Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments: Consultation report

Response to Consultation

Global Legal Entity Identifier Foundation

General

1. **Is the proposed scope of the recommendations appropriate for addressing frictions arising from data frameworks in cross-border payments?**

The Global Legal Entity Identifier Foundation (GLEIF) welcomes the Financial Stability Board's initiative to tackle data frictions revolving around cross-border payments. GLEIF particularly supports the call for enhanced use of the ISO 17442 Legal Entity Identifier (LEI) in payments messages (Recommendation 6).

The effectiveness of cross border payments rests on the efficient exchange of data between providers and regulators. One essential aspect for the functioning of these data chains is the use of a global standard for organizational identity and verification tools to correctly identify the parties involved in a transaction. Indeed, as trade becomes increasingly global, it is important that businesses can leverage a global standard for legal person or organizational identification.

While Recommendation 6 encourages national authorities to support the use of the LEI in cross-border payments, Recommendation 12 could be expanded to encourage national authorities to develop a national or regional plan for LEI issuance with a focus on service providers.

Service providers are a foundational element in facilitating LEI adoption among corporates for their supplier networks and financial institutions for their onboarding procedures. As such, GLEIF suggests that Recommendation 12 could also emphasize the role of national authorities in promoting broader LEI issuance, by organizing hackathons or sandbox projects that explore the national or regional strategies for expanding the LEI population. Such initiatives would also strengthen the service provider ecosystem that leverages the LEI for key functions, such as verification of payee, sanctions screening and payment processing.

Additionally, Recommendation 6 could be expanded to encourage national authorities to require the LEI for all service provider license schemes or registers. This would significantly

improve cross-border communication among supervisors and enhance consumer protection by providing global transparency on the involved service providers and their corporate hierarchies. Moreover, it would foster more efficient monitoring and investigation processes in the event of issues with service providers.

In summary, encouraging national authorities to require the LEI for service provider identification would enhance information sharing procedures and consumer protection, as the LEI provides an effective and reliable means of identifying 'who is who' and 'who owns who' in the international business landscape.

2. **What, if any, additional issues related to data frameworks in cross-border payments, beyond those identified in the consultative report, should be addressed to help achieve the G20 Roadmap objectives for faster, cheaper, more accessible and more transparent cross-border payments?**

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3. **Is the proposed role of the Forum (i.e. coordinating implementation work for the final recommendations and addressing existing and newly emerging issues) appropriate?**

   GLEIF supports the development of this Forum, recognizing the critical role it would play in fostering collaboration across the diverse and complex ecosystem of cross-border payments. Given that this ecosystem is regulated by many different authorities, including protocols for customer due diligence and onboarding, payment execution, sanctions publications and digital transformation, it is essential to maintain an open and ongoing dialogue. This Forum would serve as a platform for bringing together experts from across the ecosystem, facilitating discussions on emerging developments and their impacts, challenges and innovations across the cross-border payments landscape. By doing so, it would drive forward the continued evolution and harmonization of global payment systems, in line with the objectives of the Roadmap for Enhancing Cross-Border Payments.

Section 1: Addressing uncertainty about how to balance regulatory and supervisory obligations

4. **Discussions with industry stakeholders highlighted some uncertainties about how to balance AML/CFT data requirements and data privacy and protection rules. Do you experience similar difficulties with other types of "data frameworks" that could be addressed by the Forum? If so, please specify.**

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5. **What are your suggestions about how the Forum, if established, should address uncertainties about how to balance regulatory and supervisory obligations?**

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6. **Are the recommendations sufficiently flexible to accommodate different approaches to implementation while achieving the stated objectives?**

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Section 2: Promoting the alignment and interoperability of regulatory and data requirements related to cross-border payments

7. **The FSB and CPMI have looked to increase adoption of standardised legal entity identifiers and harmonised ISO 20022 requirements for enhancing cross-border payments. Are there any additional recommendation/policy incentives that should be considered to encourage increased adoption of standardised legal entity identifiers and the CPMI's harmonised ISO 20022 data requirements?**

The enhanced use of the LEI, as highlighted in recommendation 6, serves as an important step for increasing the use of interoperable standards in payments.

An important policy incentive for participants in cross-border payments ecosystems would be more efficient screening. Recommendation 5, related to the format and content of sanctions publications, could explicitly reference the LEI as a recommended identifier in sanctions publications. Furthermore, the recommendation could encourage sanctions authorities to align with national authorities in promoting the use of the LEI as best practice (as outlined in Recommendation 6). To effectively apply sanctions, national authorities need to establish a robust ecosystem for sanctions screening. This means that the information exchange in cross-border payments includes the LEI prior to any sanctions event. Such a system would ensure that when a nation decides to implement sanctions, all participants within the payments ecosystem can instantaneously and accurately react to sanctions publications.

Implementation of the CPMI's harmonized ISO 20022 data requirements and use of standardized legal entity identifiers would complement the Financial Data Transparency Act (FDTA) implementation in the US. On December 23rd, 2022, FDTA became law, with its inclusion as a title within the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023. The FDTA directs nine financial regulators, including the Federal Reserve Board, to adopt standardized data reporting practices for information collected from regulated entities, and mandates the adoption of an open, non-proprietary legal entity identifier to allow for easy and consistent matching of filings from the same entity across different financial regulators. The Federal Reserve Board recently approved the joint proposed standards to establish the International Organization for Standardization (ISO) 17442-1:2020, Financial Services - Legal Entity Identifier (LEI) as the legal entity identifier joint standard. The joint proposed rules are currently open for a 60-day comment period and final rules are expected before year end.

Regarding further steps, GLEIF suggests that policymakers further explore the implementation of digital identification solutions for organizational identity, specifically the vLEI, in the context of customer due diligence requirements for digital financial transactions. The ability to identify and verify legal persons and the natural person with delegated authority is a foundational element of secure digital financial transactions. A proactive approach by authorities to jointly promote the vLEI as the preferred Digital ID solution for organizational identity would not only reduce costs for market participants but also ensure

that the most rigorous governance, processes and procedures and levels of confidence are applied in the digital transformation of customer onboarding and payments.

8. **Recommendation 4 calls for the consistent implementation of AML/CFT data requirements, on the basis of the FATF standards (FATF Recommendation 16 in particular) and related guidance. It also calls for the use of global data standards if and when national authorities are requiring additional information. Do you have any additional suggestions on AML/CFT data-related issues? If so, please specify.**

   The global expansion of financial crime has demonstrated the need for interoperable tools to address transparency issues emerging across the payments value chain. The LEI can support the implementation of AML/CFT data requirements by providing an efficient means of identifying the parties involved in a payment order – in turn reducing the frequency of fraudulent payments and false positives.

   GLEIF took note of the inclusion of the ISO 17742 Legal Entity Identifier under the Financial Action Task Force's (FATF's) proposed revision of recommendation 16, hereby requiring the LEI to be disclosed by counterparties (originator and beneficiary) involved in a transfer of funds.

   In parallel to the FATF's work, multiple jurisdictions have already put in place measures that highlight how the LEI can contribute to enhancing the identification of counterparties in payments. Notable examples include the European Union's reviewed rules on Transfer of Funds which, subject to the existence of the field in the relevant message format, offers the possibility for payers to provide their and the payee's LEI information when proceeding with a payment. Additionally, the new EU AML Regulation references the LEI as part of identifying and verifying customers and beneficial owners for legal persons meaning the LEI is associated with the customer account information. Other jurisdictions that allow service providers to leverage the LEI for payee validation include India and the United Kingdom.

   GLEIF therefore suggests aligning both Recommendations 4 and 6 by introducing a minor clarification to underscore how the increased adoption of the LEI also contributes to strengthening the AML/CFT framework for cross-border payments. Furthermore, Recommendation 4 could encourage national authorities to consider leveraging the Global LEI System to facilitate access to additional data elements, should the authority determine that such data is essential for local AML/CFT regulation. This approach would not only enhance the precision and effectiveness of AML/CFT measures but also foster greater consistency in regulatory practices across jurisdictions.

9. **Industry feedback highlights that uneven regulatory expectations for sanctions compliance create significant frictions in cross-border payments affecting the Roadmap objectives. What actions should be considered to address this issue?**

   Legal Entities listed on sanction lists are commonly based on names, which frequently generates false positives due to different interpretation of languages and name formats, therefore causing unnecessary disruptions in cross-border payments. By adopting the LEI to identify sanctioned entities, sanction authorities could help the industry to more precisely and efficiently manage their sanction compliance and therefore avoid unnecessary frictions when processing cross-border payments.

As described in the comments to Question 7, Recommendation 5 could encourage sanctions authorities to align with national authorities in promoting the use of the LEI as best practice (as outlined in Recommendation 6). To effectively apply sanctions, national authorities need to establish a robust ecosystem for sanctions screening. This means that the information exchange in cross-border payments includes the LEI prior to any sanctions event. Such a system would ensure that when a nation decides to implement sanctions, all participants within the payments ecosystem can instantaneously and accurately react to sanctions publications.

10. **Do the recommendations sufficiently balance policy objectives related to the protection of individuals' data privacy and the safety and efficiency of cross-border payments?**

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Section 3: Mitigating restrictions on the flow of data related to payments across borders

11. **The FSB understands that fraud is an increasing challenge in cross-border payments. Do the recommendations sufficiently support the development of data transfer tools that specifically address fraud?**

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12. **Is there any specific sectoral- or jurisdiction-specific example that you would suggest the FSB to consider with respect to regulation of cross-border data flows?**

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Section 4: Reducing barriers to innovation

13. **How can the public sector best promote innovation in data-sharing technologies to facilitate the reduction of related frictions and contribute to meeting the targets on cross-border payments in 2027?**

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14. **Do you have any further feedback not captured by the questions above?**

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