



WHAT IS THE MULTI-PRONGED APPROACH?

CFATF RESEARCH DESK
AUGUST 22, 2022.



IN THIS ARTICLE



- Introduction
- Challenges of the Fourth Round of Mutual Evaluations regarding R.24-CFATF Members
- FATF Revision of R. 24
- What is a Multi-Pronged approach?
- New paragraph 7 of INR. 24 on Beneficial Ownership Information
- Why a Multi-pronged Approach?
- The way forward
- Next Steps for countries



Introduction



Effective implementation of the FATF standards remains a challenge, not only for Members of the Caribbean but within the Global Network.

The FATF's Best Practices on Beneficial Ownership for Legal Persons Guidance, published in 2019 identified some specific obstacles based on the reviews conducted in the fourth round of FATF mutual evaluations thus far, in the following areas, including:

- a) “risk assessment;
- b) adequacy, accuracy and timeliness of information on beneficial ownership;
- c) access by competent authorities;
- d) bearer shares and nominee shareholder arrangements;
- e) fines and sanctions; and
- f) international co-operation.” *

Footnote: *FATF, “Best Practices on Beneficial Ownership for Legal Persons Guidance” 2019. Accessed on 10.08.2022 <https://www.fatf-gafi.org/media/fatf/documents/Best-Practices-Beneficial-Ownership-Legal-Persons.pdf> p.8



Challenges of the Fourth Round of Mutual Evaluations - Ratings on IO5- CFATF Members

CFATF Members' ratings on Immediate Outcome (IO) 5 ([Table 1](#)).

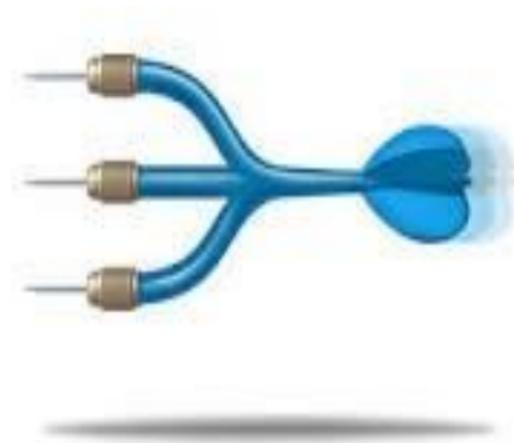
Out of the 13 CFATF Members assessed to date-

- 1 member achieved a Substantial level of effectiveness;
- 8 members achieved a Moderate level of effectiveness;
- 4 jurisdictions achieved a Low level of effectiveness.

IO5 relates to the prevention of the misuse of Legal persons and arrangements from money laundering or terrorist financing, and ensuring information on their Beneficial Ownership (BO) is available to Competent Authorities (CAs) without impediments.



Challenges of the Fourth Round of Mutual Evaluations - Ratings on R.24 - CFATF Members



CFATF Members' R.24 ratings ([Table 1](#))-

- 1 jurisdiction achieved Compliant;
- 5 attained Largely Compliant;
- 6 jurisdictions received a rating of Partially Compliant; and
- 1 jurisdiction was rated Non- Compliant.*

Some challenges faced were that several countries needed to enhance their ML/TF risk assessment of legal persons and legal arrangements and some need to conduct initial assessments.

Footnote: *These ratings are after the Re-ratings achieved in Follow-Up Reports (FURs).



Challenges of the Fourth Round of Mutual Evaluations- BO information CFATF Members (1)

Challenges regarding the availability of basic ownership and BO information:



Establishment of a framework for identifying the different types of legal persons and legal arrangements.



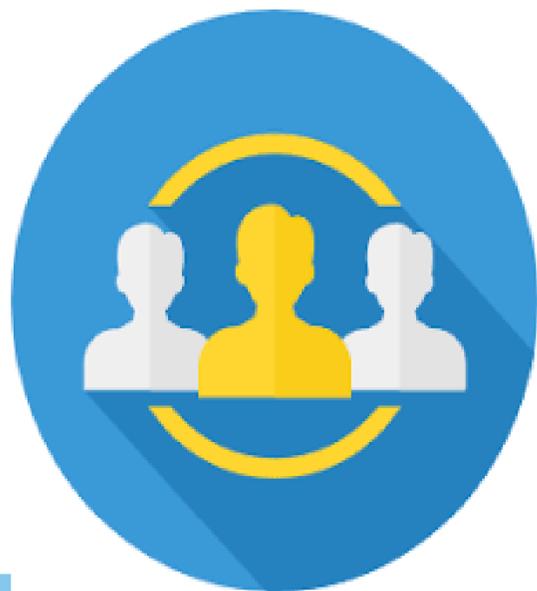
No process for obtaining basic and BO information on legal arrangements.



Access to BO information on legal persons could be improved.



Challenges of the Fourth Round of Mutual Evaluations - BO information CFATF Members (2)



General challenges regarding BO Information:

1. Adequacy of measures in place to address the accuracy of BO information;
2. Adequate supervision to ensure the consistent application of CDD measures for BO information;
3. Specific requirements to promote transparency of BO information;
4. Implementation or drafting of measures to facilitate access and exchange of information of BO information to prevent ML/TF;
5. Mechanisms to monitor the quality of assistance received from other countries in response to requests for basic and beneficial ownership information or requests for assistance in locating beneficial owners residing abroad.



Challenges of the Fourth Round of Mutual Evaluations IO5 and R.24 ratings- CFATF Members



Table 1: CFATF IO5 and Rec 24 ratings at August 1, 2022

Country	IO5	Rating on Rec 24 at MER	Updated Rating on Rec 24 achieved after Re-Rating in the FUR
Antigua and Barbuda	ME	LC (JUL 2018)	LC (NOV 2021)
Aruba	ME	PC (JUL 2022)	No re-rating
The Bahamas	ME	PC (AUG 2017)	LC (DEC 2021)
Barbados	ME	PC (FEB 2018)	PC (FEB 2021)
Bermuda	SE	LC (JAN 2020)	No re-rating
Cayman Islands	ME	PC (MAR 2019)	LC (FEB and NOV 2021)
Grenada	LE	PC (JUL 2022)	No re-rating
Haiti	LE	NC (JUL 2019)	No re-rating
Jamaica	LE	PC (JAN 2017)	PC (JAN 2021)
Saint Kitts and Nevis	ME	PC (FEB 2022)	No re-rating
Saint Lucia	LE	PC (JAN 2021)	No re-rating
Trinidad and Tobago	ME	PC (JUN 2016)	C (JUN 2019)
Turks and Caicos	ME	LC (JAN 2020)	No re-rating



FATF Revision of Rec 24 (1)

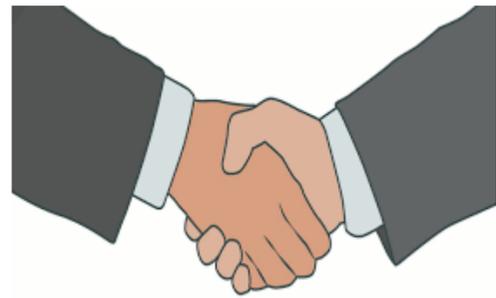


According to a FATF Ministerial Statement, the FATF Plenary, held during the period 2nd - 4th, March 2022, adopted -

1. Amendments to Recommendation 24 and
2. The Interpretive Note to Recommendation 24 (INR.24) (Transparency and beneficial ownership of legal persons) which require countries to:
 - a) prevent the misuse of legal persons for Money Laundering or Terrorist Financing (ML/TF) and
 - b) to ensure that there is adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons. transparency of beneficial ownership of legal persons.



FATF Revision of Rec 24 (2)



Countries will be required to:

- Ensure that competent authorities have access to adequate, accurate and up-to-date information on the true owners of companies;
- Ensure beneficial ownership information is held by a public authority or body functioning as a beneficial ownership registry, or an alternative efficient mechanism.



What is a Multi-Pronged approach? (1)



The FATF indicated in their 2019 Guidance document on BO that from countries' experience, there is no single solution to tackle the identified obstacles which are intertwined with each other.

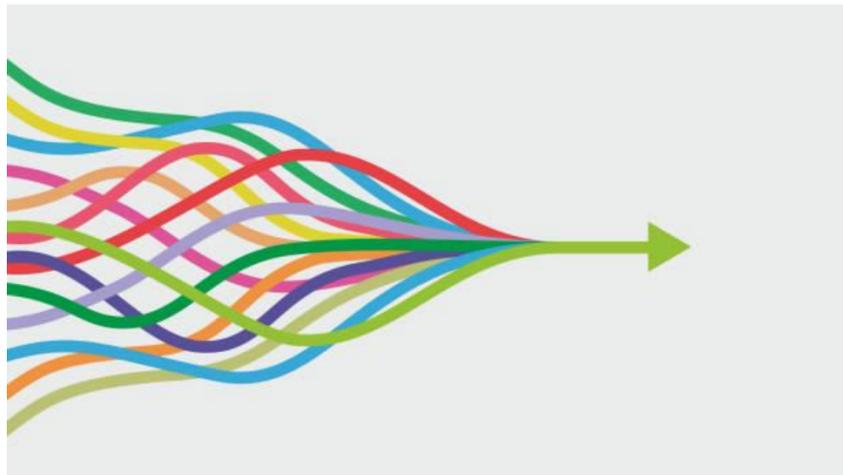
Updates to the FATF Guidance document is pending.

The fourth round of FATF mutual evaluations reveals that systems combining one or more approaches under R.24 are often more effective than systems that rely on a single approach.

Footnote: *FATF, “Best Practices on Beneficial Ownership for Legal Persons Guidance” 2019. Accessed on 10.08.2022 <https://www.fatf-gafi.org/media/fatf/documents/Best-Practices-Beneficial-Ownership-Legal-Persons.pdf> p.8



What is a Multi-Pronged approach? (2)

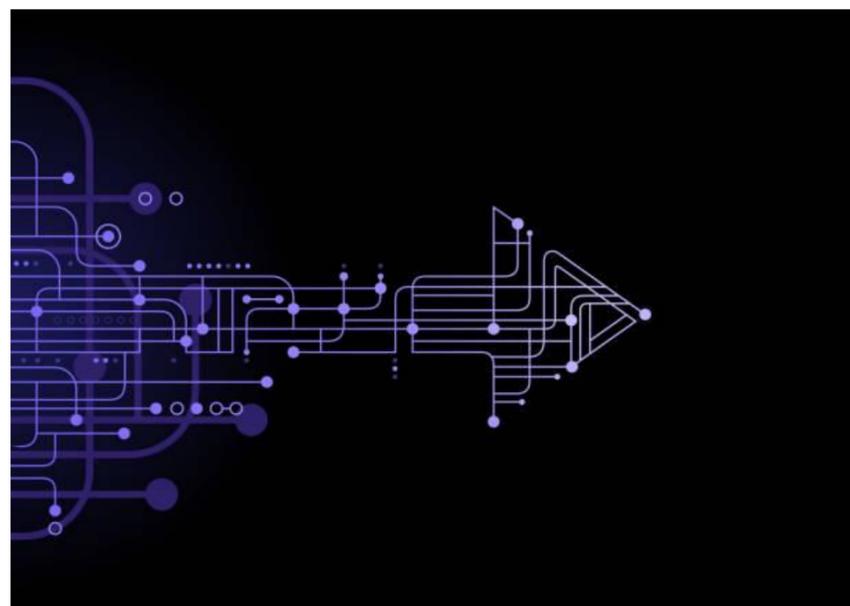


The approaches include:

- (a) The Registry Approach - requiring company registries to obtain and hold up-to-date information on the companies' beneficial ownership;
- (b) Company Approach - requiring companies to take reasonable measures to obtain and hold up-to-date information on the companies' beneficial ownership;
- (c) Existing Information Approach - using existing sources of information including financial institutions, company, land, property or other types of registries, other authorities (tax authorities, stock exchanges), commercial databases.



What is a Multi-Pronged approach? (3)



Footnote: *FATF, “Best Practices on Beneficial Ownership for Legal Persons Guidance” 2019. Accessed on 10.08.2022 <https://www.fatf-gafi.org/media/fatf/documents/Best-Practices-Beneficial-Ownership-Legal-Persons.pdf> p.21

Figure 1. Multi-Pronged Approach *

Section IV – The Suggested Effective System

Multi-pronged approach
to identify the beneficial owner(s) behind legal persons,
such as companies and foundations





What is a Multi-Pronged approach? (4)



A Multi-pronged approach therefore means employing two or more of these above stated mechanisms or consulting multiple sources of BO information on a company, that is:

- Companies must always hold their own BO information;
- Through a BO Registry or alternative mechanism;
- Any additional supplementary measures must also be employed.

Applying a multi-pronged approach can ensure that information on the beneficial ownership of a company:

- is obtained by that company and available at a specified location in their country; or
- can be otherwise determined in a timely manner by a competent authority as required by [paragraph 7](#) of INR.24.



New paragraph 7 of INR. 24 on Beneficial Ownership Information (1)



7. Countries should follow a multi-pronged approach in order to ensure that the beneficial ownership of a company can be determined in a timely manner by a competent authority. Countries should decide, on the basis of risk, context and materiality, what form of registry or alternative mechanisms they will use to enable efficient access to information by competent authorities, and should document their decision. This should include the following:

a) Countries should require companies to obtain and hold adequate, accurate and up-to-date information on the company's own beneficial ownership; to co-operate with competent authorities to the fullest extent possible in determining the beneficial owner, including making the information available to competent authorities in a timely manner; and to co-operate with financial institutions/DNFBCPs to provide adequate, accurate and up-to-date information on the company's beneficial ownership information.



New paragraph 7 of INR. 24 on Beneficial Ownership Information (2)



b) (i) Countries should require adequate, accurate and up-to-date information on the beneficial ownership of legal persons to be held by a public authority or body (for example a tax authority, FIU, companies' registry, or beneficial ownership registry). Information need not be held by a single body only*.

b) (ii) Countries may decide to use an alternative mechanism instead of (b)(i) if it also provides authorities with efficient access to adequate, accurate and up-to-date BO information. For these purposes reliance on basic information or existing information alone is insufficient, but there must be some specific mechanism that provides efficient access to the information.

Footnote: *A body could record beneficial ownership information alongside other information (e.g. basic ownership and incorporation information, tax information), or the source of information could take the form of multiple registries (e.g. for provinces or districts, for sectors, or for specific types of legal person such as NPOs), or of a private body entrusted with this task by the public authority.



New paragraph 7 of INR. 24 on Beneficial Ownership Information (3)

c) Countries should use any additional supplementary measures that are necessary to ensure the beneficial ownership of a company can be determined.

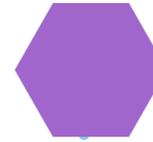
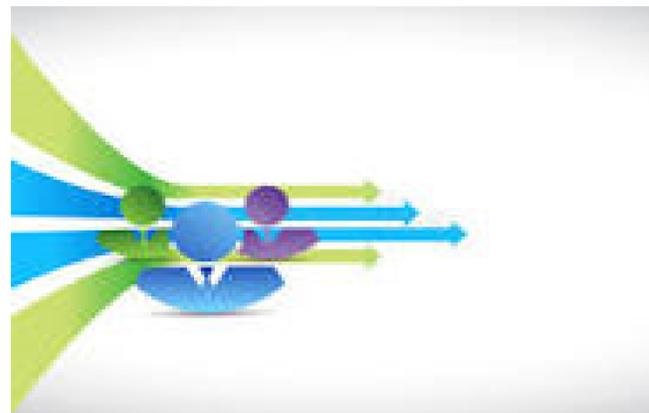
This includes information held by regulators or stock exchanges; or obtained by financial institutions and/or DNFBNs in accordance with Recommendations 10 and 22.*

The amendment highlighted at b (i) above indicates that while the BO registry is the central mechanism, there can be flexibility about how it is established.

Footnote: *Countries should be able to determine in a timely manner whether a company has or controls an account with a financial institution within the country.



New paragraph 7 of INR. 24 on Beneficial Ownership Information (4)



At b (ii), there is flexibility to use an alternative mechanism. Some examples include:

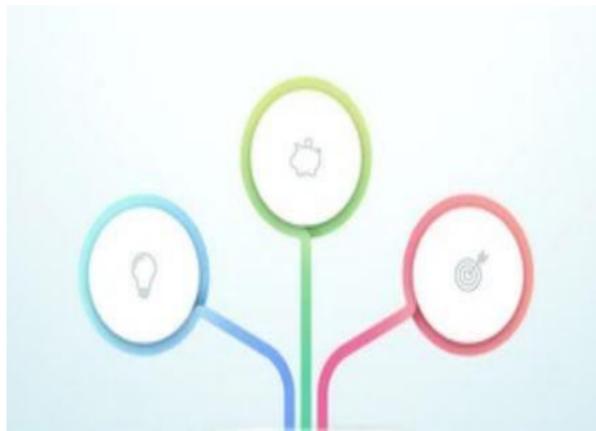
Public Private Partnership based mechanisms (to enable information sharing with FIs and DNFBPs)

“Big-Data” * approaches to link with other data.

Footnote: *The Financial Stability Board (FSB) defines big data as “the massive volume of data that is generated by the increasing use of digital tools and information systems,” such as financial transaction data, social media data, and machine data (e.g., Internet of Things, computer and mobile phone data. ([FSB, 2017](#)))



The Multi-pronged Approach in practice (1)



It can be challenging for a jurisdiction to assess how well they have met the obligations regarding the availability of information to satisfy criterion 24.1-

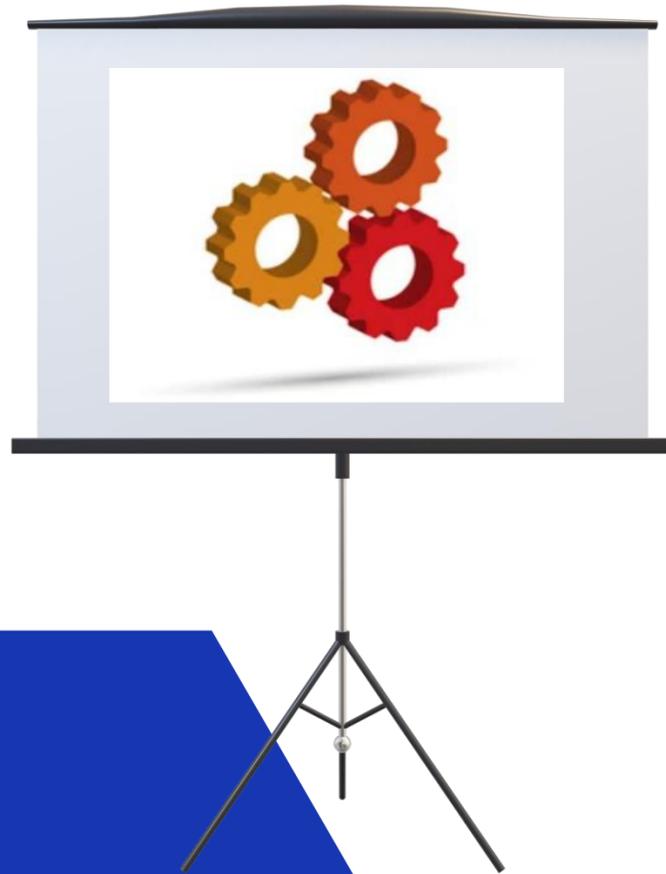
“Countries should have mechanisms that identify and describe:

(a) the different types, forms and basic features of legal persons in the country;
and

(b) the processes for the creation of those legal persons, and for obtaining and recording of basic and beneficial ownership information. This information should be publicly available.”



The Multi-pronged Approach in practice (2)



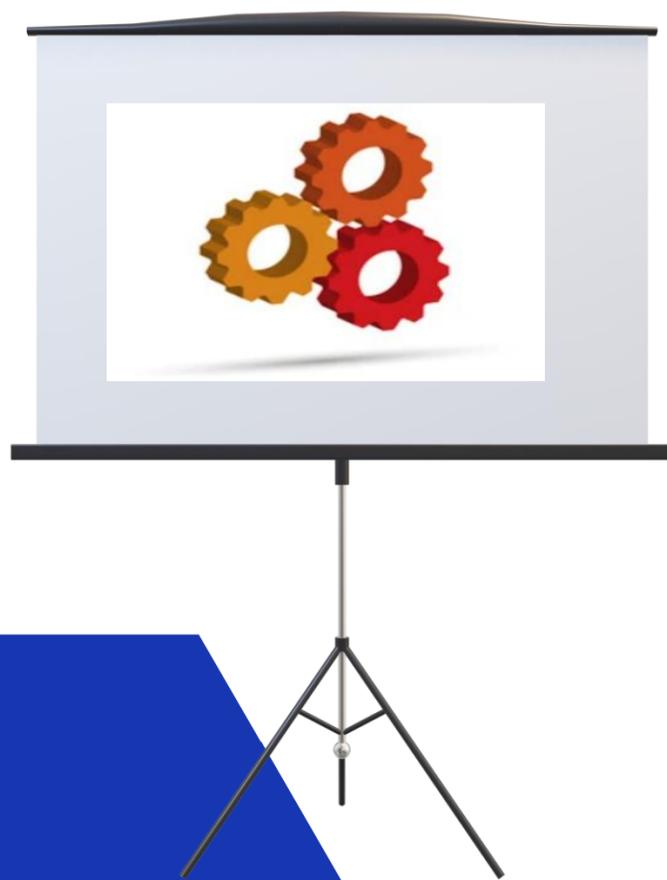
“Countries’ experience shown in the FATF mutual evaluations echoes that jurisdictions using a single approach is less effective in making sure that competent authorities can obtain accurate and up-to-date BO information to in a timely manner.

Instead, a multi-pronged approach using several sources of information is often more effective in preventing the misuse of legal persons for criminal purposes and implementing measures that make the beneficial ownership of legal persons sufficiently transparent. The variety and availability of sources increases transparency and access to information, and helps mitigate accuracy problems with particular sources.” *

Footnote: *FATF, “Best Practices on Beneficial Ownership for Legal Persons Guidance” 2019. Accessed on 17.08.2022 <https://www.fatf-gafi.org/media/fatf/documents/Best-Practices-Beneficial-Ownership-Legal-Persons.pdf> p.22



The Multi-pronged Approach in practice (3)



Information on BO of legal persons can be found in a number of different places, including company registries, the company itself, FIs, DNFBPs, and other national authorities, such as tax authorities * or stock exchange commissions.

Implementing different approaches under R.24 can therefore complement each other to verify or/and monitor the information on beneficial ownership and make sure that the information is accurate.

Footnote: *For example, the Global Forum on Transparency and EOI (the GF)'s project on beneficial ownership, developed based on the FATF standard, encourages jurisdictions to develop complementary frameworks and enforcement programmes for tax transparency purposes. In March 2019, the GF's Beneficial Ownership Toolkit was launched, which contains policy considerations that jurisdictions can use to implement legal and supervisory frameworks to identify and collect beneficial ownership information. Source: FATF, "[Best Practices on Beneficial Ownership for Legal Persons Guidance](#)" 2019



The Multi-pronged Approach in practice (4)

FATF
Guidance
on BO

- Public access to a central registry \neq accurate and up-to-date information.
- Obligated parties (e.g. notary, company registrar) must verify or/and monitor BO information held under different approaches.
- The availability of other information agents (e.g. companies, FIs, DNFBNPs) facilitates the cross-checking, verification and/or monitoring of information.
- CAs can gain access to information on BO through different sources and cross check information for accuracy.
- Easier for key stakeholders (including companies, directors, shareholders, obliged parties such as FIs and DNFBNPs) to identify incorrect BO information in their database by searching different registers or requesting information from different sources. Clarifications from companies sought and if necessary, report suspicious activities to CAs.
- Encourages key stakeholders* to fulfil their obligations through peer interaction and supervision.

Footnote: *Key stakeholders involved in the system include the company itself, company registry, obliged parties involved in company registration and verification of information. The respective roles and obligations of each key stakeholder are suggested on page 22 of the FATF “Best Practices on Beneficial Ownership for Legal Persons Guidance” 2019. p. 22



The Way Forward

Concerted efforts from different stakeholders to implement measures that prevent legal persons from being misused must be made to ensure an effective system.

Accurate information on the BO of legal persons so that CAs can access information in a timely manner must also be implemented.





Next Steps for Countries



While the application of the revised R. 24 will take place from the **Fifth Round** of Mutual Evaluations, the FATF advised that countries should commence implementation as soon as possible by undertaking the following:

- Amendment of relevant legislation or other enforceable means;
- Establishment of a BO registry (or alternative mechanism);
- Risk assessment of legal persons (local and foreign-created);
- Engagement with the private sector (FIs, DNFBPs and Companies) and
- Supervision of the gatekeepers i.e. an obliged party which is subject to AML/CFT obligations to ensure accuracy of information.



Thank you!



Phone Number
1868-623-9667



Email Address
cfatf@cfatf.org



Website
www.cfatf-gafic.org