**Response of the Global Legal Entity Identifier Foundation (GLEIF) to**

**the European Commission's Instant Payments Public Consultation for the EU**

June 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to comment on the European Commission's Instant Payments Public Consultation for the EU. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation. GLEIF suggests that the technical standardization of the payer and beneficiary information with the LEI for businesses in instant payment frameworks within the EU will enable interoperability both domestically and across borders, thereby reduce reconciliation costs, time, and uncertainties for all involved parties.

**Firstly, GLEIF would like to provide comments to Question 4: As a consumer, if you opt for an instant credit transfer, do you consider that, in order to prevent the risk of fraud or error, your bank should offer a service allowing, prior to the initiation of the transfer, for the immediate verification of the 'match' between the IBAN of the beneficiary and the name on the beneficiary account?**

GLEIF understands that this question is particularly intended for consumers in the EU. That being said, GLEIF would like to respond to this question by focusing on Consumer to Business (C2B) transactions, which make a substantial part of transactions within the EU, after Business-to-Business (B2B) transactions. GLEIF would like to highlight the importance of verification for consumers before the transfer's initiation to prevent the risk of fraud or error.

The foundational step of ensuring an efficient, secure and trusted instant credit transfer process is to have a standardized identification and verification approach that is easily accessible for consumers to conduct due diligence on the party they are transferring funds to, especially when the beneficiary is a company or a natural person who acts as the official beneficiary of a company. In 2020, the digitization of all kinds of personal and organizational activities has accelerated, driven in no small part by regional lockdowns and social distancing measures imposed by governments in response to Covid-19. Digital innovations in IoT, blockchain, cloud computing, and open APIs drive digital transformation, enable new business propositions, and redefine how organizations connect and engage with one another. Yet, the field is becoming increasingly siloed. In a globalized digital economy, verifying the identity of legal entities such as customers, partners and suppliers is becoming increasingly complex, prone to error, and costly. Therefore, consumers become more and more targets of vendor scams and online frauds in the payment processes since they do not have easily accessible resources to verify the beneficiaries.

Ensuring that the beneficiary's IBAN matches with the beneficiary's account becomes extremely important to prevent potential frauds. However, we also know that the IBAN is not used everywhere globally; for example, in China, which is the largest trading partner of the EU. Therefore, GLEIF suggests that we need an additional layer of trust, a global standard, the Legal Entity Identifier, to ensure that beneficiary of the instant payment matches with the name on the beneficiary account before the initiation of transfer. At least for C2B and B2B instant payment transactions, the LEI can substantially reduce the risk of fraud or error.

GLEIF would like to highlight that the Global LEI System is free to use, open, and easily accessible database that consumers would be able to connect with 24/7 operating hours. The LEI connects to key reference data that provides the information on a legal entity identifiable with an LEI: the official name of the legal entity as recorded in the official registers, the registered address of that legal entity, the country of formation. The Global LEI System links with the local business registries that might be proprietary and in different character sets. Instead of navigating through various access points and languages, the Global LEI System allows consumers to conduct quick due diligence in a trusted way. With the Global LEI System, consumers could also easily know and verify with whom they are transacting.

**GLEIF would like to provide comments to Question 12: Are there any other obstacles to the use of instant credit transfers by corporates, both domestically and cross-border?**

GLEIF thinks the biggest obstacle to the use of instant credit transfer by corporates, particularly in B2B transactions, is the lack of a single set of rules embedded in the payment messages for enabling accurate and efficient entity identification for transactions across borders.

Currently, the universally accepted methods of entity identification for payment messages exchange are the IBAN, Business Identifier Code (BIC), and national identifiers. IBAN does not initiate accurate information about who the payee is and if the account holder of this IBAN is indeed the payee that is entitled to receive the transfer. Furthermore, GLEIF would like to remind that BICs are not a source of unique legal entity identification like the LEI. BICs are assigned also to sub-divisions within a legal entity, such as departments, branches and trading desks. For example, a multinational corporate might have hundreds of subsidiaries worldwide, and the subsidiaries might also have many sub-divisions. However, the BIC assigned to the sub-divisions does not enable the identification of the affiliated legal entities. Therefore, the current situation does not facilitate straight-through processing of payment message exchanges, which often leads to recalls, cancellation, and human intervention, especially for cross-border transactions.

For example, Dr. Franz Kaiser, Head of Treasury Reporting & Middle Office, Finance FTR at Airbus [commented](https://www.gleif.org/en/newsroom/blog/a-map-to-payments-transformation-fsb-recognizes-unique-identifiers-as-a-building-block-for-enhanced-cross-border-payments) that "Corporates need to be able to transparently identify counterparties when making and processing payments. This is challenging when dealing with legal entities in different jurisdictions. Airbus payment and KYC processes could be eased if transaction counterparties could easily be uniquely identified, alongside their ultimate beneficiary owners. LEI usage in cross-border payments would bring significant benefits to corporates globally."

GLEIF would like to highlight the recent targeted consultation on instant payments launched by the European Commission. The Commission asked if the use of the LEI for firms is effective in reconciling instant credit transfers and the sanctions screening obligations resulting from the applicable sanctions legislation. As highlighted in a Payment Market Practice Group (PMPG) paper published in 2019, "Adoption of LEI in Payment Messages, currently, sanctions screening is based on legal entity names only. With nearly 1.5 Million LEI issued, it is possible to create/improve "white lists" with the names and LEIs (where available) of entities that are not sanctioned; whereby the use of the LEI eliminates the generation of false positives that can occur by matching on name only.

In addition, GLEIF would like to bring the international-level support from the Financial Stability Board (FSB) on using the LEI for cross-border payments to the Commission's attention. In the [Stage 2 Report published by the FSB](https://www.bis.org/cpmi/publ/d193.pdf), 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. And in its concluding [Stage 3 report of the FSB](https://www.fsb.org/wp-content/uploads/P131020-1.pdf) the LEI features prominently as part of the solution for making cross-border payments cheaper, more accessible, and transparent for all parties.

The value of the LEI proposed by the Financial Stability Board was [confirmed](https://www.gleif.org/en/newsroom/blog/a-map-to-payments-transformation-fsb-recognizes-unique-identifiers-as-a-building-block-for-enhanced-cross-border-payments) by Ms. Ceu Pereira, Team Leader, Retail Payments at European Commission, who stated that "Payments are at the heart of digitalization which is why the European Commission has set out a Retail Payments Strategy as a part of Digital Finance Package. International payments represent a core pillar of this strategy and we are supportive of the G20's roadmap, in particular with regard to global standards. Full consideration will be given to the LEI, as it is a strong and established tool which can be used for reducing the costs associated with cross border payments."

**Lastly, GLEIF would like to provide comments to Question 13: What type of value-added services would make instant credit transfers more useful from your perspective (e.g. Request to Pay, e-invoicing)?**

GLEIF suggests that the 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, Lena Schneider, a German citizen, can send a payment with certainty to a specific legal entity identified with an LEI. Lena Schneider could validate the LEI of the beneficiary corporate in China via the open, publicly available Global LEI Repository and then initiate the payment process with **greater certainty**. Or furthermore, her bank could set up an 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 EU (and globally), financial institutions or payment service providers would not need manual efforts to locate the beneficiary.

GLEIF also agrees that including the request-to-pay (RTP) service in the instant credit transfers would be a significant value-add for establishing an instant credit transfer system that fulfills users' needs to achieve maximum availability and instant funds transfer 24/7 in a convenient and cost-efficient manner.

GLEIF would like to highlight that the LEI is accepted as one of the identifiers for SEPA RTP Service Providers onboarding as part of the identification process of the non-regulated SEPA RTP Service Provider applicants, together with the BIC and identifiers issued by each SEPA country. GLEIF keeps the engagement with the European Payments Council on using the LEI in the SEPA RTP scheme both for RTP Service Providers onboarding and further in the RTP message exchange.

GLEIF is also aware that in the UK, 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, is recently adopted. Although the logic and objective of the CoP are correct, GLEIF suggested an improvement to the UK Treasury. The match criteria are the account name and account type (consumer/business) currently used as the match criteria. Given that some business names might be similar to each other, a manual reconciliation is often still required because the account name might not match the entity's legal name (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 a faster payments environment. Again, faster, cheaper, and more secure transactions. The Commission could consider adding the CoP service in instant credit transfers with the addition of the LEI.