Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission Proposed EU Artificial Intelligence Regulation

August 6th, 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission's Proposed EU Artificial Intelligence Regulation. GLEIF will focus its comments on how using the Legal Entity Identifier (LEI) in the AI framework can enhance traceability and transparency.

First, GLEIF welcomes the Commission's decision to harmonize the rule setting pertaining to AI across the Member States to prevent a patchwork of divergent national rules, potentially would create additional legal uncertainty and barriers and slow market uptake of AI in the EU. A solid European regulatory framework for trustworthy AI will also ensure a level playing field for all citizens and businesses.

GLEIF agrees that the nature of AI often relies on large and varied datasets, which significantly impacts the quality and reliability of the AI systems. Algorithms rely on quality data, and most firms recognize the need for quality data inputs. In particular poor-quality identification data renders AI and machine learning approaches less reliable, and worse, may result in missing the signal in the data and or unexpected behavior of the algorithm. For example, in the financial industry, a GLEIF research demonstrates that financial firms use on average 4 identifiers for their legal entity clients which leads to low confidence in the reliability of the associated client reference data. Considering the interconnectedness of the financial sector and institutions, several institutions' use of low-quality data can negatively impact risk assessment and exposure analysis and create a challenge for financial stability. This is also applicable in the usage of AI for financial risk solutions. These new solutions use AI technology to aggregate and analyze client data across financial crime detection systems such as know your customer (KYC) and anti-money laundering (AML) to improve outcomes. The success of these solutions will be dependent on the data input that is leveraged. Given the Commission's proposal aims to strengthen the Union's role significantly to shape global norms and standards and promote trustworthy AI and provide the Union with a powerful basis to engage further with its external partners, an explicit reference to the global data standards, including the LEI for legal entity identification as part of the dataset, should be key in international fora on issues relating to the identification in AI.

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'. Besides the regulatory use of the LEI by supervisors, the private sector, particularly financial institutions, use the LEI as part of their data-driven approach in their client management procedures for being able to identify their clients in a standardized way and connecting internal and external databases through the LEI; so as to speak the same language in entity identification and verification.

GLEIF would like to highlight that each AI solution is a product of multiple components. Each algorithm develops its patterns based on the input and the parameter set. The lack of labeled data is one of the most often encountered challenges when it comes to application of AI approaches. With the LEI code

and the accompanying publicly available reference data, GLEIF offers a high quality labeled data set, that could be used for (i) different learning problems, (ii) as a benchmark data, or (iii) to be mapped to additional internal data in order to enhance the internal data and provide the data label.

For example, GLEIF is the Maintenance Agency for the ISO 20275 Entity Legal Form (ELF) Code List. The list contains legal forms/types in their native language, such as limited liability companies (Ltd), Gesellschaft mit beschränkter Haftung (GmbH) or Société Anonyme (SA). The ELF Code List assigns a unique code to each entity legal form. ISO points out that understanding the legal form of an entity "*is an important component of financial services transactions. Entering into a business relationship requires distinguishing the type of entity that is being transacted with. Parties (and their organizational structure) involved in financial transactions need to be identified within these transactions. Standardization of the legal or organizational construct will aid flexibility and provide greater understanding of exposure to risk and access to capital*." ELF code is a data field in the LEI reference data. The LEI reference data with the ELF code as a label can be used to develop an AI model to automatically assign ELF codes to new legal entities. This would facilitate (i) the mapping exercise for all type of businesses within the existing client/legal entity portfolio; and (ii) assign the right legal liability to the legal entity.

In the proposed Regulation, it is mentioned that for high-risk AI systems, the requirements of high quality data, documentation and traceability, transparency, accuracy and robustness, are strictly necessary to mitigate the risks to fundamental rights and safety posed by AI and that are not covered by other existing legal frameworks. Harmonized standards and supporting guidance and compliance tools will assist providers and users in complying with the requirements laid down by the proposal and minimize their costs. To satisfy these requirements, GLEIF would like to suggest that the Commission adds the LEI to the requirements under the "*ANNEX VIII INFORMATION TO BE SUBMITTED UPON THE REGISTRATION OF HIGH RISK AI SYSTEMS IN ACCORDANCE WITH ARTICLE 51*" and "*ANNEX V EU DECLARATION OF CONFORMITY*" to uniquely and unambiguously identify the AI system provider.

Regarding traceability and transparency discussions, GLEIF suggests that the algorithms' results would have to be traceable to the extent that the supervisory authorities can monitor them. In addition to performing comparisons with specific minimum standards that may need to be developed, supervisory authorities could also determine the effectiveness of algorithms by benchmarking them against other providers' algorithms. Without the use of the global data standards as part of these specific minimum standards, comparison of data and benchmarking across borders cannot be achieved.

In the recently published Digital Finance Strategy for the EU, it is decided that by 2024, the EU aims to put in place the necessary conditions to enable the use of innovative technologies, including RegTech and SupTech tools, for supervisory reporting by regulated entities and supervision by authorities. The Commission will make full use of available international standards and identifiers, including the LEI. The use of international standards consistently will facilitate the use of RegTech tools for reporting and SupTech tools for data analysis by authorities.

The concentration risk, reliance on the same service providers or intermediaries, is highlighted as another challenge. GLEIF thinks that the clear identification of these service providers and clients with their LEI can help regulators map service concentration and affected clients in a clear and unambiguous

manner in case of an unexpected behavior. Mapping the concentration risk can help regulators take necessary measures timely, so these challenges do not become risk factors for financial stability.

As also highlighted by the Financial Stability Board, applications of AI and machine learning could result in new and unexpected forms of interconnectedness between financial markets and institutions, for instance, based on the use by various institutions of previously unrelated data sources. Network effects and scalability of new technologies may give rise to third-party dependencies. This could, in turn, lead to the emergence of new systemically important players that could fall outside the current regulatory perimeter.

GLEIF suggests that adding an explicit LEI requirement for AI system providers (particularly under Annex V and Annex VIII) would not make the proposed EU rule-setting over prescriptive. Instead, the LEI requirement would prevent duplication, conflicting obligations and overregulation of the industry regarding identification while reinforcing the transparency and public trust towards the AI. For example, a European online bank user can easily identify whom they are talking to (via the AI chatbot) and where the AI chatbot is located and/or who owns it. The Global LEI System is free to use, open, and easily accessible database that users would be able to connect with 24/7 operating hours. The LEI connects to key reference data that provides the information on a legal entity identifiable with an LEI: the official name of the legal entity as recorded in the official registers, the registered address of that legal entity, the country of formation. The Global LEI System links with the local business registries that might be proprietary and in different character sets. Instead of navigating through various access points and languages, the Global LEI System allows consumers to conduct quick due diligence in a trusted way. With the Global LEI System, consumers could also easily know and verify with whom they are transacting.

Therefore, adding the LEI requirement would avoid duplication of requirements, as requested by the majority of the stakeholders to the previous consultation, but creates the basis for transparency and public trust.

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