



## Session Report

**Session Title:** Signatures for Sale: A Look Inside the Corporate Secrecy Industry

**Date & Time:** Thursday, 06.12.2022, 9.30 am – 11.00 am GMT -5

**Report prepared by:** Neha Maryam Zaigham, Monitoring & Evaluation and Communications Officer, Stolen Asset Recovery (StAR) Initiative, World Bank/UNODC

**Moderated by:** Sol Krause, Crime Prevention and Criminal Justice Officer, Stolen Asset Recovery (StAR) Initiative, World Bank/UNODC

### **Panellists:**

- Daniel Nielson – University of Texas / StAR Initiative consultant: Signatures for Sale?
- Simon Bowers - Investigations Editor, Finance Uncovered: Agents of Secrecy
- James Cohen – Executive Director, Transparency International (TI) Canada

### **Share the thematic focus of the session, it's purpose and corruption risks?**

With this session, the StAR Initiative, Finance Uncovered, and TI Canada aimed to promote a wide debate about how to stop the abuse of untraceable shell companies in financial crime, improve regulation of enablers, and safeguard the financial system and professions against becoming safe havens for corrupt funds.

Despite major improvements in beneficial ownership rules in the past years, anonymous shell companies remain one of the most common means of facilitating corruption, financial crime and global flows of dirty money. Such companies are often created and administered by professional corporate service providers (CSPs) who openly advertise a slew of secrecy services to international clients shopping for anonymous corporate structures. Nominee and mail-forwarding services are often a key part of the subterfuge whereby a corporate puppet obscures the identity of the puppet master.

Rather than being peripheral to the broader beneficial ownership transparency agenda, these secrecy mechanisms represent a major – but largely underappreciated – point of vulnerability in the ongoing global campaign to curb the use of untraceable shell companies in financial crime.

Illicit corporate networks commonly split company formation, asset ownership, bank account, and professional intermediaries across different countries to exploit loopholes in national regulation - this makes it difficult for authorities in any single country to see the full picture. Marketing materials openly selling nominee and other secrecy services as a “signature for sale” are a stark reminder that beneficial ownership rules do not enforce themselves.

The workshop explored these issues against the backdrop of the European Court of Justice ruling on public access to BO information in registries in the EU which invalidated the 5<sup>th</sup> AMLD’s provision on public access to registries.

## Summary of panellists’ contributions & discussion points (please be as detailed as possible)

**Moderator (Sol Krause, Crime Prevention and Criminal Justice Officer, Stolen Asset Recovery (StAR) Initiative, World Bank/UNODC):**

- Highlighted significant advances in beneficial ownership rules noting however, that shell companies still facilitate corruption, especially through the use of nominee services and mail forwarding options. More attention needs to be paid to loopholes in transparency rules, such as the deliberate marketing of nominee directors/nominee shareholders to obscure the beneficial owner.
- Gave a brief description of what a nominee is and noted that nominees have many legitimate uses. However, they are one of the most common devices for hiding the identity of those controlling shell companies, and they are especially prevalent among the most problematic parts of the company formation industry.
- Clarified that the EU Court of Justice judgment which invalidated general public access – but actually confirmed that civil society organizations and media have a legitimate interest and should have access to BO information.

Speakers covered three recent reports and investigations that have exposed questionable practices of the corporate secrecy industry and highlight mechanisms designed to evade corporate transparency rules:

**Daniel Nielson, University of Texas/StAR Initiative consultant: Signatures for Sale? How Nominee Services for Shell Companies are Abused to Conceal Beneficial Owners. 2022.** Published by the StAR Initiative.

- The report draws evidence from a global “mystery shopping exercise” based on thousands of solicitations for shell companies, as well as marketing information from shell company providers. The goal of the mystery shopping is to test compliance with international beneficial ownership rules in practice. Responses from CSPs from 2019 to 2021 provide the most systematic and direct picture yet of how shell companies are marketed, sold and their uses.

- Speakers pretended to be the beneficial owner when reaching out to CSPs and received some blatant marketing for nominee services to guarantee anonymity for their clients. [noted in the next section].
- Approximately 20,000 inquiries sent to CSPs in virtually every jurisdiction in 2019 and 2020, with 3,373 live responses willing to do business, 473 offered nominee services without prompting. Effectively 14% proposed nominee arrangements unbidden. Study found no significant evidence to suggest that nominee offers would decrease when beneficial owner demanded secrecy.
- Nominees need to be a core part of the beneficial ownership discussion. What we see officially in law as statutory requirements in countries may not reflect the reality on the ground.

**Simon Bowers - Investigations Editor, Finance Uncovered: Agents of Secrecy:** How Russia-facing company formation agents took over the darkest corners of corporate Britain 2022. Published by Finance Uncovered and the BBC.

- Using thousands of documents from leaked datasets, incl. Panama and Pandora Papers, journalists identified and tracked the five busiest company formation networks selling anonymous UK shell companies to clients across the former Soviet Union.
- Anonymous UK shell companies have been the vehicle of choice for many multi-billion dollar laundering operations in the CIS region in the last 15 years. They featured heavily in the Russian Laundromat, the Azerbaijani laundromat, the Moldovan bank fraud scandal, the Deutsche Bank Russian mirror trade scandal, the Danske Estonia scandal and Yanukovich-era kleptocracy in Ukraine. Journalists also showed how just a handful of formation agency networks have dominated the supply of corporate secrecy vehicles to the former Soviet Union for more than a decade, with 4 service providers creating more than half of the shell companies in the UK [which are in the thousands]. This reality also sheds light on the fact that if only a few key players' work can be disrupted, it would impact the whole money-laundering structure.
- The goal of this reporting project was to show that, despite the UK government's 2016 claims to have set an international "gold standard" in corporate ownership transparency, experienced formation agency networks were quickly able to circumvent these rules and continue to build and market UK shell companies.
- Company formation agencies discovered the U.K.'s new transparency rules did not apply to certain types of partnerships which led to the creation of thousands of new limited partnerships under the laws of Scotland which was initially not covered. When UK strengthened its ownership transparency rules and included Scottish partnerships as well, the company formation agencies quickly began forming thousands of anonymous Limited Partnerships in England and Wales, hundreds of which are still active today.
- The same agencies have sought to replicate these structures in other countries too like Canada, Denmark and Ireland. There needs to be endless ingenuity to address the problem as there are constant efforts to circumvent the rules and regulations implemented by countries.

**James Cohen - Executive Director, Transparency International (TI) Canada:** Snow-washing, Inc: How Canada is marketed abroad as a secrecy jurisdiction. 2022. Published

by TI Canada, Publish What you Pay, and Canadians for Tax Justice.

- This report describes case studies of international formation agents who market Canada as a desirable destination to store funds in a limited partnership. Canada is marketed based on low law enforcement oversight, weak beneficial ownership transparency, and the idea that no one thinks of Canada as a traditional secrecy jurisdiction.
- FATF's mutual evaluation report in 2016 found Canada to be lacking on beneficial ownership transparency and by its second review, was still one of the worst countries in that regard. There are no BO registries in Canada and lawyers do not have to submit suspicious transaction reports
- Canada does not feature on the radar of agencies, organizations or journalists as being a friendly jurisdiction for money laundering and this point was not lost on the intermediaries of the world who started advertising Canada as the perfect place for storing funds in limited partnerships. The whole idea of snow washing is to bring your dirty money to Canada, and it will be cleaned as white as snow
- The opaque BO framework in Canada is not lost on money launderers so started digging in on enablers who are marketing Canada as a new player in the world of offshore companies and discovered how money launderers in Vancouver fill hockey bags full of money which are given to gamblers in the parking lots of casinos, coming from Macao who go in and get cashed in for chips, play a bit and then get a certified casino check which they can take to any bank.
- Canada works so well because of lack of proper framework, anonymous and can be run from abroad, no independent oversight and a white-listed country.
- Trying to make a federal corporate BO registry which may not be the biggest and Canadian provinces are a part of this global system so need to acknowledge it and understand that it is not only a problem for the federal government and needs to be tackled collectively.

The moderator then presented the panel's five draft policy recommendations which are aimed at addressing some of the issues raised by the speakers. The moderator requested a show of hands for how many participants felt that the recommendations did not go far enough and roughly half of the room raised their hands.

One speaker highlighted the fact that corporate secrecy is not in itself illegal, but it aids those looking to commit illegal acts in moving money.

Given that beneficial ownership is a cross-cutting policy issue, it is important to focus on pushing forward the case for beneficial ownership registries by underscoring its benefits to business and not only money laundering. Create a case around having a competitive advantage in business dealings with foreign jurisdictions, providing SMEs with equal footing given full information on all enterprises can be found through registries.

## **Main outcomes of session (include quotes/highlights and interesting questions from the floor)**

Nominee arrangements – and other practices employed by the corporate secrecy industry – are not peripheral to the broader beneficial ownership transparency agenda. Nominees

need to be a core part of the beneficial ownership discussion - they are a major but underappreciated point of vulnerability in efforts to increase corporate transparency.

The workshop shed light on questionable practices of the corporate secrecy industry and highlighted mechanisms designed to evade corporate transparency rules. It challenged the notion of “offshore secrecy” in small island nations by exposing weaknesses in the UK’s and Canada’s beneficial ownership frameworks.

The discussion highlighted the need to strengthen regulation of corporate service providers, nominee arrangements, and policing beneficial ownership registries through more rigorous verification checks. Given the growing trend towards establishing BO registries and the continued challenges in enforcing data accuracy in such registries and cross-border cooperation between law enforcement agencies, these measures are critical for the overall success of transparency reforms.

**Quotes:**

*“Nominee service is basically renting another person’s name to protect the identity of the real beneficial owner...The sole purpose of our nominee service is to keep the real beneficial owner’s information confidential and their roles are restricted to that of company formation” – Correspondence from CSP to authors of ‘Signatures for Sale’ in 2020.*

*“Would you like to be anonymous where your ex-spouse, boss, renters, mooching friends and family, and the government doesn’t know your business? Our nominee service keeps your name and contact information off public records by listing a nominee name and contact information instead of yours.” - Offer by U.S. corporate service provider to researchers, 2020.*

*“Canada is a new player in the world of offshore companies ... it has no negative offshore reputation and no association with tax avoidance or evasion ... providing offshore benefits without any of the traditional offshore drawbacks.” - TI Canada, Snow-washing, Inc.*

*“Canada, as a high taxation country, is not a bad front at all, it is actually a very useful cover for almost all types of offshore companies.” - TI Canada, Snow-washing, Inc.*

- Marketing of Canada as a viable destination for storing funds under limited partnerships

*“We need to talk about the real-world consequences of corporate secrecy. For example, did you know that the source of the ammonium nitrate that led to the devastating explosion in Beirut’s port in 2020 was hidden by a go-between shell company that was registered in the UK and had a nominee from Cyprus who was listed as the company director and the beneficial owner on the UK’s register. In reality, this nominee absolutely no involvement in or knowledge about the company.” - Sol Krause, Crime Prevention and Criminal Justice Officer, Stolen Asset Recovery (StAR) Initiative, World Bank/UNODC*

*“I will go back and make sure Canada is added to our high-risk countries list”- Head of Financial Intelligence Unit*



*“We have never been involved in the management or control of any of these companies or any other company, where we were appointed as signatories.” – A nominee after being approached by Finance Uncovered with questions about his involvement with certain English Limited Partnerships*

## Key recommendations for the future and concrete follow-up actions

The panel organizers (StAR), together with the speakers, collectively prepared five draft policy recommendations that were presented to the audience and discussed during the session. Audience participants shared thoughts on the proposed recommendations. Comments from the floor on the panel’s proposed policy recommendations:

- Rec. 1: Support for the concept of layered access to beneficial ownership registries in countries where there is pushback to public access
- Rec 1: adding a reference to accessing data in bulk to allow analysis
- Rec. 3: in the context of sanctions and enforcement, highlighting the utility of risk-based approach to make it practical and target available resources
- Need to name enablers
- More accountability for CEOs for misdeeds and need a law in many countries which actually makes the CEO of companies that allow enabling also responsible
- Adding a recommendation on how beneficial ownership impacts asset recovery work

The panel organizers slightly revised the draft policy recommendations based on feedback and jointly released their [recommendations on December 14, 2022](#):

Joint statement by the StAR Initiative, Transparency International Canada,  
and Finance Uncovered

### Signatures for Sale: A Look Inside the Corporate Secrecy Industry

*Our session at IACC 2022 shed light on questionable practices of the corporate secrecy industry and highlighted mechanisms designed to evade corporate transparency rules. In particular, nominees are a major but underappreciated point of vulnerability in efforts to increase corporate transparency. Measures to address misuse of nominees need to be a core part of policy efforts to improve transparency of corporate entities.*

#### **POLICY RECOMMENDATIONS**

1. Countries should step up AML regulation and supervision of corporate service providers, and crack down on frequently implicated enablers of corruption, money laundering, and kleptocracy by enforcing sanctions. This includes strengthening the regulation of nominee services, for example through transparency requirements, licensing requirements, or through a register of nominees.

2. Beneficial ownership registries should develop mechanisms to detect undisclosed nominee relationships and adopt other verification checks using a risk-based approach.
3. Registries should place greater emphasis on applying sanctions for false declarations of beneficial ownership to enforce compliance with beneficial ownership rules, while distinguishing between inadvertent and administrative errors and deliberate falsehoods.
4. Countries should adopt anti-SLAPP laws and whistleblower protection laws to protect journalists and their sources and foster a healthy, competitive media environment for exposing corruption, kleptocracy, and their enablers.
5. Governments and bar associations should clarify that the provision of company formation, administration and related corporate services by legal professionals is not covered by attorney-client privilege protections.
6. Countries should use multiple policy objectives of beneficial ownership registries when considering an appropriate balance between rights to privacy and corporate transparency, including anti-money laundering, anti-corruption, anti-fraud, prevention of conflicts of interest, and business integrity.

### **What can be done to create opportunities for scaling up the solutions discussed in the session? And by whom?**

**Addressed above in draft policy recommendations**

**Is there a specific call to action to key stakeholders, such as governments, businesses, funders, civil society, young people, journalists or any other stakeholder that should be noted?  
Please specify if relevant.**

**Addressed above in draft policy recommendations**

### **Rapporteur's name and date submitted**

**Neha Maryam Zaigham, 06.12.2022**