

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Crimes Enforcement Network's proposed rule on Beneficial Ownership Information Access and Safeguards, and the Use of FinCEN Identifiers for Entities**

February 14<sup>th</sup>, 2023

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Crimes Enforcement Network, Department of Treasury, notice of proposed rulemaking. GLEIF suggests that FinCEN leverage Legal Entity Identifier (LEI) for companies submitting to FinCEN and entity comprised within the Beneficial Ownership Information (BOI) rule.

### **First, some background information on the LEI and GLEIF**

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.

Established by the Financial Stability Board (FSB) in June 2014 under the mission of improving financial stability and transparency due to the aftermath of the financial crisis, GLEIF is tasked to support the implementation and use of the LEI. GLEIF is overseen by the Regulatory Oversight Committee, in which the Treasury is an active member. Further details on the use of the LEI in regulatory initiatives is provided [here](#).

### **LEI in Regulation**

The value proposition of LEI has already been recognized by several U.S. regulators that are members of the Financial Stability Oversight Council (FSOC), which is chaired by the Secretary of the Treasury, Federal Financial Institutions Examination Council (FFIEC) and non-financial agencies like the Federal Energy Commission and U.S. Customs and Border Protection. The LEI is currently included in 44 U.S. regulations and 235 global regulations.

The FSB is leading a cross-border payments initiative where the LEI is suggested as a solution to identify legal entities in payment messages for full transparency and traceability. Regarding identification, the FSB initiative has two workstreams, one for individuals and one for legal entities. The FSB is seeing the LEI as a solution to identify legal entities on a global basis. In July 2022, FSB published the related report - [Options to Improve Adoption of The LEI, in Particular for Use in Cross-border Payments \(2022-07-07\)](#).

The FSB puts its full weight behind a landmark recommendation that the LEI should be widely adopted across the global payments ecosystem. The FSB encourages global standards-setting bodies and international organizations with authority in the financial, banking and payments space to drive forward LEI references in their work. The report recommends guidance and further outreach on the use of the LEI as a standardized identifier for sanctions lists and as the primary means of identification for legal entity customers or beneficiaries, with specific reference to customer due diligence and wire transfers.

On December 15th, the Senate passed the fiscal 2023 National Defense Authorization Act, which included an amendment known as the Financial Data Transparency Act (FDTA). The FDTA directs seven financial regulators, the members of the Financial Stability Oversight Committee, to adopt standardized data reporting practices for information collected from regulated entities, and mandates the adoption of a legal entity identifier, to allow for easy and consistent matching of filings from the same entity across different financial regulators. The adoption of open data standards through the FDTA will improve transparency and accountability for federal agencies and the public and can also accelerate policy innovation. The 2-year rulemaking period has already commenced and the Office of Financial Research, Department of Treasury is participating.

The data standards established in the final rules shall include “common identifiers for collections of information reported to covered agencies or collected on behalf of the Council, which shall include a common non-proprietary legal entity identifier that is available under an open license for all entities required to report to covered agencies;” while also encompassing the following qualities:

- Be fully searchable and machine-readable
- Be non-proprietary or made available under an open license
- Incorporate standards developed and maintained by voluntary consensus standards bodies.

The LEI meets this all the criteria of the FDTA.

In December 2022, U.S. Customs and Border Protection (CBP) commenced the Global Business Identifier (GBI) pilot program, which will be a collaboration with 13 partner government agencies.

The objective of the GBI initiative is to develop a single identifier solution that will improve the U.S. government’s ability to pinpoint high-risk shipments and facilitate legitimate trade; create a “common language” between government and industry; improve data quality and efficiency for identification, enforcement, and risk assessment. The LEI has been selected as a foundational identifier within the GBI scheme to identify trade entities, most notably shippers, suppliers, manufacturers, and sellers.

### **The LEI in Client Onboarding and Know Your Customer**

The proposed rule permits FIs to request Beneficial Ownership Information (BOI) from FinCEN’s beneficial owner IT system for purposes of complying with Customer Due Diligent. Queries by FIs, who are already extremely familiar with the LEI as stated above, would produce better and more efficient results if the FI could query using the LEI.

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](#) already use the LEI for entity identification across their enterprises and now have 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, which includes entities reporting to FinCEN and entities that are beneficial owners covered within the proposed rule.

### **Benefits of LEI inclusion for FinCEN**

The inclusion of the LEI would streamline report processing, analysis and would guarantee a unique and unambiguous identifier is associated with the entity. This identifier also links to the direct and ultimate parents of consolidating legal entity. Data lineage is a key component to tracking entities over time. As such, the LEI could be used as the primary entity identifier for tracking legal entities reported to FinCEN thus creating an historical record of repeated entities over time. The LEI also could be used to track all reports from each reporting FI historically. Aggregation of reported content could be achieved by associating the LEI of the entity to the LEI of the reporting FI. The LEI is a permanent identifier and LEI records are never deleted.

The LEI would increase the quality of information provided to FinCEN. LEI issuers, also referred to as Local Operating Units (LOUs), supply registration, renewal and other services, and act as the primary interface for legal entities wishing to obtain an LEI. Only organizations duly accredited by GLEIF are authorized to issue LEIs. Accreditation is the process by which GLEIF evaluates the suitability of organizations seeking to operate within the Global LEI System as LEI issuers.

The process of maintaining LEI data quality starts with the registering entity. Through self-

registration, the entity must supply accurate legal entity reference data. It is then the responsibility of the LEI issuers to verify this data with the local authoritative source - a national Business Register, for example - and issue an LEI compliant with the LEI standards.

Conversely, the proposed FinCEN ID, like other existing identifiers created and maintained by U.S. government agencies for registration purposes, are often not validated against official sources and therefore lack provenance.

Another area that the LEI can help to streamline is information sharing. Information sharing across US law enforcement organizations as well as other nations' intelligence agencies is critical for ongoing surveillance. The LEI is an ISO (International Organization for Standardization) 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.

Even within the US, the LEI could enable better information sharing across different government entities. Today, the US government utilizes more than 50 different identifiers for legal entity identification<sup>1</sup>; which causes manual reconciliation of data and drain of resources. Instead of using/accepting a plethora of identifiers, FinCEN could leverage the LEI, as an established open source, to harmonize and sharing of critical data both at home and abroad. The current use of multiple identification schemes, 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.

The proposed rule as authorized by the Corporate Transparency Act permits FinCEN to disclose BOI to agencies engaged in national security, intelligence, or law enforcement activity. As previously mentioned, financial regulators have included the LEI in various rules and regulations and continue to do so. This is a perfect example of how the LEI could serve as a common identifier for information sharing across agencies included in the proposed rule.

Regarding information sharing, GLEIF is not suggesting disclosing a beneficial owner designation within an LEI record, however global surveillance can improve through the assignment of an LEI for reporting companies that can be leveraged by Financial Action Task Force (FATF) and national crimes

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<sup>1</sup> See Envisioning Comprehensive Entity Identification for the U.S. Federal Government, <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei/gleif-and-data-foundation-comprehensive-entity-id-for-u-s-federal-government>

agencies around the globe.

In conclusion, regulators and supervisor authorities continue to incorporate the LEI in regulations and policy recommendations. In parallel FIs continue to broaden their use of the LEI, in client onboarding. Now is the time for FinCEN to reconsider incorporating the LEI. GLEIF invites FinCEN to discuss the LEI in more detail and we remain at your disposal should FinCEN have any follow up questions or concerns.