

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the UK Payment Systems Regulator (PSR) for the Delivery and Regulations of the New Payment Architecture (NPA) - Consultation Paper

March 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide response to the Payment Systems Regulator (PSR) for the Delivery and Regulations of the New Payment Architecture (NPA) Consultation Paper. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the centralized governance framework for identifying accurately all NPA program participants, thereby to diminish risks in transition from existing payments systems, support innovation of the payment services in the UK and set NPA as a best practice globally.

GLEIF would like to respond to Question 1: Do you agree with our view of the risks to the successful delivery of the NPA?

GLEIF acknowledges PSR's analysis of the risks associated with the delivery of the NPA. GLEIF thinks that using the ISO 20022 payment message can help to mitigate the risks that would possibly occur during the migration from Bacs and Faster Payments transactions to the NPA. In a [FPS \(Faster Payments Services\) Questionnaire](#) conducted by the Pay.UK in 2019 shows that 54% of respondents agreed that transitioning to an ISO 20022 standard that emulates FPS data sets would reduce technical complexity and de-risk transition.

That being said, current migration to ISO 20022 can be enriched by adding better structured customer reference data. In order to move from the status quo to the target ISO 20022 state, it is crucial that the financial institutions and banks strongly promote, monitor, and – at a certain stage – enforce structured customer data from their customers/senders. The LEI is an important structured data element that can enable full transparency on payment parties and promote faster payment processing, reconciliation and automation.

The LEI, a globally accepted open standard for unique and unambiguous identification of legal entities, is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. With the Central Infrastructure Services (CIS) implementation, use of the LEI consistently can ensure an accurate and unique identification of all NPA participants. Given the LEI reference data also displays the corporate hierarchy of a legal entity, having this information would assist PSR and Pay.UK to paint a broader picture of the Payment Service Providers (PSPs) and assess the potential risk factors associated with a specific PSP. Most traditional financial actors (e.g., commercial banks) already have LEIs. Since new actors such as FinTechs or big data providers join the payments landscape in recent years, it is crucial to identify all PSPs through a standardized approach, which is enabled through the LEI. Having this broader picture about a legal entity can enable supervisory authorities to adopt comprehensive remediation plans in a timely manner in case of any disruptions in the migration from Bacs and Faster Payments to the NPA.

When it comes to NPA implementation for end-users, which is the key element of a successful NPA delivery, it is most crucial to ensure a secure, transparent payment ecosystem for end-users to conduct transactions. According to Statistica, there were roughly 2,75 million payment fraud cases reported in the UK in 2019, and this number is very likely to rise due to the impact of the pandemic and increasing number of business processes conducted digitally. Moreover, in line with PSR's recommendation to include Central Bank Digital Currencies (CBDC) and digitally enabled payment services in the NPA, ensuring trust is becoming one of the key elements for securing the online transactions.

Taking this opportunity, GLEIF would like to provide an update on its digital strategy that can strengthen trust in a secured environment and help to build a digitally enabled NPA ecosystem, so as to ensure a smooth transition from Bacs and Faster Payments transactions to the NPA.

First, integration of the LEIs in digital certificates. This would allow anyone to easily tie together all certificate records associated with an entity, determine which certificates are current, and clear up variances. In this way, it can provide certainty of identity and trust in any online interaction between entities, making it easier for everyone to participate safely in the global digital marketplace. It also significantly reduces the complexity and cost, both people and technology-related, associated with due diligence and validation of customers, partners and suppliers.

Second, GLEIF's work in verifiable LEI (vLEI). GLEIF recently unveiled the issuance and technical infrastructure models for its recently announced vLEI system. A vLEI is a secure digital attestation of a conventional LEI, which is digitally signed by the owner and cryptographically secured with the owner's private key. By combining three concepts – the organization's identity, represented by the LEI, a person's identity represented by their legal name, and the role that the person plays for the legal entity, vLEI credentials can be issued and become part of organizational wallets. With vLEI, companies could easily identify and authenticate the counterparties with whom that are executing transactions, and remediate issues especially associated with payment processes.

Today, different digital ID systems are based on varying standards, keys and encryption and the only common link between them is the entity name, which can vary widely and change over time. Without a consistent machine-readable link between IDs, automated methods will always result in errors and further challenges for organizations. The LEI is perfectly poised to provide this consistent link and, by doing so, cement its position as a force for good in the digital economy as a whole. Leveraging the LEI for payers, payees, PSPs and other NPA participants in the NPA can help to create a trusted and digitally enabled ecosystem leveraging the LEI for entity identification and reduce challenges in migration to the NPA.

GLEIF would like to respond to Question 4a: What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?

A strong collaboration between the Pay.UK, PSR and Bank of England is foundational for a successful NPA delivery and smooth implementation of CIS. Private sector's buy-in is crucial for achieving an effective NPA design and maximizing benefits that the NPA could bring to all participants.

As stated in section 2.13 in the Consultation Paper, one of the principles underpinning NPA design set out by Payments Strategy Forum is '*adoption of a common international messaging standard, ISO*

20022, to enable access, innovation and interoperability, in the UK and potentially for international connectivity'. For ensuring international connectivity, adoption of global standards plays a crucial role.

GLEIF appreciates that the value proposition of the LEI was already recognized by the Bank of England through the Bank's LEI mandate in ISO 20022 messages used in Clearing House Payment System (CHAPS). The Bank of England considers expanding the LEI mandate for all legal entities depending on the overall growth of the Global LEI System. Victoria Cleland from the Bank of England [stated](#) that *"In addition to financial stability benefits, LEIs provide valuable data and support anti-money laundering and combating the financing of terrorism efforts. They could, if linked to portable credit files, improve access to the domestic and global financial system, support greater choice and competition for business finance. The LEI could also act as the unique identifier for a digital ID, which could help the two-step verification process required for a more secure system."*

Therefore, based on recent developments in payments landscape in the UK and Financial Stability Board's work on resolving challenges in cross-border payments, GLEIF thinks that agreeing on and implementing common message standards is key for unlocking efficiency and transparency. Achieving these benefits is not possible without the adoption of a common identification approach and unique identifiers such as the LEI as confirmed by the Financial Stability Board. By mandating the LEI in the design and delivery of the NPA programme, the PRS has the opportunity to enhance the efficiency of payment processing by eliminating manual reconciliation of names. This will enable much faster, more secure and transparent transaction processing for all involved parties.

Lastly, GLEIF would like to comment to Question 7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

GLEIF suggests that interoperability is an important aspect of the technical implementation scheme for the NPA. A focus on interoperability will prevent network effects, the possible emergence of a monopoly and foster competition in the NPA ecosystem.

The LEI serves as an important element of interoperability. All LEI reference data is available as open data, easily accessible via web search, full file download or API. End-users can conduct basic due diligence on desired PSPs and overlay service providers in least costly manner.

Therefore, requiring the LEI from the initial design would help Pay.UK and PSR to promote effective competition within the NPA ecosystem. Use of the LEI would allow end users to easily compare and switch between PSPs and overlay providers based on their preference, promoting the desired competition in the NPA ecosystem. The LEI can help consumers to compare PSPs and overlay service providers in an easy, transparent and standardized way.

Use of the LEI also would ensure that supervisory authorities can more easily monitor transactions and interconnectedness between different parties. For example, supervisory authorities could more easily calculate PSP's market power and potential anti-competitive trends.

From the perspective of the NPA technical design, interoperability and open standards stand at the core of the system which is to minimise barriers of entry and remove network effects of a particular provider.

Given proprietary data sources would trigger more operational costs for NPA participants, it is crucial to leverage the LEI as a globally recognized open standard from the initial design of the NPA.