



THE B TEAM



ENDING ANONYMOUS COMPANIES:

**TACKLING CORRUPTION AND
PROMOTING STABILITY
THROUGH BENEFICIAL
OWNERSHIP TRANSPARENCY**

THE BUSINESS CASE

JANUARY 2015

Reinvent Incentives: Encourage government policies, corporate structures and tax systems that deliver the best outcomes for people and the planet, helping capital flow towards delivering true returns.

Drive Full Transparency: Be open, transparent and free from corruption with good governance and accountability at all levels.

Join us.

“Improving the transparency of legal persons and arrangements is important to protect the integrity and transparency of the global financial system.”

G20 HIGH-LEVEL PRINCIPLES ON
BENEFICIAL OWNERSHIP TRANSPARENCY

“Action on beneficial ownership transparency benefits us all: it increases the stability of the financial system, ensures countries can benefit from their own resources and enables law enforcement to track down the true perpetrators of crime and corruption.”

DR. MO IBRAHIM
FOUNDER OF CELTEL INTERNATIONAL AND
THE MO IBRAHIM FOUNDATION

EXECUTIVE SUMMARY

WE BELIEVE THAT ENDING ANONYMOUS COMPANIES IS GOOD FOR BUSINESS.

INSTITUTING BENEFICIAL OWNERSHIP TRANSPARENCY HAS FOUR MAIN BENEFITS FOR BUSINESS:

- **Increasing competitiveness;**
- **Reducing risk by knowing who you are doing business with;**
- **Managing financial exposure and increasing stability; and**
- **Reducing impunity.**

The premise that corruption is bad business practice is not new; there is a committed, vocal and active group of businesses on this issue, such as those who form the Partnership Against Corruption Initiative in the World Economic Forum. What we now need is an equally strong consensus and commitment for business to act around one systemic solution: the elimination of anonymous companies.

Corruption is bad for business, adding up to 10% to the cost of doing business globally, and is equivalent to a 20% tax on foreign businesses. It undermines competition and financial stability, and undercuts investments in human capital and sustainable development. While developing countries suffer the worst losses from illicit financial flows, corruption is a global problem with bribery occurring in developed economies, and corrupt monies finding safe harbour in anonymous companies in OECD countries.

Anonymous companies, companies whose ownership is difficult or impossible to discern, are the “get away vehicle” for corruption—the common thread between various acts of crime, corruption and schemes to defraud investors. Companies are one of the great inventions in legal history and anonymous companies pervert their purpose and form. Ethical and effective businesses do not require anonymous companies, yet such businesses may suffer the consequences of their use by business partners, or be targeted by patent trolls hiding behind them.



Dr. Mo Ibrahim in discussion with Chairman Gooch, Global Witness co-founder and TED Prize Recipient.

Photo credit: DAMON DAHLEN | Photo Editor | AOL Huffington Post



Photo credit: DAMON DAHLIEN | Photo Editor / AOI, Huffington Post

Dr. Mo Ibrahim urging B Team Leaders to work on beneficial ownership transparency at their June 2014 meeting.

THERE ARE TWO MAIN WAYS THAT BUSINESSES CAN ACT TO SUPPORT BENEFICIAL OWNERSHIP TRANSPARENCY:

- **Implementing transparency and anti-corruption measures within companies; and**
- **Advocating for the implementation or adoption of G20 Beneficial Ownership Principles by governments.**

Momentum is growing for governments to act on beneficial ownership transparency. In November 2014, the G20 Leaders agreed to a set of [High-Level Principles](#) listing “concrete measures G20 countries will take” to implement beneficial ownership transparency and in December 2014, the EU adopted the Fourth Anti-Money Laundering Directive, which requires countries to create central registers listing the ultimate owners of companies. The B Team welcomes these developments. A globalised norm of beneficial ownership transparency backed up by harmonised regulation will contribute to a more level playing field for competition, greater financial stability and less impunity for crime and corruption. We believe is time for business to get on board, **and we hope that you’ll join us.**

Working together, business, government and civil society can globalise the norm of beneficial ownership transparency and end anonymous companies. Doing so will mean more competitive markets, more stable financial systems, and more sustainable development. This is good for business, and it is good for people and the planet.

INTRODUCTION

“Corruption, and the perception of corruption, erodes trust in governments, businesses and markets. ... Corruption also undermines growth and development. On the one hand, businesses forego innovation and competitiveness for bribery. On the other hand, individuals within governments divert funds for their own personal use that should be used to promote the well-being of people. By ending impunity and holding corrupt people to account, we can begin to restore faith in our institutions and industries.”

ANGEL GURRIA, OECD SECRETARY GENERAL, 2014

In November 2014, the G20 Leaders made a landmark statement in support of corporate transparency and openness, by agreeing to a set of [High-Level Principles](#) listing “concrete measures G20 countries will take” to implement beneficial ownership transparency.

The Principles commit the G20 countries to ensuring that all companies under their jurisdiction know who their beneficial owners are and that the authorities are able to easily access that information, while providing some flexibility for how they do so. In December 2014, the European Union updated its Anti-Money Laundering Directive to require countries to have a central registry listing the ultimate owners of companies.

The B Team welcomes these developments. We support widespread *beneficial ownership transparency*—to help reduce corruption and illicit financial flows, make the financial system more stable and business more competitive. Momentum to eliminate anonymous companies and adopt this simple but powerful tool is greater than ever before.

THE CASE AGAINST CORRUPTION

“Corruption increases the costs and risks of doing business, restricts cross-border trade, and is a major deterrent to investment.”

B2O COALITION, DRIVING GROWTH AND JOBS:
B2O POLICY RECOMMENDATIONS TO THE G20, 2014.

Corruption harms us all. It undermines competition and financial stability, and undercuts investments in human capital and sustainable development. Developing countries suffer the worst effects of corruption, with almost 6 trillion dollars estimated to have left developing countries through illicit financial flows over the past decade¹ (GFI, 2013). However, corruption is not a problem that is happening only in developing countries. The OECD’s recent study of 427 foreign bribery cases since 1999 found that almost half of them involved bribery of public officials from countries with high to very high levels of development (OECD, 2014). Bribery is concentrated in four sectors: extractives; construction; transportation and storage; and information and technology (ibid). This is not just a problem of rogue employees: over half of cases involved corporate management or CEOs (ibid.).

CORRUPTION IS BAD FOR BUSINESS

Corruption adds up to **10%** to the total cost of doing business globally, and up to **25%** to the cost of procurement contracts in developing countries.

Estimates show that the direct cost of corruption equals more than **5%** of global GDP (US \$2.6 trillion), with over US \$1 trillion paid in bribes each year.

Moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be equivalent to a **20%** tax on foreign business.

Source: ICC, TI, UN Global Compact and WEF, “Clean Business is Good Business: The Case against Corruption,” 2011, 2.

¹ This encompasses both corruption involving government officials as well as trade practices used to hide illicit activity, including corruption.

THE CASE AGAINST ANONYMOUS COMPANIES

“So-called ‘anonymous companies’, in which the corporate veil is used to conceal illegal activities, have no place in a modern economy and bring the entire business sector into disrepute.”

SIMON WALKER, DIRECTOR GENERAL OF THE UK INSTITUTE OF DIRECTORS



Corporations, partnerships, and other government-created entities are one of the great inventions in legal history. They provide financial protection for individuals to open and operate businesses without gambling their personal livelihoods. It did not occur to early creators of the corporate form that one day people might also use it to hide their identities; safeguards were not built into the incorporation process to prevent it.

Today, the incorporation process in many countries is quick and easily accessible, and individuals can acquire this independent legal and fiscal personality without providing information about who is in control of the company. This has had the unintended side effect of making anonymous companies popular fronts for illicit activities. Anonymous companies facilitate many types of criminal activity, can obscure major risks in business relationships, and are often created solely for use as a criminal smokescreen rather than as a legitimate business vehicle.

ANONYMOUS COMPANIES: THE GET AWAY VEHICLE FOR THE CRIMINAL OR CORRUPT

75%

**OF FOREIGN BRIBERY
CASES IN THE PAST 15 YEARS HAVE
INVOLVED "INTERMEDIARIES",
INCLUDING SUBSIDIARIES OR OTHER
CORPORATE VEHICLES (OECD, 2014, 8)**

The U.S. is the favourite destination for corrupt politicians from around the world to set up companies to move or hide dirty money (World Bank and UNODC, 2011).

This is, in part, because it is easy to set up a company in the U.S. without disclosing who the owners are: A recent study found that of 60 countries sampled worldwide, only Kenya makes it easier. The study showed how little time it took to find a U.S. corporate service provider willing to set up a company with anonymous owners when inquiries contained red flags for corruption or even terrorism (Findley et al, 2014).

Patent trolls², often using anonymous shell companies to file lawsuits, are costing the companies they target over \$80 billion per year in lost profits and legal costs (Bessen, Ford and Meurer, 2012).

70%

**OF THE 213 BIGGEST CORRUPTION
CASES BETWEEN 1980 AND 2010 INVOLVED
ANONYMOUS SHELL COMPANIES
(WORLD BANK AND UNODC, 2011)**

² Patent trolls are companies or individuals who obtain large numbers of unused patents and then threaten to sue major corporations for infringement, hoping to extract a monetary settlement just to make the case go away, even if the claim has no legitimate basis. Because courts are much less charitable to serial trolls, these litigants often use anonymous companies to hide their real identity.

THE CASE FOR BENEFICIAL OWNERSHIP TRANSPARENCY

“We must eliminate the corporate fox-holes that criminals cover in, and ensure business accountability and transparency.”

JON ADLER, NATIONAL PRESIDENT OF THE US FEDERAL
LAW ENFORCEMENT OFFICERS ASSOCIATION (FLEOA)



The G20 Principles represent the recent and rapid development of international consensus on the need for beneficial ownership transparency. In 2013, the G8 made a declaration along similar lines. In December 2014, the European Union adopted a provision to require every EU country to implement central registries of beneficial ownership. The United Kingdom and Denmark have already begun to develop their own systems to do so. A global norm of beneficial ownership transparency would have significant benefits for business and for sustainable development.

“Our objective in this area is to make it clear to governments that the business interest lies in the widest possible international commitment to anti-corruption rules, so that we may compete on a level playing field on a sound ethical and legal basis.”

PAUL SKINNER, CHAIRMAN, RIO TINTO, UNITED KINGDOM

There are four critical reasons for corporations and business leaders to support beneficial ownership transparency.

1 Increasing competitiveness

Corruption distorts markets by not allowing the best and most competitive companies to win contracts or have their projects and developments approved. Corruption removes public monies that could support investments in human capital and economic development—all contributors to economic growth and sustainable development. Making beneficial ownership transparency a global norm, and a global reality, can increase competitiveness in national markets, while making sure that there is a level playing field where the same rules apply to all companies in all jurisdictions. For this reason, the B20 Coalition of business associations from G20 countries has called for a consistent approach to beneficial ownership transparency that produces harmonised regulation from the start (B20, 2014).

2 Reducing risk by knowing who you are doing business with

Transparency in beneficial ownership helps companies know who they are doing business with and can reduce the costs of due diligence if information is more easily available. Consultations by the Financial Action Task Force and the European Commission have found that leading banking associations are in favour of increased beneficial ownership transparency as it would help facilitate their due diligence obligations (FATF, 2011; European Commission, 2012). Knowing who you are investing in or trading with can better inform investment decisions (Institute of Directors, 2013). Greater disclosure can therefore reduce the risk of misallocated capital.

With increasing legal frameworks sanctioning bribery of a foreign official, beneficial ownership transparency can reveal entities that are owned or controlled by a foreign official as part of due diligence. Settlements in the past five years under the U.S. Foreign Corrupt Practices Act (FCPA) alone have cost businesses \$3.8 billion (FCPA, 2013) not including legal expenses, post-settlement expenses like periodic reporting or independent monitors, or penalties in other jurisdictions. Companies with hidden owners are a frequent feature in FCPA cases, including in some of the largest enforcement actions to date. Damage to companies is not only limited to financial penalties, but includes significant reputational damage and individual criminal liability. While incorporating beneficial ownership into due diligence with potential business partners or suppliers would likely entail costs, the benefits of avoiding potential sanctioning could be significant.

3 Managing financial exposure and increasing stability

The global financial crisis made clear the difficulty of gauging risk exposure within a complex web of financial transactions. Many investors and financial institutions were unable to determine their exposure to collapsing investment banks because they could not be sure whether they were investing in or had exposure to those banks' subsidiaries. Beneficial ownership transparency supports more effective risk management due to greater knowledge of exposure through initiatives such as the Legal Entity Identifiers established by the Financial Stability Board, as well as action by national governments. Increasing transparency increases stability within the international financial system.

4 Reducing impunity

Beneficial ownership transparency supports law enforcement—within and across borders—to track down those responsible for corruption and crime. Currently, global detection rates of illicit funds by law enforcement are estimated to be as low as 1 per cent for criminal proceeds and the seizure rate is thought to be even lower, at 0.2 per cent (UNODC, 2011). Impunity breeds distrust of companies and governments. Improving seizure would enable government revenues to go back into economic and human development. Action on beneficial ownership transparency has also been estimated to lead to significant savings in terms of police time (HM Treasury/DTI, 2002).

“Companies themselves recognize this as a commonsense approach ... because they want more information on who they’re doing business with and what risks they are taking on.”

SIR MARK MOODY-STUART, FORMER CHAIRMAN OF ROYAL DUTCH SHELL AND ANGLO-AMERICAN PLC



These are the business reasons why we emphatically support beneficial ownership transparency. As global leaders, we see the damage that corruption, money laundering, and fraud cause, and the economic and human toll these activities can have. We envision a future where the purpose of business is to be a driving force for social, environmental and economic benefit. This is incompatible with corrupt business practice, including the practice of hiding behind an anonymous front to evade legal obligations.

“Transparency of beneficial ownership has the potential to deliver significant gains in the fight against corruption because it allows illicit financial flows to be more easily traced and makes it harder for people to benefit from the proceeds of corruption and crime.”

B20 COALITION, DRIVING GROWTH AND JOBS:
B20 POLICY RECOMMENDATIONS TO THE G20, 2014.

WHAT ARE WE DOING ABOUT IT AND HOW CAN YOU HELP?

There are two main ways we will be taking action to support beneficial ownership transparency, and we hope that you'll join us.

1 Implement transparency and anti-corruption measures

Although the G20 Principles do not specify how countries must implement the proposed measures, businesses should take note of the core tenet of the Principles: that companies should know who their beneficial owners are and maintain adequate, accurate, and current information on them. For large companies, this also means understanding internal corporate structures and making sure that subsidiaries, wherever located, know where they are within that structure. Some companies may choose to register entities within their group with [Legal Entity Identifiers \(LEIs\)](#) and to support a global system that assigns a unique number to any legal entity created anywhere in the world.

Leading by example is core to how The B Team operates, and we are developing ways to enable greater transparency—including in the area of beneficial ownership—in our own corporate structures and supply chains. We see this work as an investment—we believe that the value of knowing with whom we are doing business, whether as a partner, supplier, or customer, significantly outweighs the costs of providing, collecting, and interpreting that information. It is through work to prepare for and shape the changes that are coming in G20 countries that business will come to a better understanding of the benefits and costs of such action.

We urge businesses to work together through platforms such as the World Economic Forum's Partnership Against Corruption Initiative to find the best ways to be transparent about beneficial ownership within our own structures and operations, and to adhere to the highest anti-corruption standards.



G20 Leaders agreed to Beneficial Ownership Principles at their meeting in Brisbane, Australia in November 2014.

2 Advocate to your governments to implement or adopt the G20 Beneficial Ownership Transparency Principles

The G20's adoption of beneficial ownership principles started the process of globalising the norm that governments need to be able to access beneficial ownership information. The more global this norm and its implementation become, the more level the playing field for companies wherever they do business.

While the G20 Principles set out a clear policy prerogative to its member countries and a strong example for others to follow, they largely leave choosing the specific measures for implementation up to the countries themselves. Some, like the United Kingdom and Denmark, have announced that they plan to collect beneficial ownership information in a central, national register that is open to the public. Others have similar central registers in which they could collect information, but only make it available to law enforcement. In the United States, where companies are registered at the state level, a number of different moves towards beneficial ownership transparency have been proposed, but none yet adopted. The Financial Action Task Force, which promulgates international standards for anti-money-laundering laws and practice, [recently published a report](#) detailing a number of ways in which countries could meet these standards.

The B Team advocated for the G20 to adopt beneficial ownership principles and will now be promoting their implementation. The B Team encourages an open discussion across sectors to inform how best to implement the G20 principles, including the need to balance obligations to publish with legitimate privacy concerns.

All businesses in G20 countries can play a positive and constructive role in promoting implementation and pushing for action. As businesses work to maintain adequate, accurate, and current information on beneficial ownership in advance of implementation, they can advocate on the form and shape of regulation based on their experiences.

In non-G20 countries, business can advocate for the adoption of such principles in order to globalise the norm and level the playing field for business.

CONCLUSION



There is now a committed, vocal and active group of businesses, such as those businesses who form the Partnership Against Corruption Initiative at the World Economic Forum, who believe that corruption is bad for business. Now, we need an equally strong consensus and commitment to act around one systemic solution: the elimination of anonymous companies.

We believe that beneficial ownership transparency can help restore trust, stability, competitiveness and accountability. There are strong business reasons for supporting it: increasing competitiveness; reducing risk by knowing who you are doing business with; managing financial exposure and increasing stability; and reducing impunity. There are also broader reasons to support it, such as its contribution to sustainable development by reducing the billions of illicit financial flows leaving countries that truly need those resources for their own human development.

Business can take up the cause of beneficial ownership, immediately, in two main ways:

- Implementing transparency and anti-corruption measures within their businesses; and
- Advocating to governments to implement or adopt the G20 Principles on Beneficial Ownership.

The B Team strongly believes that driving full transparency is not only better business, but also better for business. We are committed to leading by example and supporting strong public policies in favour of transparency. In the coming year our Working Group will be driving work on beneficial ownership transparency within some of our companies, sharing our experience and advocating for continued government action on this issue. **We encourage our fellow business leaders to act alongside us.**

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The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyze a better way of doing business, for the wellbeing of people and the planet.

Founded in the belief that the private sector can, and must, redefine both its responsibilities and its own terms of success, the B Team is developing a 'Plan B' for concerted, positive action that will ensure business becomes a driving force for social, environmental and economic benefit.

Plan A—where business has been motivated by profit alone—is no longer an option

The B Team is focused on driving action to meet a set of global business Challenges that underpin Plan B—by starting 'at home' in their own companies, taking collective action to scale solutions and using their voice where they can make a difference.

Leaders include Sir Richard Branson, Arianna Huffington, Dr. Mo Ibrahim, Guilherme Leal, Strive Masiyiwa, Blake Mycoskie, François-Henri Pinault, Paul Polman, Ratan Tata, Zhang Yue, Professor Muhammad Yunus and Jochen Zeitz

For more information go to www.bteam.org

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Global Witness

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Thank-you to Heather Lowe, Josh Simmons and Liz Confalone from Global Financial Integrity, and May Miller-Dawkins and Kate Ormiston Smith for their research and contributions to this report.

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