

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission Initiative titled a digital Euro for the EU

June 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission Initiative titled a digital Euro for the EU. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the conceptual and design process of digital Euro and how the LEI can help to improve the efficiency and speed of payments, while also facilitating competition and innovation within the Union.

In today's regulatory framework in the European Union, obliged entities (e.g., banks) are responsible for identifying and onboarding entitled users, be that natural persons or legal entities, and routing domestic and cross-border payment transactions. Identification of relevant entities and performing customer due diligence within the European Union is regulated by the Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, while the European Commission submitted its AML package in July 2021 for harmonizing the AML/CFT implementation across the Member States. GLEIF welcomes that the Commission recognized the use of the LEI in its newly proposed AML Regulation and Transfer of Funds Regulation (recast 2015). Using the LEI consistently at the Member State level and the EU level can reduce errors related to language ambiguity, human interpretation, and manual intervention. Therefore, GLEIF would like to highlight that the design of the digital euro should exclude the possibility of anonymity of users entirely for a more transparent and secure digital ecosystem.

As highlighted in the Commission's impact assessment report, the European Central Bank has published a public consultation on this topic. The European Central Bank indicated in its [Report on a digital euro](#) that if the legal identity of digital euro users were not verified when they access services, any ensuing transaction would be essentially anonymous. European Central Bank rightly highlights that anonymity should be ruled out, not only because of legal obligations related to money laundering and terrorist financing, but also in order to limit the scope of users of the digital euro when necessary – for example to exclude some non-euro area users and prevent excessive capital flows, (Requirement 13) or to avoid excessive use of the digital euro as a form of investment (Requirement 8). If users are identified when they first access digital euro services, different degrees of privacy can still be granted by both the issuer (the Eurosystem) and the providers of intermediary services. That being said, the European Central Bank suggests that the privacy could be selective and the system operator could permit only certain types of transactions to be executed without registering the identity of payer and payee.

GLEIF suggests that digital euro transactions could be fully transparent to the operator of the infrastructure who should nevertheless guarantee data protection, as is typically the case with electronic payments currently. Particularly for legal entity payers and payees, leveraging the open, publicly available Global LEI Repository can help to reinforce trust in the privacy model as LEI reference data does not contain personal information. Relaxing privacy requirements or imposing registration obligations only for large-value transactions could create holes in the anti-money laundering landscape. For example, criminals could make transactions in small amounts below any specified threshold. Without identifying and registering these actors properly, it is not possible to track the frequency of their transactions in an automated way. Moreover, transparency is important to enabling the instant

payment framework that the European Commission is developing for a more secure, faster, and transparent ecosystem in the EU. The only way to enable fully automated, straight-through processing is to precisely identify the parties involved in the payment transaction in an unambiguous and globally consistent way. The LEI is the only global open standard for legal entity identification that can enable payment transactions and financial messaging on a consistent and standard basis.

Therefore, GLEIF suggests that the design of a digital Euro should include the LEI to identify each party involved in its transaction. The inclusion of the LEI would allow Member States' Central Banks, financial institutions, the European Central Bank, and payment platforms to easily identify the legal entities behind each party in the payment messages through the use of richer, standardized and structured data. The LEI can improve interoperability between all these stakeholders as payment service operators can access richer data in ISO 20022 payments messages, where the LEI can be used as a mandatory data field. By integrating the LEI in their automated processing, payment service providers could support their KYC and client entity onboarding processes, reduce false positives in AML alerts and enhance their correspondent banking relationships without compromising privacy of their client entities.

Several financial institutions have already recognized the value of the LEI in payments. For example, in a recent interview, Merlin Dowse of J.P Morgan [stated](#) *"Corporates have to connect with multiple providers, each of which issues them with a client reference number that is meaningless outside of that provider's system. Every time they interact with a third party, they have to share their information again. Reducing all of this to one unique identifier in the shape of the LEI allows for interoperability across networks and removes friction, saving time and costs."*

GLEIF reiterates that it is essential that regulators and supervisory authorities avoid repeating the mistakes of the past – adopting siloed approaches for the industry and then trying to converge them. Central Bank Digital Currency initiatives present an excellent opportunity to adopt global standards in designing these new digital currencies. For example, the Bank of England stated in its Discussion Paper that the Bank and relevant regulators would need to set standards to ensure that the CBDC payment system is resilient, reliable, open, and interoperable. The Bank of England suggested that for supporting interoperability, extensibility, and security of CBDC, messaging standards used in CBDC payments (such as adopting the ISO 20022 standard) should **mandate the use of identifiers like the LEI**. Similarly, the European Commission could consider the LEI as a foundational block of its digital euro design in line with the [ESRB Recommendation](#) on identifying legal entities with the LEI and introducing a Union-wide legal framework in the EU.

Allowing the LEI only on an "if available" basis, also for digital euro transactions, would cause policymakers and practitioners to lose themselves in the sea of proprietary/local identifiers. Using a local identifier, instead of a global and digital one, would be the main challenge in operationalizing the digital euro infrastructure given system-to-system communication or connectivity between financial institutions and Eurosystem's infrastructure can only work in an interoperable ecosystem. If the LEI becomes mandatory for all intermediaries, settlement agents and their legal entity clients, then challenges relative to identification and interoperability would be solved at the very early stage.

In addition to leveraging the LEI as a data attribute to describe the parties involved in digital euro transactions, the activities of authentication and verification of the legal entities involved in digital euro transactions could leverage the verifiable LEI (vLEI). The vLEI is a digitally verifiable credential containing the LEI. It can be used to enable instant, automated trust between legal entities and their authorized

representatives, and the counterparty legal entities and representatives with which they interact. The vLEI gives 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 any kind of digital interaction. Because the vLEI leverages the Global LEI System, which is the only open, standardized and regulatory-endorsed legal entity identification system, it is capable of establishing digital trust between all legal entities, everywhere and could thereby contribute to ensuring interoperability across CBDC networks.

Lastly, GLEIF would like to highlight the work of the Financial Stability Board with the CPMI and other international organizations: [cross-border payments initiative](#). The initiative looks to address 4 challenges of cross-border payments – high cost, low speed, limited access, and limited transparency – via 5 focus areas and 19 building blocks. The LEI is involved in 3 of these building blocks. GLEIF expects that the Financial Stability Board will publish its stocktaking report on the LEI in cross-border payments by July 2022.