



# The global shift toward ownership registers

Lifting the beneficial ownership veil

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# Overview

In recent years, the focus on beneficial ownership in privately-held entities has grown considerably in the financial services industry, in governmental agencies, and in the regulatory environment.

Understanding beneficial ownership of an entity is summed up as the ability to identify the individual(s) with the controlling interest in that entity, and therefore the ultimate beneficial owners of financial transactions flowing through the entity.

Discerning who owns and has control over financial transactions and bank accounts is a major challenge in the war against money laundering and the financing of terrorism across the globe. Being able to do so is a fundamental requirement of a financial institution's satisfactory AML program, and it often proves to be one of the most difficult aspects of the AML and KYC process. As the focus has intensified on this, government bodies and financial regulators have routinely issued new guidance and regulations, forcing financial institutions to provide more evidence to meet local and global beneficial ownership rules.

The Financial Action Task Force (FATF) has periodically released guidance on this topic for its members (extending to 37 countries across the globe), the main piece of which was issued in 2014, entitled "Transparency and Beneficial Ownership." The main tenet of this guidance is that a beneficial owner should be defined as a natural person owning 25 percent or more (either directly or indirectly) of the company under review.

One of the main triggers for further scrutiny of beneficial ownership rules in AML was the publication of the Panama Papers in 2016, which revealed the financial information of over 200,000 offshore shell companies. The report detailed ownership by many wealthy individuals and public officials. While this didn't necessarily imply wrongdoing, it did emphasize the need to re-examine the issue of beneficial ownership across the globe. This escalated the implementation of legislation and regulatory rules in many places, including the U.S., U.K., EU, and across Asia-Pacific (APAC).

Here's an outline of what some of the major countries and regions are doing to comply with the FATF guidance, with a common theme of creation of registers of beneficial ownership.



**FinCen Final Rule Client due Diligence Rule effective May 2018. Core principles as they relate to beneficial ownership:**

- Beneficial ownership and verification for legal entity customers
- Ongoing monitoring (transactional and customer information, including beneficial ownership information.)

**Counter Terrorism and Illicit Finance Act (proposed and under review)**

- Broadest BSA reform since the USA PATRIOT Act, including the creation of a central directory of beneficial ownership



**EU Fourth Money Laundering Directive, effective June 26, 2017. Core principles relating to beneficial ownership:**

- Central register of beneficial ownership accessible to banks, law firms, and “any person or organization that can demonstrate legitimate interest”

**EU Fifth Money Laundering Directive to be implemented by member countries by January 2020:**

- Extends the principles of the previous version to grant access to the public to beneficial ownership information of EU-based companies
- Makes it an obligation of financial institutions to consult the beneficial ownership register when performing AML due diligence



**In general, the U.K., while it remains a member of the EU, is obliged to comply with EU AML directives. In respect of beneficial ownership, in June 2017, new U.K. regulations were brought into force to comply with the Fourth EU Money Laundering Directive, the main aspects of which are:**

- U.K. companies listed on the AIM market of the London Stock Exchange are required to make reasonable investigations as to their beneficial ownership
- These companies are required to produce and make public beneficial ownership registers, including providing these to Companies House, the UK’s registrar of companies

# Hong Kong

Effective March 1, 2018, a number of sweeping beneficial ownership reforms were introduced by one of Hong Kong's main regulatory bodies, the Financial Services and Treasury Bureau (FSTB). Hong Kong is widely known as one of the main locations for the formation of shell companies. The main rules include:

- All companies formed in Hong Kong are required to maintain up-to-date beneficial ownership information
- Companies are required to maintain a significant controllers register, and make it accessible to law officers as required
- Relaxation in the ownership thresholds to 25 percent for all risk levels, relying on the banks' risk appetite to demand more as required

# Singapore

With certain exceptions, companies registered in Singapore, and foreign companies, must maintain a register of controllers, which means a record of all entities or individuals with significant interest or control over the company. This rule became effective March 31, 2017.

- These registers must be available to certain public agencies upon request, including to the Accounting and Corporate Regulatory Authority of Singapore (ACRA)
- Companies registered in Singapore must also maintain a record of their nominee directors to avoid money laundering through nominees

# Japan

Japan's approach to beneficial ownership is less mature than other APAC countries – it is following the G20 principles on Beneficial Ownership Transparency.

Some progress has been made in the form of commitments toward identification and verification of beneficial owners. An action plan for implementation remains to be issued.

A number of other APAC countries have taken initial steps in the form of acknowledging the need to have more transparency on beneficial ownership, including Australia and New Zealand. They are each at the early consultation and options analysis stage, and are some way off from firming up rules and regulations. Nevertheless, the fact that they each acknowledge the status quo is very encouraging.

# Things to consider in your KYC technology to manage UBOs

There is no doubt that as financial institutions become more global in their approach to managing KYC, the role that technology plays in the solution becomes more critical. So how does a financial institution make the right choices, given the number of technology solutions in the marketplace?

First of all, the choice should focus on a solution that can use existing legacy systems, using a “wrap and renew” approach, with scalable KYC solutions from external providers sitting on top. This solution, with features such as inherent and controlled AI, robotics, a blockchain solution, and smart integration with third-party data providers, can result in faster onboarding, compliance with regulations and policy, and ultimately competitive advantage. Unification of rules – driving the right rules at the right time – can steer the right process and cases by customer type, jurisdiction, risk level, and line of business.

So how does this relate to the matter of UBOs, and the different paths and levels of maturity across jurisdictions? The answer lies in finding a regulatory rules engine that provides a global solution across jurisdictions. The solution should address the nuances of the main trading markets, while being regularly updated as part of the RegTech solution. In addition, it should provide flexibility for updates based on client-specific needs and changing regulatory needs, using a fast, zero-code technology, providing an optimal user experience at a local and global level. This should be part of the larger digital transformation of client onboarding and KYC. Future-proof technology allows for global banks to meet ever-changing KYC regulations, like UBO's, while simplifying the complexity and cost burden of managing these changes.

# Conclusion

It is clear that many of the newly emerging initiatives involve greater transparency in the form of national registers of beneficial ownership. It will take some time for this to be rolled out globally, depending on where each country is on its journey.

It is clear that the EU and the U.K. are ahead on their journey, given that they are closer to making it mandatory for beneficial ownership registers to be available to the public. The APAC are not far behind, and it's just a matter of time before they follow the same principles.

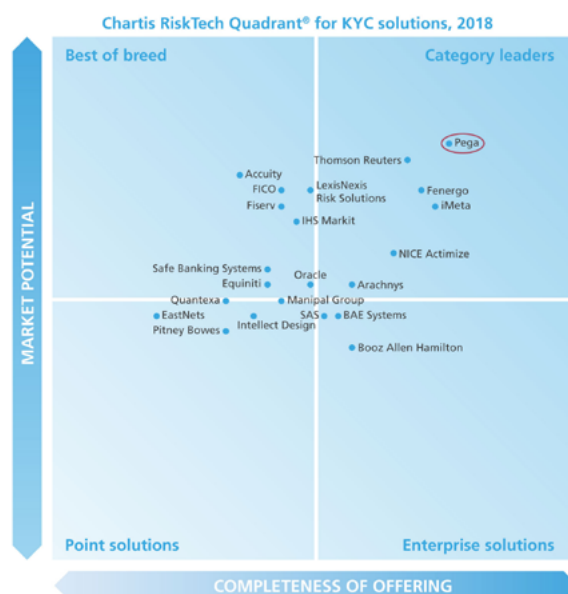
In addition, the risk appetites of the individual financial institutions will determine how the information stored in these registers is used and applied in the KYC process. Nevertheless, the general movement to such registers is an important step to piercing the veil of beneficial ownership in a transparent, consistent way across the industry. As we move toward the nirvana of total transparency in beneficial ownership, and as bad actors find new ways to navigate the system, the trick is to be ready to move with local and global regulations as they are released.

Beneficial ownership analysis and risk assessment are two key elements of the AML/ KYC process across the globe. They should form the foundation of knowing customers, alongside all of the other AML/KYC requirements across jurisdictions. We should not forget the underlying purpose of all this record keeping and due diligence – to thwart the global industry of money laundering, drug trafficking, and terrorist financing.

In this global economy, the need for a truly transparent, scalable technology solution that can look across regulatory regimes through clearly defined, easily configured regulatory rules, becomes ever more important.

**In 2018, Pega Client Lifecycle Management voted category leader for KYC solutions by Chartis Research, a leading industry research and analyst firm.**

For more information on Pega's KYC and the Pega Client Lifecycle Management™ solution, please visit [www.pegaonboarding.com](http://www.pegaonboarding.com)



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