

## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the Simplified Trade System Implementation Taskforce's 2024 Consultation Paper on Simplified Trade System

May 2024

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the Australian Government Simplified Trade System Implementation Taskforce for the 2024 Consultation Paper on Simplified Trade System. GLEIF will focus its comments on the **'Trade Identity Policy Framework'**, especially by showcasing how the usage of Legal Entity Identifier (LEI) and its digital version the verifiable LEI (vLEI) can streamline and digitalize identity management processes in cross-border trade.

### Some background information on the LEI and GLEIF:

- The LEI is a 20-character, alpha-numeric code, based on the ISO 17442 standard, is used for uniquely and unambiguously identifying legal entities globally. Each LEI contains information about an entity's ownership structure and thus answers the questions of ['who is who'](#) and ['who owns whom'](#). Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.
- Established by the [Financial Stability Board](#) in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is tasked to support the implementation and use of the Legal Entity Identifier (LEI). GLEIF is a supra-national not-for-profit organization headquartered in Basel, Switzerland.
- Following the financial crisis of 2008, financial supervisors were unable to reconcile positions and dependencies across financial marketplaces easily. Supervisory authorities can now identify parties to financial transactions across markets, products, and regions for regulatory reporting and supervision in a consistent and systematic way with the introduction of the LEI.
- The private sector uses the LEI as part of their data-driven approaches to client management procedures. The LEI is used to identify their clients in a standardized way thereby connecting internal and external databases through the LEI; so as to speak the same language in entity identification and verification.
- The Global LEI System is overseen by over 71 public authorities (including Australian Securities and Investments Commission) participating in the [Regulatory Oversight Committee](#).

*GLEIF would like to respond to Question 6 under 'Trade Identity Policy Framework': 'What examples of identity-related innovations in other sectors or countries should Australia consider?'*

GLEIF would like to bring up the example of LEI and vLEI as an identity-related innovation that originated in the financial sector but are now being broadly adopted, especially in the trade sector.

Additionally, GLEIF would like to propose to the Australian Government Simplified Trade System Implementation Taskforce to consider 1) the Legal Entity Identifier (LEI) for identification of the cross-border trade participating entities and 2) the verifiable LEI (vLEI) as a digital means for verification and authentication of individuals or objects associated with cross-border trade participating entities.

GLEIF agrees with all the principles being proposed by the 'Trade Identity Policy Framework'. In fact, similar principles were also being defined when the Global LEI System was being established by the Financial Stability Board. In the '[FSB Report Global Legal Entity Identifier for Financial Markets](#)' which was endorsed by the leaders of the G20 nations in June 2012, there is reflection of similar principles in the defined characteristics of the Global LEI System. Below are some examples:

The above FSB report identified that the Legal Entity Identifier shall provide 'Unique identification of legal entities', and the uniqueness and the existence of each entity are confirmed and updated regularly by its local LEI issuer, therefore the LEI as the unique identifier of all trade participating entities can be used across the whole process without frictions from different jurisdictions and different government agencies. Additionally, the Global LEI System is defined as a federated, scalable system designed to ensure that an LEI can be issued to any requesting legal entity, anywhere in the world. Importantly, the Global LEI System is set up as a free available public good by the Financial Stability Board (FSB).

Furthermore, the process for acquiring the LEI is also convenient for legal entities, with currently 38 LEI Issuing Organizations covering 200+ jurisdictions. The LEI can be obtained and adopted in digital solutions, but also in non-digital formats based on the need of the legal entities. The finding of a survey conducted by the Asia Development Bank in 2019 further confirmed the ease of this process: <https://www.adb.org/publications/legal-entity-identifier-accessibility-tfp-survey>.

**These features ensure that the Global LEI System follows the principles of 'Convenient', 'Inclusive' and 'Voluntary'.**

In its role as a key data connector, the LEI enables critical data sets to be efficiently connected. The LEI already links to the local business registration number and is mapped to a myriad of other identifiers, including the OpenCorporates ID, S&P Global Company ID, SWIFT's ISO's Market Identifier Code (MIC) and BIC managed by SWIFT, International Securities Identification Numbers (ISIN) managed by the Association of National Numbering Agencies (ANNA) and the Business Ownership Data Standard (BODS) of Open Ownership. The LEI does not replace local business identification schemes, rather it acts as a connector and makes local identification schemes globally accessible. Furthermore, LEI information on "who owns who" mitigates the risk in interbank and corporate relationships.<sup>1</sup>

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<sup>1</sup> [DeNederlandscheBank \(September 2023\): Measuring intra-bank complexity by \(not\) connecting the dots with LEI. A supervisor perspective](#)

**These features ensure that the Global LEI System follows the principle of ‘Connected’.**

On the basis of the LEI as the identifier for legal entities, GLEIF has developed a new model of decentralized business identity, the [verifiable LEI \(vLEI\)](#), that enables businesses everywhere to use the Global LEI System to not identify themselves but also verify the authenticity of counterparty organizations digitally. Based on a concept known as self-sovereign identity (SSI), this new approach to authentication and verification of digital identity began as a means by which a person, the identity holder, has control of his/her personal data over how, when, and to whom that data is revealed. The vLEI conforms to the popular "never trust, always verify" mantra, embodied by the counterintuitively labelled "Zero Trust Architecture" movement, which is rapidly growing within the cybersecurity industry. It provides a new, verifiable digital trust layer that sits beneath the conventional information exchanged between supply chain organizations and public authorities.

The vLEI infrastructure is a network-of-networks of true universality and portability, developed using the KERI (Key Event Receipt Infrastructure)<sup>2</sup> protocol. It supports the full range of blockchain, self-sovereign identity and other decentralized key management platforms. vLEIs will be hostable on both ledgers and cloud infrastructure supporting both the decentralization of ledgers plus the control and performance of cloud. Portability will enable GLEIF's vLEI ecosystem to unify all ledger-based ecosystems that support the vLEI.

**These features ensure that the Global LEI System and its digital version the vLEI follow the principle of ‘Secure’, ‘Proportionate’ and ‘Interoperable’.**

Beyond these principles, the Global LEI System is being overseen by the Regulatory Oversight Committee, a diverse and influential group of regulators and public authorities from more than 50 countries, and the GLEIF data quality management framework ensures that the LEI remains the industry standard best suited to providing open and reliable data for unique legal entity identification.

**These features also ensure that the Global LEI System follows the principles of ‘Sound Governance’ and ‘Quality Assurance’, which are also important to be considered under the ‘Trade Identity Policy Framework’.**

The above features enable the Global LEI System and its digital twin ‘vLEI’ as a critical identity framework not only for financial sector, but more importantly also for the international trade sector. To specify the importance of the LEI and vLEI, GLEIF would like to quote below some of the findings

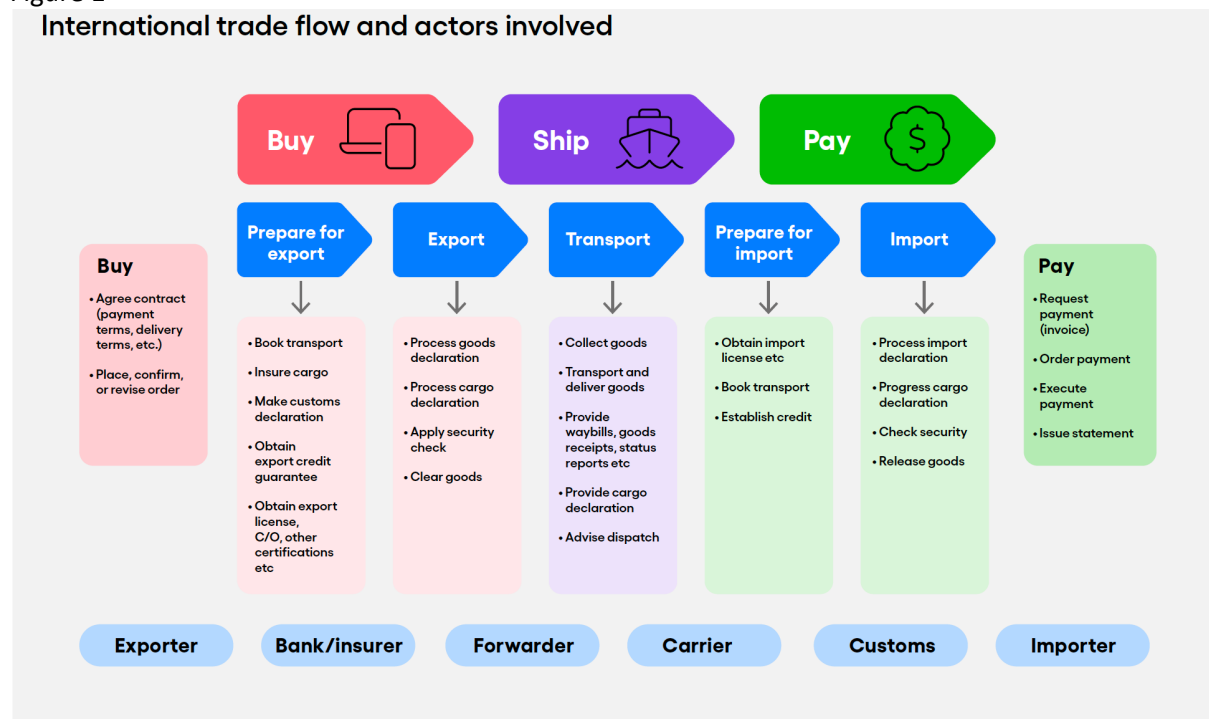
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<sup>2</sup> <https://keri.one/>

from a recent report "Scaling the Use of Digital Identities in International Trade"<sup>3</sup> published by the International Chamber of Commerce (ICC) United Kingdom, the World Trade Board and GLEIF.

According to this report, 'LEIs represent a viable solution for global trade digitalization thanks to their uniqueness and open access model built on globally recognized standards.' The report illustrated the benefits of the LEI based on the Buy-Ship-Pay Reference Model developed by the United Nations Centre for Trade Facilitation and Electronic Business (see below Figure 1).

Figure 1



Source: UNECE Buy-Ship-Pay Reference Models

At the 'BUY' step, the usage of the LEI could help to Enhancing trust and sustainability credentials via below use cases:

- Streamlining counterparty identification processes, e.g. KYC, sanction screening.
- Enhancing risk management for SMEs, 'Uptake of LEIs would result in an annual saving amounting to \$61.9 billion for SMEs involved in international trade'.
- Strengthening sustainability credentials, 'use of LEI can be incorporated to ensure easy retrieval and monitoring of Voluntary Sustainability Standards (VSS) adoption'.

<sup>3</sup> <https://iccwbo.uk/scaling-the-use-of-digital-identities-in-trade/>

At the 'Ship' step, the usage of the LEI could expedite trade processes through automation and trusted schemes via below use cases:

- Enabling automated customs and trade facilitation processes, *'considering the automating customs processes, incorporating LEIs into computerised certificates and documents can provide an additional layer of trust proof based on reliable data on organisational identity. Furthermore, the ISO 17422 standard, as revised in August 2020, allows the integration of LEIs within digital certificates to link entities' multiple certificates from different certificate schemes and issuers.'*
- Enabling Linkage to authorised economic operators, *'AEOs will require rigorous background checks of the economic operators involved, which is where the LEI comes in'.*

At the 'Pay' step, the usage of the LEI could simplify payment and trade finance via below use cases:

- Widespread use of the LEI in payment, *'the Committee on Payments and Market Infrastructure (CPMI) included in Building Block 16 of the Global Roadmap for Enhancing Cross-Border Payments the recommendation on a globally standardised approach supporting the global Legal Entity Identifier for legal entities.'* Additionally, CPMI also indicated that the LEI or BIC could replace name and address information of the payer and payee entities in their ISO20022 harmonization report. Several jurisdictions (e.g. UK, India, China) have already started to require the usage of LEI in their payment infrastructures.
- Improving financial inclusion for SMEs, *'LEIs speed up access to finance through better identification, faster processing of letters of credit, and facilitate access to non-traditional trade finance instruments, such as asset-based finance'.*

Additionally, the LEI and vLEI serve as 'a foundational block to digitalise trade supply chains', especially as more jurisdictions moving towards the adoption of the Model Law on Electronic Transferable Records (MLETR), *'in a fully digitised future trade process, LEIs play a crucial role in enhancing transparency, traceability and security across the entire trade ecosystem'.* (see Figure 2)

Figure 2

#### The level of impact and time to impact of LEIs for trade digitalisation

Steps	Level of effort (time)	Level of impact of LEI	Time to impact	Overall effectiveness
Vendor on-boarding	High	High	Short	Medium
Sale contract	Medium	Low	Short	Medium
Apply for export/ import permit	Medium	High	Long	Medium
Apply for C/O & certifications	High	High	Long	Medium
Apply for cargo insurance	Low	High	Medium	High
Customs declaration for export	Low	High	Long	Medium
Obtain L/C	High	High	Short	High
Prepare L/C payment documents	High	High	Medium	Medium
Arrange payment	Low	High	Short	High

Legend Low Medium High Long Short

Source: "Scaling the Use of Digital Identities in International Trade".

In conclusion, GLEIF believes that the Global LEI System and its digital version vLEI could set an excellent example for authorities and industries to consider when trying to simplify and digitalize trade identity frameworks. GLEIF remains at your disposal to further discuss and support the Australian Government Simplified Trade System Implementation Taskforce in its work. Do not hesitate to engage us in discussions and questions related to the LEI and/or the vLEI in future consultations.