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ROC/2024/09Rev4-TO FATF

ROC Explanatory Memorandum – Version 2

To: FATF.Publicconsultation@fatf-gafi.org

From: Regulatory Oversight Committee

Date: May 10, 2024

Subject: Regulatory Oversight Committee Observations on the proposed revisions to R.16/INR.16

Background: The Regulatory Oversight Committee (ROC) welcomes the opportunity to respond to the Financial Action Task Force (FATF) Public Consultation on Recommendation 16 on Payment Transparency (R16).¹

The ROC² is a group of more than 65 financial markets regulators, central banks, and other public authorities and 19 observers from more than 50 countries. It promotes the broad public interest by improving the quality of data used in financial data reporting, improving the ability to monitor financial risk, and lower regulatory reporting costs through the harmonization of identification standards across jurisdictions. The ROC is responsible for the oversight of the Legal Entity Identifier (LEI), Unique Product Identifier (UPI), Unique Transaction Identifier (UTI), and other critical data elements of an OTC derivative transaction reported to trade repositories. In carrying out its responsibilities, it ensures that these standards and the entities responsible for their issuance and maintenance (e.g., the Global Legal Entity Identifier Foundation³ (GLEIF) for the LEI, and the Derivatives Service Bureau⁴ (DSB) for the UPI and UTI) fulfil the public interest and comply with the policies defined by the ROC.

As a response to the 2008 Financial Crisis, the G20 along with the Financial Stability Board (FSB) provided recommendations for a global legal entity identifier and a supporting governance structure. These recommendations led to the development of the Global Legal Entity Identifier

¹ <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/R16-public-consultation-Feb24.html>

² <https://www.leiroc.org/>

³ <https://www.gleif.org/en>

⁴ <https://www.anna-dsb.com/>

System⁵ (GLEIS) which, through the issuance of LEIs, now provides unique identification of legal entities across the globe.

The LEI is a 20-character, alpha-numeric code that uniquely and unambiguously identifies legally distinct entities. The LEI supports authorities and market participants in identifying and managing financial risks as it is used for reporting, identity management, analytics, and other regulatory purposes around the world.

ROC members (often along with GLEIF management team members and FSB Secretariat staff) have previously attended the FATF Private Sector Consultative Forums (PSCF) and met virtually with senior FATF staff to discuss the process implications of standardized entity identification via the LEI within the anti-money laundering (AML), Know Your Customer (KYC), and Know Your Vendor (KYV) domains. The ROC welcomes the ongoing dialog with FATF team members and other market participants on the international transparency and process benefits of legal entity identification standardization via the LEI.

In line with the ROC Charter,⁶ and in particular commitment of members to “support the introduction of the Global LEI System for official or international identification purposes” (point 5.c), the ROC seeks to explain the value of the LEI. This document represents the consensus views of the ROC within the ROC’s chartered role and does not purport to speak for any member individually. The ROC appreciates that its members and affiliates may submit separate comments to the FATF on R16.

General Observations: The ROC provides the following general observations regarding R16:

1. The ROC welcomes the inclusion of the LEI as one possible identifier for the originator and beneficiary in payment messages.
2. The LEI is internationally, rather than jurisdictional or SWIFT network, oriented, thereby offering broader coverage across jurisdictional borders and network boundaries into multiple payment domains.

⁵ <https://www.leiroc.org/lei.htm>

⁶ www.leiroc.org/publications/gls/roc_20201001-1.pdf

3. The LEI, as an international identifier standard, can be used to reduce mapping and validation burdens currently associated with the use of jurisdictional entity identifiers within cross-border payment data.
4. The LEI can help identify a greater range of money laundering activities involving legal entities when the LEI is combined with the additional data fields within ISO 20022 payments messages.⁷
5. The LEI can provide a persistent and immediately available global “golden copy” that compliments unstructured address text with the standardized LEI code and its structured consistent address reference data.
6. The International Chamber of Commerce, in its “Trust in Trade reports,”⁸ recommends the use of the LEI and verifiable LEI credentials for enhancing trust (via transparency) for cross-border trade and digital commerce. These Trust in Trade recommendations highlight the trade aspect of cross-border payments and reflects commercial support for migration towards international identifiers and verifiable credentials, specifically using the LEI.
7. The combination of freely available open international standards such as the LEI with the beneficial ownership data standard⁹ offers an effective method of relationship mapping of beneficial owners and legal entities as compared to jurisdictional or platform-specific methods.¹⁰
8. Further, the ROC would like to stress the benefits, both actual and potential, of the LEI in combatting financial crimes, anti-money laundering (AML), and combatting the financing of terrorism. (CFT).

⁷ BIS Project Aurora <https://www.bis.org/publ/othp66.pdf>

⁸ Key Trade Documents and Data Elements Digital standards analysis and recommendations

https://www.dsi.iccwbo.org/files/ugd/8e49a6_a30222d79074409eadb81b0863563edd.pdf

Trust in Trade Verifiable Trust: A foundational digital layer underpinning the physical, financial, and information supply chain

https://www.dsi.iccwbo.org/files/ugd/8e49a6_5a75a77950d7474da772bf9cfc2d985b.pdf

⁹ Beneficial Ownership Data Standard <https://standard.openownership.org/en/0.2.0/>

¹⁰ The Transparency Fabric, a joint initiative between GLEIF, Open Ownership, and OpenSanctions, demonstrates how connecting accessible, clean and transparent open data sources will advance the fight against financial crime by enabling critical data sets to be efficiently matched, particularly in the context of cross-border and instant payments.

<https://www.gleif.org/en/newsroom/gleif-podcasts/why-mapping-datasets-is-crucial-in-the-global-fight-against-financial-crime>

Confidently identifying the entities listed in sanctions lists is currently a challenge for financial institutions, as most are published as lists of entity names and aliases, and the lists change frequently.

One organization estimated that it was currently possible to tag up to 15% of sanctioned Russian issuers with the LEI.¹¹ If this tagging were done centrally by the authority, all financial institutions and market participants around the world would know with certainty the sanctioned issuers via the LEI.¹² Whilst this shows that the LEI is not a complete solution, as adoption of the LEI grows the benefits of using them in support of existing processes will grow as well.

Responses to Specific Questions: The ROC provides the following responses to specific questions within R16:

FATF Question #3:

“Which data fields in the payment message could be used to enable financial institutions to transmit the information on ‘the name and location of the issuing and acquiring financial institutions’ in a payment chain? If appropriate data fields or messaging systems are not currently available, how could they be developed and in what timeframe?”

ROC Commentary regarding Question #3:

The LEI offers one option to include, in a concise way, the name and address of the issuing and acquiring financial institutions in the payment messages for cards. More generally, the LEI could help support transparency in card payments without significantly expanding the size of payment messages, which is an important factor for cards, given that authorization needs to be quasi-instantaneous even in locations that have limited telecommunication network capabilities.

¹¹ See Appendix B: WM Datenservice on the Opportunities of the LEI in Sanctions Screening.

¹² See Appendix B for further demonstrations of third-party support on the value of the LEI for sanctioned entities.

Indeed, the LEI database already provides, free of charge and conveniently, reference data on entities including addresses.¹³

Including the LEI in these payment messages could offer incremental benefits including:

- More standardized information to streamline processing and analytics (including network analytics in an environment where multiple platforms are used to make payments, with a multiplicity of identifiers, such as IBANs, virtual IBANs, card numbers, telephone numbers, wallets).
- More consistent information to enable more effective pre-processing validation steps (including the validation of payees and facilitating the verification that the information on the beneficiary in payment messages aligns with the information verified by the beneficiary institution, as suggested by FATF in its proposal).
- Expanded identifier coverage to payment platforms beyond the SWIFT network in a way that compliments existing and developing payments infrastructure.
- Reduced burden associated with the mapping and validation of disparate jurisdictional and/or platform/network-specific identifiers to assess cross-border payment entities and patterns.

At the PSCF in Vienna in April 2024, there were suggestions that instead of including in full the identification of issuing and acquiring financial institutions in card messages, card networks could publish or make available to law enforcement a list of the codes that are already present in card payment messages to identify such institutions.

The ROC supports exploring whether a way to achieve such objective could be that the Global LEI System partners with card networks to publish mapping tables between such codes and the LEIs of the issuing or acquiring institutions (for instance BIN to LEI mapping). The Global LEI System already has experience with such partnerships for mapping projects (such as with SWIFT for BIC to LEI and with ANNA for ISIN to LEI mapping).

¹³ Active LEIs are LEIs for which the entity has an active contract with an LEI issuer, by which the entity is committing to keep its LEI record updated. An active LEI status also means that the LEI issuer has verified the data within the previous 12/13 months. For enhanced reliability, a financial institution using an LEI instead of a name and Address could be required by FATF to verify that the LEI data is still up-to-date.

More specifically, the collaboration of the GLEIF and SWIFT, since 2018, to publish open-source relationship files mapping BICs described as legal entities or foreign branches to their LEIs.¹⁴ This brings together the LEI as an important global standard for identifying precisely, instantly, and automatically the legal entity financial institution in a payment chain and the BIC as the routing key to the local branch, trading desk, or department involved in the routing of the payment. Together the BIC and LEI enable transmission of the name and location of the involved financial institution business units and legal entities via structured identifiers.

The inclusion of the LEI could improve the screening of ISO 20022 payment messages as outlined in “SWIFT’s Guiding Principles for screening ISO 20022 payments”¹⁵ The BIS Project Aurora project commented upon this particular outcome improving AI/ML capabilities:

“For example, the inclusion of the legal entity identifier (LEI) in ISO 20022 payments messages. When combined with the additional data fields available in these messages, the LEI could help identify a greater range of money laundering activities involving legal entities.”¹⁶

Furthermore, the LEI data model includes Level 2 information, i.e., information about the direct and ultimate parents of a legal entity. This information can be particularly useful when reconstructing illegal activities that use different entities in different jurisdictions to lengthen the payment chain and try to lose traces of such illegal activities. While efforts are on-going to increase the coverage, quality and usefulness of Level 2 information,¹⁷ this information at this early stage with the existing coverage, is already a valuable component of the LEI, which can be an element to leverage when combatting fraud.

Finally, the ROC recognizes FATF’s very appropriate acknowledgement of the cross-border payments domain dynamic and accelerating evolution and increasing risks. In this context, it is critical that the FATF, and other international bodies seeking to effectively implement and enhance anti-money laundering (AML) and combatting the financing of terrorism (CFT)

¹⁴ <https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files>

¹⁵ Guiding Principles for screening ISO 20022 payments: <https://www.swift.com/swift-resource/251416/download>

¹⁶ BIS Project Aurora: <https://www.bis.org/publ/othp66.pdf>

¹⁷ Ongoing efforts include the Policy Conformity Flag that will flag the LEIs that are either not current (not renewed on a yearly basis) or without Level 2 data, which will provide an incentive to reach better coverage.

initiatives across borders, strongly encourage use of global identifiers such as the LEI for originators and beneficiaries transacting with cross-border payments.

FATF Question #8

Would stakeholders support FATF's approach and view that the proposed amendments will improve the reliable identification of the originator and beneficiary and increase efficiency? Which of the two options set out above for the proposed revisions in paragraph 7 would stakeholders prefer and why? To what degree is the customer identification number, as set out in paragraph 7 (d), useful to identify the customer? Are there any other issues or concerns in this regard? Are there any important aspects where the FATF needs to provide more granular advice in the future FATF Guidance in order to facilitate effective and harmonised implementation of the FATF proposal?

ROC Commentary regarding Question #8:

The ROC supports the FATF's broad 'standards' approach to enhancing cross-border payments information transparency and wants to emphasize the LEI's suitability to form part of the approach. . Contrasted with the use of jurisdictional and network identifiers, the international LEI standard reduces burdens associated with the use of jurisdictional and network identifiers, thereby enabling more timely, accurate and effective analysis of cross-border payment data. The LEI should be seen as an enrichment to existing national/ jurisdiction identification processes and systems that enables greater interoperability internationally and supports international harmonization data standards and the associated benefits this would bring.

The LEI provides an internationally recognized and publicly available registry for entity address and location information and thereby may reduce process burdens associated with name matching across cross-border payment messages.¹⁸ Several payments groups have noted that the

²⁰ GLEIF position paper 'Fighting crime with transparency in cross-border payments: The need for universal entity identification' provides a description of these features <https://cbpn.currencyresearch.com/blog/2024/01/26/gleif-fighting-crime-with-transparency-in-cross-border-payments> Also, see Appendix A.

LEI is a suitable standardized complement for name and address information of legal entities involved in cross-border payment transactions.¹⁹

While the ROC recognizes that there are payment systems intertwined with BIC (e.g., SWIFT), the ROC is not recommending to replace BIC, but to complement it with the LEI as they can work together to provide a clearer understanding of organizations, and their participation in payments as originators and beneficiaries. The BIC (business identifier code, originally bank identifier code) is a code used to identify the banks processing the payment. However, the originators and beneficiaries might be non-financial legal entities and the ROC believes that for the identification of the beneficiaries and originators the LEI is best placed as an internationally adopted, open, and publicly overseen standard.

Further, when contrasted with other identifiers mentioned in 7(e), only the LEI has all the required features to enable open and transparent party identification in cross-border payments.²⁰ The LEI's open and transparent internationally standardized approach will help reduce instances of payments fraud and improve straight-through processing by eliminating false positives.²¹

²⁰ GLEIF position paper 'Fighting crime with transparency in cross-border payments: The need for universal entity identification' provides a description of these features <https://cbpn.currencyresearch.com/blog/2024/01/26/gleif-fighting-crime-with-transparency-in-cross-border-payments> Also, see Appendix A.

²⁰ GLEIF position paper 'Fighting crime with transparency in cross-border payments: The need for universal entity identification' provides a description of these features <https://cbpn.currencyresearch.com/blog/2024/01/26/gleif-fighting-crime-with-transparency-in-cross-border-payments> Also, see Appendix A.

²¹ Payments Market Practices Group: Global adoption of the LEI in ISO 20022 Payment Messages version 2, See Use Case 3 – Corporate Invoice Reconciliation and Use Case 4 - fraud detection and fight against vendor scams <https://www.swift.com/swift-resource/251371/download>

Appendix A:

GLEIF Position Paper: “Fighting crime with transparency in cross-border payments: the need for universal entity identification.” Dec 2023.

Attached

Appendix B:

Streamlining Sanctions Screening via the LEI

[Global adoption of the LEI \(Legal Entity Identifier\) in ISO 20022 Payment Messages – Version 2](#)

- LEI being present on 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. 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. – Payments Market Practice Group

[Bloomberg on Using the LEI for Sanctions Screening](#)

- “... LEIs are an important piece of the puzzle when it comes to screening sanctions in an efficient, thorough manner.” - Steve Meizanis, Global Head of Symbology and LEI Services, Bloomberg (LEI: [5493001KJTIIGC8Y1R12](#))

[Element22 on the Power of the LEI in Sanctions Screening](#)

- “Ideally, the LEI would be tagged to all named legal entities by the sanctioning authorities and published alongside the names and aliases.” - Mark Davies, Partner, Element22 (LEI: [9845007F8718FEF54869](#))

[Moody's on the Power of the LEI in Sanctions Screening](#)

- “Moody’s support the inclusion of the LEI in ISO20022 payment messaging as a mandatory data element.” – Ted Datta, Senior Director - Head of Financial Crime Compliance Practice, Europe, Africa & Americas, Moody’s Analytics (LEI: [549300GCEDD8YCF5WU84](#))

[London Stock Exchange Group \(LSEG\) on the Power of the LEI in Sanctions Screening](#) (LEI: [213800WAVVOPS85N2205](#))

[WM Datenservice on the Opportunities of the LEI in Sanctions Screening](#) (LEI: [5299000J2N45DDNE4Y28](#))

GLEIF website: [LEI in Cross-Border Payments](#)