

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Board of the Federal Reserve on the Potential Modifications to the Federal Reserve Policy on Payment System Risk to Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Board of Governors of the Federal Reserve System (the Board) on the deployment of the FedNow Service.

GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) with ISO 20022 as part of the FedNow Service.

First some background on the LEI.

The development of a system to uniquely identify legal entities 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 the framework of a Global LEI System (GLEIS) that will, 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 usefulness of the LEI can be leveraged for any purpose in identity management for legal entities both by the public and private sectors. This includes but is not limited to supply-chain, digital markets, trade finance, and many more.

The LEI initiative is driven by the Financial Stability Board (FSB) and the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of global regulators known as the Regulatory Oversight Committee (ROC), including the Federal Reserve Board, with Joseph Tracy as a current Vice Chair of the LEI ROC (having completed a previous term as Chair), and William Treacy as a member for the Board.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization, developed specifically by ISO/TC 68, Financial services.

The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions, including in payments and correspondent banking. The LEI offers both public and private sectors users a one-stop approach to identifying legal entities, which has the potential to take the complexity out of business transactions. Via the Global LEI Index,

GLEIF makes available the largest online source that provides open, standardized, and high-quality legal entity reference data. No other global and open entity identification system has committed to a comparable strict regime of regular data verification.

Support for the deployment of the FedNow Service:

GLEIF would like to recommend that the LEI be included in the FedNow Service and corresponding financial messaging for real-time interbank settlement of faster payments as an identifier for each party that is legal entity to these transactions.

GLEIF fully supports the implementation of payment messages in the FedNow Service using the widely accepted ISO 20022 standard, which will provide a common foundation for exchanging payment messages and support the exchange of rich data. Most notably, this ISO standard includes the LEI as part of the ISO 20022 data model and corresponding financial messaging. GLEIF would prefer the Board further recognize and emphasize the LEI, within ISO 20022, to identify Financial Institutions using the FedNow service.

The inclusion of the LEI would allow the Board, the Reserve Banks, and participants in the FedNow Service to know the legal entities behind each party in payments transactions using richer, structured data. Use of the LEI will contribute to the transparency of the faster payments and liquidity management systems while achieving the Board's goal of improving the speed and efficiency of the U.S. payment and settlement system from end-to-end while maintaining a high level of safety and efficiency.

Benefits of using the LEI also could be seen for the private sector as the inclusion of the LEI could allow banks to provide useful services to their customers, like improvements to the flow of payments processes based on a global standard for extended remittance information (the purpose and details behind payment transactions).

Further, financial sector participants of the FedNow System will benefit from knowing the identity of the legal entities behind these transactions, make the firms' liquidity management, risk management and assessment of compliance risks easier to manage both for payment services.