What is an ultimate beneficial owner (UBO)?

An ultimate beneficial owner (UBO) is any individual (e.g., a company’s owner, director, or manager) who has direct or indirect ownership of 10–25% or more (depending on jurisdiction) of a company’s shares or voting rights and who can exercise control of the underlying entity (the exact percentage will depend on local laws).

Why identifying ownership is challenging

- No consistent definition across jurisdictions
- Intentionally opaque nature of shell companies and corporate ownership structures
- Minimal ownership details are required to set up shell companies
- Customer confidentiality is protected in many offshore banking locations
- Loss of trust can have a long-lasting impact on the business
- Financial Risk: Monetary fines for failure to meet regulatory requirements
- Legal Risk: Failure to carry out KYC obligations can result in being sued for negligence
- Criminal Risk: Money laundering and other criminal activity
- Reputational Risk: It is more important than ever to know your customer
- Business Risk: Loss of business opportunities

Lifting the veil of secrecy

The Financial Action Task Force’s (FATF) efforts to promote international cooperation and standards in combating money laundering and terrorist financing have played a key role in increasing transparency. The Panama Papers scandal in 2016 exposed loopholes in the global financial system, leading to the implementation of international standards to increase transparency.

The Panama Papers

The Panama Papers in 2016 exposed loopholes in the global financial system. The leaked documents revealed the names of over 214,400 offshore shell companies in 21 jurisdictions, containing 11.5 million leaked documents linking the names of over 214,400 offshore shell companies in 21 jurisdictions.

How to protect your organization

- Invest in technology and data to identify unusual activity
- Leverage technology and data to identify potential UBOs
- Connect the dots and data to identify potential UBOs
- Adopt a risk-based approach to KYC
- Use the latest risk management and information-based analytics and decision tools for professional and business customers
- Cast a wide net in your customer screening
- Screen customers and third parties
- Use the latest technology to quickly and efficiently identify beneficial owners
- Investigate in more depth based on risk assessment
- Adopt a risk-based approach to KYC
- Use the latest technology to quickly and efficiently identify beneficial owners
- Investigate in more depth based on risk assessment
- Screen customers and third parties

Changes to UBO legislation over time

EU

- 2016: Directive 2016/425/EU
- 2018: 5AMLD introduces stricter requirements
- 2020: 6AMLD introduces stricter requirements
- 2021: CTA goes into effect January 1, 2024.

U.S.

- 2004: BSA
- 2015: E-4
- 2016: 5AMLD requires member states to maintain publicly available national registers of UBOs and to create UBO registers and set standards for information collection. The Financial Crimes Enforcement Network (FinCEN) is responsible for the centralized UBO registry.

It’s more important than ever to know your customer

With increased regulatory oversight, it is more important than ever to know your customer. To prevent money laundering, fraud, terrorist financing and other criminal activity, financial institutions and other covered entities need to identify and verify beneficial owners of companies opening accounts. This is required by the Bank Secrecy Act (BSA) and the Anti-Money Laundering and Counter-Terrorism Financing Act (AML Act).

For more information, visit LexisNexis Risk Solutions and RELX. For more information on an individual EU member state, visit the EU Directives website.