

Response of the Global Legal Entity Identifier Foundation (GLEIF) to Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments Request for Comments

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The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments Request for Comments.

GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the consultation.

First some background on the LEI.

The development of a system to uniquely identify legal entities globally had its beginnings in the 2008 financial crisis. Regulators worldwide acknowledged their inability to identify parties to transactions across markets, products, and regions for regulatory reporting and supervision. This hindered the ability to evaluate systemic and emerging risk, to identify trends, and to take corrective steps. Recognizing this gap, authorities, working with the private sector, have developed the framework of a Global LEI System (GLEIS) that will, through the issuance of unique LEIs, unambiguously identify legal entities engaged in financial transactions. Although the initial introduction of the LEI was for financial regulatory purposes, the usefulness of the LEI can be leveraged for any purpose in identity management for legal entities both by the public and private sectors. This includes but is not limited to supply-chain, digital markets, trade finance, and many more.

The LEI initiative is driven by the Financial Stability Board (FSB) and the finance ministers and governors of central banks represented in the Group of Twenty (G20). In 2011, the G20 called on the FSB to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System that provides unique identification of legal entities participating in financial transactions across the globe and the subsequent establishment of the GLEIF by the FSB in 2014. The GLEIF is overseen by a committee of global regulators known as the LEI Regulatory Oversight Committee (LEI ROC), including the Federal Reserve Board, with Joseph Tracy as a current Vice Chair of the LEI ROC (having completed a previous term as Chair), and William Treacy as a member for the Board.

The LEI itself is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization, developed specifically by ISO/TC 68, Financial services.

The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Moreover, the LEI provides freely accessible look up (identification) of the parties to transactions, including in payments and correspondent banking.

The LEI offers both public and private sectors users a one-stop approach to identifying legal entities, which has the potential to take the complexity out of business transactions. Via the Global LEI Index, GLEIF makes available the largest online source that provides open, standardized and high quality legal entity reference data. No other global and open entity identification system has committed to a comparable strict regime of regular data verification.

GLEIF would like to recommend that the LEI be included in the service and corresponding financial messaging for real-time interbank settlement of faster payments as an identifier for each party that is legal entity to these transactions. The LEI also could be leveraged within the supporting liquidity management tool.

The inclusion of the LEI would allow the Board, the Reserve Banks and participants in the faster payments system to know the legal entities behind each party in payments transactions through the use of richer, structured data. Use of the LEI will contribute to the transparency of the faster payments and liquidity management systems while achieving the Fed's goal of improving the speed and efficiency of the U.S. payment and settlement system from end-to-end while maintaining a high level of safety and efficiency.

The Request for Comments, reference is made to the operation of the faster payments system of the Bank of England. GLEIF notes that the LEI is part of the implementation of the faster payments system in the UK.

The Request for Comments further states that 'A 24x7x365 RTGS settlement service could be similar, in certain respects, to the Fedwire® Funds Service, the RTGS service that the Reserve Banks currently provide for banks to clear and settle payments on behalf of their customers and for their own purposes.' GLEIF recently responded to the Federal Reserve Board New Message Format for the Fedwire Funds Service Request for Comment in which GLEIF recommended that the LEI be leveraged for similar reasons in this payments service implementation.

Benefits of using the LEI also could be seen for the private sector as the inclusion of the LEI could allow banks to provide useful services to their customers, like improvements to the flow of payments processes based on a global standard for extended remittance information (the purpose and details behind payment transactions).

Further, financial sector participants of the Fedwire system and the proposed faster payments settlement system will benefit from knowing the identity of the legal entities behind these transactions, make the firms' liquidity management, risk management and assessment of compliance risks easier to manage both for payment services.

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