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

February 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Crimes Enforcement Network (FinCEN), Department of Treasury, on Beneficial Ownership Reporting Requirements.

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 identifying 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.

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, regulations and related monitoring and therefore the success of GLEIF's VA model will result in increased assignment of LEIs for entities covered by KYC processes. From a consistency standpoint, since the use of the LEI in KYC operations is increasing steadily, GLEIF proposes that FinCEN consider leveraging the LEI for tracking purposes of reporting companies. Also, as FinCEN seeks to revise existing Customer Due Dilgence Rules (CDD Rule) through future rulemakings, as mentioned within this proposed rule, the LEI should be considered.

Benefits of LEI inclusion for FinCEN

Information sharing across US law enforcement organizations as well as other nations' intelligence agencies is critical for ongoing surveillance. The LEI is an ISO 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.

By contrast, proprietary identification schemes are not open and therefore limit data sharing as a result of their licensing agreements. Moreover, proprietary identification schemes are expensive and can increase in spend when data sharing among multiple agencies increases. FinCEN could leverage the LEI, as an established open source, to harmonize and sharing of critical data both at home and abroad, especially as the Taxpayer Identification Numbers (TINs) may not be adequate as an identifier for newly formed shell companies. The 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. FinCEN should consider this when choosing between multiple entity identification schemes.

On a related note, FinCEN could also consider leveraging GLEIF's mapping certification service as means to create a TIN/EIN to LEI mapping.

The inclusion of the LEI by FinCEN can help overcome 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. Each LEI record contains the legal name of the entity, the legal and headquarter address (in addition to other refernce data), all of which can be used to distinguish between similar names. The LEI is fit for this purpose.

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, all of which are part of a LEI record. 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.

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. The U.S. Customs and Border Protection (CBP) is working on the Global Business Identifier (GBI) Initiative, in which CBP will test the LEI as part of an evaluative proof of concept to improve the U.S. government's ability to pinpoint high-risk shipments and facilitate legitimate trade.

H.R. 2989, the Financial Transparency Act (FTA) is a bill that seeks to unlock data in the financial regulatory sector. The proposed bill would direct seven of the Financial Stability Oversight Council (FSOC) financial regulatory agencies to adopt consistent data fields and formats for the information they already collect from industry under securities, commodities, and banking laws. On October 25th, the U.S. House of Representatives concluded consideration of the FTA. The bill passed with overwhelming support, 400-19. The legislation now moves to the Senate for consideration. The bill was sponsored by Representative Carolyn Maloney, who also sponsored the Corporate Transparency Act. Although specific standards such as the LEI are not specifically mentioned in the bill, the requirement for "legal entity identifiers" is cited. The LEI is the only entity identifier that meets the criteria specified in the FTA, most notably, "be nonproprietary or made available under an open license" and "incorporate standards developed and maintained by voluntary consensus standards bodies". FinCEN should also consider this when choosing between multiple entity identification schemes.

A Global Approach

In the European Union, the European Commission recognized the value of the LEI as a required data element in client identification its AML Rulebook published in July 2021. The European Systemic Risk Board (ESRB) in its 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. The ESRB in its recent paper also highlighted that "*the extensive use of the LEI could also make anti-money laundering measures work more effectively, for instance by helping to identify (chains of) legal entities involved in financial transactions (payments).".*

Recently, SWIFT published its **Guiding principles for screening ISO 20022 payments**. The report highlights that unstructured data is a barrier to building effective transaction screening and monitoring tools that mitigate sanctions and AML risks. As the payments industry prepares to adopt ISO 20022, banks are revisiting their screening environments. The report advises that BIC and LEI codes of entities published on sanctions lists are listed as the relevant information that should be screened against. This targeted screening approach allows financial institutions to avoid false positives linked to mismatches between information types (e.g. debtor name hitting against vessel names, street name information hitting against embargo data). SWIFT's Guidelines have been endorsed by the Wolfsberg Group, who develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.

Work also is underway by the Financial Sability Board to improve the global cross-border payments ecosystem. FSB is considering the LEI as a potential solution to identify payer and payees in payment chains. 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 aleady 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.

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.

The value of the LEI in strengthening uniformity and standardization of data flow has already been recognized in the recent Cross-Border Payments Survey Results on Implementation of the FATF Standards. Under the Section 5. "Conclusions and suggestion from the industry to address key challenges" it is stated that many respondents asked for increasing uniformity in the list entries and greater use of structured identifiers such as Legal Entity Identifiers (LEIs), Business Identifier Codes (BICs) and digital identities and linkage of list entries between UN and country lists would simplify the screening process and improve detection performance. They also indicated that wider adoption of the LEI for entity client identification and identifying beneficiary and originator in payment messages would support widespread interoperability between systems, reduce costs and increase precision and transparency.

The role of the LEI in new technologies

For the identification of senior managing officials and beneficial owners, GLEIF would like to provide an update on its latest work in Verifiable Credentials (VCs).

Digital certificates, even though highly applicable, widely used and covered in many legislations, have not solved digital identity entirely. Certificates are not unique, the information contained within might be outdated, and revocation has always been an issue. Furthermore, there are so many schemes at the same time. A digital certificate issued in one country under a local scheme might not be usable by the owner in another country or context. Digital certificates do not provide the mission that has been envisioned by GLEIF: Each business worldwide should have only one global identity.

The industry has considered these issues and has devised with a new approach to digital identity management. Thanks to advances in distributed ledger/blockchain technology, digital identity management with the additional feature of decentralized identity verification now is 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.

Verifiable Credentials (VCs) and the emerging role of the LEI

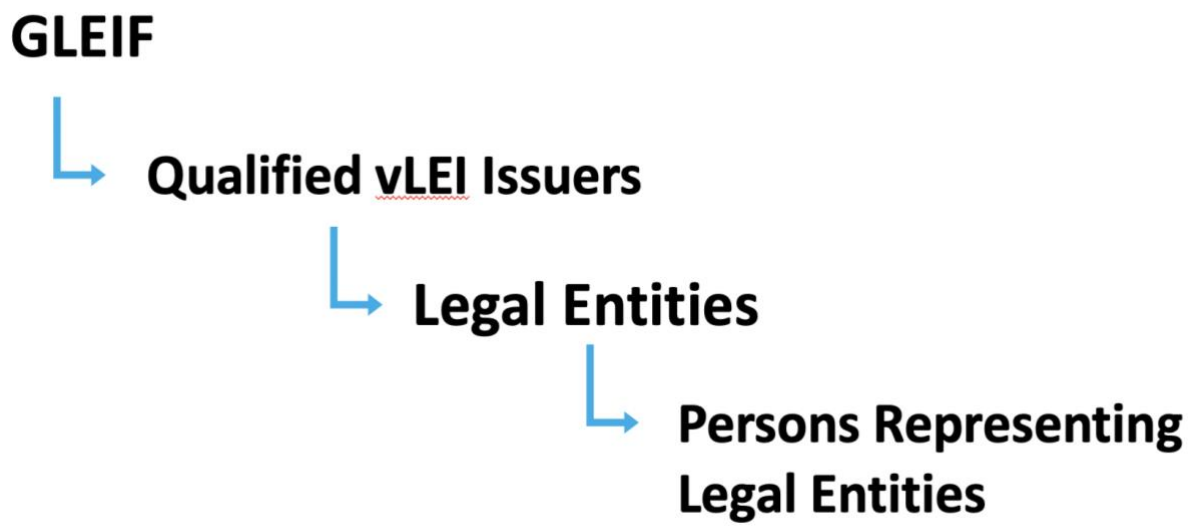
Verifiable Credentials are digitally signed credentials that are not only tamper-evident but capable of being cryptographically verified in a decentralized manner. vLEIs are based on the Trust over IP Authentic Chained Data Container (ACDC) specification (put the weboftrust link

in), based on the Key Event Receipt Infrastructure (KERI) protocol (an Internet Engineering Task Force (IETF) draft specification), which is a more secure, enhanced variant of the W3C Verifiable Credential specification.

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.

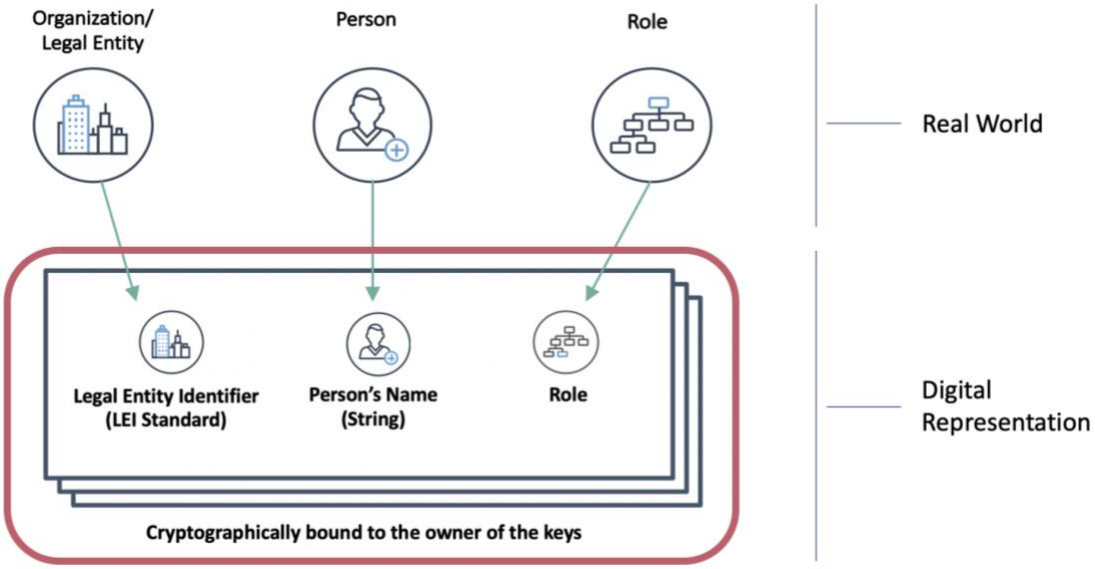
GLEIF asserts that the LEI is the ideal foundation on which to establish a chain of trust for organizational identity.

The LEI as a Verifiable Credential – the vLEI Trust Chain



- GLEIF is the Root of Trust
  - Root Identifier to establish the Root of Trust
  - Delegated Identifiers to issue Credentials
- GLEIF will establish a trusted network of Qualified vLEI Issuers (QVIs)
- QVIs are qualified to issue Entity and Role Credentials:
  - to Legal Entities
  - to Persons who represent Legal Entities either in official or functional roles

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.



Embedding the LEI in digital tools
Representing Organizations, Persons and Roles

vLEI Role Credentials issued by Legal Entities to Persons whose **Official Organizational Roles** (ISO 5009 standard awaiting publication) can be verified both by the Legal Entity as well as against one or more public sources.

Examples:
- Legal Entity – CEO
- Legal Entity – Board Chair

vLEI Role Credential issued by Legal Entities to Persons **in the context of the engagement** of those Persons with the Legal Entities which can be verified by the Legal Entity.

Examples:
- Legal Entity – Other Employees
- Hospital/Physician's practice – Patients
- Community/Ecosystem/Exchange/Registered Member
- Trusted Supplier/Provider/Registered Member

The vLEI Role Credential concept could be of value to identify persons as Beneficial Owners.

In December 2020, GLEIF announced 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 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 credentials in the vLEI Trust Chain are chained to each other as vLEIs are ACDC credentials. This allows for the provenance of vLEIs to be traced back to GLEIF as both the Root of Trust for the vLEI Trust Chain as well as the entity that ensures that operational integrity of the Global LEI System.

The vLEI infrastructure will be a network-of-networks of true universality and portability, developed using the KERI protocol. It 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.

In Conclusion:

GLEIF would like to reiterate that the Global LEI Repository is an open source of truth and validation for more than 2.1 million entities. Every LEI is validated by issuers of LEIs that have been approved through a formal accreditation process. LEI Issuers 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, to discuss how GLEIF and BRs can include LEIs into business registration processes.

The LEI is the only open, commercially neutral, standardized, and regulatory endorsed system capable of establishing digitized trust between all legal entitles, 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.