



SUPERVISORY GUIDANCE ON BENEFICIAL OWNERSHIP

Capital Market Authority (CMA)



Introduction

1. This guideline aims to assist Financial Institutions subject to CMA supervision to understand their obligations related to the identification and verification of beneficial owners in accordance with AML/CFT law of KSA. The guideline aims to serve as a practice resource for Supervised Entities on how to effectively implement CDD requirements related to beneficial ownership. This Guideline considers standards and guidance issued by the Financial Action Task Force (“FATF”) and industry best practices. These are not exhaustive and do not restrict supervised entities' actions to fulfil their legal obligations within the current legal and regulatory framework.

2. Numerous reports acknowledge the money laundering (ML) and terrorism financing (TF) risks associated with Legal Entities and Legal Arrangements. Corporate Vehicles, including companies, trusts, foundations, and partnerships, engage in diverse commercial activities globally. Despite their mostly legitimate economic role, these entities are still also susceptible to misuse in complex schemes aimed at concealing true beneficial ownership and the underlying reasons for holding assets. Illicit activities, such as money laundering, bribery, corruption, insider trading, tax fraud, terrorist financing, and sanctions evasion, can be facilitated by manipulating corporate vehicles.

3. A common method of misuse is the utilization of legal persons and arrangements to conceal ownership and control rights. By creating a legal entity or legal arrangement, a criminal can create a layer of distance between himself and his/her illicit assets to complicate their detection and hinder any criminal investigations. While many companies are legitimate, the outlined scenario can be exploited to evade tax obligations, conceal illicit funds, and to facilitate money laundering.

Concept of Beneficial Ownership

4. The definition of beneficial ownership is enshrined in Article 1/15 of the AML Law which defines BO as: Any natural person who ultimately owns or exercises direct or indirect control over a customer or on whose behalf a transaction is being conducted, including on the FIs or DNFBPs or NPOs or any other legal person.
5. Additionally, Implementing regulation in Article 7.2 defines beneficial owner
 - a) For a customer that is a legal person, a financial institution or designated non-financial business and profession shall identify and take reasonable measures to verify the identity of the natural person who ultimately owns or controls 25% or more of the legal entity’s shares.



- b) Where no controlling ownership interest exists as stipulated in the previous para (1), or there is doubt whether the controlling shareholder is not indeed the beneficial owner, the identity of the natural person exercising control of the legal person through other means; or, as a last means, the identity of the natural person who holds the position of senior managing official, and verify it.
- c) For a customer that is a legal arrangement, a financial institution or designated non-financial business and profession shall identify and take reasonable measures to verify the identity of the endower, beholder, the beneficiaries or classes of beneficiaries, and any other natural person exercising ultimate effective control over the legal arrangement.

6. FIs should differentiate Beneficial ownership from legal ownership. Legal ownership means the natural or legal persons who own the legal person. The definition of the beneficial owner extends beyond legal ownership and considers the notion of ultimate (actual) ownership and control. Additionally, identifying entity shareholders alone does not always reveal the beneficial owners, as shareholders may include other legal entities.

7. It is important to note the beneficial owner is the natural (not legal) persons who actually own and take advantage of capital or assets of the legal person; as well as on those who really exert effective control over it (whether or not they occupy formal positions within that legal person), rather than just the (natural or legal) persons who are legally (on paper) entitled to do so. Additionally, even if shareholder information involves natural persons, it may not account for those who exert control without being shareholders or those who control a legal entity based on the type of shares they possess, distinct from ownership thresholds.

Obligations related to the identification and verification of Bos

8. Criminal enterprises often attempt to conceal true ownership and control, making identification and verification challenging. The obligation lies in determining the individual(s) serving as beneficial owner(s), emphasizing that a beneficial owner is always an individual, not a company or organization. Customers may have multiple beneficial owners, necessitating identifying and verifying all individuals holding this status.

9. The critical task is to identify and verify the beneficial ownership arrangements of customers. Understanding who the beneficial owner(s) are enables informed decisions regarding the associated risks of money laundering and terrorist financing. This includes FIs' obligations to:

1. Understanding the ownership structure of the customer
2. Identifying Beneficial Owner



3. Verifying Beneficial Owner

10. As a first step, FIs should identify the ownership structure of the customer. The ownership structure serves as a foundational element, guiding the selection of appropriate measures for customer due diligence. Additionally, it provides insights into the complexity of the customer's ownership arrangement.

11. Understanding whether the customer is directly owned, indirectly owned, or involves intricate legal entities or arrangements in the ownership chain is crucial. This initial assessment enables FIs to categorize the customer's risk level accurately.

12. As a second step, In order to identify a Beneficial Owner, FIs should start by determining if there is any natural person who owns the customer, if no direct or indirect ownership is determined, FIs should identify who controls 25% or more of (i) shares or (ii) voting rights of the Legal Person. The following Diagram illustrates the Key Elements to Identify Beneficial Owner Natural Person.

13. In accordance with the Risk-based approach, FIs are authorized not to apply the requirement to identify the beneficial ownership to companies whose securities are admitted to trading on a regulated market and which are subject to disclosure obligations in accordance with European Union law or subject to equivalent international standards guaranteeing adequate transparency of the information relating to the ownership of the capital.

14. To summarize, FIs should:

- a) To identify the natural persons who ultimately have a controlling ownership interest in a legal person. This means to identify natural persons who own 25% and more .
- b) To the extent that there is doubt as to whether the persons with the controlling ownership interest are the beneficial owners or where no natural person exerts control through ownership interests, the identity of the natural persons (if any) exercising control of the legal person through other means.
- c) Where no natural person is identified, supervised entities should identify and take reasonable measures to verify the identity of the relevant natural person who holds the position of senior managing official.



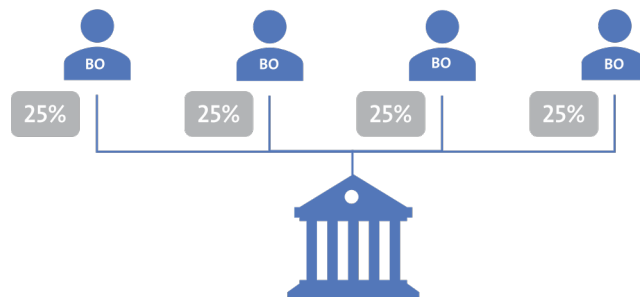
Direct and Indirect Ownership to identify BO

15. In the chain of identifying natural person beneficial owners, the first step for the FIs is to determine whether the customer is directly or indirectly owned by a natural person(s).

16. It is possible for ownership to be split into parcels of 25 percent or less, but relationships between the parties may give an individual aggregated ownership of the customer that amounts to more than 25 %. This considers individuals who directly or indirectly hold a minimum percentage of ownership interest in the legal entity.

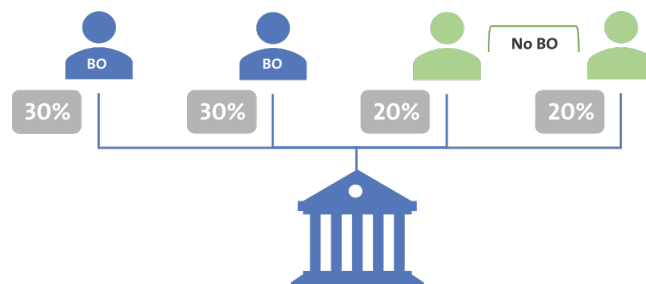
Example 1

17. This example illustrates simple direct ownership, where the entity is owned by four natural persons.



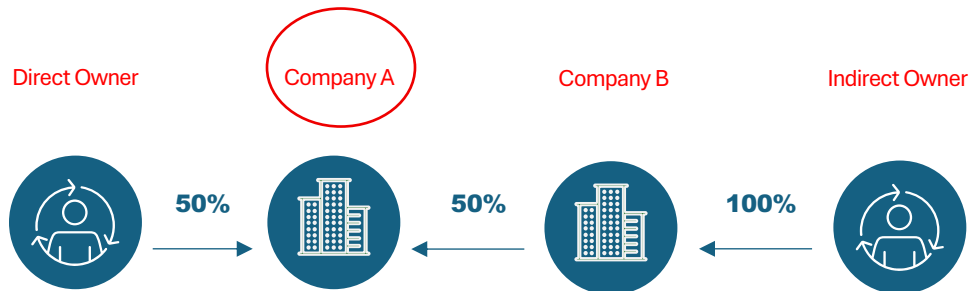
Example 2

18. This example illustrates that there are 4 natural persons who are the direct owners of the customer, however only 2 natural persons own 25% and more of the entity.



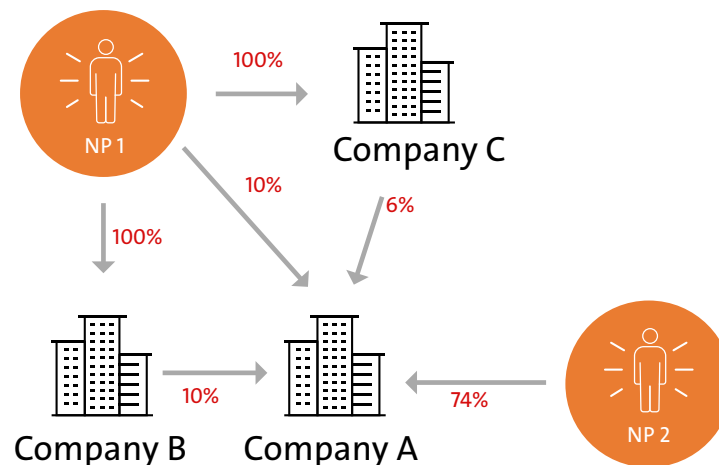
Example 3

19. This example illustrates simple structure of direct and indirect ownership, where the entity is owned on the one hand by the natural person directly and on the other hand by the natural through another legal entity.



20. As part of the ownership test, FIs should calculate the percentage of ownership. Where the proportion of capital held must be determined via several successive levels of indirect ownership, the total percentage of capital ultimately held by each individual is the mathematical result of these different proportions held indirectly - a weighted calculation of the percentages of capital shares held. In this illustrated case, the indirect owner holds 50% of the Company A ($100\% \times 50\% = 50\%$).

Example 4 – Aggregated Ownership



21. This example illustrates that natural persons may hold ownership interests in a legal entity both directly and indirectly. It is essential that all such interests are identified, calculated, and aggregated. The ownership



percentages must be summed across both direct and indirect holdings to ensure that the total ownership stake of each natural person is accurately established. This approach guarantees that individuals who exercise significant ownership through combined interests are properly identified as beneficial owners. It shows that Natural Person 1 has direct and indirect shareholding in Company A. When aggregated the total shareholding amounts to 26% therefore the individual is to be considered as the beneficial owner of Company A together with Natural Person 2.

Concept of Control

22. When there is no direct or indirect ownership of more than 25% identified, FIs are required to identify a natural person who exercises ultimate control of the customer.

23. The concept of control refers to the ability to take relevant decisions within the legal person or arrangement and to impose those decisions. It is important to distinguish between acting on behalf of the customer and having effective control over them. Understanding the customer's management and governance structure aids in identifying individuals with effective control. When determining the effective controller(s) for non-individual customers, considerations should include individuals who can control the customer, appoint or dismiss senior management, those holding over 25 percent of voting rights, individuals in senior management positions (e.g., CEO), and trustees where applicable. This comprehensive approach ensures a nuanced understanding of beneficial ownership involving effective control.

24. The following cases are examples of natural persons who could be considered as beneficial owners on the basis that they are the ultimate owners/controllers of the legal person, either through their ownership interests, through positions held within the legal person or through other means:

- a) Shareholders who exercise control alone or with other shareholders, including through any contract, understanding, relationship, intermediary or tiered entity. This approach focuses on shareholders who, alone or collectively, exercise control through contracts, understandings, relationships, intermediaries, or tiered entities. It includes indirect control, which may extend beyond legal ownership through corporate vehicles and nominees.
- b) Control through Personal Connections: This involves individuals who control a legal entity due to personal connections with individuals in positions of ownership or influence.
- c) Control without Ownership: Natural persons can exert control without ownership by participating in the enterprise's financing or having close family relationships, historical or contractual associations. Control

may be presumed even if not actively exercised, such as benefiting from the assets owned by the legal entity. Indirect control can be identified through shareholder agreements, the exercise of dominant influence, or the power to appoint senior management. Shareholders may collaborate to enhance control through formal or informal agreements, including the use of nominee shareholders.

- d) Control through Positions Held: Identification of individuals responsible for strategic decisions affecting the entity's practices or direction, such as directors or executives, is crucial. Directors may or may not actively control the entity, and their information may be limited if nominee directors represent unidentified interests.
- e) Executive Control: Natural persons exercising executive control over daily affairs through senior management positions like CEO, CFO, managing/executive director, or president are essential. These individuals hold significant authority over financial relationships and ongoing financial affairs of the legal entity, including dealings with financial institutions holding accounts on behalf of the entity.
- f) Power to appoint the majority of senior management: Control over a legal person may be exercised if an individual has the power to appoint the majority of senior management directly or indirectly.
- g) Control through informal means: control over a legal person may be exercised through informal means, such as through close personal connections to relatives or associates. Further, when an individual is using, enjoying or benefiting from the assets owned by the legal person.
- h) trustees (where applicable).

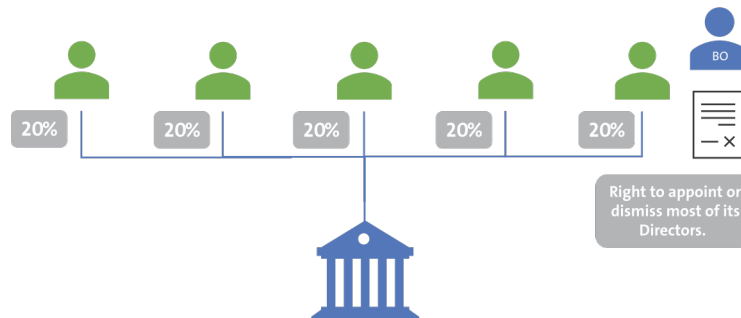
25. The following Diagram illustrates notions of Control based on which a natural person should be considered as a beneficial owner.



Source: OECD Building Effective Beneficial Ownership Frameworks: A joint Global Forum and IDB Toolkit



12. **Examples 5** illustrates a case where an entity has no beneficial owners based on ultimate control rights, but where an external natural person qualifies as beneficial owner based on the fact that this person can appoint or dismiss the entity's directors despite not having any ownership rights in the company.



Verifying the Identity of the Beneficial Owner

26. FIs should consider whether the information provided regarding the beneficial ownership is adequate to establish the beneficial owner's identity and can be considered to meet the legal requirement of being "reliable, independent source documents, data, or information."

27. Adequate information to identify a beneficial owner includes, for example, the full name, nationality or nationalities, the full date and place of birth, residential address, nationality, national identification number and document type.

28. Beneficial ownership information should be verified to determine whether it is accurate. The degree of verification should be based on a risk-based approach. Simple corporate structures would require verification that the documents presented are authentic and valid. More complex ownership structures require more sources for verifying the information presented, including a greater focus on the types and the veracity of the documents provided to establish a beneficial owners' status (for example, shareholder documents and other agreements providing natural persons with control over the legal entity or the legal arrangement).

29. For complex corporate structures, documents that may help to verify the beneficial ownership may include: a certificate of incorporation of a company, an extract of a shareholder registry showing ownership, a trust deed, a partnership agreement, the constitution and/or certificate of incorporation for a legal entity, any nominee agreement that shows who exercises real control behind a shareholder arrangement, a shareholders' agreement that shows a natural person controlling the shares of more than one shareholder, effectively giving control, documentary evidence that a natural person is able to exercise a dominant influence over a legal person, documentary evidence that a natural person has the power to appoint senior



management, documentary evidence (for example, an employment contract) that a director or employee can influence a legal person, or documentary evidence of exercise of dominant influence over the transactions of a legal entity/arrangement.

30. The list is not exhaustive but illustrative. The more complex or opaque a complex corporate structure is, and the less plausible or explainable the need for its existence, the more verification steps should be undertaken until the FI is satisfied it knows who the true beneficial owner(s) are.

31. The table below illustrates examples of entities and types of beneficial owners and documents they have to provide to identify and verify the beneficial owner.

Examples of Beneficial Owners Per Type of Legal Person		
Type of Legal Entity	Type of Beneficial Owner	Type of Documents to Identify and Verify
Joint Stock Company	<p>Natural persons who directly or indirectly hold more than 25% of shares or voting rights.</p> <p>Where no natural person is identified under ownership or control, the Senior Managing Official (e.g., CEO, Chairman of the Supervisory Board) is considered the beneficial owner.</p>	<p>Certificate of Incorporation Certificate of Registration Articles of Association</p>
Partnership	<p>Partners</p> <p>Where the partnership agreement specifies unequal roles, the beneficial owner(s) are those with a controlling ownership interest (>25% profit share or voting rights) or those who otherwise exercise effective control.</p>	<p>Partnership Agreement (outlining partners, profit shares, management powers). Registration Certificate/Extract from the Commercial Register (where applicable).</p>
Limited Liability Company	<p>Natural persons who directly or indirectly own more than 25% of the shares or voting rights.</p> <p>Where no individual exceeds the threshold, beneficial owners are those with effective control (through agreements, influence, or senior management positions).</p> <p>If still unclear, the Senior Managing Official (e.g., Managing Director or</p>	<p>Articles of Association / Memorandum of Association (detailing shareholding). Share Register or Commercial Register Extract confirming share distribution. Incorporation Certificate from the authority/company registrar.</p>



	CEO) must be recorded as the beneficial owner.	Identification documents of shareholders and senior management.
Unlimited Liability Company	All members/owners are considered beneficial owners, as each is personally liable without limit.	Articles of Association or Partnership Deed (depending on jurisdiction). Commercial Register Extract (listing all members). Certificate of Incorporation. Identification documents of all members.
Limited Partnership Company	General Partners: Always considered beneficial owners because they manage the business and assume liability. Limited Partners: Those with >25% capital contribution or voting rights are beneficial owners. Control can also be exercised by contractual rights (e.g., veto rights, right to appoint managers), even where liability is limited.	Partnership Agreement (detailing general and limited partners, capital contributions, management powers). Commercial/Company Register Extract. Certificate of Incorporation/Formation.
Funds	Fund Managers, Fund Sponsor, General Partner, Fund Provider, Fund Administrator.	Certificate of Incorporation or Registration
Associations	Senior Management or Executive Board	
Limited Liability Partnerships	Members, Senior/Executive Management board	Certificate of Incorporation Certificate of Registration Articles of Association Minutes of Board Meeting
Limited Partnerships	General or limited Partners	Certificate of Incorporation Certificate of Registration Articles of Association Minutes of Board Meeting
Publicly listed Companies	Chairman, Chief Executive Officer, Managing Director, Chief Financial Officer, Finance Director, Chief Operating Officer	Certificate of Incorporation Certificate of Registration Articles of Association Annual Report
Sole Trader	Proprietor	



Special Purpose Vehicles	Legal owner of Assets or Partner Senior Executives or Board Members such as Chief Executive Officer, Chief Financial Officer, Chief Operating Officer or persons who hold similar senior control positions	Legal Agreement Establishing an SPV
Trusts	Trustees, Beneficiaries, Protector(s) and Settlor(s) of the Trust/Foundation	Trust Deed Trust Registration Document
NPOs	Senior individuals within the organization	Charter Registration form Minutes of the Meeting
Cooperatives	Senior individuals within the organization	Registration form Board Meeting Minutes
Government Bodies	Senior officials of the organization	Government decision to establish the organization
Government linked Enterprise	Senior officials of the institution	Shareholder's Resolution Joint Venture Resolution Register of Members
Waqf	Endower - The individual who creates the Waqf and contributes assets. Individuals or groups who benefit from the Waqf, either explicitly named or defined by a class of beneficiaries.	MoJ Registration Document

Ongoing Monitoring for Identifying Beneficial Owners

32. The ongoing monitoring of beneficial ownership is crucial for accurately identifying the individuals who ultimately control or benefit from an entity. Over time, beneficial ownership interests can change, particularly in complex corporate structures where shares or control rights are divided among various stakeholders and are typically exercised indirectly. New investors might take a significant role in the company, or current owners might transfer control. These changes can occur frequently, making it essential for FIs to continuously review and monitor transactions to ensure that their understanding of the true beneficial owners remains current.

33. Criminals often exploit complex ownership structures or use nominees to disguise the true controllers of an entity, making it easier for them to carry out illicit activities undetected. Without proper monitoring, these efforts to conceal ownership might go unnoticed, allowing funds to be moved illicitly without raising any alarms. Through diligent monitoring of financial flows and reviewing changes in ownership, institutions can



identify irregular patterns such as unexpected transactions, transfers to high-risk countries, or discrepancies in ownership records and actual activities taking place. Detecting such anomalies early can help prevent the misuse of the financial system for illegal activities.

34. In line with FATF standards, FIs must adopt a risk-based approach to customer due diligence (CDD), which includes the need for ongoing monitoring. Entities identified as higher risk should be subject to more frequent and detailed scrutiny. This allows institutions to adjust their CDD measures based on the evolving risk profile of a customer or beneficial owner, ensuring that any emerging risks are addressed promptly.

35. Additionally, continuous monitoring is vital for mitigating the risks associated with money laundering and terrorist financing. It allows institutions to detect unusual transactions, whether they be large transfers or a series of smaller transactions designed to avoid detection (commonly known as structuring). These irregularities can prompt further investigation or reporting to authorities, potentially preventing the completion of illegal financial activities.

36. FIs should have in place process to update ownership structure and BO information. The update is based on the customer information provided and also periodic review based on risk and trigger events. Higher risk entities should be subject to more frequent periodic update of BO information. Trigger events based on which FIs update information on ownership structure and BO should be defined by internal policies and procedures. Such trigger events could include: changes to the risk rating of the customer, Material (significant) changes in directors/management (replacement of the key function holders and/or higher management).

Recordkeeping

37. FIs are obliged to maintain records of the ownership structure and beneficial ownership during the course of their business relationship in line with AML Law and CMA regulations.



Thank You