



Ultimate Beneficial Ownership: Pakistan's Transparency Imperative

Introduction

In today's increasingly interconnected global economy, identifying the true ownership and control of companies has become a central concern in financial and legal governance. Ultimate Beneficial Ownership (UBO) refers to the natural persons who ultimately own or control a business, despite layers of legal entities, nominee shareholders or complex ownership structures. Pakistan's alignment with Financial Action Task Force (FATF) standards has been significant, with its removal from the FATF grey list in 2022 marking an important achievement following legislative and regulatory reforms. However, continued efforts are required to consolidate these gains and ensure effective UBO management as global scrutiny and compliance expectations increase.

International Standards and Conventions

International conventions, including the Vienna Convention (1988), Palermo Convention (2000), UN Convention against Corruption (2003) and the Terrorist Financing Convention (1999), emphasize preventing legal entities from being misused for criminal activities. Robust UBO frameworks are essential for translating these treaty commitments into effective transparency regimes. Identifying the natural persons behind legal entities helps Pakistan comply with international obligations and align with broader OECD and FATF standards aimed at reducing corporate anonymity and mitigating risks associated with shell companies.

UBO Requirements under the Companies Act, 2017

Section 123A of the Companies Act, 2017, inserted through the Companies (Amendment) Act, 2020 dated 26 August 2020, introduced the definition of UBO as a natural person who ultimately owns or controls a company, directly or indirectly, through at least 25% of its shares or voting rights, or exercises effective control through other specified means.

Regulation 48 of the Companies Regulations, 2024 provides procedures for obtaining and maintaining UBO information. Companies are required to take reasonable measures to identify shareholders who own or control at least 25% of shares or voting rights and obtain prescribed information through Form 16, including name, father's name, CNIC, nationality, country of origin, residential address, email address and the date on which the shareholding, control or interest was acquired.

The relevant shareholders are required to submit the declaration within 14 days of receiving the notice.

Under Regulation 48(5), the Board of Directors must maintain a UBO register and authorize the CEO, director or officer to provide information to the Securities and Exchange Commission of Pakistan (SECP) for verification through Form 19. Section 452 of the Companies Act, 2017

also requires Pakistani citizens holding substantial ownership or interests in foreign companies to disclose such holdings or interests within the prescribed period.

Centralized UBO Registry

To strengthen compliance and improve access to beneficial ownership information, the SECP has established a centralized UBO registry under the Companies Regulations, 2024. Beneficial ownership information is consolidated through the eZfile portal, along with the relevant regulatory returns and forms. This initiative aims to provide regulatory authorities and reporting entities with transparent, secure and reliable information and facilitate financial institutions in conducting customer due diligence and meeting KYC requirements.

UBO and AML/CFT Compliance

UBO identification is closely linked to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) requirements. Financial institutions and Non-Banking Financial Institutions (NBFIs) are required to conduct Know Your Customer (KYC) procedures before establishing relationships with clients or companies. These requirements are aligned with FATF Recommendation 24, which addresses transparency and beneficial ownership of legal persons, and Recommendation 25, which covers transparency and beneficial ownership of legal arrangements.

Both recommendations emphasize assessing and mitigating the risks of legal persons and arrangements being misused for money laundering or terrorist financing.



Beneficial Ownership Requirements under Income Tax Laws

Pakistan's income tax framework has also been strengthened through the introduction of Section 181E of the Income Tax Ordinance, 2001, requiring companies and Associations of Persons (AOPs) to electronically disclose and update beneficial ownership information. Section 2(7A) defines a beneficial owner as a natural person who ultimately owns or controls a company or AOP, directly or indirectly, through at least 25% of shares or voting rights, or exercises ultimate effective control over its finances, decisions or other affairs.

Through SRO 1117(I)/2023, the Federal Board of Revenue (FBR) introduced Chapter XIII A, Record of Beneficial Owners, in the Income Tax Rules, 2002. Under Rule 83E, companies and AOPs are required to retain beneficial ownership records for 10 years after the beneficial owner ceases to hold such status. The FBR is similarly required to retain beneficial ownership records of registered companies and AOPs for 10 years.

Key Challenges in Implementing the UBO Regime

Despite significant regulatory developments, several challenges remain in effectively implementing the UBO framework in Pakistan:

- 1. Complex Ownership Structures:** Cross-border entities and layered corporate structures can make it difficult to trace ultimate ownership and control.
- 2. Limited Awareness:** Small and medium-sized companies may have limited understanding of UBO requirements under the Companies Act, 2017 and Companies Regulations, 2024, resulting in compliance being viewed as a procedural requirement rather than a governance responsibility.
- 3. Enforcement and Verification:** The effectiveness of the framework depends on consistent monitoring, verification and appropriate penalties for non-compliance. Weak enforcement can reduce the effectiveness of otherwise robust regulations.
- 4. Data Accuracy and Reliability:** Maintaining accurate and updated UBO records requires continuous monitoring of changes in ownership and control, which can place significant demands on companies, directors and regulators.

Strengthening verification mechanisms, improving awareness and ensuring consistent enforcement will therefore be essential to making Pakistan's UBO regime more effective and sustainable.

The Way Forward

Pakistan should adopt a multi-dimensional approach to fully realize the benefits of UBO transparency. Technology and regulatory integration can strengthen the centralized UBO registry by connecting it with other regulatory bodies and financial databases through secure APIs, enabling real-time verification

and efficient information sharing. Stronger enforcement mechanisms are also essential. The SECP can use technology and data analytics to identify discrepancies, while periodic audits and risk-based supervision can improve compliance and effectiveness.

Awareness and capacity building should be strengthened among companies and professionals responsible for preparing UBO information. The SECP has initiated awareness efforts through social media to encourage concerned companies and individuals to file Form 19 and disclose information on UBOs holding at least 25% interest. Professional accounting bodies, including ICMA, ACCA, ICAP and PIPFA, can further support capacity building through regular CPD activities, training programmes and seminars. At the same time, UBO compliance should be embedded within corporate governance as a strategic responsibility rather than treated merely as a legal obligation. Given the cross-border nature of corporate ownership, greater cooperation with foreign regulators and adherence to international standards are also essential for effectively tracing beneficial ownership.

Conclusion

UBO transparency is more than a regulatory requirement; it is an important component of Pakistan's efforts to strengthen financial integrity and corporate accountability. An effective UBO framework can reduce the risk of illicit financial flows, prevent the misuse of legal entities and resources, and enhance Pakistan's credibility in global markets. As international AML/CFT and anti-corruption standards continue to evolve, transparent ownership structures will become increasingly important. For Pakistan, strengthening UBO transparency represents a strategic investment in accountability, financial resilience and economic credibility.

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