

PRIVILEGED AND CONFIDENTIAL

Report on the new regulations of the Government of Nicaragua in the framework of the fight against Money Laundering, prevention of money laundering, financing of terrorism and proliferation of massive weapons; and its effect on Companies.

I. New Reform to the **Law of Public Registries, Law 698 (New Reform: 1035 Law)** approved August 20, 2020:

Justified in the different agreements and recommendations of the FATF (General Recommendations 22, 23 and 28; and other derivative and transversal), on July 27 2020 a legislative proposal to reform the Public Registries Law (Law 698) was introduced to the National Assembly, by the President of the Supreme Court of Justice. This reform was approved on August 20, 2020 and establishes the creation of a new Volume within the registry books that will be called “REGISTRATION OF COMPANIES’ FINAL BENEFICIARY” (known as UBO in English). This Reform also creates the obligation for companies to register the last final beneficiaries of the companies, understanding as such: the final natural persons who have ownership or control of the companies, no matter how long the chain of company is.

Likewise, the new Law/Reform of the Public Registries Law establishes the obligation for companies to record all changes in shareholders, directors, legal representatives and managers.

It is important to mention that this new reform also contemplates a regime of administrative sanctions for companies such as companies will not be allowed to use public registration services for different transactions and many other restrictions. These sanctions are related to the disqualification for the performance of acts, contracts and procedures related with the agencies of the judiciary (Public Registries, Judicial Processes).

The essence of the Reform such was approved is found in the amendment to article 156 PRL, referring to Acts and Contracts of mandatory registration, following we listed the two most relevant:

"The following acts and contracts shall be registered in the Commercial Registry:

1. *The deeds in which a company is constituted, transformed, or dissolved; or in which in any other way said company is modified. When, in the act of incorporation and / or modification of a legal person, national and / or foreign companies appear as partners, the Final Beneficiary must be identified successively, according to the chain of ownership or complexity until determining the (s) natural person (s) exercising control. When one of the partners is a foreign legal person, in addition to the aforementioned information, they must attach a certified copy of the Articles of Incorporation and its Bylaws, an updated Registration Certificate containing the registration data of said Company and an updated Certification of the Company's shareholders, which must contain the respective authentication or apostille.*
2. *Changes in the shareholders, participation or ownership, control structure of commercial companies and their legal representatives; as well as any change that modifies the identification and updating of the information on the Final Beneficiary of the Mercantile Companies. "*

What we observe in this Reform to the Law is that it has not been defined clearly how the registration of the final beneficiary (UBO) will work in cases of Public Companies and Investment Funds; nor are the thresholds for share ownership percentages stated in order to understand the concept of “administration of shares control”. Members of the Chamber of Commerce and Services of Nicaragua had a meeting with all members of the Justice Commission of the Parliament in order to make know them all above concerns and gaps related to the confidentiality and a threshold has not been established about the percent corporate structure applicable to set the FINAL BENEFICIARIES, who exercise ownership or control of the share chain in the two cases above mentioned. Regarding to this, members of the Commission of Justice of the Parliament said that such aspects would be taken into account under the regulation of the law.

The Reform to the Public Records law **has already been approved on August 20, 2020, but it has not been officially published on the Official News Paper in order to know the date of starting into force.** From now on we are going to be attentive awaiting for the official publication of the law and its entry into force as well as the promulgation of its regulations. Once the Regulation to the law is published, we will be clear about the next procedures and requirements to be applied and how they must be applied.

II. OTHER REGULATIONS: applicable to Lawyers and Public Notaries as Obligated Subjects:

We see that the reform to the Law 698 above commented, is another step by the State of Nicaragua related to a series of changes in the legislation and administrative agreements with the justification of the fight against money laundering and terrorist financing. Last year (2019), the Government of Nicaragua enacted reforms to Law No. 977 and Law No. 976 to regulate attorneys and notaries as obligated subjects and, is striving to impose a new reporting requirement for lawyers and notaries. In addition, there is the issuance of administrative provisions by the Supreme Court of Justice, aimed at regulating the procedures and actions to be executed by lawyers and notaries as obligated

Understanding your Core Business

subjects towards our clients, commercial companies and individuals (clients of ACZALAW Nicaragua). This is something that needs to be carefully reviewed in light of the client attorney privilege, which is required from lawyers. However, the regulations are clear and we must implement and fill some official formats with information and attach official documentation from our clients for our records in case the Supreme Court of Justice - through the Direction created for this matter - needs to check such information. We now have some responsibilities similar to those that banking institutions have in this scope.

Reform of August 2019 to Law 977, "Law Against Money Laundering, Terrorism Financing and Financing the Proliferation of Weapons of Mass Destruction" (abbreviated in Spanish: ML / FT / FP). This reform includes lawyers and notaries public (public accountants, were already classified as obligated subjects) as “obligated subjects” (GateKeepers), for the fulfillment of the existing regulations against money laundering and terrorist financing. The Supreme Court of Justice through of the General Directorate of Centralizing Information and Prevention (from now on the “DGCIP”) is the supervisory entity responsible in verifying compliance with the Law applicable to all attorneys and notaries.

Reform of August 2019, Law 976, "Law of the Financial Analysis Unit" was amended: to establish the obligation for lawyers and notaries to report to them any suspicious operations, as well as sending information on unusual operations to the Supreme Court and the College of Public Accountants, as respective supervisory bodies of both professions.

Then, in September 2019, Regulation No. 451 was issued by the National Council of Administration and Judicial Career of the Supreme Court of Justice, which entered into force in January 2020, which is an extensive regulation that regulates lawyers and notaries in the application of the Law No. 977 Against money laundering and Financing of terrorism. This Agreement is for application and implementation between the General Directorate of Centralizing Information and Prevention (from now on the “DGCIP”) and Lawyers and Notaries who are regulated as “Obliged Subjects” whenever they get involved in their clients activities, as below listed in accordance to Law No. 977 and in Agreement No. 451

To exercise the functions of Supervisor, the DGCIP was created by Regulation No. 452, which entered into force in January 2020, which must work hand in hand and in coordination with the Analysis Financial Unit (UAF) of the State of Nicaragua, as an agency under the authority of the Presidency of the National Council of Administration and Judicial Career of the Supreme Court of Justice, with the function of enforcing Regulation No. 451. This entity concluded its organization process in the first quarter of 2020.

Regulation No. 451 establishes the obligation to prevent, detect and report unusual or suspicious activities of money laundering or terrorist financing for lawyers who provide services or carry out operations on behalf of their clients for the following activities:

- a) Purchase and sale of real estate;
- b) management of the client's money, securities or other assets;
- c) Administration of bank accounts, savings or securities;

- d) Organization of contributions for the creation, operation or administration of companies;
- e) Creation, operation or administration of legal persons or other legal structures, and purchase and sale of commercial entities.

That is, by the mere fact of setting up a company or exercising notarial services in a sale of commercial entities or the sale of real estate, obligations are generated for notaries derived from the Law. Among the main obligations we can list the following:

Prepare a risk assessment that must be available to the DGCPI, which must contain at least:

- Relevant information about the service and / or the activity carried out on behalf of or in favor of clients.
- Analysis of risk factors related to:

The clients; The countries or geographical areas from which the business / service relationships originate or where they develop, or the operations carried out on behalf of or in favor of clients; The products, services and operations, as well as the channels through which they are provided; and

Establish a program or system to mitigate the money laundering and terrorist financing (in Spanish: ML / FT / FP) risks as well as a prevention manual which must contain the application of DUE DILIGENCE OF KNOWLEDGE OF THE CLIENT, and when it comes to companies, knowledge of the corporate structure until reaching the FINAL BENEFICIARIES, who exercise ownership or control of the share chain, qualifying as such those who own 25% or more of the shares of the company.

It is also mandatory to prepare a file and records on the client (client identity profile) that must contain all relevant information, information on the purpose and nature of the type of professional or business activity carried out, the origin of funds, identity documents of the legal representatives, including details of their address.

Regulation of the Supreme Court of Justice also establishes the sanctions for lawyers and notaries who fail to comply with these obligations, which range from fines, disqualification from professional practice, to penal sanctions.

It is clear that lawyers and notaries will have to ask clients for all the information detailed above, which, according to this regulation, must be requested before initiating services or exceptionally in the case of an operation that cannot be delayed, ten days after the start of the service. About all existing / active clients we have the obligation to request all documentation and fulfill soon with all same requirements. We must to fill two formats: Know your Client, UBO. Also, we must to do all steps of Due diligence about of each client of our office.

In order to comply with aforementioned legal provisions, we shall be sending our KYC formats applicable for companies as well as for individuals in accordance to legal requirements. Please note that this information will be in our custody. For clarification, these requirements are already mandatory to be applicable according to all administrative regulations that we are subject to fulfill as attorney and notaries / obligated subjects. But now is additionally mandatory under the new

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reform to the law approved since clients shall be required to file and register the Ultimate Beneficiary Owner, UBO, before the Public Registry.

This Summary was prepared by ACZALAW Nicaragua for internal and informative purposes for its clients, in order to notify you about the obligations that as lawyers and notaries we are subject, in our Lawyer-Client relationship; and in order to obtain collaboration and consent of our clients to provide us with the information that will be required shortly to give satisfactory, complete and orderly compliance with these requirements. Its use is privileged and confidential between attorney-client Aczalaw Nicaragua and it cannot be used for a different purpose of herein set.

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