

**Order No N-14
of 7 November 2023
of the Head of the Service for Accounting, Reporting and Auditing Supervision
Tbilisi**

Rule for Understanding the Customer's Ownership and Control (Governance) Structure and Identification and Verification of a Beneficial Owner by an Obligated Entity

On the basis of Article 20(9)(b1) of the Law of Georgia on Accounting, Reporting and Auditing, and of the Articles 4(a), 10(1)(b) and 12(6) of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, **I order:**

Article 1

The Rule for Understanding the Customer's Ownership and Control (Governance) Structure and Identification and Verification of a Beneficial Owner by an Obligated Entity shall be approved (Annex 1).

Article 2

Prior to the implementation of this Order, identification data and information (documents) obtained for the purpose of identifying and verifying the beneficial owners of customers of obligated entities shall be brought into compliance with this Rule no later than 1 March 2024.

Article 3

Within three months of the entry into force of this Order, the obligated entities shall ensure that their compliance control system complies with the requirements laid down in this Order.

Article 4

This Order shall enter into force on the date of its publication.

**Head of the Service for
Accounting, Reporting and
Auditing Supervision**

Davit Mchedlidze

Rule for Understanding the Customer's Ownership and Control (Governance) Structure and Identification and Verification of a Beneficial Owner by an Obligated Entity

Chapter I General Provisions

Article 1 - General Provisions

1. The Rule for Understanding the Customer's Ownership and Control (Governance) Structure and Identification and Verification of a Beneficial Owner by an Obligated Entity (hereinafter - the Rule) applies to accounting and audit firms, certified accountants, accountants providing professional services, and auditors providing professional services independently referred to in sub-paragraphs (b.d) and (b.e) of Article 3 (1) of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing.
2. In accordance with the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and for the purposes of this Law, this Rule defines the identification data and other information (documents) to be obtained by the obliged entity under the supervision of the Service for Accounting, Reporting and Auditing Supervision (hereinafter - the Service) for the purposes of understanding the ownership and control (governance) structure of the customer and identifying and verifying the beneficial owner, as well as the rule for recording, updating, verifying and storing the identification data and information (documents).
3. It shall be prohibited to establish or continue a business relationship, conclude or carry out an occasional transaction, if an obliged entity, in accordance with the requirements of the Georgian legislation on facilitating the suppression of money laundering and the financing of terrorism, does not understand the ownership and control (governance) structure of the customer and does not identify and verify the beneficial owner.

Article 2 - Definition of terms

1. For the purposes of this Law, the following definitions apply:
 - a) obliged entity - accounting and audit firms, certified accountants, accountants providing professional services and auditors providing professional services independently specified in sub-paragraphs (b.d) and (b.e) of Article 3 (1) of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing;
 - b) UNSCR - a resolution of the United Nations Security Council concerning the prevention, detection and suppression of financing of terrorism and proliferation of weapons of mass destruction adopted under Chapter VII of the Charter of the United Nations;
 - c) verification - obtaining information (documents) that permits the obliged entity to verify the accuracy of identification data of a person, and also satisfies the obliged entity that it knows who the beneficial owner is;
 - d) identification - obtaining the identification data of a person that permits the obliged entity to trace that person and distinguish from others;
 - e) customer - a person establishing a business relationship or concluding an occasional transaction with the obliged entity for the purpose of receiving its services;
 - f) beneficial owner - a person specified in Articles 4(1) and 4(2) of this Rule;
 - g) politically exposed person - a natural person specified in Article 5 of this Rule;

h) suspicious transaction - a reasonable suspicion that a transaction has been prepared, concluded or carried out based on proceeds of an illegal activity or for the purpose of money laundering, or that a transaction is related to terrorism financing;

i) the Service - Service for Accounting, Reporting and Auditing Supervision, a state sub-agency of the Ministry of Finance of Georgia;

j) list of sanctioned persons – the list of natural and legal persons subject to sanctions imposed by the United Nations Security Council.

2. For the purposes of this Rule, the terms used herein, with the exception of those in paragraph 1 of this Article, shall have the meaning provided in the legislation of Georgia.

Article 3 - Understanding the ownership and control (governance) structure

1. The obliged entity shall understand the ownership and control (governance) structure of the customer and identify the beneficial owner.

2. In order to understand the ownership and control (governance) structure of the customer, the obliged entity shall request information from the customer about its ownership and control structure, and then verify its accuracy on the basis of information/documentation obtained from a reliable source.

3. The information/documentation obtained by the obliged entity shall contain such information/data on each legal entity/non-registered organizational entity included in the customer's ownership and control (governance) structure as is necessary to trace the chain of ownership structure and to identify the beneficial owners.

4. In order to meet the requirements set out in paragraph 3 of this Article, the obliged entity, together with the name of each legal entity/non-registered organizational entity included in the ownership and control structure, shall obtain one of the following data:

a) identification or registration number;

b) registration date and country.

5. The process of understanding the ownership and control (governance) structure shall be carried out by using the reliable sources specified in Article 11 (2) of this Rule. For the purpose of understanding the ownership and control (governance) structure of a customer classified as having a lower level of risk, the obliged entity is authorized to use authentic reliable sources other than those identified in this Rule.

6. For the purpose of identifying the beneficial owner, an obliged entity shall thoroughly examine the entire chain of ownership and control (governance) structure of the customer.

7. The obliged entity shall be authorized to be guided by an alternative rule in the process of understanding the ownership and control structure, if the customer is one of the persons specified in the first paragraph of Article 8 of this Rule.

Article 4 - Criteria for determining the status of the beneficial owner

1. An obliged entity shall be required to identify the beneficial owner(s).

2. A customer natural person shall be deemed to be the beneficial owner unless the customer himself/herself declares that he/she is acting on behalf of or for the benefit of another person, or the customer's behaviour and/or transaction(s) give rise to a suspicion that the customer may be acting on behalf of or for the benefit of another person.

3. A natural person shall be deemed to be the beneficial owner of a customer legal person if at least one of the following three criteria is met: a natural person

a) represents a beneficial owner through the use of ownership rights (directly or indirectly owns 25% or more of the customer's shares or voting rights);

b) exercises ultimate control over the customer by other means;

c) represents a person with managerial authority.

4. A controlling person referred to in paragraph 3(b) of this Article may be a person who does not own a threshold amount of controlling shares or voting rights in the customer but who has the right to appoint and/or remove persons with managerial authority or otherwise exercise significant influence over the customer's finances and transactions.

5. A person with managerial authority referred to in paragraph 3(c) of this Article may be deemed to be a beneficial owner if he/she is authorized to take strategic decisions that influence the legal person's activity (director, chairman of the supervisory board, etc.). If there are several natural persons taking similar decisions within the company, the one with the highest hierarchy among them shall be considered to be the beneficial owner, and under conditions of equal authorities - all of them.

6. The criteria referred to in paragraph 3 of this Article shall be evaluated in the order indicated.

7. In order to identify the beneficial owner of a customer, an obliged entity shall first examine the ownership structure of the customer and determine whether any natural person meets the criteria set out in paragraph 3(a) of this Article.

8. Where it is not possible to identify the beneficial owner(s) on the basis of the criterion set out in paragraph 3(a) of this Article, the beneficial owner shall be deemed to be the natural person identified in accordance with paragraph 3(b) of this Article. In addition, if there is a reason to believe that a natural person, other than the natural person identified in accordance with subparagraph (a), exercises ultimate control over the customer by other means, the natural person referred to in paragraph 3(a) of this Article, as well as the natural person referred to in paragraph 3(b), shall be considered to be the beneficial owner.

9. The criterion referred to in paragraph 3(c) of this Article shall be applied only if the obliged entity is convinced, after having taken all possible measures, that there is no beneficial owner as referred to in paragraphs 3(a) and 3(b) of this Article.

10. A natural person may simultaneously meet more than one of the criteria laid down in the third paragraph of this Article.

Article 5 - Politically exposed person

For the purposes of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and this Rule, the politically exposed person shall mean a natural person who has been entrusted with prominent public or political functions (except for middle or low-ranking officials) and shall include:

a) heads of State, heads of government, members of government (ministers) and deputies, heads of government institutions;

b) members of legislative bodies (parliament);

c) heads and members of governing bodies of political parties;

- d) members of supreme courts, constitutional courts and other high-level judicial bodies, the decisions of which are not subject to further appeal save in exceptional circumstances;
- e) general auditors and deputies, members of courts of auditors;
- f) members of boards of central (national) banks;
- g) ambassadors, chargés d'affaires;
- h) high-ranking officers in defense (armed) forces;
- i) heads and members of governing bodies of State-owned enterprises;
- j) heads, deputies and members of governing bodies of international organizations.

Chapter II

Identification and Verification

Article 6 - Identification

1. An obliged entity shall identify the beneficial owner before entering into an occasional transaction, before establishing a business relationship, and at appropriate intervals - during the course of business relationship and whenever there is a change in the material circumstances relating to the beneficial owner.

2. Where the risks of money laundering and terrorism financing are lower, the identification of the beneficial owner and taking reasonable steps for its verification on the basis of a reliable source may as well be completed after the establishment of the business relationship, if this is necessary to avoid disruption to customer service. In such cases, the implementation of appropriate preventive measures shall be completed as soon as reasonably possible.

3. The obliged entity shall obtain the following identification data of the beneficial owner:

- a) the name and surname;
- b) the date of birth;
- c) personal number (if any);
- d) number, date of issue, issuing country, issuing agency and validity of a document confirming his/her identity;
- e) citizenship;
- f) other data in individual cases, taking into account the risk of money laundering and terrorism financing.

4. If the customer natural person is registered as a individual entrepreneur, in addition to the identification data specified in the third paragraph of this Article, the obliged entity shall also obtain the following data:

- a) taxpayer's identification number;
- b) registered address;
- c) registration date.

5. In the presence of a lower risk or in the case of any of the persons specified in the Article 8(1) of this Rule, in order to identify the beneficial owner, the obliged entity shall obtain at least his/her name and surname, citizenship and one of the identification data referred to in paragraphs 3(b) - 3(d) of this Article.

6. An obliged entity shall obtain and record the following data for all legal entities included the structure of the customer:

a) name;

b) identification number (if any);

c) registration date and country.

7. If the customer fails to provide information on the beneficial owner, the business relationship shall be terminated and the customer's suspicious behaviour shall be the subject of an investigation.

Article 7 - Verification

1. The obliged entity shall verify the beneficial owner on the basis of the following documents:

a) In the case of a citizen of Georgia - a passport, ID card or driver's license of a citizen of Georgia, a certificate of a compatriot residing abroad;

b) In the case of a person legally residing in the Autonomous Republic of Abkhazia and Tskhinvali Region - a neutral ID card or a neutral travel document;

c) In the case of a foreign citizen - a residence card issued by Public Service Development Agency, temporary identity card issued by Public Service Development Agency, passport, other document permitted for crossing the customs border of Georgia according to Georgian legislation and/or based of an international agreement or a certificate of a compatriot residing abroad;

d) In the case of a stateless person - a residence card issued by Public Service Development Agency, temporary identity card issued by Public Service Development Agency or traveling passport;

e) In the case of a individual entrepreneur - a document provided for in subparagraphs (a) - (d) of this paragraph and an extract from the Registry of Entrepreneurial and Non-entrepreneurial Legal Entities of the National Agency of Public Registry;

2. If the document obtained for the purpose of verifying the beneficial owner fails to ensure the verification of the accuracy of the data provided for in Article 6(3) (a - e) of this Rule, the obliged entity shall additionally use another reliable source.

3. For the purpose of the verification of the beneficial owner, the obliged entity shall be authorized to obtain the identification data provided for in Article 6(3)(a-e) and Articles 4(a) and 4(b) of this Rule from the electronic database of the LEPL under the Ministry of Justice of Georgia - the Public Service Development Agency (hereinafter - the Public Service Development Agency) without the consent of the data subject.

4. The obliged entity shall be authorized to be guided by an alternative rule for the verification of the beneficial owner, if it is one of the persons defined in the first paragraph of Article 8 of this Rule.

5. In the cases of standard and increased risk, the obliged entity shall verify the identification data referred to in subparagraphs (a), (b), (e) and also, (c) or (d) of Article 6(3) of this Rule on the basis of the reliable source as defined in Article 11(2) of this Rule.

6. In the case of lower risk, the obliged entity shall verify one of the identification data referred to in subparagraphs (a) and also, (b) - (d) of Article 6(3) of this Rule on the basis of the reliable source as defined in Article 11(2) of this Rule or on the basis of another reliable source.

7. In the case of lower risk, the obliged entity shall verify the accuracy of the identification data referred to in Article 6(3)(e) of this Rule, if there is any doubt as to the accuracy of such identification data.

Article 8 - Alternative rule for identification and verification of a beneficial owner

1. In the process of identification and verification of the beneficial owner, the obliged entity shall be authorized to use the data referred to in Article 6(5) of this Rule, if the client is one of the following persons:

a) state or municipality body/institution, legal entity under public law (except for political and religious associations);

b) state-owned entrepreneurial legal entity established in Georgia or non-entrepreneurial (non-commercial) legal entity established by the state of Georgia;

c) diplomatic representation, consular institution;

d) an entrepreneurial legal entity registered in Georgia in the ownership (control) structure of which only Georgian citizens and legal entities registered in Georgia are involved, and the ultimate beneficial owner of which can be traced through extracts from the Registry of Entrepreneurial and Non-entrepreneurial Legal Entities of the National Agency of Public Registry (including even in the case of a two-tier and multi-tier structure).

2. In the cases provided for in the first paragraph of this Article, the obliged entity shall be authorized to use, for the purpose of verification, information that is publicly available on the websites of official bodies, as well as in reliable and authoritative databases and media publications.

3. The obliged entity shall not be authorized to apply the alternative identification and verification rule provided for in this Article, if:

a) it has doubts about the accuracy of the identification/verification data of the beneficial owner;

b) circumstances related to the customer have changed significantly.

4. The cases referred to in the first paragraph of this Article shall not be considered as an automatic basis for a lower risk classification.

Article 9 - Processing of personal data

1. The processing of personal data of the beneficial owner by an obliged entity shall be permitted only if it is necessary to prevent risks of money laundering and terrorism financing.

2. An obliged entity shall be authorized to obtain the data referred to in Article 7(3) of this Rule from the electronic database of the Public Service Development Agency without the consent of the data subject.

Article 10 - Obligation to record and store information

1. For the purpose of recording/storing the data obtained in accordance with the requirements of this Rule, the obliged entity shall create such a software (electronic) system that is appropriate to the nature and scope of the obliged entity's activity, and that ensures the security of the data, information and documentation, as well as the possibility of quick retrieval.

2. The obliged entity shall record and store the data, information and documentation obtained in accordance with this Rule for the purposes of the identification/verification of the beneficial owner in such a way that it is possible to provide the information (document) to the Service without interruption within the time period specified by the Service.

3. Data, information and documentation obtained under this Rule shall be kept for a period of 6 (six) years after the termination of the business relationship or the conclusion of an occasional transaction.

4. The obliged entity shall ensure that the stored data, information and documentation remains accessible and readable during the retention period.

Article 11 - Reliable source

1. For the purposes of understanding the ownership and control structure and verifying the beneficial owner, the obliged entity shall rely on a reliable source that allows for the verification of all relevant identification data specified in this Rule.

2. The reliable source shall be:

a) data obtained from the electronic database of the Public Service Development Agency, in accordance with Article 7(3) of this Rule;

b) information and/or documents issued by state bodies except for the documents referred to in subparagraph (a) of this paragraph;

c) information and/or documents published on the websites of state bodies;

d) an extract from the share registry, taking into account the reputation and quality of regulation of the independent registrar of securities. In the case of increased risk, if the registry is maintained by the person being the subject of the examination, another reliable source shall be used in addition. In addition, the obliged entity shall ensure that the legislation of the relevant country allows for the possibility of the registration of the shares by the legal entity itself;

e) information and/or documents issued by financial institutions which are subject to supervision, taking into account their reputation and quality of regulation;

f) information and/or documents issued by trust or company service providers, authorized under the laws of the relevant jurisdiction to issue information and documents relating to the customer's ownership structure and/or the beneficial owners, taking into account the reputation and quality of regulation of the trust or company service provider.

g) reports issued by auditors/audit firms subject to supervision, taking into account their reputation and quality of regulation;

h) the founding documentation of the legal entity certified by an authorized person (e.g. charters, minutes of meetings). Documents where the notary certifies only the authenticity of the signature shall not be taken into account;

i) founding documentation of the non-registered organizational entity certified in the appropriate manner. Certification of the founding document shall not be required if the obliged entity is convinced that the legislation of the relevant jurisdiction does not provide for the certification of similar types of documents;

j) a document issued by a court, if the validity of the issued document is confirmed by the court, or a document confirming the identification data of the beneficial owner is issued by the court itself;

k) a document, issued by a notary, confirming the identification data of the beneficial owner;

l) tax and customs declarations.

3. In the case referred to in paragraph 2(a) of this Article, the period of validity of the document obtained for the purpose of verification of the beneficial owner must not be expired.

4. For the purpose of verification of the beneficial owner who is a foreign citizen, it shall not be permitted to use the document which, in accordance with the legislation of Georgia or international treaties and agreements, is not allowed to cross the state border of Georgia.

5. For the purposes of understanding the ownership and control structure and verifying the beneficial owner, in cases of lower risk the obliged entity shall be authorized to rely on another authentic source or sources that allow for the verification of all the relevant identification data specified in this Rule.

6. The documents obtained for the purpose of understanding the ownership and control structure and for the identification and verification of the beneficial owner shall contain identification data, available at the time of the verification and provided for in this Rule, and shall be dated (date of issuance of the document) no later than 12 (twelve) months prior to the verification, except for the documents referred to in paragraph 2(a) of this Article, and except in the case where the verification is done via direct access to the respective registry of legal entities.

7. Notarization of the copy of the identification document of beneficial owners shall not be required if the obliged entity understands the contents of the document, has no doubts about its authenticity and the customer confirms in writing that the copy is true and correct with the original. In case of misunderstanding of the content of the document, the responsibility lies with the obliged entity.

8. The information published on the website of the state bodies and the extracts taken by obliged entities from the respective state registries, as well as the original documents (including apostilled/legalized documents) submitted to the obliged entity shall not be subject to certification in an appropriate manner.

9. Information and documents published on the websites of state bodies shall be permitted, if:

a) the information/document obtained contains the name of the source;

b) the information/document obtained contains the date of retrieval (in the absence of this data, the date of retrieval of the information/documentation shall be confirmed, including by an authorized employee of the obliged entity);

c) the source provides an opportunity to verify the history of changes (if it is not possible to verify the history of changes, the obliged entity shall keep the record of the relevant web address (URL));

d) the founding document published on the website is signed by an authorized person and meets the requirements set out in paragraphs (6) and (7) of this Article.

10. Information (data) stored in electronic sources shall be permitted, if it:

- a) contains the name of the source;
- b) contains the date of retrieval;
- c) it is possible to verify the history of relevant changes.

Article 12 - Update of information

1. During the course of the business relationship, the obliged entity shall update the information/documents it holds on the ownership and control structure and the identification data of the beneficial owners of the customer with a periodicity appropriate to the level of risk and also in the cases when:

- a) a change in the identification data, ownership and control structure of the customer and/or beneficial owner has become known;
- b) there are doubts as to the accuracy of the identification data of the customer and/or beneficial owner or as to compliance with the requirements set out in this Rule (including, in relation to ownership and control structure).

2. During the course of the business relationship, the obliged entity shall update the identification data of the beneficial owner of the customer belonging to the lower risk category, if any of the following circumstances arise:

- a) a change in the identification data, ownership and control structure of the customer and/or beneficial owner has become known;
- b) there are doubts as to the accuracy of the identification data of the customer and/or beneficial owner or as to compliance with the requirements set out in this Rule (including, in relation to ownership and control structure).

Article 13 - Liability

Failure to comply with the provisions of this Rule will result in the liability of the obliged entity as provided for by the legislation.