

Beneficial Ownership: The Global State of Play 2019

POLICY REPORT CONTRIBUTING TO THE CHALLENGE PAPER ON INEQUALITY AND EXCLUSION

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“Money stolen by corrupt leaders and warlords was finding its way into the UK especially through the Overseas Territories and the Crown Dependencies. Once they had slipped in below that bar their money was safe by the nature of our legal system. Beneficial ownership was essential to stopping this flow of dirty money. Last year in parliament we managed to get the Overseas Territories to comply with the need for Open Registers of Beneficial Ownership. The Crown Dependencies have been more of a challenge in parliament but I’m sure we’ll prevail...”

Rt.Hon. Andrew Mitchell, former International Development Secretary for the UK¹

Introduction

Beneficial owners are defined as those who are the natural persons who ultimately own/control a customer and/or the natural persons on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate control over a legal person or arrangement.² The availability of this information is a key requirement of international tax transparency and the fight against financial crime.

The modern corporate entity that has a legal personality differentiated from its founders, shareholders, and directors is the most complex form of legally regulated human organization in history, with a capacity to enter into contracts, trade, acquire debt, etc. They are engines of globalization with considerable capacity to game national taxation regimes to their financial advantage and influence policymaking at every level. They have been a boon for both legitimate and illicit commerce; for crime and corruption. This latter condition particularly pertains to corporate entities whose beneficial owners are shrouded in secrecy. At a financial scale, they have the capacity to undermine the economic foundations of nation states and can be deleterious to overall civic hygiene especially in developing countries. This has lent an urgency to the campaign for the beneficial owners of **all** corporate entities to be transparent and made publicly available. Multinationals have invested US\$12 trillion in off-shore companies and the International Monetary Fund (IMF) additionally estimates that US\$7 trillion of personal wealth is stashed

in tax havens.³ It is estimated that between 2007 and 2017, US\$1 trillion in African wealth was moved and hidden offshore⁴ — much of this using corporate instruments and processes designed to keep the beneficial owners of this wealth secret. In April 2019, the IMF estimated that curbing corruption would deliver an additional US\$1 trillion in tax revenues globally.⁵

Global norms

The FATF, OECD, EITI and others

Today the global campaign to make beneficial ownership transparency a norm is the sharp end of the spear of a global movement against corruption, tax evasion, money laundering, and illicit finance generally. It only gained momentum after the fall of the Berlin Wall in 1989 and was accelerated by the transformative effect of globalization on the power relations and legitimacy of nation states vis-à-vis powerful globalized corporate entities, especially in finance and banking. The Financial Action Task Force (FATF) on money laundering and the countering of terrorism finance was established the same year-1989. Its recommendations have deepened and expanded over the last 30 years,⁶ with beneficial ownership emerging by 2018 as the defining issue in terms of global development and fight against all illicit finance in the 21st century.⁷ That year, the FATF released their definitive *Concealment of Beneficial Ownership* report.⁸

During the annual private sector consultative forum held in Vienna, Austria (May 6-7, 2019), the FATF announced it had embarked on a mission to identify best practices regarding beneficial ownership.⁹ Additionally, new FATF rules regarding crypto currency have been released with the FATF requiring virtual asset service providers to share information about their customers when transferring funds between firms.¹⁰

In 2012, the **OECD** revised its meaning of “beneficial owner”.¹¹ Its Global Forum on standards in tax transparency — established in 2000, restructured in 2009, and has 153 countries as members — when combined with the FATF, are considered the existing norms on beneficial ownership globally.¹² That said, the Extractive Industries Transparency Initiative (EITI) founded in 2003 to promote transparency and accountability in the extractives sector was an early promoter of beneficial ownership transparency.¹³ In 2016, EITI fully integrated beneficial ownership into measures that should be implemented by all its members.¹⁴

The lay of the land

By the time the OECD was revising its meaning of “beneficial owner” and alongside the FATF engineering a regime in its regard aimed ultimately at total transparency of beneficial ownership, important events were creating the political will for these developments. The wars in Iraq and Afghanistan from 2001 gave new resonance to I.F. Stone’s quotation: “All government lie”.¹⁵ The controversial hybrid media investigative organization WikiLeaks was established in 2006 based on a model of exposing the secrets of governments and powerful corporates.

In 2008, the global financial crisis served to concentrate the world’s attention especially among the youth on the role of the financial sector in the worldwide economy. It focused attention too on issues of stark

and deepening inequality and the apparent lack of accountability of the leadership of the titans of global capital in the face of damage accrued from their apparent greed and corruption.

In 2009, an expenses scandal involving British members of parliament in the jurisdiction that gave the world the essential legal framework for most corporate secrecy legal frameworks, had a profound impact on British political leadership.¹⁶ This informed its position on beneficial ownership at the G8 meeting in 2013. By 2018, this was being specifically acknowledged in parliament: “In spite of our self-image as a country that lives by the rule of law, the reality is that officials from autocracies around the world who are guilty of appalling crimes come to London to live safely and comfortably without much interference from us”.¹⁷

The *Occupy Wall Street* movement that started in the last quarter of 2011 coincided with intensification of the great digital disruption of traditional media that saw newspaper circulation fall and the role of the leaders of this sector as purveyors of accepted truth fundamentally challenged. More diffused, non-traditional digital media actors (such as WikiLeaks and investigative media collectives) and citizens themselves on platforms that aggregated information in unprecedented ways and at an unmatched scale and speed filled the void. The Occupy Wall Street demonstrations coincided with the launch of the Open Government Partnership (OGP) in 2011 clearly led by the US but co-founded by Britain, South Africa, Norway, Indonesia, Philippines, Brazil, and Mexico. This governance initiative was premised on transparency in public fiduciary affairs in particular. While not a standard setting body, OGP’s models and platforms for collaboration between government and civil society have helped coalesce demand and momentum vis-à-vis beneficial ownership.¹⁸ During the 6th global OGP Summit in Ottawa, Canada, in May 2019, a beneficial ownership leadership group was launched comprising countries whose aim is to drive a global shift towards free and open data on beneficial ownership.¹⁹

Since the mid-2000s, campaigning NGOs such as the Tax Justice Network, Global Witness, Transparency International, and others have also increasingly focused on beneficial ownership as the starkest current legal obstruction to the fight against corruption generally. From 2011, this led to the “tax shaming” of giant global corporations such as Starbucks, Apple, Google, and Amazon for their use of secrecy jurisdictions to essentially avoid paying taxes in jurisdictions where they profitably traded. Britain took over the rotating leadership of the G8 in 2013. The annual meeting of the world’s richest nations “club” at Lough Erne in June that year emerged with a set of *Principles on Beneficial Ownership Transparency*.²⁰ These were followed in October 2014 by the FATF *Guidance on Transparency and Beneficial ownership*.²¹ A month later, the G20 reiterated this position with their *High-Level Principles on Beneficial ownership*.²² Britain also initially funded Open Ownership²³ a beneficial ownership initiative that has developed a Beneficial Ownership Data Standard (BODS) technical tool to assist countries implementing beneficial ownership regimes. The Ukraine and Kyrgyz Republic are already piloting the BODS.

If ever the political will in regard to beneficial ownership in the leadership of the world’s richest countries threatened to falter, it was bolstered dramatically by a series of giant data leaks from tax havens. In 2015, Swiss Leaks and the Panama Papers exposed to the world — largely unfiltered — the extent of and corporate methodologies used to dodge tax and generally keep their real income secret. The Paradise Papers followed in 2017. When the bi-annual gathering of anti-corruption practitioners, activists, officials, and researchers — the International Anti-Corruption Conference (IACC) — was held in Copenhagen in 2018, beneficial ownership had risen to become the leading issue with which this fraternity was seized. In

May that year, the British parliament debated justification of open beneficial ownership registers informed directly by these series of leaks.²⁴

Tax evasion and corruption

Tax evasion, tax avoidance and a coming to grips with the sheer scale to which tax havens are used to hide the proceeds of these practices has dramatically increased attention on the symbiotic relationship between tax evasion in particular and corruption.²⁵ Aggressive tax avoidance and outright tax evasion seamlessly transfers the issue into one of illicit flows and into the realm of corruption. The assortment of data dumps and leaks from tax havens and banks over the last decade has concretized public perception of tax avoidance, tax evasion, and corruption being “in the same ballpark” of illicit activities, including the same service sector players in particular — the banking and legal sectors.

There has been peripheral debate in anti-corruption circles among some in leading NGOs who work in the area about designating egregious tax evasion that undermines a state’s basic capacity to deliver on its core mandate to a population as corruption. This is especially in cases of “State Capture” when governance institutions are literally repurposed by a corrupt elite to steal from public coffers.²⁶ However, it often the case that tax officials are corrupted in turn to enable theft by the political and business elite. In many cases, leaders also politicize the fight against corruption. A popular method among autocrats of disabling their opposition is using the tax authorities to find opposition leaders in breach of tax regulations.²⁷ Such is the damage wrought by tax evasion, especially in conditions of State Capture, that the temptation to consider tax evasion under the rubric of grand corruption is considerable. This may not ultimately be helpful as, Moises Naim once observed: “Corruption has too easily become the universal diagnosis for a nation’s ills”.²⁸ Indeed, in the African context, austerity programs that impact most severely on the poor are often, at least in part, caused by the corruption fueled by the profligacy of ruling elites. In these circumstances, a society’s capacity to rationalize tax avoidance and evasion in a systemically corrupt environment is high. Where a regime invests heavily in the securitization of governance and is heavy handed against the poor – characterized by extrajudicial killings, mass arrests, widespread torture, etc. – tax evasion by the poor is almost a form of legitimate civil disobedience. The ongoing uprising in Sudan,²⁹ and last year’s unrest in Jordan³⁰ were both precipitated by corrupt regimes trying to widen the tax base as part of austerity programs induced by their own corruption.

Implementation

Introduction

Normalizing beneficial ownership transparency has moved beyond the advocacy stage towards implementation and implies essentially reengineering international, regional, and national legal regimes and norms of doing business to comply with the beneficial ownership commitments that have in particular emerged over the last decade.³¹ Several countries have committed themselves to creating publicly accessible registers of beneficial ownership. Denmark, Britain, and the Ukraine were the early adopters. The more challenging phase of creating the databases, verification, ensuring ease of access to the data and that it is up to date, and its applicability to different forms of corporate entity are the bureaucratic issues with which a growing cohort of officials are consumed. There is as yet no template

and experts argue it will be between 10 and 20 years before comprehensive, interrogable beneficial ownership registers are in place in a critical mass of countries around the world.

At an anti-corruption summit convened by the British government in 2016 around the issue of beneficial ownership in particular, Afghanistan, France, Ghana, Kenya, Holland, Nigeria, Tanzania, and Ukraine committed themselves to create such registers. The Summit also served to animate political will among leaders and, for the first time, embark on collective moves to instigate consequential beneficial ownership measures.

The IMF and World Bank have both integrated beneficial ownership into the range of governance related programmatic activities they interact with partner countries on. IMF missions specifically ask if partner governments have passed beneficial ownership definitions into law. The Fund is due to release its research on beneficial ownership registries before the end of 2019. In 2017, the World Bank introduced a requirement for public disclosure of beneficial ownership in high value contracts and this information is to be published publicly by the end of 2019. There are efforts underway following the London conference to convene a Leadership Group which commits to open and publicly accessible registers and encourages others to follow their example.

Africa

No African countries have implemented beneficial ownership regimes that fully comply with the FATF and Global Forum requirements. At the 2016 Lancaster House anti-corruption meeting, Ghana, Kenya, Senegal, South Africa, and Tanzania committed to establishing public beneficial ownership registers before 2020. *The African Union High Level Panel on Illicit Financial Flows from Africa* recommended the establishment of a public registry of beneficial ownership.³² The recommendations of the report were endorsed by the African Union Assembly in 2015. Following the declaration of 2018 as the African year of anti-corruption, the African Union Assembly adopted the *Nouakchott Declaration* calling for the establishment of public beneficial ownership registers.³³ It could be argued that this is a “soft” law of the African Union, committing all 55 states to implementation to the provisions of the declaration. However, experts at the African Union explain that in many African countries the most readily available potentially relevant infrastructure vis-à-vis beneficial ownership is the wealth declaration forms by public servants that are demanded by law in a host of countries. However, no serious study has been conducted regarding the veracity and effectiveness of these wealth declaration regimes, let alone attempting to use them as a backbone for a public beneficial ownership register initiative.³⁴

Nigeria has had limited beneficial ownership requirements since 1990 to tackle concentration in the ownership of publicly listed companies. They are, however, moving towards establishment of a beneficial ownership register with civil society playing a significant capacity building and advisory role. EITI has been central in setting norms around beneficial ownership in Africa. In Ghana, parliament is currently considering changes to the Companies Act to include the creation of central public register. The government already collects beneficial ownership data from public companies and there is debate about expanding it. Cameroon, Ghana, Sierra Leone, Liberia, and Zambia have started exploring the use of beneficial ownership data in corporate licensing. Kenya’s engagement on beneficial ownership has been informed considerably by FATF rules: the Companies Act of 2015 was amended in 2017 to include a definition of beneficial ownership but they have thus far refused to sign on to the EITI. Local observers

opine that the EITI requirement that countries ensure oil, gas, and mining companies apply for or hold a participating interest in an exploration or production oil, gas, or mining license or contract in an EITI country must disclose their beneficial owners no later than January 1, 2020, has proved politically inconvenient to implement.³⁵

In Uganda, Tax Amendment Bills redefining beneficial ownership are being deliberated by government.³⁶ Ghana is still on track to establish an extractive industry beneficial ownership registry.³⁷ Tunisia has adopted a legal framework on beneficial ownership transparency and is also creating a beneficial owner register. This came after a seminar led by the Global Forum on beneficial ownership information and fighting tax evasion.³⁸

Asia

As of March 2019, the debate around beneficial ownership in much of Asia was driven, as in Africa, by norms established by EITI. The January 1, 2020 deadline for EITI members to implement a beneficial ownership regime based on the 2016 EITI Standards has increased momentum for compliance.³⁹ The Asian Development Bank (ADB) is at the center of efforts to build capacity for compliance. Indonesia, Kazakhstan, the Kyrgyz Republic, and Myanmar are in the preliminary stages of creating beneficial ownership registers.⁴⁰ Myanmar created a beneficial ownership taskforce in 2018 to ensure there was high-level political engagement. The taskforce is due to draft a presidential decree that will require beneficial ownership disclosure by companies in the extractives sector by October 2019.⁴¹

Analysts contend that the Panama Papers data dump energized a number of Asian countries to implement FATF beneficial ownership standards, with Singapore and Hong Kong leading the way. By mid-2018, both jurisdictions had opted for beneficial ownership registers with “limited accessibility”.⁴² In February 2018, China actually weakened already limited beneficial ownership provisions via Announcement No. 9 on “Issues Related to Beneficial ownership in DTAs” (“the Announcement”), which allows even holding companies to enjoy tax treaty benefits. According to the Announcement, the applicant shall be deemed to have beneficial ownership even if the applicant itself does not meet the assessment criteria as beneficial ownership under certain conditions.⁴³ More recently, however, following the release of the fourth round mutual evaluation report by FATF in May 2019, a key recommendation for China was increased guidance and training by the supervisory authorities regarding beneficial ownership of financial institutions and designated non-financial businesses and professions (DNFBs).⁴⁴

At the start of May, the Indian Ministry of Corporate Affairs amended the country’s Companies (Significant Beneficial Owners) Rules 2018 to impose stricter regulation vis-à-vis Beneficial Ownership. Under the new regime, a significant beneficial owner is defined as one who owns at least 10 percent of a company and the net has been widened to include foreign owners and individuals who exercise significant influence over the company.⁴⁵

Europe

The emerging European norm with regard to beneficial ownership is based on the EU 5th *Money Laundering Directive* which entered into force in July 2018.⁴⁶ This commits EU countries to legislating for public beneficial ownership registers by 2020. Thus far, the UK, Denmark, Luxembourg, and Ukraine have

established public beneficial ownership registers. On March 22, 2019, the *European Union (Anti-Money Laundering: Beneficial ownership of Corporate Entities) Regulations 2019* were signed into law. These replace the existing regulations in this area introduced in 2016. Part 3 of the Regulations, concerning the central register of beneficial ownership (the “Central Register”), will come into effect on June 22, 2019.⁴⁷ Europe is very much in the implementation stage vis-à-vis beneficial ownership regimes.

In Ireland, as part of the regulations of the 5th Anti-Money Laundering Directive provisions on the beneficial ownership of corporate entities, they have established a central registry which will come into effect on June 22, 2019, while existing registries will have until November 22, 2019 to submit their beneficial ownership information to the central register. Most of this information will be available to the general public.⁴⁸

On April 4, 2019, the Netherlands passed a legislative proposal, the act on the Registration of Ultimate Beneficial Owners of Corporate and Legal Entities (UBO register), that contains a range of personal details of ultimate beneficial owners and will come into effect by January 10, 2020.⁴⁹ Although information on these UBOs will be made public, privacy safeguards have been accommodated for those who feel that disclosing this information puts them at risk.⁵⁰

Recently, the Crown Dependencies (Jersey, Isle of Man, and Guernsey) announced changes to their beneficial ownership registers in compliance with the EU’s 5th Anti-Money Laundering Directive. These changes will be made over the next three years. Through to 2021, the three islands will work with the EU to connect the three central registers to make them accessible to the relevant authorities.⁵¹ While the UK has been vocal about overseas British territories making beneficial ownership registers open to the public, there has been considerable difficulty in finding a common ground with its dependencies and overseas territories. Bermuda, for example, has stated that beneficial ownership registers cannot be made open to the public because it would go against the secrecy provision in the *Bermuda Monetary Authority Act*.⁵² The UK overseas territories minister is set to visit the Cayman Island for the pre-joint ministerial council meeting with overseas territorial leaders in June 2019.⁵³

Latin America and the Caribbean

A majority of countries in this region have legislated definitions of beneficial ownership, even though most of them do not comply with FATF requirements. Regulation, however, is very uneven.⁵⁴ Various countries in this region have started the process of establishing beneficial owner registries or demand that such information is either recorded in commercial registries or reported to authorities at registration. The European model is very much the inspiration for the direction of travel in this part of the world.

In terms of compliance with FATF and Global Forum recommendations, the Bahamas, Belize, Barbados, Colombia, Costa Rica, Guyana, Jamaica, Peru, and Trinidad and Tobago have partially adhered to the rules. Other countries haven’t or there are those who comply to elements of FATF rules but not the Global Forum’s and vice versa. Argentina, Brazil, Costa Rica, Peru, Uruguay, Colombia, Dominican Republic, and Trinidad and Tobago have all established beneficial ownership registries or are in the process of doing so. Colombia, Peru, Trinidad and Tobago, and the Dominican Republic are setting them up informed by the EITI framework.

USA

Ironically, in the USA, bipartisan legislation requiring disclosure of beneficial ownership of corporate entities at incorporation has existed since 2008 but has never been successfully passed.⁵⁵ In the April 2018 edition of Transparency International's assessment of beneficial ownership legal frameworks in the G20,⁵⁶ while lauding improvements made by France, Germany, and Italy since a similar assessment in 2015,⁵⁷ noted the US's transparency framework assessment rose from "weak" in 2015 to "average" in 2018. The US obtained a score of 50 percent or below in TI's assessment of seven of the ten G20 principles. In three, it received particularly low marks, for example in acquiring beneficial ownership information and access to beneficial ownership information.

In March 2019, the House Financial Services Committee released three proposed bills, one of these the *Corporate Transparency Act of 2019* that defines a beneficial owner and further seeks to ensure that those who form legal entities in the country disclose the beneficial owners of these entities. The Act would work to amend the *Bank Secrecy Act (BSA)* and compel the Secretary of Treasury to set minimum standards for state incorporation practices so those setting up corporations would have to report beneficial owner information and continuously.⁵⁸

Lessons and challenges thus far

- Beneficial ownership is now the leading issue in the global anti-corruption and tax justice movement. Additionally, the beneficial ownership register has come to be widely accepted as the tool of choice in this area. The norm setters in this regard are the FATF, EITI, and the OECD Global Forum.
- In 2019, the FATF reported that lack of due diligence regarding individuals setting up companies is a weakness that will need to be addressed for registers to be effective.
- The FATF further found that supervision of professional intermediaries such as company formation agents is a significant weakness in many countries. Indeed, they found that due diligence in offshore jurisdictions is often better than in onshore ones where this is concerned.
- A cohort of experienced civil society organizations now comprise a significant body of knowledge regarding the lessons learnt in implementing beneficial ownership regimes. These include Transparency International, the Tax Justice Network, EITI, Natural Resource Governance Institute, and Open Ownership. In both Africa and Asia, EITI is a significant norm-setter.
- The capacity, financing, and logistical challenges in implementing a beneficial ownership regime are considerable especially in developing countries. In particular, setting up a beneficial ownership register implies significant resourcing requirements to establish and maintain it. Secondly the governance arrangements for managing these registers are still nascent. Thirdly, managing the data itself, especially ensuring accessibility from multiple jurisdictions is a challenge still being explored. Fourth, ensuring that the data is accurate, reliable, and can be verified is essential. Fifth, data protection and privacy concerns must be robustly addressed.

- Though evidence is very preliminary, beneficial ownership registers can help fight corruption, improve the business environment, and address counter terrorism finance. There is also initial evidence from the UK that the beneficial ownership register increases the efficiency of law enforcement.
- Beneficial ownership regimes that are public serve to improve public accountability, especially as a result of the access to beneficial ownership data by the media and civil society.
- The business community's concerns around privacy and confidentiality of data as well as the reporting burden will have to be credibly addressed.
- The low levels of compliance with global beneficial ownership standards by the US and China currently undermines efforts at normalizing them internationally.

The Pathfinders for Peaceful, Just and Inclusive Societies is a group of UN member states, international organizations, global partnerships, civil society, and the private sector. We work to accelerate the delivery of the SDG targets for peace, justice and inclusion (SDG16+). Pathfinders is hosted by the NYU Center on International Cooperation.

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Endnotes

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- ¹² In the coming months, the FATF is expected to release its assessment of global best practice vis-à-vis beneficial ownership and will carry out another review between 2019 and 2022.
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²⁴ “...in bearing down on money laundering, corruption, tax evasion, terrorist financing and fraud. Much of the money, as the Paradise Papers and the Panama papers make clear, passes through British Overseas Territories. Public registers help us understand who owns what and how these ill-gotten gains are flowing... The National Crime Agency has calculated that £90 billion is laundered through the UK each year – that is truly startling. This laundering is done, by and large, through British Overseas Territories which are central to this nefarious activity... 85,000 properties in the UK are owned by companies incorporated in our tax havens, and half of those properties in the UK are in just two London boroughs. Some 40 percent are acquired with Russian money and bought through shell companies incorporated in our tax havens. Sunlight is the best disinfectant...” Rt. Hon. Andrew Mitchell, “Sanctions and Anti-Money Laundering Bill [Lords],” *Hansard* Volume 640, May 1, 2018; accessed May 15, 2019, [https://hansard.parliament.uk/Commons/2018-05-01/debates/9BE03BAC-2539-4951-88A2-9A8A20D7A1A3/SanctionsAndAnti-MoneyLaunderingBill\(Lords\)](https://hansard.parliament.uk/Commons/2018-05-01/debates/9BE03BAC-2539-4951-88A2-9A8A20D7A1A3/SanctionsAndAnti-MoneyLaunderingBill(Lords)).

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