/CFT rules accompanied by divergent technical protocols raise the cost for financial institutions and end-users engaging in cross-border payments.

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. The challenges vary widely by payment type and counterparty as well as by payment corridor. The challenges affect several stakeholders on the demand side (end users such as businesses, not-for-profit organizations and government agencies) and the supply side (bank and nonbank payment service providers, payment system operators and technical service providers), but they do not affect them all in the same way. For example, for payment service users that are large multinationals or financial institutions, delays and uncertainty about timing of cross-border payments have a more negative effect on business and finance than the transaction fees.

End-users transacting 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 particularly is 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/payment service providers 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 relationships, missed business opportunities, and financial exclusion of entities in developing countries.

What is the root of the problem and how it can be reversed? Harmonization of AML/CFT rules, standards and standardizing accompanying technical protocols that today rely on fragmented and truncated data formats plays an essential role to achieve a more transparent and interoperable payments ecosystem. This is also what FSB recommends in its Stage 2 report to the G20: *Setting a common vision and aligning with international rules and standards across borders in international policymaking and domestic legislation can help influence the impact of the operational enhancements set out in focus areas B (Coordinate regulatory, supervisory and oversight frameworks) to D (Increase data quality and straight through processing by enhancing data and market practices)*. Focus Area D, Building Block 16 is where the report suggests the LEI has the potential to improve compliance processes and address data handling issues within legacy technology platforms.

Wider adoption of the LEI for entity client identification and identifying beneficiary and originator in payment messages would support widespread interoperability between systems and reduce costs and increase precision and transparency. As also stated in the Stage 2 report, the ability to uniquely identify legal entities, individuals and payment accounts is an important component of any compliance process. The increased use of identifiers, particularly a well-established global, digital identifier like the LEI, could reduce existing frictions. Today, human intervention is needed for "translation" of data, as machines or systems do not focus on interoperability. If the LEI is deployed as a key identifier for legal entities in systems, machines can communicate with each other in an automated way without any need for human intervention.

However, wider adoption of the LEI would require standard-setting bodies, such as the FATF, to recommend the LEI in their best-practices or standards. For example, FATF could add the LEI in its related Recommendations, particularly on D. Preventive Measures and E. Transparency and Beneficial Ownership of Legal Persons and Arrangements, as a best practice that financial institutions should adopt the LEI as part of customer due diligence and record keeping requirements for legal entity clients. Having FATF measures endorse and allow reliance on the LEI as a identifier in AML and screening would signal to financial institutions that the LEI should be an essential component in these processes.

GLEIF has already started to see the power of FSB Reports in encouraging national authorities to leverage the LEI in payment messages in various jurisdictions. For example, the Reserve Bank of India (RBI) [mandates](#) that parties to transactions above 5 crores (approximately 5,5 million Euros) are identified with an LEI in payment messages starting from April 2021. GLEIF thinks that this is the first step of the RBI for using the LEI in broader cross-border payments landscape. Similarly China recently [declared](#) that by the end of 2021, it will publish rules to enable the use of LEIs in reporting large-value transactions, suspicious transaction reporting, RMB cross-border payments and digital yuan. While these examples from national authorities are significant to show the buy-in for further use of the LEI in payment messages; the role of policy makers and standard setting bodies is still essential for further adoption of the LEI so as to harmonize today's fragmented and siloed data formats.

Therefore, GLEIF suggests that cooperation and coordination of relevant stakeholders responsible to fulfill Building Block B and D are central to achieve a more transparent, inclusive, cheaper and faster cross-border payments system.

GLEIF also would like to comment on *Question 14. Do challenges in information sharing (group wide or with other financial institutions), within or across jurisdictions, impede cross-border payments?*

Cooperation and information-sharing across borders is crucial for a transparent payments ecosystem. However, today, the information sharing process, particularly among financial institutions, is very inefficient. Challenges related to data localization rules, data protection, privacy and confidentiality compose the visible tip of the iceberg. However, beneath the tip of the iceberg, GLEIF thinks that technical interoperability of legal entity data is a major challenge in information sharing that greatly impedes cross-border payments. Information sharing can only be effective if the information transmitted from Financial Institution A to B clearly identifies the involved parties with standard identifiers rather than names in free form text.

However, today, cross-border payments participants do not have a harmonized information sharing system or template, which all financial institutions, regardless of where they are, shall use. For example, FATF Recommendation 16 requires countries to ensure that financial institutions include accurate originator information and beneficiary information, on all domestic and cross-border wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain. The objective of Recommendation 16 is to ensure that the basic information on originator and beneficiary of wire transfers should be immediately available to Financial Intelligence Units (FIUs) or Law Enforcement Agencies (LEA) but not necessarily to other financial institutions.

GLEIF suggests that, at least for legal entities, the FATF should require that the LEI of the beneficiary and originator should be added in the information sharing document/systems that financial institutions (will) use with each other. Given the LEI of the entity is publicly available information published in the Global LEI Repository and does not compromise any data protection/privacy rules, it can solve several challenges pertaining to the information sharing: (i) creates a common language between financial institutions and FIUs/LEAs, (ii) removes challenges regarding data localization rules, data protection, privacy and confidentiality.

Financial institutions confirm that manual reconciliation of legal entity names is particularly challenging across borders, given there are different languages, differences in translations, and abbreviations. For instance, a matching relationship between two records is only direct when a customer name exactly matches the name in the sanction list(s). However, the existence of more than one "Main Street Trading Inc" causes a tremendous number of false positives. To reduce false positives for legal entity clients, a consistent, quality controlled, and open means of identifying the client is needed.

That is why financial institutions try to develop their own tools for information sharing and improving their data quality, as the [Danie Consortium](#) shows. Danie Consortium enables the sharing of legal entity reference data among participating financial institutions using the LEI as the linking identifier. The consortium was formed in late 2019 with the objective of enhancing data quality by using a distributed reconciliation engine and cryptographic transmission to securely and anonymously identify each member's data outliers by comparing their data to values submitted by other members. The consortium includes banks and data providers that decide on measures of quality of client reference data based on a matching key.

The Global LEI System is the only open, commercially neutral, standardized, and regulatory endorsed system capable of establishing digitized trust between all legal entities, everywhere. As awareness of these enabling attributes increases and the LEI becomes more prominent in particular across borders or jurisdictions, financial institutions will be better equipped to identify and trace illicit financial behavior, which in turn increases speed and transparency in cross border payments and protects both businesses and the general public.