

UBO Reporting in Multi-Layer Structures

Understanding Beneficial Ownership Disclosure Obligations in Tiered Offshore Entities

Executive Summary

Ultimate Beneficial Owner (UBO) reporting has become a global compliance priority under initiatives such as the FATF Recommendations, EU AML Directives, CRS, and OECD transparency standards. Multi-layered structures — especially those using offshore companies, trusts, or nominee arrangements — are subject to heightened scrutiny. Financial institutions and corporate service providers must now trace and disclose the natural persons who ultimately own or control the entity, regardless of legal complexity.

What Is a UBO?

A UBO (Ultimate Beneficial Owner) is defined as the natural person(s) who:

- Ultimately owns or controls more than 25% of shares or voting rights, directly or indirectly; or
- Otherwise exerts control over a legal entity, such as through contractual arrangements, trusts, or nominee structures.

The Challenge in Multi-Layer Structures

Many clients use tiered corporate structures to achieve tax planning, privacy, or operational benefits. These structures may include:

- An offshore holding company owned by another IBC or LLC
- A trust owning a company with multiple nominee directors or shareholders
- A fund or foundation with underlying subsidiaries in various jurisdictions

Each additional layer introduces opacity and compliance complexity, particularly when:

- The structure spans multiple jurisdictions with varying disclosure rules
- Intermediaries such as trustees, nominees, or protectors obscure direct ownership
- The legal form used does not clearly map onto ownership (e.g., foundations or partnerships)

UBO Reporting Obligations by Layer Type

1. Companies

- All jurisdictions with modern AML laws require UBO disclosure upon incorporation or bank onboarding.
- Entities with corporate shareholders must look through each layer until the natural person is identified.

2. Trusts

- Typically, the following are reportable as UBOs:
 - Settlor
 - Trustees
 - Beneficiaries (named or class-based)
 - Protectors
 - Any other person exercising effective control

3. Foundations and Hybrid Entities

- The founder, council members, and primary beneficiaries may be treated as UBOs depending on control.

4. Nominees and Bearer Shares

- Modern AML regimes no longer accept nominee declarations or bearer shares as valid substitutes for UBO reporting.
- Banks and regulators require disclosure of the underlying beneficial owner, with documentary verification.

CRS & AEOI Implications

Under the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI) frameworks:

- Passive NFEs (Non-Financial Entities) must disclose their Controlling Persons, which often overlaps with UBO requirements.
- Financial institutions are required to drill down through each ownership layer, regardless of legal separation.

Practical Reporting Requirements

UBO information is typically required for:

- Company formation (registry disclosure or registered agent KYC)
- Bank account onboarding
- Trustee acceptance
- Audit, tax, or regulatory reviews
- Suspicious transaction escalations

Most jurisdictions now require:

- Full name, date of birth, nationality, residential address
- Ownership percentage and control nature
- Valid identification (passport or ID) and proof of address

Common Red Flags

- Use of more than three corporate layers without clear operational rationale
- Entities with no tax residency or undefined economic activity
- Use of non-cooperative jurisdictions or secrecy-based nominee providers
- Repeated refusal to disclose natural person UBO to banks or agents

Risk Mitigation Strategies

To ensure compliance and avoid onboarding delays:

- Map and document every ownership layer from the top-level entity to the UBO(s)
- Use control-based assessment when ownership thresholds are circumvented
- Maintain an internal UBO register, even where not legally required
- Where trusts are involved, document the nature of each party's influence on the entity
- Cooperate proactively with service providers and banks in providing UBO verification files

Conclusion

UBO transparency is no longer optional — it is a precondition for banking, legal structuring, and regulatory compliance. Multi-layered entities must be fully documented and logically justified, with clear disclosure of the natural persons behind the structure. Ignoring UBO rules can lead to bank rejections, fines, blacklisting, or forced disclosure under multilateral exchange regimes.