



Enabling global identity  
Protecting digital trust

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Stability Board (FSB) International Regulation of Crypto-asset Activities: A proposed framework – questions for consultation**

December 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Stability Board (FSB) International Regulation of Crypto-asset Activities A proposed framework – questions for consultation.

The G20 Leaders developed the Global Legal Entity Identifier (LEI) System as a tool to enhance transparency in financial markets thereby enabling the assessment and reduction of risk. The Global LEI Foundation was established by the FSB in 2014 to support the implementation and use of the LEI. The LEI supports financial stability and strengthens regulatory and supervisory frameworks across borders by enabling supervisory authorities to speak the same language thanks to the LEI.

Therefore, leveraging a consistent, high-quality, and globally recognized identifier, the LEI, for crypto-asset service providers and crypto-asset issuer entities is essential to support financial stability and tackle anti-money laundering in today's digital world. According to industry sources more than 25,000 service providers are licensed or registered to undertake crypto-asset activities worldwide. However there is no common way to identify these service providers. In global, digital marketplaces like those supporting digital asset transactions and the lack of standardization in identity represent a significant barrier to evaluating exposure and risk. As an existing global standard already applicable in 200+ jurisdictions, the LEI is the natural solution to overcome this problem.

The Global LEI System sets an excellent example of how international coordination and cooperation can drive industry adoption of international standards thereby strengthening regulatory supervision, and avoiding fragmentation at national and international levels.

GLEIF welcomes that the FSB already highlights in the consultation paper that data gaps make the assessment of financial stability risks from crypto-asset activities challenging. The limited regulatory data currently available, including on interconnections between cryptoasset markets and the traditional financial system, offer only a partial and potentially inaccurate picture. Identifying the entities or natural persons that should be held accountable for good governance and regulatory compliance can be difficult. Therefore, GLEIF invites FSB to make a clear recommendation to require the LEI as a foundational element to data frameworks and identity information sharing in its Final Guidelines to be published by mid-2023. This recommendation is also in line with the [recommendation of the Financial Stability Board \(FSB\)](#) published in July 2022, requesting that standard-setting bodies consider ways to embed or enhance references to the LEI in their work.

Identifying the crypto-asset service providers, issuers, wallet providers and other intermediaries with the LEI would create visibility and transparency and enable effective communications between involved parties and regulatory authorities. This is the same principle applied when regulatory authorities introduced the LEI for derivatives markets starting in 2012. Given cross-border cooperation, coordination and information sharing are essential given the inherent global nature of crypto-asset activities, the LEI is the natural choice that can make interaction and information sharing efficient across different parties.

Through use of a global open identity standard for the legal entities facilitating digital asset transactions, the global financial ecosystem will avoid the errors of the traditional marketplaces – that being a of lack of interoperability, minimal ability for financial markets participants to assess exposures across marketplaces and limited ability for financial supervisors to communicate on particular entities. These are the exact shortfalls that criminals exploit in today's financial markets to carry out illicit transactions. At the moment, there is no global way without significant manual intervention to determine if the same crypto-service provider is registered with many regulators. This leads to uncertainty for national authorities as well as all participants in the global financial system. If all jurisdictions identify registered crypto-asset service providers and other intermediaries via the LEI and the LEI is consistently exchanged across supervisory authorities, the result would be a digitally enabled financial ecosystem thereby enabling faster and more efficient monitoring as well as a decreased compliance burden for the private sector. This is the only way to prevent regulatory arbitrage and loopholes within the global financial system.

The recent collapse of the FTX is an extremely important reminder of the value proposition of the LEI and the importance of unique identification to reduce financial risks. FTX's non-U.S. business is not regulated for day-to-day operations in the U.S., but the company filed for bankruptcy in the U.S. for roughly 130 affiliated companies. So the question arises, can firms quickly and easily identify their exposure to FTX and its affiliates? And the response is a resounding “No”. However, if the entire corporate and fund structure were clearly identified in the Global LEI System, investors and regulatory authorities around the world would have had information on FTX and its network immediately available<sup>1</sup>. The parallel to the 2008-2009 financial crisis is strong. For example in September 2008, Supervisors were asking financial institutions a very simple question: What is your aggregate exposure to Lehman Brothers? And major financial institutions were not able to respond to this question given there was no easy way for them to aggregate information on all the entities involved<sup>2</sup>.

Some jurisdictions have already included the LEI in their crypto-asset service related regulations such as the European Union's Regulation on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. Furthermore the interVASP messaging standard 101 already includes the LEI as an optional identifier for originator and beneficiary VASP meaning travel solutions are already enabled to carry the LEI where it is available. FSB's Recommendation to add the LEI within its General and CA

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<sup>1</sup> See: <https://aite-novarica.com/blogs/vinod-jain/will-ftx-bankruptcy-be-enough-revolutionize-cryptocurrency-market>

<sup>2</sup> See: <https://www.gleif.org/en/lei-solutions/regulatory-use-of-the-lei/gleif-and-data-foundation-comprehensive-entity-id-for-u-s-federal-government>



Recommendations guidelines will help to level the playing field for all crypto-asset service providers across different jurisdictions.