



Adoption of LEI in Payment Messages

2019

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PMPG LEI Paper #3

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1 Executive Summary

The Legal Entity Identifier (LEI) is a unique identifier that provides the mechanism for quickly and unambiguously identifying a legal entity.¹ It requires annual verification, carries useful information about company structure, and is the globally recognized ISO 17442 standard.

The LEI is now in widespread use within the derivatives and securities markets with nearly 1.5 million LEIs issued to entities across the globe. It is being implemented for identification of parties engaged in securities financing markets, securities issuance, and for the identification of fund entities. The use of the LEI as a key element in identity management within the payments lifecycle is an opportunity that is just starting to be realized and one that holds great potential.

The key aspect of the LEI that allows for significant benefits to be achieved in financial markets is the ability to use it to quickly and unambiguously identify a legal entity. This makes it a valuable tool for customer onboarding and credit approval processes; and for smoothing the way through the multiple checkpoints that occur during the typical lifecycle of most financial and real economy transactions. The LEI allows firms to link across internal and external systems, databases and service provider data feeds to gain richer data and information about entities quickly and accurately. All of this creates enormous efficiency for market participants.

Including LEI in the payments lifecycle would provide verified, authoritative information about the exact entity involved in payments transactions throughout the process to all parties involved.

Given the potentially significant benefits to be gained by use of the LEI in payments messaging, the PMPG considers the migration to the ISO 20022 payments messaging standard, and use of the LEI within that migration, a key opportunity to rethink how and what reference data is sourced and used for payments, and to make real enhancements to the messaging process for the payments community².

¹ The LEI is a 20-digit, alpha-numeric code based on the ISO 17442 standard. It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions

² For background, follow links to prior PMPG papers on the LEI in payments and the FSB Thematic Peer Review on the LEI: <https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre> (under PMPG Community Consultation) and <https://www.fsb.org/2019/05/fsb-publishes-peer-review-of-implementation-of-the-legal-entity-identifier/>

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2 Current State of LEI and Payments

The use of the LEI has clearly expanded beyond the OTC derivatives markets to other areas of financial services like securities issuance, securities financing, municipal and funds markets, and corporate banking. The regulatory community is now acknowledging the value of LEI in payments and taking steps to consider, and in some cases, require the use of the LEI in payments. Specifically:

The Bank of England (BoE) published in November 2018 its *ISO 20022 consultation response paper: a global standard to modernize UK payments*. As part of the adoption of ISO 20022, the BoE has concluded to mandate the use of the LEI for all payment transactions between financial institutions, and plans to work with key stakeholders, including HM Treasury and the Global LEI Foundation (GLEIF) to understand what actions would be necessary to support wider adoption of LEIs in the UK payments messages.

In October 2018, Bank Negara Malaysia and the Financial Market Committee, as part of their large value payment system, is requiring LEIs to open clients RENTAS segregated accounts, and the client legal name is required as registered in the LEI system.

On May 17, 2019, the Reserve Bank of India (RBI) published the “Payment and Settlement Systems in India: Vision – 2019-2021” stating that, ‘Given the nature of cross border transactions, there is a case for exploring the option of using LEI to identify the payment service providers, their agents and distributors, in respect of cross border services, particularly for large value payments, including expanding the implementation across all the identified segments.’ This action item will be undertaken by RBI and the LEI Operating Unit (LOU) ³ in India, Legal Entity Identifier India Limited.

China Customs Advanced Manifest (CCAM) enforcement applies to cargo loading on vessels sailing to/from China mainland ports. Announcement No. 56 of 2017 of the General Administration of Customs requires an Enterprise code of the shipper/consignee/notify party. The LEI is the *required* identifier for 29 countries.

In addition to these specific rulemakings, there are calls for LEI usage as an important tool in correspondent banking, payments and other areas by the Financial Stability Board (FSB), the Committee on Payments and Markets Infrastructures (CPMI), and The Wolfsberg Group as described later in this paper. In its May 2019 report, Thematic Peer Review on implementation of the LEI, the FSB specifically states that one of its roles in the expansion of the LEI is to “facilitate, by working with

³ LEI Operating Units (LOUs) are entities that supply registration, renewal and other services, and act as the primary interface for legal entities wishing to obtain an LEI. Only organizations duly accredited by the Global Legal Entity Identifier Foundation (GLEIF) are authorized to issue LEIs.

standard-setting and industry bodies, the effective implementation of the LEI option in payment messages to help address the decline in the number of correspondent banking relationships.”⁴

As other payment market infrastructures adopt the ISO 20022 standard that already contains the LEI as an identifier, its implementation in payment messages becomes an easier task. The PMPG introduced a change request in June 2018 ⁵ to include a dedicated element in the ISO 20022 payment messages. As a result, the payments industry will have a message format that fully supports the inclusion of the LEI as an identifier for beneficiaries and ordering parties. This will provide traction for the education/awareness and adoption initiatives payment service providers will promote in the market with their clients.

In addition, the GLEIF is working to be able to represent all reference data elements from the LEI Common Data File⁶ and the LEI reference data record in ISO 20022 should any user want to model the LEI in ISO 20022. GLEIF has done a gap analysis and has been consulting with SWIFT as the ISO 20022 ISO Registration Authority as part of this work.

Using the LEI code in payment messages could eliminate the need to reproduce all of the reference data of the entity in the message acknowledging that processes, regulations and other rulemakings might need to be adjusted to accommodate such an approach. The address(es), among other reference data, of the entity can be accessed by looking at the LEI reference data. The reference data can be downloaded into banking system by file or requested via an API. Both are free of charge. This option could create efficiency within the payments process flow.

3 Benefits of the LEI

Including LEI in the payments lifecycle would provide verified, authoritative information about the exact entity involved in payments transactions throughout the process to all parties involved. These benefits can begin to be achieved even without complete coverage of LEIs for all legal entities. As a result of widespread coverage in derivatives and securities markets⁷, it is likely that larger financial institutions already have LEIs for 25% or more of their payments investment bank customers as well as LEIs for

⁴ Thematic peer review report on implementation of the Legal Entity Identifier (LEI), Financial Stability Board, May 28, 2019. <https://www.fsb.org/2019/05/fsb-publishes-peer-review-of-implementation-of-the-legal-entity-identifier/>

⁵ https://www.iso20022.org/sites/default/files/documents/CRs/CR07/CR0731_PMPG_LEI_v1.doc

⁶ <https://www.gleif.org/en/about-lei/common-data-file-format>

⁷ Per the FSB Thematic peer review report on implementation of the Legal Entity Identifier (LEI), “Widespread coverage has been achieved in some financial market segments, with LEIs identifying reporting entities for close to 100% of the gross notional outstanding for over-the-counter (OTC) derivative trades in most FSB jurisdictions, and securities issuers for around 78% on average of the outstanding amounts of debt and equity securities in FSB jurisdictions.”

payments customers in other lines of business. The value of such benefits would continue to increase as the LEI coverage increases.

Specifically, use of the LEI in payments would:

- Smooth data validation efforts throughout the payments lifecycle at payments capture and during processing for both the sending and receiving banks and help ensure that a payment is sent to the correct legal entity within a large corporate group.
- Create efficiency in transaction chains by increasing straight-through processing, thus reducing costs through interoperability of the LEI.
- Improve operational processes by simplifying invoice reconciliation and risk management processes.
- Streamline on-boarding and KYC processes through rapid entity identification using the LEI rather than the entity name or other means creating a better customer experience. For instance by asking for the LEI, the bank could populate automatically the name, address, information on parent entities, business registry numbers.
- Remove duplication of processes – avoiding to perform the full Customer Due Diligence (CDD) twice on the same entity in different business lines -- and improving the reliability in customer on-boarding and associated ‘know your customer’ and anti-money laundering processes.⁸
- Reduce barriers to entry for verified legal entities.
- Provide insight to who owns whom within a customer’s corporate structure.
- Help firms identify fraud and economic crime, and enable enhanced due diligence by gaining a complete view of a customer’s footprint.
- Facilitate correspondent banking services by providing information sharing in a standardized format, reducing the risk and cost associated with due diligence processes.

For smaller entities that may not have the same data management complexities as larger firms, the LEI can ease entry in the financial markets as the LEI has allowed them to be verified as a true legal entity. This can shorten the on-boarding and may even be the trigger that allows an entity to be considered by a bank for doing business.

⁸ It is important to note that improving efficiency doesn’t change the responsibility for due diligence. The Basel Committee wrote on this point: “In any case, the ultimate responsibility for CDD remains with the bank establishing the customer relationship. The level of risk associated with the customer and the KYC utility features will determine whether the bank needs to verify or corroborate the information provided by the utility and collect additional information, or take other measures. <https://www.bis.org/bcbs/publ/d405.pdf> (p. 38, para 6ter)

4 Innovation

Going forward, as LEI and its reference data is more integrated into payments systems and processes, there is a potential to create further efficiencies from its use.

The LEI can support innovation in payments in at least three areas:

1. **Achieving greater speed:** For example, higher straight through processing rates could be achieved by simply including the 20-character LEI in the record rather than repeating data elements like name and address over and over again that are already part of the high-quality LEI reference data. This would also mitigate data truncation in name and address data when it exceeds the field size of message party fields.
2. **Better data analysis to support compliance and business intelligence:** Widespread use of the LEI as a unique identifier for all organizations would allow for effective cross-linking and consolidation of a diverse range of datasets – a key enabler for an increasingly data-driven economy. And this also has potential to enable further data driven innovation and competition. As described in the previous section, LEI will facilitate the use of artificial intelligence (AI) for financial crime compliance by both the public and private sectors. Indeed, technologies, such as machine learning, have the best outcomes when they can rely on high quality standardized data in their processes. The ability to use machine learning and AI for the analysis of entity activity within payments data presents significant opportunities to mine the data for all types of analysis like profitability and fighting financial crime.
3. **Supporting the digital economy:** The LEI is already being embedded into digital certificates, allowing it to be used in digitized financial transactions. The LEI can thereby support authentication by unambiguously linking a digital certificate with a given legal entity.

5 Challenges to adoption

5.1 Background

LEIs have huge potential to improve the identification of parties within payment processes, increase efficiency across the system, and automate and improve sanctions and other similar checks. Despite the value of these capabilities, the LEI is not yet widely used in payments. There are still real and perceived challenges that need to be addressed, both at an industry level and within individual institutions: the need to make systems changes to adopt the LEI and the cost and effort to obtain an LEI.

5.2 Systems changes

Experience tells us that changing payment formats to accommodate new fields is costly and difficult. As outlined in previous PMPG papers, the industry was not inclined to make costly changes to legacy payment messages to include an additional field for the LEI. This was especially true since BICs already

provided a very good way of routing payments and did allow for reasonable identification of the parties in a transaction.

However, while the BIC is also an identification code, it does not uniquely identify legal entities like the LEI. The registration rules of BIC differ from the rules defined for LEI and the life-cycle of BIC is not tightly coupled to the legal status of the organization it represents, e.g., if an organization is acquired, the new owner may keep the BIC of the former. Moreover, a single legal entity may have multiple BICs for operational reasons and optional branch identifiers can be used to distinguish different operational services or sub-entities of an organization. These features that facilitate the addressing of messages are not available with the LEI, which uniquely and persistently identifies a single legal entity. Thus, the BIC supports the addressing of messages as well as the identification of the operating parties to payments transactions, serving important purposes. The LEI is the global identifier that uniquely identifies a legal entity, and the BIC cannot provide this service. As a result, payments processing has a need for both identifiers. SWIFT and GLEIF already support this requirement via a certified BIC-to-LEI mapping service. The matching pairs can be freely downloaded from the SWIFT and the GLEIF website.⁹ See Appendix 2 for more information on the BIC.

More broadly, because organizations often store data related to counterparties in multiple unrelated databases, for example, the LEI may be captured in a securities platform, but the same party could be stored in a payments processing system with different data, the prospect of rationalizing the data to a common identifier and reference data like the LEI needs to be considered as part of systems changes.

5.3 Cost/effort to obtain an LEI

With respect to end-users of the payments systems – customers – the key issues cited with respect to LEI adoption are the cost and effort to obtain an LEI. Today, the cost of obtaining an LEI is borne by the legal entity itself; and it is that same entity that must apply to obtain its LEI through one of the 33 LOUs. While costs were historically higher – around 220 USD, today, on average, it costs 68 USD to register for an LEI and about 48 USD to maintain that LEI on an annual basis. To obtain an LEI, the legal entity chooses one of the LOUs, provides a few points of data about itself (company name, address, parent entity information, etc.) and the LEI is issued. This can happen as quickly as intra-day if an entity is registered in certain business registries and the entity uses one of the LOUs offering intraday issuance. It could also take a few days if the process for validation of the entity credentials takes longer due to its specific situation (e.g., not registered in a business or tax registry). So the cost and burden to the entity are actually relatively small. Notwithstanding, customers generally dislike having to manage a second process when onboarding with their financial institution to obtain an LEI.

Going forward, as the LEI population grows; the cost of getting an LEI will continue to come down. Since 2014, the costs have already reduced by more than half given the growth in the population and

⁹ <https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files>
<https://www.swift.com/our-solutions/compliance-and-shared-services/swiftref/swiftref-bic-lei-relationship-file>

competition among the LEI issuing organizations. Further, GLEIF is actively exploring strategies that will further reduce the cost and burden of getting an LEI to break down this barrier to greater adoption of the LEI.

As discussed in the FSB Thematic Peer Review on the LEI¹⁰, Recommendation 4a, the FSB recommends that the GLEIF and ROC *“consider enhancements to the LEI business model to lower the cost and administrative burden for entities acquiring and maintaining an LEI. These could involve, for instance, adjusting funding approaches to align the benefits and costs for users more closely, and exploring ways to foster complementarity between the issuance and maintenance of the LEI and other processes involving similar tasks.”* More specifically, later in the report, the FSB states that, *“there would be scope to minimise potential duplication between activities...by allowing banks to perform verification of customer information on LEI records (something they already do to comply with regulatory requirements), or through greater integration with business registries (who already require notification of name and address changes, for example).”* Such innovations have the potential to completely eliminate the process burden for the customer that has to provide data about itself in a separate process to obtain an LEI while lowering costs to single digits.

6 Road to Adoption

The payments industry is currently going through an unprecedented amount of change as many domestic market infrastructures are updating their systems and moving towards the use of ISO 20022 based messaging. Many countries around the world are introducing real time payments schemes in response to the demand from customers and competition from non-financial institutions. At the same time, regulatory bodies are updating their rules to require new data and formats as well. The scope and depth of these changes are forcing organizations to recognize the impact of poor reference data. Such changes require the use of structured data and will result in both banks and their customers making changes to the way in which they capture and store information. Migration costs to global standards are an unavoidable part of this change. Done right, with an effective migration plan, and consistent adoption of the standards by all parties engaged in the payments process can help to keep costs down and speed the migration.

The PMPG considers the migration to ISO 20022, and use of the LEI within that migration, a key opportunity to rethink how reference data is sourced and used for payments. **As a result, the PMPG is recommending that the migration to ISO 20022 is a catalyst to facilitate the adoption of LEI.** The incremental cost of adopting the LEI as part of the ISO 20022 migration will be minimal as firms will be

¹⁰ Thematic peer review report on implementation of the Legal Entity Identifier (LEI), Financial Stability Board, May 28, 2019. <https://www.fsb.org/2019/05/fsb-publishes-peer-review-of-implementation-of-the-legal-entity-identifier/>

making technology and process changes to adopt ISO 20022 more broadly, and the LEI is just one data element in the change process.

Following are specific actions that firms can take to implement this recommendation and facilitate the adoption of LEI in the payments processes.

6.1 LEI in the payments infrastructure

In the past, organizations have failed to fully capitalize on the opportunity presented by reference data. However, in this environment of greater and more in-depth regulation and payment system changes, a strategic approach to reference data management will reduce operating cost and improve risk management and compliance.

This means addressing reference data challenges at an enterprise level, not just a functional level; managing aspects of reference data acquisition, data management, data quality, data distribution and data governance centrally. This is not a one-time exercise or project, delivering consistent enterprise-wide reference data is an ongoing process. Data needs to be appropriately governed as would be done with any significant asset with such wide ranging impact.

While banking and payments operations have generally been built in product or divisional silos, the customer centric model is driving the requirements for a holistic view. An enterprise-wide customer view will require consolidated, consistent and accurate data related to all aspects of the relationship with the customer, and this includes payments operations.

For example, SEPA, FATCA, AML and sanctions regulations all require extensive data cleansing, data validation, conversion exercises and customer screening. Larger financial institutions operating in multiple jurisdictions need to satisfy local and international regulators simultaneously as a function of their business model.

Similarly, in trade finance operations, unambiguous identification of the parties in a transaction that ultimately results in a payment is essential. Using the LEI for such identification will bring significant benefits, for example, by reducing fraud at the transactional level by leveraging the LEI to better detect attempts at duplicate invoice financing, or by better associating traditional trade finance mechanisms like Documentary Letters of Credit to specific parties in messages used to transmit these instruments around the globe. In this context, collaboration and coordination between the payments and trade finance experts through the formal maintenance process could lead to adapting the trade finance messages (Cat 4 and Cat 7) to cater for dedicated fields to reference LEI.

While LEI has not yet been mandated for identifying parties in payments, it is recommended that firms consider a more strategic adoption of the LEI as part of the ISO 20022 migration because it has the potential to deliver fundamental changes in financial market operations. As it becomes the

accepted universal standard for counterparty identification in all business processes, substantial efficiency gains will be obtained from using such an industry-wide standard.

6.2 Storing and capturing counterparty LEIs

ISO 20022 migration means that financial institutions will be adapting the records they keep relating to all counterparties, especially customers. As part of that migration, data related to counterparties will need to be reviewed before 2021 and where necessary updated to ensure that data is held in a structured format. **While carrying out this data review it is recommended that organizations take the opportunity to review and add, wherever possible, LEI to this data.** Ideally, the LEI should be stored in the organizations database as a dedicated field, as the expansion of LEIs will continue in the coming months and years and will be needed (and useful) in other capacities.

6.3 Business Processes

As part of the adoption of ISO 20022, and with it the LEI, organizations are recommended to adapt their business processes to ensure that LEIs are captured whenever a new counterparty or customer record is set up. While not all counterparties will have an LEI, a process to ask the customer if they have an LEI, or to check the GLEIF global LEI index, should be implemented.

In some jurisdictions, it will become mandatory for the customer to have any LEI and for it to be included in the payments message. Firms will need to establish processes within their organizations for communicating with the customer about obtaining an LEI. While this is one of the challenges identified earlier in this report, there are new strategies currently under development to ease the burden for customers to obtain an LEI.

For existing customers, as part of the migration process, it is recommended that firms determine if the customer already has an LEI, and if so, add it to the customer record. In addition, the customer reference data should be checked against the LEI reference data using the GLEIF global LEI index to ensure it matches the supplied customer details.¹¹ This is also an opportunity to check the quality of the data maintained for a customer. On an ongoing basis, the LEIs and related reference should be checked whenever records are reviewed as the LEI system provides for ongoing updates to the entity records. Consideration should be given to rejecting payments where there is a mismatch on party data against the LEI until the dispute can be resolved.

¹¹ <https://www.gleif.org/en/lei-data/global-lei-index>

Another tool to support these processes, especially for payments, is the BIC to LEI mapping table¹². This file provides the BIC and LEI codes of entities that have both identifiers. This resource can ease the data reconciliation process for these two widely used and recognized identifiers.

It will be critical to maintaining good data quality for firms to ensure they capture the true relationship between BICs and LEIs, in particular for identifying the financial institutions that are sending and receiving the messages. BICs play a key role in addressing messages and routing financial transactions on the SWIFT network. Domestic and international payment systems within financial and non-financial institutions or regional and global payments market infrastructures such as Automated Clearing House, Real-Time Gross Settlement Systems and Payment Clearing Systems are based on legacy identifiers or the BIC. However, since BIC does not provide the authoritative source of entity identification like the LEI, **it is critical to have both identifiers in the payment message**. Further, using the LEI and its reference data in this fashion can greatly help keep an organization reference data up to date. Using the LEI alongside the BIC will help market participants build complete entity relationship tables and gain predictive insight into a customer or counterparty exposure and related risk.

Once captured as part of a firm's client's reference data, the PMPG recommends that where an LEI exists, it should be included in the payment message, with particular emphasis given to ensuring that the LEIs of the financial institutions involved in a payment are included in the message.

6.4 Regulator Role

The PMPG recognizes the important role the public sector has in the adoption and implementation for payments of the important ISO standards discussed in this paper – ISO 20022 and ISO 17442 LEI. The public and private sectors should work together to promote, educate and create awareness of the LEI in payments and ultimately partner to drive implementation. As seen in Section 2 of this paper, several actions have been taken already by central banks and others to adopt these global standards, the PMPG is hopeful for continued progress by both sectors.

7 In summary

The PMPG believes now is the appropriate time for the payment industry to begin its adoption of the LEI. Coupled with the other changes happening around the LEI to make it cheaper and easier to obtain, the migration to ISO 20022 provides the right opportunity for the industry to move to adding the LEI into payments messages, infrastructures and processes in a low cost, efficient manner

¹² The file is regularly published by SWIFT at <https://www.swift.com/our-solutions/compliance-and-shared-services/swiftref/swiftref-bic-lei-relationship-file> and by GLEIF at <https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files>.

8 Appendix 1 - Benefits of LEI for payments

8.1 Improving data quality and efficiency in key data fields

Under FATF standards, it is compulsory that payment messages identify the originator and beneficiary of cross border wire transfers. The LEI is a particularly adequate tool to exchange such information between banks, as it provides in 20 characters all the necessary information (in particular the name and address of the entity), with the following benefits over the provision of a mere name and address:

- The name and address have been subject to verification and quality monitoring processes within the Global LEI System, reducing the risks of incomplete, inaccurate or misspelled names. This is particularly relevant in cases where the name of the beneficiary is desired to be collected. Because LEI could facilitate the collection of beneficial owner information, it could smooth the way to make such collections for reasons described later in this document, such as fraud prevention.
- In the LEI system, the name and address are available in their original character sets in addition to transliterations in Latin alphabet. This avoids inaccuracies and can also be a value added for customers in countries using non-Latin alphabets.
- The LEI removes the ambiguity associated with names and avoids false positives in sanctions screening. With nearly 1.5 Million LEI issued, it is possible to create/improve “white lists” with the names and LEIs (where available) of entities that are not sanctioned; whereby the use of the LEI eliminates the generation of false positives that can occur by matching on name only. This supports straight-through-processing.

8.2 Improving information access to financial crime compliance

- The LEI can provide the information that the originator is a branch, the address of the branch, and the address of the headquarters. As noted by the Wolfsberg Group, it is indeed relevant to know that a transfer was originated by, for example, the Angolan branch of a UK Company, or the UK Branch of an Angolan company. The LEI also provides information on immediate and ultimate parent entities.
- The LEI is also increasingly a way to access automatically information on entities outside the LEI system, as KYC utilities, data vendors and some data bases on beneficial owners include the LEI¹³ in their data feeds.
- The LEI system includes the business registry number, allowing rapid linkage to additional information such as financial accounts or industry sector as these are provided in a number of countries. This is particularly relevant in correspondent banking. While the FATF has clarified that a correspondent does not have to conduct due diligence on the customer of its respondent,

¹³ E.g. in Portugal, <https://www.lexology.com/library/detail.aspx?g=ea44f241-653d-4730-9a23-33d9b986e6f9>

it also made clear that in case of alerts, the correspondent may need to access additional information on the customer's customer¹⁴, such as "possible affiliation of customer "X" with a third party", "location of customer of third party as originator /beneficiary", "details of customer "X" parent company and the name(s) of the beneficial owner(s)". The Wolfsberg Group has added LEI as a data element in its correspondent banking questionnaire to be provided by the respondent bank.

- A generalized use of the LEI for the beneficiary of payments, for instance above a certain amount, could reduce the risks and severity of fraud, by enabling systematic and automated checks that the intended beneficiary of the payment is actually the account holder of the account receiving the payment.
- LEI will enable a more effective use of artificial intelligence for financial crime compliance, by facilitating a richer analysis of payments flows, and a better understanding of the source and destination of funds. This is true for the monitoring by banks of their corporate customers, and also for the monitoring by correspondent banks of their respondents. Combined with the SWIFT GPI, this could provide analytical capabilities similar or superior to those deployed by fintech players, like for instance network analysis detecting that the same entities are using multiple accounts, or that entities are connected because sending funds to each other.¹⁵
- Large number of suspicious activity reports/suspicious transactions reports (SAR/STR) are made to Financial Intelligence Units (FIUs), but the number of actual prosecutions is low, in part because it is difficult to connect the dots when activities takes place across borders. The use of a global identifier like the LEI in payments would support the use of that identifier in SAR/STRs, which in turn would facilitate the identification, both within an FIU and across FIUs, that several SAR/STR are connected. This would support data mining, which is ineffective when relying on names or national identifiers provided in an unstructured manner. This would also make it easier for FIUs and law enforcement units that have authority to efficiently query banks as to whether their customers have received or sent money from/to given legal entities.
- Having an LEI included in sanctions lists and negative media information could greatly streamline certain aspects of AML processes resulting in reduced lead time for compliance related investigations and eliminating potential delays during payment processing from false hits in compliance and sanctions screening. Rather than searching by name, institutions could simply search the relevant databases using each entity's unique LEI.

¹⁴ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html>.

See in particular paragraph 32 concerning the examples of requests for information that could be addressed by the LEI.

¹⁵ This could expand the capabilities of industry level tools such as those provided by SWIFT (<https://www.swift.com/our-solutions/compliance-and-shared-services/financial-crime-compliance/compliance-analytics-solutions/correspondent-monitoring>).

8.3 Payments, Correspondent Banking and the LEI

The FSB launched in November 2015 a four-point action plan to assess and address the decline in correspondent banking¹⁶. A decline in the number of correspondent banking relationships remains a source of concern for the international community because, in affected jurisdictions, it may affect the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on international trade, growth, financial inclusion, as well as the stability and integrity of the financial system.

This action plan, which was encouraged by the G20 on several occasions¹⁷, includes two recommendations concerning the use of the LEI in correspondent banking, as part of a package of measures recommended by CPMI that could help improve the efficiency of due diligence procedures and reduce compliance costs.

One of the recommendations invites relevant stakeholders to define a common market practice for how to include on an optional basis the LEI in the current relevant payment messages without changing the message structure. The Payment Markets Practice Group (PMPG) published in November 2017 an option for including the LEI in payment messages.¹⁸ The PMPG noted that *“the ability to clearly identify the originating and beneficiary parties with LEI (and therefore having additional transparency on these parties) could bring significant quantitative and qualitative benefits on a strategic basis, mainly for compliance and risk management functions”*, for instance, *“eliminating potential delays during payment processing from false hits in compliance and sanctions screening; optimized and more accurate AML controls and detection of suspicious activities and ability to identify ordering and beneficiary customer as meaningful information for correspondent banks acting as intermediary in the payments chain”*. At the time, the PMPG noted that implementing this LEI option would require material changes by banks, and that further dialogue with the regulatory community would be needed to maximize the benefits of the option.

Separately, and as part of a potential future migration to message formats based on the ISO 20022 standard, relevant stakeholders (i.e., ISO and SWIFT) were encouraged by CPMI and FSB to consider developing dedicated codes or data items for the inclusion of the LEI in payment messages.

In the area of securities messages, the LEI is already used as a party identifier across ISO 15022 category 5 messages, given the wider LEI coverage already existing for securities players.

¹⁶ <http://www.fsb.org/2015/11/report-to-the-g20-on-actions-taken-to-assess-and-address-the-decline-in-correspondent-banking/> of 6 November 2015.

¹⁷ G20 Leaders stated at their Summit in Hangzhou on 5 September 2016 “We will continue to address, through the FSB-coordinated action plan, the decline in correspondent banking services so as to support remittances, financial inclusion, trade and openness” and they welcomed the progress report and action plan at their Summit in Hamburg on 8 July 2017.

¹⁸ Discussion paper “LEI in the Payments Market”: <https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre>

Concerning payment messages, the BCBS, CPMI and FSB organized a workshop in March 2017, which discussed the benefits of the LEI as an additional information in payment messages. The conclusions of this workshop are described in the FSB progress report on correspondent banking of July 2017¹⁹:

- The LEI unambiguously identifies legal entities and reduces the costs of handling false positive results when screening names against sanctions lists.²⁰
- The LEI can provide information on entities²¹. The LEI can also serve as a bridge between information in payment messages and information in KYC utilities and other databases on legal entities. The FSB Correspondent Banking Coordination Group had therefore noted the possibility that adding the LEI into payment messages may reduce the number of requests for additional information by correspondent to their respondents.
- The LEI, because it is machine readable, can facilitate automated analysis at a lower cost, especially in situations that require enhanced due diligence and tend to be the ones more affected by the decline in correspondent banking.

8.4 Wolfsberg Payments Transparency Standards

The Wolfsberg Group published on October 15, 2017 the Wolfsberg Payment Transparency Standards²² which recognizes several of the benefits described above but noted that the industry needs sufficient assurance that the LEI will effectively be used for a significant proportion of transactions.

The rapid expansion of LEI numbers in late 2017 may be a response to these concerns. The LEI ROC also highlights several practical benefits of using the LEI to address the issues described by the Wolfsberg Group in their Transparency standards.

The Wolfsberg Group observes for instance that multiple addresses may exist for legal entities, e.g., registered address, place of business address, mailing address, and gives the example of a branch in Angola of a UK company: should the bank mention the address of the branch or the head office? The Wolfsberg Group provides broad principles on how to handle such situations. Using the LEI would provide both the legal address and headquarters address. The introduction of the branch LEI will give information on both the branch and its head office in 20 characters, which would help overcome space constraints in current message formats. One of the requirements set by the LEI ROC is that “The head

¹⁹ FSB action plan to assess and address the decline in correspondent banking: Progress report to G20 Summit of July 2017 (<http://www.fsb.org/wp-content/uploads/P040717-3.pdf>)

²⁰ Even if sanctioned entities do not have an LEI, the LEI can be used in “white lists” of entities that have names similar to a name on a sanction list but are not targeted by those lists. This is particularly helpful when the original language of a name on the sanction list is not in Latin characters, which are the only ones supported by SWIFT, and multiple transliterations or translations are possible, or for entities with long names that exceed the capacity of the SWIFT message fields and get truncated or abbreviated.

²¹ E.g., legal and headquarter address, and from May 2017 also certain parent entities, but not beneficial owner, information.

²² <http://www.wolfsberg-principles.com/pdf/home/Wolfsberg-Payment-Transparency-Standards-October-2017.pdf>.

office (or headquarters) of the branch already has an LEI so that the LEI of the head office entity can always be associated with the LEI of the international branch in the GLEIS". The GLEIF technical documentation specifies that the reference data of the branch should include the address of the entity (branch) as well as the address of the head office.²³

The Wolfsberg Group also observes that "For legal entity customers (e.g., companies, partnerships) multiple names may exist such as registered legal name, trading name, 'doing business as' name or commonly abbreviated name" and recommends a "preference on the registered legal entity name verified as part of Customer Due Diligence (CDD)". Here as well the LEI could help, as the LEI Common Data File Format v. 2.1 includes the possibility to record previous legal names, as well as "trading as", "brand name" or "operating under" names currently used by the entity²⁴.

²³ The data element « Headquarters Address » of the branch shall be "the address of the head office and shall match the head office LEI Legal Address". See section 3.2 "Issue New LEI – Branch" of the document "State transition rules for LEI CDF, available at <https://www.gleif.org/en/about-lei/common-data-file-format/lei-cdf-format/lei-cdf-format-version-2-1>.

²⁴ LEI Common Data File format V 2.1, Section 2.3.85.

9 Appendix 2 – LEI and BIC

ISO 9362 Business Identifier Code (BIC) and ISO 17442 Legal Entity Identifier (LEI) are two reference data standards used in the financial industry to identify parties to financial transactions.

From a scope perspective, there is indeed some overlap between the two standards, but there are also important differences between them that make it unlikely that LEI will ever replace BIC completely.

In addition to being an identification code for operating parties in payments transactions, BIC is also used for addressing messages and routing financial transactions on the SWIFT network. Domestic and international payment systems within financial and non-financial institutions or regional and global payments market infrastructures such as Automated Clearing House, Real-Time Gross Settlement Systems and Payment Clearing Systems are strongly based on legacy identifiers or a standard like the BIC.

Adoption of LEI is supported by the G-20 and the Financial Stability Board recommendations aimed at ensuring greater financial market transparency and reducing systemic risk. The major driver of growth of LEI so far, has been regulatory reporting in various jurisdictions focused on different asset classes of securities related transactions. The different regulations significantly impact adoption of LEI: at the time of writing nearly 1.5 million LEIs have been issued to legal entities in 220+ countries.

Currently, the ISO directory of BICs contains 132,051 records of which 74,020 are 11-char BICs (optional branch identifiers)

- of which 19,097 are expired 8-char BICs
- of which 27,065 are 8-char BICs not connected to the SWIFT network
- of which 11,869 are 8-char BICs connected to the SWIFT network

While the BIC is an identification code, it does not uniquely identify legal entities like the LEI. The registration rules of BIC differ from the rules defined for LEI; the life-cycle of BIC is not tightly coupled to the legal entity status of the organization it represents: if an organization is acquired, the new owner may keep the BIC of the former. Moreover, a single legal entity may have multiple BICs for operational reasons and optional branch identifiers can be used to distinguish different operational services or sub-entities of an organization. These features that facilitate the addressing of messages are not available with the LEI, which uniquely and persistently identifies a single legal entity. Thus, the BIC supports the addressing of messages, serving an important purpose. The LEI is the global identifier that uniquely identifies a legal entity, and the BIC cannot provide this service. As a result, payments processing really has a need for both identifiers.

LEI will continue to grow in importance and can be used side by side with the BIC to facilitate the current operational practices of financial institutions where the BIC is deeply embedded in the fabric of

transactional banking: in standards, market practice, customer behavior and legacy systems but also in legislation, such as the rules governing SEPA which imposes use of BIC in the interbank space along the IBAN. Replacing BIC in the routing of financial transactions all at once would be a costly exercise for which there is no immediate need. A better approach is to adapt payment systems and operations to use the LEI with the BIC (where a BIC currently exists) to incorporate the significant identification benefits of the LEI into the processes that currently have such a heavy reliance on the BIC. Using the LEI alongside the BIC will help market participants build complete entity relationship tables and gain predictive insight into a customer or counterparty exposure and related risk.

This was also confirmed in the CPMI / BIS report on Correspondent Banking (2016) with the recommendation on the use of LEI in correspondent banking: *All authorities and relevant stakeholders are invited to consider promoting BIC-to-LEI mapping facilities, which allow for an easy mapping of routing information available in the payment message to the relevant LEI. In addition, relevant authorities (e.g. the LEI Regulatory Oversight Committee (LEI ROC) and AMLEG) are encouraged to elaborate further as to what extent banks can rely on the LEI as a means of accessing reliable information to support customer due diligence in correspondent banking.*

In addition the FSB action plan to address the decline in correspondent banking (2018) also confirms the general promotion of LEI; the importance of mapping BIC to LEI and assessing potential uses of LEI as a means of accessing reliable information to support customer due diligence in correspondent banking.

SWIFT and GLEIF have collaborated to provide the Open Source BIC to LEI relationship file. This file provides the BIC and LEI codes of entities that have both identifiers, easing the data reconciliation for these two widely used and recognized legal entity identifiers. The file is regularly published by SWIFT at <https://www.swift.com/our-solutions/compliance-and-shared-services/swiftref/swiftref-bic-lei-relationship-file> and by GLEIF at <https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files>.