

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

the Organization for Economic Cooperation and Development (OECD) Public Consultation on the draft OECD high-level guidance regarding policy considerations on responsible innovation and adoption of distributed ledger technology (DLT)

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Organization for Economic Cooperation and Development (OECD) Public Consultation on the draft OECD high-level guidance regarding policy considerations on responsible innovation and adoption of distributed ledger technology (DLT). GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) (i) Governance, Transparency, and Accountability, (ii) Interoperability, and (iii) Digital Security and Data Privacy policy areas.

First, GLEIF would like to respond to Question 2: "To what extent would international guidance on key policy considerations for blockchain innovation and adoption be useful to support the responsible, long-term evolution of the blockchain ecosystem? b) Please describe how, in your role, such guidance would, or would not, be useful in promoting responsible innovation and adoption of Blockchain and its applications?".

GLEIF suggests that international guidance on key policy considerations for blockchain innovation and adoption is of great importance to achieve an interoperable, transparent, accountable blockchain ecosystem.

In a hyper-connected global economy, digital identity is becoming a critical enabler of digital transactions. But this is only true if the digital identity is set up structurally to maximize interoperability across borders. Although some regional initiatives enable mutual recognition of electronic ID schemes, such as eIDAS in the European Union, mutual recognition of different schemes at the political/legislative level will prove ineffective if different identifiers are used in digitally enabled machine-readable platforms. The lack of interoperability across these platforms limits the benefits of private sector applications such as online banking or open finance. Therefore, GLEIF suggests that the LEI, a global standard, as opposed to regional or local ones, for entity identification can maximize the cross-border interoperability and benefits for all users.

Initially, GLEIF would like to provide some background on the LEI.

The development of a system to uniquely identify legal entities 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 the Global LEI System with a global governance framework representing the public interest that will, 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 usefulness of the LEI can be leveraged for any purpose. The LEI is use case agnostic and can be used in any process of entity identification, from finance to healthcare to verifying all counterparties of businesses supply chain.

The LEI initiative is driven by the Financial Stability Board (FSB) on behalf of the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System as a broad public good that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. As outlined in the GLEIF's Statutes, the Global LEI System is designed and developed to be used by the (i) public authorities and (ii) by the private sector to support improved risk management, increased operational efficiency, more accurate calculation of exposures and other needs. The GLEIF, a supranational not-for-profit organization, is overseen by a committee of currently 71 global regulators and 18 observers, known as the <u>Regulatory Oversight Committee (ROC)</u>. The OECD joins the ROC as an observer and is represented by Mr. Graham Pilgrim from the Statistics and Data Directorate.

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 code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be accessed and used by all users without limitations.

GLEIF is of the opinion that the LEI, a global standard for entity identification made available via an open data charter, can be the first link in the chain of trust and transparency in any blockchain solution, where entity identification and verification is required. The value of using the LEI, backed by validation and the governance of the LEI registration process, in digital identification is a critical element in any blockchain or DLT solution. The international guidance on the use of the LEI can support responsible innovation, accountability of parties and owners of the Blockchain platforms and its applications.

GLEIF would like to respond to Question 3: Which aspects of Blockchain would most benefit from policy guidance at the global level?. c) Please provide a brief explanation of why you believe that those areas you have identified in (3)(a) as the top ranking (i.e. those areas you have ordered as 1 or 2), would most benefit from policy guidance at the global level?.

GLEIF suggests that "Governance, Transparency, and Accountability", "Interoperability" and "Digital Security and Data Privacy" aspects would benefit most from policy guidance at the global level.

GLEIF would like to start from the "Governance, Transparency, and Accountability" aspect. Ensuring transparency in any blockchain platform governance framework is vital to impose accountability for responsible parties for their actions. As highlighted by the OECD and <u>the European Securities and</u> <u>Markets Authority (ESMA) Advice on Initial Coin Offerings and Crypto-Assets</u> there are concerns around fraudulent Initial Coin Offerings (ICOs), whereby crypto-assets either do not exist or issuer/developers disappear after the ICO. These could represent up to 80% of ICOs, according to some sources. For consumer and investor protection against fraud and to support innovative blockchain applications, it is



essential that investors and consumers can identify and verify the issuer or sponsor of the crypto-asset when they are legal entities. Identifying such parties with an LEI, a global standard for unique and unambiguous legal entity identification, would enable clear identification of who one is doing business with and a means to investigate the entity given an issue arises with the ICO.

For example, in the European Union, Regulation (EU) 2019/1937 requires that crypto-asset service providers shall report their LEI before they apply for authorization as a crypto-asset service provider to the competent authority of the Member State where they have their registered office (Article 57). Additionally, the same Regulation requires that the ESMA register contains the LEI of the issuer of asset referenced tokens.

As confirmed by Regulation (EU) 2019/1937, standardization of the identification of crypto-assets/emoney service providers is crucial for investor protection and market integrity. ESMA has identified the most significant risks of these new actors as fraud, cyber-attacks, money laundering and market manipulation. ESMA also confirmed that the pseudo-anonymous nature of crypto-assets can be attractive for tax evaders.

GLEIF would like to highlight that fraud and market manipulation risks are not limited to crypto-asset issuers. In parallel with the maturity and development of the blockchain applications, there could be new use cases and actors, which might want to conceal themselves through anonymous users. The LEI is a global-level solution to identify and verify the identities of these new actors and make them accessible and transparent through its open Global LEI Repository and the first foundational step for ensuring accountability.

The second aspect GLEIF considers as high importance for international guidance is "Interoperability".

Today's business relationships and actors are complex, multi-layered, with business partners located in various jurisdictions. The biggest barrier to blockchain adoption is the lack of clarity regarding standards and governance. Although national authorities and traditional standards-setting bodies aim to create an interoperable framework for enterprises with multiple blockchain solutions, the standardization of identity and data remains an unsolved problem.

A blockchain or DLT solution serves across borders, connects to multiple systems and legal entity identification of all these interconnected actors needs a global standard more than ever. Adopting a consistent, high-quality, and globally recognized identifier, the LEI, for legal entities is essential to tackle issues such as anti-money laundering, market manipulation and fraud in today's digital world.

Identification of the same entity in multiple blockchain solutions could be achieved with an LEI. The LEI would create visibility and transparency and enable effective communications between involved parties and with regulatory authorities. This is the same principle that was applied when regulatory authorities introduced the LEI for derivatives markets starting 2012. The machine-readable LEI reference data already includes the information on the legal name and address, thereby avoiding transliteration, translation, and abbreviation issues that would occur based on different standards. The additional LEI reference data on the corporate structure, the last update date, reference data corroboration, and change history are also critical information for understanding the identity of the blockchain actor.



The LEI will provide certainty of identity in any online interaction by becoming the common link, making it easier to participate in the global digital marketplace. Ensuring a common link is especially important for emerging technologies like Blockchain to ensure interoperability across applications. Therefore, consistent use of LEI across Blockchain would ensure the interoperability of identifying the parties to a transaction, be it in financial or non-financial transactions.

Lastly, GLEIF would like to comment on the "Digital Security and Data Privacy" aspect of the blockchain applications and provide an update on its Verifiable LEI (vLEI) strategy.

The LEI has a critical role to play in today's digital world through its ability to provide organizations with unique, digital and permanent identification globally. This especially is important in the context of identifying legal entities involved in digital transactions.

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 holder, has control of his/her personal data over how, when, and to whom that data is revealed.

This approach is set to transform the nature of identity management and how person-to-entity, or entity-to-entity, interactions take place in the digital world. It can address the need for automation in verification while maintaining data privacy and confidentiality. The LEI will have a key role in this process. GLEIF will elaborate on the use of the LEI in the more recent innovation of Verifiable Credentials (VCs).

VCs are defined by the Verifiable Claims Working Group of the W3C standards organization as the format for interoperable, cryptographically-verifiable digital credentials. A second W3C Working Group is creating the Decentralized Identifier (DID) specification for cryptographically-verifiable identifiers that leverage distributed ledger technology. Together, these two W3C Working Groups have developed two important standards:

- <u>https://www.w3.org/TR/vc-data-model/</u>
- <u>https://www.w3.org/TR/did-core/</u>

The use of VCs began in the domain of self-sovereign identity through so-called 'individual wallets,' which contain digital versions of credentials issued to and carried by natural persons. Examples include driver's licenses, passports, store loyalty and membership cards. All of these exist as physical credentials today and will likely have both an analog and a digital version in the near future. Self-sovereign identity is based on the principle that natural persons should have control over the personal information contained in their credentials and can choose to prove their identity and certain facts about themselves in a controlled and safe manner.

GLEIF asserts that the LEI is the ideal foundation on which to establish a chain of trust for organizational identity. 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.

vLEI Role Credentials issued to Persons with Official Organizational Roles representing their legal entities can be verified both by the Legal Entity as well as against one or more public sources. GLEIF has driven



further standardization in the development of the ISO 5009 standard, now awaiting publication, to list official organizational roles in a structured way so these can be used within digital tools.

In December 2020, <u>GLEIF announced</u> its plans to create a fully digitized LEI service capable of enabling instant and automated identity verification between counterparties operating across all industry sectors, globally.

GLEIF has invited stakeholders from across the digital economy to engage in a cross-industry development program to create an ecosystem and credential governance framework, together with a technical supporting infrastructure, for a verifiable LEI (vLEI), a digitally verifiable credential containing the LEI.

The vLEI 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, authorized representatives, and employees in a growing number of digital business activities. This includes approving business transactions and contracts, onboarding customers, transaction within import/export and supply chain business networks and submitting regulatory filings and reports. GLEIF already is engaged in research partnerships and technical trials with stakeholders across the pharmaceutical, healthcare, telecom, automotive and financial services sectors.

The vLEI infrastructure will be a network-of-networks of true universality and portability, developed using the KERI (Key Event Receipt Infrastructure) protocol. KERI will support the full range of Blockchain, self-sovereign identity and other decentralized key management platforms. vLEIs will be hostable on both ledgers and cloud infrastructure supporting both the decentralization of ledgers plus the control and performance of cloud. Portability will enable GLEIF's vLEI ecosystem to unify all ledger-based ecosystems that support the vLEI.