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Challenges in Identifying Beneficial Ownership

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**Capacity Building Workshop on Exposing the
Unseen Hands: Tackling Concealment of
Beneficial Ownership
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Challenges in Identifying Beneficial Ownership

Chandana Ravindranath
Director, Financial Transparency and Regulatory Policy
US Department of the Treasury

Beneficial Ownership – Why Do We Care?

- Illicit actors misuse legal entities to disguise their true ownership and access the financial system anonymously to facilitate money laundering, enable corrupt actors to hide their ill-gotten gains, and to commit other financial crimes.
- This lack of transparency hinders law enforcement and other investigations, limiting governments' ability to effectively combat money laundering, corruption, and other significant national security threats.
- Protecting the international financial system from abuse requires collecting beneficial ownership information when an entity is formed, and ensuring law enforcement has access to it.

Beneficial Ownership – Nature of the Problem

The Problem:

- Poor global implementation of FATF beneficial ownership (BO) standards for company formation and customer due diligence (CDD)
- Lack of current, accurate beneficial ownership information impedes investigations, international cooperation and sanctions compliance
- Front and shell companies can pose significant challenges, including related to sanctions evasion

Beneficial Ownership – Nature of the Problem: Example

- Human traffickers establish front companies to hide the true nature of a business, its illicit activities and its owners and associates.
- There are strong indicators of the use of anonymous companies for money laundering and human trafficking. For example, only 21 percent of the 6,000 business records found for illicit massage businesses name the owner, and even in those cases, the information may not be legitimate.
- When insufficient controls are in place, law enforcement have to expend time and resources to track beneficial ownership information, and human traffickers benefit from ready access to financial systems to maintain their enterprises.

Beneficial Ownership – Challenges for LEAs



- If beneficial ownership information is not readily available – time-consuming process and can significantly delay investigations
- Investigators may need subpoenas, witness interviews, or foreign legal assistance to unveil the true ownership structure of shell or front companies associated with serious criminal conduct.
- A lack of accurate and up-to-date information also may undermine financial institutions' ability to determine which of their clients pose compliance risks, which may in turn harm a bank's ability to guard against money laundering.

Beneficial Ownership – Potential Solutions



- Effectively implement international standards, like the FATF standards.
- The FATF's Guidance on Transparency and Beneficial Ownership, found in FATF Recommendations 24 and 25, states that countries should take measures to prevent the misuse of legal persons [such as shell companies, corporate structures, and other entity structures] for money laundering and terrorist financing by ensuring that legal persons are sufficiently transparent.
- This also includes assessing the risk these vehicles pose and communicating ways to mitigate these risks.

Beneficial Ownership – Potential Solutions

- Information sharing within governments
 - This includes risk assessments that are drafted and circulated among agencies
 - To work together so all agencies have an understanding of the risks posed by a lack of transparency of beneficial ownership
- Information sharing within region and other governments
- Public and private sector engagement
 - Where practical, publish risk assessments
 - Information sharing
 - Guidance (by way of advisories, etc.)

Questions?