

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Stability Board Survey for the Building Block 6 of the Roadmap for enhancing Cross-border Payments

January 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Stability Board Survey on its work under Building Block 6 of the Roadmap for enhancing Cross-border Payments. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in facilitating information exchange across borders.

1. How, in your view, do data-specific requirements or objectives of existing national and regional data frameworks, such as those listed above, currently affect (either positively or negatively)

a. the cost and speed of delivering payments

GLEIF agrees that existing local and regional data frameworks, ranging from data protection to data privacy and data localization requirements, hinder information sharing among supervisory agencies and financial intelligence units across borders. This situation (i) causes payments costs to rise as each jurisdiction implements its own KYC requirements unilaterally without much input and coordination with other jurisdictions, (ii) repetitive documentation requests from the client(s) cause friction and may reduce clients desire to engage in certain payments systems.

b. access and transparency (e.g., through compliance costs or through measures enabling or reducing competition)

GLEIF suggests that existing local and regional data frameworks might harm financial inclusion and payment transparency objectives. Disparate data protection/ localization requirements in addition to the jurisdiction-specific KYC requirements increase compliance costs, particularly for respondent banks, smaller financial institutions, small and medium-sized enterprises (SMEs), and new clients. According to the MSME Finance Gap report by the IFC, African economies suffer from a severe trade finance gap estimated to be more than US\$81bn. The root of the problem lies in the need for greater transparency among SMEs. Too many do not possess the business credentials needed to support counterparty due diligence processes and their associated risk assessments. It is felt most acutely in developing economies where it prevents capital from flowing into SMEs. These firms are considered “expensive” due to the heavy documentation and requirements set by correspondent banks.

c. other aspects that affect the delivery of, or regulatory compliance with respect to, cross-border payments

At present, KYC requirements are fragmented globally. Different financial institutions may hold information on the same customer, which may overlap, but which may also be inconsistent and incomplete, a weakness that criminals can navigate and exploit. Non-harmonized KYC rules and client identification requirements across borders hinder automation. Manual intervention for data

reconciliation, interpretation and verification causes delays in the payments and increases costs for all market participants.

2. More specifically, what barriers to cross-border use of data do you see in existing data frameworks that will impede our ability to address the four challenges faced by cross-border payments?

GLEIF suggests consistent identification of payments participants and facilitators will address cost, speed, access and transparency challenges faced by cross border payments. GLEIF suggests that for participants who are legal entities, the Legal Entity Identifier – a unique global digital identifier as proposed in BB16 could be leveraged for data exchange purposes.

3. What areas of improvement could you suggest in data frameworks in order to overcome these barriers? Are there effective practices you would highlight to the FSB membership?

If the intelligence flow from a financial institution to supervisory authorities included the LEI as a global identifier for the legal entity, all parties would clearly understand the entity's identity in question. Today identity is largely based on name matching, which is highly imprecise and prone to false positives. Making the LEI part of cross-border intelligence sharing mechanisms would bring maximum transparency to the global community. The LEI would enhance law enforcement agencies' and supervisory authorities' ability to aggregate data across financial institutions, reinforce transparency and reduce costs.

4. Can approaches to data frameworks in one jurisdiction impact the provision or supervision of cross-border payments services in other jurisdictions? Are there particular issues that you would like to highlight?

There are approaches by data vendors who aim to overcome challenges in data protection and information sharing restrictions. For example, the [Danie Consortium](#) enables legal entity reference data sharing among participating financial institutions using the LEI as the linking identifier without revealing data sources and with encryption. The consortium was formed in late 2019 with the objective of enhancing data quality by using a distributed reconciliation engine and cryptographic transmission to securely and anonymously identify each member's data outliers by comparing their data to values submitted by other members. Such an approach could be considered to facilitate data exchange without compromising national data frameworks.

5. Are there particular payment corridors (especially related to emerging markets) that you wish to highlight to the FSB as facing specific challenges relating to data frameworks?

NA