

Response of the Global Legal Entity Identifier Foundation (GLEIF) to Financial Action Task Force (FATF) Guidance on Beneficial Ownership (Recommendation 24) 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) Guidance on Beneficial Ownership (Recommendation 24) Public Consultation.

GLEIF would like to respond specifically to Question 1: *“Whether the Guidance is clear or are there any issues which need further clarification?”*.

It is stated in the consultation that enhancing the transparency of legal persons makes them less attractive for criminals to hide their real identities. However transparency is hard to establish when it involves legal persons and legal arrangements spread across multiple jurisdictions. Criminals often create, administer, control, own, and financially operate legal entity vehicles from different countries, thereby preventing competent authorities in any one jurisdiction from obtaining all relevant information.

GLEIF suggests that the LEI, a globally recognized open standard for legal entity identification, can establish the first foundational step for beneficial ownership data collection and facilitate efficient data collection, aggregation, and exchange across countries and involved parties. The LEI gives authorities a common language and therefore can underpin the international cooperation needed to trace obscure legal structures and money flows. When speaking with prosecutors and the police departments being involved in chasing complex structure, they clearly see the value of the LEI. A case from Germany was reported where it took 5 years in total to trace the structure of someone who washed 100 million USD coming from bribery and corruption. Entities in many countries were created solely for hiding the beneficiary owner of the money.

In Section 2 “Understanding and assessing the risks associated with legal persons”, it is stated that countries must be able to identify and describe the different types, forms and basic features of both domestic and foreign legal persons in the country. 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](#). The ELF code is a data element in the LEI reference data. The 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”.

Under Section 3 “Basic Information”, “3.1. Company Registries”, it is stated that Recommendation 24 requires countries to ensure, as a necessary prerequisite for the identification of beneficial ownership, that basic information on companies is obtained and recorded by the company registry. There is a reference to the LEI as an example to unique identifiers that can be collected as part of the basic information. GLEIF would like to highlight that the LEI satisfies all components of the basic information, including the company name, proof of incorporation, legal form and status, the address of the registered office, and headquarter address, as well as company structure based on accounting consolidation. The major advantage of the LEI vis-à-vis other identifiers is that the Global LEI Index is publicly available, which means everyone can verify and validate the identity of any counterparty without any cost or language barriers. And the information published on the Global LEI Index is verified and validated against official sources. And the major advantage of the Global LEI System is that it is a regulatory endorsed system overseen by more than 65 public authorities participating in the [Regulatory Oversight Committee](#).

As highlighted in the public consultation, not all company registers have the same level of accessibility. For example, even within the European Union, some registries keep the entire data behind a pay wall (e.g., Spain), others provide just some basic information and for additional documents there is again a fee (e.g., Italy), in some cases all data are available free of charge (e.g., Belgium). And of course each of these registries makes access and general information available in the local language. As mentioned in Para. 79, there could be different registers for different types of legal persons, which makes access to information more complex from the data users perspective. GLEIF invites FATF to recognize the role of the Global LEI Index, one single source for all legal entity types and jurisdictions, in Recommendation 24. Efficient and quick access to the Global LEI Index can make the verification of beneficial ownership easier, which is a question asked in Para 87 (g). This is further supported by the Bank of International Settlements [Corporate digital identity: no silver bullet, but a silver lining](#). Here the BIS states: Corporations are often identified by their business registration or company registry number. However, these systems are not standardised, generally not interoperable and often not digitised. Information is frequently unverified and not updated. The Legal Entity Identifier (LEI) is a sounder starting point for corporate ID as it is global, unique and widely recognised.

Moreover, Para. 93 provides examples of sources of information (which may be based on CDD information) that can be leveraged by countries to develop alternative mechanisms. For example Para. 93 (a) *bank account register that identifies legal persons holding bank accounts, payment accounts and other financial services* and (c) *a system with credit bureau information which collects and maintains updated information of legal persons having borrowing relationships with FIs*.

GLEIF would like to bring to FATF’s attention the [Validation Agent](#) model in the Global LEI System. This model allows financial institutions, credit bureaus, certificate authorities or similar organizations with an identity verification focus to provide LEIs to their clients as part of the client identification and CDD process. Financial institutions play a vital role in reporting suspicious transaction records or entities. The LEI would make it much easier for banks to perform customer due diligence checks and

KYC refreshes. It would also make it harder for banks in case they miss the relevant checks. For instance, the LEI could reduce the number of false positives, and also false negatives when comparing entity data from multiple sources. FATF could add the Global LEI System Validation Agent model as a best practice in Recommendation 24 to encourage the development of alternative mechanisms which support the accessibility and availability of standardized legal entity data.

GLEIF would also comment on Section 17 *“Relationship between beneficial ownership obligations and other recommendations (wire transfers and virtual assets requirements)”* and 17.1 *“Wire transfers and beneficial ownership as part of CDD”*. The [recommendation of the Financial Stability Board \(FSB\)](#) published in July 2022 requests that standard-setting bodies, including FATF, consider ways to embed or enhance references to the LEI in their work. FSB also recommends to standards setting organizations such as FATF to consider issuing guidance and carrying out further outreach regarding sanctions, customer due diligence and wire transfers on how the LEI may be used as a standardised identifier for sanctions lists or as the primary means of identification of legal entity customers or beneficiaries. This recommendation is in direct relationship with what FATF wants to achieve in 17.1 and 17.2, verify the identity of the beneficial ownership of the originator or beneficiary legal persons. The LEI is already included in the VASP Messaging Standard as an optional identifier. Imagine that all VASPs or counterparty VASPs are identified with their LEI. A consistent LEI usage would facilitate verification and validation of data across borders and create a more interoperable and transparent ecosystem. Therefore, GLEIF urges FATF to make a specific reference to the LEI as a primary means of identification of legal entity clients, including beneficiary, originator or VASPs, in its final R24.

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.

Lastly, GLEIF would like to comment on Section 19 “International Cooperation”. 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 ultimately frustrates and may undermine the investigation. By requiring the LEI as the foundational first step for beneficial ownership, users can quickly establish legal entity networks including the beneficial owner via the reference data available in the Global LEI System. In total, this makes for a powerful tool for data analysis and monitoring.

Different financial institutions or supervisory bodies hold different pieces of information on the same customer. This information may overlap but may also be inconsistent and incomplete. Criminals can navigate and exploit these information asymmetries. The Panama papers demonstrated that

criminals often use companies as vehicles to conceal themselves. If the LEI was used to tag all financial institutions' legal entity clients at the time of onboarding via the Validation Agent model, then all financial institutions would speak the same language and data flow to competent authorities would be standardized, unambiguous and precise. Use of the LEI within beneficial ownership registers promotes the ecosystem needed to monitor and combat financial fraud.

Moreover, since the Global LEI Index is publicly available, there are no limits to data/information sharing, as is the case for other identifiers, such as tax identification number as FATF provided as an example.