

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Crimes Enforcement Network (FinCEN), Department of Treasury, on Beneficial Ownership Information Reporting Requirements

May 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Crimes Enforcement Network (FinCEN), Department of Treasury, on questions pertaining to the implementation of the Corporate Transparency Act (CTA). GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) as a response to multiple, relevant questions included in the consultation. GLEIF recommends the use of the LEI for reporting entities when disclosing their beneficial owners.

Background

The development of a system to identify legal entities uniquely and globally had its beginnings in the 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 risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed GLEIF with a global governance framework representing the public interest that, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the LEI is use case agnostic. The usefulness of the LEI can be leveraged for any purpose or process requiring entity identification, from finance to healthcare to verifying all counterparties of businesses supply chain.

The LEI is the only global standard for legal entity identification. It is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions but is not limited to entities involved in financial transactions. LEIs also contain information about an entity's ownership structure and thus answers the questions of 'who is who' and 'who owns whom'. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace. An LEI record does not include information on a legal entity's beneficial owners. GLEIF suggests that FinCEN require the LEI for reporting companies who will now be disclosing their beneficial owners.

The LEI in Client Onboarding and Know Your Customer

GLEIF is working directly with financial institutions (FIs) with its [Validation Agent operating model](#) (VA) to issue LEIs for their clients, in cooperation with LEI Issuer organizations officially accredited by GLEIF, by leveraging their business as usual client identification procedures in Know Your Customer (KYC) and client onboarding processes. This model, triggering LEI growth beyond regulatory mandates, in particular in payments, would help to make the financial ecosystem more transparent and accessible for all parties. [FIs](#) have already begun utilizing the LEI within client onboarding, KYC and customer due diligence processes. Beneficial ownership identification and verification is an essential component of the

client KYC onboarding and remediation process. It is at the heart of international anti-money laundering (AML) sanctions and regulations and therefore the success of GLEIF's VA model will result in increased assignment of LEIs for entities covered in KYC processes. From a consistency standpoint, since the use of the LEI in KYC operations is increasing steadily, GLEIF proposed that FinCEN consider leveraging the LEI for tracking purposes of reporting entities. For example, FIs would then be able to report the LEI within Suspicious Activity Reports (SARS) for a reporting entity, which could then be synchronized with FinCEN's own collection of reporting companies, inclusive of the LEI.

Benefits of Inclusion for FinCEN

The inclusion of the LEI would streamline report processing, analysis and would guarantee a unique and unambiguous identifier is associated with the entity. This identifier also links to the direct and ultimate parents of consolidating legal entity. FinCEN could avoid name matching and the associated manual reconciliations of client identity and instead focus on the substantive details of the report. This dramatically would improve monitoring and record keeping for SARS and more broadly in FinCEN's own database of tracking legal entities. Data lineage is a key component to tracking entities over time. As such, the LEI could be used as the primary entity identifier for tracking legal entities reported to FinCEN thus creating an historical record of repeated entities over time. The LEI could also be used to track all reports from each reporting FI historically. Aggregation of reported content could be achieved by associating the LEI of the entity to the LEI of the reporting FI. The LEI is a permanent identifier and LEI records are never deleted.

FinCEN could go even further in their classification schemes of high-risk legal entities. For example, FinCEN could set guidelines based on the corroboration status of the LEI (the ability to corroborate the LEI reference data with a local authoritative source like a business registry), the last refresh of the LEI data, or the status of parent data reporting associated with the LEI. FinCEN could leverage the open LEI data as the authoritative source for legal entity identity as intended by the founders of the system – the leaders of the G20 and the Financial Stability Board.

Furthermore, inclusion of the LEI by FinCEN can help overcome cross-border challenges associated with reconciling names and addresses – for example, abbreviations of common terms, differences in translations, and the provision of transliteration for in non-Latin character sets. Parsing text is inefficient and causes confusion both within a financial institution and in its communications with regulatory authorities. Today, name-matching techniques for AML screening work either through deterministic or probabilistic matching technology. For instance, a matching relationship between two records only is direct or deterministic when a client name exactly matches with 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. In order to reduce false positives for legal entity clients, a consistent, quality controlled, and open means of identifying the client is needed. The LEI is fit for this purpose.

Another area that the LEI can help to streamline is information sharing. Information sharing across US law enforcement organizations as well as other nations' intelligence agencies is critical for ongoing surveillance. The LEI is an ISO (International Organization for Standardization) standard as well as an adopted U.S. standard through the American National Standards Institute (ANSI). The Global LEI System meets all the requirements for international and national information sharing:

1. Identifier is based on an international open global standard.
2. Identifier is truly globally unique.

3. System produces open data.
4. Data model and data quality measures are open and clear.
5. System is governed by public entities and is not subject to private sector dominance.

Even within the US, the LEI could enable better information sharing across different government entities. Today, the US government utilizes more than 50 different identifiers for legal entity identification¹; which causes manual reconciliation of data and drain of resources. Instead of using/accepting a plethora of identifiers, FinCEN could leverage the LEI, as an established open source, to harmonize and sharing of critical data both at home and abroad. The current use of multiple identification schemes, in particular proprietary and non-redistributable identifiers, hampers both national and global interoperability and increases opportunities for illicit behavior to occur. Leveraging the LEI, a global identifier, in information sharing could create a common language between different parties regardless of where they are located and increase the efficiency, speed and transparency of existing information sharing mechanisms.

Regarding information sharing, GLEIF is not suggesting to disclose a beneficial owner designation within an LEI record, however global surveillance can improve through the assignment of an LEI for reporting companies that can be leveraged by Financial Action Task Force (FATF) and national crimes agencies around the globe.

The value proposition of LEI has already been recognized by several U.S. regulators such as the Federal Reserve, Consumer Financial Protection Bureau, Municipal Securities Rulemaking Board, National Association of Insurance Commissioners, U.S. Treasury, which utilize the LEI. U.S. Customs and Border Protection is working on the Global Business Identifier (GBI) Initiative, in which the Bureau will test the LEI as part of an evaluative proof of concept to determine the optimal GBI solution.

A Global Approach

In the European Union, the European Commission considers making the LEI a required data element in client identification its upcoming AML Rulebook. The European Systemic Risk Board (ESRB) in its recently published [Recommendation](#) highlighted that clear identification of the legal entities and the connections between them with the LEI is a key requirement for drawing a reliable map of the global economic and financial landscape and called for action all relevant parties to close the LEI gap in the EU. Specifically, it recommends the introduction of a Union framework on the use of the LEI by June 2023.

As already highlighted in the [Financial Stability Board's Enhancing Cross-border Payments Stage 1 report to the G20](#), greater use of the Legal Entity Identifier (LEI) for firms in cross border payment arrangements can reduce unnecessary barriers to cross-border data sharing when implementing the 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. Payment is the last step of B2B transactions. 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 ensures that payment is made from a legitimate business to a legitimate counterparty.

¹ See Envisioning Comprehensive Entity Identification for the U.S. Federal Government, <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei/gleif-and-data-foundation-comprehensive-entity-id-for-u-s-federal-government>

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 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.

And in the [recently published Stage 3 Report](#), the FSB provided indicative timelines for achieving the previous reports' objectives. Starting from June 2021, the FSB will explore options to improve adoption of the LEI with GLEIF, 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 natural persons.

GLEIF already has 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. In advance of the FSB, the Bank of England has already chosen to include the LEIs in its Clearing House Automated Payments System (CHAPS) and Real-Time Gross Settlement (RTGS) initiatives, which also includes a migration to ISO 20022, a payment standard that already includes the LEI.

Wider usage of the LEI in cross border payments and other areas could help to fulfill AML Expert Working Group's recommendation that the AML monitoring and reporting practices be modernized and streamlined to maximize efficiency, quality, and speed of providing data to government authorities with due consideration for privacy and data security. The LEI data is publicly available and therefore does not raise any data privacy issues.

The role of the LEI in new technologies

For the identification of senior managing officials and beneficial owners, as it relates to Customer Due Diligence Rules for Financial Institutions (CDD Rule), 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 is in progress with ISO for identifying official organizational roles. This is planned to be used within these credentials to clearly state the roles of persons acting on behalf of legal entities, or in this case the beneficial owner.

More specifically, GLEIF recently unveiled the issuance and [technical infrastructure](#) models for its recently announced verifiable LEI (vLEI) system, a solution that will be hostable on both ledgers as well as cloud infrastructures. 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. A potential use case could also exist for FinCEN where a vLEI contains 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, such as a beneficial owner.

The LEI also has been adopted in messaging pertaining to AML. Regarding new potential money laundering threats along with technological innovation, GLEIF would like to provide an update on its cooperation and collaboration with relevant parties in identification of virtual assets service providers (VASPs). 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.

In Conclusion:

GLEIF would like to reiterate that the Global LEI Repository is an open source of truth and validation for more than 1.8 million entities. Every LEI is validated by issuers of LEIs that have been approved through a formal accreditation process. LEI Issuers routinely verify and validate LEI requests through business registries (BRs). GLEIF recognizes that U.S. state business registries play a vital role within FinCEN's plans to establish beneficial owners at the time of initial business registration. GLEIF is willing to collaborate with FinCEN, state registries or their organizations, be that the International Association of Commercial Administrators (IACA) or the National Association of Secretaries of State (NASS), to discuss how GLEIF and BRs can include LEIs into business registration processes.

Lastly, the LEI 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.