

## Use of the Legal Entity Identifier (LEI) in Payments – Status update –

In September 2016, the Payments Market Practice Group (PMPG) initiated an industry dialogue on the use of the LEI in payment messages. A [discussion paper](#) and survey were distributed to the global SWIFT community and to other industry stakeholders with the objectives to –

- 1) Respond to the CPMI<sup>1</sup> mandate to include the LEI in (legacy) payment messages
- 2) Create a framework for an ongoing industry dialogue
- 3) Offer recommendations on the best way forward

The PMPG received survey responses from 40 markets/organizations. The CPMI and Financial Stability Board (FSB) Taskforce on Correspondent Banking is engaged with the PMPG to monitor progress on the PMPG deliverables. The PMPG is now planning to produce a second discussion paper on potential next steps by September 2017 so that we can again engage the industry on the way forward during Sibos in Toronto. In the interim, we want to share a summary of the market responses to the questions presented in the survey.

### *#1 – What are the main problems that the LEI could solve in the payments space and what are the significant benefits that can be derived?*

Many survey responses focused on the problems associated with use of the LEI, suggesting that the LEI does not address any existing problems and that current practices works well. Several respondents believe that the BIC is sufficient for identifying the banks in the payment chain. These respondents are challenged to identify compelling cost or business benefits of using the LEI in payments.

Benefits of using the LEI in payments cited by respondents include the potential to establish a single global identifier, improvement in identifying account parties and greater efficiencies in transaction screening.

The type of responses received show that more education about the LEI is necessary in the market.

### *#2 - How should LEI evolve to address the challenges that you are facing?*

Responses suggest it will be easier to implement usage of the LEI as an identifier in the ISO 20022 standard payment messages, as this standard becomes broadly adopted in the market. To achieve widespread use of the LEI in payment messages, several respondents suggest that a regulatory mandate will be required.

It will be important for the registration of LEIs to increase, both in numbers and scope. Currently, LEIs are issued primarily for regulatory reporting of derivatives transactions or for identifying the issuers of securities registered on the main stock exchanges. In a couple of months LEIs will also be used for

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<sup>1</sup> Committee on Payments and Market Infrastructures (<https://www.bis.org/cpmi>)

identifying issuers and parties to transactions in financial instruments. Parties to payment transactions in all markets/regions will need to apply for LEIs in order to achieve broad adoption. LEIs can also be requested on behalf of another entity and thus enable larger companies to obtain LEIs for their suppliers.

*#3 - What is the added value of having a view on aggregated risk per entity in the payments space?*

An aggregated risk view may provide added value in the compliance and credit risk functions associated with processing payment transactions.

*#4 - What are the significant cost elements that would result from the introduction of LEI in your respective area (payment operations, financial crime compliance, data management, etc.) to take into consideration?*

Responses emphasized that (high) cost and complexity of using the LEI in end-to-end processes are significant concerns which need to be taken into account when adding LEIs to payment messages. The majority of the respondents believe that the cost and complexity issues will be less if the market waits to use the LEI with the ISO 20022 standard payment messages.

*#5 - What are the different use cases that could result from introducing LEI in addition to BIC or in addition to name and account number for originators and beneficiaries in the payments messages? How does the industry resolve for conflicting information?*

Regulators have invited authorities and relevant stakeholders to consider promoting BIC to LEI mapping facilities which may allow for an easy mapping of routing information available in the payment message to the relevant LEI.

Considering the rise in fraudulent activities, the LEI may become a valuable tool in supporting the industry's efforts to meet regulatory requirements and manage costs associated with the correspondent banking model, e.g. KYCC and AML requirements.

Further discussion with Regulators leads to the conclusion that the LEI should be optional and the main focus should be on the Originating and Beneficiary parties. In this scenario, the LEI would be an additional data element, and existing data (Name/Account/Address) would remain mandatory. There is view in the industry that this outcome adds complexity to the use case and will increase implementation costs. This view, subject to further consideration, advocates that if a LEI is provided, the full name and address of the legal entity should not be required.

For the LEI to become an effective tool it needs to be embedded in commercial transactions and hence originators of payments need to capture the LEI of their counterparties in ERP systems. The move to LEI cannot be achieved by the banking sector alone.

*# 6 - What are the options that the PMPG should explore in defining a common market practice for including the LEI in payment messages without changing the current message structure?*

Only a small number of respondents strongly support using the LEI in legacy payment messages. If the LEI should be integrated into legacy formats, its presence should be optional. The use of the LEI in payments messages should be done in a structured way and follow clear usage guidelines. Respondents suggested using a new keyword or letter option in existing fields (50, 59, 70, 72 or 77B); only few recommended the development of a new field. Considering the mixed feedback, to achieve a successful implementation of the LEI in the payments industry, the PMPG believes that further dialogue is necessary in order to avoid diverse and limited usage.

*# 7 - Which other industry group(s) and stakeholders should the PMPG involve in the discussion?*

Responses identified a number of organizations which should be included in any further dialogue – including the CPMI, GLEIF, the Wolfsberg Group and national regulatory agencies.

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