

December 7, 2015

Committee on Payments and Market
Infrastructures Secretariat
cpmi@bis.org

Re: BIS Consultative Report on Correspondent Banking – October 2015

Dear Sir/Madam:

In response to the Bank of International Settlements (BIS) Committee on Payments and Market Infrastructures' consultative report on recommendations to alleviate costs and concerns with correspondent banking activities, the Global Financial Markets Association¹ (GFMA) is pleased to provide you with its comments. Our letter will limit its comments specifically to the CPMI's recommendation to incorporate greater use of the Legal Entity Identifier (LEI) in Know Your Customer (KYC) and information sharing arrangements. GFMA has been in the forefront of helping to establish the Global Legal Entity Identification System (GLEIS), and consequently would like to provide comments on the possible use of LEIs for correspondent banking activities.

GFMA is strongly supportive of the GLEIS initiative and the benefits to risk management and financial stability that it provides. The global financial services industry and regulatory community agree that the LEI is a key enabler to significantly improve systemic risk analysis. Regulators globally play a key role in facilitating the expansion of the LEI system and its related benefits by requiring LEIs to be used broadly in regulatory reporting and other supervisory practices. Consequently, the CPMI's recommendation for use of the LEI would not only be appropriate as an effective tool for risk management, but also as a potential way to further promulgate the inclusion of LEIs in regulatory rulemakings and expand the scope of the global LEI system.

As noted in the CPMI's consultation paper, correspondent banking requires a robust mechanism for identifying the parties involved in payment processes, for reasons ranging from improved risk management to smooth operations. It was precisely for the purpose of improved entity identification that the LEI was developed by the International Organization for Standardization (ISO). GFMA believes the current system under the oversight of the LEI Regulatory Oversight Committee (ROC) and the Global LEI Foundation (GLEIF) is well-suited to be used for the purposes of correspondent banking. The GLEIS provides easily-accessible,

¹ Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the important global regulatory agenda faced by financial market participants. GFMA's mission is to provide a forum for global systematically important banks to develop policies and strategies on issues of global concern within the regulatory environment. GFMA is comprised of three associations: the Association for Financial Markets in Europe (AFME) in London and Brussels; the Asia Securities Industry and Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association in New York and Washington.

standardized legal entity information making it an efficient and effective global standard for KYC and information sharing utilities within correspondent banking.

The consultation paper also correctly identifies as one of the GLEIS' strengths its widespread availability and use. The LEI system given its strong operational and validation processes has earned the trust of regulators and firms around the world, with over 400,000 LEIs issued to entities in 195 countries by 27 local operating units (LOUs). This number is expected to grow into the millions as a number of new regulatory rulemakings come into force in the next 2-3 years.² The regulatory community has the opportunity to require companies to obtain LEIs from any of these LOUs for use in regulatory reporting and other regulatory and supervisory purposes. A database of all LEIs issued globally is available through the Global LEI Foundation (GLEIF)³.

By using LEI system, banks will be able to unambiguously identify counterparties participating in correspondent banking activities, support their AML systems, and address some of the serious concerns with correspondent banking identified in the Consultation. Regulators will also stand to benefit greatly from wider use of LEIs as the system permits them to effectively consolidate information received by their financial intelligence units and to track the linkages and activities of particular institutions more easily. In this regard, GFMA supports BIC-to-LEI mapping for the identification of banks in a payment chain. It is also worth noting that many banks have already acquired LEIs for other regulatory purposes, so the added cost of compliance will be minimized.

GFMA welcomes the recommendation to use the LEI and agrees with the CPMI's statement that the LEI's use in correspondent banking can benefit from the increased use of the standard in other segments of the financial markets, and that use in correspondent banking could in turn reinforce the worldwide demand for the LEI. It is the view of GFMA that the CPMI has an excellent opportunity to help further the goal of creating a robust LEI system while also advancing its own goals.

LEIs are already proving to be a useful tool for many regulators, having been mandated for use in reporting requirements by the Commodity Futures Trading Commission, the European Securities and Markets Authority and other financial regulators around the globe. GFMA urges the CPMI to take on a leadership role in the continuing advancement of this initiative by further promoting the expansion of the LEI. We commend the CPMI for its recommendations regarding the use of LEIs, and hope it will continue to act in support of this worthy initiative.

Sincerely,



David Strongin
Executive Director
Global Financial Markets Association

² See information on rulemaking and estimated LEI issuance in the LEI ROC progress report on *the Global LEI System and regulatory uses of the LEI* which can be found at LEIROC.org.

³ <https://www.gleif.org/en>