

Introducing the LEI Validation Agent Framework

A role in the Global LEI System
to simplify and accelerate LEI issuance



Enabling global identity
Protecting digital trust

Introduction

Organizations that perform financial transactions in capital markets are mandated by various regulatory bodies across the world to have a Legal Entity Identifier (LEI).

Until now, the process of obtaining an LEI is most commonly undertaken when an entity is onboarded by a financial institution (FI), and usually occurs in the latter stages of this process. Alongside an entity's dealings with their FI during this process, the traditional approach to LEI issuance has required the entity to liaise directly with an **LEI Issuing Organization**, also known in the Global LEI System as a Local Operating Unit (LOU). Depending on the complexity of the entity's organizational structure, this liaison can require a number of labor intensive and

time-consuming legal document and data collection procedures to be performed to validate the entity's identity before an LEI can be issued. Many of these are the same procedures that must also be performed by the FI at the point of onboarding their new client. This results in a level of process repetition for both LEI Issuers and FIs, and often a lengthy, duplicative process for the legal entities themselves, which in turn puts the trade at risk.

In its drive to encourage voluntary adoption and use of LEIs across a broader portfolio of non-regulatory banking business lines, the Global LEI Foundation (GLEIF) has reviewed these procedures and identified an opportunity to introduce efficiencies by creating a new operating role within the Global LEI System. The goal is to streamline

the LEI issuance process and deliver a multitude of benefits, for legal entities, LEI Issuers, FIs and any other organizations involved in supervised identity verification and validation.

The role is called the Validation Agent.

This eBook, the first in a series of publications exploring the Validation Agent Framework¹, defines the role and discusses the challenges it addresses, together with the far-reaching benefits it promises to deliver to FIs, other stakeholders in the Global LEI System and the wider global financial ecosystem.



¹GLEIF invites enquiries and dialogue from the LEI ecosystem and has published guidance for organizations wishing to become Validation Agents

Enhancing the client experience: Consolidating duplicative onboarding and LEI issuance processes

When an organisation liaises with an LEI Issuer to obtain an LEI, it must source and submit legal documentation pertaining to its legal status and ownership structure.

In the vast majority of cases, the document and data collection and verification procedures performed by the LEI Issuer are also completed by the FI, as part of its processes when validating a client's identity during initial onboarding or subsequent refresh.

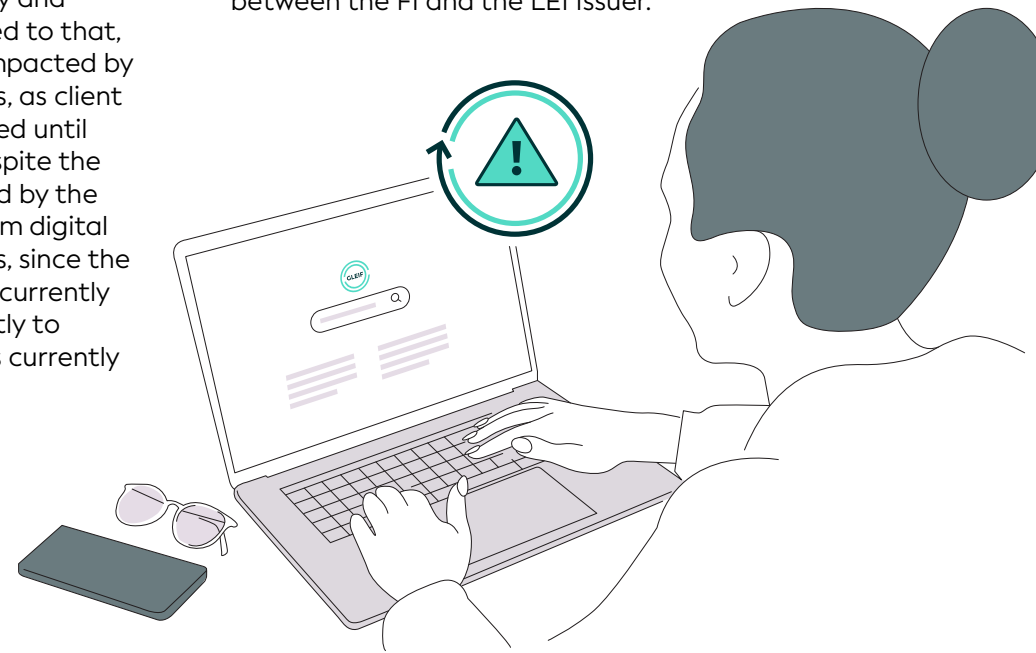
For both entity and LEI Issuer, these processes require time and effort to complete. The LEI Issuer must receive these documents, review and verify them, and deliver the relevant data into the Global LEI Index before it may issue the LEI. Depending on the nature of the organization, the completion of these procedures may require several exchanges and incur an inevitable period for processing between each round of communication.

Considering that legal entities engaged in certain capital market transactions are *legally required* to obtain an LEI, this 'process duplication' between FI and LEI Issuer, together with the additional processing time it creates, can cause frustration among an FI's clients resulting in an inconvenient customer experience.

Perhaps unsurprisingly, it is the FI that usually finds itself on the receiving end of this frustration, despite the LEI issuance process occurring independently and without their involvement. Added to that, an FI's own time to revenue is impacted by the parallel LEI issuance process, as client onboarding cannot be completed until an LEI has been issued. And, despite the range of future benefits enabled by the LEI across several use cases, from digital onboarding to digital signatures, since the factors driving LEI issuance are currently so narrow - limited predominantly to regulatory compliance - there is currently little opportunity for the

FI to offset client frustration by delivering value elsewhere in the process.

Together these issues can negatively impact the FI's customer experience delivery at what is perhaps the most fragile time in the client lifecycle: right at the beginning. A significant opportunity therefore exists to address these issues by de-duplicating the entity identification procedures that are currently shared between the FI and the LEI Issuer.



Introducing the Validation Agent Framework



Validation Agent:

A definition and purpose



The Validation Agent Framework is an operational model in the Global LEI System, which allows financial institutions and other organizations involved in supervised identity verification and validation to obtain and maintain Legal Entity Identifiers (LEIs) for their clients in cooperation with accredited LEI Issuer Organizations by leveraging their business as usual client identification procedures in Know Your Customer (KYC) and client onboarding processes.



The creation of the Validation Agent Framework empowers organizations to leverage their know your customer (KYC), anti-money laundering (AML) and other regulated business as usual onboarding processes, to obtain an LEI for their customers when verifying a client's identity during initial onboarding or during a standard client refresh update. Organizations acting as Validation Agents can liaise with the LEI Issuer on its client's behalf to 'validate' that these key data checks and processes have been undertaken.



By sharing with the LEI Issuer the verified data needed by the client's LEI application, an organization in the Validation Agent role can benefit from:

- *A greatly streamlined LEI issuance process for clients, resulting in an enhanced client experience in onboarding and lifecycle management.*
- *Proactively offering a seamless and compliant method for customers to obtain an LEI in support of increasing industry momentum for the inclusion of the LEI in cross-border payment messages.*
- *Digitization of its onboarding processes based on standardized organization data, instead of siloed information and legacy systems.*
- *Additional opportunities to add client value and achieve market differentiation.*
- *Enhanced internal data management processes, reduced costs.*
- *A uniquely powerful foundation upon which to innovate and develop new digital services and revenue opportunities.*

Introducing the Validation Agent Framework (cont.)



By simplifying and accelerating the LEI issuance process, the Framework also paves the way for FIs to expand their usage of the LEI beyond capital markets to encompass all banking business lines, an opportunity anticipated to save the industry U.S.\$2-4 billion annually in client onboarding costs alone.



Widespread usage of the LEI also better prepares the FI for the digitization of customer onboarding, payments, transactions, and contract signing.

Validation Agents also serve to proactively champion broader industry efforts to harmonize the use of identifiers to promote greater transparency and contribute to the fight against financial crime across the global economy. This follows support for the inclusion of the LEI within ISO 20022 payment messages from key stakeholders – including the Bank for International Settlements' Committee on Payments and Market Infrastructures' (CPMI) and the Wolfsberg Group.

In addition, the Swift Payment Market Practice Group (PMPG) has outlined how global adoption of the LEI in ISO 20022 payment messages can support key cross-border use-cases including: sanctions and watch-list screening; KYC and client onboarding; fraud detection and the fight against vendor scams; e-invoice reconciliation; and account-to-account validation.



What benefits does the Validation Agent role deliver?



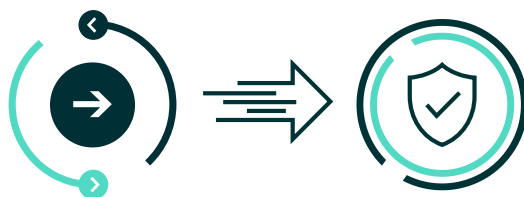
Benefits of becoming a Validation Agent

Primary / Immediate:

- Faster and more efficient customer experience offering when onboarding clients and performing refresh updates. An end to client frustration due to process duplication.
- Support increasing industry momentum for the inclusion of the LEI in cross-border payment messages.
- Additional opportunities to add client value and achieve market differentiation.
- Enhanced internal data management processes, greater consistency, reduced costs.
- Accelerated digital transformation.

Secondary / Future opportunities:

- A uniquely powerful foundation upon which to innovate and develop new digital efficiencies, services and revenue opportunities:
 - Pioneer new, revenue-generating digital services in areas enabled by the LEI: corporate identity management, digitized cross border supply chain relationships, legal assurance level e-signing with digital certificates.
 - Create readiness for significant uplift in demand from clients for LEIs in the near future as use-cases evolve beyond compliance in capital markets.
- Autonomous control over your digitization of business processes.



Benefits for clients (legal entities) of a Validation Agent

- Reduced duplicative processes across onboarding and LEI issuance.
- Less time and resource investment needed; FI or other organization involved in supervised identity verification and validation deals directly with the LEI Issuer on key data checks during LEI issuance.
- Proactive and seamless compliance with emerging industry regulations.
- Faster and more efficient service.
- Reduced time to trading revenue.
- Streamlined renewal of the LEI.
- Collaboration to evolve their LEI usage
 - Evaluate trading partners, execute e-documents in trade finance, legal assurance level e-signing with digital certificates, explore new use-cases for client's unique identifier (e.g. in payments, compliance, or due diligence).

What benefits does the Validation Agent role deliver? (cont.)

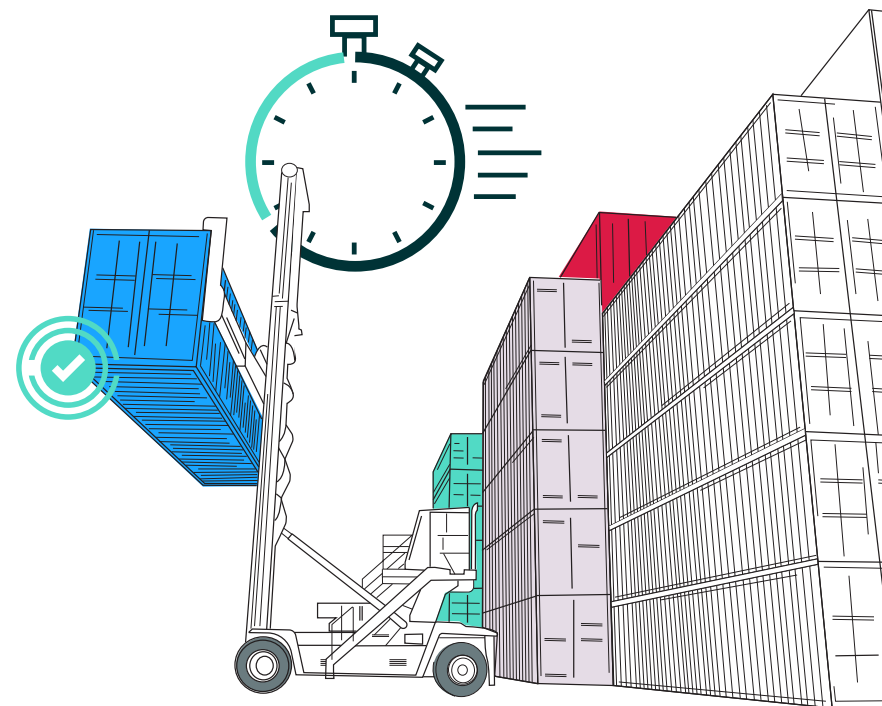


Benefits to LEI Issuers engaging with Validation Agents

- Streamlined and accelerated operations: Validation Agents now take over key elements of identity verification of organizations applying for LEIs.
- Validation Agents provide access to new markets beyond regulatory compliance. Promotion of broader LEI usage by Validation Agents, supported by a faster, more convenient LEI issuance process, will potentially deliver a higher number of LEI applications.

Benefits to all LEI ecosystem participants

- The faster, more efficient LEI issuance processes enabled by the Validation Agent role creates readiness in the Global LEI System to support significantly increased demand for LEIs. As LEI usage evolves beyond regulatory compliance in capital markets and voluntary LEI adoption gains traction around the world, the LEI ecosystem will benefit from the agility gains made possible by the 'third party' entity identity verification services provided by Validation Agents.
- This readiness will also allow innovation in LEI use-case development to continue uninhibited by constraints in process and will ensure the financial ecosystem can adapt quickly and smoothly to changes in regulation.



How it works:

What will Validation Agents do?



The responsibilities of organizations that become Validation Agents begin with a check to establish whether their client has an LEI. If the client does not, the agent will validate the following during the LEI Issuer's entity verification process, in accordance with the LEI ISO 17442 standard:

Legal name



Authorized signatory



Business registry information



Headquarters address



Legal address



Branch address



Direct and ultimate parents



Validation Agents will partner and interface with one or more LEI Issuers to obtain LEIs for their organizations clients.

Aside from accepting data records from Validation Agents, LEI Issuers will continue in their conventional roles:

- ➔ *Performing LEI duplication checks*
- ➔ *Issuing LEIs in compliance with ISO 17742*
- ➔ *Managing LEI challenges*
- ➔ *Publishing LEI records daily to GLEIF*

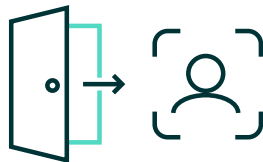
Who is eligible to become a Validation Agent?



Any FI that serves legal entity clients or organizations involved in supervised identity verification and validation may apply to become a Validation Agent



Today, legal entities operating in derivatives and many capital markets are required by law to obtain an LEI. GLEIF therefore anticipates that, in a bid to add client value, FIs seeking to streamline regulatory compliance processes for their clients will be among the first to apply for Validation Agent status.



That said, the Validation Agent Framework has been designed to foster broader appeal among FIs, in line with GLEIF's objective to encourage voluntary LEI adoption outside of capital markets. By expanding LEI issuance beyond legal entity clients that require an LEI for financial compliance, a Validation Agent can equip its whole business client base with globally recognized identities, which can be used across borders with any legally registered counterparty or supplier around the world. In this way, the LEI can solve the problem of trust for legal entities worldwide. It is the only open, commercially neutral, standardized and regulatory endorsed system capable of establishing digitized trust between all legal entities,

everywhere. As awareness of these enabling attributes increases among FIs, GLEIF expects the Validation Agent role also to be assumed by FIs seeking to become recognized leaders in identity management and position themselves as facilitators of global trade.

Looking ahead, any related organization that performs relevant validation and verification practices which are overseen by an independent legal authority, may also apply for Validation Agent status. Certificate Authorities, for example, which undergo annual audit procedures to maintain their legal capacity to issue, say, extended validation certificates or eIDAS products, may also be eligible.

GLEIF welcomes exploratory dialogue from any stakeholder group that conforms to one or more of these descriptions. Initial enquiries should be made to info@gleif.org.

How does a Validation Agent interact with other roles within the Global LEI System?

The Validation Agent is a role in the Global LEI System. It complements and interoperates with the other related roles listed below:

Registration Agent

an organization that helps legal entities access the network of LEI Issuers. The Registration Agent may choose to partner with one or more LEI Issuers to ensure its clients' needs for LEI services are met.

LEI Issuers (also known as Local Operating Units)

an organization accredited by GLEIF to issue LEIs to legal entities. LEI Issuers supply registration, renewal and other services, and act as the primary interface with legal entities for LEIs.

Validation Agent

an organization that obtains and maintains Legal Entity Identifiers (LEIs) for its clients in cooperation with accredited LEI Issuers by leveraging their business as usual client identification procedures in Know Your Customer (KYC) and client onboarding processes.

Mutually supportive: Validation Agents and LEI Issuers

The Validation Agent role integrates seamlessly into the operations of LEI Issuers and has the potential to expand their business opportunities by creating access to new markets, as LEI usage grows beyond regulatory use cases. Validation Agents can also accelerate and streamline operations for LEI Issuers, since they allow the responsibility for entity identity verification processes, which are needed ahead of LEI issuance, to be performed and validated by an organization as part of their 'business-as-usual' onboarding process.

GLEIF also intends that the more streamlined, rapid and user-friendly LEI issuance process enabled by the Validation Agent role will help to power the growth of voluntary LEI adoption. A greater overall demand for LEIs should, in turn, result in greater demand for the services of LEI Issuers in the future.



LEI Issuers bring local knowledge to the Global LEI System and understand the needs of small and mid-sized FIs in the jurisdictions in which they operate. Their efforts, combined with Validation Agents and GLEIF, will be critical to the advancement of voluntary LEI adoption across broader banking portfolios.

Supporting a growing LEI ecosystem

The Validation Agent Framework, introduced by GLEIF in September 2020, is designed to remove the duplication of processes across client onboarding and LEI issuance, resulting in a simpler, faster and more convenient experience for organizations and their clients, enabled by a more efficient LEI issuance process.

In addition to delivering process and experiential benefits, a more streamlined Global LEI System also supports GLEIF's vision for increased voluntary adoption of LEIs by the banking sector across non-regulatory use cases.



The Validation Agent Framework has been introduced following extensive consultation with GLEIF's Globally Important Financial Institutions (GIFI) Relationship Group, which comprises representatives of large banks, global asset management firms, insurance companies, and other FIs. The group facilitates communication between GLEIF, banks, FIs and other key LEI stakeholders and has given its full support to the Framework.

Next steps: GLEIF invites organizations to become Validation Agents



GLEIF is actively engaging with all relevant organizations to become Validation Agents. Interested in learning more? Contact us info@gleif.org

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GLEIF is committed to supporting the banking industry's widespread implementation of the LEI beyond mandated requirements. The Validation Agent role helps financial institutions to improve their operations and enable their customers to achieve their desired financial transactions more quickly. By becoming Validation Agents financial institutions can streamline, accelerate and diversify their use of the LEI, and ensure their autonomy as they look to digitize their business processes. Considering that from a macro level, broader LEI usage and increasing volumes translate into more efficient financial transactions – from digitally signing contracts to financial markets participation. In this way, Validation Agents contribute to growth across the entire ecosystem, which will benefit all financial ecosystem stakeholders, as well as the global economy.

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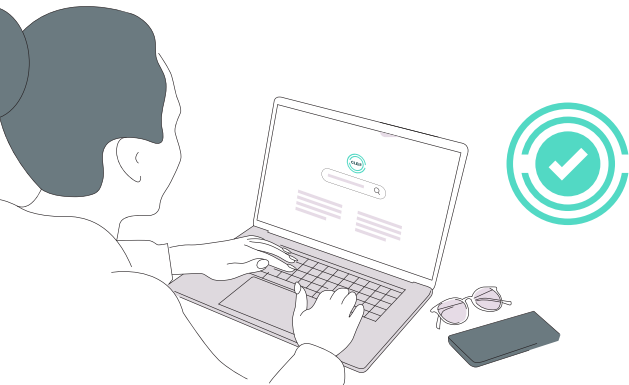
Stephan Wolf,
CEO, GLEIF



A handwritten signature in white ink that reads "S. Wolf".

About the Legal Entity Identifier (LEI)

The Legal Entity Identifier (LEI) 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. Each LEI contains information about an entity's ownership structure, answering the questions of 'who is who' and 'who owns whom'. It provides a universally recognized identifier paired with essential entity data, rigorous verification processes and high data quality.



About the Global Legal Entity Identifier Foundation (GLEIF)

Established by the Financial Stability Board in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is a not-for-profit organization created to support the implementation and use of the Legal Entity Identifier (LEI). GLEIF is headquartered in Basel, Switzerland.

GLEIF services ensure the operational integrity of the Global LEI System. GLEIF also makes available the technical infrastructure to provide, via an open data license, access to the full global LEI repository free of charge to users. GLEIF is overseen by the LEI Regulatory Oversight Committee, which is made up of representatives of public authorities from across the globe. For more information, visit the GLEIF website at <https://www.gleif.org/en>.

History of the Global LEI System

In 2011, the Group of Twenty (G20) called on the Financial Stability Board (FSB) to provide recommendations for a global Legal Entity Identifier (LEI) and a supporting governance structure. This led to the development of the Global LEI System which, through the issuance of LEIs, now provides unique identification of legal entities participating in financial transactions across the globe. The FSB emphasized that global adoption of the LEI underpins multiple "financial stability objectives" and also offers "many benefits to the private sector".



Source:

- Global Legal Entity Identifier Foundation, St. Alban-Vorstadt 5, 4052 Basel, Switzerland
- Chair of the Board: Dessa Glasser, CEO: Stephan Wolf
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- LEI: 506700GE1G29325QX363



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