



BANK OF ENGLAND

August 2019

The Bank of England's response to the Department for Business, Energy & Industrial Strategy

Corporate Transparency and Register Reform
Consultation Paper on options to enhance the role of Companies House and increase the transparency of UK corporate entities

Executive Summary

The Bank of England (the Bank) welcomes the consultation on options to enhance the role of Companies House and increase the transparency of UK corporate entities (the Consultation) run by the Department for Business, Energy & Industrial Strategy (BEIS) and the associated plan of “*corporate transparency and register reform*”, and its objective to deliver “*a strong, transparent and attractive business environment in the UK*”.

Since the 2008 financial crisis, the Bank has worked with the G20, the Financial Stability Board (FSB) and international peers on the development of the Legal Entity Identifier (LEI) as a global solution to deliver greater transparency on the identity of entities in financial markets. An LEI is a globally recognised and unique organisational identifier. It can facilitate accurate and timely verification on an entity's identity and ownership structures. It can also help with sharing of information between public and private sector bodies. At the moment take up of LEIs is largely among the financial sector reflecting the post financial crisis reform priorities of the G20 and FSB. In November 2018, the Bank became the first central bank to announce its intention to start to mandate LEIs into payment messages. In the context of the register reform, the Bank believes the LEI could also be a valuable reporting tool for Companies House to deliver greater corporate transparency. More generally, the Bank believes the LEI could be a building block for further innovation, delivering wider economic benefits for end users of financial services – increased usage could raise efficiency, competition and productivity.¹

The Bank believes that a long term goal should be to achieve a situation where all UK companies have a unique globally recognised identifier. In addition to the existing uses of LEIs, adopting and embedding their use more widely across the UK (and ultimately the world) would offer a number of significant benefits to the financial sector and broader economy:

- This is expected to support wider anti-money laundering efforts across the globe.
- Widespread use of the LEI as a unique identifier could enable effective cross-linking and consolidation of a diverse range of datasets – a key enabler for an increasingly data-driven economy.
- Widespread adoption could help make it more efficient for businesses to access finance, credit and other services. For instance, this could be a particular benefit to small and medium-sized enterprises (SMEs), if linked to a portable credit file.

¹ Dave Ramsden's Speech, 8 May 2019, [Resilience and innovation in post-trade](#)

Given the potential widespread benefits of LEIs, the Bank suggests that BEIS might consider making Companies House an issuer of LEIs as a primary or secondary identification number for UK companies. This could enhance Companies House's major role in the process of primary identification of UK companies, independently of their legal form. Such a development could also lead to a critical mass and help to achieve the desired network effects.

As LEIs become more widely used, UK companies could use this identification number on a global basis, in particular in digitalised processes in relation to international trade or supply chains. LEIs could also be useful to Companies House should it need to carry out data verification by cross-referencing with other national and international sources.

The Bank's response to the Consultation includes a general section on LEIs (Part 1), a section on the benefits of LEI adoption, and the potential role Companies House could play as an issuer of LEIs (Part 2), and a section addressing the questions raised in the Consultation under which LEIs could play a valuable role (Part 3).

Introduction

1. The Bank of England (the Bank) welcomes the opportunity to comment on the Department for Business, Energy & Industrial Strategy (BEIS)'s consultation on options to enhance the role of Companies House and increase the transparency of UK corporate entities (the Consultation), which is *"about delivering a strong, transparent and attractive business environment in the UK"*.
2. The Bank supports *"the Government's vision for a companies register built upon relevant and accurate information that supports the UK's global reputation as a trusted and welcoming place to do business and a leading exponent of greater corporate transparency"* and the aim for Companies House to *"deliver an even stronger contribution to economic growth in the UK, whilst strengthening the UK's ability to combat economic crime"* (para 11 of the Consultation).
3. In this context, the Bank believes there could be value in extending use of Legal Entity Identifier (LEI) for businesses in the UK. As a globally recognised and unique organisational identifier, the LEI could be a valuable tool for Companies House to deliver greater corporate transparency. Furthermore, the Bank suggests that as part of the *"Corporate Transparency and Register reform"* (the Reform), BEIS might consider making Companies House an issuer of LEIs as a primary or secondary identification number for UK companies, as this would enhance its major role in the process of primary identification of UK companies.
4. The LEI is a global standard, endorsed by the G20 and recognised internationally. LEIs can facilitate accurate and timely verification on identity and ownership structures and sharing of information between public and private sector bodies. If adopted by Companies House, as the Registrar of Companies, LEIs can help address some of the concerns highlighted (para 8 of the Consultation) that the current UK framework for Corporate Transparency and Register is too open to misuse, in particular:
 - *"Misuse of UK registered entities by international criminals and corrupt elites"*.
 - *"The accuracy of information held at Companies House"*.
 - *"The abuse of personal information on the register"*.
 - *"The limited nature of cross checks"*.
5. The Bank considers the Reform as a unique opportunity to unlock the full potential of LEIs for a stronger, more transparent and more attractive business environment in the UK, whilst supporting the Government's vision for the Register to underpin the UK's global reputation as a trusted and welcoming place to do business and a leading exponent of greater corporate transparency.

Part 1 - About LEIs

Why was the LEI introduced?

6. The LEI was developed post the 2008 financial crisis to uniquely identify parties to financial transactions; it came as the result of joint public and private sector efforts to fill the gaps in the regulation and supervision of the financial sector under a political mandate given by the G20² to the Financial Stability Board (FSB).³

What is the LEI?

7. The LEI is a 20-character alpha-numeric code, serving as an organisational identifier. Its aim is to identify legally distinct entities on a unique basis. LEIs are linked to reference data which provide basic information on the legal entity itself, such as its name and address, and its ownership (direct and ultimate parent entities). The way the LEI code should be structured and its fundamental underlying features were defined under an international standard set by the International Organisation for Standardisation (ISO). ISO standard 17442 (defined in 2012 and revised in 2019) specifies the elements of an unambiguous LEI scheme to identify the legal entities relevant to any financial transaction. The LEI has been designed for automated processing which has presided to the Bank's decision to implement LEI as a reporting field for organisational identification in payment messages (see para 13).
8. LEIs were designed for legal entities independently of their legal form. This includes, but is not limited to, unique parties that are legally or financially responsible for performing certain transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual). It can also include governmental organisations, supra-nationals and individuals when acting in a business capacity, but excludes natural persons.

² G20 Cannes Summit, Final Declaration, 4 November 2011, "Filling in the gaps in the regulation and supervision of the financial sector". *"We must ensure that markets serve efficient allocation of investments and savings in our economies and do not pose risks to financial stability. (...) We support the creation of a global legal entity identifier (LEI) which uniquely identifies parties to financial transactions. We call on the FSB to take the lead in helping coordinate work among the regulatory community to prepare recommendations for the appropriate governance framework, representing the public interest, for such a global LEI by our next Summit."*

³ The FSB is established to coordinate at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

9. Further information on LEIs can be found in **Annex 1** including:
 - i. Governance system for LEI
 - ii. Who can issue LEIs
 - iii. Initial registration for an LEI and annual renewal
 - iv. Fees for obtaining and maintaining an LEI.

Use of LEIs to date

10. Though a central system has been set up to govern the issuance of LEIs (see **Annex 1**), use of LEIs is not mandatory under this system. Adoption has been left up to prescription by international or national policy makers or to voluntary use by the private sector. Hence, the use of LEIs has been implemented as part of various regulatory reforms in the financial sector. It has been primarily included as a mandatory reporting field in regulations whereby regulated financial entities have to report LEIs for themselves or other parties when engaging in certain financial transactions, or companies need to have LEIs if they want to issue instruments on certain capital markets.⁴

Part 2 – LEI adoption

Bank's interest in using LEIs for payment messages

11. The Bank provides sterling settlement services for various payment systems in the UK through the Real Time Gross Settlement (RTGS) system. An average of over £650bn is settled through the system each working day. The majority of these payments are CHAPS payments. The Bank is the operator of the CHAPS system (CHAPS), which is one of the largest High-Value Payment Systems in the world, providing efficient, settlement risk-free and irrevocable payments.
12. The Bank is currently running a Programme to renew the RTGS system which underpins CHAPS (the RTGS Renewal Programme). The vision for this Programme is to develop an RTGS service which is fit for the future. It will notably place resilience and interoperability at the heart of the service. As CHAPS operator, the Bank will implement another ISO standard (ISO 20022 standard for

⁴ In Europe, this is the case for instance under the Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR) for reporting of financial transactions, and issuance of securities, or through the European Market Infrastructure Regulation (EMIR) on derivatives trade reporting.

global financial industry messaging), as a Common UK Credit Message (CCM) in CHAPS. Other payment systems are also committed to using this CCM (Bacs and Faster Payments).

13. A key priority of moving to the ISO 20022 standard in payment systems is to transmit richer and more standardised information on the identity of parties to a payment. The new CCM includes designated fields for the inclusion of organisational identifiers in a structured format to enhance the identification of parties or agents to transactions. Since LEIs enable consistent and accurate identification of legal entities on a global basis and are designed for automated data-processing, the Bank has spearheaded efforts to include the LEI in the new messaging standard. And in November 2018, the Bank became the first central bank to announce its intention to start to mandate LEIs into payment messages, as part of the migration to the CCM.⁵

14. The Bank received positive feedback, when it consulted with the public in summer 2018. In particular, the majority of respondents supported the Bank's view that using the LEI as a means of identifying the parties in a transaction has widespread benefits (see para 15), including risk management and fraud prevention, making payment processing more efficient and providing richer data. Therefore, the Bank has committed to *"champion the LEI as a globally recognised and unique identifier for all businesses in the UK, including integrating the LEI in the Bank's new RTGS service and mandating its use in payment messages"*.⁶ The use of LEIs in payment messages *"will be mandated for financial institutions and as a next step [the Bank] is considering how to extend this to corporate payments. That could mean that the payment data sent via CHAPs of non-financial firms could be made available for inclusion in a portable credit file. The LEI could also act as the unique identifier for a digital ID, which could help the two-step verification process required for a secure system"*.⁷

Benefits of LEI adoption

15. The Bank believes that introducing LEIs specifically into payment transactions would deliver a number of significant benefits, including:
- i. Assisting with faster and simpler reconciliation and risk management processes for end-users.

⁵ Bank of England, June 2018, [ISO 20022 consultation paper: a global standard to modernise UK payments](#)

⁶ Bank of England, 20 June 2019, [Response to the van Steenis review on the Future of Finance](#)

⁷ Bank of England, Governor Carney, 20 June 2019, [Mansion House Speech](#)

- ii. Enabling enhanced due diligence and risk management by payment service providers and corporate end-users.
 - iii. Reducing delays in payments processing, due to increases in straight-through-processing.
 - iv. Assisting with continued provision of correspondent banking services by facilitating information sharing in a standardised format, reducing the risk and cost associated with due diligence processes.
 - v. Providing the Bank, as CHAPS operator, with a more informed view of activity in the CHAPS payment system, allowing it to make better decisions based on a fuller identification of systemic risks.
 - vi. Supporting more effective policy decisions by public authorities, given better data on economic activity in the UK will be available to the Office for National Statistics and policy makers.
16. The Bank also considers that adopting and embedding the use of LEIs more widely across the UK (and ultimately the world) would offer a number of significant benefits to the financial sector and broader economy:
- i. This is expected to support wider anti-money laundering efforts across the globe. LEIs could help to tackle economic crime by playing a central role in facilitating Anti Money Laundering (AML) checks. LEIs can enable efficient checks on identity and ownership with other private and public bodies in the UK and internationally as it provides clarity on the entity that is being checked. The AML example is covered further in response to question 33 of the Consultation (see paras 26-29).
 - ii. Widespread use of the LEI as a unique identifier would help effective cross-linking and consolidation of a diverse range of datasets. For instance, from the Government's perspective, in the context of the UK's digital strategy, LEIs could help improve identification and access to public services. This would enable the Government to cross-reference information from other data sources, including international sources, and share across government departments. In the long run, if LEIs were used more widely as a building block for company identification, this would likely bring operational efficiencies for government departments and other public bodies. It could help to streamline identification and data quality checks. For end-users, it could also improve the user experience and alleviate administrative burden of reporting requirements based on a "only tell us once" principle.
 - iii. Widespread adoption could help business access the finance they need to grow. For instance, a unique identifier such as the LEI could be linked to a 'portable credit file' into

which businesses could pull their data and shop around for more diverse and competitive finance options. In turn, this could help to close the £22bn funding gap for SMEs⁸ in the UK. The portable credit file example is covered further in response to question 32 of the Consultation (see paras 23-25).

17. Further details on the benefits of LEI adoption and an illustration of how business processes could be streamlined using the LEI as a common building block for identification is presented in **Annex 2**.

Companies House as an issuer of LEIs

18. The Bank believes that a long term goal of the corporate transparency and register reform should be to achieve a situation where all UK companies have access to a unique globally recognised identifier.
19. Beyond the specific existing uses of LEIs in financial transactions, the Bank believes that adopting and embedding their use more widely across the UK would offer a number of significant benefits to the financial sector and broader economy as already elicited (see para 16).
20. The Bank also understands that as part of the Consultation, BEIS seeks views on how to deliver more reliably accurate information on the Companies House register, and reinforced identity verification of individuals.
21. Bank analysis suggests that the LEI could not only be a valuable tool for Companies House to deliver greater corporate transparency, it could also become a building block for company identification. If Companies House became an issuer of LEIs as a primary or secondary identification number for UK companies it could enhance its role in the process of primary identification of UK companies, independently of their legal form. As part of this, Companies House systems could be adapted to carry checks currently performed by LEI issuing entities (as explained in **Annex 1**) and generate LEIs as a unique global identifier either for all entities on a systematic basis as a primary identification number, or on an ad-hoc basis for entities who wish to have LEIs as a secondary identification number.

⁸ The Bank of England, 20 June 2019, [Response to the van Steenis review on the Future of Finance](#)

Companies House could verify some of the registrant information as part of the registration and renewal process for greater quality assurance. In doing so, Companies House would retain a level of control and scrutiny on the mapping of Companies House numbers to LEIs for UK legal and economic entities. And, subject to rules applying to data protection and business secrecy, Companies House could use LEIs as the building block to share or compare data against other data sets held by public bodies, notably data held by financial sector regulators and the private sector. Such a development could also lead to a critical mass and help to achieve the desired network effects.

22. In the longer term, as the LEI become more widely used, UK companies could use LEIs as an identification number on a global basis, in particular in digitalised processes in relation to international trade (export finance or supply chains). LEIs could also be useful to Companies House itself should it need to carry out data verification by cross-referencing with other national and international sources.

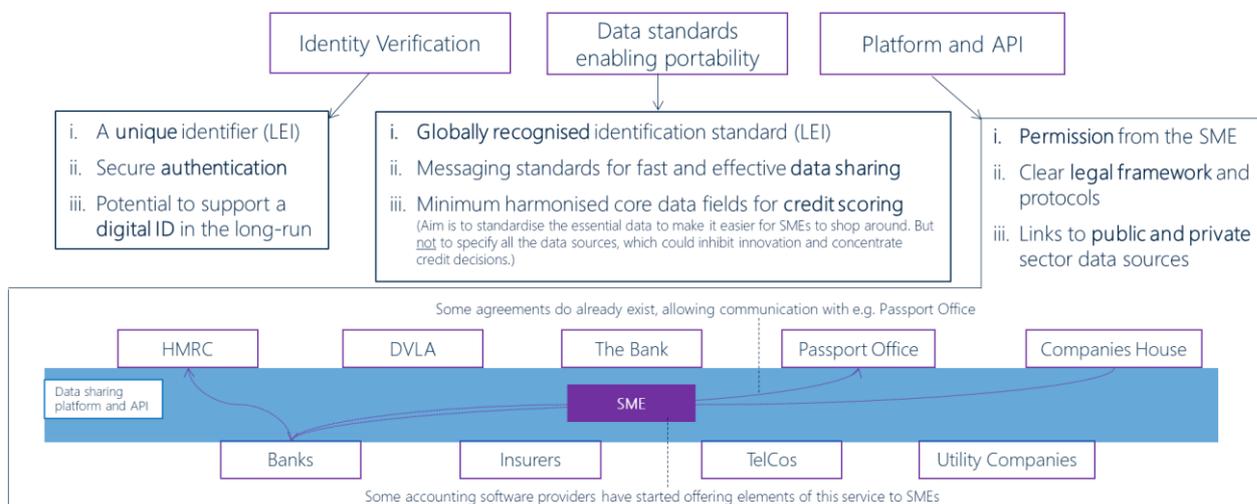
Part 3 - Response to the Consultation Questions

Q32. Do you agree that there is value in Companies House comparing its data against other data sets held by public and private sector bodies? If so, which data sets are appropriate?

23. Yes. There are two key reasons why the Bank agrees there is value in Companies House comparing its data against other data sets held by public and private sector bodies:
24. Firstly, the Bank believes this would help to identify financial crime. LEIs can play a central role in facilitating AML checks and should be a key component in the data set that is shared. LEIs can enable efficient checks on identity and ownership with other private and public bodies in the UK and internationally as it provides clarity on the entity that is being checked. The AML example is covered further in response to question 33 (see paras 26-29).
25. Secondly, the Bank believes this could help to facilitate access to finance for small businesses. As part of an open data platform, it could enable businesses to pull their data together into a 'portable credit file' to access more diverse and competitive sources of finance, for instance through the possibility to set up portable credit files. For illustration purpose, an example of how such a portable credit file could be set up is provided below. Evidence from the recent future of

finance review suggests that a link to HMRC is critical, as are other public/private sources that help verify names and addresses of directors, such as DVLA, Passport Office and utilities.

Illustration 1: How a portable credit file could be set up⁹



Q33. Do you agree that AML regulated entities should be required to report anomalies to Companies House? How should this work and what information should it cover?

26. The Bank agrees it is important that anomalies or discrepancies on the register that are identified by AML regulated entities be reported promptly to Companies House.
27. For anomaly reporting to work effectively, there should be a channel whereby AML regulated entities report. This could be either indirectly through their competent regulatory authorities under Money Laundering Regulations, or directly to Companies House. Companies House could take appropriate action, either through powers to amend or remove information, or through liaison with law enforcement partners and other regulators (as suggested by para 214 of the Consultation).
28. Given its key features and the possibility to act as a building block to consolidate various datasets, LEIs could help AML regulated entities to identify and report anomalies if used as part of their AML checks for client on-boarding or regular monitoring. LEIs could then be a key component of the reporting of anomalies by the AML regulated entities. LEIs would mean that the AML regulated

⁹ Bank of England, 20 June 2019, [Open platform for SME finance](#), Published alongside the Governor's Mansion House Speech and the Bank of England's response to the Van Steenis review on the Future of Finance

entity would not need to convert from their own internal entity identifiers to the other external identification numbers to report anomalies they identify.

29. Through wider adoption of LEIs, including the adoption of LEIs as a mandatory reporting field in payment messages, Companies House would also have a link to an expanding range of global databases. LEIs would therefore become a building block to tackle AML and in the prevention of economic crime.

Q17. Do you agree that verification of a person's identity is a better way to link appointments than unique identifiers?

30. The Bank notes the Government's intention to have an effective means of linking records and activity on the register in particular on individual appointments and that *"The government believes that, rather than introduce unique identifiers, a better solution would be to use a person's verified identity to link their appointments on the register."* (para 120 of Consultation). The consultation considers two options: implementing unique identifiers and using a person's verified identity to link their appointments on the register.

In this context, the Bank would like to refer BEIS to work that GLEIF and XBRL are currently undertaking on linking individual appointments to LEIs through Digital Certificates.

Annex 1: Background Information on LEI

Governance of LEI

The system of global identification underpinned by the LEI was established as a public good and organised around principles of transparency, and free access to information. The LEI is non-proprietary and use of LEIs as well as access to related reference data is free for regulators and the public. The FSB retained close scrutiny on the governance which led to establishing the Global LEI system (GLEIS) - a three tiered system:

- i. Regulatory Oversight Committee (ROC) - has the ultimate responsibility for the governance of the global LEI system. It is composed of more than 70 member public sector authorities, including the Bank.
- ii. Global LEI Foundation (GLEIF) - has a central operational responsibility for delivering high quality operations by local LEIs issuers.
- iii. Local Operating Units (LOU) – are LEI issuers who are the primary interface for entities wishing to register for an LEI at local level.

But in itself, GLEIF has no statutory powers to prescribe the use of LEIs. It is left up to private and public sector to adopt it and up to policy makers to define what should be the use of LEIs e.g. for regulatory reporting or statistical purposes.

Who can issue LEIs

Only LOUs accredited by GLEIF can issue valid LEIs. Any type of organisation can apply for an accreditation as a LOU. LOUs' status varies. Some are public sector institutions (e.g. business registries, national statistical offices), or private sector bodies (e.g. numbering agencies issuing the International Securities Identification Number (ISIN), stock exchanges). Some LOUs operate in multiple countries, while others specialise in a given jurisdiction. In the UK, there are currently 2 physically-based LOUs,¹⁰ but 18 LOUs can issue LEIs for UK entities. Legal entities applying for LEIs can enjoy portability between competing LOUs.

Initial registration for an LEI and annual renewal

The GLEIS relies on self-registration, whereby registrants are responsible for the accuracy of their data. Only an entity to receive an LEI or its authorised representative may apply for an LEI code. An LEI registrant can permit a third party to perform an LEI registration on its behalf, only if the registrant has provided explicit permission for such a registration to be performed. This characteristic is meant to ensure that

¹⁰ Bloomberg and the London Stock Exchange

entities have the primary responsibility for the accuracy of their data and reduce the risk that several LEIs could be requested for the same entity.

As part of their accreditation and functions, LOUs are also required to check data provided to them by registrants against authoritative and reliable sources (public sources such as existing business registry, or private legal documentation) prior to publishing the LEI and associated reference data. Legal entities registering for an LEI have to commit to (i) provide true, full and authentic information, and (ii) review the accuracy of this information at least annually under a "renewal" process and promptly submit any changes. This applies on an ongoing basis and for the life of the entity, unless the entity was to withdraw its LEI and terminate the contract without porting its LEI to another LOU.

Fees for obtaining and maintaining an LEI

The GLEIS is funded by fees paid by legal entities when registering initially and renewing annually their LEI registration, on a cost-recovery basis.¹¹ The fees structure is made of two parts: a small flat portion goes to the GLEIF and another varying part goes to LOUs.¹² There has been a significant reduction in these fees since the early years of operations (with prices having more than halved in many jurisdictions as noted by the FSB in its recent peer review of the implementation of the LEI).¹³ GLEIF is considering how to enhance the LEI business model to lower the cost and administrative burden for entities acquiring and maintaining their LEI.¹⁴

In the UK, use of LEIs has been primarily driven by requirements of financial regulations, and notably by entry into force of Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR).

¹¹ FSB, 29 April 2018, [Thematic Review on Implementation of the Legal Entity Identifier Report](#)

¹² As of 2019, the flat portion of fees going to GLEIF is USD 11 (reduced from USD17 as of 2018). Fees charged for new LEI issuance range between USD 55-220 and those for LEI renewals between USD 35-125.

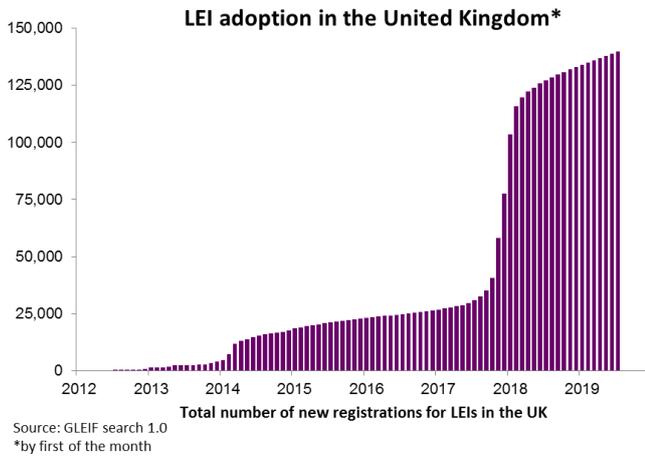
FSB, 29 April 2018, [Thematic Review on Implementation of the Legal Entity Identifier Report](#)

¹³ *Ibid.*

¹⁴ *Ibid.*

LEI Adoption

Chart 1: LEI adoption in the UK



Source: Bank's calculations based on GLEIF data.¹⁵

Table 1: Top ten countries with LEI adoption July 2019

LEIs top 10 countries	Country	Number of LEIs	Proportion
1	United States	194750	13.37%
2	United Kingdom	140621	9.66%
3	Germany	122949	8.44%
4	Italy	110429	7.58%
5	Netherlands	103178	7.09%
6	Spain	102447	7.04%
7	France	78576	5.40%
8	Denmark	56535	3.88%
9	Sweden	55320	3.80%
10	Luxembourg	39772	2.73%

Source: Bank's calculations based on GLEIF data.¹⁶

¹⁵ GLEIF [LEI Search 1.0](#)

¹⁶ GLEIF [LEI Statistics](#)

Annex 2: Case study of LEI benefits - Illustration of streamlined business processes using the LEI as a common building block for identification

Companies engaging in business relationships want to know who they are doing business with, for instance, as part of their supply chain. Financial service providers such as commercial banks providing them with financial services also need to carry out due diligence in the context of new client on boarding and regular screening as part of their internal processes or for regulatory requirements. Companies also need to file data reporting with other private sector entities or public sector bodies. They may need to cross-check their data in relation to a given company against data held by others.

Currently, frictions related to company identification occur throughout these business processes. Companies or their service providers can experience challenges around identification which leads to various types of costs (e.g. administrative costs and delays).

In a context of increasing digitalisation of processes, widespread adoption of LEIs could help to solve some of these issues regarding identification, identity checks and assurance and reduce constraints at a practical level.

The following case study illustrates how business processes could be improved thanks to efficiency gains. This is under the assumption that (i) LEIs were widely adopted, readily available and used as a unique company identifier in the UK across sectors, and (ii) the LEI was included in Companies House register as a data field.

Benefits in using the LEI as a unique identifier could materialise at various stages of the business cycle (Diagrams 1 and 2). The Bank believes that benefits could also materialise in the context of payment processes (e.g. for screening by payment service providers) (Diagram 3).

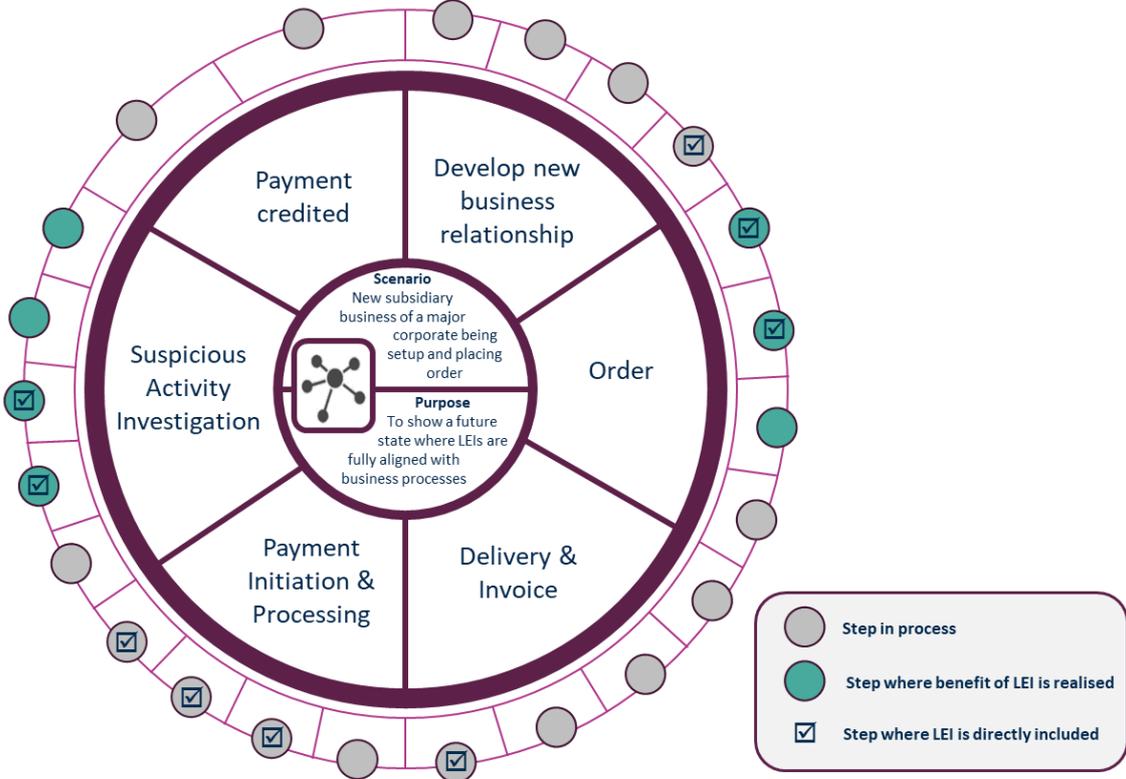


Diagram 1: Overview of potential benefits in using the LEI as a unique identifier across the business cycle

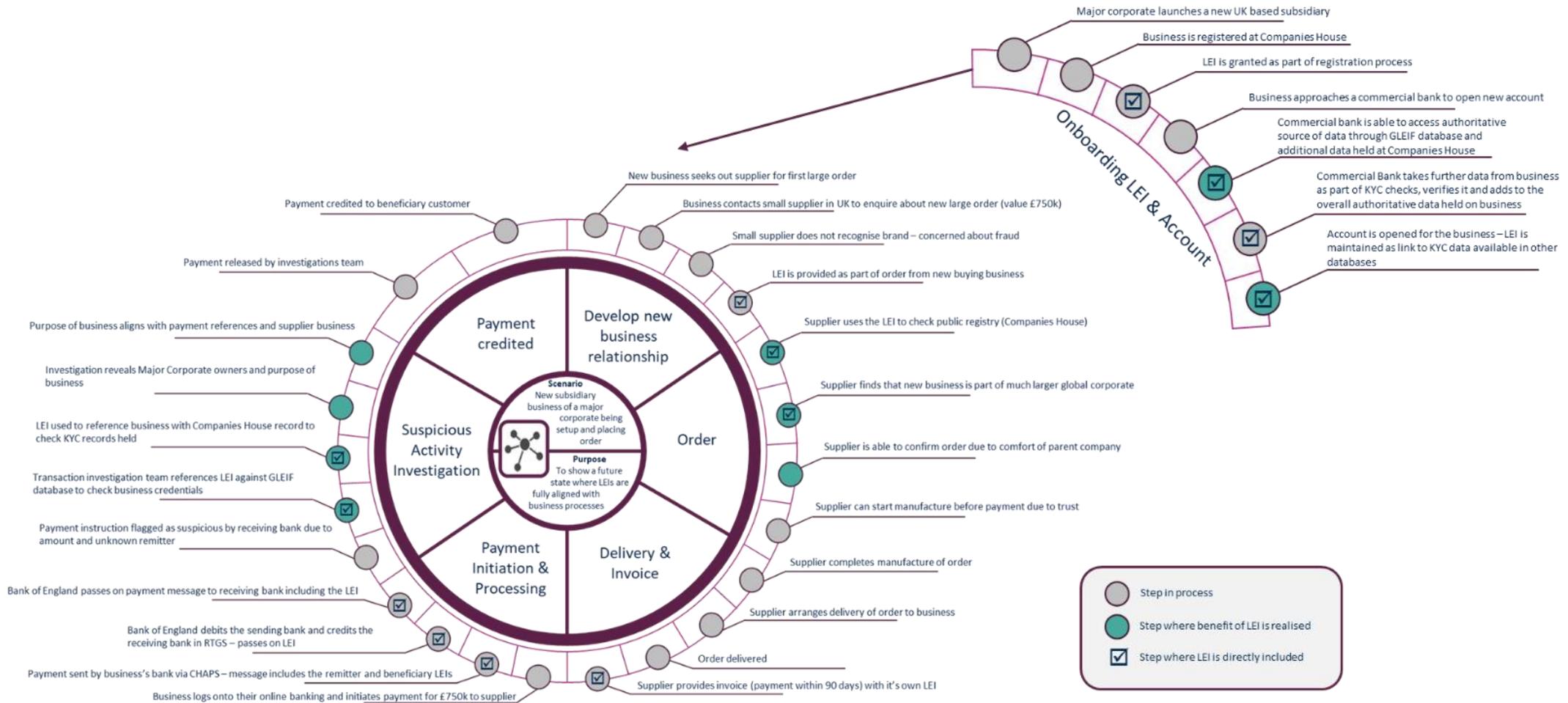


Diagram 2: Detailed view of potential benefits in using the LEI as a unique identifier at various stages of the business cycles

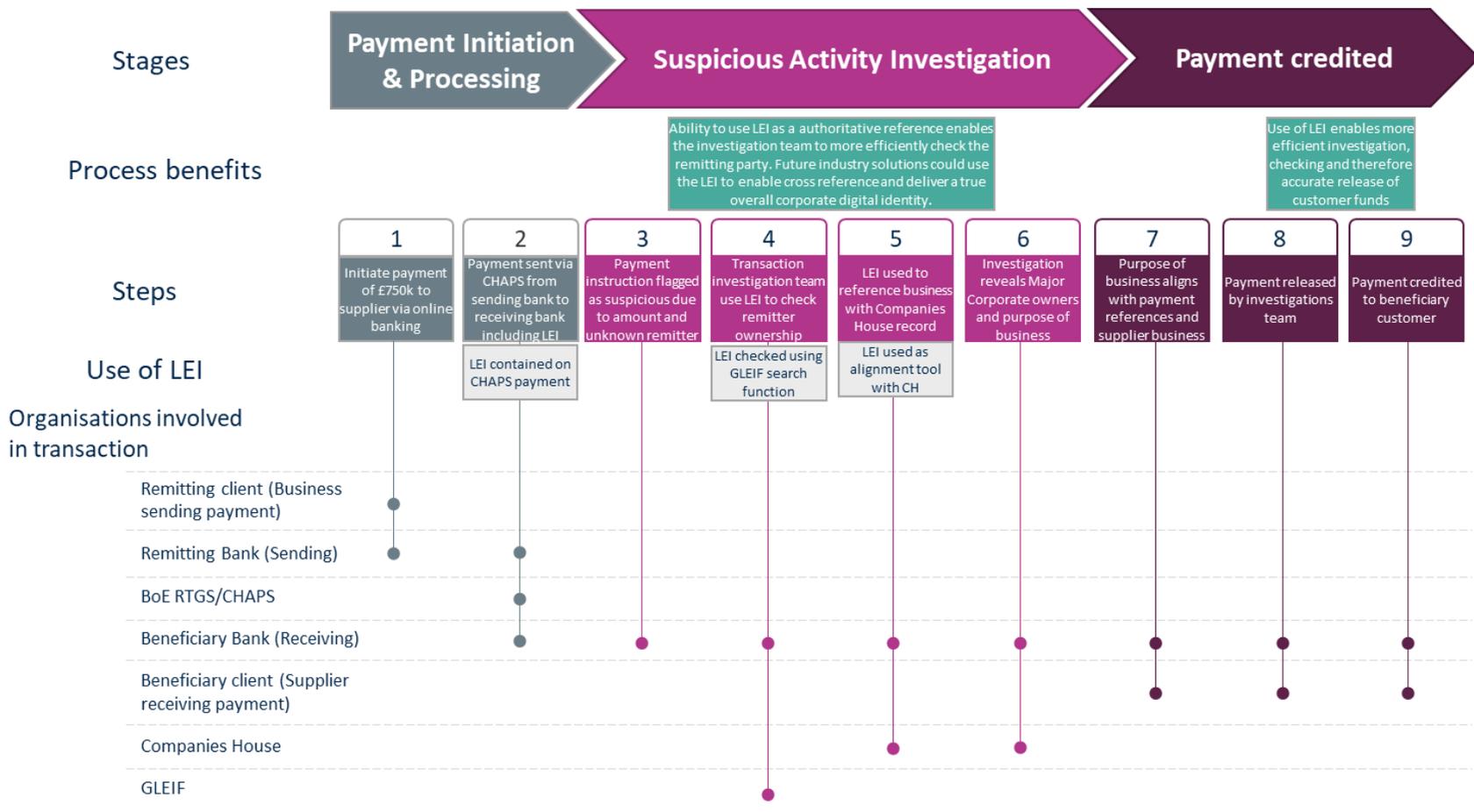


Diagram 3: Overview of potential benefits in using the LEI as a unique identifier in payment processing (e.g. for screening by payment service providers)