

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Action Task Force (FATF) Revisions to Recommendation 24 - White Paper for Public Consultation

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Action Task Force (FATF) Revisions to Recommendation 24 - White Paper for Public Consultation.

First, GLEIF would like to respond to Question 1: *Should countries be required to apply measures to assess the ML and TF risks to all types of legal persons created in the country and also to at least some foreign-created legal persons and take appropriate steps to manage and mitigate the risks?*

GLEIF agrees that the misuse of legal vehicles could be significantly reduced if information regarding the legal owner and the beneficial owner, the source of the vehicle's assets, and its activities were readily available to the authorities in all jurisdictions.

FATF's Recommendation 24 highlights that countries face significant challenges when implementing measures to ensure the timely availability of accurate beneficial owner information. This is particularly challenging when it involves legal persons and legal arrangements spread across multiple jurisdictions. Criminals often create, administer, control, own, and financially operate corporate vehicles from different countries, thereby preventing competent authorities in any one jurisdiction from obtaining all relevant information about a corporate vehicle which is subject to an investigation into ML/TF, or associated predicate offences such as corruption or tax crimes.

GLEIF suggests that the LEI, a globally recognized open standard for legal entity identification, can establish the first foundational step for the beneficial ownership data collection and facilitate an efficient data collection, aggregation, and data exchange across countries.

Established by the Financial Stability Board in June 2014, the GLEIF is tasked to support the implementation and use of the LEI. Even though the primary and initial usage and adoption of the LEI is around financial markets and financial instruments, the LEI has demonstrated several benefits for users under various scenarios with the development over the last a few years. The Global LEI System endorses the International Open Data Charter, which means the LEI data is to be freely used, reused, and redistributed by anyone, anytime, anywhere. Besides, the LEI data provides entity reference data in the native local language of the entity and in the transliterated version (as applicable). This enables users to understand the language used to represent the entity and also have a Latin character representation of the name. And the [GLEIF API](#) is a globally accepted protocol for accessing identity information for legal entities in a digital and machine-readable fashion.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI uniquely identifies legal entities that engage in financial transactions, thereby helping to create greater transparency in the marketplace. The LEI fully satisfies the definition of "legal persons" under Recommendation 24, which means any entities other than natural persons can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, corporate bodies, foundations, partnerships, non-for-profit organizations, associations, and other relevantly similar entities with legal personality.

Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' (business card information) and 'who owns whom' (corporate structure showing subsidiaries with an LEI). Therefore, when each legal entity is identified with its LEI, the first necessary step for achieving organizational transparency at the global level can be achieved. Additionally, GLEIF is the Maintenance Agency for the ISO 20275 [Entity Legal Form \(ELF\) Code List](#). ELF code is a data field in the LEI reference data. ELF Code List contains legal forms/types in their native language, such as limited liability companies (Ltd), Gesellschaft mit beschränkter Haftung (GmbH) or Société Anonyme (SA). The ELF Code List assigns a unique code to each entity legal form. ISO points out that understanding the legal form of an entity *"is an important component of financial services transactions. Entering into a business relationship requires distinguishing the type of entity that is being transacted with. Parties (and their organizational structure) involved in financial transactions need to be identified within these transactions"*.

GLEIF would like to give the [Goldman Sachs Group Inc.](#) as an example. According to the Global LEI Repository, the Goldman Sachs Group Inc. has 41 direct children and 2180 ultimate children captured by Global LEI System. The relationship information is collected on the basis of financial consolidation. Again if we go through the same example, at a first glance, there seems no connection between "Goldman Sachs Group Inc." and the "[HH ASIA LTD](#)" registered in Cayman Islands. However, the LEI data shows that the HH Asia Ltd is consolidated by the Goldman Sachs Group Inc.

While accounting consolidation parent information is not equivalent to beneficial ownership information, we provide this example to demonstrate the power of assigning a global open identifier to entity structures. As highlighted in the Recommendation 24, multi-jurisdictional structures can be particularly difficult to trace when transactions between related entities that appear legitimate are used to launder criminal proceeds. In such instances, delays in obtaining the international cooperation needed to follow the money trail ultimately frustrate or undermine the investigation. However, GLEIF thinks that, in the first place, tracing the legitimately appearing multi-jurisdictional structures is a challenge. By requiring the LEI as the foundational first step for beneficial ownership, users can quickly establish beneficial ownership networks and complement this with the company and ownership reference data available in the Global LEI System. In total, this makes for a powerful tool for data analysis and monitoring.

A recent [blog](#) published by the Banque de France highlights that the LEI can be quite instrumental to monitor groups' ownership structure of large entities in offshore financial centers, which offer a high degree of financial secrecy and thereby facilitate tax evasion and the financing of illicit activities. The same applies for companies located in tax havens. The blog highlights that LEIs provide additional transparency by specifying the legal form of entities registered in those locations. For example, the Cayman Islands has entities identified as "exempted companies" and as "non-resident ordinary companies", which enjoy specific legal and tax benefits.

Lastly, GLEIF would like to comment on Question 7: *What effective mechanisms (aside from a BO registry) would achieve the objective of having adequate, accurate and up-to-date BO information for competent authorities? What conditions need to be in place for authorities to rely on financial institutions and DNFBPs to hold BO information? How could BO information held by obliged entities as part of their CDD be utilised in this regard?*

Different financial institutions may hold information on the same customer, which may overlap, but which may also be inconsistent and incomplete, a weakness that criminals can navigate and exploit. Often criminals use companies as vehicles to conceal themselves as demonstrated in Panama papers. If the LEI was used to tag all financial institutions' legal entity clients at the time of onboarding, then all financial institutions would speak the same language and data flow to competent authorities would be standardized, unambiguous and precise. For example, if an entity is identified as associated with politically exposed persons, the data vendors providing monitoring products for customer due diligence would flag the associated LEI record and the information would flow seamlessly to financial institutions.

Recently, the European Commission officially recognized the value of the LEI as a unique mechanism capable of supporting transparency within any ecosystem, by formalizing it as an important component of future AML/CFT efforts. Two of the four EC proposals call for the LEI to be used in certain customer identification and verification scenarios where it is available:

- **New Regulation on AML/CFT:** Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
- **Revision of the 2015 Regulation on Transfer of Funds:** Proposal for a Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets.

Use of the LEI consistently for entity identification at the Member State level and the EU level can diminish the margins-of-error related to language ambiguity, human interpretation, and manual intervention. The LEI's broad interoperability enables it to be integrated seamlessly into both centralized and decentralized digital identity management systems, together with the eIDAS-compliant digital certificates that are already harmonizing the use of e-signature technologies across the EU.

Beyond that, the new European Commission proposals are intended to create a much more consistent framework to ease compliance for operators subject to AML/CFT rules, especially for those active cross-border. The latest recommendation from the European Commission that the LEI is used, where available, for customer identification and verification in AML/CTF legislative reforms, has the potential to drastically increase the transparency of legal entities participating in financial transactions. Recent AML scandals have shown that financial criminals mostly operate through a network across borders to conceal their illicit transactions. The LEI, a global standard for unique legal entity identification, can make these connections and transactions across borders visible and easy-to-interpret to the financial institutions and Financial Intelligence Units. While this is the first time the EC has officially endorsed the LEI in its AML/CFT framework, the LEI has a long track record as a powerful tool in assisting the efforts of financial institutions to combat money laundering and terrorist funding. The LEI enables financial institutions to conduct fully automated, straight-through processing; by replacing outdated manual checks, the LEI increases both the speed and the effectiveness of client onboarding and ongoing compliance checks. This includes improving screening against sanctions and watch lists, enabling new efficiencies for both institution and client and significantly lowering costs.

GLEIF is aware that the UK Government envisages that the [Open Standard for Beneficial Ownership data](#) will make use of the LEI via the adoption of the [ISO 17442-1:2020 standard](#) and GLEIF has a dialogue with the international non-profit organization Open Ownership who created the Beneficial

Ownership Data Standard (BODS) in the UK to meet the need for a data standard covering Beneficial Ownership data.

The value of the LEI has already been acknowledged by several industry participants such as the UK based [UBO Service](#) who brings the LEI and the ultimate beneficial ownership verification and validation together for ensuring 360 degree view of clients for financial institutions to meet KYC/Customer Due Diligence obligations from regulations such as the Corporate Transparency Act.

Moreover, GLEIF launched its [Verifiable LEI Initiative \(vLEI\)](#), which will give government organizations, companies and other legal entities worldwide the capacity to use non-repudiable identification data pertaining to their legal status, ownership structure and authorized representatives in a growing number of digital business activities, such as approving business transactions and contracts, onboarding customers, transacting within import/export and supply chain business networks and submitting regulatory filings and reports. 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. Soon to be published by the International Standardization Organization is an international standard for identifying official organizational roles, that is planned to be used within these credentials to clearly state the roles of persons acting on behalf of legal entities. GLEIF suggests that the beneficial ownership information collected at the business registry level could be considered as an organizational role. The vLEI can link the company and the person(s) having the role of beneficial owner.

Lastly, GLEIF would like to highlight that use of the LEI, the only endorsed global data standard for entity identification and verification by regulators, is foundational to identify legal persons in a given jurisdiction and establish an effective and accurate beneficial ownership information exchange across financial institutions and competent authorities. Many financial institutions have started to use the LEI as part of their trade reporting obligations and then extended their use of the LEI to customer identification processes. To contribute to developing a common language between all stakeholders regarding entity identification and surpassing transparency for obliged entities, GLEIF launched its [Validation Agent](#) program for financial institutions. With the Validation Agent role, financial institutions can provide the LEI to their clients and deliver a variety of cost, efficiency and customer experience benefits for their organizations and contribute to the transparency of the whole ecosystem. Moreover, regarding keeping the client information accurate and up-to-date, Validation Agent financial institutions agree to adjust their client refresh cycles to the Global LEI System's requirements of at least annual verification, which means more frequent up-to-date information regarding legal entity clients and reduction of risks for the financial system.