ISO 24366- Identification of Natural Persons- Briefing note

Introduction

This paper provides additional background and benefits of the Natural Persons Identifier (NPI). The identification of natural persons for the purposes of the provision of financial services has specific applications for protecting the personal data of Financial Services firms employees. Such an NPI would allow firms to respond to the requirements of regulation without exposing personal information, and to allow regulators a privacy-protected way to identify counterparties, traders, beneficial owners, amongst other use cases.

Background

The following issues were kept in mind when developing the draft NPI standard:

- Collecting, storing, and reporting personal information (PI) as required by multiple regulations across the globe creates data privacy, security, and maintenance challenges which can hinder transparency and data quality, and leave natural persons exposed to theft and misuse of their PI.
- The broad range of regulatory reporting obligations collecting PI impacts many stakeholders including regulators, buy-side, sell-side, market platforms and natural persons
- Many regulations also require the reporting of counterparty information, a percentage of which are natural persons.

The development work was guided by real use cases from members across the globe. Some of these use cases are provided as examples below. It is expected that many more use cases will present themselves as this work progresses.

Some use cases for the need for an identifier for natural persons include:

- A variety of regulations require collecting, storing and reporting of NPI about a firm’s traders, business and desk heads, investment managers, advisors and decision makers, some of which require the sharing of personal information that may include name, address, phone number, national ID number, etc. about those natural persons. Examples of such regulations are provided in appendix.
- Other regulatory rules require the disclosure of natural persons in a variety of roles including as counterparties, beneficial owners, corporate insiders like directors, CEOs, CFO, etc.
- In the payments industry, the initiator and the beneficiary of payments transactions could be natural persons. To complete the picture of the parties responsible for roles within payment transactions, an international standard such as the natural person identifier would be tremendously useful.
- In anti-money laundering, there is a need to unambiguously identify parties engaged in financial transactions as part of monitoring for criminal activity. Having a validated, unique identifier for natural persons engaged in financial transactions would greatly facilitate such monitoring and information sharing.
• In the EU, the eIDAS digital framework ([https://ec.europa.eu/digital-singlemarket/en/trust-services-and-eid](https://ec.europa.eu/digital-singlemarket/en/trust-services-and-eid)) has implications for natural persons who might use digital certificates in financial transactions and commerce; an international natural person identifier could be used within eIDAS digital certificates to digitally identify such natural persons.

**Benefits**

Important benefits stemming from using such an NPI include straight through processing savings, ability to monitor systemic risk across jurisdictions and more importantly, creating the ability to protect citizens personal information during the provision of services and responding to regulatory requirements if an effective IT system is implemented based on the NPI. The migration from the current system without NPI to the system based on NPI is not included in this document.

**Security/Privacy Benefits**

Clearly a key element in all these cases is the need to find a way to ensure the identity of the natural person is protected, as appropriate. If unprotected PI is intercepted by non-authorized parties this leaves natural persons vulnerable to identity fraud, and data controllers could be liable. Using the NPI to safely identify natural persons rather than sharing their underlying PI could mitigate the impact of data breaches and ensure the underlying PI can only be accessed on a need-to-know basis.

Certain jurisdictions have laws that prevent or limit their nationals’ PI being shared outside their borders. Sharing just the NPI in reporting and transactions would allow for the unambiguous identification of a person and access as needed to the underlying personal data, instead of sharing the PI itself as a regular course of business.

**Operational Benefits**

Across all these use cases, the operational efficiencies gained by having such an unambiguous identifier for natural persons are significant. The ability to know with certainty the identity of a person in question and to be able to match the identity with other records and data, especially matching with external parties, e.g., matching a payment recipient to a banks client record, will eliminate significant manual intervention in such processes.

It can be difficult to track employees as they move between firms without data lineage; maintaining information in multiple siloes can lead to poor data quality; some data must be deleted by employers; data must be maintained in multiple places with different security standards. Use of the NPI can ease data maintenance, compliance investigations and enhance data quality.

**Implementation Benefits**

While the standard simply provides the code and a comprehensive list of reference data attributes needed to identify the natural person, a number of discussions were held within the Working Group (WG) with respect to how identifiers will be issued and reference data maintained and how privacy laws will be respected.

The WG also discussed alternative needs where any NPI standard’s value would be better realized if it could be easily incorporated, such as within digital certificates. Therefore, consideration was taken
regarding how to enable interoperability on a practical level and ensure extensibility of the NPI standard without impacting the basic structures.

These matters were considered implementation issues. The draft standard does not solve these issues, its purpose is to provide a framework for the identifier and/or the reference data that could be used in implementing a solution for the identification of natural persons.

Authentication Benefits

The WG agreed that the authentication of the natural person receiving an NPI is as important as the identifier itself. However, in order to keep within the scope of the mandate of the WG, it was agreed to not address the authentication in this standard. The WG does think that effort to create a second part to the standard dedicated to authentication should be developed in a next stage. All WG work, including the requirements for the maintenance, will be provided to the WG that will take on the authentication development.

Appendix

Examples of regulations that require PI (non-exhaustive list)

- MiFID II / MiFIR RTS 22:
  see Articles 6-9; various fields in Table 2 of Annex I; and Annex II
- Shareholders Rights Directive 2:
  see page 10
- California Consumer Privacy Act:
  https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180AB375
- CME Rule 576 – ‘Identification of Globex Terminal Operators’: 
  https://www.cmegroup.com/education/courses/market-regulation/cme-globex-tag-50-id-requirements/cme-globex-tag-50-id-requirements-general-rule.html#
  see Rule%20576%20Identification%20of%20Globex%20Tag%2050%20ID.
- CFTC Ownership and Control Reporting:
- Market Abuse Regulation:
  https://www.fca.org.uk/markets/market-abuse/regulation
- FDIC Orderly Liquidation Authority:
- Securities and Futures Commission - Hong Kong S181 Investigation Notice Request of the HK SEC Cap 571:
  https://www.elegislation.gov.hk/hk/cap571