

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the UK Department Digital, Culture, Media and Support Consultation on the National Data Strategy

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the UK Department Digital, Culture, Media and Support Consultation on the National Data Strategy. Being a supranational non-for-profit organization, GLEIF is tasked with the implementation of the Legal Entity Identifier (LEI), a globally recognized data standard for the unique identification of legal entities. Bearing in mind the existing use (e.g., regulatory and supervisory reporting) and future use cases for the LEI in different areas (e.g., payments, land registry) in the UK, GLEIF will provide its comments with the objective of demonstrating that making the LEI is a key building block that can help to achieve the UK's National Data Strategy.

First, GLEIF would like to respond to *Question 2: We are interested in examples of how data was or should have been used to deliver public benefits during the coronavirus (COVID-19) crisis, beyond its use directly in health and social care. Please give any examples that you can, including what, if anything, central government could do to build or develop them further.*

GLEIF would like to highlight the importance of standardized and unique entity identification during the coronavirus (COVID-19) crisis by sharing two examples: (i) the difficulty of verification of merchants on online platforms and (ii) the drain on public sources due to fraudulent applications for public funds that are designed to support Small and Medium Enterprises (SMEs).

E-commerce transactions have increased in any given jurisdiction starting from March when the coronavirus (COVID-19) crisis became prevalent in Europe. This rising demand created a new opportunity for fraudsters to sell either non-existing products or fake products such as medicines, sanitizers, test kits or hygiene products. Authorities have opened investigations for understanding who these fraudsters are and which companies or supply chains they use for distributing these products. It was a challenge for many public authorities to verify data due to the lack of a central database operating globally. Therefore, many countries have tried to take unilateral measures, despite these online networks' global nature. For instance, in the EU, the European Anti-Fraud Office (OLAF) has opened an inquiry concerning the imports of fake COVID-19 related products. OLAF announced that approx. 20.000 businesses have been set up on e-commerce platforms that allow the selling of medical equipment without checking and verifying their identity. Similarly, the UK's National Cyber Security Centre (NCSC) announced that it took down more than 2,000 online coronavirus scams in March, including 471 fake online shops selling fraudulent virus-related items.

GLEIF believes that the simple act by e-commerce platforms of requiring an LEI code for merchants setting up an account, would have given customers and authorities the opportunity to verify the identity of a merchant via the publicly available [Global LEI Repository](#). The LEI and associated LEI reference data would provide consumers clear information on who they are buying products from and also supervisory authorities the ability to more easily track merchant in the case of fraud allegations.

Another area targeted by criminals is the government loan scheme for small businesses hit by the coronavirus pandemic. Like many other countries, with the bounce back loan scheme, the UK government offered 100% government-backed loans to small businesses. However, due to the large volume of applications and the Government's instruction to application reviewers to process the applications on time, there was little time and resources to verify if the legal entity applying for a loan was really eligible. Therefore, often, there were double payments or payments to non-existing companies.

Recently, the [UK National Audit Office has warned](#) that up to 60% of businesses may fail to pay back the loans because of minimal credit checks and fraudulent applications. This corresponds to the drain of public sources up to £26 billion.

In the UK, 1.3 million firms have applied for these loans. Considering that this high volume of applications must be processed in a fast and efficient manner to enable SMEs to access funding in case of an emergency, only a standardized and machine-readable data standard could have enabled this objective. That is why many reports highlight that if unique identifiers, such as the LEI, would be used in processing these applications, fraudsters' application would be easily rejected, as well as the Government would have avoided double payment.

GLEIF would like to comment on the *Question 7. To what extent do you agree with the following statement: The government has a role in supporting data foundations in the wider economy.* Please explain your answer here. If applicable, please indicate what you think this role should be.

First, GLEIF agrees with the definition of “Data foundations”. The true value of data can only be fully realized when it is fit for purpose, recorded in standardized formats on modern, future-proof systems and held in a condition that means it is findable, accessible, interoperable and reusable.

The Government has a substantial role in supporting data foundations on the broader economy. Here, GLEIF would like to emphasize the regulator role of the Government.

On the one hand, data should be useful, granular, and easy to consume for regulators. Simultaneously, it should allow reporting firms to either reuse data in other reporting requirements and/or enhance the firm's internal data management capabilities. GLEIF would like to highlight that the LEI, a globally recognized data standard, has the potential to fulfill these two needs.

GLEIF suggests that the Government consider mandatory data collection based on global data standards instead of the domestic or regional standards, which often compete against each other. Moreover, interoperability and reusability of data should be at the heart of the regulatory role of the Government.

For example, the LEI initiative has initially been driven by the Financial Stability Board (FSB) on behalf of 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 currently 71 global regulators and 18 observers, known as the LEI Regulatory Oversight Committee (LEI ROC), including the Bank of England and the Financial Conduct Authority from the UK.

However, today, the LEI's role and coverage has already gone beyond its original focus area. The LEI is relevant and should be adopted as a common standard in any area where there is a need for standardized, consistent and reliable identification for legal entities. This is demonstrated in the Bank of England's progressive approach towards ensuring interoperable entity identification management via the LEI as documented in its response to the van Steenis review on the Future of Finance and in its roadmap for the UK's modern payments architecture.

GLEIF also would like to provide its comments for *Question 8. What could central government do beyond existing schemes to tackle the particular barriers that small and medium sized enterprises (SMEs) face in using data effectively?*

Micro, small and medium enterprises (MSMEs) generate significant wealth for countries across the world and thanks to the digitalization of the global economy, they have more opportunity for growth than ever before. According to the World Bank, these entities represent about 90 per cent of business and more than 50 per cent of employment worldwide. Despite their contribution to the economy, MSMEs do not enjoy the same level of access when it comes to trade finance.

GLEIF's vision is that transactional trust is the key for any business relationship. For SME owners, the first step is being able to prove the legitimacy and credibility of their enterprise. While national business registries exist for this very purpose, there is a significant additional benefit in having a trusted identity which is recognized universally and provides transparency across the global marketplace. The LEI is an obvious solution for increasing the opportunities for SMEs access to finance and use their data effectively.

Encouragingly, in June 2019, the Bank of England's former Governor, Mark Carney announced that it would consult on developing an open platform for competitive financing to plug a £22 million funding gap for SMEs. He said: "*Part of the problem is that the assets that SMEs are seeking to borrow against are increasingly intangible – like a brand or user base – rather than physical machinery or buildings*", inferring that this makes a bank's lending decisions trickier. He continued: "*This should not be the case in a data-rich world. Lenders should be able to access a broader set of information on which to base credit decisions*". The Bank of England suggested that businesses could pull their data together under a single identity, the LEI, and create a portable credit file to shop around for their financing needs. And because of its global recognition, the LEI will help businesses access finance for cross-border trade. This is only one example how the SMEs can use data, their own data, effectively.

The LEI helps with digital identification and representation of legal entities as the LEI is already integrated into machine-readable financial statements, digital certificates and decentralized identity applications. For example, an LEI embedded in a digital certificate enables the recipient to conduct identity proofing for persons and entities, as well as the association between the two, in the digital sphere. By embedding the LEI in the digital certificate, the recipient has the benefit of holding cryptographically binding information about the legal entity and then performing the tasks of authentication and authorization independent of being online.

Through embedding LEIs in digital certificates, legal entities can perform various corporate digital transactions, such as submitting e-invoicing, ordering goods and services, contracting with suppliers, or

reporting tax statements to public authorities with an extra layer of trust. Checking the validity of the company's data can be automated, consistently regardless of the country where the company is allocated, in the same way, certificate validation is done. The result is reliable and robust validation of the company's data and people's identity acting on behalf of the company.

Therefore, based on these examples and use cases for SMEs, GLEIF suggests that the Government considers that the Companies House issues the LEI for each registered entity on a systematic basis as secondary identification number. The same view has already been echoed by the Bank of England in its [response](#) to the UK Department for Business, Energy & Industrial Strategy Corporate Transparency and Register Reform Consultation Paper.

*Lastly, GLEIF would like to submit its comments for the **Question 13. The Data Standards Authority is working with a range of public sector and external organizations to create a pipeline of data standards and standard practices that should be adopted. We welcome your views on standards that should be prioritized, building on the standards which have already been recommended.***

The LEI is a relevant standard in any area, where there is a need for harmonious and standardized unique entity identification. The European Systemic Risk Board (ESRB) in its recently published [Recommendation](#) highlighted that clear identification of the legal entities and the connections between them with the LEI is a key requirement for drawing a reliable map of the global economic and financial landscape and called to action all relevant parties to close the LEI gap in the EU. Specifically, it recommends the introduction of a Union framework on the use of the LEI by June 2023.

Adopting the LEI and other global data standards in the UK would help the financial sector extend its common language in a wide range of areas, such as payments, securities, lending, capital raising, investment management, trading and post-trade, and trade finance and reporting. The financial sector is engaging in many initiatives aiming to simplify these transactions such as adoption of distributed ledger technologies or removing regulatory fragmentation. Ensuring full interoperability across these initiatives will be crucial for these new applications' success.

GLEIF would like to comment specifically on how the LEI, as a mandatory data standard, can help automation in KYC, AML and payments areas in the UK.

### **Use of the LEI in AML screening**

The ability of the world's financial system to curb fraud, terrorist financing and other illicit financial activity, is **hindered by its reliance on outdated processes for identity verification.**

Financial institutions face the following fundamental challenge in identity management: low quality, non-uniform data sources that are not easy to implement, prevent interoperability and promote inefficiency, which limits the capacity to add value to the surveillance process. International banking group structures and cross border activities are difficult to monitor and pose an important money laundering and financing of terrorism risk factor.

GLEIF suggests that leveraging the LEI for legal entity AML screening would greatly enhance efficiency for authorities as well as private sector firms.

If entity sanctions list in the context of the anti-money laundering and combating the financing of terrorism to include the LEI, authorities could more easily communicate with each other, and private sector firms could put in place more efficient surveillance processes. This would substantially reduce cost, time and effort in cleaning up false positives. Another advantage of leveraging the Global LEI System is that each LEI record provides the name and addresses in their original character sets in addition to transliterations to the Latin alphabet. This avoids inaccuracies and can also be a value added for customers in countries using non-Latin alphabets.

### **Use of the LEI in Know Your Customer processes**

Mandating the use of the LEI as part of Customer Due Diligence (CDD) process for all financial institutions at the UK would greatly facilitate interoperability for digital onboarding across borders as legal entity identification needs a global standard.

GLEIF is aware through discussions with its [Globally Important Financial Institutions Stakeholder Group](#) members that remote onboarding of entities is becoming an established norm in financial services, not only due to the emergence of FinTech companies in recent years, but also due to restrictions resulting from the Covid-19 crisis and the preference of clients. Financial firms that remotely onboard client organizations stress that unique identifiers can greatly streamline remote onboarding of their clients. Through integration of the LEI in their onboarding processes, they could easily (1) validate the client record, (2) pre-populate the client record with information that must be stored within the financial institution and (3) verify the information that has been collected.

Financial Institutions can easily connect to the Global LEI Repository via the GLEIF Look-up application programming interface (API), which allows access to the complete LEI data pool in real-time directly and perform on-demand checks for changes to specific LEI records in a convenient and easy-to-read format. The application, developed by the GLEIF, responds to the market needs of multiple LEI stakeholders, including financial institutions, regulators, fintech companies, and analysts seeking to include LEI data in their machine-readable and automated processes. The GLEIF LEI Look-up API can easily be integrated into internal systems based on the widely supported JSON data format. The use of the API is free of charge and does not require registration.

### **Use of the LEI in Payment Messages**

Every payment system requires a payment standard. The only way to enable fully automated, straight-through processing in payments messages is to consistently use the LEI for uniquely and clearly identifying legal entities that are parties to payment transactions. In parallel to changes in international payments messaging for adopting a more common international payment messaging standard, ISO 2022 standard, the industry [supports](#) broader adoption of the LEI along with the ISO 2022 standard.

Broader adoption of the LEI in payments landscape can help to overcome cross-border challenges associated with names and addresses in non-Latin character sets often lacking a single and consistent form or convention; which causes confusion and inefficient processing.

Payment services providers can increase the efficiency of compliance checks processing through the LEI in an automated way:

- identity-based compliance made possible by LEI adoption increases the effectiveness of financial institutions screening thereby facilitating better, more robust compliance checks.
- inclusion of the LEI in payment messages of a payment scheme facilitates the automatic AML, CTF and sanction checking process that Payment Service Providers need to comply with (inclusive the reports of suspicious transactions to the Financial Intelligence Unit).
- facilitating information sharing in a standard format in correspondent banking; so as to reduce the risk and cost associated with due diligence process.

Payment service operators and the parties involved in payment messages can access to richer data through the adoption of the LEI in ISO 20022 payments messages.

Additionally, the LEI is a unique identifier linked to a legal identity and issued by an accredited organization. This means that when it is used in financial flows, compliance verification can be based on one global identifier. A legal entity may have several associated Business Identifier Codes (BICs); but only one LEI. The open source BIC-to-LEI relationship file published monthly by SWIFT and GLEIF demonstrates this.

From an end user perspective, having the LEI code in addition to the BIC in the payment information would enable assurance of the correct recipient of the payment as well as the legally responsible party and substantially reduce the potential for fraud and error. The addition of the LEI of payment sender's and recipient's LEI in a B2B payments can enable reconciliation of payments to individual invoices in an automated and efficient way.

Moreover, the FSB, for enhancing cross border payments, in its [recently published Stage 3 Report](#), stated that it will explore options to improve global adoption of the LEI with GLEIF, LEI Regulatory Oversight Committee, and national authorities. Beginning in October 2020, the FSB, in consultation with the Committee on Payments and Market Infrastructure, International Monetary Fund, World Bank, GLEIF, ISO and other stakeholders, will explore the scope for, and obstacles to develop, a global digital Unique Identifier for cross-border payments, and potentially other financial transactions, that takes into account existing identifiers, including the LEI for legal entities.