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ANALYTICS

TRANSFORMING RISK & COMPLIANCE

Creating a world where risk is understood, so decisions can be made with confidence

Beneficial ownership whitepaper

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1 | The importance of understanding beneficial ownership

Since the beginning of the 2010s, the compliance landscape has been transformed by growing volumes of data, which has better informed anti-money laundering (AML) and counter-terrorist financing (CTF) strategies. Advancements in technology that harness data have revealed intricate connections within the business ecosystem while simultaneously elevating regulatory expectations on a global scale. With a greater understanding of the interconnectedness of ownership and business control structures comes the ability to act on intelligence to prevent financial crime.

To maintain compliance with AML and CTF regulations; safeguard an organization from penalties; and protect business reputations, it is essential to gain access to and draw insights from company data. This data creates corporate transparency by helping to identify ultimate beneficial owners (UBO) and ensuring legitimate organizations know whom they are doing business with.

New regulations, such as the US Corporate Transparency Act (CTA), as well as geopolitical factors, like the volume and scale of sanctions resulting from the Russia/Ukraine war, have led to a greater onus on organizations to identify beneficial owners they are connected to.

Real-time access to UBO data is imperative in today's dynamic global operating environment. Compliance teams need real-time data access, so they can make decisions about individuals and entities who exercise control, either directly or indirectly, over an organization in their business network. Compliance teams also need an immediate awareness of any changes in ownership structures that could lead to increased risk or non-compliance with sanctions and AML/CTF regulation.

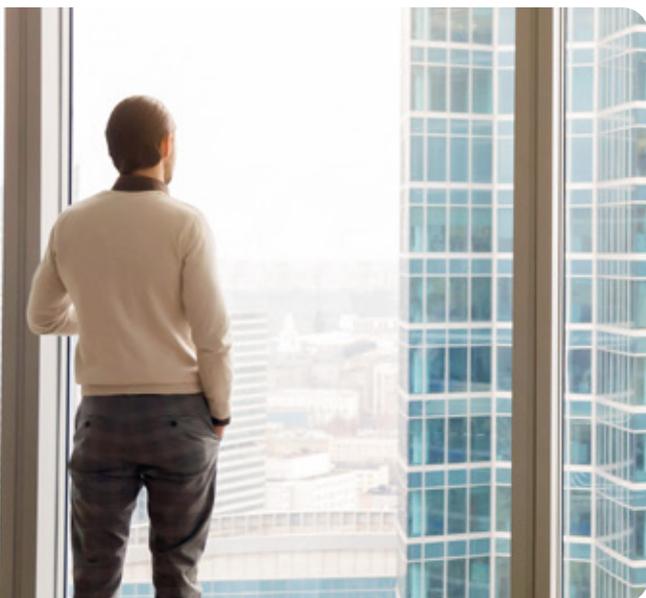
For organizations to meet their AML and CTF requirements and adhere to the G7's Financial Action Task Force (FATF) standards and other in-country rules, accessing reliable, comprehensive, and current company and ownership data is a must. Then it's possible to make decisions with confidence about onboarding and working with legitimate entities, while monitoring or reporting those who pose a higher risk.



2 | Beneficial ownership definitions and standards

What is a beneficial owner?

It is important for compliance teams to understand the criteria and definitions for UBOs to protect their organization. According to FATF, a beneficial owner "refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those natural persons who exercise ultimate effective control over a legal person or arrangement. Only a natural person can be an ultimate beneficial owner, and more than one natural person can be the ultimate beneficial owner of a given legal person or arrangement."



Beneficial ownership through ownership interests

One method for defining beneficial ownership is the percentage of shareholding stakes, as these stakes give the shareholder influence over an organization. Beneficial owners do not have to be a majority shareholder.

FATF defines the minimum ownership threshold for being classified as a UBO as 25%. This 25% can also be the result of combined ownership percentages from separate shareholders. Recent FATF guidance referred to "control beyond the threshold." If two shareholders each own 12.5% and have a discernable relationship, they can qualify for UBO status.

Beneficial ownership through control

Beneficial ownership¹ through control refers to the ways in which an individual or entity can exert influence over an organization without necessarily holding a direct ownership stake.

- **Differential voting rights:** Some shareholders may have a disproportionately large influence over a company's decisions due to the specific voting rights attached to their shares.
- **Power to appoint the majority of senior management:** A person or entity may have the ability to select or remove key decision-makers within a company, thereby influencing its strategic direction and operations.
- **Control through debt instruments:** By holding a significant amount of a company's debt, an individual or entity may be able to influence its decisions, particularly during times of financial distress or restructuring.
- **Control through legal persons and organizations:** A person or entity may exercise control over a company indirectly by using legal entities, such as trusts, foundations, or corporations, to hold ownership stakes or exert influence.
- **Control through informal means:** This includes situations where an individual or entity has significant influence on or "de facto" ownership of a company, even if their ownership is not formally registered or codified by legal agreements. Control through informal means may occur, for instance, when the true beneficial owner maintains anonymity, while installing a partner or close relative to operate their business.

¹Guidance on beneficial ownership of legal persons, FATF, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-Beneficial-Ownership-Legal-Persons.html>.

3 | Beneficial ownership regulatory changes

Regulatory changes in the US, EU, and beyond

Beneficial ownership regulations are constantly evolving in response to the changing economic landscape, geopolitical pressures, and efforts to combat financial crime. The global, interconnectedness of the business landscape underpins the need for access to beneficial ownership data; to identify UBOs, including those based overseas and within complex or transnational ownership structures.

Criminals continue to shift towards new types of assets and vehicles to launder money, for example, real estate, which also leads to regulatory change. Real estate and property ownership have been a theme in recent regulatory updates in Singapore and New Zealand, as well as from Companies House in the UK.

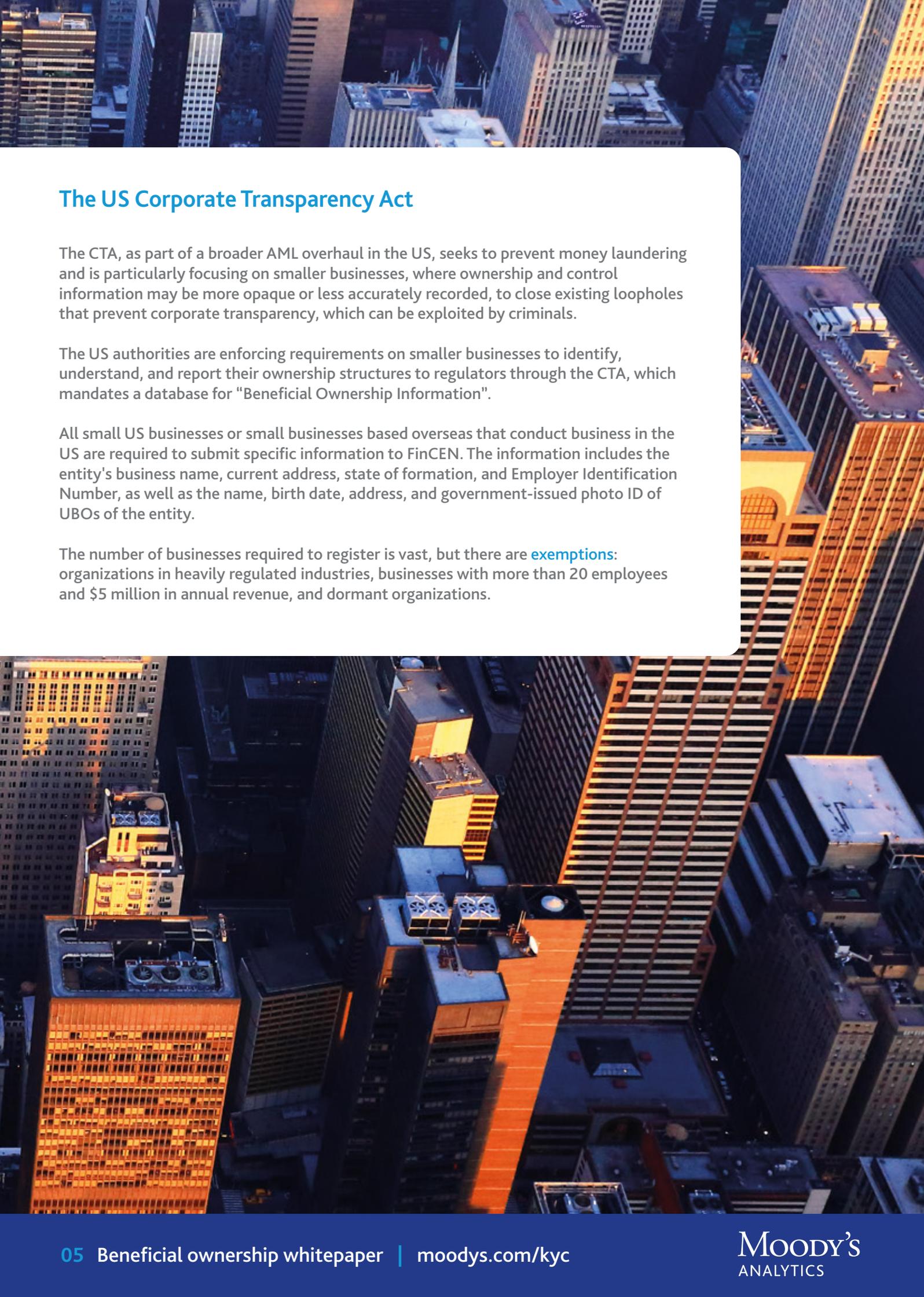
FATF updated guidance on implementing its revised Recommendation 24

FATF updated its guidance on beneficial ownership transparency with its revised Recommendation 24 implemented in March 2023. These recommendations focus on regulators establishing and maintaining accurate, up-to-date beneficial ownership information, as well as best practices for countries to adopt to improve the transparency and accessibility of beneficial ownership data.

Key aspects of the [updated guidance](#) include:

- Requiring countries to use a “multi-pronged approach”. Governments are now required to use multiple mechanisms for the collection and maintenance of beneficial ownership information, so it is available for the right authorities to act in a timely manner.
- Organizations operating within a country now need to consider the risk levels of entities within their country and also foreign entities with sufficient links to the country of operation.





The US Corporate Transparency Act

The CTA, as part of a broader AML overhaul in the US, seeks to prevent money laundering and is particularly focusing on smaller businesses, where ownership and control information may be more opaque or less accurately recorded, to close existing loopholes that prevent corporate transparency, which can be exploited by criminals.

The US authorities are enforcing requirements on smaller businesses to identify, understand, and report their ownership structures to regulators through the CTA, which mandates a database for "Beneficial Ownership Information".

All small US businesses or small businesses based overseas that conduct business in the US are required to submit specific information to FinCEN. The information includes the entity's business name, current address, state of formation, and Employer Identification Number, as well as the name, birth date, address, and government-issued photo ID of UBOs of the entity.

The number of businesses required to register is vast, but there are [exemptions](#): organizations in heavily regulated industries, businesses with more than 20 employees and \$5 million in annual revenue, and dormant organizations.

UK Register of Overseas Entities

The UK government has introduced further measures to create transparency regarding UK property ownership in an effort to combat money laundering and sanctions evasion. A new regulatory measure mandated that foreign entities who own or engage in transactions involving UK property disclose information about their ownership and register with Companies House.

The deadline for complying with the registration was January 31, 2023. Overseas UBOs of UK property that failed to register in time are now prohibited from buying or selling property in the UK.

The European Court of Justice ruling on ownership data

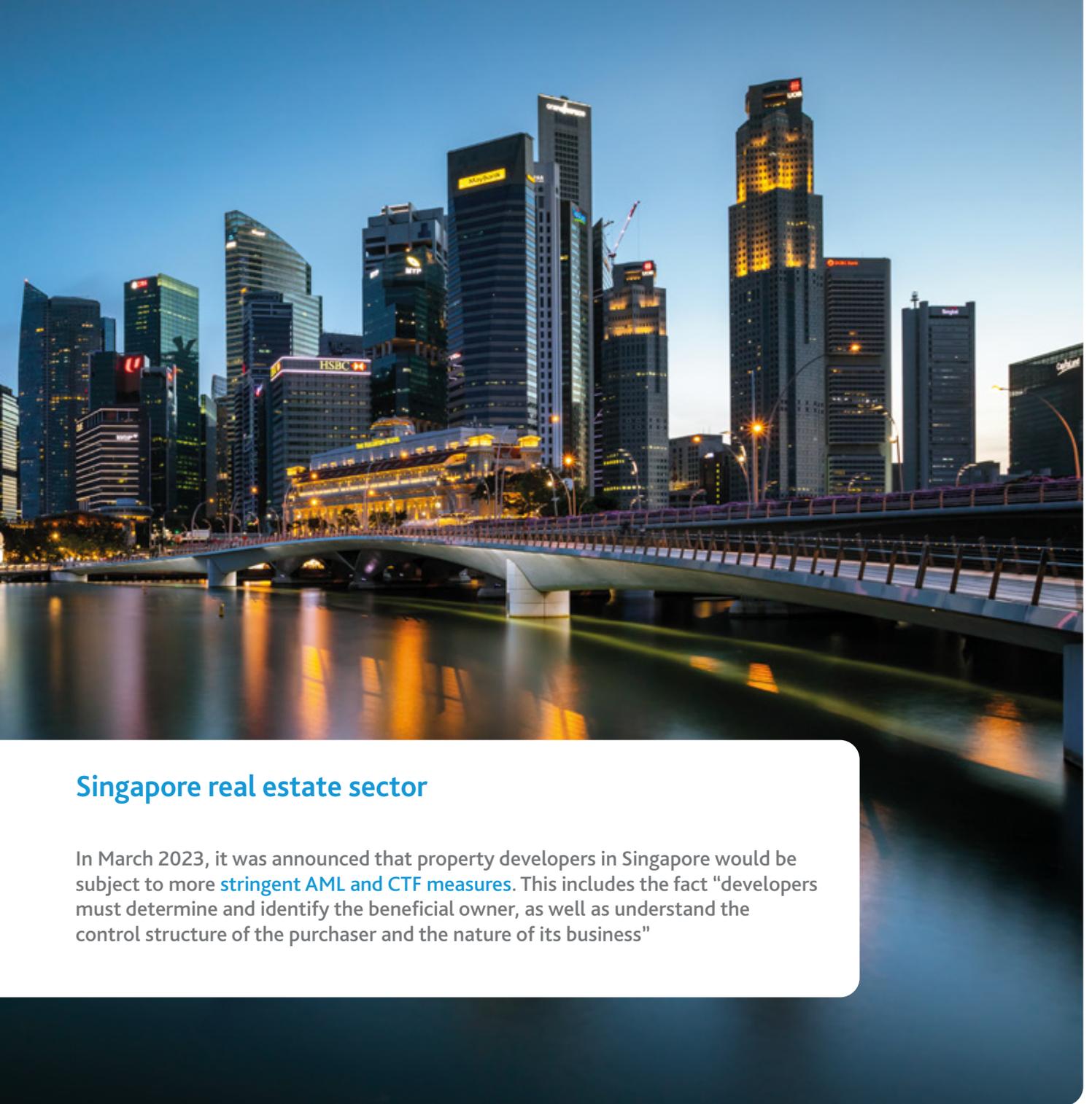
In November 2022, the ECJ issued a new ruling invalidating a provision in the 5th EU Anti-Money Laundering Directive that guaranteed public access to information on companies' beneficial owners. Cited as being in conflict with an individual's right to privacy, public access to information on beneficial ownership has been removed, although the European Commission continues to work with "competent authorities and obliged entities" to access member states' company registers.

The European Union AML package (AMLR, AMLA, and AMLD6)

This "AML package" will deliver a new regulatory framework for all obliged entities with operations in the EU. The AMLR (regulation) contains a new customer due diligence rulebook with which the AMLA (authority) will supervise the largest systemic, cross-border institutions – expected to be in the region of 40 businesses.

Beneficial ownership definitions and registry access is a major topic in the negotiations and it is likely the 25% threshold for definition of UBO will be lowered. In March 2023, the European Parliament proposed lowering the threshold to 15% for standard cases and 5% for high risks, using the 6th AMLD (directive) as the mechanism for the changes. Negotiations continue and a conclusion is expected by the end of 2023. Obligated entities should monitor developments to ensure they can align to the new standards.





Singapore real estate sector

In March 2023, it was announced that property developers in Singapore would be subject to more [stringent AML and CTF measures](#). This includes the fact “developers must determine and identify the beneficial owner, as well as understand the control structure of the purchaser and the nature of its business”

New Zealand Anti-Money Laundering and Countering Financing of Terrorism Amendment Act

New Zealand has been proactive in its implementation and iteration of its framework to prevent money laundering and terrorist financing, “[introducing new obligations for reporting entities](#)”. Phase 2 of the act extended accountability to include real estate agents, lawyers, accountants, conveyancers, some businesses that deal in high-value goods, and betting on sports and racing.

4 | What these changes mean

Changes and new requirements from regulators and enforcement agencies are focused on preventing money laundering and terrorist financing, but they do result in additional requirements for compliance teams. Organizations need to have visibility over the ownership structures of entities in their business network to complete due diligence, onboarding, and file suspicious activity reports.

On top of this, many of the rules and regulations, including the CTA, Companies House Register of Overseas Entities, and FATF's guidelines, require a transnational approach. Organizations and regulators both now need to identify overseas UBOs, which means navigating different levels of access to data.

While some nations and regulators move towards greater levels of transparency and access to beneficial ownership information, others are slow to progress or have taken a different direction. For example, companies in the EU and those with business connections to the EU now have a more significant challenge automating access to UBO data.

Businesses in all countries and of all sizes need to find ways to navigate the UBO landscape and comply with regulations. The right technology, automation, and datasets can make compliance, financial crime prevention, and identification of risk within a business network more effective.

5 | How Moody's Analytics can help

Moody's Analytics offers comprehensive solutions to help organizations navigate the complex landscape of beneficial ownership. We can support organizations to identify and verify UBOs, calculate control and ownership information, and understand risks so decisions can be made with confidence about whom to work with.

Our customers build their own unique KYC ecosystem using our flexible workflow orchestration platform, award-winning datasets, analytical insights, and integrations with global providers to create powerful risk management solutions.

Harnessing our innovative technology and industry expertise, Moody's Analytics automates accurate screening and swift onboarding of customers and third parties. We continue our support throughout the lifecycle of a relationship by enabling perpetual monitoring of counterparty risk across global networks in near real-time.

Moody's Analytics KYC is helping customers automate onboarding journeys in 197 countries, across 211 jurisdictions: completing + 800 million new customer and third-party checks each day on average in 2022, including screening against our database of +17 million risk profiles, +446 million entities, and +34,000 sanctioned entities.

Our configurable solutions empower risk and compliance professionals to deliver compliance efficiency and excellent customer experiences with no compromise.

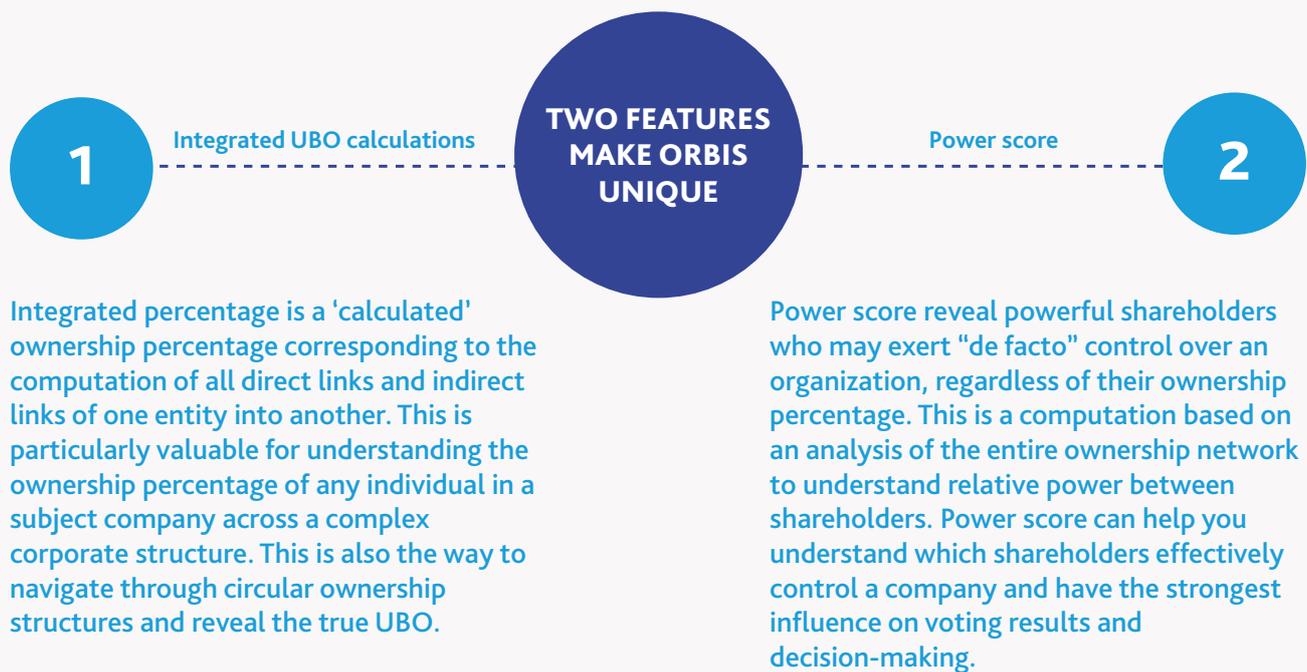
Visit: www.moody's.com/kyc

Follow: www.linkedin.com/company/moodysanalytics

6 | Moody's Analytics solutions for beneficial ownership identification and verification

Orbis

Orbis is the world's most powerful comparable data resource on private companies, providing access to a wealth of information on more than **450 million companies and entities** worldwide. The extensive dataset enables organizations to gain a deeper understanding of the entities they are dealing with and identify connections between companies and individuals. The wide variety of data it stores is appended and standardized, so it is accessible, actionable, and easier to integrate into compliance processes.



Orbis data is collected from a range of sources – from official documentation, such as company financials and LEI numbers, to more broad ranging resources including industry research, media, and stock estimates. There is a comprehensive and exclusive ownership dataset, containing information on:

- Shareholdings and subsidiaries
- Direct and indirect ownership
- Ultimate beneficial owners – domestic and global
- Independence indicators
- Corporate groups – all companies with the same ultimate owner as the subject company
- Company tree diagrams
- Beneficial ownership – defined by your risk appetite and chosen percentage thresholds, an entity's beneficial owners are isolated and brought to the surface in a dedicated module you can subscribe to

Orbis structures the data from these sources, so you can calculate ownership using either "bottom up" or "top down" approaches and alter definitions of ownership to suit a risk appetite by adjusting percentage thresholds.

Information on Orbis: <https://www.moody's.com/web/en/us/kyc/products/orbis-compliance.html>

kompany KYC API

The kompany KYC API is a single API that can enable compliance CRM or CLM platforms to connect commercial registries, financial authorities, and tax offices in more than 200 countries. Compliance teams can access original documents and data on more than 115 million companies, better informing UBO compliance processes with data straight from the source.

As part of the kompany KYC API, a UBO discovery solution can be integrated into an organization's compliance processes, so users are not constrained by jurisdictional boundaries when researching cross-border ownership. The freedom enables organizations to conduct cross-border ownership research with greater ease and accuracy, assisted by audit-proof evidence and interactive visualizations.

Information on kompany: <https://www.moody's.com/web/en/us/kyc/products/kompany.html>

Grid

Grid provides a large, curated, risk-relevant database with a wide range of data that can be used to inform AML and CTF compliance processes. This data includes:

- +17 million risk profiles. Pertinent, risk-relevant information about a person or organization is collated into a single risk profile.
- 14,000 sources continuously monitored. Grid uses information from these sources – as well as +3 billion articles over the past decade - to cover 240 countries and territories.
- Coverage includes adverse media, sanctions and watchlists, politically exposed persons, as well as specialized datasets.

Information on Grid: <https://www.moody's.com/web/en/us/kyc/products/grid.html>