

Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Financial Action Task Force (FATF) Revisions to Recommendation 24 and its Interpretive Note - Public Consultation

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Financial Action Task Force (FATF) Financial Action Task Force (FATF) Revisions to Recommendation 24 and its Interpretive Note - Public Consultation.

GLEIF has highlighted in [its response to the White Paper consultation](#) that countries face significant challenges when implementing measures to ensure the timely availability of accurate beneficial owner information. This is particularly challenging when it involves legal persons and legal arrangements spread across multiple jurisdictions. Criminals often create, administer, control, own, and financially operate corporate vehicles from different countries, thereby preventing competent authorities in any one jurisdiction from obtaining all relevant information about a corporate vehicle which is subject to an investigation.

GLEIF suggests that the LEI, a globally recognized open standard for legal entity identification, can establish the first foundational step for beneficial ownership data collection and facilitate an efficient data collection, aggregation, and exchange across countries and involved parties.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI uniquely identifies legal entities that engage in financial transactions, thereby helping to create greater transparency in the marketplace. The LEI fully satisfies the definition of "legal persons" under Recommendation 24. This definition states that any entity other than natural persons can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, corporate bodies, foundations, partnerships, non-for-profit organizations, associations, and other relevantly similar entities with legal personality. Each LEI contains information about an entity's ownership structure and thus answers the questions of 'who is who' (business card information) and 'who owns whom' (corporate structure showing subsidiaries with an LEI). Therefore, when each legal entity is identified with its LEI, the first necessary step for achieving organizational transparency at the global level can be achieved. Additionally, GLEIF is the Maintenance Agency for the ISO 20275 [Entity Legal Form \(ELF\) Code List](#). The ELF code is a data element in the LEI reference data. The ELF Code List contains legal forms/types in their native language, such as limited liability companies (Ltd), Gesellschaft mit beschränkter Haftung (GmbH) or Société Anonyme (SA). The ELF Code List assigns a unique code to each entity legal form. ISO points out that understanding the legal form of an entity *"is an important component of financial services transactions. Entering into a business relationship requires distinguishing the type of entity that is being transacted with. Parties (and their organizational structure) involved in financial transactions need to be identified within these transactions"*.

GLEIF suggests FATF lists the LEI clearly as an example of the unique identifier to be collected under A. Basic Information as a necessary prerequisite:

"4. All companies created in a country should be registered in a company registry. Whichever combination of mechanisms is used to obtain and record beneficial ownership information (see section B), there is a set of basic information on a company that needs to be obtained and recorded

by the company as a necessary prerequisite. The minimum basic information to be obtained and recorded by a company should be:

a) company name, proof of incorporation, legal form and status, the address of the registered office, basic regulating powers (e.g. memorandum & articles of association), a list of directors, **and unique identifier such as a tax identification number, the Legal Entity Identifier (ISO17442) or equivalent (where this exists); and...**"

Recently, the European Commission officially recognized the value of the LEI as a unique mechanism capable of supporting transparency within any ecosystem, by formalizing it as an important component of future AML/CFT efforts. Two of the four European Commission proposals call for the LEI to be used in certain customer identification and verification scenarios where it is available:

- **New Regulation on AML/CFT:** Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
- **Revision of the 2015 Regulation on Transfer of Funds:** Proposal for a Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets.

Beyond that, the new European Commission proposals are intended to create a much more consistent framework to ease compliance for operators subject to AML/CFT rules, especially for those active cross-border. The latest recommendation from the European Commission that the LEI is used, where available, for customer identification and verification in AML/CTF legislative reforms, has the potential to drastically increase the transparency of legal entities participating in financial transactions.

Lastly, GLEIF would like to provide comments on the "G. International Cooperation" section. It is stated in the consultation document:

*"19. Countries should rapidly, constructively and effectively provide **the widest possible range of international cooperation in relation to basic and beneficial ownership information held by public authority or body, on the basis set out in Recommendations 37 and 40. This should include (a) facilitating access by foreign competent authorities to basic information held by company registries; (b) exchanging information on shareholders; and (c) using their powers, in accordance with their domestic law, to obtain beneficial ownership information on behalf of foreign counterparts. Countries should monitor the quality of assistance they receive from other countries in response to requests for basic and beneficial ownership information or requests for assistance in locating beneficial owners residing abroad. Consistent with Recommendations 37 and 40, countries should not place unduly restrictive conditions on the exchange of information or assistance e.g., refuse a request on the grounds that it involves a fiscal, including tax, matters, bank secrecy, etc. Information held or obtained for the purpose of identifying beneficial ownership should be kept in a readily accessible manner in order to facilitate rapid, constructive and effective international cooperation. Countries should designate and make publicly known the agency(ies) responsible for responding to all international requests for BO information."***

As highlighted in the Recommendation 24, multi-jurisdictional structures can be particularly difficult to trace when transactions between related entities that appear legitimate are used to launder criminal proceeds. In such instances, delays in obtaining the international cooperation needed to follow the money trail ultimately frustrates and may undermine the investigation. By requiring the LEI as the foundational first step for beneficial ownership, users can quickly establish legal entity

networks including the beneficial owner via the reference data available in the Global LEI System. In total, this makes for a powerful tool for data analysis and monitoring.

Different financial institutions or supervisory bodies hold different pieces of information on the same customer. This information may overlap but may also be inconsistent and incomplete. Criminals can navigate and exploit these information asymmetries. The Panama papers demonstrated that criminals often use companies as vehicles to conceal themselves. If the LEI was used to tag all financial institutions' legal entity clients at the time of onboarding, then all financial institutions would speak the same language and data flow to competent authorities would be standardized, unambiguous and precise. Use of the LEI within beneficial ownership registers promotes the ecosystem needed to monitor and combat financial fraud. For example, the LEI can be used to tag entities within beneficial owners registers and also in data vendor products that are used by financial institutions to monitor for politically exposed persons. This would enable a seamless flow of information across the involved parties via the LEI.

The value of the LEI in strengthening uniformity and standardization of data flow has already been recognized in the recent [Cross-Border Payments Survey Results on Implementation of the FATF Standards](#). Under the Section 5. "Conclusions and suggestion from the industry to address key challenges" it is stated that many respondents asked for increasing uniformity in the list entries and greater use of structured identifiers such as Legal Entity Identifiers (LEIs), Business Identifier Codes (BICs) and digital identities and linkage of list entries between UN and country lists would simplify the screening process and improve detection performance. They also indicated that wider adoption of the LEI for entity client identification and identifying beneficiary and originator in payment messages would support widespread interoperability between systems, reduce costs and increase precision and transparency.

Therefore, GLEIF invites FATF to include the LEI as a recommended best practice, where applicable, for achieving an effective and accurate beneficial ownership information exchange across financial institutions and competent authorities across borders.