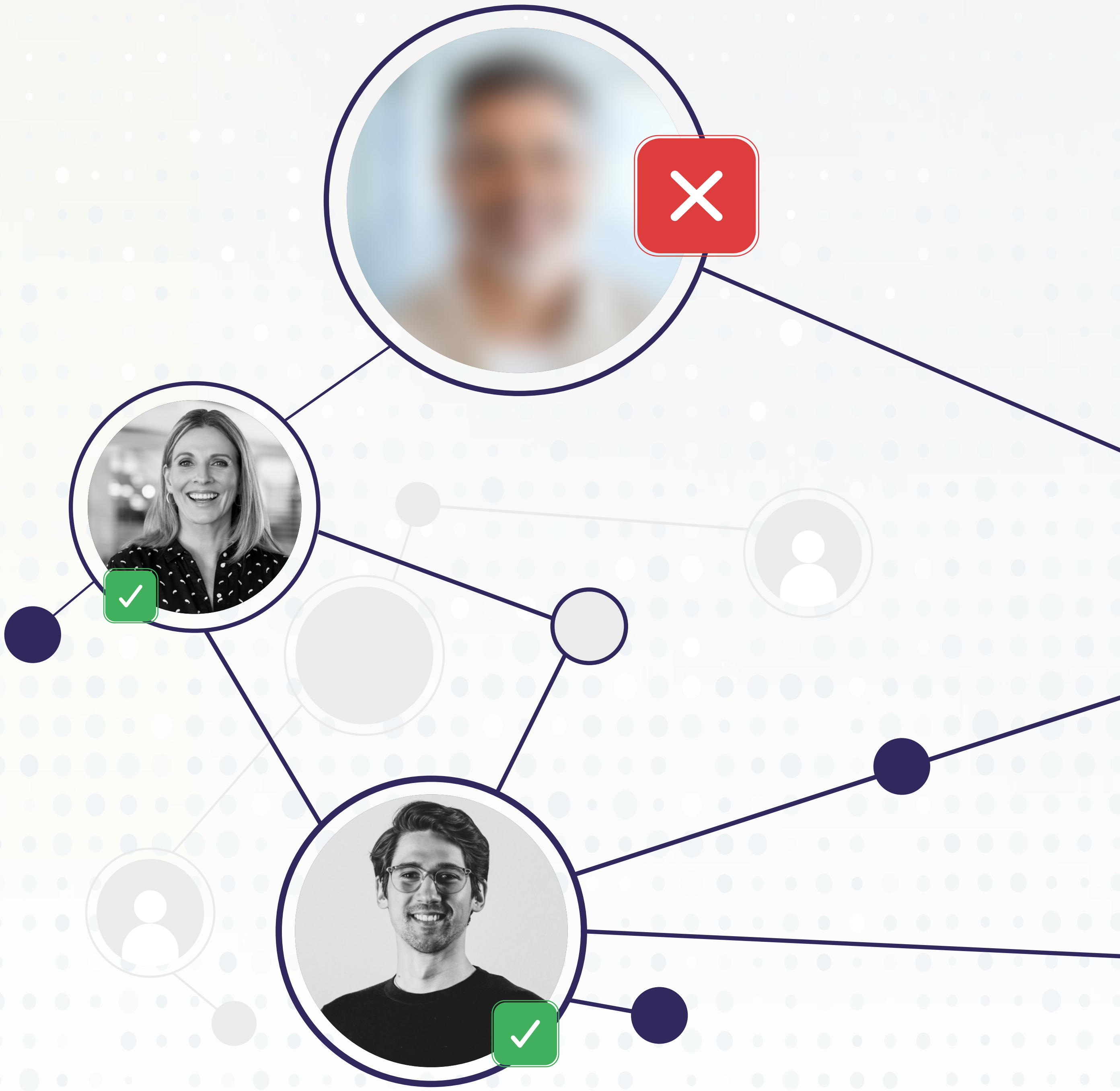
The invisible stakeholder:

An essential guide to Ultimate Beneficial Ownership and their hidden risks.



About NorthRow.

NorthRow brings together market-leading compliance and verification technologies into a **single, simple interface, accessible anywhere, any time.** This empowers compliance officers to make faster decisions, reduce the need for siloed systems and onboard customers in seconds, not days, so that they can contribute to the success of their business.

Introducing NorthRow into a business ensures that it is compliant, manages risk more sustainably and has a positive impact in reducing financial crime. NorthRow is an **intuitive and highly secure KYC/B and ID and verification system** located in the Cloud, meaning all users can perform customer, business, or employee verification instantaneously.

The additional time saved unlocks more time to focus on the single most important task - **growing their business safely**.

OPEN BANKING | Artscapy. | HARGREAVES LANSDOWN | cloudpay

Mitchells & Butlers | NEMEAN SERVICES | Regus™ | Cashflows

Email: info@northrow.com
Phone: +44 (0) 1235 375000

northrow.com

Introduction.

How confident are you that your compliance processes aren't inadvertently enabling money laundering? If you're unsure, you're not alone. Pinpointing UBOs is no easy task. The challenge lies in the fact that many entities hide behind anonymous owners, shell companies, and tangled corporate structures - ideal setups for financial crime on a global scale.

A World Bank review of 213 major corruption cases from 1980 to 2010 revealed that over 70% involved companies obscuring beneficial ownership to move and disguise illicit funds.

Which begs the question: **Do you really know who you're doing business with?**

For regulated firms, the answer isn't always clear, and that's exactly what financial criminals count on.

Behind the layers of corporate structure, beneficial owners - the actual individuals pulling the strings and enjoying the benefits of ownership - can remain hidden, providing cover for money laundering, tax evasion, and other financial crimes.

Over the years, criminals have refined their strategies, using offshore accounts, shell companies, and complex ownership chains to get around even the most rigorous Anti-Money Laundering (AML) checks.

As a result, firms without a thorough understanding of beneficial ownership can become unwitting accomplices, risking serious regulatory action and damage to their reputation.

What is a UBO?

Under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, a UBO is the natural person who, whether directly or indirectly, owns or controls a business entity. In the UK, this generally means those holding more than 25% of shares or voting rights in a company.

Simply put, a UBO is **the person who ultimately benefits from or controls a company's operations**, even if they are not listed as a formal owner or shareholder. UBO regulations are designed to prevent financial crime, money laundering, and terrorism financing by ensuring that companies cannot be easily used as anonymous shells for illicit activities.

In response to the rise in financial crime, governments and regulators globally are pushing for transparency around UBOs. In the UK, companies must report details of persons with significant control (PSCs) to Companies House. Similarly, the EU has mandated UBO transparency through the Fourth and Fifth Anti-Money Laundering Directives, requiring member states to maintain central registers of beneficial ownership.

However, **achieving compliance isn't easy, especially given the inconsistent disclosure standards across borders.** Businesses that meet UBO requirements not only mitigate their own risks but also contribute to a safer financial environment. These regulations are far more than just administrative boxes to tick - they're critical to protecting economies from criminal misuse.

How to identify and verify UBOs.

Identifying and verifying the UBO of a company is an important step in building trust, ensuring compliance, and reducing the risk of financial crimes such as money laundering and fraud. This is typically broken down into four key steps.

Step #1: Verifying the legal entity.

Before identifying individuals behind a company, **it's essential to confirm the legitimacy of the organisation itself.** This step involves gathering core details about the company's structure and official records. Typically, the information you'll need includes:

- Registration number
- Name of the entity
- Physical address
- Type of business
- Offcial status
- Top-level directors

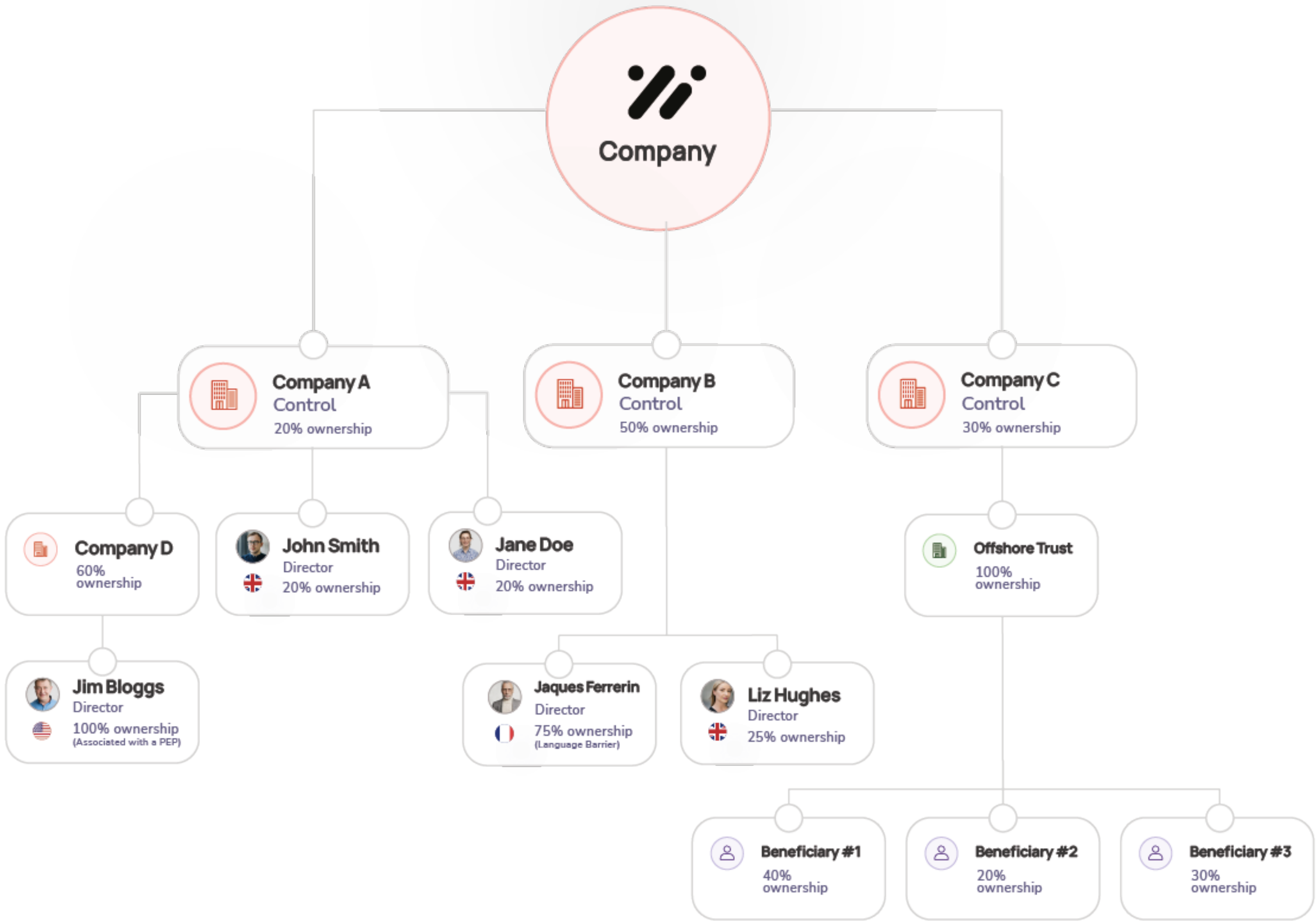
This information mustn't just be taken at face value - it needs to be **verified against reliable documents, such as government-issued registration certificates or trusted databases.** The specifics might vary depending on local laws and regulations, but the goal is the same: to confirm the company exists and operates lawfully.

Step #2: Research the chain of ownership.

Now that the company itself is verified, you need to **untangle its ownership structure.** This step requires examining official documents or registry information to pinpoint who owns shares or holds stakes in the business.

Ownership can be direct - where an individual owns shares outright - or indirect, where ownership is filtered through intermediary entities.

If the company's shares are held by another organisation, you'll need to dig deeper into that entity's structure, **continuing this process until you reach the individuals at the top of the tree** - the natural person who has control and benefits from the company's operations. By mapping out the ownership chain step by step, you can **form a complete picture of the company's true ownership.**



Step #3: Identify the UBO.

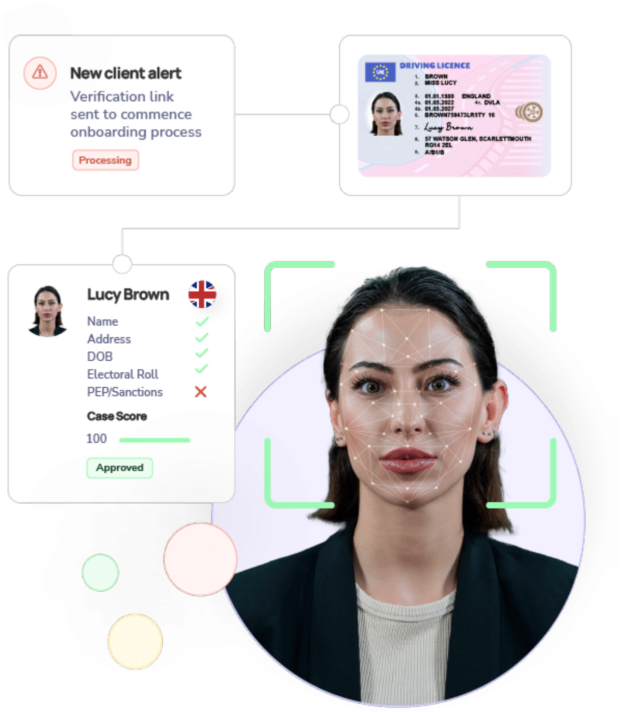
With the ownership structure in hand, the focus shifts to **identifying the UBOs themselves.** These are the individuals who ultimately control the company, either through a significant ownership stake or other means of influence. To determine who qualifies as a UBO, consider:

- The % of shares or ownership stake held by each individual
- The level of control exercised by each person (direct or indirect)

In many jurisdictions, anyone owning 25% or more of a company's shares is classified as a UBO. However, local rules may have different thresholds or definitions, so it's important to align your calculations with the applicable standards.

Step #4: Perform a KYC check of the UBO.

Once you've identified the UBOs, they need to go through a comprehensive Know Your Customer (KYC) process. This is where you **gather, verify, and vet personal information to ensure they are above board** and not involved in any illicit or criminal activity.



- Collect detailed personal information.
- Verifying their identity using official documents.
- Evaluate the risk level of the UBO identified.
- Check for sanctions, PEPs, and adverse media hits
- Routinely monitor ever client for any red flags.

For individuals flagged as higher risk, Enhanced Due Diligence (EDD) might be required. This involves **more in-depth scrutiny and ongoing monitoring** to ensure there's no potential for fraud or money laundering.

But a robust UBO verification process doesn't stop at identity checks. It also involves screening UBOs for any other potential risks, such as:

- **Sanctions lists:** Identifying if the person appears on lists maintained by entities like the OFSI, UN, EU, or OFAC.
- **Politically Exposed Persons (PEPs):** Checking if the individual holds or has held prominent public positions, which could pose a risk.
- **Adverse media:** Reviewing any negative media coverage that might raise concerns.

UBO verification isn't a one-and-done process. Even after onboarding, continuous monitoring is essential. Circumstances change - an individual may be added to a sanctions list, become a PEP, or appear in adverse news at any time. Regular updates to your records keep you ahead of potential risks.

Hidden risks of UBOs and how they can evade AML processes.

UBOs can pose significant risks to businesses, especially when they intentionally operate in the shadows. Whether their aim is to evade taxes or facilitate financial crimes like money laundering, hidden UBOs expose firms to serious consequences, including regulatory penalties, reputational damage, and legal action.

A lack of visibility into UBO information can lead to compliance breaches, resulting in substantial fines, legal costs, and potentially criminal proceedings. This is particularly relevant for companies working across borders where they are required to meet varying regulatory standards, each with different demands for transparency. For companies that don't keep up, this **lack of oversight can drain resources that could have been invested elsewhere**, impacting growth and profitability.

Let's take a look at some of the most common tactics they use to stay hidden and the vulnerabilities they exploit in traditional compliance processes.

Layering ownership structures with shell companies.

One of the most common methods criminals use to conceal UBOs is creating complex, multi-layered ownership structures. By placing the UBO behind layers of legal entities - often spread across jurisdictions with weak oversight - they can obscure their involvement. This technique, called "layering," relies on a network of shell companies or trusts, each holding stakes in the next.

For instance, a UBO may control a company in an offshore tax haven, which in turn owns another company in a jurisdiction with stricter regulations. This chain might continue through multiple layers, making it incredibly challenging for authorities or firms to trace back to the true owner. This approach allows criminals to bypass standard KYC and KYB checks.

Manipulating ownership structures with through trusts

Trusts offer a legal way to transfer ownership to a trustee while the UBO retains the benefits behind the scenes. With trusts, the UBO's identity often remains undisclosed, especially when structured to avoid public reporting requirements.

Criminals can use trusts to hide ownership of valuable assets, such as real estate, luxury goods, or shares. Trusts also allow for control without direct legal ownership, making them particularly effective for avoiding scrutiny. In some cases, they use "blind trusts," where the trustee has full control over the assets, further distancing the UBO from regulatory oversight.

Exploiting jurisdictions with weaker regulatory frameworks

Some jurisdictions, often referred to as tax havens or offshore hubs, are well-known for their lenient transparency laws. These locations allow companies to incorporate without disclosing their UBOs, creating a haven for those looking to avoid scrutiny.

Criminals often register companies through intermediaries like service providers or law firms to add another layer of anonymity. They also take advantage of discrepancies in reporting standards between countries - what's required in one jurisdiction may be entirely absent in another.

Why is UBO verification difficult for companies?

UBO verification is a challenge that businesses of all sizes contend with, and it's easy to see why. Pinpointing the individuals who truly own or control a company often feels like a **battle against secrecy, complexity, and ever-changing regulations.**

But identifying and verifying UBOs is not just an administrative headache - it's a risk to a company's compliance, reputation, and bottom line if they don't get it right.

Complex ownership layers

One of the biggest obstacles is the sheer complexity of ownership structures. Many companies are set up with intricate, multi-layered networks of entities, often spread across different jurisdictions.

Shell companies, trusts, and partnerships are frequently used to mask who's really in charge, creating **a tangle of legal entities that's hard to unravel.**

For businesses trying to conduct due diligence, this can mean hours spent poring over documents, tracing ownership chains, and still being left with more questions than answers.

Global patchwork of rules

Operating internationally adds another layer of difficulty. Every country has its own set of rules around corporate ownership and disclosure, and not all of them prioritise transparency.

Some jurisdictions demand detailed information about UBOs, while others allow individuals to remain hidden with minimal reporting.

Trying to piece together a clear picture when dealing with different legal systems, document formats, and languages can feel like an impossible task.

Intentionally concealing UBOs

On top of all this, **it's not uncommon for UBOs to actively try to conceal their identities.**

Sophisticated techniques like nominee directors, false disclosures, or frequent changes in ownership make it even harder to uncover the truth.

For businesses, this creates an environment where it's easy to miss red flags, even with the best tools and processes in place.

Limited access to global UBO data

Even when companies make a

concerted effort to verify UBOs, they often find themselves working with **incomplete or outdated information.**

Public registries, where they exist, can be inconsistent, inaccurate, or missing key details. In many cases, access to reliable, up-to-date data requires significant resources or is simply unavailable in some jurisdictions.

This lack of transparency doesn't just slow things down during onboarding - **it leaves businesses exposed to compliance risks.**

"...many countries still find it challenging to ensure transparency of ownership of legal persons. Many are not able to effectively prevent criminals and terrorists from hiding their identity and illegal activities behind the façade of seemingly legitimate activity."

- Financial Action Task Force,
Best Practices on Beneficial Ownership for Legal Persons

Red flags to look out for: indicators of hidden ownership.

Identifying hidden ownership can be a challenging task, but certain red flags can help companies spot potentially concealed UBOs early. These indicators suggest when ownership might be obscured and warrant closer scrutiny to ensure compliance and mitigate potential risks.

One of the first signs to look out for is **complex ownership structures.** If a company operates with a web of layered entities, it could be an attempt to hide the true beneficial owners. While complex structures are sometimes entirely legitimate in some organisations, if they seem **excessive or convoluted without clear business justification**, they could indicate an effort to obscure control.

Another key red flag is **uncooperative or evasive behaviour.** If a company or individual is reluctant to provide information about their ownership or avoids disclosing key documents during the onboarding process, it should raise immediate concerns. Genuine businesses usually provide transparent and clear details about their ownership, while those attempting to hide UBOs may **delay or resist sharing critical information to keep their true control under wraps.**

Discrepancies in documentation are another warning sign. If there are inconsistencies, such as differing names or addresses in company filings, or missing or incomplete beneficial ownership declarations, it could suggest that **information is being deliberately hidden or misrepresented**. Inaccuracies like these warrant further investigation to uncover the true owners behind the company.

The **involvement of nominee directors and shareholders** can also signal concealed ownership. These individuals act on behalf of someone else and often have no real control or influence within the company. While the use of nominees is not always illicit, it is often used to **obscure the identity of the true beneficial owners,** and if it seems excessive, can be a red flag.

Strategies and tools for identifying UBOs.

Tracking down the UBO of a company can sometimes feel like chasing shadows. For regulated firms in the UK, this task is a legal obligation that's also **essential for protecting your business from risks tied to financial crime.**

But it's not always straightforward - ownership structures can be convoluted, and **those with something to hide often take advantage of this complexity.**

At its core, this process should rely on three principles: **knowing where to look, digging deeper when something doesn't feel right, and staying equipped with the right tools.**

Knowing where to look.

A good starting point is tapping into **trustworthy registries and databases.** For UK-based companies, the Companies House registry is a key resource.

However, it's worth noting that the information it contains isn't always verified, so it shouldn't be relied on exclusively.

Data providers like Dun & Bradstreet, Creditsafe, and Acuris can provide **enriched data and advanced filtering options** to make sense of complex ownership structures.

If your clients are often businesses with global connections, international registries can help. The EU's Beneficial Ownership Registers Interconnection System (BORIS) and various offshore jurisdiction databases can add extra depth to your research.

Wherever possible, cross-reference information across multiple sources to catch discrepancies or gaps that might otherwise go unnoticed.

Digging deeper when something doesn't feel right.

Sometimes, the information on paper may not add up. This is where **taking a closer look can make all the difference.** Start by reviewing the corporate structure. In many cases, you'll find multiple layers of ownership, with one company owned by another, which is then owned by yet another. These layers can be legitimate, but they're also a common tactic for hiding UBOs. Take your time to follow the trail back to the individuals behind the entities.

Watch for **red flags like nominee directors or shareholders who don't seem connected to the business' operations.** Nominees might act as fronts to disguise who's really in control.

Similarly, be cautious when companies list owners based in jurisdictions known for strong corporate secrecy and privacy laws. These aren't always problematic, but they often warrant extra scrutiny. And don't overlook minority shareholdings. While the 25% threshold is a helpful guideline, multiple smaller stakes owned by connected parties can still signal control. Be on the lookout for any patterns that suggest coordinated influence, even if no single individual meets the ownership threshold on their own.

Staying equipped with the right tools

The complexity of ownership structures means that **manual checks and research is rarely enough.** Technology has become an essential part of most firms' approach to identifying UBOs, offering speed, accuracy, and the ability to process vast amounts of information.

Technology can **map out corporate structures visually, helping you see the bigger picture at a glance.** Platforms like ours here at NorthRow **integrate data from multiple sources, flag inconsistencies, and alert you to any risks.** However, identifying a UBO isn't where the responsibility ends. Ownership structures can change rapidly, and monitoring these shifts is essential to keeping your risk assessments up to date.

Monitoring tools can notify you of changes in shareholdings, directorships, mergers and acquisitions, and more, ensuring you stay informed about who is in control. This continuous oversight helps firms respond proactively to risks and maintain compliance.

The future of UBOs and emerging risks.

The landscape of UBO regulation is in a constant state of evolution, with new risks and challenges emerging as technological innovations and regulatory practices adapt to the changing world of global finance.

As financial systems become increasingly complex and interconnected, the ability to **identify UBOs remains a critical focus for firms and regulators alike.**

Several key developments on the horizon are likely to have significant implications for UBO identification and management.

The impact of regulatory change

Governments and regulators are doubling down on transparency.

In the UK, reforms to Companies House are set to improve the accuracy and reliability of data by introducing mandatory identity verification for company directors and significant shareholders.

Similar efforts are underway globally, with jurisdictions like the EU enhancing access to beneficial ownership registers through initiatives like the Beneficial Ownership Registers Interconnection System (BORIS).

While this drive for transparency is welcome, it also places a greater **burden on firms to ensure their processes align with evolving expectations.**

Firms must be ready to adapt to these changes, including potentially **stricter verification requirements or the need to navigate public registers** with inconsistent standards across jurisdictions.

The challenge of global consistency

UBO regulations vary significantly between countries.

What counts as a beneficial owner in one jurisdiction might not meet the threshold in another.

As international cooperation increases, harmonising these definitions will likely become a priority - but progress is slow.

In the meantime, businesses operating across borders face **the challenge of navigating fragmented systems, each with its own standards and reporting requirements.**

This patchwork approach to regulation creates vulnerabilities. Criminals can exploit jurisdictions with weaker rules to obscure their control, shifting their activities to countries that are lagging behind on transparency.

For firms, this means the risks associated with cross-border relationships will remain high, demanding continued diligence.

Technology as a double-edged sword

While technology has empowered compliance teams with better tools for identifying and monitoring UBOs, it's also being used by those seeking to hide. Innovations like cryptocurrency, blockchain, and decentralised finance (DeFi) are creating new avenues for hiding true ownership. Cryptocurrencies, for example, allow funds to move quickly and pseudonymously across borders, making it difficult to track the true owners of digital assets.

DeFi platforms further complicate this by removing traditional financial intermediaries, **leaving compliance teams with fewer methods of identifying suspicious activity.**

Firms must develop strategies to address these challenges by **investing in specialist tools** and working closely with regulators to understand how evolving UBO complexities could impact their risk profiles.

In summary.

The fight against financial crime and the safeguarding of corporate integrity hinge on one fundamental principle: **transparency**.

As we've explored in this eBook, **the risks of hidden stakeholders are real,** and the strategies to manage them require effort, focus, and the right tools.

But the way forward isn't always a simple one. Ownership structures are complex, criminals are resourceful, and regulations continue to shift. By staying informed, asking the right questions, and being willing to adapt, businesses can stay ahead of these challenges.

The future of UBO compliance is one of constant change. New regulations, technologies, and threats will continue to shape the way firms approach beneficial ownership. Those that stay prepared - by knowing where to look, digging deeper when things don't feel right, and staying equipped with tools that support both identification and monitoring - will be best placed to meet these challenges head-on.

The effort you put into understanding ownership will pay off, helping your organisation to **avoid unnecessary risks, improve decision-making, and strengthen relationships with customers and regulators alike.** When you know who's really pulling the strings, you can move forward with confidence.

When it comes to tackling the challenges of UBO compliance, purpose-built technology solutions like NorthRow are a no-brainer. They're designed to cut through the complexity, making it easier to stay on top of ownership structures and meet regulatory demands without the headaches. By centralising data, automating checks, and enabling continuous monitoring, they provide the clarity and oversight needed to manage risks effectively. Embracing these tools means you can focus on what matters most: protecting your organisation's integrity and building trust with stakeholders.

Ultimately, it's the same simple question we posed at the start of this eBook: **Do you really know who you're doing business with?** By making the effort to find out, you can safeguard your firm's reputation and play a vital role in ensuring the integrity of the wider financial system.

NorthRow

NorthRow provides software which empowers compliance professionals to make faster decisions and onboard customers in seconds, not days whilst complying with ever-changing legislation, so that they can contribute to their business' growth, safely.

Registered Office Address:
85 Great Portland Street, First Floor
London
W1W 7LT

Email: info@northrow.com
Phone: +44 (0) 1235 375000

northrow.com