



Revisions to Recommendation 24, Part II: The Multi-Pronged Approach

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Introduction

This article series will look at the amendments to Recommendation 24 and its Interpretive Note. In Part 2, the focus will be on the multi-pronged approach. 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





The Multi-Pronged Approach

One of the key amendments to Recommendation 24 is the mandatory application of the multi-pronged approach for beneficial ownership (BO) information. Prior to the amendments, countries had an option of a single pronged approach where they could have used one mechanism for beneficial ownership information. This was seen in paragraph eight (8) of the Interpretive Note (INR.) for Recommendation 24 where a country could either rely on the companies to be repositories of BO information; or rely on existing information at financial institutions and/or DNFBPs; or rely on information kept by competent authorities (such as registries, tax authorities or other regulators). A single pronged approach is no longer permissible.



The Multi-Pronged Approach

The multi-pronged approach combines the use of information maintained and/or supplied by companies themselves and information held by, or on behalf of, public authorities in a registry, or similarly effective alternative mechanism (once it ensures rapid and efficient access to BO information for competent authorities), and any additional measure as necessary. Thus, paragraph eight (8) in the INR to R24 is no longer applicable.

BO information must continue to be adequate, accurate and up-to-date. Each of these are equally important and none should be prioritised above the other (FATF 2023, p. 21).





Why the Multi-Pronged Approach?

Using several sources of information is more effective than using a single approach in preventing the misuse of legal persons for criminal purposes and implementing beneficial ownership transparency measures, as the different approaches supplement each other and lead ultimately to better quality information.

A variety and availability of sources enhances access to information and helps mitigate accuracy problems with individual sources (this could include technology-based solutions) (FATF 2023, p. 21)





What is Required in the Multi-Pronged Approach?

7a) Countries should require companies to obtain and hold adequate, accurate and up-to-date information on the company's own beneficial ownership:

This refers to the company approach that requires companies to “(a) obtain and hold adequate, accurate and up-to-date information on the company's own beneficial ownership; (b) 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 (c) To co-operate with financial institutions/DNFBPs to provide adequate, accurate and up-to-date information on the company's beneficial ownership information (FATF 2023, p. 23)



What is Required in the Multi-Pronged Approach?

7b) (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:

This refers to the registry approach to BO information. Registry implementation may face particular challenges, such as the power of the register to collect BO information, application of proportionate and dissuasive sanctions for failure to comply to any legal or natural, and the sufficiency of registry's resources (FATF 2023, p. 30).

·Other approaches to BO registers include integration into existing databases, such as company registers, and registers held by legal persons, FIs/DNFBPs, notaries, tax authorities and/ or other competent authorities. Their authority, power and responsibilities should be clearly defined as well as they must have the requisite expertise and resources (FATF 2023, p, 31).



What is Required in the Multi-Pronged Approach?

7b) (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. (FATF 2023, ps. 35-36)

An alternative mechanism(s) rather than a BO registry can be used, once competent authorities can have efficient access to adequate, accurate, and up-to-date BO information. Alternative mechanisms may rely on an existing source(s) of information, for which countries should implement specific measures, like verification and supervision. These ensure that the BO information, is adequate, accurate, and up-to-date.



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Additionally, the country must ensure that there is a mechanism(s) that provides efficient access to reliable information, such as a secure communication electronic portal/website. The mechanism(s) should consist of a clear and comprehensive process or system (or multiple processes or systems) via which competent authorities are able to access adequate, accurate, and up-to-date BO information.



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There are several factors that should be considered when establishing an alternative mechanism/s for BO information. These include legal framework for access to information, scope of mechanism to cover all domestic and foreign legal persons, quality of information and appropriate oversight, supervisory measures for efficient access while having data protection safeguards.



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BO information obtained and held by FIs/DNFBPs (pursuant to Recommendation 10/22) alone is not a sufficient alternative mechanism. However, countries may consider utilising this information to develop an alternative mechanism, to ensure efficient access to adequate, accurate and up-to-date BO information by competent authorities.



What is Required in the Multi-Pronged Approach?

7) (c) Countries should use any additional supplementary measures that are necessary to ensure the beneficial ownership of a company can be determined; including for example information held by regulators or stock exchanges; or obtained by financial institutions and/or DNFBPs in accordance with Recommendations 10 and 22.

Supplemental information on BO can be held or obtained from different sources. The FATF Guidance on BO for Legal Persons noted that countries should use additional supplementary as necessary, for example: (FATF 2023, ps. 38-39)



What is Required in the Multi-Pronged Approach?

Information held by other Regulators/Supervisors.

Countries may utilize existing information sharing arrangements with financial regulators and/or other supervisory bodies to assess and enhance their own BO information. In addition to allowing countries to review and scrutinize BO information, this may also assist competent authorities to identify information that is not accurate or up-to-date. This could be achieved by liaising with other regulators/supervisors to check that the BO information provided is accurate based on the information held by the other regulator, or other bodies that operate under the delegated authority of the supervisor.



What is Required in the Multi-Pronged Approach?

Information held by Stock Exchanges.

Open sources of information may provide competent authorities with further means of obtaining and verifying information. Jurisdictions can consider using information on a company listed on a stock exchange where that company is subject to requirements on adequate transparency of BO to verify BO information.



What is Required in the Multi-Pronged Approach?

Information obtained by FIs and DNFBPs in accordance with Recommendations 10 and 22.

Countries may rely on an effectively regulated FI sector or DNFBP sector which can provide BO information obtained in line with Recommendations 10 and 22 respectively. Under Recommendation 10, FIs are required to identify and take reasonable measures to verify the identity of the BO so that it is satisfied that BO is known. In addition, countries should require FIs to understand the ownership and control structure of the customer as well as the customer's business and risk profile. Recommendation 22 is applicable when a country depends on the regulated DNFBP sector which is involved in company formations, such as TCSPs, lawyers and notaries. These legal persons are required to hold BO information in accordance with this Recommendation.



What is Required in the Multi-Pronged Approach?

Monitoring and Supervision of FIs and DNFBPs

Effective monitoring of FIs and DNFBPs to ensure that they are complying with CDD obligations under Recommendations 10 and 22. Moreover, a regulated FI/DNFBP regime would include an effective sanctioning regime for, inter alia, failing to update information in a timely manner, failing to supply information and submitting inaccurate information to authorities.



References

FATF (2012-2023), “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation”, FATF, Paris.

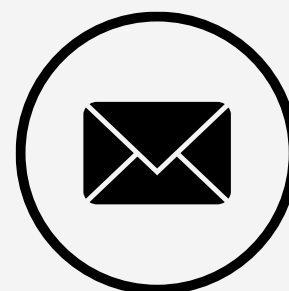
FATF (2023), “Guidance on Beneficial Ownership for Legal Persons”, FATF, Paris.



Thank you for reading this article and we hope that you found it informative and interesting. Part 3 will continue the focus on the amendments to Recommendation 24, specifically on verification of beneficial ownership information.



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