GLEIF's response to the Committee on Payments and Market Infrastructure (CPMI) Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments

Executive Summary

- The LEI, at minimum, must be allocated the same status as the BIC regarding the substitution of Name and Postal Address. The CPMI proposes the minimum required data of Name and Postal Address may be substituted by a BIC whereas the CPMI states that the Name and Postal Address may be complemented, not substituted, by a LEI. The LEI is a globally unique and persistent identifier for entities, an international ISO standard, accessible as open and freely available data, of high data quality, and coming from a system under regulatory oversight. As such, the text should be modified to say that the Name and Postal Address may be substituted by a BIC or LEI.

- The LEI should be introduced as the solely accepted identifier of the Debtor/Creditor in payment messages. Specifically, GLEIF suggests that the Table A2.1: CPMI data model for person/entity (ISO 20022 'Party') should include a cardinality of one for organization identification – LEI (1,1) and therefore make the LEI 'Required' for the CPMI data model. Mandatory use of the LEI for the Debtor/Creditor can be achieved in a phased manner, for example focusing on higher payment amounts first and lowering the threshold over time. The Reserve Bank of India and The Bank of England provide examples of phased approaches.

- The identification of financial institutions should be performed with the combination of BIC and LEI given the global nature of BICs and LEIs make them particularly effective to identify sanctioned entities or discard potential hits (Please see SWIFT PMPG publication Guiding principles for screening ISO 20022 payments for further justification). BICs are essential for routing payments, whereas the LEI is essential for unique identification of entities. Therefore use of BIC alone is not sufficient to achieve the objectives of the ISO20022 and G20 Cross Border Payments Initiative. Table A2.2: CPMI data model for financial institution (ISO 20022 'Agent') should include a cardinality of one for the LEI (1,1) and BIC (1,1) and therefore 'Required' for the CPMI data model.

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Committee on Payments and Market Infrastructure (CPMI) Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments.

First, GLEIF agrees with the CPMI's and the Payments Market Practice Group's (PMPG) joint task force (JTF) that the adoption of structured data within ISO 20022 will enhance the efficiency and effectiveness of transaction screening for compliance and other purposes such as fraud prevention, resulting in faster, more inclusive and cheaper cross-border payments ecosystem. As highlighted in the consultation paper, the limited adoption of the ISO 20022 messages by end customers (i.e., corporations) imposes a further challenge for harmonization. All relevant stakeholders, including FSB jurisdictions, payment system operators and participants, should encourage adoption by end users. Against this background, GLEIF agrees that the functional and multipurpose design of the data fields by CPMI and JTF plays a crucial role in encouraging the adoption by end users, namely corporates. As an example, GLEIF would like to highlight that the European Association for Corporate Treasuers (EACT) asks for broader use of the LEI for account verification (which helps to address potential fraud in payments) and efficient sanctions screening in payments (which is a legal requirement).

As a non-for-profit organization established by the Financial Stability Board to support the implementation and use of the LEI, GLEIF will concentrate its comments on the adoption of the LEI in ISO 20022 payment messages and how/why an explicit LEI requirement for entities in the payment chain is critical to ensure efficient payments processing, implement effective sanctions screening, facilitate improved interoperability and help to fulfill the G20 targets related to cost, speed, access and transparency of cross-border payments.

An ineffective and inconsistent adoption of ISO 20022 will undermine the objectives and efforts of implementing ISO 20022, a highly undesirable outcome for all. And an important component of an effective and consistent adoption of ISO 20022 is the use of a truly global identification scheme for involved entities (see the broader G20 cross-border payments initiative building block 16 Establishing Unique Identifiers with Proxy Registers). GLEIF's consultation response highlights the G20 cross-border payments initiative's prioritization of exploring the LEI as the identifier for entities in cross-border payments. GLEIF will provide responses to Questions 22, 23, 25, 26, 28 and 29.

First, GLEIF would like to respond to *Question 22. Do you agree that uniquely identifying all financial institutions involved in cross-border payments in an internationally recognised and standardised way would enhance cross-border payments? Please explain*.

GLEIF agrees that uniquely identifying all financial institutions involved in cross-border payments in an internationally recognized and standardized way would enhance cross-border payments and facilitate message flows between endpoints. Single source identification of legal entities helps avoid the errors and delays that are prevalent in todays approach where different identifiers are used. Today's global payments ecosystems use many different identifiers. This leads to manual verification and increased time and cost burdens.

The principle of a global unique identifier that links to the account information in payment transactions is endorsed in the G20 roadmap to enhance cross-border payments (see building block 16). Specifically the potential benefits of greater LEI adoption for entities involved in cross-border payments ecosystems is described in the July 2022 FSB publication *Options to Improve Adoption of The LEI, in Particular for Use in Cross-border Payments*.

GLEIF endorses the following characteristics of such a global identification scheme noted in the consultation document: official ISO standard, broad coverage across financial institutions globally, public access to the identifier and its reference data and flexibility in registration.

GLEIF suggests that these requirements should be more precise. Specifically:

- Unique identification of the involved financial institution
- Public access to the identifier and its reference data should be easy and barrier free. This means the identifier and its related reference data must be open data dedicated to the public domain. Furthermore it should be easily accessible in a variety of formats such as full file downloads and API.
- Registration should be flexible but ensure validation and verification of the involved entity by an independent third party with relevant knowledge and expertise.

Additionally GLEIF suggests the JTF missed some important characteristics: quality, transparency, provenance and auditability. An identifier is only valuable if it is supported by a rigorous data quality program. It must bring full transparency as to how and when the reference data associated with the identifier (e.g., names, addresses, etc) were verified. Changes to the reference data must be auditable and in the public domain.

Proper identification of all financial institutions in payment messages is crucial to support financial inclusion. As suggested in the report of the International Finance Corporation (IFC) of the World Bank, for a correspondent bank, establishing the identity of the respondent bank is a fundamental element of due diligence and the LEI can help to overcome the informality gap. When the correspondent banks and respondent banks speak the same language in entity identification, risk assessment and associated costs will be lower for all involved parties.

The more granular structure of ISO 200222 creates an opportunity for industry to rethink existing approaches to screening. As highlighted in a paper published by the SWIFT PMPG and endorsed by Wolfsberg Group, bank identification fields can be a source of friction when free format names and addresses are used rather than structured data elements such as BIC and LEI. Therefore, GLEIF agrees with the unique identification of all financial institutions and suggests that the identification should be performed with the combination of BIC and LEI given the global nature of BICs and LEIs **make them particularly effective to identify sanctioned entities or discard potential hits.** BICs are essential for routing payments, whereas the LEI is essential for unique identification of entities – the combination of these two global standards allows ISO 20022 to be more effective and instrumental in effective screening, proper customer due diligence and continuous transaction monitoring. If cross border payments ecosystems aim for faster processing time (as set out in the G20 goals), unique identification of each Agent and Party with the LEI and extensive use of BIC for financial institutions and their local branches is necessary.

GLEIF would like to respond to *Question 23. Do you agree with the proposed solution of requiring the use of the BIC to identify all financial institutions? Why or why not?*

GLEIF agrees with the use of the BIC but suggests the BIC alone is not enough for identifying financial institutions. BIC is important for identifying branches and sub-desks in Europe, but not in all jurisdictions. The BIC is predominantly used for SWIFT messages.

GLEIF provides below examples to show that the BIC itself is not a unique identifier of a financial institution:

BNP PARIBAS: LEI Code R0MUWSFPU8MPRO8K5P83 has 6 associated BICs, of which 3 BICs (BNEMFRP1XXX, CMMAFR21XXX and GEPGFRP1XXX) have the same legal name "BNP Paribas"[1] .

HSBC UK BANK PLC: BIC HBUKGB4BXXX: is linked to three legal entities :
21380081EP12LC86CB82: HSBC UK BANK PLC
549300G717XMVN87UL79: HSBC PRIVATE BANK (UK) LIMITED
213800LH7QCHIR3JI632: SILICON VALLEY BANK UK LIMITED

GLEIF understands that there could be confusion about the use of the LEI and BIC within the industry and their individual functionality. Please see the below table for a further comparison of the BIC and LEI:

Business Identifier Code *extract from the consultation document*	**LEI**	**The evaluation of the LEI compared to BIC**
An official ISO 9362 Standard	An official ISO 17742 Standard	The same status.
BIC has obtained broad coverage across FIs globally	LEI has obtained broad coverage across FIs, corporates and listed companies globally due to over 280+ regulations/requirements. Moreover, LEI has more use cases	Global LEI System has broader geographical coverage compared to BIC and LEI has more use cases.

[1] BNEMFRP1XXX: BNP PARIBAS, used to be BNP Paribas Emergis, fully consolidated companies
BNPAFRPPXXX: BNP-PARIBAS SA (FORMERLY BANQUE NATIONALE DE PARIS S.A.): after a merger in 2000
BPPBFRP1XXX: BNP PARIBAS headquarter office (correct BIC)
CMMAFR21XXX : BNP PARIBAS, used to be Caisse Regionale De Credit Maritime Mutuel D'aquitaine in Saint Jean De Luz, likely to be a merger
GEPGFRP1XXX: BNP PARIBAS, used to be GENERALE DE PATRIMOINE ET DE GESTION (GPG), GPG is a subsidiary absorbed by Fortis Banque France (FBF), and FBF is acquired by BNP
PARBFRPPXXX: BNP PARIBAS SECURITIES SERVICES, FRANCE. This entity's LEI 549300WCGB70D06XZS54 is retired (Dissolution).

Business Identifier Code ***extract from the consultation document***	**LEI**	**The evaluation of the LEI compared to BIC**
	than BIC, including digital applications.	
BIC distinguishes FI branches, which is especially important for cross-border payments	LEI distinguishes international FI branches (see Regulatory Oversight Committee (ROC) policy for further details[2])	Global LEI System has narrower coverage compared to BIC.
ISO 9362 directory is accessible publicly across the globe	Global LEI Index is accessible publicly across the globe and through API	GLEIF provides more variety of file access compared to SWIFT. Moreover, BIC reference data is only freely available via search, and it only provides the entity name, city and country, no detailed address is provided. GLEIF provides full file access without any fee/barriers.
Flexibility provided in the BIC registration procedure (allowing for applications on behalf of third parties)	LEI Issuers and financial institutions acting as Validation Agents[3] offer LEI services to entities, regardless of the entity's business activity or size. Entity reference data is validated via a recognized registration authority. Details regarding the nature of the validation, last update, the next scheduled validation date are all data elements in the individual LEI record.	Global LEI System has broader flexibility and more transparency compared to BIC. Transparency is ensured via the rigorous data quality program.

From the list of comparison above, the only outstanding advantage of the BIC over LEI is the use of the BICs for domestic branches.

[2] Please see the policy of the Regulatory Overisght Committee, a group of over 65 public authorities, on the use of the LEI in international branches.
[3] Subject to an onboarding process specified by GLEIF. For details on the Validation Agent model, please visit https://www.gleif.org/en/lei-solutions/validation-agents

In conclusion, GLEIF suggests that the LEI and BIC should be mandatory data elements for financial institutions. Specifically Table A2.2: CPMI data model for financial institution (ISO 20022 'Agent') should include a cardinality of one for the LEI (1,1) and BIC (1,1) and therefore 'Required' for the CPMI data model. By leveraging the 2 standards together the involved parties know precisely the involved financial institution (via the LEI) and the relevant details for payment routing (via the BIC).

GLEIF would like to respond to *Question 25: Do you agree that requiring participants to identify all entities involved in a cross-border payment in a standardised and structured way would enhance the processing efficiency of cross-border payments? Please explain.*

The principle of a global unique identifier for entities involved in cross-border payments is endorsed in the G20 roadmap to enhance cross-border payments (see building block 16). Furthermore the FSB July 2022 Report on LEI and cross-border payments describes how a global unique identifier that links to account information in payment transactions would facilitate straight through processing (STP), reduce costs, enhance accuracy and increase speed in transactions as well as assist market participants in meeting Know-Your-Customer (KYC) requirements. As such GLEIF strongly supports the identification of all entities involved in a cross-border payment in a standardized and structured way. This is a foundational step of ensuring efficient, secure and trusted cross-border payments ecosystems.

Currently, the universally accepted methods of entity identification for payment messages exchange are the IBAN, Business Identifier Code (BIC), and national identifiers. To understand the best solution for these new cross-border payments ecosystems, we first analyze why today's accepted methods do not enable faster, cheaper, more accessible and more transparent cross-border payments.

First, the IBAN. The IBAN is an account identifier. It does not link to public information about who the payee is. As such it does not allow the payor to assess if the IBAN account holder is indeed the payee that is entitled to receive the transfer. Moreover, IBAN is not used universally, for example major payment market infrastructures like the United States, China, Japan and Australia do not use the IBAN[4].

Second, the BIC. As detailed under GLEIF's response to Question 23, the BIC is not a unique legal entity identifier. Therefore, it does not facilitate clear and accurate entity identification which is necessary to facilitate straight-through processing of payment message exchanges. Additionally, BICs are not common across non-financial entities.

Third, national identifiers. National identifiers are siloed and dependent on the local system, governance structure and implementation. Access may not be readily and freely available. National identifiers are not globally accessible identification tools, which make them unfavorable solutions for

[4] https://www.iban.com/iban-mandatory (Updated: September 13, 2022)

an interoperable cross-border payments ecosystem. Data quality is unknown and dependent on the local implementation. Please see Bank of International Settlements (BIS) publication *Corporate digital identity: no silver bullet, but a silver lining* for a fuller analysis.

Given that the objectives of the Cross Border Payments Initiative is much broader than just routing payments (e.g., an effective data sharing, efficient and faster sanctions screening, enabling financial inclusion), we cannot identify an entity itself only with a BIC or IBAN. The LEI is the only globally available and scalable solution to provide readily accessible entity identification. As highlighted in the Payment Market Practice Group White Paper: Global Adoption of the LEI in ISO20022 Payment Messages – 2021, adding the LEI as a required data field within the ISO 20022 payment messages can maximize benefits in sanctions screening, transaction monitoring and fraud prevention. The LEI is the only truly global identification solution that can reduce human intervention to a minimum and reduce false positives substantially.

Therefore, it is crucial to add the LEI of the Debtor/Creditor in payment messages. Specifically, GLEIF suggests that the Table A2.1: CPMI data model for person/entity (ISO 20022 'Party') should include a cardinality of one for organization identification – LEI (1,1) and therefore make the LEI 'Required' for the CPMI data model.

Mandatory use of the LEI for the Debtor/Creditor can be achieved in a phased manner, for example focusing on higher payment amounts first and lowering the threshold over time. This approach is already adopted in India where the LEI as a mandatory field, initially for large transactions with the outlook to lower the threshold to include all entities, regardless of their size or the amount of the transaction. Since 1 April, 2021, the use of the LEI was mandated for all payment transactions of the value ₹500m (approximately €5.5m) and above for entities using the centralised Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) payment systems administered by the Reserve Bank of India. Since this date, banks have had to include LEIs in all remitter and beneficiary information in RTGS and NEFT payment messages. Further complementing this in December 2021, the LEI was mandated in all cross-border transactions such as capital or current account transactions of ₹ 50 crore and above. Another example is the Bank of England who requires the LEI for financial institution identification in CHAPS. The Bank of England provides market participants its outlook for broader use of the LEI in payment messages by stating the Bank of England will mandate the use of the LEI where the payment involves a transfer of funds between financial institutions and has a vision to widen out the LEI requirement to all participants over time.

Each market infrastructure can adopt a phased approach, taking into consideration other parallel activities to expand LEI coverage in the related jurisdiction. Take for example the Opinion issued very recently by the Committee on Monetary, Financial and Balance of Payments statistics (CMFB) on the Legal Entity Identifier (LEI) as unique identifier of financial and non-financial companies for statistical purposes. The CMFB opinion asks the EU Commission to take action and make the LEI mandatory for a broader range of legal entities in the EU.

Additionally, LEI is supported in various SWIFT messages, including the MT5XX series. Specifically, the use of LEI is mandatory in the following SWIFT messages related to securities trading and settlement:

- MT548: Settlement Status and Processing Advice
- MT549: Request for Statement/Status
- MT558: Triparty Collateral Status and Processing Advice
- MT559: Triparty Collateral Instruction

In addition, the LEI can be used in other SWIFT messages as an optional field, such as in the following messages:

- MT535: Statement of Holdings
- MT536: Statement of Transactions
- MT547: Instruction to Register

Overall, the use of LEI in SWIFT messages is becoming increasingly important for compliance with regulatory requirements and for improving transparency and risk management in the financial industry. As such, the LEI is not a new identifier for payments markets participants.

As noted in the FSB cross-border payment recommendations report, both authorities and market participants recognise the potential benefits of the LEI in strengthening data standardisation as well as assisting and supporting straight through processing, KYC processes and sanctions screening. The main obstacles to wider LEI adoption are not specific to the payment domain but to challenges like costs, legacy issues and lack of perceived incentives for voluntary adoption of LEI by market participants and end-users. There are solutions to facilitate wider LEI adoption like bulk LEI registration by business registries and financial institutions engaging in the Validation Agent operating model. GLEIF highlights that twelve organizations already operate as Validation Agents and that includes three large global financial institutions. Given all businesses work with at least one financial institution, businesses can easily obtain LEIs through the banking relationship via the Validation Agent model. This is a particular attractive and proven model for rapidly expanding LEI adoption to facilitate cross-border payments.

In addition to the goals of the G20 cross-border payments initiative, GLEIF suggests further leveraging the LEI as a means to prepare global payments ecosystems for digitization. The direction towards a more digital payment processing environment within a zero trust domain requires user access based upon the users' digital identity (rather than user name/password) and access to resources is assessed via a real time policy engine. This zero trust environment offers a continuous due diligence approach for financial institutions' customer access via the zero trust real time policy engine rules. Connecting the dots between identifiers and digital credentials is a very basic consideration in the zero trust cybersecurity environment – one that places the LEI and the verifiable LEI (vLEI) in a very positive light. The sooner the financial services sector effectively implements zero trust, the sooner it can begin to realize cybersecurity control benefits, to move towards continuous due diligence and to implement other process automation benefits. GLEIF understands that this is somewhat 'over the horizon' at the moment; however, the cybersecurity community is currently transitioning to supplement the current perimeter based approach with a 'zero trust' approach. Therefore it is the right time to point out the direction of travel and plan for it now.

GLEIF would like to respond to *Question 26: Do you agree with the proposed use of structured identifiers such as the LEI, if they exist, to complement the recommended minimum data requirements to identify the legal entities involved in cross-border payments? Are there alternative approaches that you would suggest?*

GLEIF suggests two alternative approaches:

- **First,** the guidance document should clearly state that an LEI may substitute Name and Postal Address (see Table A2.1: CPMI data model for person/entity (ISO 20022 'Party'), footnote 1). Entity Name and Address are all required elements the LEI standard (ISO-17442-1). This information can be retrieved from the Global LEI Index in an automated manner. When the payee is identified with an LEI, the consumer can validate the LEI of the beneficiary via the open, publicly available Global LEI Index. The payee has immediate access to the Entity Name and Address. Financial institutions or fintechs can fully integrate the LEI and LEI reference data into existing client interfaces via the open public GLEIF API. This means there is no additional effort or cost required by the payer (consumer or business) to obtain the rich information available in the Global LEI Index.

- **Second,** the LEI should be used to identify any originator or beneficiary legal entity, especially in complex scenarios where many entities are involved (i.e. correspondent banking or multi-party payment chains). As such, GLEIF suggests the Table A2.1: CPMI data model for person/entity (ISO 20022 'Party') should include a cardinality of one for organization identification – LEI (1,1)- and therefore 'Required' for the CPMI data model. GLEIF suggests that CPMI should avoid recommending the LEI on an "if available" or "where available" basis. Allowing multiple data sources and identifiers is a major problem in today's payments ecosystems. In today's ecosystems, data sources for entity identification are not standardized, are often incomplete and not readily accessible (see Bank of International Settlements (BIS) publication Corporate digital identity: no silver bullet, but a silver lining for a fuller analysis). There is no transparent data quality control mechanism at the global level which makes it impossible to achieve a consistent level of due diligence. Allowing multiple data sources significantly increases frictions given mapping cannot be achieved across different identifiers or various payments platforms. As an end result, allowing multiple data sources reduces the ability to conduct straight-through processing and achieve interoperable payments ecosystems. Naturally, without frictionless and interoperable payments ecosystems, it is impossible to achieve the goals of faster and cheaper cross-border payments.

Both authorities and market participants recognise the potential benefits of the LEI in strengthening data standardisation as well as assisting and supporting straight through processing, KYC processes and screening (see the benefits noted in the FSB July 2022 Report on LEI and cross-border payments and the the Payment Market Practice Group White Paper: Global Adoption of the LEI in ISO20022 Payment Messages – 2021). Bringing globally unique, standardized and open identification to the entities involved in cross-border payments is the only way to achieve faster, cheaper, more inclusive and more secure transactions. The LEI reinforces a more **secure** payments infrastructure where all endpoints are identified by one consistent, open global identifier. The existing payments ecosystems based on text strings like names (which can be spelled differently abbreviated, etc) and addresses (which can be interpreted differently by different parties), complemented by varying sectoral or local identification schemes (which may not be readily accessible or contain comprehensive or validated data) cannot achieve these objectives.

The Global LEI System is free to use, open, and easily accessible database that consumers and entities are able to connect with 24/7 from anywhere in the world. The LEI connects to key reference data that provides the information on a legal entity identifiable with an LEI: the official name of the legal entity as recorded in the official registers, legal and headquarters address, the establishment date of the entity, the registered address of that legal entity, the country of formation and the direct and ultimate accounting consolidation parents of an entity. The provenance of each entity is linked to its LEI record via its local business identifier. Enabling discovery of the provenance of an entity is a distinguishing and positive characteristic of the Global LEI System. Furthermore each LEI record supplies detailed due diligence information on the source of reference data validation, the last update date of the LEI record and when the next validation is scheduled. With the Global LEI System, all parties can easily know and verify with whom they are transacting. Additionally, the system is endorsed by the more than 65 public authorities that participate in the Regulatory Oversight Committee (ROC). The introduction of the ROC conformity flag will offer a global standard for assessing this due diligence information and determining if the LEI record is sufficiently compliant.

Change is never easy. But the G20 roadmap for enhancing cross-border payments demonstrates change is needed in order to achieve faster, cheaper, more efficient, more accessible and more transparent cross-border payments ("the G20 targets"). This is a once in a lifetime opportunity for the CPMI and JTF to put in place the foundational building block for secure, effective and digitally enabled payments ecosystems – globally harmonized and trusted legal entity identification in payments.

GLEIF suggests that the JTF or the planned CPMI task force on cross-border payments interoperability is the right platform to discuss the transition to mandatory inclusion of the LEI in ISO20022 harmonization requirements for various stakeholders in the payment chain. Such transition scenarios include if (i) the LEI can be obtained by the entity by the financial institution providing payment services (e.g. Validation Agent operating model), (ii) what if the LEI information is not provided by the payor and (iii) how the LEI integration can best support the straight through processing, etc.

GLEIF would like to provide its comments for *Questions 28 and 29: Do you agree that a requirement not to use unstructured postal address information and to use only structured postal address information can help enhance the processing efficiency of cross-border payments? Please explain. Do you agree with the minimum required postal address information consisting of the Country and Town Name fields? Should any additional fields be required*?

GLEIF agrees that more structured postal address information can help enhance the processing efficiency of cross-border payments. That being said, without leveraging a central database for referencing the address information associated with a legal entity, there will always be different interpretations of this information. As such the guidance document should clearly state that an LEI may substitute Name and Postal Address (see Table A2.1: CPMI data model for person/entity (ISO 20022 ‘Party’), footnote 1).