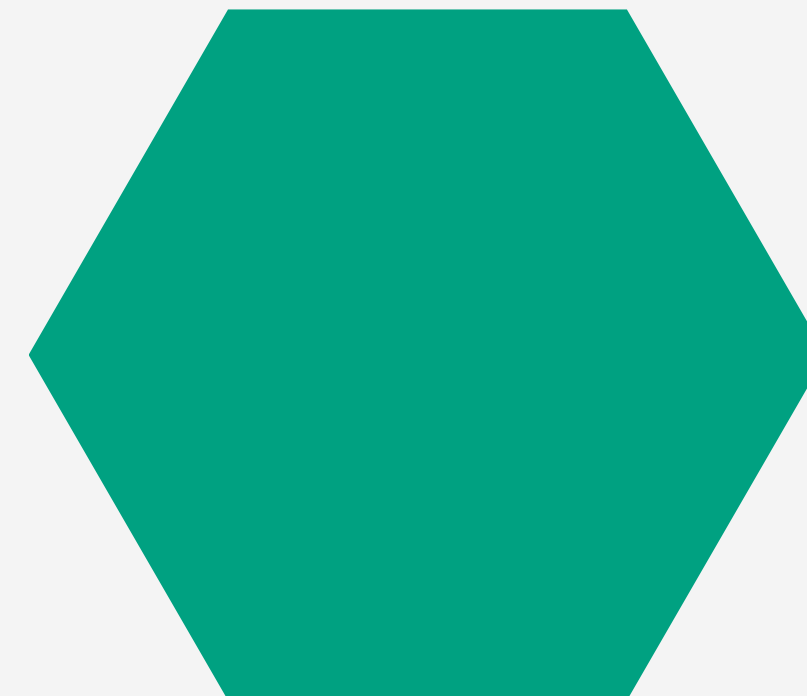




Revisions to Recommendation 24, Part III: Identification and Verification of Beneficial Ownership Information.

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Introduction

This article series will look at the amendments to Recommendation 24 and its Interpretive Note. In Part 3, the focus will be on the identification and verification of beneficial ownership information. Countries will be assessed under the new requirements of the Recommendation in the 5th Round of Mutual Evaluations that is scheduled to begin (for CFATF Members) with the presentation of the first 5th Round mutual evaluation report at the CFATF November 2026 Plenary.



Identification and Verification

The revised Recommendation 24 requires countries to have measures in place to ensure that beneficial ownership information is **adequate, accurate** and **up to date** which is reflected in paragraph nine (9) of INR. 24. The requirement for adequate BO information has been included in the recent amendments while the provision for accurate BO information has been expanded.

9) Countries should have mechanisms that ensure that basic information **and beneficial ownership information**, including information provided to the company registry and **any available information referred to in paragraph 7** is **adequate** accurate and **up to date**.



Identifying BO Information

- INR. 24 stated that *“adequate information is information that is sufficient to identify the natural person(s) who are the beneficial owner(s), and the means and mechanisms through which they exercise beneficial ownership or control”* (FATF 2012-2023, p. 94).
- Footnote 59 of the FATF Recommendations noted the sources of information that can be utilized to identify the natural person behind the BO. Specifically, it states that:

Examples of information aimed at identifying the natural person(s) who are the beneficial owner(s) include the full name, nationality(ies), the full date and place of birth, residential address, national identification number and document type, and the tax identification number or equivalent in the country of residence (FATF 2012-2023, p. 94).



Types of Information to Record for Identification

- Some types of information are seen as essential to identifying the natural person, such as first name, last name, date of birth and nationality. Confirmation of the natural person's identity can also be obtained from other information, for example, unique national identification number [1], passport number and document type, place of birth and residential address, and the tax identification number or equivalent in the country of residence. (FATF 2023, p. 22)
- The FATF also noted that some types of information are necessary to identify BO ownership and control means and mechanisms. This can include type of participation in the shareholding of the legal person, differential voting rights or control through other means. Similarly, information on the scope of the beneficial interest is important, such as indication of percentage of shares, voting rights or other forms of control (for instance, through informal means of close personal connections).
- Furthermore, information such as nominee relationships, other forms of BO and legal intermediaries or entities controlled directly by the beneficial owners can be useful in determining the means and mechanisms by which BO is exercised by a natural person (s).

[1] This includes an internal administration number, a tax registration number, an identity number or a social security number.



What is Verification? [2]

- Following identification, verification of BO information is crucial. This process involves checks and procedures to ensure accuracy and consistency of information across all prongs of the multi-pronged approach to BO information. The processes may entail reviews of relevant documents[3] as well as cross-checks with government/ other relevant databases.
- The multi-pronged approach combines the companies' approach, the registry approach, or similarly effective alternative mechanism and any additional supplementary measures as necessary. Verification of beneficial owners may take place during various processes in the multi-pronged approach, depending on the how a country decides to hold BO information (for e.g. registry or alternative mechanism).
- Under the multi-pronged approach, verification should be done by companies and, the authority or body that maintains the BO registry under the registry approach or entities that serve as alternative mechanisms, both supported by entities involved in any additional supplementary measures.

[2] FATF (2023). "Guidance on Beneficial Ownership of Legal Persons" FATF, Paris, p. 23.

[3] Such as share certificates, shareholder register, board meeting resolutions, and power of attorney documents.



Components and Considerations of Verification Measures [4]

- Verification measures consists of two components; **verification of identity** where appropriate steps should be taken to verify the identity of any natural person(s) recorded as a beneficial owner and **verification of status** where appropriate steps should be taken to verify the basis of identification of a person as a beneficial owner.
- **Identity verification** involves applying appropriate steps to prove that a natural person, identified as a beneficial owner, truly exists and is who they claim to be. Government-issued identity documents substantiating name, date of birth, nationality and other relevant information should be used. The information must be from a reliable source, and should be verified for authenticity, be updated and should be secured to prevent theft of the verified identity.
- Regarding **status verification**, the elements included are, but not limited to, the means through which a person who is considered the beneficial owner meets this definition, the consistency between the structure and risk profile of the legal person and the beneficial owner and whether the identified beneficial owner is actually exercising the rights associated with the level of ownership and/or control in practice or on behalf of an unknown third party.

[4] Ibid, ps. 23-25.



Components and Considerations of Verification Measures

- It is important to note that since the status of a beneficial owner and the nature of control exercised may change over time, information should be continuously verified, in line with the requirements for keeping BO information up-to-date.
- The risk-based approach should be applied to verification, such that cases of higher risk [5] should have higher extent and/or frequency of verification measures. Countries may also decide that verification measures may be adjusted for legal persons based on lower risk.
- Enhanced verification mechanisms can also be used to detect inaccuracies in reported BO information and/or deliberate concealment. These checks may be conducted by law enforcement authorities. Furthermore, in countries which require engagement of a professional intermediary for formation of legal persons, regulated professional intermediaries may be required to perform the enhanced checks.

[5] Companies with complex structures across multiple jurisdictions, the existence of nominee directors or shareholders, entities identified as high-risk in a risk assessment, entities with a history of reporting inaccurate beneficial ownership information or where sufficient documentation may not be obtained.



Discrepancy Reporting Mechanisms [6]

- Discrepancy reporting can be used as a complementary measure to ensure the accuracy of BO information. It allows entities with access to BO data, such as FIs/DNFBPs or other obliged entities, to report to the authorities/bodies holding legal entities' BO information of inconsistencies in the information between the former and the latter. This mechanism cannot replace the required verification measures (in the case of registers/alternative mechanisms that are used to hold BO information).
- FIs, DNFBPs and other entities that can report discrepancies may be faced with additional resource and administrative pressures due to reporting obligations. Countries can consider several factors may reduce these challenges:
- ***Access by reporting entities to information:*** Access to the registry/alternative mechanism holding BO information should be given to FIs/DNFBPs or other obliged entities so that they can report differences (accuracy and completeness) between the registry/alternative mechanism and their client information collected as part of CDD obligations.



Discrepancy Reporting Mechanisms

- **Materiality of discrepancy:** Countries should clearly define the material threshold for discrepancies for reporting, such as reporting factual differences rather than spelling errors to lessen the potential for excessive volume of reports and better management of resources.
- **Record-keeping:** Countries should consider keeping comprehensive records of discrepancy reports made to make potential users aware that the information might not be adequate, accurate or up-to-date. In addition, countries may consider monitoring the number of discrepancy reports and the reasons for them as well as making these records available to competent authorities.
- **Adjudicating discrepancy reports and feedback system:** Countries should consider implementing a system to review and adjudicate discrepancy reports in a fair and efficient manner, with emphasis on due process and risk-based approach. Companies and other legal entities should be informed of the reported discrepancies with reasons so that data can be rectified in a timely manner. When a discrepancy is rectified, countries should consider notifying the reporting entity so that all information would be aligned.
- **Privacy considerations:** Data privacy laws, client confidentiality, and other relevant concerns should be regarded by a country when it seeks to implement discrepancy reporting mechanisms to prevent leakage of personal data.



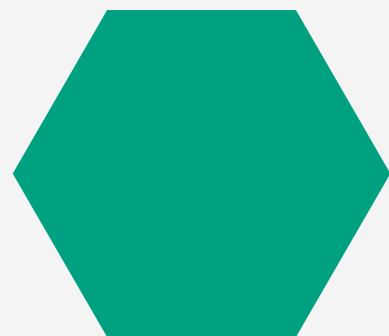
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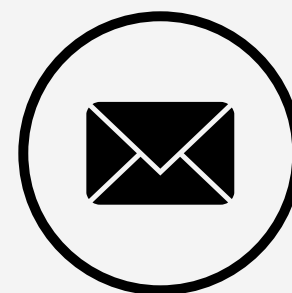
FATF (2023), “Guidance on Beneficial Ownership for Legal Persons”, FATF, Paris.



Thank you for reading this article and we hope that you found it informative and interesting. Part 4 will continue the focus on the amendments to Recommendation 24, specifically on preventing the misuse of nominee directors and shareholders.



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