



Anti Money Laundering and Counter  
Terrorist Financing National Committee

# **A GUIDANCE ON BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND LEGAL ARRANGEMENTS**



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## **Introduction**

Legal persons and legal arrangements play a significant and essential role in trade and commercial exchange at the national and international levels, and they constitute the cornerstone of modern economies. Legal persons and legal arrangements enjoy features that allow them to encompass complex ownership and control structures. However, such structures and control means are not considered illegal or illegitimate means, as they mainly aim to facilitate a wide range of commercial activities and projects, in addition to facilitating regular transactions across national borders and provision of services to international customers, and carrying out operations in different countries.

Although the objectives for which legal persons and legal arrangements were established are basically legitimate and legal, their special legal status, composition, ownership and control structures are considered attractive for criminals to abuse and exploit such characteristics and conceal the beneficial ownerships, circumvent Security Council resolutions and lists of national terrorists, and hide the source of Illicit funds (criminal proceeds). Characteristics of legal persons and legal arrangements enable criminals to legitimize illegal activities and conceal the involvement of key stakeholders and controlling parties' engagement, whereas complex ownership structures impede criminal investigations at the national and international levels.

This guidance aims to assist entities subject to the provisions of the Anti Money Laundering and Counter Terrorist Financing Law in force, to meet their obligations in line with this law, regulations and instructions issued pursuant thereto. The guidance also includes practical guidance on the procedures for identifying the beneficial ownership, that supports the ability of such entities to face daily challenges, and provide examples on international best practices, which will have an impact on enhancing and protecting confidence in the integrity and reputation of the financial system in the Hashemite Kingdom of Jordan.



It is noteworthy that this guidance does not replace the applicable laws, regulations, and instructions and is not considered a substitute for them rather, it is read alongside them and was issued as a guide to strengthen the policies, procedures and systems in force with the entities, and the principles and requirements contained in this guidance represent the minimum that the entities must take, as the entities should set their own policies, procedures, systems and controls in the field of anti money laundering and counter terrorist financing in a manner consistent with the results of their assessment of risks and the nature, scope, size and complexity of their work, taking into account the results of the national assessment of the risks of money laundering and terrorist financing, and any other relevant sectoral assessments.

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## **The importance of identifying the beneficial ownership**

The main objective of identifying and verifying the identity of the beneficial ownerships is to identify the ultimate controller over the client, where the subject entity is able to implement appropriate and effective due diligence measures, and take the right decision based on the risk level of both the client and the beneficial ownership, in addition to providing the official competent and judicial authorities with accurate information, stopping and preventing ML/TF, and effectively implementing Security Council resolutions related to targeted financial sanctions related to the financing of terrorism and the financing of the proliferation of weapons of mass destruction.

In turn, the Financial Action Task Force (FATF) attaches paramount importance to the issue of beneficial ownership, and reviews its international standards from time to time with the aim of developing and improving them to enhance the principle of transparency of legal persons and legal arrangements. In this regard, FATF recommendation (24) regulates the principle of transparency and the beneficial ownerships of legal persons, while the same principle regarding legal arrangements is regulated in Recommendation (25). Recommendation (10) and (22) obligates Subject Entities to take due diligence measures towards clients, including the process of identifying the beneficial ownership of legal persons and legal arrangements.

Based on Jordan's commitment to international standards, and to create a solid legal framework to deal with the principle of transparency and identify the beneficial ownership from clients, the beneficial ownership was defined in Article Two of the Anti Money Laundering and Counter Terrorist Financing Law in force, and the obligations of the subject entities regarding the beneficial ownership were stipulated within Due diligence procedures towards clients by detailed instructions issued by the regulatory and supervisory authorities in implementation of the provisions of Article (15) of the Anti Money Laundering and Counter Terrorist Financing Law in force. Non-compliance of subject entities with these requirements exposes them, their employees and those in charge of management to accountability and to the penalties stipulated in Articles (31 and 34) of the Anti Money Laundering and Counter Terrorist Financing Law in force.

International studies have found that lack of appropriate and accurate information about the beneficial ownership, allows for more money laundering and terrorist financing cases, when the following information is hidden:

- Identity of known or suspected criminals.
- The real purpose of the account or ownership of a legal person or legal arrangement.
- Source or destination of using funds or property associated with a legal person or legal arrangement.

Studies have indicated as well that it is possible to conceal the beneficial ownership identity by using the following:

- Shell companies: companies used as a vehicle to pass transactions without maintaining any assets, or practice certain transactions related to their activities even if it was a registered company.
- Complex ownership structures and control<sup>1</sup>, which complicates identifying the beneficial ownership, especially when more layers of shared ownership in the name of other legal persons.
- Bearer shares and bearer shares warrants<sup>2</sup> : These are shares and warrants owned by the bearer, holding an actual certificate proving that he is the owner of these shares and warrants.
- The use of legal persons as managers.
- Nominee shareholders<sup>3</sup>: They are persons who own shares or hold them on behalf of others, and they may do so formally, where the identity of the actual shareholders is not disclosed when the laws of the country itself allow this, or informally, such as close partners and family members.
- Nominee directors<sup>4</sup>: they are persons who carry out management work on behalf of others. This might be a formal process where the identity of the actual directors is not disclosed when permitted by the laws of certain jurisdictions itself, or in an informal way such as close managers and family members.
- Trust<sup>5</sup> and other legal arrangements that allow the separation between a legal ownership and the beneficial ownership of the assets.
- The use of intermediaries such as lawyers and providers of services for the establishment of legal entities and legal arrangements.

Criminals and criminal groups often misuse legal entities and legal arrangements to conceal their real identity, and the flow of criminal proceeds, to commit money laundering and terrorism financing crimes, evading taxes and targeted financial sanctions and other financial crimes. Criminals usually use complex ownership

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<sup>1</sup> Refer to annex (1) and annex (2) for more information about complex ownership structures.

<sup>2</sup> Jordanian legislations do not allow bearer shares and bearer shares warrants, this factor should be taken into consideration when dealing with foreign legal persons or foreign individuals within the ownership structure of a Jordanian legal person.

<sup>3</sup> Jordanian laws do not allow nominee shareholders. This factor should be taken into consideration when dealing with foreign legal persons or foreign individuals within the ownership structure of a Jordanian legal person.

<sup>4</sup> Jordanian laws do not allow nominee directors. This factor should be taken into consideration when dealing with foreign legal persons or foreign individuals within the ownership structure of a Jordanian legal person.

<sup>5</sup> Jordanian laws do not allow the establishment of trusts. This factor should be taken into consideration when dealing with foreign trusts or when these trusts are a partner in a legal person registered in the Kingdom.

structures and control to complicate the tracking and identifying the beneficial ownership, who ultimately controls the legal person or the legal arrangement. Things can become more complicated when legal persons and legal arrangements are incorporated within different countries or jurisdictions.

For the above reasons, the process of identifying the beneficial ownership hiding within such structures becomes highly significant on the national and international levels. This will assist the subject entity to effectively implement anti money laundering and counter terrorism financing measures and the financing of proliferation of weapons of mass destruction, and applying the risk-based approach in an appropriate and rational manner.

## Scope of application

This guidance applies on clients of legal persons or legal arrangements, providing information on how to identify beneficial ownerships by identifying the person or natural persons who own more than a specified percentage of the ownership of the client, and those who have an effective control over clients and those whose transactions are made on their behalf.

It is worth mentioning that a natural person might sometimes act on his own to receive a certain service. However, the subject entity might have suspicions or belief that this natural person acts as a front, or that another person controls it, so that this undisclosed person is the beneficiary of the transaction, meaning that there is another person acting on his behalf and completing transactions for his benefit, and in this case the subject entity should ask the proper questions and request the necessary information and conduct verification to identify this person as the beneficial ownership.

On the other hand, every financial institution and designated non-financial businesses and professions (DNFBPs), indicated in article (14) of the Anti Money Laundering and Counter Terrorist Financing law in force should abide by the provisions of this guide, and this obligation includes each of the following:

### **Financial Institutions, including:**

First: Banks operating in Jordan.

Second: Exchange companies and money transfer companies.

Third: Persons or companies practicing any activity under the supervision and licensing of the Jordan Securities Commission.

Fourth: Insurance companies licensed to practice insurance in Jordan and insurance agents and mediators.

Fifth: Entities practicing any of the following activities:

- Offer all types of credit.
- Provide payment and collection services.
- Issuing and managing payment and credit tools.
- Trading in stock market and capital market tools, for their own interest or the interest of clients.
- Buying and selling debts with or without the right to recourse.



- Financial leasing.
- Managing investments and financial assets for third parties.
- Accepting deposits.

Sixth: entities providing postal services according to the effective laws and regulations.

**Non-financial businesses and professions, including:**

1. Persons or entities working in real estate trade and development.
2. Persons or entities working in precious metals and stones trade.
3. Lawyers and other legal professions, legal accountants when preparing financial operations on behalf of others or conducting such operations for the interest of their clients, related to the following:
  - Selling and buying real estate or commercial stores.
  - Managing funds, securities or any other financial assets.
  - Managing bank accounts or postal savings, investments accounts in national or international stock markets.
  - Taking the required legal actions to incorporate or manage any legal person.
  - Organize contributions related to incorporating, operating or managing companies.

## Definitions

For the purpose of implementing procedures and measures indicated in this guidance, subject entities should refer to all definitions stipulated in the AML/CTF law in force, and other regulations and instructions issued thereto. We will explain the most important definitions and concepts contained in this guidance as follows:

- **Legal Persons:**

In Article (50) of the Jordanian Civil Code, legal persons are defined using the term (legal personality). As per the above article, legal personalities are:

1. The state and municipalities as per conditions stipulated in the law, public entities and other facilities that are granted legal personality by law.
2. Religious bodies and sects for which the state recognizes a legal personality.
3. The Endowment (Waqf).
4. Commercial and civil companies.
5. Associations and institutions established according to the provisions of the law.
6. Every group of persons or funds proven to have a legal personality as per provisions of the law.

However, and for the purpose of implementing the guidance and measures stated in this guidance, it is vital to rely on the FATF definition of legal persons, as such terms according to the FATF definition indicate (any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, bodies corporate, foundations, anstalt, partnerships, or associations and other relevantly similar entities).).

It is noted that the FATF definition of legal persons largely intersects with the definition stated in the Jordanian Civil Code, as both agree that a legal person is a different entity than a natural person. Such entity enjoys characteristics that enable having a permanent business relationship or own property or funds. In this context, article (51) of the Jordanian Civil Code affirms that the legal (juridical) person has an independent financial liability, and capacity (enables him to establish work relationships and the right to own property) and an independent status for the person or their representative to express their will and prove to him the right of litigation.

Regarding the Endowment (AlWaqf), it is noted that it is considered a legal person according to the Jordanian Civil Code, however the Endowment (Waqf) structure

and characteristics allows the separation of an asset from its owner. This makes it closer to the definition of legal arrangements as will be demonstrated later. Accordingly, subject entities should implement procedures related to legal arrangements on the beneficial ownership of the Endowment (Alwaqf), since its characteristics are highly similar to legal arrangements.

- **Legal arrangements and trusts**

**Legal arrangement** is the relationship established according to a contract between two or more parties, that does not result into the establishment of a legal person, such as express trust or similar legal arrangements.

**What is meant by Trust<sup>6</sup>** is the legal relationship created – inter-vivos or on death- by a person (the settlor). Assets are being set under the control of the (trustee) for the benefit of a beneficiary or for another specified purpose and so that the assets constitute a separate fund and is not a part of the trustee’s property. Title to the trust assets stands in the name of the trustee or in the name of another person on behalf of the trustee.

It is noted from the above definitions that legal arrangements or trust are characterized by the presence of three parties:

First: the settlor (the donor or investor), who owns the assets or funds and wants to establish the trust in accordance with specific conditions and as he deems appropriate, to transfer the assets or property to the trustee.

Second: The trustee (the guardian) the person to whom the assets or property are transferred and is appointed to manage the assets and funds in accordance with the conditions specified by the settlor.

Third: the beneficiary, who is the person who will benefit from the outcomes



In light of the above, it is clear that trusts characteristics<sup>7</sup> are represented as follows:

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<sup>6</sup> According to the definition contained in the Hague Convention regarding the law applicable to trusts, which is the same definition adopted by the Financial Action Task Force.

<sup>7</sup> Article 2 of the Hague Conventions related to the law applicable to trusts.

- 1- The assets constitute a separate fund and are not a part of the trustee's own estate.
- 2- Title to the trust assets stands in the name of the trustee or in the name of another person on behalf of the trustee. However, it does not fall within the property of the trustee.
- 3- The trustee has the power and duty, in respect of which he is accountable, to manage, employ or dispose of assets and funds in accordance with the terms of the trust, and in accordance with the terms stipulated by law.
- 4- The reservation of the settlor of certain rights and powers, and the fact that the trustee may himself have rights as a beneficiary, are not necessarily inconsistent with the existence of a trust.

We stress herein that, for the sake of legal arrangements and trusts to be established, national legislation should permit their incorporation . Noting that the Jordanian legislation does not allow the establishment of legal arrangements or trusts in general. However, there is nothing against foreign legal arrangements or trusts wishing to be a client of a subject entity in Jordan or to be a partner in a Jordanian company or in a foreign company that own shares in a Jordanian company. In such cases, the subject entity should apply provisions and measures stated in this guidance to identify the beneficial ownership of legal arrangement or trust.



- **Waqf (Endowment):**

Waqf (Endowment), it was defined in article (2) of the Awqaf, Islamic Affairs and the Holy Places law as follows, “Withhold funds owned by the rule of God Almighty’s possession on the basis of perpetuity and allocating its benefits to charitable deeds, even money. Waqf (Endowment) can be Khayri (charitable) if the proceeds were allocated from the very beginning for charitable body, and can be Dhurri for the (offsprings related) if the proceeds were confined to a specific person(s) and to his (their) offspring after him (them), then to a charitable body upon the demise of those for whom Waqf is made. Article (50) of the Jordanian Civil Code indicated that the Waqf (endowment) enjoys legal personality, but the structure and characteristics of the Waqf (endowment) that allow the separation of the assets from its owner and the management of the asset according to the conditions of the Waqf (settlor) are similar to trust.

In light of the fact that the FATF recommendations apply to legal arrangements or any similar arrangements, the subject entities should apply measures related to legal arrangements on the beneficial ownership of the Waqf (Endowment), since the characteristics are highly similar to the ones of legal arrangements, taking into consideration the specificity of Waqf (Endowment).



Waqf (Endowment) can be public or private:

- Public Waqf (Endowment): allocated for specific charitable aspects and are directly managed by the Ministry of Awqaf (Endowments), Islamic Affairs and Holy Places.
- Private Waqf (endowment): a number of forms that fall within it mainly the offspring endowment (where benefits are allocated to a specific person or persons and their offsprings after them and then to a charitable entity when the endowed persons become extinct) and the trustee is appointed by the endower.
- Joint Waqf (endowment): brings the two forms mentioned above together..

The Ministry of Awqaf (Endowment) and Islamic Affairs supervises the public and private endowment (waqf), that need to be registered in the Ministry through an (endowment deed). Endowment (waqf) activities are organized through a number of rules and instructions in general and the Endowment and Islamic and holy places affairs law in specific.

The Ministry monitors actions by trustees of endowments, and informs the competent Sharia court about any violation or negligence, and thus demand to depose the trustee and hold him accountable.

Endowment deeds contain information about the endower, the endowment (waqf), trustees and beneficiaries. It is prohibited to convey the endowment assets to another person, and endowment can be established by Jordanian or non- Jordanian citizens, however, the endowment must be in Jordan.

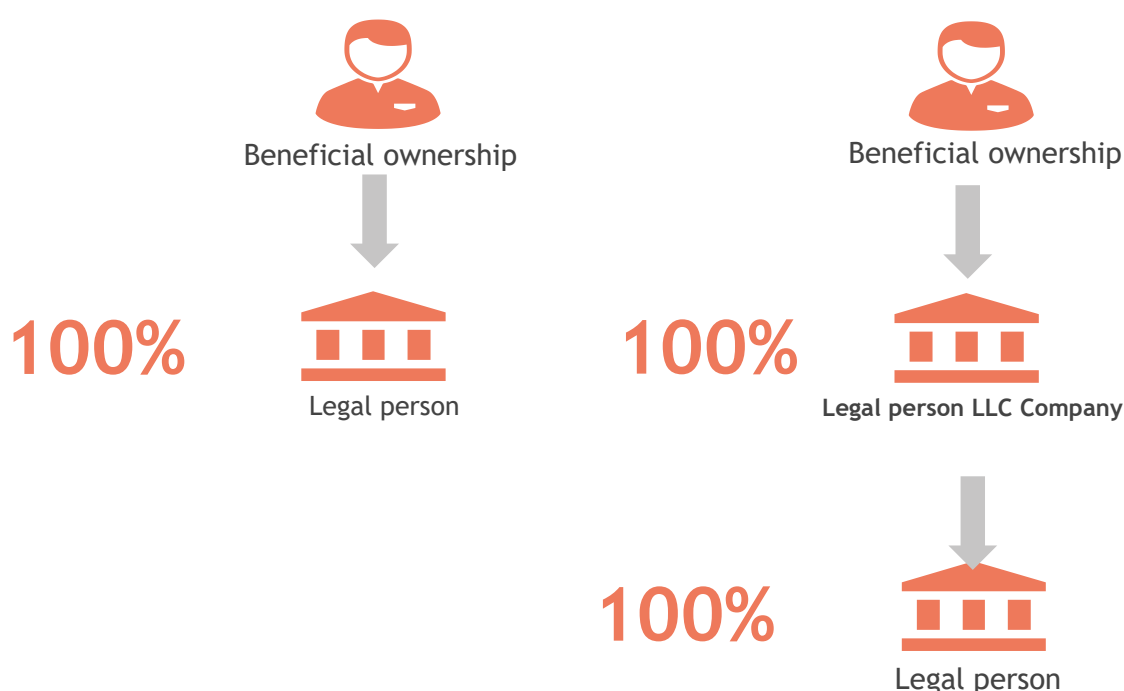
- **The beneficial ownership:**

According to the second article of the AML/CTF law in force, the beneficial ownership is defined as:

“The natural person who ultimately owns or controls a customer directly or indirectly or the natural person on whose behalf a transaction is being conducted or exercises ultimate effective control over a legal person or legal arrangement”.

As far as the concepts of effective and ultimate control are concerned, it is necessary to distinguish between the terms “legal ownership” and “beneficial ownership”. The concept of “legal ownership” reflects the information stated in formal registries and the registry of the legal entity or legal arrangement only. The “Beneficial ownership” is a clear interpretation of the beneficial owner concept. In this case, we need to go beyond the information available in the registries. Legal ownership is not always necessary to practice control, as it can be practiced in many ways, including by third parties, such as professional intermediary, family members, partners or their representatives and other natural persons that can be used or forced to act on behalf of the ultimate beneficial ownership. Thus, evidence and data should be tracked to expose the final beneficial ownership who owns the effective control on the legal person or legal arrangement.

Based on the above definition it is clear that in the context of addressing legal persons and arrangements, the beneficial ownership should be a natural person, as a legal person or a legal arrangement cannot have effective control over assets or funds, thus there should be a natural person to exercise such control. Identification of this person requires data and data tracking to expose the natural person who is the beneficial owner. For example, in case there is a company- legally owned by another company, the beneficial ownership is the underlying natural person who owns the second company (that owns the first company) and has the ultimate control over it.



- **Subject entity**

Entities stipulated in the AML/CTF law in force, and are subject to AML/CFT obligations, including financial institutions and designated non-financial businesses and professions as stated in article (14) of the law.

- **The client:**

Any natural or legal person, legal arrangement or non-profit organization who receives a service and conducts or attempts to conduct any transaction with a financial institution or non-financial businesses or professions is considered a client.

- **Control:**

The direct or indirect ability to exercise an effective influence on the actions and decisions of another person.

- **Effective Control:**

To control over no less than (20%) of the capital of a legal person, unless the special legislations of certain type of legal persons stipulates otherwise<sup>8</sup>.

- **Senior Executive Management:**

The entity or authority responsible for making decisions in the company, including the general manager or the regional manager of the company, their two deputies and their assistants, the financial manager, the operations manager, the director of risk management, the internal audit manager, the compliance manager, the company's legal representative, the chairperson and members of the board of directors, the board of directors and authorized signatories, in addition to any employee with executive authority parallel to any of the powers of either of the above, and is functionally linked directly to the general manager or the regional director.

- **Politically exposed persons (PEPS):**

Persons who are or have been entrusted with prominent public functions in the Kingdom or in a foreign country, including politicians, government officials, the judicial, military, senior executives of government-owned corporations, officials of

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<sup>8</sup> According to the legislation related to the sectors (banks, insurance, money exchange, payment companies, microfinance, financial leasing), the definition of an effective control is controlling at least (10%) of the capital of a legal person.

political parties or those who hold prominent positions in an international organization, including members of senior management such as directors, deputy directors, members of boards or similar positions, and family members of any of the above and their associates.



## How to identify the beneficial ownership

As mentioned earlier, the beneficial ownership can only be a natural person. Thus, it is not reasonable that the beneficial ownership to be a legal person as a company or an institution. Therefore, it is obligatory to identify the natural person(s) who own or exercise ultimate effective control, whether directly or indirectly, must be identified. It is possible to have more than one beneficial ownership linked to the client, and the mandate of the subject entity in this case is to identify and verify the identity of all beneficial ownerships of the client. The AML/CTF Law inforce stipulates for the identification and verification of the information of beneficial ownership and the nature of their work, in addition to maintaining all records that must be obtained through due diligence procedures.

In order for the subject entities to identify the beneficial ownerships and then identify their identity, the following criteria must be taken into consideration:

### First: Determine the beneficial ownership from legal persons

In case the client is a legal person, the subject entity in this case must define the beneficial ownership of the legal person by exercising control through ownership or any other means or through management.

#### **a) Control through the ownership structure and other means**

The subject entity should be able to understand the ownership structure in a legal person, and define the person who has effective control on the structure, through:

- 1- Identify the identity of the natural person who owns control or control a sufficient percentage of the client's capital or voting rights (legal entity). For this purpose the percentage of (20%) is considered sufficient, unless the law under which the legal entity was incorporated states otherwise<sup>9</sup>. The ownership percentage should be lowered in case or proven high risk or when there are politically exposed persons within the ownership structure or control in the company.

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<sup>9</sup> Same footnote number (8), where it is necessary to rely on (10%) for legal persons working in the sectors (banks, insurance, money exchange, payment companies, microfinance, financial leasing).

- 2- By tracking indirect ownership and control (such as owning another company or intermediary, or indirectly controlling the voting rights through another company within the ownership structure). This share can be owned by one or more person, and thus more than one natural person should be identified as beneficial ownerships from the client or the legal person.
- 3- By identifying the natural person who exercises direct or indirect control or monitoring on the legal person by other means. It is noted that the above procedures (in points 1 and 2) might not lead to identify the beneficial ownership. Sometimes the share held by all partners is less than (20%), meaning that there is no partner owning (20%) or more. In this case the subject entity must study in depth the ownership structure and the management and governance style of the legal person. This can be identified by knowing and tracking:
  - Individuals who have the capacity or influence on decision making, or control contracts, arrangements and agreements that lead to physical impact on the legal entity and it's strategic, financial and investment status.
  - Individuals who have the ability to control the legal person, or to dismiss or appoint the majority of members of board of directors or those in senior management positions.
  - Control through family links or strong personal relations with the owners.
  - Individuals who have the right of veto or the right to oppose decisions in the legal person.
  - Individuals who are entitled to obtain (20%) or more of the property of a legal person in the event of its termination, dissolution or liquidation.
  - Individuals who participate in the financial sources of the legal person or in the payment of its debts and obligations.
  - Individuals who have the ability to control dividends or make changes to the assets of a legal entity.
  - Individuals who own a power of attorney or such (such as a bank authorization, custody or trusteeship).

It is noted that there is no specific or comprehensive definition of "other means", by which a legal person can be controlled, but these means involve an indirect use of control over the person and through an undisclosed owner or hidden contracts, agreements, understandings or family relations or the control of a criminal organization over a legal person, or by controlling the legal person's sources of funding.

Attention should be paid to legal persons created under agreements by members of one family, or according to agreements between a groups of people who are accustomed to being partners. In this case, none of these persons may own alone (20% or more) of the legal person's capital, and they act in their name and in the name of other family members or partners (i.e. they have control over the decisions taken, or they may have voting rights on behalf of others). Therefore, the subject entity must be aware of such cases, and compile the shares of such persons when calculating the percentage of ownership to be able to expose the name of the ultimate beneficial ownership of these shares.



### **b) Control through management:**

The Subject Entity may not be able to identify any natural person within the ownership structure or effective and ultimate control, or by identifying the persons on whose behalf the operations are carried out. In this case the subject entity must identify and take reasonable<sup>10</sup> measures to verify the identity of the person(s) holding high-level position in senior management within the legal person. This is done by understanding the way the legal person is managed, identifying those in charge for taking strategic decisions that mainly affect the business process, or affect the policy and directions of the legal person.

This person may also be identified by specifying who exercises executive control over the regular daily affairs of the legal entity being in a senior management position such as the executive director, the financial director, or the general manager, as the case may be.

#### **Second: define the beneficial ownership of legal arrangements and trusts**

In case it is found that the client is a legal arrangement or a trust according to the definition referred to at the beginning of this guidance, the subject entity must identify the identity of all relevant parties, namely the settlor (or donor or investor), the trustee, the beneficiary or the category of beneficiaries, the protector/designated, bearing in mind the following characteristics of the trusts:

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<sup>10</sup> Reasonable" means what is practical and necessary and in line with ML/TF identified risks.

- 1- The trust owner can be different than the trust controller or beneficiary.
- 2- Trust law allows in some countries that the trustee and beneficiary can be the same person.
- 3- The contracts for the ownership transfer of trust can differ, and might include provisions that influence the full control of the trust assets. Such contracts might as well allow the trustee to practice some authorities including (the authority of cancelling the trust and return its assets), this might help to identify the beneficial ownership and relevant parties.
- 4- A trust deed may include designating someone with the power to appoint or remove trustees, or someone with power affecting management and operations, such as the right to cancel the trust or remove and change one or all of the beneficiaries. The role of such a person is usually called the "" designator, protector, or controller", in this case the identity of this person must be identified and taken into account when determining the beneficial ownership.
- 5- Beneficiaries may be identified at the beginning or at a later stage, their names may also be added or removed, and they may be natural or legal persons or legal arrangements (such as a charitable organization or a trust) and they may not have been born yet, (meaning that the trust may include any future child or grandchild).

As for other legal arrangements, persons with similar positions to the above-mentioned can be identified.

### Third: Defining the beneficial ownership of an endowment (waqf)

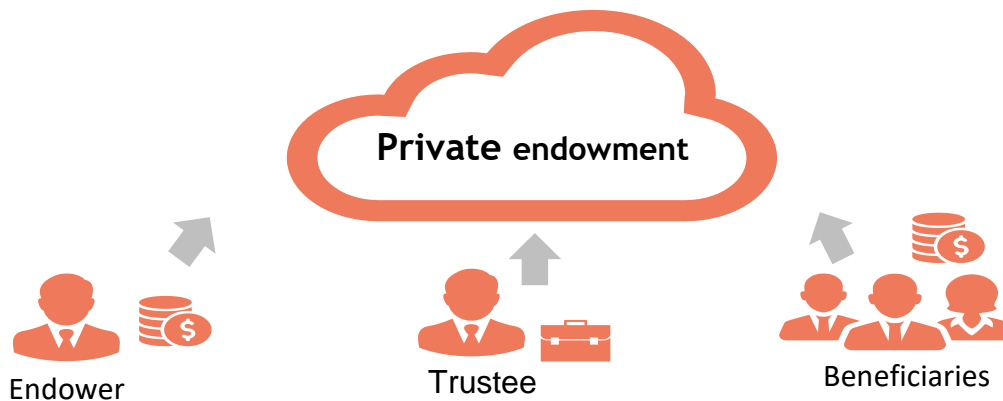
FATF recommendations and methodology does not include certain requirements to determine the beneficial ownerships of endowment (waqf).

Similar to trust and other legal arrangements, beneficial ownership can be identified by the identity of the following natural persons:

- The endower: the person who transfers the ownership of real estate or other assets to endowment under certain conditions.
- The trustee: the person who manages the endowment, whether a natural or legal person (in a private endowment) or the Ministry of Endowments and Islamic Affairs and Holy Places (in a public endowment).
- Beneficiaries: The beneficiary may be one or more person, an institution or one or more legal person, and is granted the endowment revenue.

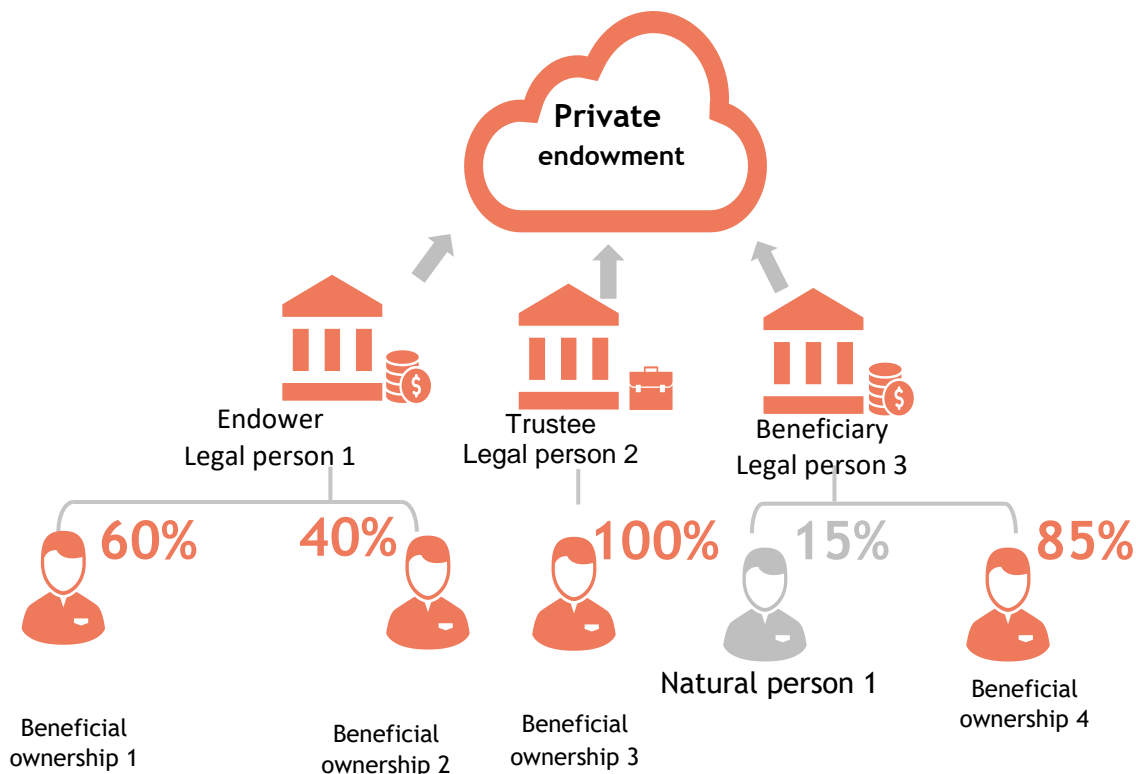
It is necessary to clarify that, compared to trust structure, the endowment structure does not include the position of "the designator" or "the protector", the person who can direct or limit trustees.

**The structure of the beneficial ownership of the private endowment (natural persons)**



It is noted that all normal people acting as endowers, trustees or beneficiaries of the private endowment, and other persons might play a similar role and are the beneficial ownership of the private endowment.

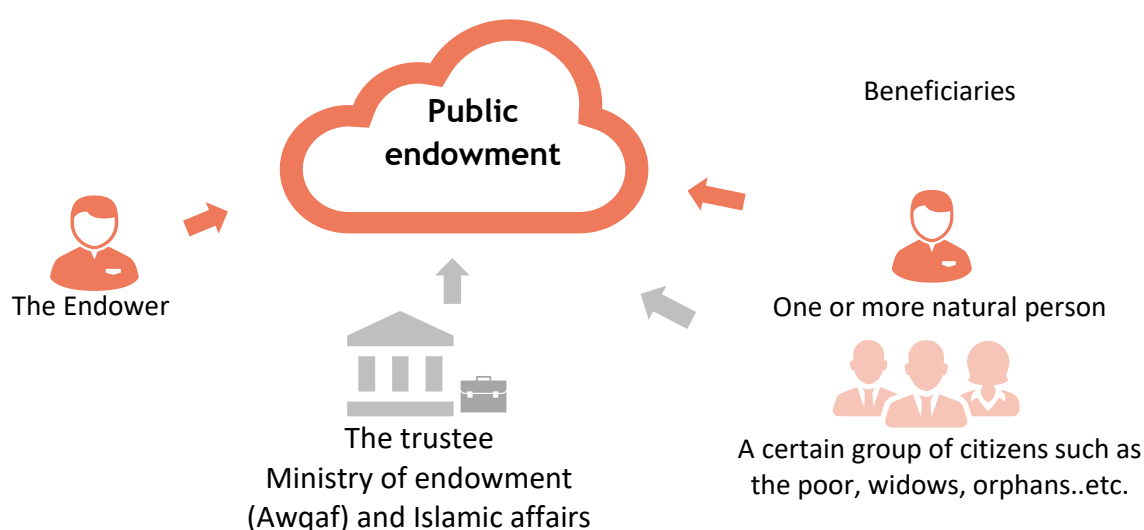
**The structure of the beneficial ownership of the private endowment (legal entities)**



If the endower ( legal person 1) or the trustee ( legal person 2 ) or the beneficiary (legal person 3) of the private endowment are legal persons, the beneficial ownerships of this private endowment should be the natural persons of each of the endower (legal person 1) and the trustee (legal entity 2) and the beneficiary (3).

In this example, natural persons are the final shareholders of the private endowment and they are: the beneficial ownership 1, beneficial ownership 2, beneficial ownership 3 and the beneficial ownership 4.

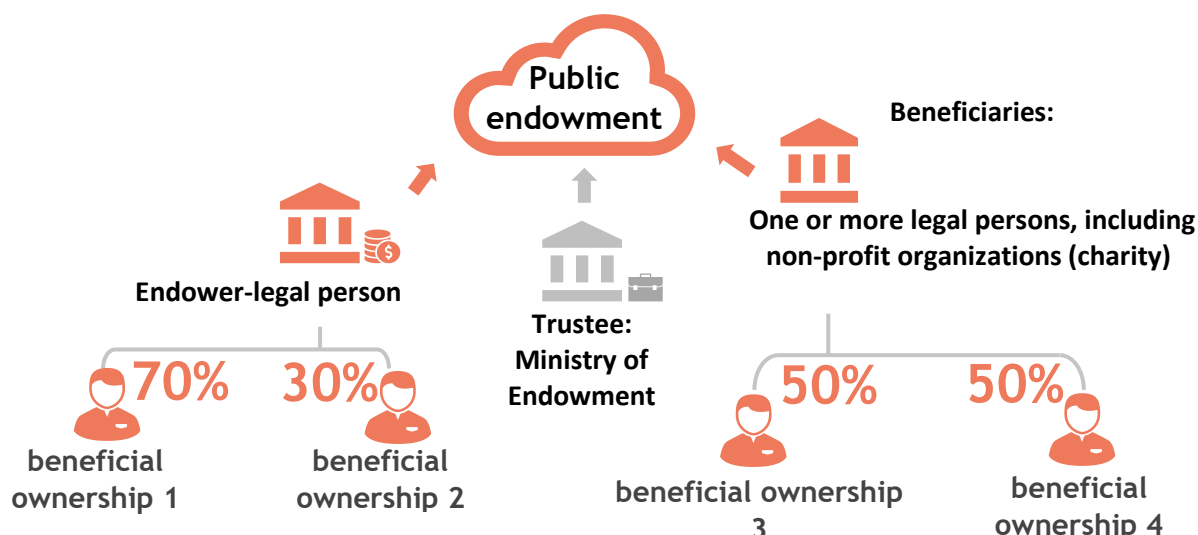
### The structure of the beneficial ownership of a public endowment (natural persons)



- Public endowments are allocated for certain charity aspects, and are directly managed by the Ministry of Endowments and Islamic Affairs in Jordan. In this case there is no commitments on the subject entities to identify the identity of the trustee of the public endowment. The trustee in all cases is the personnel assigned by the Jordanian Ministry of Endowment and Islamic Affairs.
- The activity of public endowment in Jordan is very similar to the activity of nonprofit organizations (charities such as associations for example). It can include beneficiaries of the public endowment, and not just a number of persons assigned in the agreement (endowment deeds), as they can also include a large number of citizens, representing certain groups of persons such as the poor, widows, orphans and such.

- International AML/CTF standards and the best practices of identifying and verifying nonprofit organizations, and identifying the beneficial ownerships, do not require identifying and verifying all the natural persons listed in the list of beneficiaries of assistance, donations or funding. Financial institutions and designated non-financial businesses and professions are required to collect detailed information about the purpose and nature of nonprofit entities, including information about the category of beneficiaries, disbursement of funds standards and any potential intermediaries.
- According to FATF recommendation (1), countries may permit simple procedures of some FATF recommendations that require financial institutions or designated non-financial businesses and professions to take certain measures (including beneficial ownerships identification), provided that they are of low risk according to the country's assessment of ML/TF risks and that the presence of the Ministry of Endowments (Awqaf), Islamic Affairs and Holy Places within the structure of the public endowment, contributes highly to lower risks and justifies the absence of the need to identify the trustee's identity (in this case is the Ministry of Endowments (Awqaf), Islamic affairs and Holy Places).

### The structure of beneficial ownership of a public endowment (legal persons)



- In case the endower or the beneficiary of the private endowment are legal persons, then beneficial ownerships are natural persons, who are the beneficiaries of the endower (the legal person) and the beneficiary of endowment (waqf) (legal person).

- In the above example, it is noted that natural persons: beneficial ownerships 1, 2, 3 and 4 are the beneficial ownerships of the public endowment.
- As for identifying the trustee, as indicated above, it is exempted from the requirements of identifying the beneficial ownership of public endowment, taking into account that public endowments are directly managed by the Jordanian Ministry of Endowment (Awqaf) and Islamic Affairs, and as a result, the Ministry is exempted from the requirements for identifying the beneficial ownership.

#### Fourth: identifying the beneficial ownership of a life insurance policy

As indicated in the FATF glossary, “products of life insurance and other types of investment relevant- to insurance” are considered contracts designed basically to provide financial protection to the client or the policy holder, and other relevant third parties (including the insurer, beneficiary of the contract and beneficial ownerships) against the risk of an uncertain future event – such as death or fatal illness. Third party relevant beneficiaries are the policy holders, or other beneficiary to be defined or named, and can be a natural person as well as a legal person or legal arrangement. Life insurance products can be purchased as an investment or saving vehicle to support real estate planning or pension plans.

Most life insurance products were designed for long term, and some only pay when the event actually occurs such as death or retirement. In spite of that, some contain saving or investment advantages, and some include full or partial withdraw or waiver at any time. Life insurance policies might be individual or collective policies (for example companies might offer life insurance for their employees as part of the advantages).

According to the requirements of FATF recommendation (10) and instructions of AML/CTF related to insurance activities, financial institutions (offering life insurance products and other investment insurance products), insurance mediators and agents, and in addition to the due diligence measures required for clients and beneficial ownerships, to implement the following due diligence measures on life insurance policies’ beneficiaries and other investment insurance products at the time of identifying or naming those beneficiaries:

- a. Beneficiaries or natural or legal persons or legal arrangements specifically named, the name of the person must be obtained.



- b. Beneficiaries named through characteristics or category (such as the spouse and children at the time anything happens to the insured), or through other means (such as a will). Sufficient information about the beneficiary should be obtained to satisfy the financial institution or the insurance mediators or agents, to ensure the ability to identify the beneficiary identity at the time of payout the life insurance policy proceeds and/or using any available options related to the policy, such as full or partial withdraw or waiver at any time.
- c. In both above cases, beneficiaries identities must be verified at the time of life insurance proceeds payout and /or using any available options related to the policy, such as full or partial withdraw or waiver at any time.

The beneficiary of a life insurance policy is considered a risk when defining the ability to implement enhanced due diligence. In case of considering the insurance beneficiary as representing higher risk, enhanced measures should be applied, and must include reasonable measures to identify the beneficial ownership identity of the insurance policy, at the time of the payout of the life insurance policy proceeds and/or using any available options related to the policy, such as full or partial withdraw or waiver at any time.

At the latest, and at the time of disbursement of compensation, reasonable measures should be taken to determine whether the beneficiaries of life insurance policies, and when necessary, the beneficial ownerships, are those with risks by virtue of their public positions. In this case senior management should be informed before the payout of the proceeds of the life insurance policy and/or use one of the available options associated with the policy as an option of full or partial withdrawal or waiver at any time, and a thorough examination of the entire business relationship.



### **Fifth: identifying the beneficial ownership in nonprofit organizations**

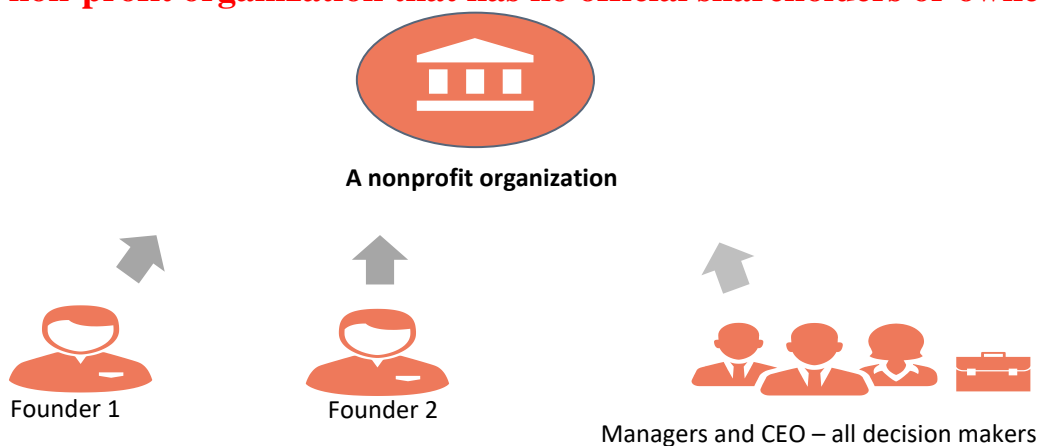
According to FATF, a nonprofit organization is defined as a legal entity or legal arrangement or organization that primarily engages in raising or distributing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”. It is noted that this

definition includes associations and companies that do not aim to profit in Jordan for example.

Subject entities should define the beneficial ownership of nonprofit organizations the same way designated to identify the beneficial ownership of legal persons, in case the organization is a legal person ( such as nonprofit companies registered in the companies registry), and has an ownership structure, or in the event that the members and founders of the association are legal persons, as the Associations Law permits that one or more legal persons might be among the founding members of the association.

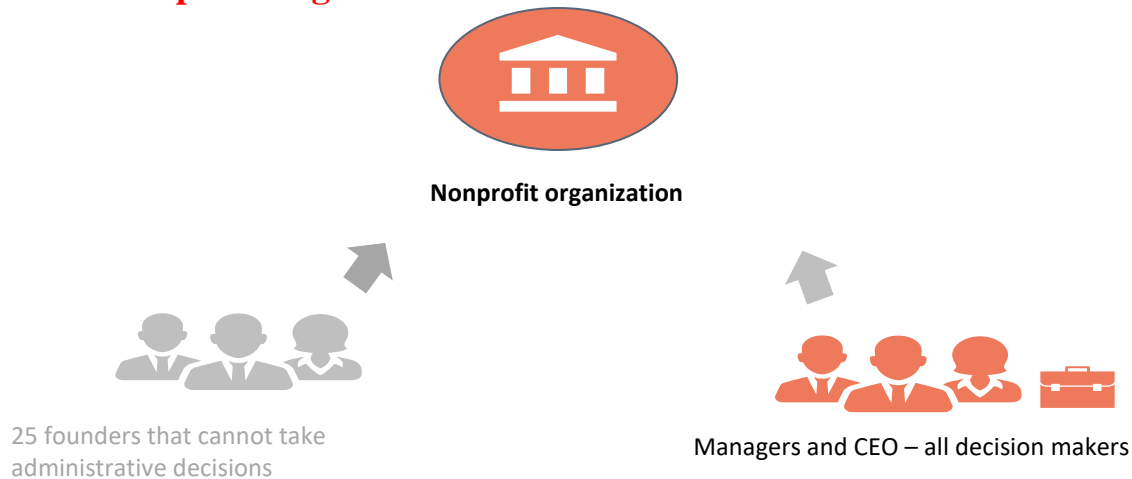
In case the nonprofit organization does not have an ownership structure, or the inability to determine any beneficial ownership, whether because there are more than five members in the ownership structure, or no one is exercising sufficient voting rights or control through other means. In this case, it is necessary to identify the senior administrators (the board of directors) of the non-profit organization as the beneficial owners, and this may include the senior administrators of a non-profit organization, its directors and CEO.

**A non-profit organization that has no official shareholders or owners**



It is noted from the example above that the organization has two founders (less than five). In return it has a number of managers and a CEO. In this case they all should be considered beneficial owners of the organization.

## A non-profit organization that has no official shareholders or owners



It is noted from the above example that the number of founders in the association is more than five (25 founders and none of them has the authority to take administrative decisions, and in this case the directors and CEO must be considered beneficial owners).

It should be noted that the process of identifying the beneficial ownership of the non-profit organization does not mean that the person receives cash income or that the organization works for his personal benefit.

It should also be noted that, in addition to the above, subject entities must collect the following information while implementing due diligence procedures for the purposes of identifying and verifying the beneficial ownership, and assessing ML/TF risks:

- The aim and nature of the nonprofit organization, including the mission(s), goals, programs, activities and services that are provided.
- Geographical areas of the organization or branches, or the area of which it serves, and define higher risk areas with potential of terrorist groups or borders.
- Country of incorporation and registration of the organization, tax status and other reports required by the supervisory authorities.
- Organizational chart, including founders, board of directors, method of management, dissolving and close down, and the key principles of the management and governance and internal controls of the nonprofit organization.
- Objectives and membership fees or annual subscription (if any).
- Annual report, audited financial statements, reports issued by the assigned internal auditor (legal accountant) and other self-risk assessments.

- Incorporation certificate, signed and certified by relevant official authorities to which the organization is affiliated.
- Internal bylaw/ article of association ratified by the Minister of Social Development, or formal authorities to which the organization is affiliated.
- Evidence of the authorized signatories and their powers.
- A copy of the last minutes of the meeting (maybe there is more than one) of the board of directors signed and ratified by the official authorities to which the organization is affiliated.
- Proof of identity documents for the CEO/financial manager/authorized signatories.
- The extent of voluntary participation in organizational programs to enhance governance, management and operational work.
- Information about donors and sources of funds, methods of fundraising and the level of support from the general public.
- The extent to which the organization has satisfied the necessary approvals from competent authorities in the country when receiving funds and donations.
- Information about the category of recipients of donations and the criteria for disbursement of funds, including any intermediaries that may be involved.
- Extent of any affiliation with other non-profit organizations, governments or other groups.

### Sixth: Acting on behalf of the client or to the benefit of a client

Acting on behalf of a client is when a person is authorized to carry out transactions or other activities on behalf of a client, either by a power of attorney, a bank authorization, guardian or trusteeship (for example, an authorization to sign accounts or to transfer, sell or purchase assets owned by the client). In this case it is vital to verify such actions and to consider the person for whose benefit operations are carried out as a "beneficial ownership" even if he is not the owner of a controlling share or has effective control." The lesson here as a result is that all operations are carried out on his behalf and for his benefit, and in light of this, he must be considered a "beneficial owner".

In case the client is a natural person, the general rule is to consider the beneficial ownership of the business relationship when established, to be the client himself, unless proven otherwise by disclosing of the beneficial ownership identity, or if there are reasonable grounds to suspect that this person is acting on behalf of, or for the benefit of another person, then the identity of the latter person and the

beneficial owner of the business relationship and any other beneficial owners must be known<sup>11</sup>.

For example, such suspicion may arise if there are discrepancies in the information collected when applying due diligence procedures at the beginning of the relationship. For example, when the customer provides information about his sources of wealth, which do not seem logical, or the account activity is after it is opened, and financial transactions are not compatible with the account activity originally expected for the client (for example, if it is expected that the client, after opening the account, will carry out financial transfers of 10,000 Jordanian dinars, and then the account suddenly receives frequent transfers that greatly exceed this amount), in these cases more due diligence measures must be taken and the beneficial ownership of the business relationship should be reconsidered and further investigation is needed to identify if someone else is acting on behalf of the client.

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<sup>11</sup> For more information, please refer to the due diligence procedures guidance of financial institutions regarding identifying the client in case he is a natural person.

## **Information to be collected about the beneficial ownership**

In accordance with FATF recommendations, instructions, and the AML/TF Law, and the relevant instructions issued by the supervisory authorities, subject entities must identify beneficial ownerships of clients, and take reasonable measures to verify their identity using relevant information or data obtained from a reliable source, so that subject entities are satisfied that they know who are the beneficial ownerships.

It is worth to mention that according to FATF recommendations and the relevant legislation, there is no complete list of information that the subject entity needs to collect to identify the identity of a beneficial ownership. Such information should be available to include at least the data and information stipulated in the AML/CTF instructions in force.

After the subject entity identifies all the beneficial ownerships who are the natural persons owning or controlling legal persons or legal arrangements, the subject entity must collect the data of beneficial ownerships according to due diligence requirements for natural persons, stipulated in the AML/CFT instructions regulating the subject entity, so that information and data should include information about the beneficial ownership, and the following minimum required information:

- Full name of each beneficial ownership as shown in official documents, such as the ID card or personal card, passport or other identifying documents.
- A statement of the beneficial ownership nationality(s), if there are many.
- Date and place of birth as stated in official documents.
- Current residence address.
- Address of permanent residence and a determination of whether he is a resident or a non-resident.
- National number for Jordanians, passport number, personal number and nationality for non-Jordanians, residency permit issued by the Ministry of Interior, or a valid work permit.
- Date of issuance and expiration of official proof document, such as the ID card issued by the Department of Civil Affairs, or personal card, passport etc.
- Work address and professional position.
- Email address and phone numbers.
- Tax number and tax residence country, if any.
- The percentage of controlling ownership share in the company's capital or voting rights and if any changes occurred on them.

- Compelling reasons, basis and means of which this person has been given the status of a beneficial owner, since the person has effective and ultimate control over the legal person, in case control is exercised through other means other than direct and indirect ownership of the capital or voting rights.
- Compelling reasons, basis and means of which this person has been given the status of a beneficial owner, since the person has effective and ultimate control over the legal arrangement or nonprofit organization in any way being direct or indirect.
- Whether the beneficial owner is an a politically exposed person (PEP).
- Details about any persons acting as a legal agent (intermediary) between the beneficial owner and the legal person or the legal arrangement and the documents to prove that, with the necessity of identifying these persons and collecting data in accordance with the due diligence requirements of natural persons stipulated in the Anti-Money Laundering and Counter Terrorist Financing instructions regulating the work of subject entity.

✚ It should be noted the need to pay attention to the existence of special provisions regarding information that must be collected about the beneficial ownership, for companies listed in stock markets, which are determined by the Companies Comptroller as being subject to disclosure requirements and that they meet requirements to ensure sufficient transparency regarding the beneficial owners, and in this case it is possible to rely on publically available sources to obtain information about shareholders and beneficial ownerships, or client disclosure. Information should include the following:

- Name of the company.
- The authority of company registration and company number.
- Identity number of international securities, if any.
- Percentage of shares listed for trading in the stock market, and in case it is less than 100%, details of the beneficial owner of the unlisted percentage must be provided, in accordance with requirements of such companies under the beneficial owner registry system.
- Name of the stock market in which the shares are listed.
- E-mail address or web page link of the company's listing information.
- Information of ownership and control structure.

✚ As for companies in which the Jordanian Government is a shareholder or owns shares in:



The identity of the beneficial or the beneficial owners must be known when establishing a business relationship with the customer or when providing any product or service to the customer, or making any modification to the customer's information related to the ownership structure of the customer or the beneficial ownership. In the event of the inability to identify the beneficial owner, this means the inability to complete the due diligence procedures specified by the law and the instructions regulating the work of the subject entity, and then it must be considered not to establish a relationship with the client and submit a notification to the Anti-Money Laundering and Counter Terrorist Financing Unit if this is related to a suspicion of money laundering or terrorist financing.

- Percentage of ownership of each government entity.
- Details of the natural person (the beneficial ownership) of the percentages not owned by the government, as per the above.

In case companies are **fully** owned (100%) by the Jordanian government, ministries, governmental departments and other formal governmental entities, the government entity is defined as a beneficial owner.

### **Risk based approach**

Dealing with types of clients (such as legal persons and legal arrangements) involves risks that differ from risks of dealing with natural persons, due to the complex ownership structures, and the higher possibility of concealing transparency and the identity of the beneficial ownership. Thus, subject entities, while conducting risk assessments of clients of legal entities, legal arrangements or natural persons, should ensure that risks arising from the beneficial ownership or officers, shareholders, trustees, directors or those acting on behalf of, and for the client benefit or any other relevant entities are taken into account, when classifying risks of such clients. After risk assessment, the subject entity should apply normal, simplified or enhanced due diligence measures, based on the assessment outcomes, as such obligation is stipulated in the AML/CTF instructions for each entity.

**Risk based approach should be applied according to the following:**



- The subject entity should not limit the ML/TF risk assessment to the owner or (owners) of the client, but should take into consideration ML/TF risks of the beneficial ownership(s), and the entity must prove it.
- Instructions issued by the regulatory and supervisory authorities permit a risk based approach in the beneficial ownership verification phase of the client, knowing that the phase of identifying the beneficial ownership of the client is considered an obligation to be fulfilled, regardless of the risks linked to that client.
- M/TF risk assessment for clients, and determining how the beneficial ownership will be identified and verified should be defined in the AML/CTF program, according to clear and approved policies and actions by the authorized entity in this regard.
- Measures taken in defining ownership, and the information of steering and effective control structure, with assessing the risk of ML/TF of client, and according to the risk based approach, taking into consideration the risk assessment report outcomes related to legal persons, and the National Risk Assessment report outcomes. Reasonable measures should be taken for legal persons or legal arrangements assessed to be with higher risk, in a way that such measures aim to achieve a higher level in realizing and understanding the ownership and control structure.
- The Subject Entity should identify the identity of the beneficial ownership and take reasonable measures to verify this identity according to the risk nature (Risk Profile), by relying on data or information obtained from neutral and independent official documents and data, so that the subject entity has sufficient conviction that it is aware of the identity of the beneficial ownership. The risk-based approach allows the subject entity some flexibility in using data, documents or information obtained from a reliable and impartial source, to verify the identity of the beneficial ownership(s) of the customer.
- In case risk assessment determined that the risk is high or when the beneficial ownership is a politically exposed person (PEP), enhanced due diligence measures should be taken according to what will be stated later. In case the risk is low, it is possible to apply normal or simplified due diligence, according to instructions issued by the regulatory competent authorities.

The Subject Entity's risk assessment will determine what it needs to do to verify different types of clients. For example, a well-known local family business wants to become a customer of the subject entity, in which case it must first identify both the customer and the beneficial ownership(s), and obtain the customer identification documents specified in the instructions (e.g. civil status ID or Passports). The risk assessment may result in this client being treated as low risk. In this case, the entity may decide that verification through the companies control department's website and websites with information about companies, and information about this company through the local environment, and these are reasonable steps.

However, if the customer does represent higher risks, enhanced customer due diligence procedures must be applied, in accordance with the procedures that will be presented later and based on the instructions for AML/CTF in this regard.



### Simplified Due Diligence:

Based on the risk assessment for ML/TF posed by the beneficial ownerships of clients conducted by the subject entity, it is possible and appropriate to apply simplified due diligence measures, when the assessment concludes that ML/TF risks are low. For example:

- When the client is a public shareholding company (including a subsidiary company, whether wholly or majority owned) listed in the stock market determined by the companies controller, and that are subject to disclosure requirements that impose requirements to ensure sufficient transparency about the beneficial ownership, as it is possible to rely on public sources to obtain information about shareholders and beneficial ownerships, or client disclosure.
- Companies wholly owned by the Jordanian government, ministries, government departments, institutions and affiliated official entities. As for companies in which the government of the Hashemite Kingdom of Jordan contributes or owns shares in, simplified due diligence measures are applied to the percentage owned by the government only.

However, simplified due diligence measures should be limited to after the risk assessment, where sufficient justifications must be presented. Simplified due diligence measures shall not be approved when there is a suspicious of money laundering or terrorism financing, or a relevant crime, or when special high risk scenarios happen.

Examples of simplified due diligence measures to be taken<sup>12</sup>:

- Complete verification of the beneficial ownership identity until after establishing the business relationship with the customer (to be detailed later).
- Reducing frequency of updating the identity and identification information of the customer or the beneficial ownership.
- Reducing the level of continuous monitoring and auditing of processes, provided that any new risks appearing during the monitoring process is reflected on the total risk level of the client or beneficial ownership.
- Not to collect certain information or execute certain measures defined to understand the nature of the business relationship and the purpose behind it, so that this information is inferred through the type of operations that are performed or from the existing business relationship.

Here it is worth to mention that it is obligatory to compare the names of clients and beneficial ownerships with names and entities listed on ban lists issued under UN Security Council resolutions and the national list of terrorists, even if risks are low and simplified due diligence procedures are applied.

#### Enhanced due diligence:

The subject entity should apply enhanced due diligence measures to clients and beneficial ownerships defined as “high risk” for money laundering or terrorism financing, according to:

- The nature of the beneficial ownership (such as a politically exposed person (PEP), or non-resident with links with high risk regions or countries, or listed on

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<sup>12</sup> Low risk factors and simplified due diligence allowed when defining such factors, please refer to anti money laundering/counter terrorist financing instructions and guidelines issued by the supervisory authorities regarding due diligence.

international sanctions lists in addition to Security Council lists<sup>13</sup>, or has any negative background and information etc.)

- The relevant country (country of incorporation/registration, country of nationality, country of residence where the beneficial owner resides or the controlling entity or the country where processes and activities take place).
- Products and services provided to the client or the beneficial ownership, and the nature of operations carried out by the client or the beneficial ownership, and which distribution conduits are used for the business).

The subject entity should apply enhanced due diligence on high risk clients, as stated in the AML/CTF instructions issued by the regulatory and supervisory authorities. Examples includes:

- Obtain the approval of the general director/regional director or whom they authorize of the senior executive management before starting to continue the relationship with such clients. It is also obligatory to obtain this approval when detecting that the risks linked to a client or beneficial ownership have been upgraded to this category.
- Take sufficient procedures to check the sources of funds and wealth of clients and beneficial ownerships categorized within this risk category.
- Closely and continually monitoring the transactions of such clients with the subject entities, and apply enhanced due diligence measures on business relationships and transactions of these clients, and continuing to apply enhanced due diligence measures and monitoring over such relationships.
- Take the necessary measures to identify the background of the circumstances surrounding any business relationships and operations with any of the clients classified in this category and their purposes. If it becomes clear to the subject entity that any of such relationships is not based on clear economic justifications, the subject entity should take a decision in this regard and maintain records of outcomes.
- Obtain additional information about the client and the beneficial ownership, and update the data on regular and periodical basis.

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<sup>13</sup> As for the persons listed on the Security Council Lists, the instructions in force should be applied that ban any kind of dealing or providing financial services, in addition to freezing funds and assets.

## **Identity verification of the beneficial ownership**

The subject entity identifies clients' identities including identifying the beneficial ownership's identity, through information, data or documents the client submits to this entity. For the subject entity to be satisfied that such information is correct, accurate and updated to ensure it is not exploited by the client to pass transactions for the benefit of concealed beneficial ownership. The subject entity must take reasonable measures to verify and confirm identifying the beneficial ownership, according to the requirements of due diligence stated in the AML/CTF instructions issued by the supervisory authorities to the subject entities, in addition to the contents of the guidance of due diligence measures issued for financial institutions.

The verification of information collected to identify to client identity should be according to the risk based approach. In standard cases, verification should be based on government-issued or approved documents, such as commercial licenses and ratified copies of the incorporation contract of the legal person. In case risks are lower, subject entities might think of using other sources, such as public registries including those maintained by relevant registration authorities in Jordan. Subject entities might as well ask the client for any documents deemed necessary for verification, in addition that it might need to conduct its own scrutiny about the information provided, especially if the client has a complex ownership structure.

Among the information subject entities can request from the client to assist in the verification process:

1. The incorporation or registration certificate ( such as the legal person registration certificate obtained from the relevant registration authorities, either in Jordan or outside Jordan) such as ( Companies Control Department, or the Ministry of Commerce and Industry or the Free Zone Incorporation), and any amendments submitted to these entities, trust deeds or endowment (waqf) ( endowment deed), partnership agreement, establishment certificate of a registered association and registration certificate of a registered cooperative).
2. The status quo of its legal existence.
3. Address.
4. Internal Bylaws or any other document clarifying employees' authorities.
5. A list of managers/senior managers' names.

6. A record of shareholders or members, including names of shareholders and members, and number of shares owned by each holder and types of shares (including the nature of voting rights related to shares).
7. List of owners who own (20%) or more of ownership or voting rights.
8. Board of directors' decisions or any other documents that assigns a resident individual to represent the legal person.
9. Any legal agreements the legal person signed with others, including the owners, and contracts, certificates and other documents that prove that such agreements are legal and stipulate the duties, rights and responsibilities of such relations.
10. Annual budget.
11. Minutes of meeting of the general commission and names of attendees to distinguish those who attend on behalf of others.

#### First: procedures of identifying the beneficial ownership:

The subject entity should take the following into consideration when verifying the identity of the beneficial ownership:

- Understand the multi-level and layered ownership structures and the motives and justifications behind this complexity, and whether such complexity is intended to complicate or restrict identification beneficial ownership or it has legitimate reasons.
- Understand the rationale for establishing properties in multiple, different or high-risk countries and jurisdictions.
- Beware of any client whose owners or representatives are reluctant or unwilling to apply transparency standards for confidentiality and legal barriers that prevent the identification of the parties and beneficial ownerships in any ownership structure, or the natural persons involved in any transaction. Business relationships should not be started or continued if transparency requirements cannot be adhered to.
- Verify the identity of all natural persons who own or control a legal person or legal arrangements, or take part in the legal person's activities or transactions by referring and using information or data from reliable sources (Civil Status Department, Companies Control Department, any other approved databases.....)
- Verify fund sources (income) and the nature of work, with the necessary supporting documents required.

- Use disclosure certificates (written disclosures) that include accurate details of the beneficial ownership information, provided that “a compatible person” within the disclosing entity (the client’s entity) has approved and acknowledged to be true, accurate and complete information.
- It must also rely on documents proving the registration of the legal person, and other documents and data of the members of the board of directors and authorized signatories and the main shareholders in the legal person, especially those who own around (20%) or more, and track ownership shares that has direct and indirect effective ownership shares and any changes occurring on these shares that have affected them.
- Any indication of effective control over the client should be carefully scrutinized ( whether it is a natural or legal person) by someone else ( aside from the owner) who is exercising control by other means ( family or friendship links), and if they have obtained authorization to attend the meetings of the general assembly, indirect funding of the capital, disbursement of debts and liabilities of a legal person from persons (not the owner), transfer the legal person proceeds and revenue to one or more persons without a clear relevance.
- Company registry should be searched to verify whether the legal person owns any other company inside Jordan, the status of such company and owners, in addition to what has been disclosed in the form, including any affiliated or sister companies or from the same financial group.
- Verify that all above parties are not listed on the international and national ban lists related to terrorism and terrorism financing or the financing of proliferation of weapons of mass destructions, or if there is any other negative information about them.

The beneficial ownership might change with time, and subject entities should regularly review beneficial ownership information and update the beneficial ownership and client risk assessment accordingly, to immediately reflect existing risk factors.

- The subject entity may use the following sources of information (as examples) to help to verify beneficial ownership information obtained from the clients:
  - Refer to the beneficial ownership register once it’s finalized, and allow the subject entities to access information, as per requirements of Companies Law No. (19) Of 2021 (amended Companies law ) or any document extracted from



the beneficial ownership information register obtained from the customer himself<sup>14</sup>.

- Websites of listed stock market subject to sufficient transparency and disclosure requirements as determined by the companies controller.
- Forbes Global list 2000, being a useful indicator for pioneer public companies in the world: <http://www.forbes.com/global2000/list/#search>
- Record of the beneficial ownership information of companies incorporated in other countries, such as:
  - The UK register: <https://beta.companieshouse.gov.uk/>
  - Poland register: <http://krs.infoveriti.pl/index.html>
  - Czech Republic register: <https://rejstriky.finance.cz> , <https://rejstrik.penize.cz>
  - Cyprus register: (<https://efiling.drcor.mcit.gov.cy>) , (<http://cy-check.com>).
- Registers of nonprofit organizations such as: charities registry, companies control department website in Jordan, register of public entities and charities registered in other countries: <http://www.guidestar.org/Home.aspx>
- **FBI Database:**  
<https://www.fbi.gov/>  
<https://www.fbi.gov/wanted/topten>
- Databases of private companies such as :  
<http://orbisdirectory.bvdinfo.com/OrbisDirectory/Companies>
- <https://www.importgenius.com/search>
- Databases of offshore companies investigated:  
<https://offshoreleaks.icij.org/>
- Databases and information providers, such as
  - World-check ) :<https://www.world-check.com/frontend/logout>(
  - Thomson Reuters World : <https://risk.thomsonreuters.com>

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<sup>14</sup> The amended companies law (19) of 2021 stipulates that the companies controller should allow access to beneficial ownership information to the public.



- LexisNexis : <http://www.lexisnexis.com>
  - Dao Jones list : <http://www.dowjones.com>
  - Search engine Factiva : <https://professional.dowjones.com/factiva>
  - Search engine Acuity's Global PEP : <http://www.acuity.com>
- Any other lists, databases or search engines.



Disclaimer: In case the subject entity was not able to understand or document the reasons and justifications of ownership structures or as stated above, that means it is not able to understand and manage the risks of ML/TF effectively. In such cases the subject entity should not establish, nor continue a business relationship, and should study the need to provide a Suspicious Transaction Report to the Anti Money Laundering and Counter Terrorist Financing Unit.

### Second: when the information should be verified:

The subject entity should verify information of all clients and beneficial ownerships in legal persons when filling the “Know Your Customer” form, that is, before or during the establishment of the business relationship or executing transactions of occasional clients.

The subject entity can complete application of some of the measures relating to identity verification of clients and beneficial ownerships in legal persons or legal arrangements until after establishing continuous business relations after the establishment of the continual business relationship, provided that procedures should be completed within a period not exceeding (10) working days of the date of starting the business relationship. Otherwise the relationship should be terminated and inform the Anti Money Laundering and Counter Terrorist Financing Unit immediately in case there is a suspicions to connections with money laundering or terrorist financing, according to the form or means approved by the unit for this purpose. The reporting entity should not allow the person to have access to cash withdrawal when the relationship is under termination, and to make him use another means of payment in a manner that enables the entity to track the financial transactions. The completion of the measures should be as follows:

- 1- incompleteness of application of the verification measures should be necessary to ensure not to interrupt the normal conduct of business, in addition, it should lead to any money laundering or terrorist financing risks.
- 2- The subject entity should have taken the required measures to have effective management over any ML/TF risks for the case to be completed. This includes the establishment of limits for the number and types of transactions that can be executed before the completion of verification procedures, and to include that in the institution's approved work procedures.

Examples of cases where it is possible to complete the verification of the beneficial ownership identity:

- a. In life insurance policies when the beneficiary is identified by a capacity or category (spouse, child) or by virtue of a will.
- b. Transactions that are not conducted face to face.
- c. Stock exchange and securities transactions, when financial brokerage firm are obliged to finalize transactions in a fast manner, based on the market conditions suitable to the time of connection by the client.

beneficial ownership(s) should be defined before providing the service to a client, and as soon as possible after in case of medium or low risks based on the legislative instructions of each sector.



## Records keeping

There is no doubt that keeping records is pivotal for the subject entity, since it shows how the entity adheres to the AML/CTF requirements, stipulated in the AML/CTF law and instructions issued by virtue thereof. Among the records to be kept are those related to identifying and verifying the identity of clients or beneficial ownerships or their transactions, in addition to the correct written records that include internal decisions taken as to engagement- in business relationships with a client or a specific category of clients and all relevant documents, data and justifications for such decisions.

In application of what is mentioned above to clients including legal persons or legal arrangements, the subject entity regardless of the complexity of structures of such clients, should keep records including information of the beneficial ownership(s) and that these records should be sufficient, accurate and continually updated, and periodically reviewed according to the risks assessment, and in a way that allows easy scrutiny. Documentation should include the following:

- The way of identifying the ultimate beneficial ownership(s) from the clients, and documentation of the criteria and standards under which a person acquired the capacity of the beneficial owner, and whatever supports the decisions made in this regard.

The subject entity should take into account that records should necessarily demonstrate a proof that the subject entity has tracked all the levels of the client's ownership and control chain to define the identity of natural persons who fulfilled the definition of beneficial ownership(s), and in a way that allows any authority to read such records after years, and understand the justification of this decision.



- Information collected about persons identified as beneficial ownerships of legal persons and legal arrangements (such as ownership, control, ...etc.)
- Information collected to verify the beneficial ownership and in a manner that proves application of (reasonable measures) were taken to identify each of the beneficial ownerships.

- Any documents issued by a reliable and independent sources, or any reliable, independent electronic data used to verify the beneficial ownership's identity.
- Declaration and disclosure certificates signed by the client on behalf of the beneficial ownership.
- Any proof that the subject entity has updated the beneficial ownership information on regular and continuous basis, in the events of any updates or during the regular review to be carried out according to the risk level assigned to the clients.
- A proof of conducting a client risk assessment and management regularly and throughout the business relationship, including the results of risk assessment process represented by the client and beneficial ownership, related to the subject entity. It also includes the reasons and justification of dealing with them and proofs that show the senior management approval to deal with the client, if required.

Records and documents relevant to identifying and verifying the beneficial ownership should be kept for not less than five years, from the date of the business relationship termination, or the date of transaction termination, account closing, contract expiration or the date of finalizing a transaction for a client that does not have a continuous relationship with the entity (occasional client).

It is worth to mention that it is possible that the beneficial ownership or the entity controlling a legal person or legal arrangement can change with time, thus, the subject entity should update beneficial ownership information and records, as a part of exercising the due diligence process. The subject entity should update information at the event of any changes, such as a change in the ownership or control structure, or the beneficial ownership or controlling entity, or a change of the registered address of the office and so on. In this case, the subject entity can refer to the due diligence requirements stipulated in the relevant AML/CTF instructions for more information about measures to be followed in this regard.

## **Reliance on third parties**

This means that the subject entity relies on a third party (specialized institution or a service provider company) for the purposes of carrying out the process of identification and verification of the beneficial ownership identity. Even though the internal policies- of some subject entities force them not rely on third parties in the application of the due diligence, however, the subject entities should in case it is allowed to rely on third parties, realize that such reliance represents addition of another level of risks, which makes understanding and prevention of these risks a necessity.

When a subject entity relies on a third party to identify and verify the beneficial ownership behind a client, according to the provisions of the instructions relating to the application of the due diligence measures and the enhanced due diligence measures (for example, towards the politically exposed persons “PEP”), the ultimate liability in the application of the procedures of identification and verification process and the beneficial ownerships in legal persons and legal arrangements fall under the liability of the subject entity, that has to conduct the following:

1. Obtain identification information of the beneficial ownership immediately.
2. Ensure that the third party will immediately provide copies of identification information and other relevant documents related to due diligence requirements for clients, if required and without any delay.
3. Ensure that the third party is subject to regulatory and supervisory measures by the competent authorities. It should have applicable measures relating to the due diligence requirements for the client, records keeping and AML/CTF programs.
4. To take the country risk assessment level into consideration, for the country where the third party resides, and take enhanced procedures in case it is a high risk country. In all cases, the subject entity is not permitted to rely on third parties in case it resides in the first category (black list) as per the FATF lists.

## **Training programs and outreach**

Subject Entities must develop special training programs for their employees on the identification and verification of the beneficial ownership and its requirements (such as with regard to the complex structure of legal persons and legal arrangements), where such training must be sufficient and comprehensive and cover high-risk cases and cases where the information of the beneficial ownership is misleading, and so that employees, senior management and the board of directors are informed of their duties related to the information of the beneficial ownership to reach the highest levels of understanding and awareness in this regard.

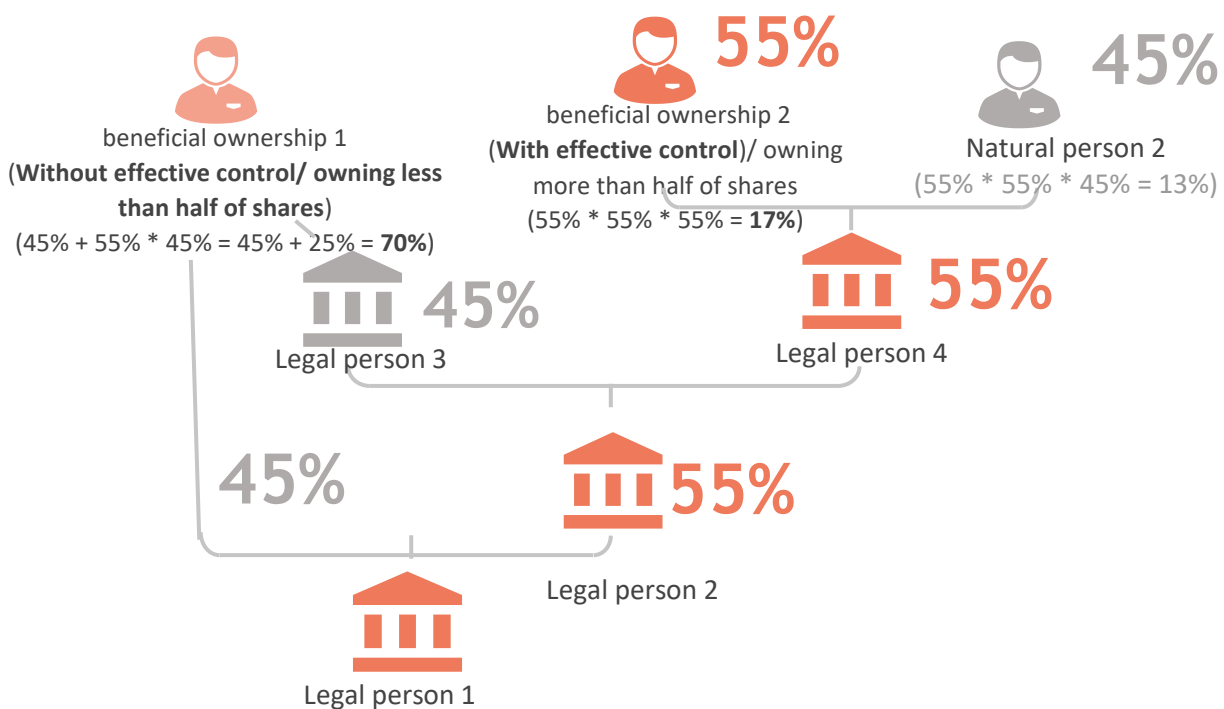
## Annex (1)

### Ownership and control structures modules

Ownership and control structures used by the beneficial owners to maintain effective control on the activity of a legal person are different and variant.

#### 1. Hierarchal ownership structures

Hierarchal ownership structures (or control structure by the ultimate majority) to be entities (legal persons) with ownership structures composed of a down to up chain of control. In such structures, beneficial owners lay at the top, and the rest are sequenced layers of companies, where the mother company has the majority share in the subsidiary company. The direct outcome of the hierarchal ownership structure is the separation of ownership and the effective control in the companies at the bottom of the hierarchy. Such structure is common in family businesses trying to attract foreign investment, while keeping control.



## 2. Control by owning different types of shares

The capital of shareholding companies is divided into shares called shares which are of equal value and tradable. In general, these shares in most companies are of one type known as ordinary shares [which are the most frequently issued and traded shares in the stock market]. However, the phenomenon of private companies establishing small offerings of shares of various types started to increase, and companies can allocate different types of shares in any way they desire. The most common reason for this is companies desire to maintain the strongest opinion to vote in the hands of a certain group, including the companies' ability to offer different classes of shares to different groups of shareholders with varying returns and profits, or to offer shares that holders do not enjoy the right to vote or participate in making decisions, or shares for employees or family members, etc.

Taking the above into consideration, regarding the company ability to offer any types of shares required, the company can name any type of shares. Away from ordinary shares, the common types are in a nutshell: **preferred shares, shares which owners do not enjoy the right to vote or participate in decision making, shares class "a", shares class "b" (known as alphabet shares), and shares that enjoy additional voting rights (known as administrative shares)**. Different types of shares and shares relevant rights should be listed in the company incorporation contracts.

## 3. Shareholders agreement:

Public shareholding companies are composed of a large number of shareholders, in light of which the ownership structure is owned by a large number of small investors, i.e. ownership is scattered/distributed among a large number of owners of small shares of the company. In such cases, shareholders may hold agreements and alliances among themselves to protect the investment of the company shareholders, and create a fair relationship among shareholders and the company management system.

It is worth mentioning that the above agreements or alliances can be created among all shareholders, or in some cases, some of the shareholders (such as holders of a certain type of shares).



Taking into consideration that shareholders agreements usually stipulate the following:

- Determines shareholders' rights and commitments.
- state which shareholders can assign executive and non-executive managers.
- Regulates share selling in the company.
- Describe how the company will be run.

Shareholders agreement provides a protection factor for minority and company shareholders, and defines the key decisions to be taken.

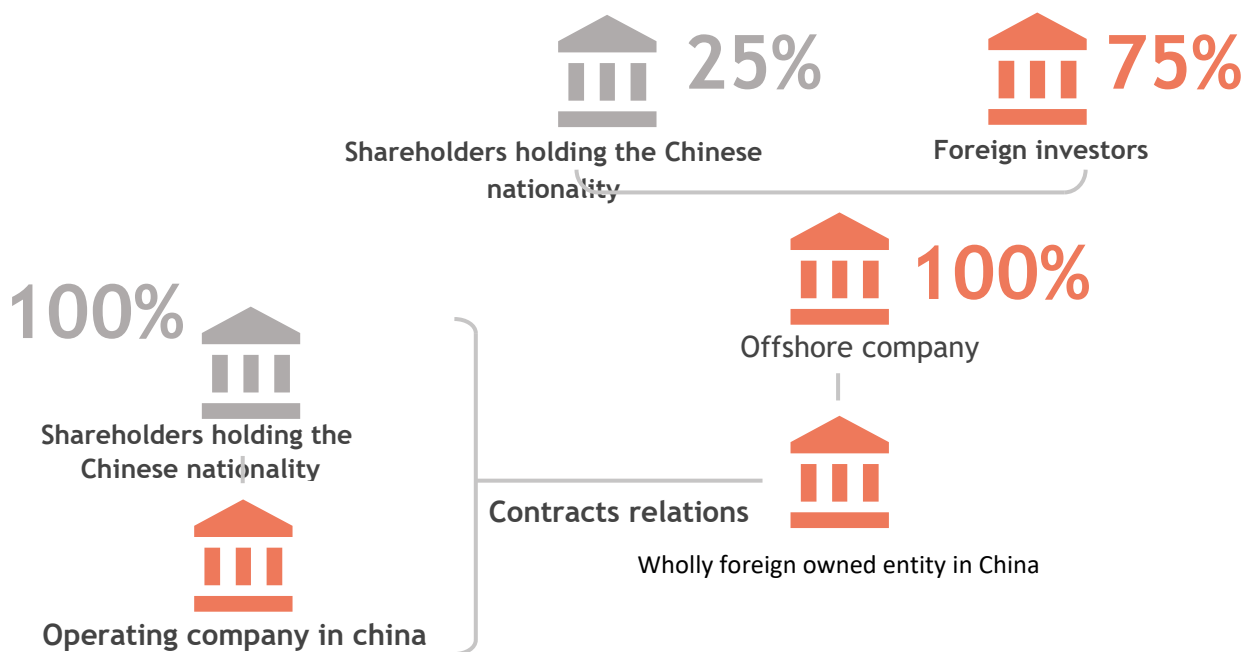
#### **4. VIE structure:**

Other examples of contracts and agreements among shareholders is the so called "Variable Interest Entity- VIE", which is an entity where the investor owns a controlling share regardless of voting rights of the majority.

In China for example, foreign investors should obtain certain approvals from the government for their investments in China. It might be difficult to obtain the approval for certain industries especially the constricted ones such as communication, direct sales, mail request and online sales. By using VIE, foreign investors are not obliged to receive the approval of the Chinese government for direct foreign investment as investors do not own the ownership rights of the company. However, they still can operate a domestic company and receive revenue. Examples of VIE are Baidu and Ali Baba.

The simplest structure of a VIE structure involves a foreign client ( usually a limited liability company exempted in the Cayman islands), and a wholly foreign owned entity in China (WFOE), and a domestic operating company in china owned by Chinese citizens. Foreign investors and other shareholders have the ownership rights in a company in the Cayman Islands, and this company owns 100% of shares in a WFOE.

The operating company is a domestic Chinese company licensed to work in a constricted industry in china. The main point of the VIE structure is that the WFOE practices effective control on the operating company through a chain of contracts between the WFOE and the operating company. The Chinese domestic company founders lend money from the WFOE and pledge to provide their shares in the operating company as a guarantee according to the loan agreement (see the example below).



## 5. Family businesses companies

A business owned by a family is a commercial entity where the ownership and control are in the hands of the family – related by blood, marriage or adoption. Family businesses companies might have complex ownership and control structure for many reasons:

- Invite external investors as partners, while maintaining control over the family business.
- Protect the interest of the different family members and future generations.
- Allow easy conveyance or dividends to children and other family members.
- Ability to separate control from profit interest as some family members may be considered unable to run the family business equally.
- Protect sensitive ownership and control relations within the family for privacy reasons.

Most powerful family members (for example, since they practice effective control on the main company or mother company) as being the beneficial owners. If none of the family members owns or controls more than (20%) of the legal person capital, percentage of ownership of other family members must be combined individually and considered a business controlled by the family.

Underage members of the family may own shares in a company, in this case voting rights usually is mandated to one of the parents, and both can be considered (the underage child and the mother and the father) beneficial owners.

### 6. Usufruct:

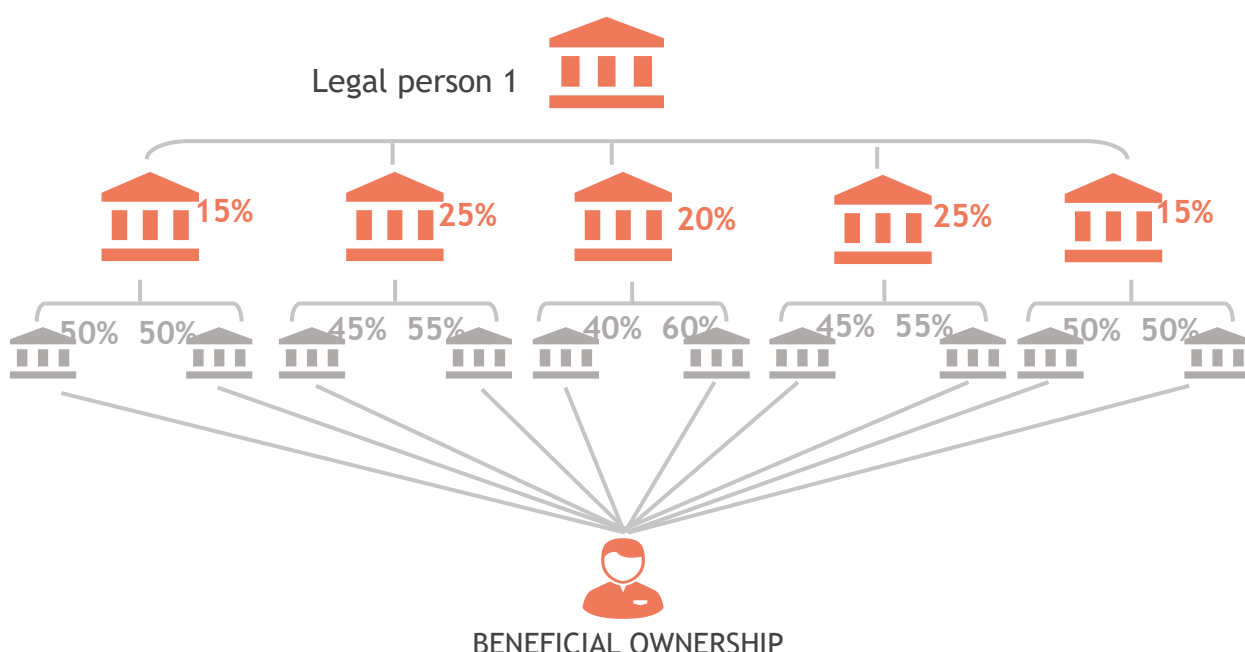
Usufruct given to a person or a party is considered a legal right in many countries applying the civil law. It gives a person the right to use or gain from the property of another person (such as shares), as the shareholder pass the voting rights and profit to another person. In this case both should be considered beneficial ownerships since it is a form of shared ownership.

### 7. Mortgage

As in the usufruct case, shares can also be mortgaged to the interest of another person in some countries. This may mean as well that voting rights and profits are transferred to the party in whose favor the mortgage was obtained based on the mortgage agreement.

### 8. Parallel structures of beneficial ownerships

A legal person might have many branches leading to the same beneficial ownership, while all the direct and intermediary shares are still less than 20%, as stipulated in valid legislation of AML/CTF. It is then significant, to have a scrutinizing vision of the whole ownership and control structure to define a joint shares.



## Annex (2)

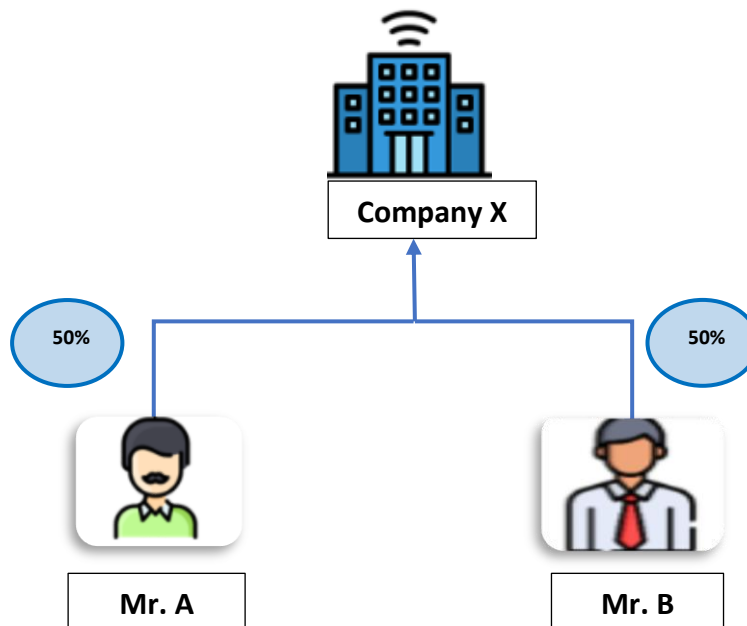
Example of some ownership and control forms in the legal person

**Please note that cases stated in this annex serve as examples only, and do not reflect all potential structures and scenarios**



## Direct ownership

### Example 1

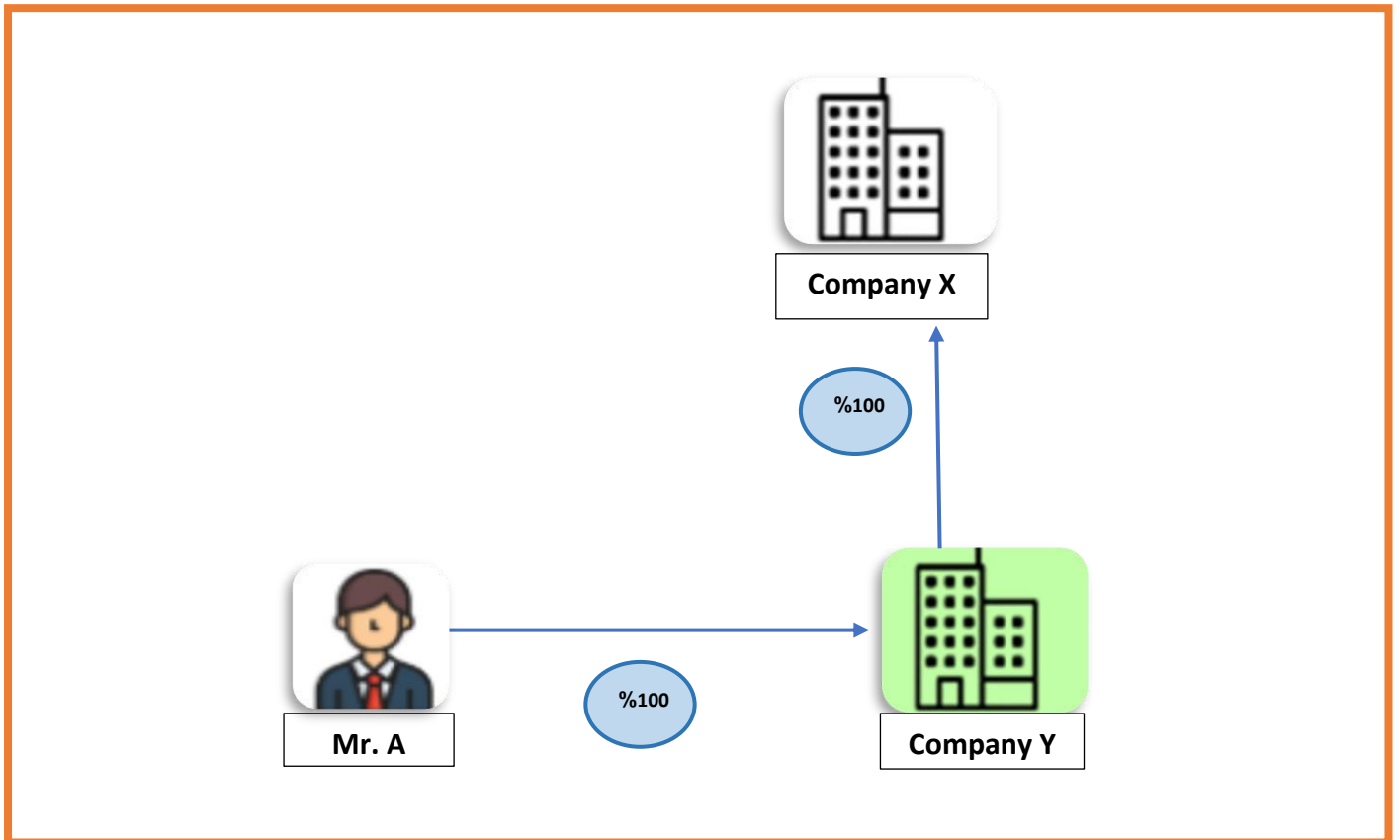


Identifying the beneficial ownership within this ownership is a direct process as both Mr. A and Mr. B are beneficial owners of the company X, as per the ownership percentage exceeds 20%. In this case, it is necessary to verify the identity of both owners and take the necessary due diligence measures.

# Indirect ownership

Example

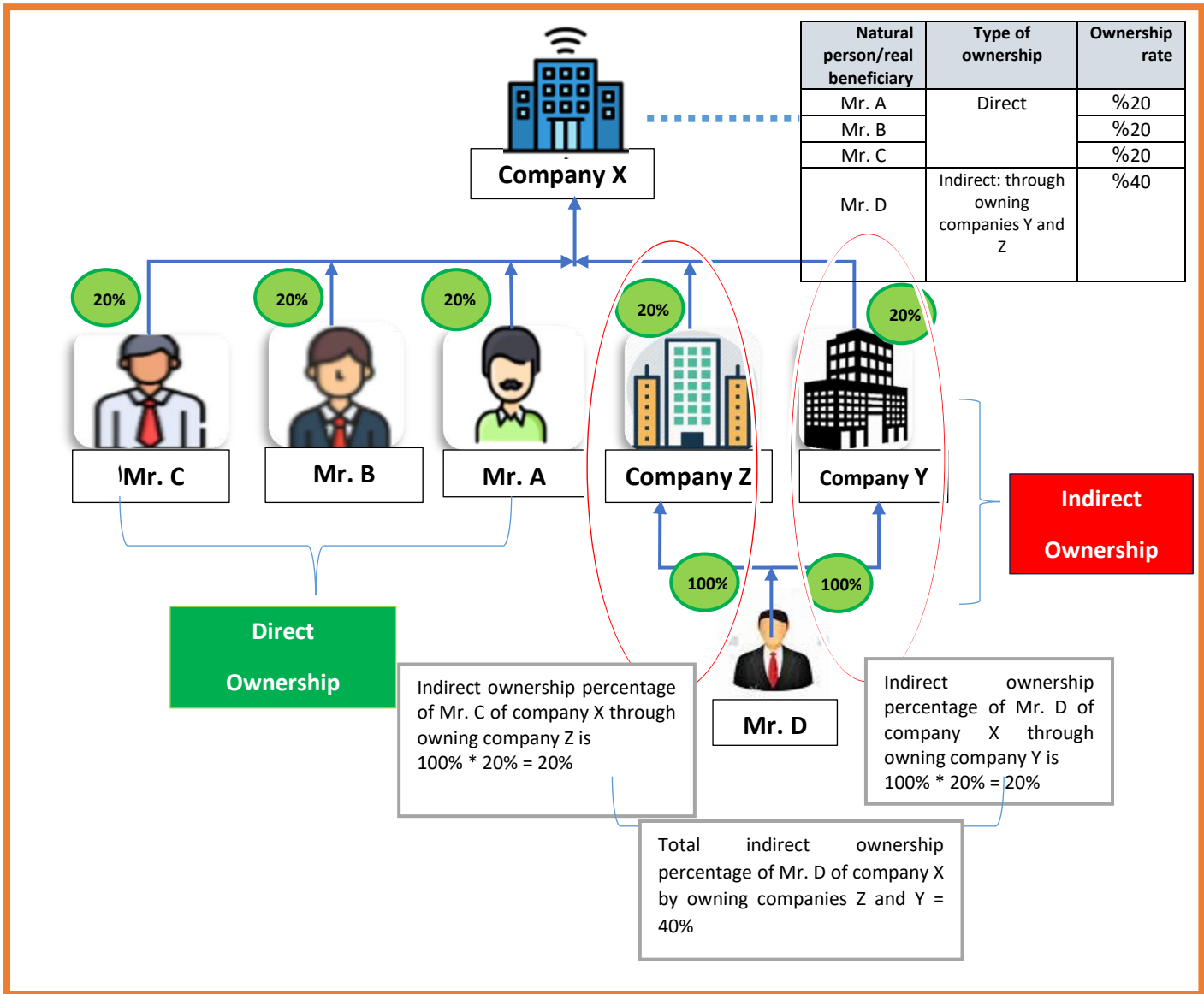
2



**Company X is wholly owned by company Y, that is wholly owned by Mr. A. Consequently, the ownership of company X belongs to the natural person owning company Y, that is Mr. A, and that makes him the indirect real beneficiary beneficial owner of company X. in this case the owner identity must be verified and take the necessary due diligence measures.**

# Direct and indirect Ownership

**Example**  
**3**

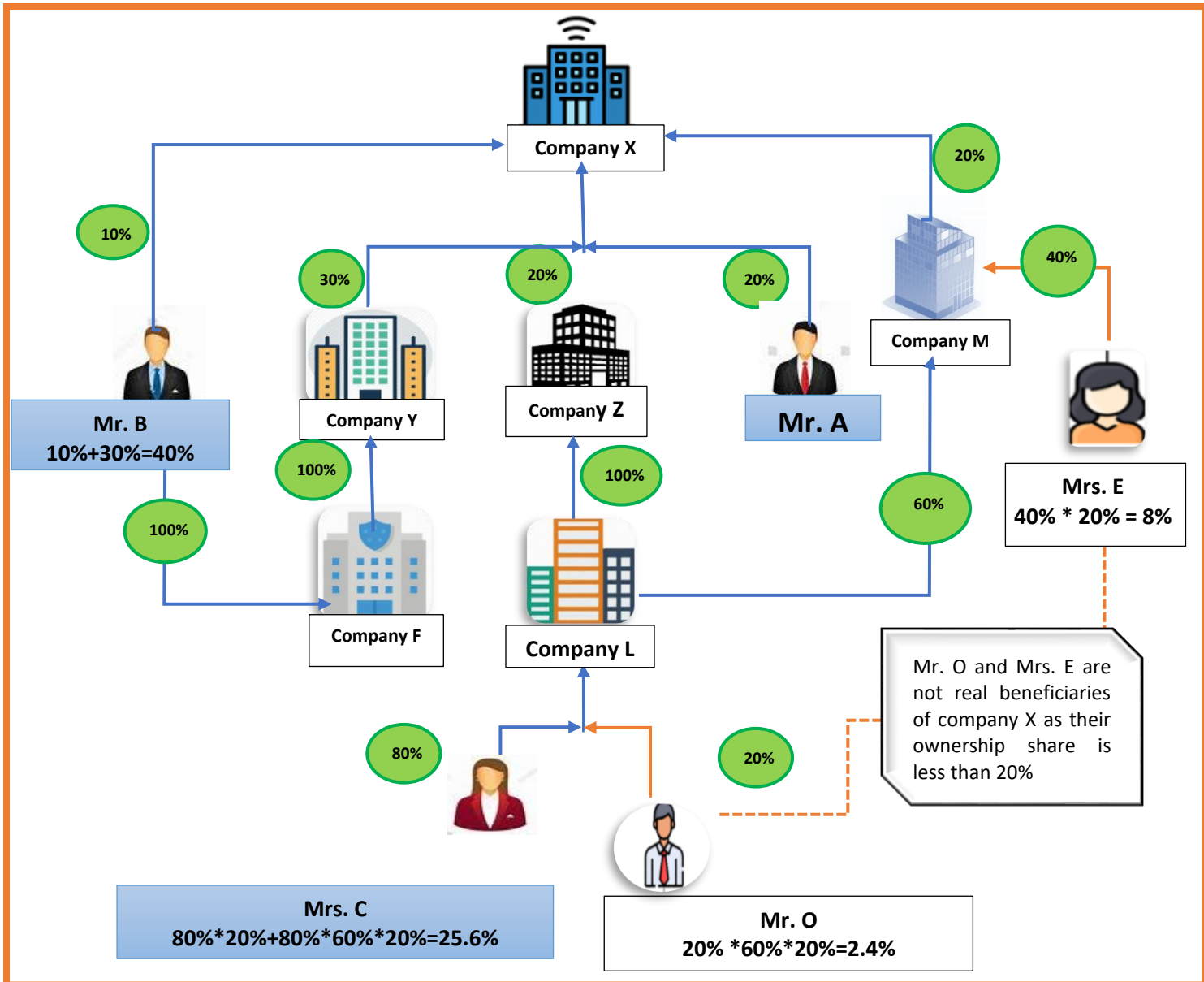


Company X is owned by Mr. A, Mr. B and Mr. C, and ownership of companies Y and Z in equal percentages of (20%) each. At the time the identity of these owners should be verified and take due diligence measures, it is also necessary to identify the identity of the natural person behind companies Y and Z, which is Mr. D, and thus it makes him one of the beneficial ownerships of company X indirectly with a percentage of 40%. There is a need to verify the identity of Mr. D and take necessary due diligence measures against him as well.

# Multi layered direct and indirect ownership (1)

Example

4



The company "X" is owned by:

- **Mr. A** with a direct ownership of (20%)
- **Mr. B** with a direct ownership of (10%) and indirect ownership of (30%) through both F and Y companies with a total of (40%).
- **Mrs. C** with indirect ownership of (16%) through companies L and Z, with a percentage of (9.6%) through companies L and M with a total of (25.6%).

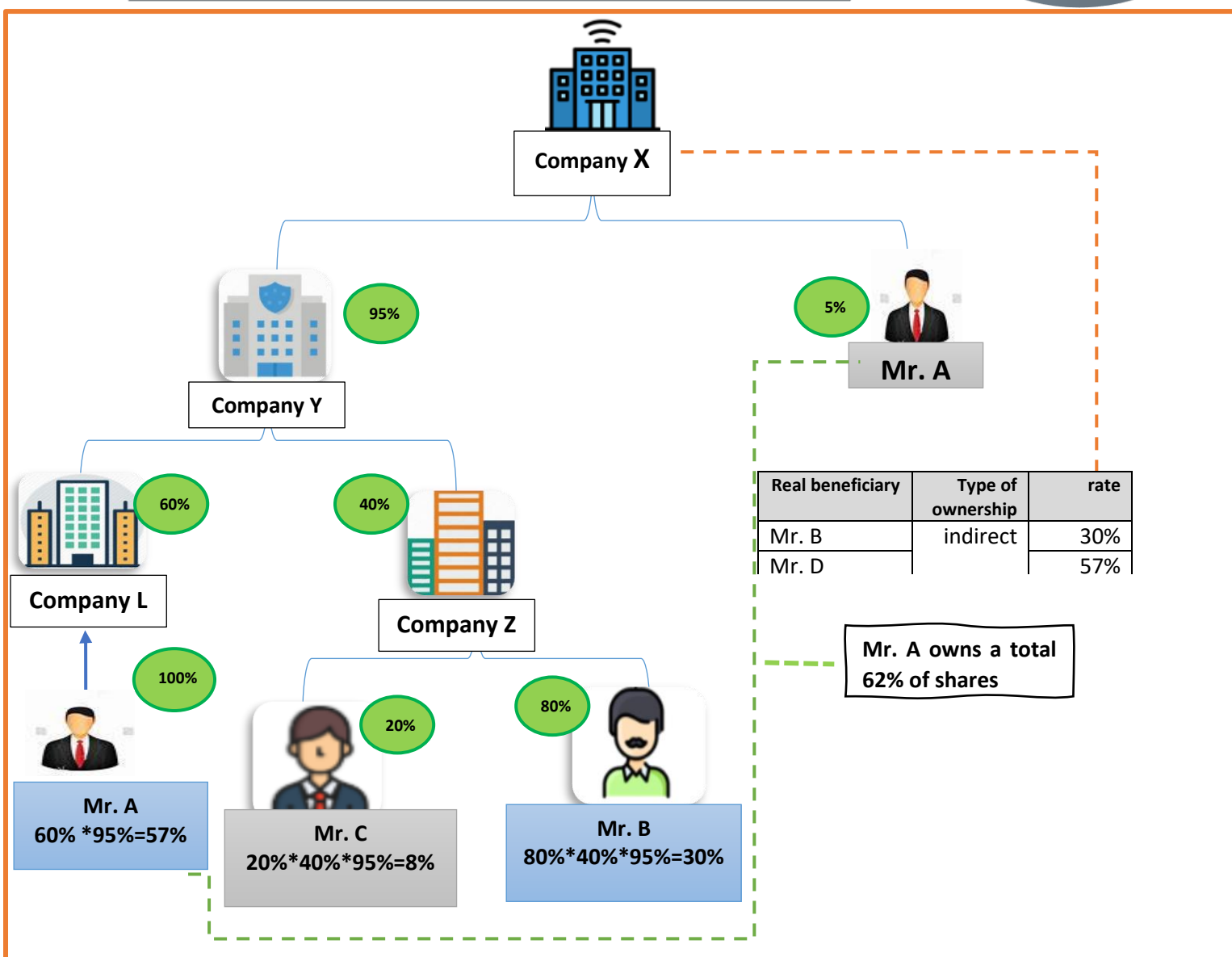
**This makes them all beneficial ownerships of the company X, and thus it is necessary to verify their identity and take the necessary due diligence measures against them.**



# Multi layered direct and indirect ownership (2)

Example

5



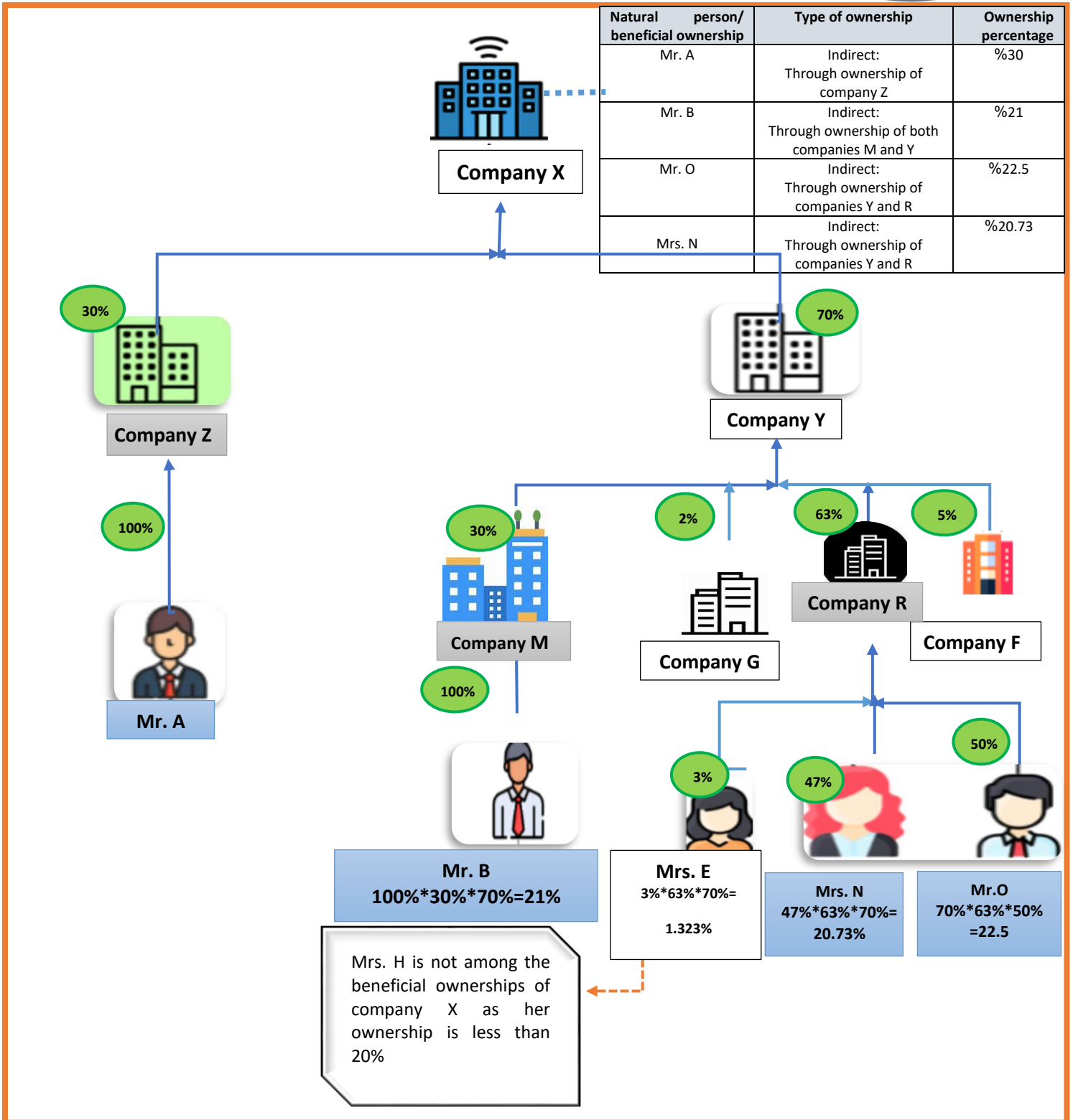
We can see in this example a mixture of direct and indirect multi layered ownership:

- Mr. A is the beneficial ownership of company X as he owns direct and indirect shares – he directly owns 5% of the shares and indirectly, through the companies L and Y he owns 57% of the shares in company X. In total he owns 62% of the shares.
- Mr. B is a beneficial ownership as well of the company X, as he directly and indirectly owns a share of company X through the company Z and Y with a percentage of 30% ( $95\% * 40\% * 80\% = 30\%$ ).

It is also important to ensure that Mr. A and Mr. B are not intermediators or agents or nominee owners of company X, and there were no other natural persons that have direct and indirect impact on the company activities.

# Indirect complex ownership

Example  
6



Company X is owned by the companies Y and Z with shares of (70%) and (30%) respectively, and thus it requires to identify the identity of the natural person behind companies Y and Z.

It is clear from the above ownership structure, that the company Z is wholly owned by Mr. A, which makes him one of the indirect beneficial ownerships of company X with a share of (30%), and thus it is necessary to verify the identity of Mr. A and take the necessary due diligence measures.

On the other hand, it is clear that the company Y is owned by four other companies: F, R, G and M, with a shares of 5%, 63%, 2% and 30% respectively, and by calculating the ownership shares of companies with the controlling share in companies Y, which are companies R and M, and by applying the basics of ownership and control, we find the following:

Natural person	Ownership of a legal person	Ownership share
Mr. O	Through companies R and Y	$70\% * 63\% * 50\% = 22.5\%$
Mrs. N	Through companies R and Y	$70\% * 63\% * 47\% = 20.73\%$
Mr. B	Through companies M and Y	$70\% * 100\% * 30\% = 21\%$

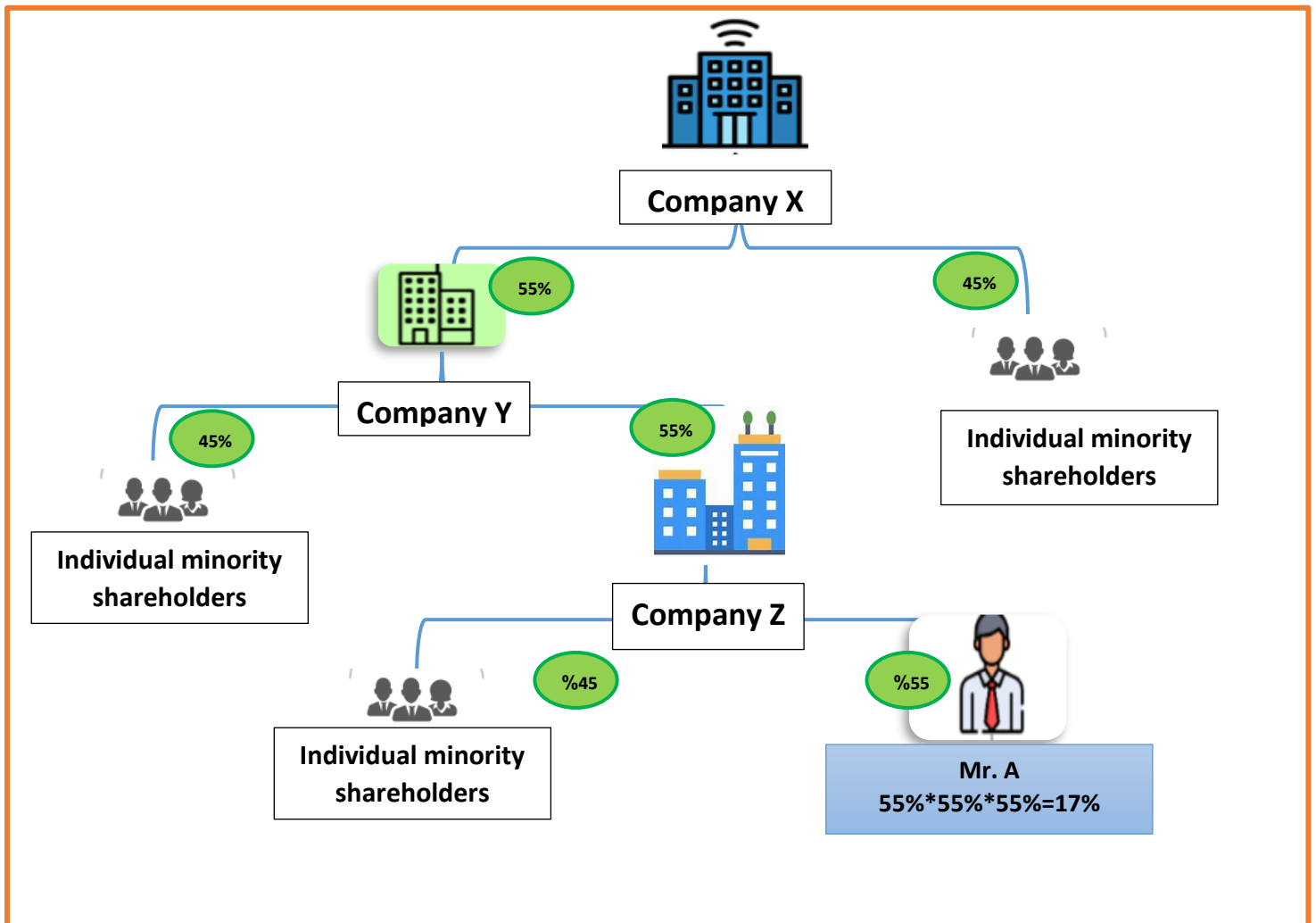
beneficial ownership of company R

Thus, Mr. O, N and B are the beneficial ownership of company Y, and among the indirect beneficial ownerships of company X and thus it is necessary to verify their identity and take due diligence measures in this regard.

# Indirect multi layered ownership

Example

7

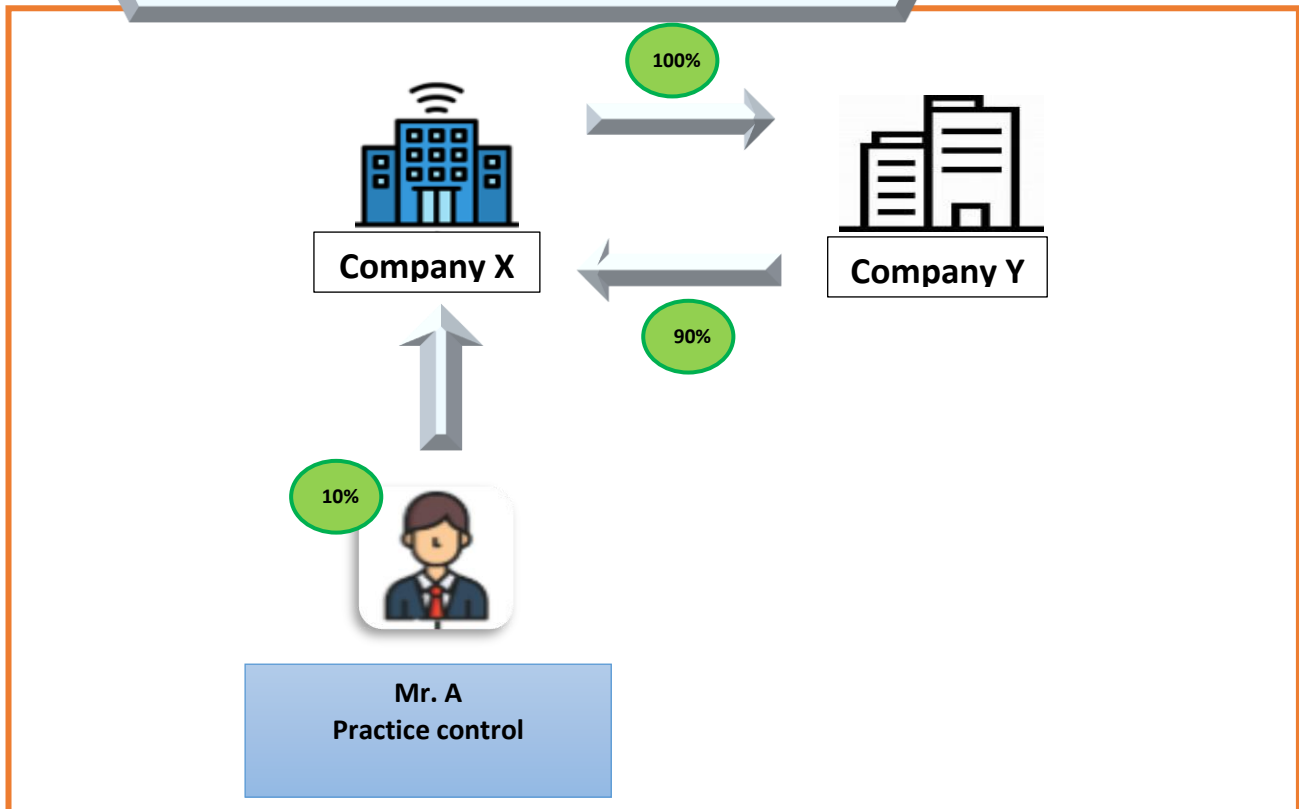


Despite that Mr. A ownership share is relatively small (17%) however he is the beneficial ownership of company X, as through the multi layered ownership chain, he has the power and control to assign the senior management of the company X. He enjoys as well control the voting results of shareholders in companies X and Y and Z.

## Circular relations and indirect complex multi- layer ownership

Example

8



**We can see in this example a module of circular relations and indirect multi layered ownership:**

- **Mr. A owns 10% of company X.**
- **Companies X and Y own each other.**

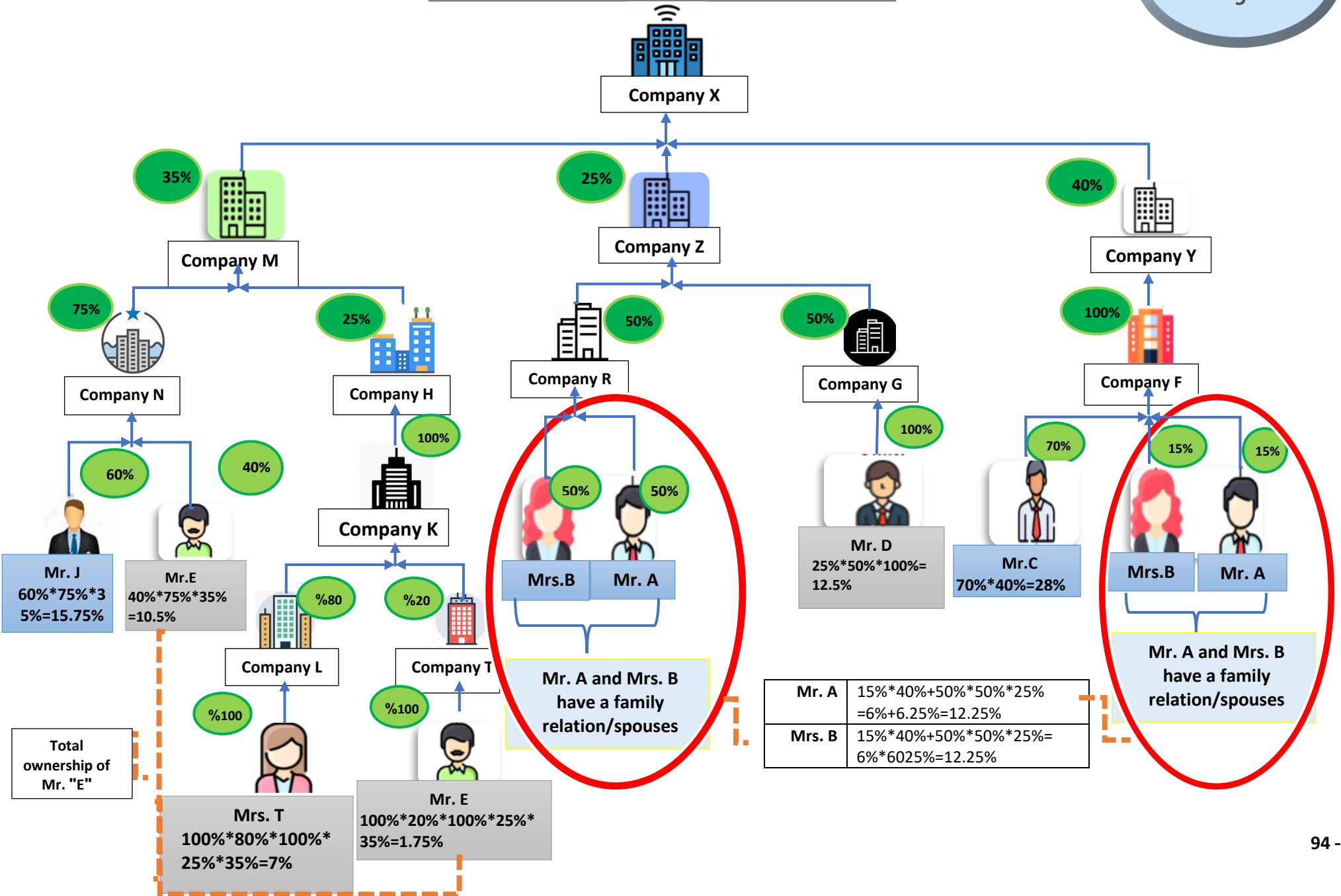
**Actually Mr. A is the only beneficial ownership who can receive profits from the company activity and in many cases, this person can also influence the company management.**

**Mr. A is the beneficial ownership of the two companies X and Y as he receives profits and can practice control on their activity.**

# Indirect multi layered ownership

Example

9



The ownership structure in the above example is complex and reflects partial ownerships. Mainly we need to identify the beneficial ownerships who own and control company X, either directly or indirectly. By looking at the ownership structure of company X, and calculating ownership shares to apply the ownership and control principles, we find the following:

Ownership share	Ownership of the legal person	Natural person
%24.5 { 6%+6.25%=12.25% 6%+6.25%=12.25%	Through companies F, Y, R and Z	<u>Mr. A</u>
	Through companies F, Y, R and Z	<u>Mrs. B</u>
28%	Through companies F and Y	<u>Mrs. C</u>
12.5%	Through companies G and Z	Mr. D
10.5%1.75%=12.25	Through companies T, K, H, M, N	Mr. E
7%	Through companies L, K, H,M	Mrs. T
15.75%	Through companies N and M	<u>Mr. J</u>

- Looking at the calculations of ownership shares in the above table, the only natural person who owns more than (20%) of company X capital, directly or indirectly is Mr. C. If we use the ownership factor only to identify the beneficial ownership, due diligence measures should be taken for Mr. C being the beneficial ownership. However, if we integrate other factors such as the family links of Mr. A and Mrs. B (being spouses) which makes the total of ownership shares of each of them more than (20%), which makes them both able to practice indirect control over the company X. thus it becomes necessary to take due diligence measures on them.
- Despite that the indirect ownership percentage of Mr. J of company X less than (20%), and since Mr. J can control all the decisions of company M (by owning around 60% of company N), and since company N owns around (35%) of company X, it becomes necessary to consider Mr. J one of the beneficiaries of company X, in this case due diligence measures must be taken for Mr. J.

#### Additional hypothesis

It was demonstrated while searching that Mr. E and Mr. J share the ownership of a number of companies except of company N.

Then it is necessary to take due diligence measures against Mr. E and Mr. J, taking into consideration that the total ownership shares of both is more than 20%, which makes them able together to practice indirect control over the company X.

#### **Other hypothesis:**

It is possible to have owners acting in coordination or one of them be a front to the other.

## Effective control by other means (except ownership shares)

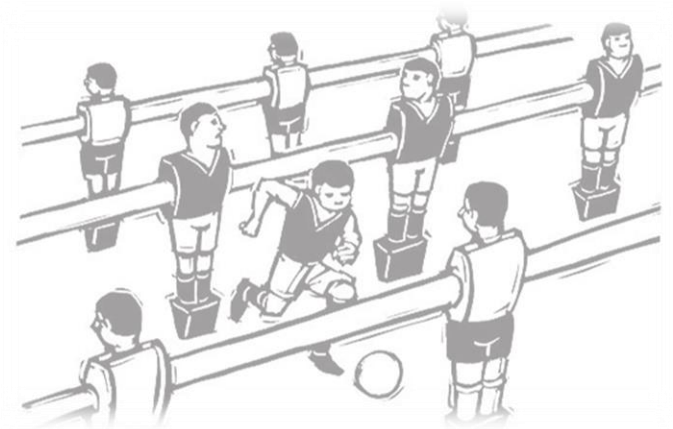


Examples from 10 to 13

### Note:

Examples from 10 to 12 represent modules of a “football team” scenario, where the ownership of a legal person goes to a number of people (a large number of nominee shareholders (front companies)). Each of them owns shares of less than 20%, and it is necessary to take all required actions to identify the identity of the person who can control the legal person through other means except for ownership

**In practice, in such cases, it is very easy to identify the front companies, who have no relation with the legal person businesses such as: drivers, baby sitters, newly accountants, those over 70 years of age, those who have no job etc.**

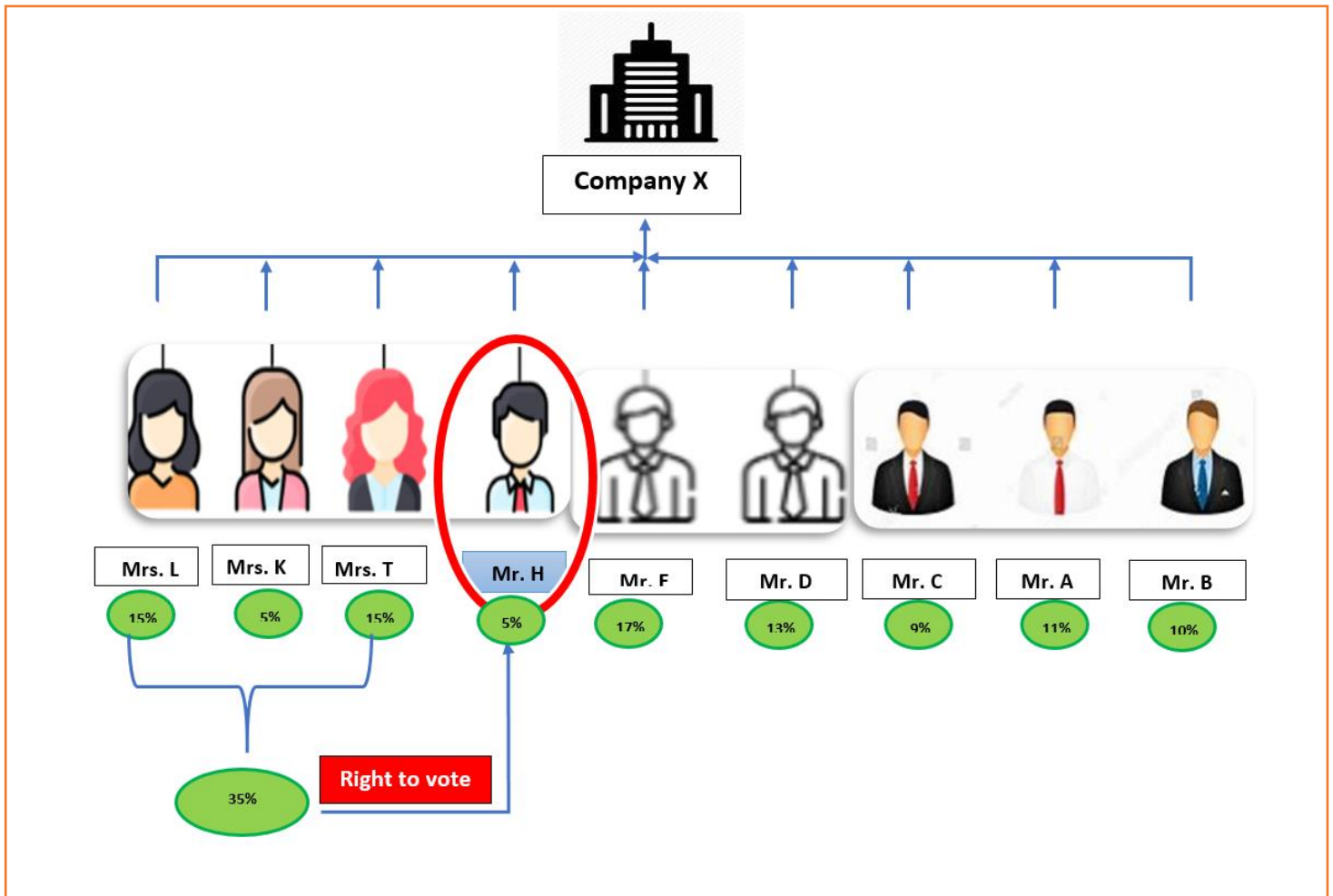




## Effective control/the right to vote

Example

10



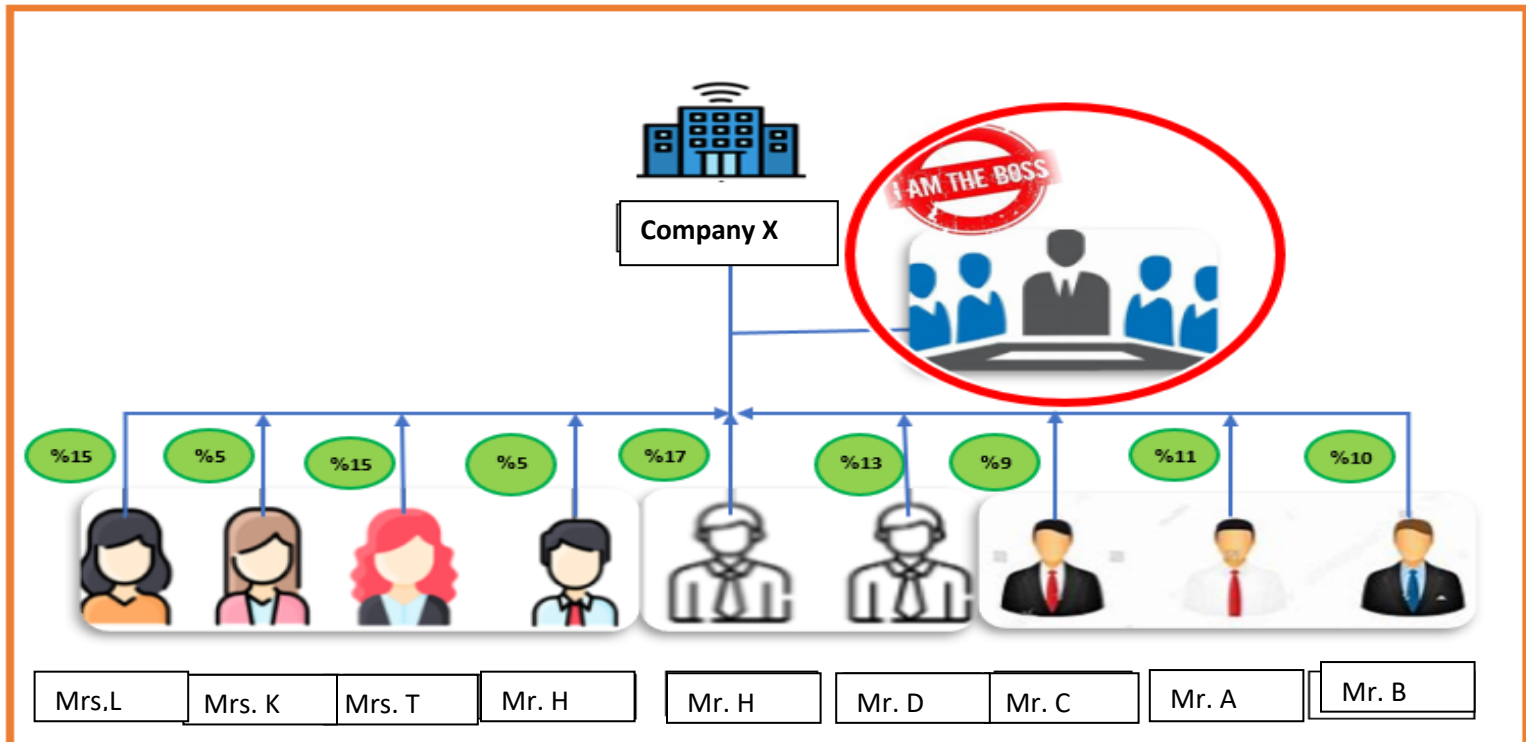
By looking at the ownership shares in the above example, it is clear that no one owns more than 20% of the company X. however each of Mrs. T and Mrs. K and Mrs. L transferred their right to vote to take decisions to Mr. H who owns 5% only of the company X capital, which made this person own the right of effective control on the company decision by controlling around 49% of the shares, directly and indirectly. Thus it is necessary to take due diligence measures against this person.

In such cases it becomes necessary to exert all efforts to identify the person who can control company X through other means (without having direct ownership).

# Effective control/powers and authority to take actions and decisions

Example

11



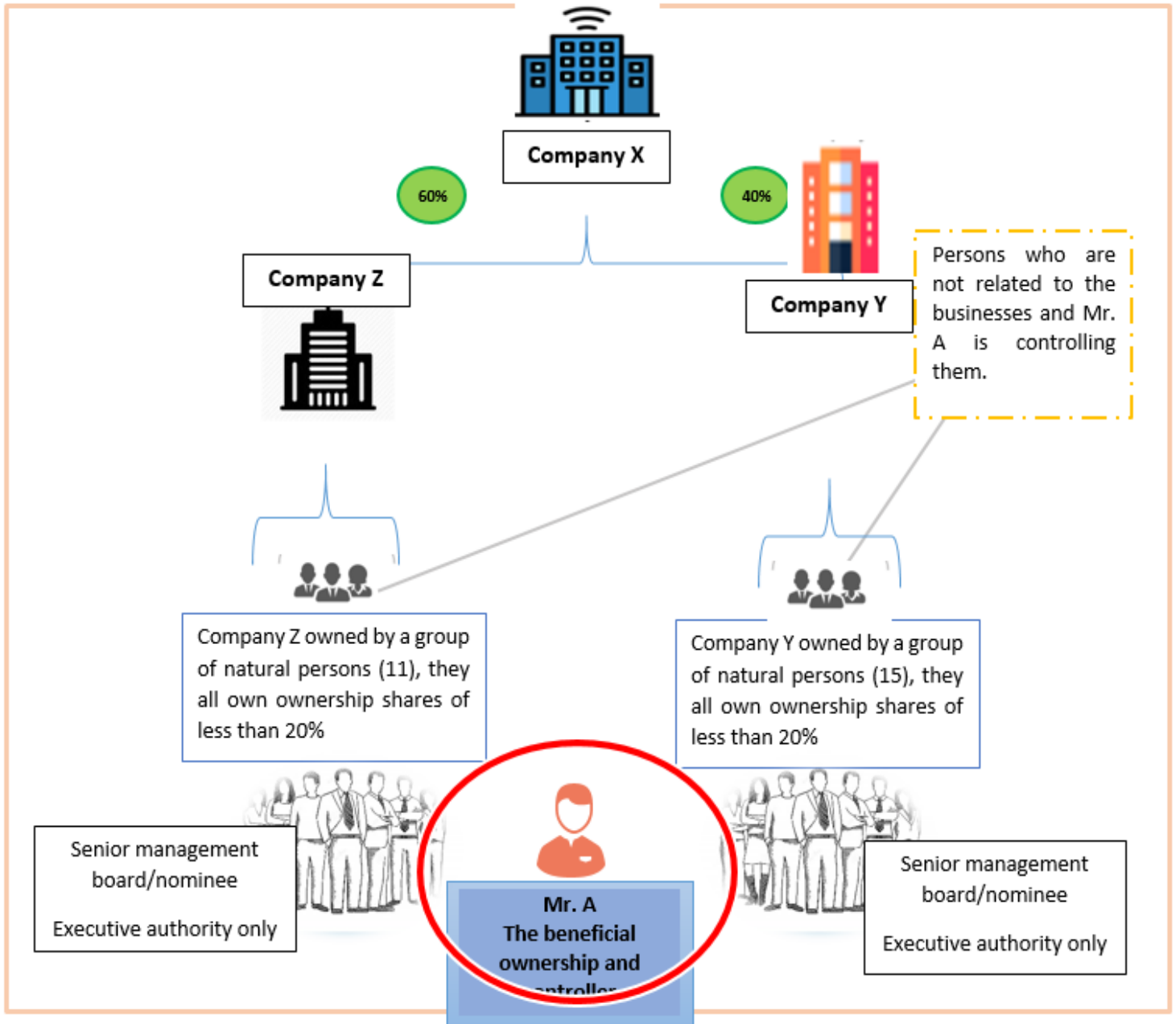
Looking at the ownership shares above, it is clear that no one owns more than 20% of company X capital, and in this case, we need to look for the natural person(s) practicing effective control on the company by power and authority that allow taking decisions and actions, without this person owning a share of the company capital such as senior management, managers, authorized signatories etc.

The natural person might practice effective control over the company if he has the authority and power to take actions and decisions in the company, including financial affairs, relations or transactions or other. This can mainly affects the company's actions and direction. In such cases it becomes necessary to study the current list of shareholders to ensure that they are not acting as front companies, and take the required actions to identify the identity of the person who can control the company by other means except for ownership/authority and power to take actions and decisions.

# Effective control/without ownership or management

Example

12

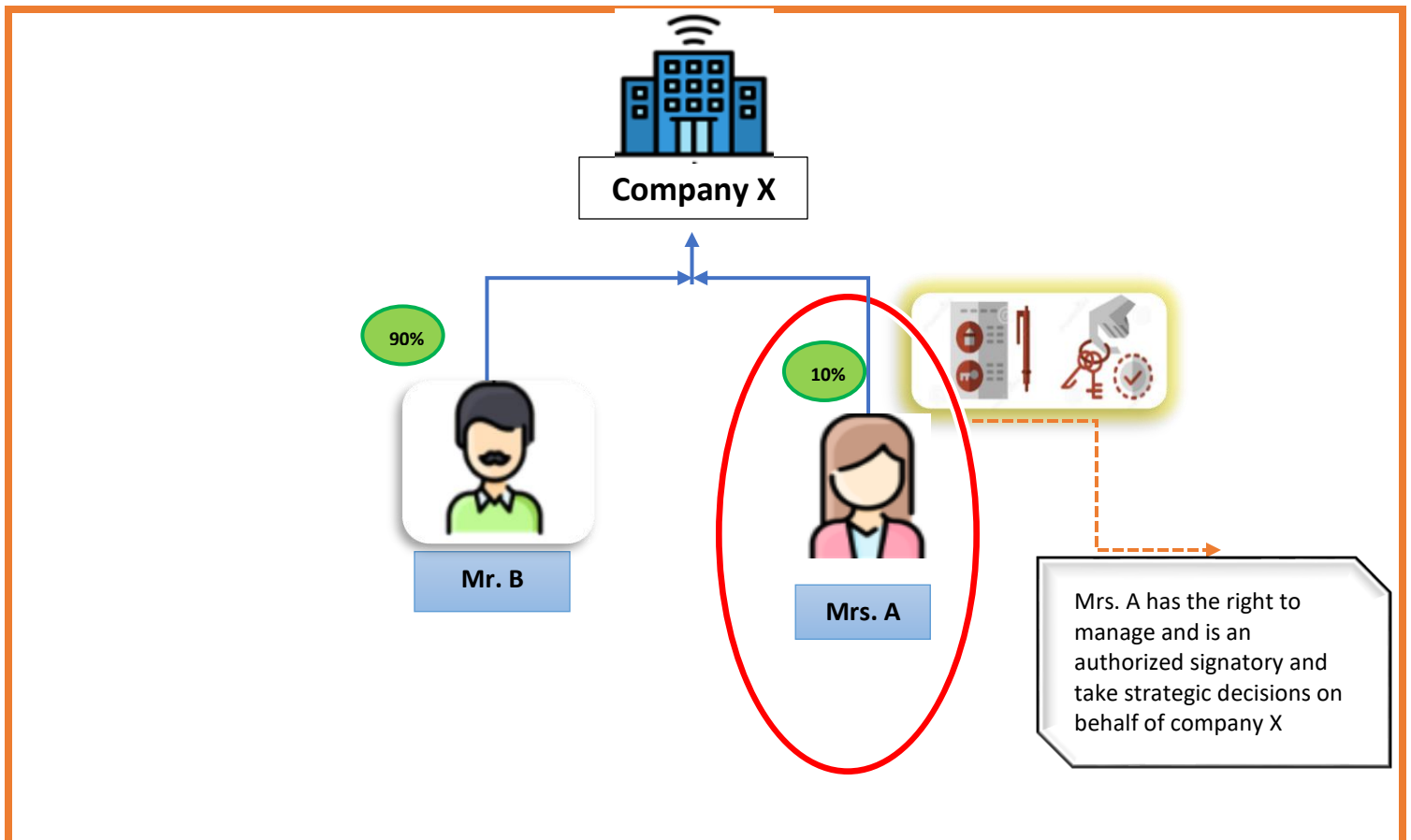


**In this example, it is noted that company X is owned by company Y and company Z, who are – in return- owned by an unknown group of persons, none of them have ownership shares of more than 20%. Authorities of the board of directors in companies Y and Z are only executive, while the person with control and decision is Mr. A, who represents the beneficial ownership of company X. In this case, and thus it requires to take due diligence measures against him.**

## Effective control/the right of management and signatories

Example

13

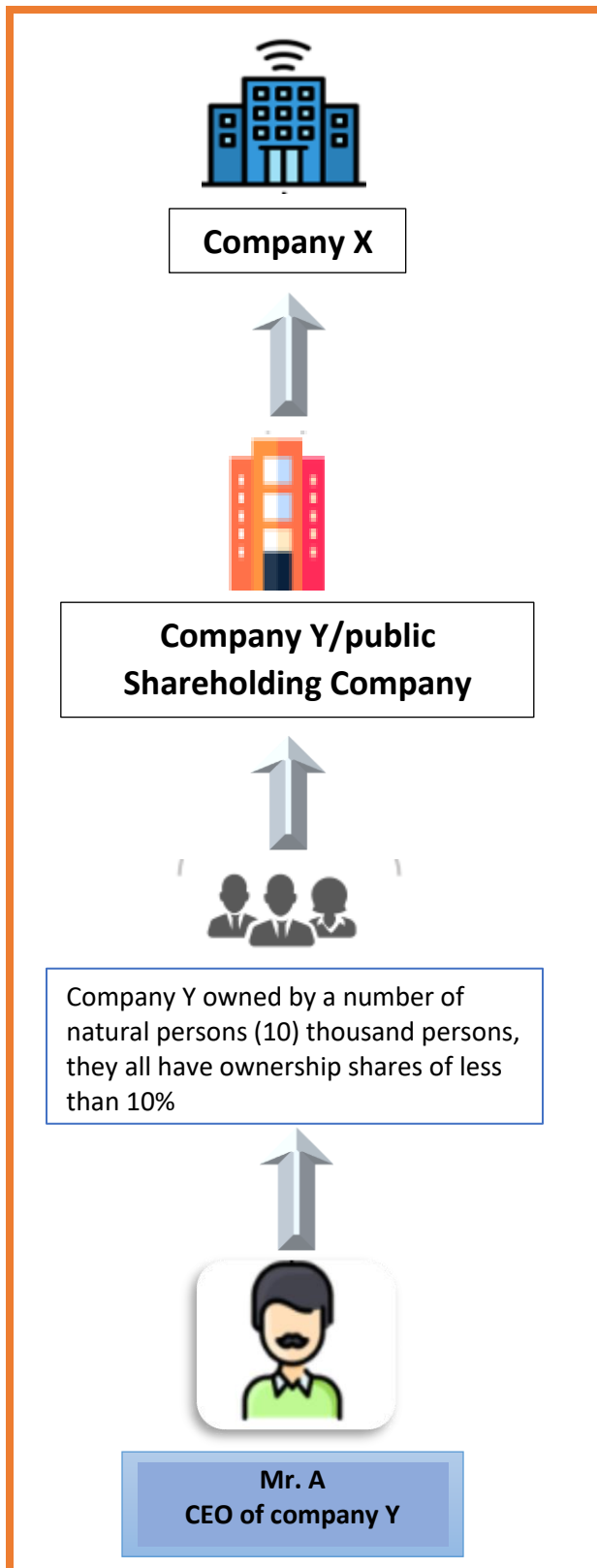


Ownership shares of the above example show that the only natural person who owns more than 20% of company X capital is Mr. B. If we depend on the ownership factor only to identify the beneficial ownership, due diligence measures will be taken for Mr. B being the beneficial ownership. However, if we integrate other factors such as the right to manage and sign and take strategic decisions on behalf of the company, mandated to Mrs. A, which makes her able to practice effective control over the company X, it becomes necessary to take due diligence measures for her as well.

## Public shareholding companies

Example

14



In this example, we can see that company X is a subsidiary company of a public shareholding:

- Has shares traded in an accredited stock market.
- Number of shareholders is around 10000, with shares of less than 10%.

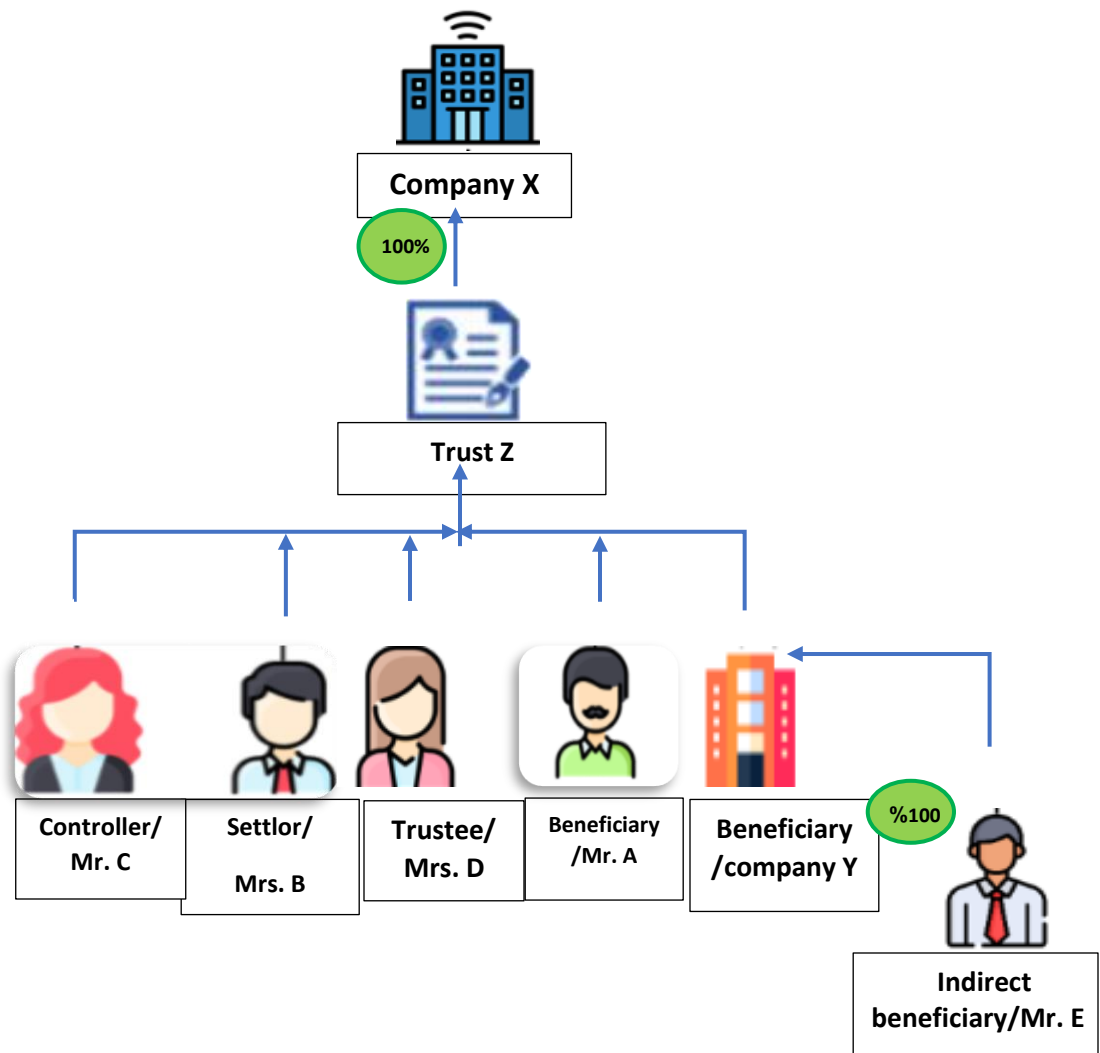
In this case, and for the purpose of knowing the beneficial ownership, we need to use the three steps approach of FATF recommendations (define **those who own 20% or more, if there is none, define the controllers by other means, if not, define the senior management official**).

**In such public shareholdings, in many cases no one owns 20% or more, and mostly a person practices control through the position held in the legal person, such as the CEO or the representing member or the president. This person is the beneficial owner as he can practice executive control over the company affairs.**

# Effective control/ Trusts

Example

15

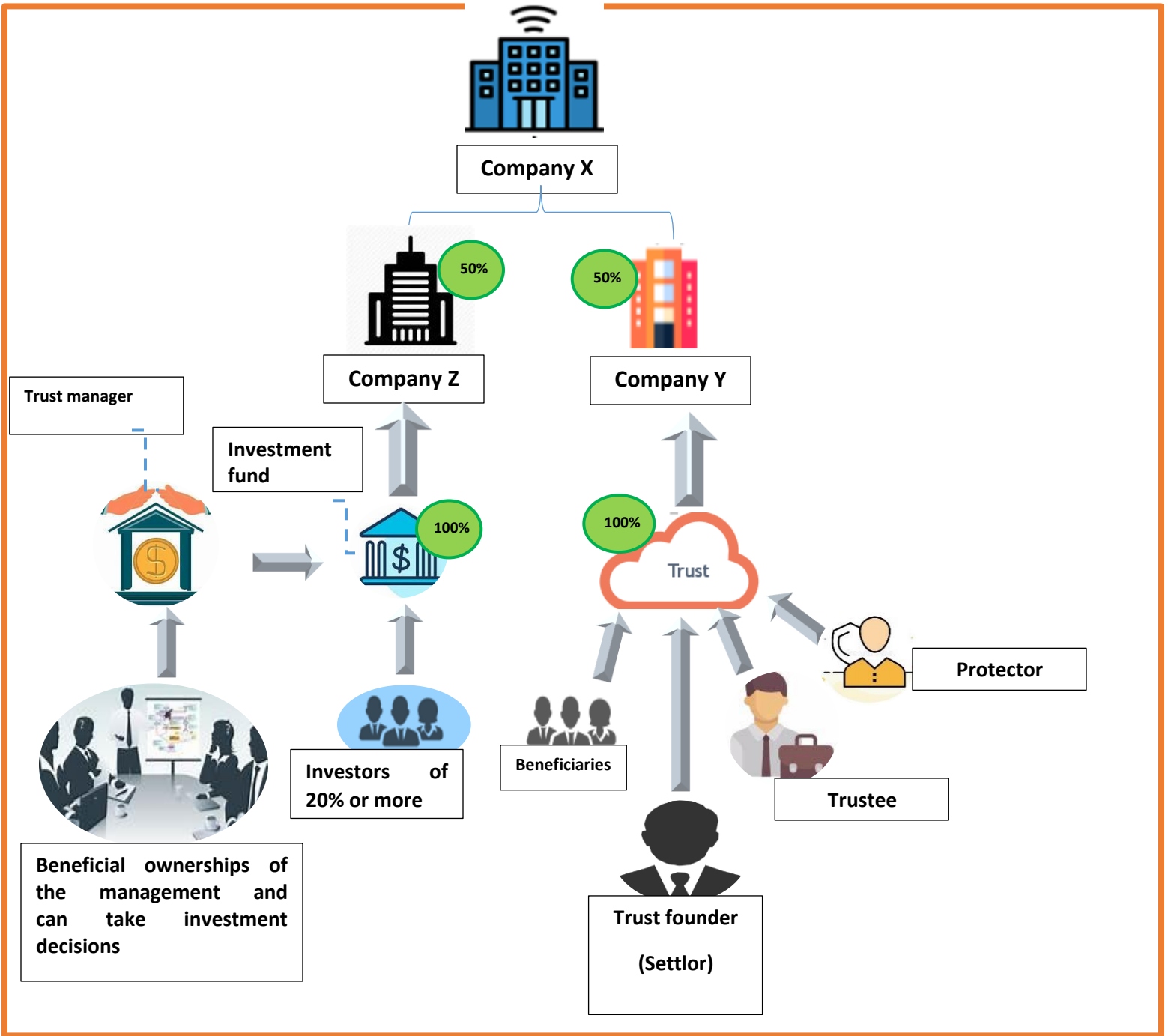


Trust Z owns (100%) of the ownership shares of the company X, and the beneficial ownership is being represented by the persons related to the trust (the settlor, the trustee, beneficiaries or group of beneficiaries of every natural person practicing effective and actual control on the trust). In this case, Mr. A is a direct beneficiary of the trust, while Mr. E is an indirect beneficiary through the company Y, at the time when Mr. B, C and D have effective control over the trust. It requires to verify the identity of all the above persons and take due diligence measures for them.

# Trusts and investment funds

Example

16





In this example, we can see that the trust and investment fund who indirectly owns 50% of company “X”, while the final beneficiary of the company X is:

**The trust:**

- The settlor (founder of the trust and conveying property to the trustee).
- The trustee (the person who achieved custody over the property).
- The protector (if any) (the person who can direct or constraint the trustee).
- The beneficiaries (the persons who will receive all the profits).
- Any other person who can practice final control over the trust through direct or indirect ownership or other means.
- 

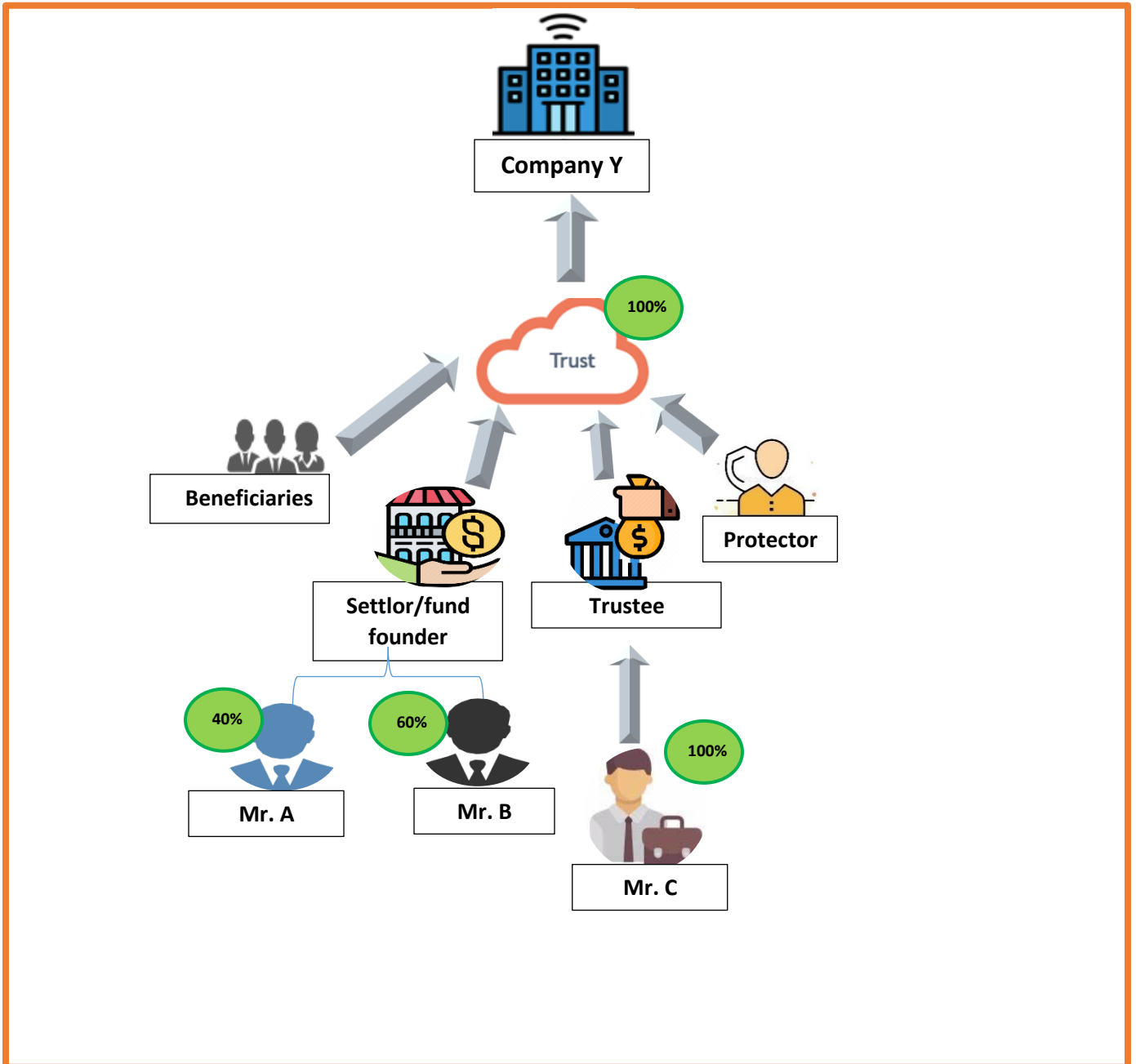
**The investment fund**

- Investors in the fund (who invested 20% or more of the trust assets).
- The beneficial ownership (the fund manager/a legal person who manages the fund).
- Whoever controls the investment fund assets and takes investment decisions.

# Trusts founded by a legal person

Example

17



**If the legal person or legal arrangement as a trust founder ( settlor) or trustee or protector or beneficiary of the trust and such, the beneficial ownerships of the trust as individuals are beneficial ownerships of those legal persons or legal arrangements.**

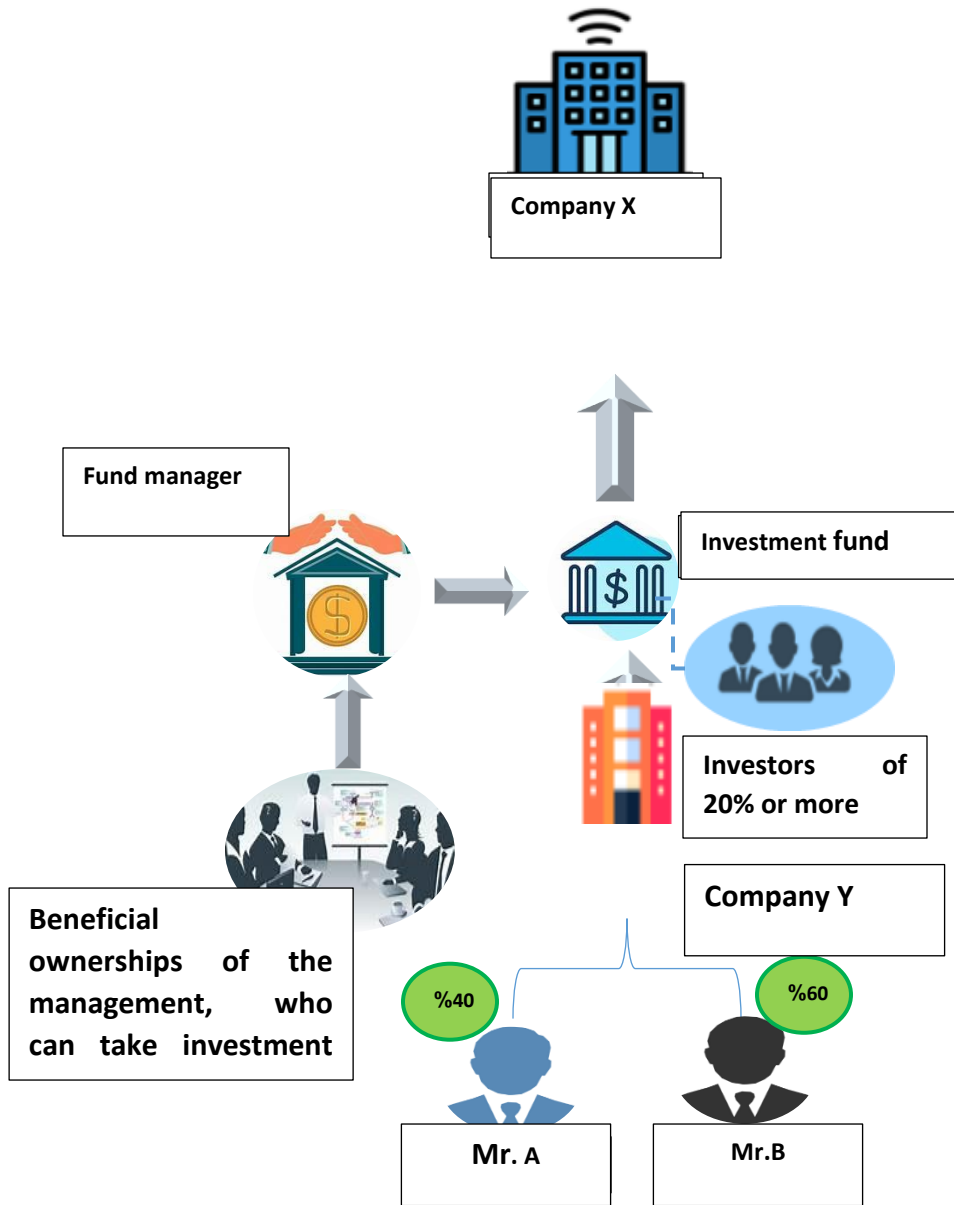
**Thus, beneficial ownerships of company X are:**

- **The protector and beneficiaries of the trust, and they are all individuals.**
- **Founder of the trust (settlor) and the trustees are legal persons. For this reason, it is necessary to identify the beneficial ownerships of those legal persons:**
  - **Mr. A and Mr. B are the beneficial ownerships of the trust founder (settlor).**
  - **Mr. C is the beneficial ownership of the trustee.**

**Mr. A, Mr. B and Mr. C are beneficial ownerships as well of company X.**

# Investment funds founder by a legal person

Example  
18



If the company (the legal person or arrangement) works as an investor in the investment fund with a share of 20%, then all beneficial ownerships of this company will be the beneficial ownerships of the investment fund as well.

In this example, the fund investors (20% or more) and the fund's board of director, all those who control the investment fund assets and take investment decisions are the beneficial ownerships of the investment fund and the beneficial ownerships of the company X.

Company Y is an investor in the investment fund, which owns more than 20% of the fund assets. Since Mr. A and Mr. B (beneficial ownerships of company Y) are as well the beneficial ownerships of the fund and the beneficial ownerships of company X.

## **Anne 3**

### **Types of misuse of legal persons and Legal arrangements**

The main typologies used by criminals to conceal the beneficial ownership can be classified in three main ways:

- Establish ownership and control structures by using legal persons and legal arrangements, especially when incorporated in many countries.
- Use individuals (professional intermediaries) and financial tools to conceal the relationship between the beneficial ownership and assets, including bearer shares, nominee shareholders and professional intermediaries.
- Counterfeit activities by using fake loans and invoices and misleading names and terms.

### **Establishing complex ownership and control structures**

The main way used to conceal the beneficial ownership by using a legal person and legal arrangement, aiming to alienate the beneficial ownership from certain assets through a chain of complex ownership. Adding many ownership layers between an asset and the beneficial ownership and incorporate that in many countries, using different types of legal structures, can prevent and complicate the linkage between the asset and finding the beneficial ownership.

As stated previously, complex ownership and control structures is not considered illegal by itself, as companies' structures in most cases serve legal

purposes, and facilitate a wide range of commercial activities and pioneer enterprises and investment projects and manage personal financial matters.

In spite of this fact, such structures can be used to conceal the beneficial ownership and tax evasion, and conceal sources of wealth and laundering criminal proceeds. Complex structures are used as well in fraudulent investment schemes, such as creating a new company to continue the business of a company intentionally liquidated to avoid fulfilling its liabilities, including tax evasion, debtors and employees' merits or advantages of other parties, and other types of fraud.

### First: Shell Companies:

Shell companies are defined as being a company used as a tool to pass transactions without maintaining any assets, or practice certain activities, even if it was registered. It is also known as "companies without any business or operations or assets or relevant properties". The aim of these companies might be legitimate as using it as a tool for companies merging, or protecting the company name from being used by another party.

In spite of the legitimate uses of shell companies, they are considered the most common legal person exploited in plans and structures designed to conceal the beneficial ownership.

It might be difficult to detect shell companies, as its incorporation is not different, in many cases, than other companies in general. However, there are many characteristics and indicators that might lead that it is a shell company such as (using only an address and post box, and a number of employees not suiting the supposed number of personnel, or having one employee only, or lack or no tax or social security payments). Such features represent significant points to be taken into consideration when starting a business relation with companies that look to be unreal.

Using shell companies within the complex companies' structures, aiming to conceal the beneficial ownership is considered a fixed method used by

criminal groups and corrupt individuals and accomplice professionals always. There is an increased need to pay attention to such companies, as shell companies owned by foreigners is increasing, and is more possible due to the growing commercial international relations.

### Second: shelf companies:

These are existing companies and was practicing business routinely, however its activities stopped or highly decreased. Theoretically, selling shelf companies provide investors or those who plan for a new project the potential to secure the company structure within hours to fulfill an urgent need or goal.

Since shelf companies used to perform actual functions for many years, the new owner can use the company's history to secure business relationships or work lines. Some shelf companies has already started relationships with financial institutions, which facilitate access of the international financial system.

When a shelf company is sold, inactive shareholders transfer their shares to the new owner and managers resign. As a part of the transfer process, the buyer has the right to receive the credit record of the company if any, and sometimes directors continue working in the company as nominee directors, especially when a shelf company is created and sold by a companies' service provider or trust companies. In such cases, the only clear change is changing the legal ownership. However, this legal ownership change will not be clear unless it was correctly registered in the company's registry and the registry of competent authorities.

### Third: Front companies

These are companies working in its full potential and have assets, revenue and expenditure, in addition to other features lined to operating a legitimate business. Any active company can be a front company, but the most common form of front companies is customer service (such as restaurants, gas stations or beauty salons), since such activities deal usually with cash. Front companies can be used to launder criminal proceeds by integrating illicit



funds with the legal income. After that funds can be deposited in the company bank account to be used by the beneficial ownership (in case the beneficial ownership is also the business owner), or fraudulent invoices value might be paid to transfer the funds to the beneficial ownership. Unlike many money laundering operations, where criminals attempt to conceal their illegal wealth, and avoid paying taxes on this wealth, criminals who use front companies do pay the required tax on the company from the illicit income to increase the legitimacy of the wealth and the source.



Front companies are not always those who working cash based sectors, as with the development of digital economy these days, front companies can take any income- generating from, with income flowing from different sources.

#### Fourth: dividing companies' incorporation and asset managements over many countries.

The ability of legal persons to start and manage banking relationships in different countries is another weakness exploited usually to conceal the beneficial ownership. Keeping accounts outside the country is a significant and legitimate method to practice business in the international markets. However, it is very difficult for subject entities to take due diligence required on foreign companies. In addition, dividing asset management and incorporation among many countries will hinder verification of the company's purpose and its structure of ownership and control, and the purpose of transactions, especially identifying the beneficial ownership of the company.

#### Fifth: Trusts and legal arrangements

Trusts and legal arrangements can be used to enhance concealment of the beneficial ownership by adding an extra layer of complexity and separate the legal owner and beneficial ownership from the asset. Since trusts are known for separating the legal ownership in one hand, and asset control on the other, this means that different persons might be owning the trust, while

benefiting and controlling the fund at the same time, according to the trusts law, and the provisions of the trust establishment deed.



In some countries, trusts law allows the settlor and beneficiary (and the trustee sometimes) to be the same person.

Some trusts are characterized by the presence of appointment powers exercised by the settlor, in addition to the fact that the loans owed to the trust are repaid upon request (by the settlor or others), which leads to concealing the identity of the trust controller, and the process of concealment of identity provided by trusts and legal arrangements similar to trusts can present a challenge to financial transparency.

### **Use of individuals (professional intermediaries) and financial instruments**

In addition to creating complex ownership and control structures, criminals often use additional technologies to disguise the relationship between themselves and their assets. This may be done by creating a false or misleading picture of the actual ownership and control structure. The methods often used to achieve this include using of nominee shareholders and professional intermediaries. Other techniques such as the use of bearer shares and announcing a group of beneficiaries can also be used, but these are less common.

**First: Bearer shares certificates and bearer shares:**

Bearer shares are company shares that are in the form of a warrant and are legally owned by the person who possesses this warrant, and the ownership and control of bearer shares can be exchanged and controlled in an

anonymous way between the parties through a physical exchange, where documentation or reporting of any exchange is not required.

Since it is difficult to accurately ensure and control the owner of the bearer shares at all times, identifying the beneficial ownership of the legal persons who are controlled through bearer shares is almost impossible. Therefore, bearer shares and bearer shares warrants have been recognized as posing a significant money-laundering risk, especially with regard to concealing the beneficial ownership. This risk is reflected in FATF Recommendation (24) which requires member countries to take measures to prevent the abuse of bearer shares and bearer shares warrants.

In most countries, bearer shares have been reconstituted or canceled entirely by dematerializing the bearer shares certificate and making it into a computerized register or book of shares. As a result, the spread and use of bearer shares and bearer shares warrants has decreased significantly in recent years, and it should be noted that this type of shares does not exist in Jordanian companies.

## Second: nominee shareholders and directors (formal)

A nominee shareholder is the one who owns shares on behalf of others. As for the nominee director, he is the director appointed to the company's board of directors to represent the interests of whomever appoints him in the board and who performs the management work on behalf of others.

Legally, the nominee shareholders are responsible for the operation of the company and accept the legal obligations associated with the management or ownership of the company. However, in some cases, the nominee shareholder may hold the position of director or nominee shareholder on behalf only of another person, and the necessary arrangements are made through a trust arrangement or civil contract between the director or nominee shareholder on the one hand, and the director or actual shareholder on the other. It should also be noted that this type of shareholders and directors does not exist in Jordanian companies either.

### Nominee shareholders and directors (informal)

Informal shareholders and directors perform the same job as their formal peers, the difference is that their relation with the actual shareholder, director or owner usually is personal and not professional, and is not subject to any written agreement. The most common relations are marriage, children and other family ties, and business partnership (subject to the actual owner or controller of that company) and others.

On the international level, there were cases when foreign students and tourists are being convinced or forced to start companies on behalf of third parties in return for small amounts of money or other personal advantages sometimes. Such individuals are being registered as controlling managers or shareholders in these company, however they rarely participate in the company after establishment.



Informal nominee shareholders are more likely to claim to be the actual owners of the legal person or arrangement in an effort to preserve the image of the beneficial ownership. For this reason, they are often referred to as front person.

Also, cases of using stolen identities to establish legal persons have previously been recorded. In these cases, the victim of identity theft is ostensibly an unofficial nominee shareholder of the created legal person, albeit without his knowledge or consent.

### Third: Disclosing many beneficiaries

In some cases, many beneficiaries are disclosed on one account. This process aims to confuse subject entities and conceal the nature of operations executed through this account.

### Fourth: using professional intermediaries

The use of professionals and professional intermediaries, including lawyers, accountants and service providers, is an essential feature of money laundering and the broader organized crime environment.

Professional service providers greatly enhance the ability of criminals to engage in complex money laundering patterns to conceal, accumulate and transfer wealth generated by criminal activities. As a result, countries sometimes assess professional intermediaries as being at high risk of money laundering.

### **Fraudulent activities, use of fake loans and invoices**

In contrast to incorporating complex ownership and control structures and the use of individuals and financial tools to conceal the relationship between the beneficial ownership and assets, which can serve both legitimate and illicit businesses, some of the methods used to conceal the beneficial ownership are considered purely criminal.

These methods are designed to give an illusion of activities aiming to commit a crime. The use of fake loans and invoices to fraudulently conceal the beneficial ownership of the transaction is the most common of such methods, and other methods have been identified, including manipulation of subscription prospectuses and annual reports issued to companies, but they are less used.

#### **Using fraudulent loans and invoices**

Using fake loans is a common way used to conceal the beneficial ownership of the wealth and assets. This method namely “loan recovery” or the so called “round-robin” mainly sending the money to companies owned or controlled by the same person or who represents him, and then returned under a loan coverage. Usually fake invoices are used to support different types as a cover of the loan.

#### **Manipulating prospectus and annual reports of the company**

While anonymity fraud is the most common way for natural persons to conceal their actual identity, it is also possible to conceal the actual activity

and actual purpose of legal persons. Many AML/CFT regulations allow simplified due diligence procedures for companies listed on the regular market as they are subject to transparency requirements. Therefore, criminals may attempt to manipulate the prospectuses and annual reports of companies they control and then list them in global financial markets to take advantage of simplified diligence requirements, and to support future activities aimed at concealing the beneficial ownership, including using the company as a "front company".

## Anne 4

### Suspicious indicators in attempting to conceal the identity of a beneficial ownership

**Note that indicators stated in this annex are presented as examples only and do not reflect all potential indicators**

For more examples please refer to the ownership concealment examples and indicators determined through the study conducted by FATF and Egmont group, by analyzing many practical cases and discussions with Financial Intelligence Units, competent authorities and the private sector.

In case any such indicators prevailed, the subject entity should study the business relationship and transaction in a more comprehensive manner, to verify whether its suspicions are justified in the context of transactions and client profile. In case suspicions continue, the business relationship should be rejected or terminated, and consider reporting to the Anti Money Laundering and Counter Terrorist Financing Unit according to the defined reporting requirements stipulated in legislations in force, especially in case of sufficient data of suspicions are available.

## Suspicion indicators related to a natural person representing a legal person or legal arrangement

1. Reluctance to provide information under the pretext of confidentiality and legal impediments, aiming to prevent identifications of the parties and the beneficial ownerships.



AML/CTF requirements do not accept any negotiation regarding the transparency level and understand the risks a client represents. Accordingly, in this case, any business relationship should not be established or continued in the event of failure to comply with these requirements, regardless of the potential or actual gain that may arise from the relationship.



2. Unwillingness or inability to clarify some company related details such as:

- Commercial activity and company history.
- Identity of the beneficiary ownership of the company.
- Source of his funds and wealth.
- Why the company performs activities in a certain way.
- Who the company is dealing with.
- Nature of company dealings with third parties (especially third parties in foreign countries).



3. Demonstrate limited commercial knowledge by a person, despite the great interest (share) in the legal person.



This may also be related to noting that there is a reluctance to disclose any information and the process may be cancelled, or the person may not be aware of all this information, which suggests that it may be just a front for others. In such cases, a suspicious report is considered to be submitted to the AML/CTF Unit, even if the deal has not been concluded or has expired, as the case may be.

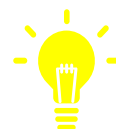


4. Provide fraudulent records or documents.
5. Insists to use an intermediary (a lawyer for example) in all transactions, and avoid personal contact with the reporting entity without a sufficient justification.
6. Provide justifications that focus on a tax decreasing strategy.



Some of the explanations provided is tax evasion, and here it becomes necessary to remind that tax evasion is a crime sanctioned by law.

Justifications provided may be a suitable fake story, which is unreal, aiming to attract attention away and conceal the beneficial ownership and the effective controller.



7. Representing the company by foreign individual who do not have many activities in the countries where they provide professional or financial services.
8. Authorize employees to sign the company's accounts without having a clear relation to the company.
9. Conduct financial activities and transactions that do not align with the client's profile and their identity and what the entity is aware about the previous client transactions.
10. Declare an income that does not align with the assets or transactions or the life style of the company representatives.
11. Ask to use shortcuts or fast transactions excessively, even where there are risks or unnecessary commercial expenses.



12. Provide a power of attorney for shareholders to a person from the same family.
13. The company representative is a politically exposed person (PEP), or has family or professional relations with such a politician.



It requires searching for any negative information about these persons (whether they have been convicted of fraud, tax evasion or serious crimes) from various sources, such as domestic available information from media reports, information available on the Internet and commercial databases provided by private software companies.



# Indicators of suspicion linked to a legal person or legal arrangement

## First: Indicators linked to the registration, incorporation and the domicile of a legal person or legal arrangement

### 1. Indicators linked to establishment of legal persons or legal arrangements:



- Was established or incorporated in a high risks country for money laundering or terrorist financing.
- Was established or incorporated in a country with low taxes or international trade or a financial center.
- Was established or incorporated in a country that doesn't comply to report beneficial ownerships of companies with the central registry.

### 2. Indicators linked to registering legal persons or legal arrangements:



- Registered in a name irrelevant to the company activity.
- Registered in a name that indicates a company practicing activities or services not provided by the company.
- Registered in a name that seems as simulating names of other companies, especially multinational high level businesses.
- Registered with an address that does not match with the company identification information.
- Registered in an address that cannot be located in digital maps (such as Google maps).
- Registered in an address used by many other companies or legal arrangements (indicating that one person is managing a number of shell companies).

### 3. Indicators linked to shell companies

- No real commercial activities practiced.
- No employees (or one employee only).
- No physical existence.
- Changing the address repeatedly without a clear commercial justification.
- Doesn't pay any taxes or pensions or social security payments.
- Describe themselves as a commercial company thus cannot be found on the internet or social media.
- Used informal email and does not reflect the company name (such as Hotmail or Gmail or yahoo etc.).
- Limit the work of a legal person to facilitating cross border transactions without any clear income or revenue (indicator that transactions flow through the company in a short time).



### Second: Indicators related to the structure of ownership, management and authorized signatories for the legal person or legal arrangement:

- Inability to define the location and contact of the manager or the shareholder or controller of the company.
- Absence of an active role of the manager or shareholder or controller in the company.
- List the manager, shareholder, controller or beneficial ownership with accounts of other legal persons or arrangements, which indicates using professional people to perform this role.
- Disclose a large, unusual number of beneficiaries and those with influencing interests.
- Mandate many signatories without a sufficient or commercial justification.
- The ownership structure contains a number of shareholders, where each has a share a bit less than the threshold of initiating enhanced due diligence procedures.
- Many changes occurring on the ownership or management structure within short time limits.



- Family members who have no role or participation in the business are listed as beneficial owners of legal persons or legal arrangements.
- Assign members of intermediate companies as managers.
- Resignation and replacement of members of the Board of Directors or key shareholders after a short time of incorporation.
- Changing officials or members of the Board of Directors repeatedly without a suitable justification.
- Complex structures of companies that do not require that level of complication or doesn't have a commercial meaning.

**Third: indicators linked to transactions and relationships of a legal person or legal arrangement:**



**1. Relationships with intermediates:**

- Creating simple banking relationships using professional intermediaries.
- Create relationships with foreign intermediates despite of lack of actual commercial relations in the intermediates' countries.
- Partner with a professional intermediate without a justifiable reason or clear justification.

**2. Transactions of legal persons or legal arrangement:**

- Receiving large amounts of capital funding directly after incorporation, to be spent or transferred to another location within a short timeline without a commercial justification.
- Lack of activities after the incorporation, followed by a sudden unjustified increase in financial transactions.
- Unjustified use of proxy or other authorizations (using representing offices for example).
- Unjustified use of trusts or contradicted or unjustified relations between the trustee and beneficiaries.



- Issuance of many international transfers where the beneficiary is the legal person or legal arrangement itself.
- Maintain a close to zero bank account credit, despite the incoming and outgoing repeated transaction.
- Practice work by using accounts opened in other jurisdictions different than the jurisdiction where the company was registered.
- Obtain funding provided from a lender (a natural person or legal person, but not an institution known for providing credit), without a logical or commercial justification.
- Obtain loans from third parties from the private sector without supportive loan agreements or warrants or regular interest payments.

#### **Fourth: Transactions related indicators**



- The transaction takes place between two or more parties without any clear or logical commercial business.
- A commercial transaction including the members of one family member or more without a legitimate commercial reason.
- Large and repeated transaction and the executive client is one of the signatories on the account, but not listed to own a controlling share in the company or assets.
- When a transaction is executed from a commercial account but seems to fund private purchases, including purchase of assets or recreational activities that do not align with the company profile.
- When it is regularly apparent that (incoming and outgoing transactions are similar in size and sent to and received from the same account, which indicate the return of outgoing funds with a low loss – known as well as round-robin).
- Transfer the funds in two directions between the client and a professional intermediary for similar amounts.
- When there are two legal persons with similar managers, shareholders or beneficial ownerships.
- When the transaction includes complex trajectories of transactions without sufficient explanation or commercial records.

- When a real estate ownership is conveyed from a natural person to a legal person in a selling process outside the market.
- Using large cash payments in many times to repay a loan or mortgage.
- When the transaction is related to obtaining licensing agreements or agency among the companies owned by the same person.
- Purchasing high value goods in cash.
- Loans or mortgage are repaid before the due date, which leads to a loss.

