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Joint Committee of the European Supervisory
Authorities - European Banking Authority,
European Insurance and Occupational Pension
Authority, European Securities and Markets
Authority

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GLEIF response to European Supervisory Authorities (ESAs) Joint Committee Discussion Paper on the Use of Big Data by Financial Institutions

Dear Joint Committee of the European Supervisory Authorities,

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide you with its comments on the discussion paper, entitled 'Joint Committee Discussion Paper on the Use of Big Data by Financial Institutions' published by the European Supervisory Authorities in December 2016.

Our letter will limit its comments specifically to GLEIF's views on the use of Legal Entity Identifier's (LEI)'s in regard to the topic of use of big data by financial institutions as the subject of the document. The GLEIF has been established to act in the public and private interest as the operational arm of the Global LEI System. Consequently, we appreciate the opportunity to provide comments on the possible use of LEIs in regard to the use of big data by financial institutions.

GLEIF has a very strong interest in ensuring there is a good understanding by rule makers of the significant benefits to the public and private sectors that derive from the widespread use of LEIs for entity identification in regulatory reporting and supervision. Following the 2008 financial crisis, the importance and benefit of a universal LEI became clear. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions. 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 that will, through the issuance of unique LEIs, unambiguously identify entities engaged in financial transactions.

Regulators globally, therefore, play a key role in facilitating the expansion of the LEI system and its related benefits by requiring LEIs to be used broadly in regulatory reporting and other supervisory practices.

Consequently, we welcome the consideration of the ESAs for the use of big data by financial institutions concerning the use of LEIs in its work.

Included here please find the comments provided on behalf of GLEIF with regard to a specific proposal relevant to the use of LEIs in regard to use of big data by financial institutions by providing responses to questions 18, 20 and 23.

Question 18 - How do you believe Big Data tools will impact know-your-customer processes? Please explain your response.

GLEIF regards the Legal Entity Identifier (LEI) as the identifier of legal entities to be used in KYC utilities and to share information cross-border. Use of the LEI as an authentication and verification means will result efficiencies in entity identification management and KYC to support correspondent banking and other financial transaction services. In addition to reducing redundancies in legal entity authentication and verification at the time of customer onboarding, the LEI can be used as an ongoing tool for data aggregation, given the LEI is used in various financial transaction reporting frameworks.

The Financial Stability Board (FSB) recognizes the benefits brought and the progress made in the use of common global identifiers to both the private sector and to policymakers such as the FSB itself and the authorities working under the FSB, most notably the Committee on Payments and Market Infrastructures (CPMI). The role of common identifiers has been specified by the FSB as key in the linking of different data sets to support aggregation and a global view. In addition to the LEI, use of other common global identifiers and open standards must be part of the solution for Big Data.

Closely linked to KYC are Anti-Money Laundering requirements. The LEI could support the necessary ongoing monitoring of the business relationship including “identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source”. The LEI can be used as a tool in ongoing monitoring of financial transactions which include the LEI in the details of the transactions.

It is a requirement of the Global LEI Systems (GLEIS) for renewal of LEIs which includes confirmation of the accuracy of the reference data record of the LEI on a at least yearly basis. GLEIF also provides publicly available reporting on the data quality and lapsed statuses of the LEI repository. This allows institutions to determine better and cheaper whom they are doing business with. The introduction of parent relationship data in the GLEIS in May of this year will provide additional transparency for the assessment and aggregation of risk of whom an entity is doing business with.

Question 20 - What are the greatest future challenges in the development and implementation of Big Data strategies?

GLEIF sees managing Big Data without duplication of effort as a key challenge. The Discussion Paper states that accuracy of data is among the key concerns in dealing with Big Data. The development of the LEI as well as the Global LEI System (GLEIS), as an open system for public access to LEIs and their related data records, eliminates the duplication of effort in the collection, validation and maintenance of data on legal entities, along the implications on accuracy of duplicative data sets.

Additionally, as the use of the LEI broadens, it will act as important tool for combining different data sets. This will allow data users to devote their time conducting substantive analysis rather than reconciling different primary key sets. This in combination with the expansion of the LEI reference data to include relationships between legal entities will greatly enhance data users analytical abilities.

GLEIF sees opportunity for the LEI in digital identity use within Big Data as well as FinTech developments. GLEIF already has cooperated with XBRL International, which maintains the XBRL international standard for digital reporting of mainly financial, performance, risk and compliance information on the best ways to create consistency in referencing legal identity within XBRL documents.

An additional suggestion is to embed or underly the LEI for any digital ID for eligible legal entities. For instance, the inclusion of the LEI in digital certificates, using the proven and regulator supported ways of validating and verifying legal entity data, could help tremendously to authenticate participants in any financial transaction. It could also provide means for digitally signing documents or data sets with the one true identity of the legal entity. This would foster transparency, increase speed of transactions among computers, and provide legal proof of the origin of any advice or product. This should be regarded in the light of consumer protection and providing audit trails.

Question 23 - Are there any other comments you would like to convey on the topic of use of Big Data by financial institutions? In particular, are there other relevant issues that are not covered by this Discussion Paper?

Although the Discussion Paper states that ‘. . . financial institutions’ collaboration with external tech companies, with different business models and regulatory cultures, could entail certain risks’ the issue of financial institutions and consumers needing information to verify the existence of or to authenticate third party payment providers, that may be non-financial technology companies, as is the case for PSD2, is not discussed in the paper.

GLEIF recommends the use of the LEI, as an identification management key, to be used throughout the EU for the purpose of verification and authorisation of goods and service providers. The current capabilities for LEI registration, search and look up as well as availability and download of the CDF are sufficient for supporting these authentication and verification needs.

The LEI provides the only global standard for unique legal entity identification. The EU would benefit, not only internally, but by using the same identity management system for any business relationship with cross-border outside the EU. In general, using the LEI could lower, or at least contain the costs for customer, partner or provider data management as well as produce a higher degree of quality in the underlying data sets both for industry and regulators.

In conclusion, we would like to reiterate that the Global LEI System in place today supports also the objectives of the ESAs in the area of use of big data by financial institutions . We therefore, encourage the ESAs to progress the considerations regarding the use of LEI in the context of this discussion paper.

Sincerely,

Stephan Wolf
CEO