

# Improving Beneficial Ownership Accuracy

An initiative<sup>1</sup> aimed at establishing a multistakeholder advisory group, which will promote the implementation of short-term pilots to verify beneficial ownership information.

*Draft concept note for discussion*

## Proposal

It is proposed to create a multistakeholder advisory group to promote the implementation of short-term pilots to verify beneficial ownership information. Its aim is to exploit the potential of beneficial ownership data while creating synergies with existing global initiatives that are shaping the debate, such as the [Beneficial Ownership Leadership Group](#). These pilots will seek to prove the feasibility and benefits of verifying beneficial ownership data.

The purpose of the advisory group will be to share experiences, as well as discuss approaches and solutions to support the implementation of short-term pilots in selected countries. This will be based on cutting-edge technology as well as on other non-technological approaches for different contexts.

## Background

Beneficial ownership transparency has become one of the leading topics in the international agenda for financial reform, and is seen as a critical tool in fighting illicit financial flows related to corruption, money laundering and tax evasion.

Originally a concern for the Financial Action Task Force (FATF) anti-money laundering recommendations in relation to banks and other financial institutions, beneficial ownership transparency has developed into a main policy goal for the G20, the B20 and the C20, the Organisation for Economic Co-operation and Development (OECD), the Global Forum, the Extractive Industry Transparency Initiative (EITI), and the Open Government Partnership, among others.

Following the Panama Papers and other scandals, beneficial ownership registration laws have been approved in several countries in Africa, Europe and Latin America.<sup>2</sup> The 2018 fifth European Anti-Money Laundering Directive, known as AMLD 5, requires all member states to establish public beneficial ownership registries for companies and legal persons.

This momentum was reflected in the creation in 2019 of the Beneficial Ownership Leadership Group.<sup>3</sup> This is a government-led coalition that aims to shift the global norms of company beneficial ownership transparency, with members committing to developing domestic public registers of company beneficial ownership, and supporting efforts globally and regionally for other countries to do the same. In joining the Beneficial Ownership Leadership Group each country agrees to a set of [best practice disclosure principles](#). Convened by Open Ownership and Open Government Partnership and launched in 2019, the group currently comprises Armenia, Kenya, Latvia, Mexico and Slovakia.

Civil society organizations advocating transparency have been calling for beneficial ownership information to be collected through public registers and for the data to be verified. Valid and reliable information is needed to maximize the impact of governments' fight against illicit financial flows.

Moreover, the business case for valid and reliable beneficial ownership information is clear.<sup>4</sup> A total of 91% of senior executives believe it is important to know the ultimate beneficial owner of the entities with which

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<sup>1</sup> Based on a proposal by Andres Knobel of Tax Justice Network

<sup>2</sup> <https://www.taxjustice.net/wp-content/uploads/2018/06/TJN2018-BeneficialOwnershipRegistration-StateOfPlay-FSI.pdf> (page 12).

<sup>3</sup> <https://www.openownership.org/what-we-do/the-beneficial-ownership-leadership-group/> Beneficial Ownership Leadership Group

<sup>4</sup> [The case for ending anonymous companies](#) (2015), The B Team

they do business,<sup>5</sup> yet the private sector still invests millions of dollars into verifying information as part of due diligence processes. Public access to legal and beneficial ownership information and to accounting information provides critical insights for investors and businesspeople before they engage in any commercial transaction with a company.

Beneficial ownership information is one of the main requirements for any compliance procedure (particularly in relation to anti-money laundering), in relation to a company's customers and suppliers. Billions of dollars in fines, criminal prosecution and reputational damage are enough to incentivize companies to discover more about their owners, investors, customers and business partners.

Paradoxically, banks and companies do not always have a high level of confidence in the ownership information available in commercial registries because it is seldom verified information. This contributes to high private-sector costs for third-party verification and due diligence. Free access to centralized and high-quality beneficial ownership information saves money and time; perhaps that's why the UK's legal entity ownership and accounting information available at Companies House was accessed no less than 6.5 billion times in 2018.<sup>6</sup>

### **The need for accurate and updated information**

The Tax Justice Network has published a paper<sup>7</sup> on how governments could verify beneficial ownership information, so that data contained in the register may be considered valid, allowing authorities and the private sector to rely on it. The FATF published a report titled *Best Practices on Beneficial Ownership for Legal Persons* describing how many countries are already implementing verification processes. OpenOwnership is working with governments to better understand verification practices that are currently in operation and promote improvements to these. It will shortly publish a working paper that lays out a set of principles for effectively verifying beneficial ownership data.

The first basic steps require governments to validate and cross-check information to detect obvious inaccuracies (e.g. a name for which there is no record, a deceased person appearing as a shareholder, an address that does not exist in Google Maps), but criminals are becoming ever more sophisticated placing the onus on verification to keep up with the use of state-of-the-art technology. This is where the private sector could help by, for example, transferring the technology know-how.

Banks and credit card companies are already able to block suspicious online transactions in real time. Data brokers are able to create consumer profiles for targeted marketing. This same technology for advanced analytics (big data and artificial intelligence) could be shared with governments to help in the fight against corruption and money laundering.

Company structures and beneficial owners' identities could be checked for patterns to detect red flags, even if all information seems true. For instance, Argentina found corruption cases<sup>8</sup> where shareholders had not lied in their registered information, but their financial profiles raised suspicions. Although they had no declared income, lived in low-income neighbourhoods and received aid pensions, they were registered as shareholders and representatives of companies channelling millions of dollars.

Public registers that contain verified ownership information could become living databases (instead of platforms on which to leave outdated information). These would enable governments and the private sector not only to detect, but also to prevent crimes.

The Wall Street Journal described how "it took a £1 payment to uncover one of the world's biggest money-laundering scandals"<sup>9</sup> – the €200 billion Danske Bank money laundering case. In essence, by paying £1 to download a company profile (this would now be free), a Danske Bank employee discovered

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<sup>5</sup> [EY 2016 Global Fraud Survey](#)

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/819994/Corporate\\_transparency\\_and\\_register\\_reform.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819994/Corporate_transparency_and_register_reform.pdf) (page 12)

<sup>7</sup> [https://www.taxjustice.net/wp-content/uploads/2019/01/Beneficial-ownership-verification\\_Tax-Justice-Network\\_Jan-2019.pdf](https://www.taxjustice.net/wp-content/uploads/2019/01/Beneficial-ownership-verification_Tax-Justice-Network_Jan-2019.pdf)

<sup>8</sup> <https://www.lanacion.com.ar/politica/jubilado-sin-plata-y-controla-ciccone-nid1447857>;

<https://www.lanacion.com.ar/politica/canalizaron-reintegros-por-716-millones-pero-sus-accionistas-cobran-las-aui-nid2205250>

<sup>9</sup> <https://www.wsj.com/articles/how-one-stubborn-banker-exposed-a-200-billion-russian-money-laundering-scandal-1540307327>

that a company described by UK Companies House as “dormant” for its inactivity, was actually transferring \$20 million per day. If these checks were automated, crime detection would be much faster.

## **Proposed project elements**

### **1. Establish an advisory group with a diverse constituency**

The following institutions and actors could be invited to join the multistakeholder advisory group:

#### **International organizations**

Intergovernmental organizations working on beneficial ownership transparency, including the Financial Action Task Force (FATF) (and its regional groups), the OECD, Extractive Industries Transparency Initiative (EITI), Open Government Partnership (OGP), Egmont Group, the International Monetary Fund (IMF) and the World Bank.

#### **National authorities**

Governments that are in the process of, or already engaging in verification of beneficial ownership information, including Austria, Belgium, Costa Rica, Denmark, Ghana, Indonesia, the Netherlands, Spain, Ukraine, the United Kingdom and Uruguay.

#### **The private sector**

Working in partnership with World Economic Forum’s Partnering Against Corruption Initiative (PACI), the advisory group is interested in business members that:

- have and could share technology on verification including banks, commercial banks and credit card issuers
- can share approaches to verifying beneficial ownership information within their customer due diligence processes
- provide specialist technological solutions to support beneficial ownership verification

#### **Civil society organizations**

Civil society organizations working on beneficial ownership transparency, including the Tax Justice Network, Transparency International, Global Witness, Global Financial Integrity, the Financial Transparency Coalition and OpenOwnership.

### **2. Core principles for the advisory group**

Participation in the advisory group will be on a voluntarily basis, in an informal setting and all discussions will be in line with the Chatham House rule. Members of the advisory group will refrain from getting involved in decisions about a particular pilot if there is a conflict of interest (e.g. offering to charge for their services).

It is expected that members will act in good faith and will not use this platform for personal or commercial gains, nor will they use results, data or discussions to undermine beneficial ownership transparency, including the call for public access to beneficial ownership information.

### **3. Proposed steps**

#### **Selection**

One or two countries interested in implementing a pilot on beneficial ownership verification will be selected and will work with the Beneficial Ownership Leadership Group as a priority.

- The advisory group will need to determine conditions for selecting the pilots. For example, it may be most practical to focus initially on countries where the responsible authority (e.g. the commercial registry) already has the necessary power to implement the pilot (without needing to pass new legislation or obtain authorization). This would help pilot projects gather and publicize their initial results swiftly.
- Pilots covering two types of country should yield useful results: (1) a developed country able to implement a sophisticated verification with cutting-edge technology, and (2) a developing country with

more technological constraints, to prove that verification can take place at different levels of infrastructure development.

### Developing a pilot for each country

- Based on the selected countries' needs and ideas, members of the advisory group will propose and discuss with the selected country different options for short-term pilots, as long as they can be executed within one year, ideally between three to six months.
- Pilots may include improving an existing process or designing a form to incorporate a company, running checks on a sample of data, interconnecting databases, etc.
- Ideas for pilots could be considered based on factors such as time frame, costs, feasibility, replicability and other relevant criteria.
- If required, the costs of the pilot will be covered by specific fundraising. In case of insufficient funds, the pilot will be adapted or a new pilot will be selected.

### Delivery

- The advisory group will not be responsible for running or implementing the pilot. Based on their expertise and experience, members will, however, advise on and – where possible – help implement the pilot, e.g. by sharing technology or expertise.
- If necessary, advisory group members could support participating governments to secure funds to contract expert services required to implement the pilot on verification (e.g. an IT expert to run big data analysis or to interconnect databases, etc.).

### Evaluation, communication and deciding on next steps

- The pilot will be evaluated and communicated.
- The advisory group will discuss next steps, for example, supporting fundraising to expand the pilot, replicate it in another country or run the process again with other countries.

### Preliminary timeline

October 2019 to March 2020	Test the concept Targeted outreach to potential advisory group members Targeted outreach to potential countries to run a pilot
April 2020	Kick-off call/first advisory group call
May 2020	Second advisory group call
18 June 2020	Third advisory group call Project presentation at World Economic Forum PACI Spring Meeting, Geneva
July 2020	Final advisory group call – proposal for beneficial ownership verification selected
September 2020	Beginning of pilot in selected country

*The initial project sponsors:*



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