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Global Adoption of the Legal Entity Identifier (LEI) in ISO 20022 Payment Messages

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Payments Market Practice Group

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, EMEA and North America.

The mission of the PMPG is to:

- Take stock of payments market practices across regions.
- Discuss, explain, and document market practice issues, including possible commercial impact.
- Recommend market practices, covering end-to-end transactions.
- Propose best practice, business responsibilities and rules, message flows, consistent implementation of ISO messaging standards and exception definitions.
- Ensure publication of recommended best practices.
- Recommend payments market practices in response to changing compliance requirements.

The PMPG provides a truly global forum to drive better market practices, which, together with correct use of standards, will help in achieving full straight-through-processing and improved customer service.



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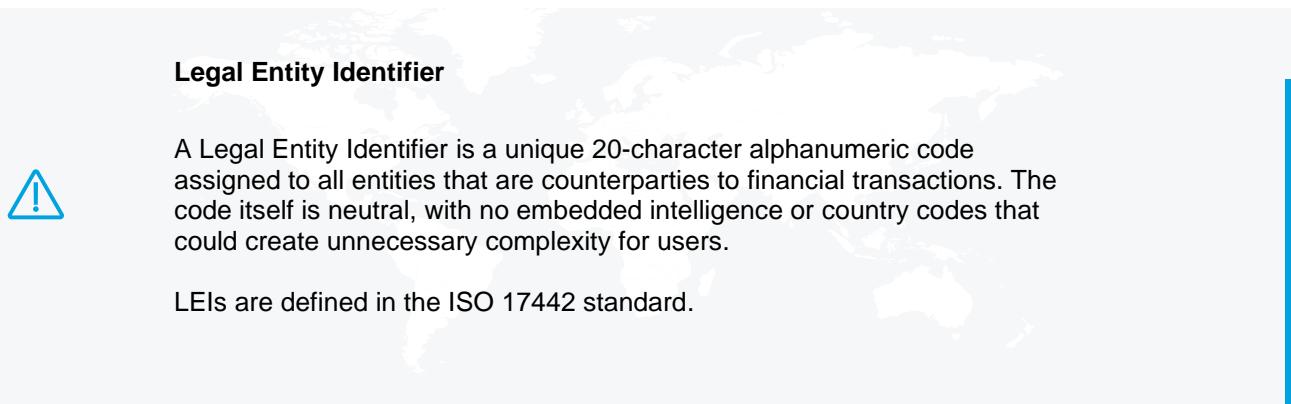
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1. Executive Summary

The Payments Market Practice Group (PMPG) has previously published three papers on the use of the Legal Entity Identifier (LEI), which were written when the Swift MT format was still in predominant use, meaning that the ability to utilize the LEI was limited.

With the implementation of ISO 20022 across multiple Market Infrastructures and cross-border messaging, the benefits of the LEI can be fully realized.



Legal Entity Identifier

A Legal Entity Identifier is a unique 20-character alphanumeric code assigned to all entities that are counterparties to financial transactions. The code itself is neutral, with no embedded intelligence or country codes that could create unnecessary complexity for users.

LEIs are defined in the ISO 17442 standard.

This paper sets out to provide best Market Practices on the LEI as an identifier in payments and to provide clear use cases, with benefits for participants for more transparent, efficient and secure payments.

The LEI provides improvements across numerous use cases - this paper provides an overview of how the LEI can be used in the Sanctions screening space (with even more potential improvements once the Regulators come on board and add the LEI into the Sanctions screening lists), reducing fraud for Corporate Treasurers, account-to-account owner validation and improvements across the industry for Know your Customer (KYC) processes.

2. Status and Uptake of the LEI

Countries are moving to adopt the LEI as a mandatory requirement in their ISO 20022 messages, therefore market participants will need to be prepared for this, even if there are countries that do not mandate the LEI. This section outlines the current status of the uptake of the usage of the LEI across the globe.

2.1. RTGS and NEFT - India

Effective from April 1 2021, all non-individual customers initiating or receiving transactions of ₹50 crore and above through RTGS and/or NEFT¹ must provide an LEI within the payment message.

¹ National Electronic Funds Transfer System in India

Technical guidance on how the LEI should be carried

In NEFT payment messages, the field 7495 is a free format optional field consisting of 6 lines with 35 characters, each with alphanumeric options. The first two lines of this field shall be used for capturing sender and beneficiary customer LEI information (in that order, and where applicable and available).

When LEI information is captured, any narrative and/or remarks, etc. shall be part of last 4 lines of the field.

The sender and beneficiary information shall be captured in following format:

NEFT

7495: line 1 > **SL/20-digit sender LEI/**
7495: line 2 > **BL/20-digit beneficiary LEI/**

In RTGS customer payment and inter-bank messages, the optional field <RmtInf> has 4 repeat tags, each having 140 characters. The first two loops of this field shall be used for capturing sender and beneficiary customer LEI information (in that order, and where applicable and available). When LEI information is captured, any narrative and remarks, etc. shall be part of the last two repeating loops of the field. The sender and beneficiary information shall be captured in following format:

RTGS

<RmtInf> loop 1 > **SL/20-digit sender LEI/**
<RmtInf> loop 2 > **BL/20-digit beneficiary LEI/**

2.2. Bank of England

Along with Purpose Codes, LEIs will first be introduced into ISO 20022 standard CHAPS payment messages from on an ‘optional to send’ basis. The Bank of England encourages all CHAPS Direct Participants (DPs) to start using LEIs as early as possible, once the DP is capable of sending enhanced data. However, this will not be made mandatory until November 2024. This allows DPs time to introduce LEIs and capabilities based on this data gradually, without the risk of incorrect LEI usage. The Bank of England will, however, monitor the use of LEIs in payments during this optional send period.

The Bank of England will start mandating LEIs to be used under certain circumstances as of November 2024, with a view to widen out the requirement to all participants over time. The Bank of England will mandate the use of the LEI where the payment involves a transfer of funds between Financial Institutions. This will be defined by a CHAPS payment made via a pacs.009 payment message or via a pacs.008 payment message where the ultimate sender and ultimate

beneficiary are both Prudential Regulation Authority (PRA) authorized deposit-takers or broker-dealers, or a Financial Market Infrastructure supervised by the Bank of England.

Most institutions that make these payments already possess LEIs. Although not mandatory for others at this stage, the Bank of England strongly encourages other institutions to apply for an LEI, and to prepare and implement necessary changes, particularly where firms may already be planning system changes, in anticipation of the Bank of England extending its LEI mandate. The Bank of England notes that the earlier that firms adopt the LEI, the sooner they will derive its benefits. The Bank of England will monitor the use of LEI for all transactions and will keep under review whether the mandatory requirement to include LEI data should be extended to all CHAPS payments.

As LEIs become more prevalent, the Bank of England will expand their requirement in CHAPS payment messages to more users. As mentioned above, the Bank of England is working with all relevant stakeholders to progress the uptake and implementation of LEIs in the UK.

The Bank of England also recognizes CHAPS as a useful mechanism to extend the uptake of LEIs in the UK. The Bank of England will monitor the uptake and use of LEIs for CHAPS payments and the rate of adoption across the wider UK economy and will use this information to review and determine how the mandatory requirements to include Purpose Code data should be extended to all CHAPS payments.

The Bank of England will provide industry with at least 18 months' notice in advance of extending any mandatory requirements for LEIs.

Information on the Bank of England's Enhanced Data Policy, which encompasses the use of LEI, may be found here - [Additional Guidance: Detail on Mandating ISO 20022 Enhanced Data in CHAPS | Bank of England](#).

2.3 ESRB (European Systemic Risk Board)

The ESRB has published a Recommendation on identifying legal entities, which holds 2 sub-recommendations:

Recommendation A – Introduction of a Union framework on the use of the Legal Entity Identifier

1. The Commission is recommended to propose that Union legislation incorporates a common Union legal framework governing the identification of legal entities established in the Union that are involved in financial transactions by way of a legal entity identifier (LEI), paying due regard to the principle of proportionality, taking into account the need to prevent or mitigate systemic risk to financial stability in the Union and thereby achieving the objectives of the internal market.
2. The Commission is recommended to propose that Union legislation that imposes an obligation on legal entities to report financial information, while paying due regard to the principle of proportionality, include the obligation to identify by way of an LEI: (a) the legal entity subject to the reporting obligation; and (b) any other legal entity about which information must be reported and which has an LEI.
3. The Commission is recommended to propose that Union legislation incorporates an obligation on authorities to identify by way of its LEI any legal entity about which they publicly disclose information, and which has an LEI, paying due regard to the principle of proportionality, as expressed in the Recommendation.

Recommendation B – Use of the Legal Entity Identifier until the possible introduction of Union legislation

Pending any action taken by the Commission to comply with Recommendation A and the possible introduction of corresponding Union legislation, it is recommended, to the extent permitted by law and subject to the principle of proportionality, that:

1. the relevant authorities require or, where applicable, continue to require, all legal entities involved in financial transactions under their supervisory remit to have an LEI;
2. the authorities, when drafting, imposing, or amending financial reporting obligations include or, where applicable, continue to include, in such obligations an obligation to identify by way of an LEI: (a) the legal entity subject to the reporting obligation; and (b) any other legal entity about which information must be reported and which has an LEI;
3. the authorities identify or, where applicable, continue to identify, by way of its LEI, any legal entity about which they publicly disclose information, and which has an LEI.

2.4. European Commission

On July 20th 2021, the European Commission (EC) released its AML Package. Within the package, the EC officially recognized the value of the Legal Entity Identifier (LEI) as a unique mechanism capable of supporting transparency within any ecosystem, by formalizing it as an important component of future AML/CFT efforts:

1. Under the AML Regulation, Article 18 - identification and verification of the customer's identity, the LEI is required, where available, for the identification of a legal entity; for a trustee of an express trust or a person holding an equivalent position in a similar legal arrangement and for other organizations that have legal capacity under national law;
2. The Revision of the 2015 Regulation on Transfers of Funds ensures that EU AML/ CFT rules are extended beyond their current remit, to fully apply to the crypto sector. This will ensure full traceability of crypto-asset transfers and allow the prevention and detection of their potential use for money laundering or terrorism financing.

In Section (25), which outlines that transfers of funds or crypto-assets from the Union to outside the Union should carry complete information on the payer and payee, a new requirement has been introduced:

"Complete information on the payer and the payee should include the Legal Entity Identifier (LEI) when this information is provided by the payer to the payer's service provider, since that would allow for better identification of the parties involved in a transfer of funds and could easily be included in existing payment message formats such as the one developed by the International Organisation for Standardisation for electronic data interchange between financial institutions."

2.5. Financial Stability Board (FSB)

The Committee on Payments and Market Infrastructure (CPMI) created a set of 19 building blocks to help enhance cross-border payments.

Building block 16 - Establish unique identifiers with proxy registries

Providing a globally-standardised approach supporting the global Legal Entity Identifier for legal entities and a similarly standardised identifier for individuals.

In 2022, CPMI published a detailed report titled "*Options to Improve Adoption of The LEI, in Particular for Use in Cross-border Payments*", which explores benefits that could accrue from the use of the LEI in cross-border payment systems. Specifically, the report recommends that FSB member jurisdictions should:

- Explore ways to promote LEI adoption, particularly outside the financial sector;
- Consider mapping the LEI to domestic identifiers;
- Consider adding, where appropriate, the LEI as a requirement in newly-created or amended regulations;
- Consider providing guidance on using the LEI in the payment chain.

The FSB should:

- Explore synergies with the work of other building blocks in the roadmap;
- Support, as appropriate, GLEIF's initiatives to address obstacles to broader LEI adoption.

GLEIF should:

- Continue their efforts to increase adoption of the LEI (including by non-financial corporates), promote timely update of the LEI reference data and ensure their quality;
- Increase the visibility of the LEI through public outreach initiatives, particularly outside the financial sector.

The complete report can be accessed at: <https://www.fsb.org/wpcontent/uploads/P070722.pdf>

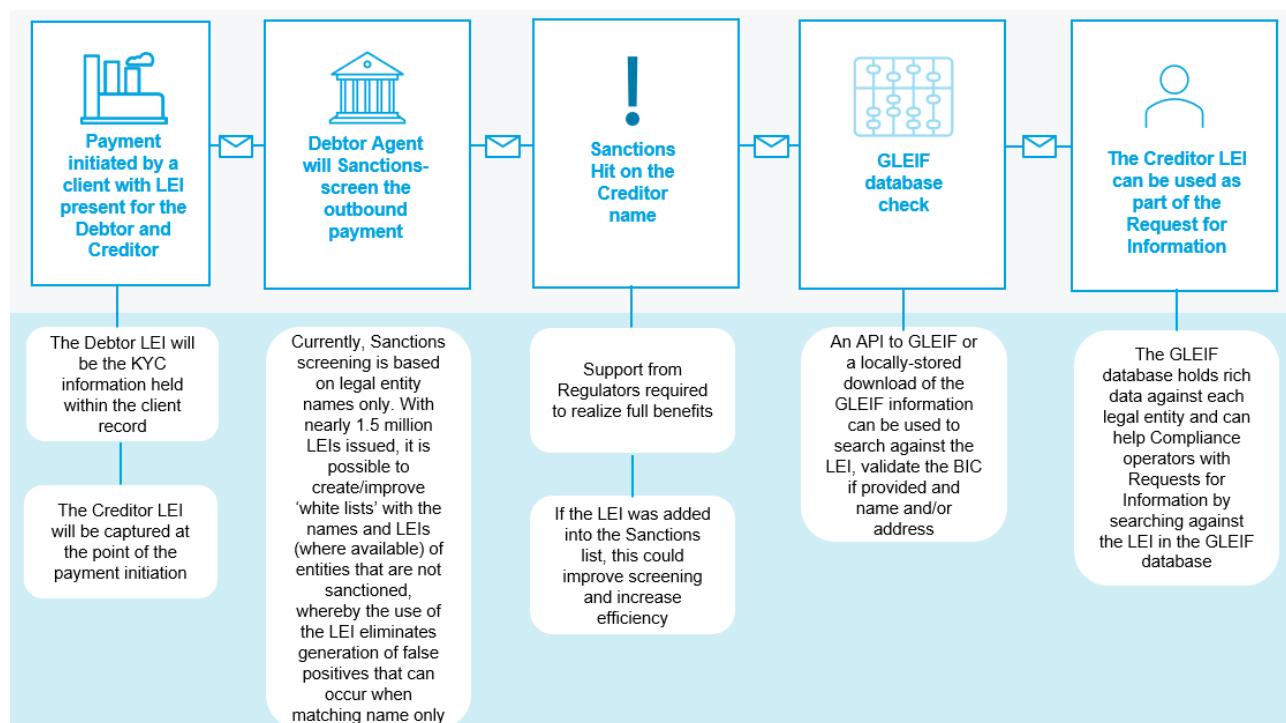
3. Use Cases

This section of the paper will outline various use cases where the LEI can be used. A description and flow diagram for each use case is present with associated benefits and any challenges or implications that they bring.

3.1. Use Case 1 – Sanctions Screening

Description	<p>LEI being present in a payment can ensure that the processing of the payment is 'fast-tracked'. The presence of an LEI can ensure that any Sanctions hits can be resolved in a far more efficient manner.</p> <p>Utilization of the GLEIF database can provide validation of data and provide rich information back to an operator regarding the legal entity within a payment.</p>
Benefits	<ul style="list-style-type: none"> By adding an LEI into exclusion/white lists, false positive matches can be prevented Requests for information can be supported with information held at GLEIF against legal entities quoted in a payment
Challenges & Implications	The Regulators' support is required in order to get the LEI added into Sanctions lists
Market Practice	Not applicable

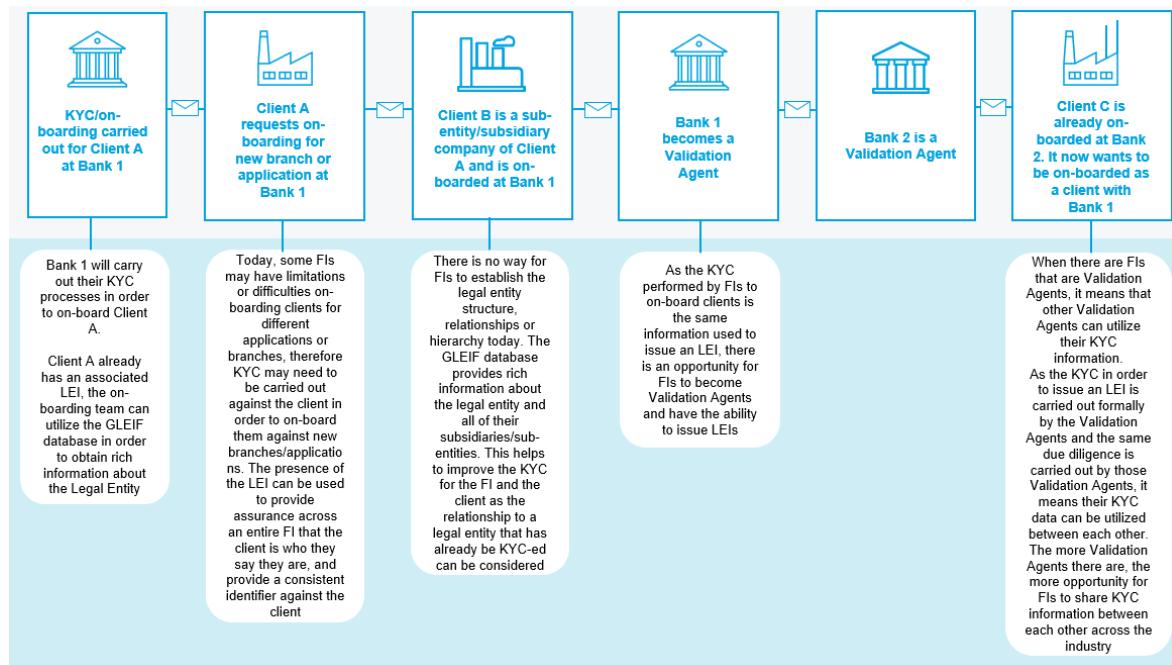
3.1.1. Use Case 1 – Sanctions Screening – diagram



3.2. Use Case 2 – Know Your Customer (KYC) – Screening for customer on-boarding

Description	<p>KYC / on-boarding has lots of limitations today. When on-boarding clients that may be part of the same legal entity or sub-entity of the parent legal entity, there is nothing today which can confirm a group structure, relationship between the legal entities or hierarchy. As the relationship to the Legal Entity is unknown, on-boarding can therefore need to be done from scratch and duplicated.</p> <p>Currently there is no ability for FI's to share KYC information. The LEI can provide an FI clear sight of the legal entity relationships and hierarchy, and this can ensure that clients are not misidentified.</p> <p>The LEI can provide FI's with rich information about the legal entity instantly.</p> <p>The LEI can enable FI's to move to an environment where KYC information performed at different FIs can be utilized and used to improve the onboarding process.</p> <p>This can be done by FI's becoming Validation Agents.</p> <p>A Validation Agent is an FI that has the ability to issue LEIs. The KYC information required for being issued an LEI, is the same information that is captured in order to on-board clients (KYC) at FI's.</p>
Benefits	<ul style="list-style-type: none"> • Makes KYC processes quicker and more efficient for FI's • Reduces onboarding costs 5-10% • Reduces the risk of AML fines • Improves the client experience • Reduces the risk of clients being misidentified • Improves internal data management processes at the FI and ensures, greater consistency with standardized entity reference data • Industry level re-use of KYC data across FI's can be utilized
Challenges & Implications	<ul style="list-style-type: none"> • Policy changes require for FI's to be able to utilize the KYC performed by other FI's across the industry • FI uptake to become Validation Agents • The format of the Structured Address held at GLEIF does not match exactly to the ISO 20022 Structured Address format.
Market Practice	<p>Not applicable (except when Financial Institutions adopt the Validation Agent model)</p>

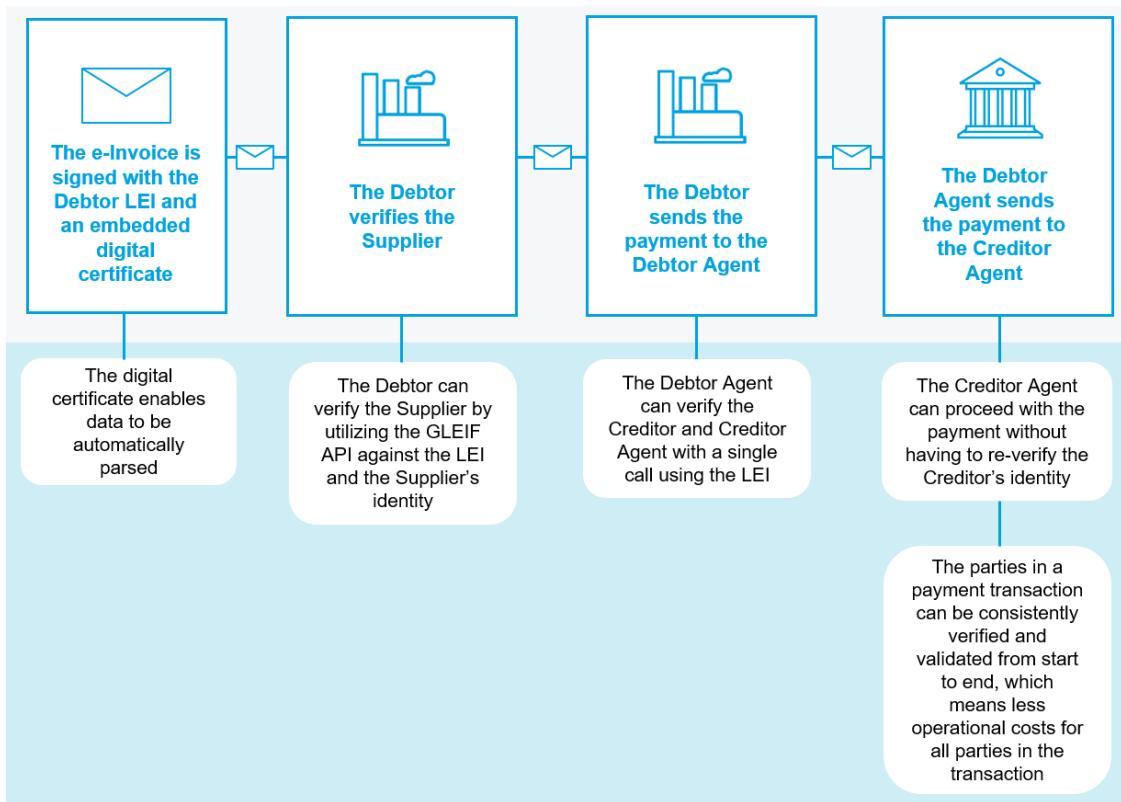
3.2.1. Use Case 2 – Know Your Customer (KYC) – Screening for customer on-boarding – diagram



3.3. Use Case 3 – Corporate Invoice Reconciliation

Description	<p>Use of e-Invoices (e.g., in UBL format) signed with debtor's LEI embedded digital certificates enables data to be automatically parsed and match the person authorizing the payment with the entity.</p> <p>The Debtor can verify the supplier by a single call using the supplier's LEI and verify the supplier's identity via GLEIF API within milliseconds: if verified, proceed with the payment order; if not verified, stop the payment order.</p> <p>The Debtor Agent can easily verify the Creditor Agent and creditor by a single call using the creditor agent's and creditor's LEI and retrieve the BIC for the Creditor Agent.</p> <p>The Creditor Agent can proceed with the payment to creditor – no need to lose time to re-verify the creditor identity.</p> <p>Once the creditor is paid, the notification of payment status is sent to the debtor</p>
Benefits	<ul style="list-style-type: none"> Automation - no need for manual name reconciliation Trust, authenticity and reliability of documents Better client user experience Flag possible fraud attempts – strengthen existing KYC procedures Full transparency of parties to the transaction from start to end LEI/BIC can be obtained with single call to open GLEIF API Standardize customer reference data and provide richer data in a structured format Increase comprehensiveness of the ISO 20022 Encompassing coverage- no limitation of jurisdiction or operating system Interoperability across various platforms/systems
Challenges & Implications	The Debtor Agent must verify the debtor/creditor LEIs before initiating the payment to the Creditor Agent
Market Practice	Not applicable

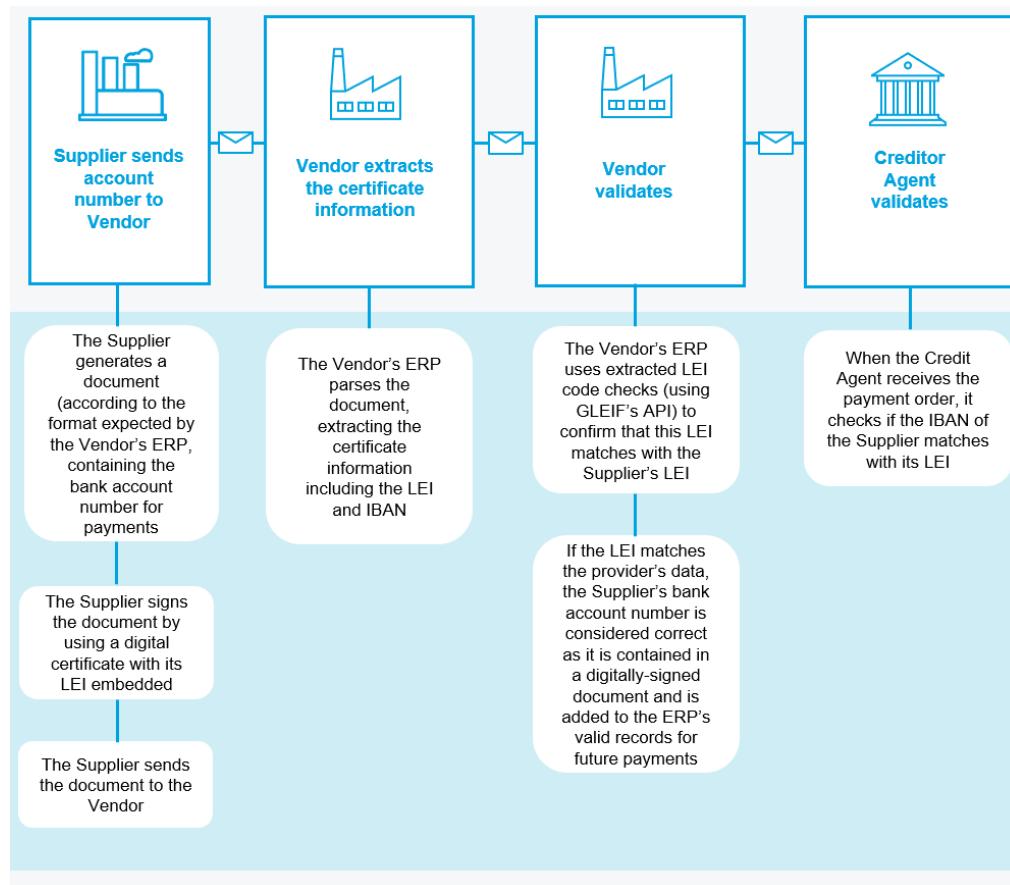
3.3.1. Use Case 3 – Corporate Invoice Reconciliation – diagram



3.4. Use Case 4 – Corporate Treasurer – fraud detection and fight against vendor scams

Description	<p>Today, vendor scams happen very often as suppliers and vendors mainly use emails for exchanging information regarding payments.</p> <p>Using emails as the main instrument for bank account information provides a convenient basis for fraudsters.</p> <p>Fraudsters contacts the supplier acting as an accounting officer of the vendor and asks about information relating to the current payment of invoices. Then they contact the vendor, acting as the supplier. The fraudster notifies a bank account change, and sends the vendor real invoices, with modified account number and bogus telephone numbers.</p> <p>Most of the time, fraudulent activity occurs due to the fact that the buyer does not notice very small differences in the email address. This fraud is generally detected too late to expect a fund recall.</p> <p>If a secure mechanism is established between the vendor and supplier, the fraud detection can be maximized, and vendor scams can be reduced.</p> <p>Vendors will ask their suppliers:</p> <ul style="list-style-type: none"> • to provide their LEI • to own a eIDAS legal representative or business stamp, or a digital certificate with LEI embedded <p>From then on, whenever a supplier wants to communicate its bank account number for payments, it will be done using a secure mechanism based on the LEI.</p>
Benefits	<ul style="list-style-type: none"> • The vendor shifts the responsibility of correct information to the supplier by bringing the requirement that the document submitted to be signed with the LEI embedded digital certificate. • The vendor and supplier have a secure and digital way of information exchange which the LEI is the common denominator. • When the LEI and the bank account does not match in the Enterprise Resource Planning (ERP) of the vendor, vendor gets a notification that this can be a fraud attempt. The LEI helps to detect fraud attempts in an early stage. • If the LEI is included in the payment order from vendor to the bank and bank checks the IBAN and LEI, the fraud can be totally avoided.
Challenges & Implications	<p>The supplier shall agree to sign the document with the LEI embedded digital certificate.</p>
Market Practice	<p>Not applicable</p>

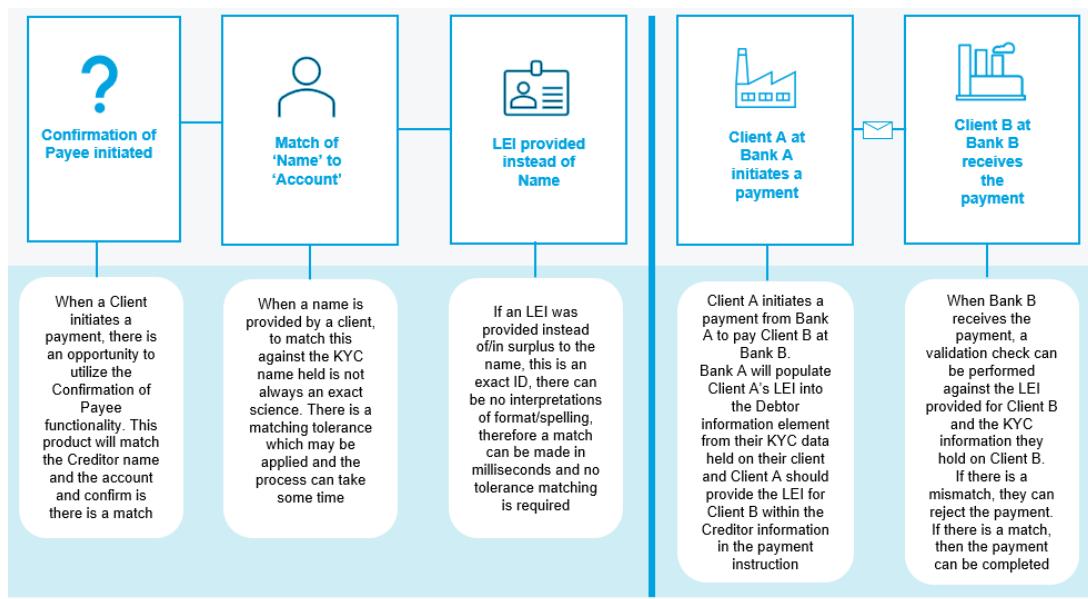
3.4.1. Use Case 4 – Corporate Treasurer – fraud detection and fight against vendor scams – diagram



3.5. Use Case 5 – Account-to-account owner validation

Description	<p>When matching a name of a client to an account on an incoming payment or as part of Confirmation of Payee, as there are so many permutations for how a name can be written, the matching criteria must allow for a certain level of mismatch and the validation between the name and account number can take longer than necessary.</p> <p>If LEI is provided, then this is an exact identifier that can provide a 100% match and validation in milliseconds.</p> <p>This can also identify fraudulent payments or money laundering by ensuring that the account being credited matches the LEI provided for the Creditor.</p> <p>This validation can be performed by the Creditor Agent.</p>
Benefits	<ul style="list-style-type: none"> Exact matching criteria for account-to-account owner. Speeds up the matching process to milliseconds Helps the Creditor Agent perform a level of validation when receiving a payment, to ensure that the Creditor LEI matches the account number that they hold for that client / Legal entity.
Challenges & Implications	The uptake of LEI across the Industry
Market Practice	Not applicable

3.5.1. Use Case 5 – Account-to-account owner validation – diagram



4. Becoming a Validation Agent

This section of the document explains what a Validation Agent is and what benefits can be realized by Financial Institutions becoming Validation Agents.

The information that FI's gather in order to KYC and on-board clients is the same information that is required in order to issue an LEI (documents, data collection and verification procedures) by an LEI-Issuing Organization.

Therefore (as mentioned in use case 4), there is an opportunity for FI's to become Validation Agents, which means they can provide LEI's to their corporate clients in collaboration with LEI Issuer Organization(s).

For clients and LEI Issuers, the processes to issue an LEI requires time and effort to complete. The collection and validation and delivery of data can require several exchanges and incur periods of processing between each and multiple rounds of communication. This can cause duplication between FI and LEI issuer and cause frustration for the client due to the additional processing time and an inconvenient customer experience.

Now that LEI is becoming a mandatory data element to be provided in payments in some countries, there will be some clients that need an LEI in order to be fully on-boarded. In this case, an FI's own time-to-revenue is impacted as the on-boarding process cannot be completed until the client obtains an LEI.

A significant opportunity therefore exists to address these issues by de-duplicating the entity identification procedures that are currently shared between the FI and the LEI issuer.

The creation of the Validation Agent framework empowers FI's to leverage their existing "Know Your Customer" (KYC), Anti-Money Laundering (AML) and other regulated business-as-usual on-boarding processes to obtain an LEI for their client when verifying their identity during the initial on-boarding or standard client refresh update procedures.

FI's acting as Validation Agents can liaise with the LEI issuer on its client's behalf to validate that these key data checks and processes have been undertaken.

4.1. Benefits for Financial Institutions acting as Validation Agents

- A greatly-streamlined LEI issuance process for clients, resulting in an enhanced client experience for on-boarding and lifecycle management;
- Digitization of its on-boarding processes based on standardized legal entity data instead of siloed information and legacy systems;
- Additional opportunities to add client value and achieve market differentiation;
- Enhanced internal data management processes and therefore reduced costs;
- A uniquely-powerful foundation upon which to innovate and develop new digital services and revenue opportunities.

5. Summary of benefits that the LEI can bring

Corporate invoice reconciliation	<ul style="list-style-type: none"> Automation - no need for manual name reconciliation Trust, authenticity and reliability of documents Better client user experience Flag possible fraud attempts – strengthen existing KYC procedures Full transparency of parties to the transaction from start to end LEI, BIC can be obtained with single call to open GLEIF API Standardize customer reference data and provide richer data in a structured format Increase comprehensiveness of the ISO 20022 Encompassing coverage- no limitation of jurisdiction or operating system Interoperability across various platforms/systems
Fraud detection and fight against vendor scams	<ul style="list-style-type: none"> The vendor shifts the responsibility of correct information to the supplier by bringing the requirement that the document submitted to be signed with the LEI embedded digital certificate. The vendor and supplier have a secure and digital way of information exchange which the LEI is the common denominator. When the LEI and the bank account does not match in the Enterprise Resource Planning (ERP) of the vendor, vendor gets a notification that this can be a fraud attempt. The LEI helps to detect fraud attempts in an early stage. If the LEI is included in the payment order from vendor to the bank and bank checks the IBAN and LEI, the fraud can be totally avoided.
Sanctions screening	<ul style="list-style-type: none"> By adding an LEI into exclusion/white lists, false positive matches can be prevented. Requests for information can be supported with information held at GLEIF again Legal Entities quoted in a payment
KYC screening for customer on-boarding	<ul style="list-style-type: none"> Makes KYC processes quicker and more efficient for FI's Reduces Onboarding costs 5-10% Reduces the risk of AML fines Improves the Client experience Reducing the risk of clients being misidentified Improves internal data management processes at the FI and ensures, greater consistency with standardized entity reference data Industry level re-use of KYC data across FI's can be utilized
Account-to-account owner validation	<ul style="list-style-type: none"> Exact matching criteria for account-to-account owner Speeds up the matching process to milliseconds Helps the Creditor Agent perform a level of validation when receiving a payment, to ensure that the Creditor LEI matches the account number that they hold for that client / Legal entity.
LEI in digital Trade Finance documentation	<ul style="list-style-type: none"> The LEI can play a role in facilitating interoperability across trade platforms. For example, in a digital letter of credit, FIs can easily verify counterparties thanks to the LEI in a few seconds instead of lengthy paperwork send in/out
General	<ul style="list-style-type: none"> Improves straight-through-processing / fast-tracks payments Data Management in FIs: improved quality and accuracy of data Use of LEI for ordering party in outbound payments for precision and full transparency Use of mapping of BIC to LEI via GLEIF API or SwiftRef BIC-LEI Relationship File Unique identifier for FI's that can be used across multiple applications

6. Next Steps

With the LEI being a mandatory identifier that is already required within certain payments, the scope of the payment messages that mandate LEI will increase across the communities and industry. The LEI is part of the FSB's approach to improving cross-border payments and is being adopted across Market Infrastructures at a fast pace.

As outlined within this paper, there are true benefits that the LEI can bring to both Financial Institutions and Corporate/Business Banking clients. It is imperative that FI's communicate to their clients which payments will require LEI to be present and also the benefits that they can realize once they utilize the LEI, such as increased STP and faster more efficient payments.

In order to unlock the full benefits, Financial Institutions should take up the opportunity to become Validation Agents, which will not only improve the KYC processes across the industry, but will also provide their clients with the ability to use their FI as a one-stop-shop when wanting to open accounts and obtain LEIs.

The LEI should be embraced across the industry and looked at as a great opportunity to improve, rather than represent any type of burden for Financial institutions or their Corporate/Business Banking clients and a strong request for Regulators to support the LEI by adding it into the Sanctions lists.

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