

The identification of beneficial owners in the fight against money laundering

Final report of project
BOWNET - Identifying
the beneficial owner
of legal entities in the
fight against money
laundering networks

www.bownet.eu



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*Final Report of Project BOWNET - Identifying the beneficial owner of legal entities in the fight against money laundering
(HOME/2010/ISEC/AG/FINEC-010)*

www.bownet.eu

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Foreword

This Final report presents the results of Project **BOWNET – Identifying the beneficial owner of legal entities in the fight against money laundering** (www.bownet.eu).

Project BOWNET has been carried out with financial support from the Prevention of and Fight against Crime Programme of the European Union - European Commission, DG Home Affairs, and has been developed by an international consortium led by **Transcrime – Joint Research Centre on Transnational Crime** (www.transcrime.it) and constituted by five other partners: EBR – European Business Register (Belgium), Ministry of Economy and Finance - Directorate V - Prevention of use of the financial system for illegal purposes (Italy), FIU Denmark / SAOEK - State Prosecutor for serious Economic Crime (Denmark), UniCredit S.p.A. (Italy) and PricewaterhouseCoopers S.p.A. (Italy).

Project BOWNET is a feasibility study aimed at determining what information is available and what is needed to develop a support system which could be used by Financial Intelligence Units (FIUs), Law Enforcement Agencies (LEAs), Asset Recovery Offices (AROs), financial intermediaries and legal professions in the fight against money laundering, and in particular to identify beneficial owners who conceal themselves behind suspicious corporate entities.

In particular, Project BOWNET has **three objectives**:

- 1) Understanding how EU competent authorities and intermediaries operate in investigations aimed at identifying the BO of suspicious corporate entities, what are their problems and needs and what information they use;
- 2) Identifying where this information is stored, how it can be accessed and what are the problems related to its dissemination;
- 3) Exploring how the available information could be collated to improve the activity of EU competent authorities and intermediaries in this field.

This Final report presents the results of all the analyses carried out during the project¹. It provides a number of suggestions for EU policy and regulatory initiatives in the AML field and it offers a range of proposals concerning support systems which could then help EU competent authorities and intermediaries when investigating the beneficial ownership of suspicious corporate entities.

¹ The Introduction specifies the exact correspondence between BOWNET activities and the contents of this Final report.

Glossary and acronyms

3AMLD: Directive 2005/60/EC or Third Anti Money Laundering Directive

4AMLD: Fourth Anti Money Laundering Directive

AML: Anti-Money Laundering

ARO: Asset Recovery Office

BO: Beneficial Owner / Beneficial Ownership

BR: Business Register

CCA: Counter Crime Agency

CDD: Customer Due Diligence

CFT: Countering the Financing of Terrorism

DNFBP: Designated non financial business or profession

EC: European Commission

EDD: Enhanced Customer Due Diligence

FATF: Financial Action Task Force

FIU: Financial Intelligence Unit

KYC: Know Your Customer

LEA: Law Enforcement Agency

ML: Money Laundering

MS: Member States

OC: Organized Crime

OS: Ownership Structure

SDD: Simplified Customer Due Diligence

SS: Support System; IT: Information Technology

TF: Terrorism Financing

Executive summary

Project BOWNET determined what information is available and what is needed to develop a support system which could be used by EU FIUs, LEAs, AROs, financial intermediaries, and legal professions in the fight against money laundering, and specifically to identify beneficial owners (BOs) who conceal themselves behind corporate entities.

In particular the study addressed three issues:

1. Understanding how EU **competent authorities and intermediaries operate** when identifying the BOs of suspicious corporate entities, what their problems and needs are, and what information they use;
2. Identifying where **this information is stored**, how it can be accessed, and what are the problems related to its dissemination;
3. Exploring how the available **information could be collated to improve BO identification** activity by EU competent authorities and intermediaries.

What are the current practices of EU competent authorities and intermediaries in identifying the BOs of suspicious corporate entities? What information do they use?

As regards the first issue, after a review of the main international and EU standards in terms of BO identification (**Chapter 1**), the study analysed the findings of two surveys: on EU LEAs, FIUs, AROs (**Section 2.1**) and on EU financial intermediaries and DNFBSs (**Section 2.2**). The surveys highlighted that **data on shareholders and directors** represent the information most frequently used for BO identification purposes by both the categories, and that **business registers** constitute the data source most frequently accessed.

However the analysis found that significant problems exist regarding **access** to business registers, especially **foreign ones**. Additional concerns refer to the **timeliness** of the information provided by BRs (in terms of both level of update and access to historical records) and to their **accuracy and reliability**, since it is not easy to understand if data are verified, and by whom. According to both EU competent authorities and intermediaries, if new tools are to be helpful and effective, they should perform the **direct collection** of data from BRs and **collate them** so as to reconstruct the ownership structure especially of cross-border corporate schemes (which are the ones most important in transnational money laundering cases).

The analysis of software (**Section 2.3**) evidenced that there is a **lack of tools** able to handle data on shareholders and directors, whilst most of the software on the market has been designed to perform KYC and CDD tasks and to deal mainly with watchlists (e.g. PEPs, blocked persons and companies, etc) and open sources.

Where is the information stored? How can it be accessed? What are the problems related to its dissemination?

The analysis of EU business registers (**Section 3.1**) and of other public and commercial business information providers (**Section 3.2**) highlighted that there is a **lack of interconnections** among EU registers: more than 80% of the 150 data providers analysed in fact cover only one country at a time, so that it is difficult to perform cross-

border queries, which are the most effective in tackling transnational ML networks.

The analysis also showed that **data on beneficial owners** are provided by only four EU BRs. Much more widely available is **information on directors and shareholders**: whilst 92% of the BRs analysed make the names of directors available, only two-thirds of EU BRs provide the names of shareholders. Much less publicly available is additional information such as the dates of birth, addresses, ID/Passport numbers of directors and shareholders, which would be of great help in cases of homonymy. However, to be noted is that these data are often stored within BRs and, although not public, could be **obtained by competent authorities upon request**.

The analysis of business information providers also highlighted a lack of **standardization in terms of data formats** (with PDF being the most common format, although not always OCR-readable) and a lack of **ownership and control information** as regards unlimited companies, associations and foundations (whilst limited companies are well covered).

To be pointed out in this regard is that **commercial data providers** often guarantee a wider geographical coverage and a wider array of information and services, but they are often too expensive for EU competent authorities' needs. In addition, there are concerns about the accuracy of the data disseminated by these secondary sources.

How can information be collated to improve BO identification activity by EU competent authorities and intermediaries? What EU policy and regulatory initiatives could be taken? What IT support systems could be developed?

As regards the third issue, the study has identified two directions which could be followed in order to address the gaps and thereby improve BO identification activity by EU stakeholders (**Section 4.1**).

The first is to **strengthen the access and the dissemination** of ownership and control information through **policy or regulatory initiatives to be taken at EU level**. In this regard a set of suggestions to EU policy makers and regulators was provided (**Sections 4.2 and 4.3**), including the recommendation to identify the **minimum basic company information** to be held at BR premises (relative to companies' shareholders and directors) and to strengthen the **interconnection of EU BRs** (by supporting existing initiatives in this sense, such as full implementation of Directive 2012/17/EU).

The second is to **develop new support systems** which could make better and more effective use of the available information (**Chapter 5**). In particular, a range of tools were suggested (**Section 5.2**): these varied in terms of both their impact on EU investigators' practices and their feasibility. The purpose of these systems would be primarily to **facilitate the access to BRs**, especially foreign ones, and to retrieve data from registers based in different countries, so that investigators could **perform cross-border investigations** on the ownership and control of EU corporate entities.

It is recommended that the EU support the development of such tools which, because they **collect and collate only existing and public available information**, would not pose significant problems in terms of data privacy and would not require substantial modifications to the EU company law environment.

Introduction

Criminals and criminal organizations often make use of companies and other corporate entities to hide their identity, conceal illicit flows of money, launder funds, finance terrorist organizations, evade taxes, create and hide shell funds, commit bribery, corruption, accounting frauds and other financial crimes (WEF 2012; World Bank and UNODC 2011; Transcrime 2007; FATF 2006; OECD 2002). These legal entities are frequently organized into complex ownership schemes set up in different countries, and with a “Chinese boxes” structure, in order to make it harder to determine who ultimately controls them (World Bank and Unodc 2011; Transcrime 2007).

For this reason, identification of the beneficial owners² hiding behind suspicious corporate entities has become crucial in the fight against money laundering and terrorist financing. It has resulted, at both international and EU level, in a wide range of guidelines, recommendations and provisions applicable not only to law enforcement agencies but also to intermediaries and professionals (see Chapter 1 for a review).

At EU level the identification of beneficial owners has become a pillar of the entire anti-money laundering (AML) framework. The Third EU AML Directive (Directive 2005/60/EC) requires intermediaries such as banks, auditors, accountants, lawyers and notaries **to identify**, as part of a Customer Due Diligence (CDD) activity, **the beneficial owners** of their clients and to take “*risk-based and adequate measures to understand the ownership and control structure of the customer*” (Directive 2005/60/EC, article 8, par. 1, letter b). The Fourth EU AML, whose preliminary draft is being issued while this report is being written, confirms the centrality of BO identification in combating the misuse of corporate entities for money laundering purposes.

However, despite the wide attention paid to this issue, a number of questions remain unanswered:

- What are the practices adopted by EU competent authorities and intermediaries for identifying the BOs of suspicious corporate entities?
- What information do they use?
- Where is this information stored? Who provides it? What are the gaps in the dissemination of this information?
- How to address the existing gaps? How to improve the access to information and hence the identification of BOs?

- How can the available data be collated and how can new support systems be developed in order to improve BO investigations by EU competent authorities and intermediaries?

Project BOWNET has been conceived precisely to address these questions.

Project BOWNET activities

In order to do so, a number of activities have been carried out. They are reported in Table 1, which also lists the research questions which they address and the correspondent chapters of this Final report.

Activity 1 aimed at identifying and assessing the available information, at EU level, as regards the shareholders, directors, beneficial owners and the ownership structures of EU listed companies: where such information is stored, in what data format, how it can be accessed, at what costs, and under what conditions. **Activity 2** did the same in regard to unlisted companies and corporate entities registered in EU business registers, while **Activity 3** focused on the technical and legal issues which may arise from the integration of data originating from different databases, countries and jurisdictions: e.g. differences in terms of corporate transparency requirements, corporate information dissemination, data format, or the types of repositories in which they are stored.

To this end, the following tasks were carried out, including a **survey on EU business registers**, a desk based research analysis of other business information providers, interviews with selected EU stakeholders and a review of the main EU and international standards as regards the dissemination of ownership and control information of EU corporate entities.

Activity 4 aimed at understanding how EU LEAs, FIUs, AROs operate when they investigate the ownership structures of suspicious corporate entities. In particular, it sought to identify the current practices, data and software used by competent authorities in BO identification activities. **Activity 5** repeated the same research with respect to financial intermediaries and other designated non financial business or professionals (DNFBPs) covered by EU AML regulation. Finally, **Activity 6** summarized the results of Activities 4 and 5 and sought to understand what needs should be addressed in terms of new data and software so as to improve the BO and OS identification activities by EU LEAs, FIUs and intermediaries.

To this end, the tasks carried out included a **survey on EU competent authorities and intermediaries**, a review of the main software used in the AML field, and in particular in CDD/KYC activities, a collection of case studies of investigations on

² See Chapter 1 for a more precise definition of the notion of beneficial owner.

the BO of EU suspicious companies and a significant number of interviewees with EU stakeholders in this field.

During **Activity 7** a conference was organized in Milan to discuss how the results of the previous activities could be taken into account to provide suggestions to EU policy makers for future EU policy and regulatory initiatives in this field and to develop a range of proposals for a support system which could be used by EU competent authorities and intermediaries for BO identification purposes. In particular it was considered:

- whether a support system is really necessary, given the available data and the already existing software;
- what data and information it could retrieve and process;
- what functions or tasks it could perform;
- to which category of end-users it should be made available.

Activity 8 hence developed a range of proposals about support systems, which were then presented, together with all the other results of the analysis carried out during Project BOWNET, to EC officers and other stakeholders in Brussels during **Activity 9**.

The analysis performed in Activities 1, 2, 3, 4, 6 and 8 resulted in **6 reports**. In order to provide a more comprehensive and clear overview of the project results, the **reports have been grouped together and translated into this Final report**. In particular, each of the activities correspond to one (or more) chapters of this document, as shown in Table 1 and described below³.

Structure of Project BOWNET Final report

This Final report is structured so as to reflect the activities of Project BOWNET and to present the results of all the analyses carried out.

Chapter 1 provides a brief introduction from a regulatory perspective. In particular, section 1.1 provides a definition of *beneficial owner*. Section 1.2 reviews the main international and EU standards and provisions which regulate the identification of beneficial owners in the AML field and regulate the dissemination of information as regards the shareholders, directors and beneficial owners of EU corporate entities.

Chapter 2 focuses on the current practices of BO identification adopted by EU competent authorities (section 2.1) and intermediaries (section 2.2). Section 2.3 provides a review of AML software used in CDD/KYC activities while finally a range of case studies of investigations around the BO of suspicious EU corporate entities (section 2.4) is presented.

Chapter 3 presents the results of the analysis of EU business registers (section 3.1) and of other business information providers (section 3.2). Figures and statistics are provided which show what information is available as regards the shareholders, directors, beneficial owners and the ownership

structures of EU corporate entities, where such information is stored, how it can be accessed, and at what costs.

Chapter 4 summarizes the findings of the analysis in previous chapters and provides an array of guidelines which could be used either for future EU policy and regulatory initiatives in this field or for developing new IT support systems for BO identification purposes.

Chapter 5 presents a range of proposals for support systems which could be developed to improve the activity of EU competent authorities and the intermediaries subject to EU AML provisions, especially with regard to the identification of the BOs of suspicious corporate entities.

Annexes contain additional information, databases and specifications of the methodology used to collect and analyze the information.

³ More specifically, the reports of Activities 1, 2 and 3 correspond to chapters 1 and 3; Activities 4 and 5 to Chapter 2 and the reports of Activity 6 to chapter 4 and of Activity 8 to chapter 5

Table 1. Project BOWNET structure: research questions, project activities and chapters of the Final report

BOWNET Research questions	Correspondent chapter(s) of the Final Report	BOWNET Activities Number	BOWNET Activities Description
What are the practices adopted by EU competent authorities for identifying the BO of suspicious corporate entities? What information do they use?	Chapters 1 and 2	Activity 4	Analysis of the data, software and current practices used by EU competent authorities when investigating the BO of suspicious corporate entities.
What are the practices adopted by EU intermediaries for identifying the BOs of suspicious corporate entities? What information do they use?	Chapters 1 and 2	Activity 5	Analysis of the data, software and current practices used by EU financial intermediaries and DNFBPs subject to EU AML provisions when investigating the BO of suspicious corporate entities.
Where is this information stored? Who provides it? What are the gaps in the dissemination of this information?	Chapters 3	Activity 1	Assessment of available information as regards shareholders, directors, beneficial owners and the ownership structures of EU listed companies.
	Chapters 3	Activity 2	Assessment of available information as regards shareholders, directors, beneficial owners and the ownership structures of EU unlisted companies and corporate entities.
	Chapters 1 and 3	Activity 3	Identification and analysis of legal and technical issues (e.g. differences in corporate transparency requirements across EU MS, differences in data formats, or in types of repositories where they are stored, etc).
How to address the existing gaps? How to improve the access to information and the identification of BOs and OSs?	Chapters 4	Activity 6	Analysis and summary of the results of Activities 4 and 5 and identification of the needs which should be addressed in terms of new data and software so as to improve the BO and OS identification activities by EU LEAs, FIUs and intermediaries.
How can the available data be collated and how can new support systems be developed in order to improve BO investigations by EU competent authorities and intermediaries?	Chapter 5	Activity 7	Conference among Project partners and stakeholders to discuss results of previous analysis and consider a range of proposals for support systems
		Activity 8	Development of a range of proposals for support systems
		Activity 9	Public presentation to EC and EU stakeholders of the results of Project BOWNET

Chapter 1

Beneficial ownership: what is it? Why is it crucial in the fight against money laundering?

1.1 Beneficial ownership: definitions and critical issues

The origin of the concept of *beneficial ownership* is generally traced back to the development of trust law in the United Kingdom during the Middle Ages (World Bank and UNODC 2011). While crusaders were abroad, someone had to tend their lands with full *legal ownership* powers (e.g. for deciding which crop should be cultivated, or which farmhand should be hired). However, the crusaders maintained ultimate control over their land so that, on their return home, they could recover the relevant benefits resulting from that control, such as the products from the harvest or rights of way. In this light, the beneficial owner can be defined as: **the natural person who ultimately controls something and who ultimately benefits from that control.**

Adopted here is a much narrower definition, which concerns only the beneficial owners of companies or other legal entities. Reference can be therefore made to the definition provided at international level by the Financial Action Task Force (FATF) in its 40 Recommendations, and specifically within the *General Glossary*, which defines Beneficial Owner as:

“the natural person(s) who ultimately⁴ owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement” (FATF 2012, 110).

Adopting a EU perspective, while awaiting the final version of the Fourth EU AML Directive, reference can still be made to the definition provided by the Directive 2005/60/EC⁵ (Third Anti Money Laundering directive or 3AMLD), which draws largely on the FATF one and defines the BO as:

“the natural person(s) who ultimately owns or controls the customer and/or the natural person on whose behalf a transaction or activity is being conducted. The beneficial owner shall at least include:

(a) in the case of corporate entities:

(i) the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership or control over a sufficient percentage of the shares or voting rights in that legal entity, including through bearer share holdings, other than a company listed on a regulated market that is subject to disclosure requirements consistent with Community legislation or subject to equivalent international standards; a percentage of 25 % plus one share shall be deemed sufficient to meet this criterion;

(ii) the natural person(s) who otherwise exercises control over the management of a legal entity”.

(b) in the case of legal entities, such as foundations, and legal arrangements, such as trusts, which administer and distribute funds:

(i) where the future beneficiaries have already been determined, the natural person(s) who is the beneficiary of 25 % or more of the property of a legal arrangement or entity;

(ii) where the individuals that benefit from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates;

(iii) the natural person(s) who exercises control over 25 % or more of the property of a legal arrangement or entity” (Directive 2005/60/EC, article 3, par. 6).

⁴ The references to “ultimately owns or controls” and “ultimate effective control” concern situations in which ownership/control is exercised through a chain of ownership or by means of control other than direct control.

⁵ Directive 2005/60/EC of The European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, Official Journal of the European Union, L 309, 25 November 2005.

In most EU Member States, the definition of beneficial owner has been transposed literally (Deloitte 2011, 51). However, some differences among EU MS can be identified. The Deloitte study distinguishes between *threshold differences*, i.e. cases in which the 25% threshold is lowered, and *wording differences*, i.e. cases in which some specifications or clarifications to the 3AMLD are provided. In general, the latter seem more common (see Deloitte 2011, 52-61 for a detailed review of



EU MS). In particular, wording specifications refer to concepts such as “control” or to the definition of BO in the case of legal arrangements or with reference to specific control devices (e.g. bearer shareholdings).

Despite the large number of specifications and guidelines issued at national level, however, some critical issues concerning the definition of BO can still be identified. According to the Deloitte study, in approximately 15 EU MS stakeholders agree that the definition of BO “is clear and not too wide” (Deloitte 2011, 65). In other EU MS, divergences exist even within the same category of stakeholder. This is not surprising because concepts such as “ownership”, “control” and “management” are among those most debated in the economic and financial literature, for example in the application of the principal-agent theory to corporate governance (for a review see, e.g., Mallin (2007); Tirole (2006); Barca and Brecht (2001); Morck (2000); La Porta, Lopez de Silanes and Shleifer (1998)).

With strict regard to BO some dichotomies can be identified. They are summarized as follows:

1.1.1 Good beneficial owners versus bad beneficial owners

Are beneficial owners *bad* by definition? In other words, does the concept of beneficial owner refer to a person who intentionally uses a company or a legal entity to hide his/her identity, assets, and activities for criminal purposes? Some of the literature usually adopts this perspective. For example, the *Puppet Masters* report by World Bank and UNODC defines the BO as “the person (or group of people) who have an interest in or control over *ill-gotten gains* (property or financial assets)

and who are trying to conceal the fact through the misuse of corporate vehicles” (World Bank and UNODC 2011).

A neutral approach is also possible. This refers to BOs as any person benefiting from ultimate ownership or control over a corporate entity, whatever the purpose of that control. This is the perspective adopted, for example, by the 3AMLD: indeed, according to the directive, any shareholder of more than 25% of a company, and effectively controlling her/his share, can be considered a beneficial owner in light of this definition. And clearly shareholders are not always *bad*. This report adopts the latter perspective.

1.1.2 Quantitative approach versus qualitative approach

According to the quantitative approach, the holding of a certain percentage of shares or voting rights of a legal entity constitutes sufficient grounds for a person to be identified as its BO. At EU level this threshold has been set at 25% of the share capital (or of the voting rights or of the property) (Directive 2005/60/EC, article 3, par.6).

However, in some cases a quantitative perspective cannot be adopted. For legal entities or arrangements such as trusts or foundations it would not make sense to speak about share capital or voting rights, and at the same time it would be very difficult to understand who ultimately benefits from the 25% of the assets or of the property entitled to the legal entity (see 1.1.3 and in particular Box 1). Generally speaking, there is no perfect coincidence between *ownership* and *control*: the possession of one fourth of the share capital of a company may not be enough to control it, for example if there is another shareholder holding the remaining 75% of the company and

acting against the benefit of the minority shareholder. Vice versa in some cases it is possible to exercise control over a corporate entity without holding any share of its capital or voting rights: for example, it may happen that companies are *de facto* controlled by powerful managers or administrators who hold positions within the entity without any shareholding⁶ (REF).

Finally, a person may exercise control over a corporate entity or a group of corporate entities through other means without either holding a share of the capital or a position within the management of the corporate entity, e.g. by influencing the actual shareholders on the basis of some kinship relation or according to some other type of affiliation (e.g. criminal, political, etc). This kind of indirect control is mandatory if, for example, the beneficial owner is forbidden, for managing or controlling a company because of previous convictions for bankruptcy frauds (see for example Box 2 and 3) or if she/he is a Politically Exposed Person (PEP).

1.1.3 Corporate entities versus legal arrangements

Whilst, as shown above, defining the BO of corporate entities raises problems, defining the BO of legal arrangements such as trusts, fiduciaries, foundations and associations is even more complicated.

According to some EU stakeholders, the definition of BO does not cover all types of legal entities (Deloitte 2011, 66). In the case of trusts, foundations or associations it is not always easy to apply quantitative thresholds and to identify the beneficiary(ies) of a certain percentage (e.g. 25%) of the funds or of the property held by the entity. This applies in particular to “legal arrangements, such as associations, where property or funds are not a relevant aspect and there is no ownership or control by the associates on the same” (Deloitte 2011, 66). In many cases, such as those of investment funds or trusts themselves, it is not always possible to recognize a single beneficiary, while only a class of persons can be identified⁷. In the case of trusts, it is thus common practice to identify all standard parties: settlor, trustee and beneficiary (see Box 1).

The problem of identifying the BOs of legal arrangements is crucial because these kinds of legal persons have been often considered particularly vulnerable to possible misuses for illicit purposes (Transcrime 2007). Nevertheless to be noted is that, in the review by World Bank and UNODC of grand corruption investigations, only 5 percent of the corporate vehicles identified were trusts (World Bank and UNODC 2011). A similar analysis conducted by Transcrime on approximately 1800 companies confiscated from mafia-type organizations in Italy between 1983 and 2012 suggests that only a few of them were controlled through fiduciaries or other legal arrangements (Transcrime 2013, 202-207).

However, the importance of preventing the misuse of such corporate vehicles has been widely recognized within international regulatory frameworks and standards (see subsection 1.2). The FATF Rec. no. 25 invites countries to take “measures to prevent the misuse of legal arrangements for money laundering or terrorist financing. In particular, countries should ensure that there is adequate, accurate and timely information on express trusts, including information on the settlor, trustee and beneficiaries, that can be obtained or accessed in a timely fashion by competent authorities” (FATF 2012, 22).

⁶ In fact, they are normally appointed by the “owners”, i.e. the representative of the shareholders in order to manage the legal person.

⁷ For example, the UK definition explicitly makes reference to the case of trusts, identifying as the beneficial owner of a trust “(a) any individual who is entitled to a specified interest in at least 25% of the capital of the trust property; (b) as respects any trust other than one which is set up or operates entirely for the benefit of individuals falling within sub-paragraph (a), the class of persons in whose main interest the trust is set up or operates; (c) any individual who has control over the trust” (quoted in Deloitte 2011, 61).

1.1.4 Legal persons *versus* Natural persons

Both the definitions provided by the FATF and the 3AMLD identify the beneficial owner as the *natural* person controlling a legal entity. This implies that the ultimate control of a legal entity cannot be held by another legal person, but necessarily

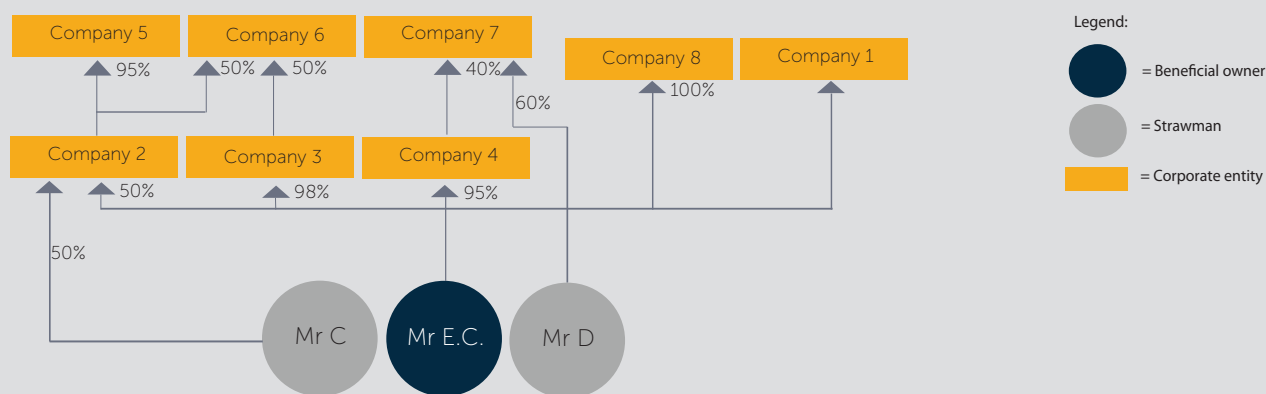
by a natural one. Even in the case of a “Chinese-boxes” ownership scheme, characterized by many connections and cross-shareholdings, a natural person or a group of natural persons controlling the ownership structure always exists. It is this group of individuals that an investigation into beneficial owners must address (see Box 2).

BOX 2

Natural persons and “Chinese boxes” schemes

In 2007 seven companies were confiscated by the Italian judicial authorities from Mr E.C., alleged to be linked with mafia-type groups operating in Sicily. Mr E.C. was the single owner of the individual company 1, and held direct shareholdings in three limited-liability companies (Companies 2, 3 and 4). Through the latter he held indirect shares in the share capital of three further limited-liability companies (Companies 5, 6 and 7). This complex ownership structure was ultimately controlled by the natural person Mr E.C., who was therefore the beneficial owner of the entire group. Through this ownership scheme, he laundered illicit funds and controlled a large share of the construction industry in eastern Sicily, often acquiring public contracts in a fraudulent manner (Transcrime 2013, p. 201).

Figure 2. Ownership structure of the group of companies controlled by Mr E.C.



Source: Transcrime 2013

The control chain has been reconstructed by retrieving information from the Italian business registry and other private business information providers, and by collecting information from open sources such as LEA reports, the press, internet.

1.1.5 Investigators approach *versus* intermediaries approach

The definition of beneficial owner also depends on who is going to identify her/him and on the purpose for which the identification is made. Intermediaries are usually asked to verify the BO of a corporate entity when entering a business relationship with that entity. At EU level they will hence refer to the provisions set out by the EU AMLD Directives and by the relevant national guidelines. As part of a CDD measure they will rely on a set of information provided by the clients (e.g. company statute or memorandum of interests) and other information retrieved from the relevant business registry (e.g. the list of shareholders or of the board of directors) and other commercial data providers. On the basis of this available information they will identify the BO in order to fulfil EU AMLD obligations or, in other words, with the *legal* definition of BO in mind. It is also true that the real identity of the BO may be revealed only after a while

in the course of the business relationship (World Bank and UNODC 2011).

In their turn, investigators such as FIUs or LEAs operating in the AML field usually start an investigation into a BO on the presumption that someone is concealing his/her identity behind a company or a complex ownership structure for certain criminal purposes. They attempt to identify the BO of the suspicious corporate entity by collecting as much as information as possible from various sources, including company documents and business registers, but also open sources, family trees, and criminal records. Investigators go well beyond the *legal* definition of BO by adopting an operational definition which does not limit to what provided by the EU AML regulation.

While a more detailed description of the current practices of intermediaries and investigators in BO identification activities will be provided in Chapter 2, it is worthwhile here to consider how the two categories could approach the case described in Box 3.

BOX 3

The Camorra entrepreneur and his strawmen

This is a clear example of how criminals can control a network of corporate entities without either holding part of the share capital or a position within the managements of the entities controlled.

Figure 3. Ownership structure of the group of companies controlled by Mr R.S.



Source: Transcrime 2013

In the 2000s three companies (Company A, B and C), operating in the construction and mining industry, were confiscated by the judicial authorities in a southern Italian region. The major shareholders of the three companies were Mrs A.I., Mr N.S. and Mr D.S., whose shareholdings, on the basis of the EU AML regulation, would be deemed sufficient for them to be considered the beneficial owners of the corporate entities. However, after more detailed analysis of other information, and in particular of their family ties, it was discovered that the three individuals were respectively the partner and the sons of Mr R.S., an Italian entrepreneur convicted in 2005 for membership of a Camorra clan (Anselmo and Braucci 2008, 254) who then was identified as the ultimate beneficial owner of the entire group. The use of strawmen by Mr R.S. can be explained both by his intent to conceal his mafia connections and by a previous conviction for bankruptcy fraud which prevented him from controlling or managing a company directly (Transcrime 2013, 204).

Mr R.S.'s purpose in appointing his relatives was to keep the benefits of concealment of his criminal identity, but at the same time to maintain "in-house" control over the companies. To be noted in this regard is that relatives of mafia-group members are quite commonly present in the ownership structures of corporate entities controlled by Italian organized crime groups (Transcrime 2013, 202-203).

1.2 The identification of beneficial owners: standards, guidelines, regulations

As anticipated in the introduction, the misuse of corporate entities for illicit purposes such as money laundering or terrorist financing has received increasing attention from governments, authorities, and policy makers, and it has become a priority on the international agenda. Consequently, identification of the beneficial owners behind suspicious corporate entities has been set as a crucial measure in AML and CFT strategies.

In the past fifteen years, a number of guidelines and standards referring to BO identification have been issued by major international organizations, such as the FATF, the UN, the OECD, the World Bank and the WEF (see subsection 1.2.1), and BO identification has become a pillar of the entire EU AML regulatory framework (subsection 1.2.2).

1.2.1 International standards and guidelines

Table 2 presents a non-exhaustive list of the most important guidelines issued in the past fifteen years at international level with reference to BO identification. They will be described in more detail below.

Table 2. International guidelines on BO identification

Organization/ Agency	Document / Guidelines	Year
OECD	<i>Behind the Corporate Veil – Using Corporate Entities for Illicit Purpose Report</i> , in particular Part III	2001
FATF	<i>FATF Recommendations</i> (in particular 2012 Recommendations 10, 24, 25)	1990, 1996, 2003, 2012
United Nations	<i>UN Convention against Corruption (UNCAC)</i>	2003
Egmont Group	<i>Best Practices for the Exchange of Information Between Financial Intelligence Units</i>	2004
World Bank	<i>The Puppet Masters Report</i>	2011
WEF	Global Agenda Council on Organized Crime <i>Organized Crime Enablers Report</i>	2012
Basel Committee on Banking supervision	<i>Customer Due Diligence for banks</i>	2001
Wolfsberg Group	<i>Wolfsberg Anti-Money Laundering Principles for Private Banking</i>	2000, 2002, 2012

OECD 2001 Guidelines

In 2001, the Financial Stability Forum (FSF) commissioned the Organization for Economic Co-operation and Development (OECD) to develop mechanisms to reduce the vulnerability of corporate vehicles to misuse for illicit purposes.

Guidelines were accordingly included in a report entitled *Behind the Corporate Veil – Using Corporate Entities for Illicit Purposes*, in which the OECD stressed that “to successfully

combat and prevent the misuse of corporate vehicles for illicit purposes, it is essential that all jurisdictions establish effective mechanisms that enable their authorities to obtain, on a timely basis, information on the beneficial ownership and control of corporate vehicles established in their own jurisdictions” (OECD 2001, 75).

In this regard, the OECD set three objectives (“Fundamental Objectives”), namely:

- beneficial ownership and control information must be maintained or be obtainable by the authorities;
- there must be proper oversight and high integrity of any system for maintaining or obtaining beneficial ownership and control information;
- non-public information on beneficial ownership and control must be sharable with other regulators/supervisors and law enforcement authorities, both domestically and internationally (OECD 2001, 75).

According to the OECD, these three objectives could be achieved in three ways:

- 1) Through **up-front disclosure to the authorities**, which would require the same companies and corporate entities to disclose their BO to the authorities at the establishment or at the incorporation stage (OECD 2001, 77);
- 2) Through an **intermediary option**, which would require corporate service providers and other professionals to obtain, verify, and retain records on the beneficial ownership (OECD 2001, 81);
- 3) Through an **investigative system**, under which information on beneficial ownership is collected only when illicit activity is suspected or when such information is required by authorities (OECD 2001, 83).

This menu of possible options becomes crucial as the FATF and then national and supranational standards decide to adopt one perspective or another (see here below).

FATF Recommendations

The recommendations issued by the Financial Action Task Force (FATF-GAFI)⁸ are still the most important reference at international level in the AML field. They are recognized as benchmarks to which national and supranational governments, including the EU Commission, refer when setting up or amending AML and CTF regulations. The first version of FATF recommendations was issued in 1990. It was then revised in 1996, 2001, 2003 and, lastly, in February 2012.

Although the term *beneficial owners* appears only in the 2003 version, since the very first draft of the recommendations (1990) the FATF has asked financial institutions to verify the “true identity of the persons on whose behalf an account is opened or a transaction conducted [...] in particular in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc)” (FATF 1990, Rec. 13).

⁸ The FATF is an inter-governmental policy making body founded in 1989 as a result of the G7 Summit initiative. Its mandate is the promotion of effective, legal and operational measures to combat money laundering (ML), the financing of terrorism (FT) and other threats to the stability and the integrity of the financial system at international level. The FATF was tasked with examining money laundering trends, reviewing AML actions already taken at national and international level, and putting in place measures that still remain to be taken.

Drawing on the previous version, the 1996 one specifies the information which financial institutions should verify. This information, which can be obtained either from a public register or the customer itself, include for example “proof of incorporation, including information concerning the customer’s name, legal form, address, directors and provisions regulating the power to bind the entity” (FATF 1996, Rec. 10(i)).

As anticipated above, the **FATF 2003 Recommendations** are the first explicitly to use the term *Beneficial Owner*. In order to counter “the increased use of legal persons to disguise the true ownership and control of illegal proceeds” (FATF 2003, 3), they introduce BO identification and verification within customer due diligence (CDD) procedure, to be performed by intermediaries on “a risk sensitive basis” (FATF 2003, Rec. 5). In particular, the CDD requires financial institutions to take “reasonable measures” to identify and verify the identity of BO “such that the financial institution is satisfied that it knows who the beneficial owner is” (FATF 2003, Rec. 5).

It is evident that the 1990, 1996 and 2003 versions of FATF Recommendations adopt an **intermediary-based approach**, i.e. they place financial institutions and other intermediaries at the centre of the AML system, entitling them to collect and verify information about their customers’ BOs. The role of up-front disclosure is much narrower, being limited to Rec. 33 and 34, which suggest that “countries could consider measures to facilitate access to beneficial ownership and control information to financial institutions” (FATF 2003, Rec. 33).

The **FATF 2012 Recommendations**, while maintaining and strengthening the CDD obligations upon financial institutions (FATF 2012, Rec. 10), move, through the interpretative notes to Rec. 24, towards a **stronger up-front disclosure system**. In particular they:

- Identify a set of company minimum basic information items about the ownership of corporate entities which should be recorded by companies or company registries (FATF 2012, Interpretative note to Rec. 24, A).
- Recommend countries to ensure that information on the BO of a company is available either at the company level or, to a lower extent, at the company registry level (FATF 2012, Interpretative note to Rec. 24, B).

More specifically, as regards company minimum **basic information** it is worth quoting the Interpretative note to Rec. 24 (emphasis by the authors):

“A. BASIC INFORMATION

3. In order to determine who the beneficial owners of a company are, competent authorities will require certain basic information about the company, which, at a minimum, would include information about the **legal ownership and control structure of the company**. This would include information about the **status and powers** of the company, its **shareholders** and its **directors**.

4. **All companies created in a country should be registered in a company registry**⁹. Whichever combination of mechanisms is used to obtain and record beneficial ownership information (see section B), there is a set of basic information on a company that needs to be obtained and recorded by the company¹⁰ as a necessary prerequisite. The **minimum basic information to be obtained and recorded by a company** should be:

(a) company name, proof of incorporation, legal form and status, the address of the registered office basic regulating powers (e.g. memorandum & articles of association), a list of directors; and

(b) a register of its shareholders or members, containing the names of the shareholders and members and number of shares held by each shareholder¹¹ and categories of shares (including the nature of the associated voting rights).

5. **The company registry should record all the basic information set out in paragraph 4(a) above.**

6. The company should maintain the basic information set out in paragraph 4(b) within the country, either at its registered office or at another location notified to the company registry. However, if the company or company registry holds beneficial ownership information within the country, then the register of shareholders need not be in the country, provided that the company can provide this information promptly on request.

9 “‘Company registry’ refers to a register in the country of companies incorporated or licensed in that country and normally maintained by or for the incorporating authority. It does not refer to information held by or for the company itself”.

10 “The information can be recorded by the company itself or by a third person under the company’s responsibility”.

11 “This is applicable to the nominal owner of all registered share”.

As regards the mechanisms to be put in place to ensure availability of BO information, according to the FATF countries should use one or more of the following:

8. [...]

(a) Requiring **companies or company registries to obtain and hold up-to-date information** on the companies' beneficial ownership;

(b) Requiring **companies** to take reasonable measures¹² to obtain and hold up-to-date information on the companies' beneficial ownership;

(c) **Using existing information**, including: (i) information obtained by financial institutions and/or DNFBPs, in accordance with Recommendations 10 and 22¹³; (ii) information held by other competent authorities on the legal and beneficial ownership of companies (e.g. company registries, tax authorities or financial or other regulators); (iii) information held by the company as required above in Section A; and (iv) available information on companies listed on a stock exchange, where disclosure requirements (either by stock exchange rules or through law or enforceable means) impose requirements to ensure adequate transparency of beneficial ownership." (FATF 2012, Int. note to Rec. 24).

It is evident that the FATF 2012 recommendations give **companies and company registers a much more central role** in the AML system, and particularly in making ownership and control information available. In this regard, it is crucial to understand how the EU and the national regulation eventually take these revisions into account, also in light of recent regulatory developments concerning business registers (e.g. the EU directive on the interconnection of business registers, see subsection 1.2.3).

UN Conventions

Money laundering and organized crime have been recognized as priorities on the UN agenda since at least the late 1980s, when they were addressed by the Vienna Convention (1988) and, later, by the Palermo Convention (2000).

However, it is the **2003 UN Convention against Corruption (UNCAC)** which for the first time identifies the importance of the issue of beneficial ownership. In particular, **Article 14** of the convention asks State Parties "in order to deter and detect all forms of money-laundering, [to] emphasize requirements for customer and, where appropriate, **beneficial owner identification**, record-keeping and the reporting of suspicious transactions" (UN 2003, Art. 14(1)(a)). **Article 52** instead invites State Parties to take measures "to require financial institutions to verify the identity of customers, to take reasonable steps to determine the identity of beneficial owners of funds deposited

into high-value accounts" (UN 2003, Art. 52(1)).

Egmont Group Best Practices for the exchange of information between Financial Intelligence Units

The Egmont Group is an informal and international group of Financial Intelligence Units (FIUs) formed in 1995 for the enhancement of cooperation and the maximization of information exchange among FIUs. In 2004 the *Best Practices for the exchange of Information between Financial Intelligence Units* were issued with the objective of strengthening the cross-border sharing of data and information crucial in AML investigations.

In particular Art. 7 of the document recommends that:

"[...] FIUs should have speedy access to complementary information and should, in particular, have access to: (a) all relevant tools and registers in their respective jurisdictions, including law enforcement information; (b) information held by financial institutions and other reporting entities; (c) **information on beneficial ownership and control of legal persons**, such as corporate entities, trusts and IBCs" (Egmont Group 2004, 2).

World Bank and UNODC recommendations

The report *Puppet Masters. How the corrupt use legal structures to hide stolen assets and what to do about it* was produced in 2011 under a Stolen Asset Recovery (StAR) initiative of the World Bank and UNODC. The study, which is based on documentary research, interviews with corporate registries, bankers, investigators and other experts, provides evidence on how corporate vehicles are misused to conceal the identities of their beneficial owners, and on the problems that banks, other services providers and investigators face when attempting to obtain such information.

The study accordingly makes a range of recommendations about how to tackle the BO issue:

"Recommendation 1: Countries should ensure that, whatever definition of beneficial ownership they employ, the beneficial owner is *always* a natural person.

Without adherence to this basic principle, the concept of beneficial ownership is virtually useless. Every legal entity and arrangement is ultimately controlled by a natural person. A policy that does not require a service provider to penetrate to this level is deficient in terms of efficacy, deterrence and justice.

Recommendation 2: Countries should consider introducing an alternative term for those persons currently described under formal approaches as beneficial owners.

Formal approaches, such as those based on percentage thresholds of ownership of legal entities, are certainly able to provide actionable information on

¹² "Measures taken should be proportionate to the level of risk or complexity induced by the ownership structure of the company or the nature of the controlling shareholders".

¹³ "Countries should be able to determine in a timely manner whether a company has an account with a financial institution within the country".

persons of interest to law enforcement in a corruption or money laundering investigation. A term that clarifies this distinction will facilitate communication on the topic¹⁴.

Recommendation 3: Countries should develop a clear formal standard for identifying standard parties likely to be the beneficial owner but should require deeper inquiry in high-risk scenarios.

To maintain the focus on the substantive, economic meaning of beneficial ownership, countries that have adopted a formal approach should make it clear in legislation and guidance that the pertinent threshold is a *minimum* standard. They should also make it clear that reporting institutions (financial institutions, trust and company service providers, and others) have a legal obligation when confronted with suspicious circumstances to undertake further inquiry to identify and record information on other parties who appear relevant.

Recommendation 4: Ongoing due diligence should be used to bridge the gap between the formal and substantive approaches toward collecting beneficial ownership information.

Service providers should be aware of the dangers of relying on evadable standards, confirmed only by client-provided information and public records. They should employ ongoing verification practices to determine whether the information clients provide is consistent with the services requested and the transactions taking place. In suspicious cases, they should dig deeper to find out whether other natural persons (beyond the formal, legally declared power holders) really are in control" (World Bank and UNODC 2011, 30-31).

World Economic Forum 2012 guidelines

More recently, BO identification has been included by the World Economic Forum (WEF) as one of the priorities of the 2012 Global Agenda Council on Organized Crime.

Beneficial owners of corporate entities have been identified as "enablers¹⁵ of organized crime and corruption [...] and the key doors for facilitating criminal financial transactions and keeping a veil of opacity on criminal assets, making their detection and confiscation more difficult" (WEF 2012, 4).

The Council hence suggests a range of recommendations, namely:

A) "In respect of the **central registry of corporate entities**¹⁶, it is recommended that :

- the information need to be registered with the registry should include both legal owners (directors and shareholders) and beneficial owners;
- the registered information needs to be verified by the registry authority;
- the registered information needs to be updated timely, e.g. within one or two months, by the corporate entity when there is any change;
- the register should be accessible to the public on payment on line; and the payment should be set at a minimum level in order not to discourage search.

B) Regarding **BO Identification**, it is recommended that :

- financial institutions and professional service providers must be required by law or other legally enforceable means to identify and verify the identity of the beneficial owners of a corporate customer when establish a business relationship with it;
- financial institutions and professional service providers must be required by law or other legally enforceable means to take reasonable measures to determine who are the natural persons that ultimately own or control of the corporate customer.

C) As for **international sharing of BO Information**, it is recommended that :

- apart from by way of investigation powers, law enforcement agents should have direct access to the register of the corporate entities;
- states should allow (e.g. by laws) law enforcement to share BO information with their overseas counterparts instantly without need for any bilateral agreement or mutual legal agreement;
- the access to the register of corporate entities should be made available on line on payment to facilitate overseas search; and the payment should be set at a minimum level in order not to discourage search" (WEF 2012, 19).

¹⁴ The participants in this study used various terminology schemes to describe the distinction between the "formal" and "substantive" beneficial owners referred to here. These included "Nominal/Legal/Registered Owner v. Beneficial Owner," "Beneficial Owner v. Ultimate Beneficial Owner," "Persons of Interest v. Beneficial Owner," and "Beneficial Owner v. Ultimate Controller." None of these proposed dichotomies is without problems, however: "nominal," "registered," and "legal" are not synonymous, and each has nuances of meaning that invite criticism if chosen; the idea of a beneficial owner not being an ultimate beneficial owner seems to be hair-splitting; "persons of interest" is vague and possibly accusatory.

¹⁵ The term enabler refers to "individuals, mechanisms and situations that play an important role in facilitating organized crime activities – whether intentionally or inadvertently – increasing its benefits and scale while reducing its risks" (WEF 2012, 4).

¹⁶ This in addition to the revised FATF Recommendations.

Recommendations of the Basel Committee on Banking Supervision

Across-border banking survey coordinated in 1999 by the Basel Committee on Banking Supervision highlighted deficiencies in several countries concerning the implementation of so-called *know your customer* (KYC) operations. The Basel Committee hence commissioned in 2001 a working group to draw up recommendations addressing Customer Due Diligence (CDD) and KYC issues. In this regard, it is important to mention the definition of 'customer' provided in these guidelines, which introduces once again the notion of BO.

"21. [...] a customer includes:

- the person or entity that keeps an account with a bank and **any person or entity on whose behalf an account is maintained** (i.e. **beneficial owners**).
- the **beneficiaries of transactions** conducted by professional intermediaries; and
- **any person or entity** connected with a financial transaction who can pose a **significant reputational or other risk to the bank**.

22. Banks should establish a systematic procedure for identifying new customers and should not establish a banking relationship until the identity of a new customer is satisfactorily verified" (Basel Committee on Banking Supervision 2001, 6).

Wolfsberg Anti money laundering principles for private banking

Guidelines addressing the issue of BO identification are also produced within the private sector, by representative associations or international fora. The standards set by the Wolfsberg Group¹⁷ constitute a good example in this regard. They were published in 2000, then revised in 2002 and more recently in June 2012. In particular articles 1.2.1 and 1.2.3 deal with BO identification:

"Art. 1.2.1 The bank will establish the **identity of its clients and beneficial owners** prior to establishing business relationships with such persons. Identity is generally established by obtaining the name, date of birth (in the case of individuals), address and such further information that may be required by the laws of the relevant jurisdictions.

[...]

Art. 1.2.3 Beneficial ownership, for AML purposes, must be **established for all accounts**. Beneficial owners will ordinarily include the individuals (i) who generally have ultimate control through ownership or other means over the funds in the account and/or (ii) who are the ultimate source of funds for the account and whose source of wealth should be subject to due diligence. Mere signature authority does not necessarily constitute control for these purposes. **The meaning of beneficial ownership** for purposes of determining who should be subject to due diligence is **dependent on the circumstances** and due diligence must be done on all beneficial owners identified in applying the following principles:

- Natural persons: when the account is in the name of an individual, the private banker must establish whether the client is acting on his/her own behalf. If doubt exists, the bank will establish the capacity in which and on whose behalf the account holder is acting.
- Legal entities: where the client is a private investment company, the private banker will understand the structure of the company sufficiently to determine the provider of funds, the beneficial owner(s) of the assets held by the company and those with the power to give direction to the directors of the company. This principle applies regardless of whether the share capital is in registered or bearer form¹⁸.
- Trusts: where the client is a trust, the private banker will understand the structure of the trust sufficiently to determine (i) the **provider of funds** (e.g. settlor), (ii) those who have **control over the funds** (e.g. trustees), (iii) any persons or entities who have the **power to remove the trustees** and (iv) the **persons for whose benefit the trust is established**.
- Partnerships: where the client is a partnership, the private banker will understand the structure of the partnership sufficiently to determine the **provider of funds** and the **general partners**
- Foundations: where the client is a foundation, the private banker will understand the structure of the foundation sufficiently to determine the **provider(s) of funds** and **how the foundation is managed**.
- Unincorporated associations: the above principles apply to unincorporated associations" (Wolfsberg Group 2012, 2-3).

¹⁷ Wolfsberg Group is an association of eleven global banks (e.g. Banco Santander, Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, J.P. Morgan Chase, etc.) which came together in 2000 with the aim of developing standards for private banks in KYC procedures, Anti Money Laundering and Counter Terrorist Financing Activities.

¹⁸ Legal entities that are operating companies are not addressed in these Principles.

1.2.2 The EU regulatory framework

The problem of how the issues of beneficial ownership and BO identification are addressed at EU level can be analysed from two different perspectives:

- considering whether and how the regulation has foreseen BO identification obligations;
- considering whether and how the regulation has disciplined the disclosure of information regarding the ownership and control of EU corporate entities.

The focus here will be on the first perspective, specifically dealing with AML, but fundamentals of the second one will also be presented. In addition, reference will be also made to some other EU initiatives which do not fall within the scope of AML but are related to the disclosure of corporate or customer information: for example, the interconnection of EU business registers.

Measures of the level of implementation of these regulation at national level will be also provided.

The EU AML regulation and the identification of BOs

The crucial importance of BO identification in the fight against ML and TF has been fully acknowledged at EU level as well. BO identification is one of the main pillars of the entire EU AML regulatory framework, together with other fundamentals such as Customer Due Diligence, risk based approach and the system of reporting-to-FIUs.

The Directive 2005/60/EC

At the time of writing this report, a draft proposal for a new EU AMLD directive is being issued. While awaiting for the finalization and the approval of the new directive, it is Directive 2005/60/EC (Third AML Directive or 3AMLD)¹⁹, then integrated by implementing measures (Directive 2006/70/EC, see below)²⁰, which comprises the highest number of provisions regarding BO identification and the disclosure of information on BOs and OS²¹.

¹⁹ Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

²⁰ Directive 2006/70/EC has been adopted in order to clarify: some technical aspects of the definition of politically exposed persons (PEPs); the technical criteria for assessing whether situations represent a low risk of money laundering or terrorist financing; and technical criteria for assessing whether it is justified not to apply 3AMLD obligations to certain legal or natural persons carrying out a financial activity on an occasional or very limited basis.

As for the issue of PEPs, the 2006 Directive considers persons with public functions: heads of state, heads of government and ministers; members of parliaments; members of courts; and other persons.

The Directive also envisages the conditions under which transactions represent low risk of money laundering or terrorist financing transactions. For example, when the product has a written contractual base; when the related transactions are carried out through an account of the customer with a credit institution and so on.

²¹ Obligations dealing with specific AML issues, not necessarily linked to BO identification, have also been set by Regulation (EC) 2580/2001 on specific restrictive measures directed against certain persons and entities with a view to combating terrorism, Regulation (EC) 1889/2005, concerning the controls of cash entering or leaving the EU, Directive 2007/64/EC on payment services in the internal market (Payment Services Directive), Regulation (EC) 1781/2006 on fund transfers regulation, Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions and other regulations. At the same time Council Decision 2000/642/JHA and Council Framework Decision 2001/500/JHA have defined a setting where fostering

The 3AMLD addressed gaps highlighted in previous scoping studies and impact assessments, such as Transcrime 2001, Transcrime 2007 and Howell e Van Reenen 2005, in particular referring to the lack of regulation requiring disclosure of full information on BOs.

In fact the directive, drawing on FATF 2003 Recommendations and adopting an intermediary-based approach, requires the following categories

- credit institutions;
- financial institutions;
- auditors, external accountants and tax advisors;
- notaries, and other independent legal professionals, when they participate, whether by acting on behalf of and for their client in any financial or real estate transaction, or by assisting in the planning or execution of some transactions for their client²²;
- trust or company service providers not already covered under points (a) or (b);
- real estate agents;
- other natural or legal persons trading in goods, only to the extent that payments are made in cash in an amount of EUR 15,000 or more, whether the transaction is executed in a single operation or in several operations which appear to be linked;
- casinos;

to identify, in the framework of the Customer Due Diligence (CDD) procedure, the beneficial owner²³ of their clients and to take "risk-based and adequate measures to understand the ownership and control structure of the customer"(article 8, par. 1, letter b)²⁴.

.....

cooperation among EU Financial Intelligence Units (FIUs) and strengthening the instruments at disposal of law enforcement agencies to combat ML and TF.

²² This regards transactions concerning the: (i) buying and selling of real property or business entities;(ii) managing of client money, securities or other assets; (iii) opening or management of bank, savings or securities accounts; (iv) organisation of contributions necessary for the creation, operation or management of companies; (v) creation, operation or management of trusts, companies or similar structures.

²³ For the definition of beneficial owners set up in the EU 3AMLD please see paragraph 1.1.

²⁴ This requirement has to be implemented every time a Customer Due Diligence (CDD) measure is applied. CCD measures are applied as specified by art. 7, i.e. "(a) when establishing a business relationship; (b) when carrying out occasional transactions amounting to EUR 15 000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked; (c) when there is a suspicion of money laundering or terrorist financing, regardless of any derogation, exemption or threshold; (d) when there are doubts about the veracity or adequacy of previously obtained customer identification data". For further information as regards the EU Third AML Directive, please refer to chapter 2.

In particular, Article 8 of the Directive specifies that CDD shall comprise²⁵:

- (a) the identification of the customer and verification of the customer's identity "on the basis of documents, data or information obtained from a reliable and independent source";
- (b) the identification of the beneficial owner and the verification of his/her identity, "taking risk-based and adequate measures to understand the ownership and control structure of the customer";
- (c) obtaining information on the purpose and nature of the business relationship;
- (d) conducting an ongoing monitoring of the business relationship.

In addition, Member States shall require that the verification of the identity of the customer and the beneficial owner takes place also before the establishment of a business relationship or the carrying-out of the transaction (Art. 9).

It should be noted that the CDD applies in the following cases (Art. 7):

- (a) when establishing a business relationship;
- (b) when carrying out occasional transactions amounting to EUR 15 000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked;
- (c) when there is a suspicion of money laundering or terrorist financing, regardless of any derogation, exemption or threshold;
- (d) when there are doubts about the veracity or adequacy of previously obtained customer identification data

CDD is to be conducted before the beginning of a business relationship, while, as regards existing customers, CDD procedures are to be carried out on an ongoing basis throughout the course of the relationship with the customer.

A distinction between a *simplified* CDD and an *enhanced* CDD is also allowed. *Simplified* CDD is regulated by the implementing measures (Directive 2006/70/EC)²⁶. As regards *enhanced* CDD, it should be noted that in some circumstances it is necessary to ensure that the customer's identity is established by additional documents, data or information; or it is necessary to ensure that the first payment of the operation is carried out through an account opened in the customer's name with a credit institution. These conditions especially apply when politically exposed persons (PEP) are involved.

²⁵ The third directive is a minimal harmonization directive. This means that in accordance with Article 5, Member States may adopt stricter requirements in the field covered by the directive and, at the same time, in accordance with Article 4, Member States may extend the scope of the preventive measures contained in the directive to other professions and categories of undertakings that, although not included in the directive, deal with activities which are particularly likely to be used for money laundering or terrorist financing purposes.

²⁶ As regards simplified CDD, this is possible when: (a) the customer has been entrusted with public functions; (b) the customer's identity is publicly available, transparent and certain; (c) the activities of the customer, as well as its accounting practices, are transparent; (d) the customer is accountable and appropriate and there exist check and balance procedures ensuring control of the customer's activity.

Towards a Fourth EU AML Directive

On the 5th February 2013 a proposal for a Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing was published by the EU Commission, DG Internal Market²⁷. The proposed changes are likely to be adopted at the end 2013 or early 2014. They would then take effect 2 years after that.

The Fourth AML Directive will:

- incorporate the changes introduced by the 2012 version of the FATF recommendations;
- incorporate and repeal the Commission Directive 2006/70/EC thus improving the comprehensibility and accessibility of the EU AML framework;
- incorporate the results of an own EU assessment carried out in the last 3-4 years on the implementation of the 3AMLD and of other related EU AML regulations.

Whilst the first developments have been discussed in subsection 1.2.1 above, the fundamentals of the second are presented here below. In particular a report was commissioned to Deloitte by EC to evaluate the opportunity of amending, amongst others, the following issues related to BO identification (Deloitte 2011):

- incorporating more risk-based elements which should allow a more targeted and focused risk-based approach;
- extending the scope of the directive so as to ensure more comprehensive coverage of certain sectors (e.g. gambling) or to incorporate new predicate offences for money laundering as tax crime;
- specifying some CDD procedures, e.g. by reducing occasional transactions thresholds;
- specifying the notion of beneficial ownership, and in particular the notion of control;
- evaluating the possibility to lower the 25% threshold as regards beneficial ownership;
- striking the right balance between data protection and use of personal information, including BO information, in the fight against ML/FT;

After the consultation period, feedback and contributions were collected from public authorities, civil society, business associations and companies, and can be summarized as follows:

²⁷ The revised EU AML Regulation, including the proposal for the fourth AML regulation, is available on DG Internal Market website http://ec.europa.eu/internal_market/company/financial-crime/index_en.htm.

BOX 4

Beneficial Ownership identification – Main findings of EC Impact assessment

- Lowering the **current 25% ownership threshold** would be of no practical significance in combating ML/FT; the study supported the Commission proposal to leave it unchanged;
- Almost all agreed on the usefulness of improving legal certainty across the EU on who the beneficial owner is, while **maintaining a risk-based approach** to identifying and verifying the identity of beneficial owners;
- As anticipated in subsection 1.1, several respondents mentioned the **need to clarify the meaning of control**. Others explicitly supported the idea that, in case of failed determination of the beneficial owner, the identity of a natural person holding a management position should be determined.

As regards transparency of legal ownership information:

- a majority of those who expressed an opinion stressed the **need for an official, timely, up to date and reliable source of information**, in particular favouring the idea of requiring MS to have a **centralised registry of legal ownership**. Others suggested that a **centralised database should be created at EU level** and made available to all AML/CTF authorities and obliged entities;
- some respondents thought that the **beneficial ownership should be declared** when registering a legal entity;
- Some of the respondents warned about the possible **data protection implications**. They suggested that the Directive should derogate from data protection provisions by expressly allowing the collection and maintenance of such information.

The resulting AML Directive proposal introduces a range of modifications, including the lowering of the thresholds for cash payments related to high value goods from EUR 15,000 to 7,500, an extension of CDD obligations also upon providers of gambling services, a specification of the notion of *Risk Based Approach*, with requirements upon EU MS to carry out more detailed assessments and measures of the level of ML and TF risk, and a strengthening of the cooperation and exchange of information among EU FIUs.

However in the light of this study it is the modification to the BO identification framework which deserves the greater attention. In particular it has to be noted that:

- Rules on **Simplified Customer Due Diligence (SDD)** have been tightened, not permitting situations where exemptions apply;
- Rules on **Enhanced Customer Due Diligence (EDD)** have been tightened with particular regards to Politically Exposed Persons (PEPs), both at national level and within international organization;
- A requirement on **legal persons to hold information on their own beneficial ownership** has been introduced, with the obligation to make this data available to both **competent authorities** and **obliged entities** (i.e. EU financial intermediaries and DNFBPs covered by the Directive);
- For **legal arrangements**, trustees are required to declare their status when becoming a customer and information on BO is similarly required to be made available to competent authorities and obliged entities.

Whilst the rules on CDD have certainly been strengthened and made clearer, what lacks in the new proposal are indications as regards the **role of company registers** in the dissemination of ownership and control information, which instead in the

FATF 2012 recommendations was absolutely central and well specified (see Subsection 1.2.1). This is quite surprising also considering the satisfactory **availability of shareholders and directors' information among EU BRs** (see Sections 3.1 and 3.2) and the existing initiatives, at EU level, fostering the **interconnection and the exchange of data among EU company registers** (see below). It would be hence recommended that the amendments to the draft of 4AMLD could reconsider the role of BRs, fostering their function in the dissemination of control and ownership information for AML purposes. However it would be necessary to wait for the finalized and approved version of the Fourth AMLD before providing any final assessment on this point.

1.2.3 Other EU regulatory and policy initiatives

EU Company law and the disclosure of ownership and control information

As anticipated above, the issue of BO identification could be also approached from another perspective, and in particular looking at the provisions set by the EU regulation in terms of disclosure of information on the ownership and control of EU legal entities.

The **communication of business information** is in fact not only a crucial issue within the AML framework, but also of the Company law field. The information which must be filed by EU companies when incorporating in a national registry are regulated by a range of Directives and EC regulations which go well beyond the 3AMLD; and company registers themselves have been conceived primarily to respond to **Company law needs rather than AML obligations** (see also Chapter 3 and 4 on this point). Indeed company information, including ownership and control data, is the **driving force of EU and international financial markets**.

It is outside the scope of this study to provide a comprehensive and detailed review of EU Company law directives and other regulations related to the disclosure of business information²⁸. It is worth only remarking that, in order to guarantee the transparency of EU financial markets and to protect investors, the **disclosure of ownership and control information** is particularly enhanced for **corporate entities whose securities are offered to the public** or admitted to trading on a regulated EU financial market.

Table 3 analyses four main EU Directives in the field of financial market:

- Directive 2004/109/EC (Transparency Directive)
- Directive 2003/71/EC (Prospectus Directive)
- Directive 2004/39/EC (MiFID Directive)
- Directive 2004/25/EC (Takeover Bids Directive)

analyzing whether and which obligations are included in terms of communication of shareholding and directorship information:

Table 3. The disclosure of ownership and control information in the Transparency, Prospectus, MiFID and Takeover Bids Directives

Directive	Number	To whom it applies	Objectives and contents	Disclosure of BO information	Disclosure of ownership / shareholding information	Disclosure of directorship information	Relevant provisions
Transparency Directive	2004/109/EC ²⁹	Corporate entities whose securities are admitted to trading on a regulated market	Harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on regulated market	No	Yes	No	<ul style="list-style-type: none"> - Minimum thresholds for disclosing the holding of voting rights: 5% - The notification shall include (among others): <ul style="list-style-type: none"> a) The chain of controlled undertakings (OS) b) The identity of the shareholder
Prospectus Directive	2003/71/EC ³⁰	Corporate entities whose securities are offered to the public or admitted to trading on a regulated market	Harmonization for drawing up, approval and distribution of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market	No	Yes	Yes	<p>The Prospectus shall include (among other issues):</p> <ul style="list-style-type: none"> a) Identity of directors, senior managers b) Major shareholders and related-party transactions
MiFID Directive	2004/39/EC	Investment firms and regulated markets	Harmonization of initial authorizations and operating requirements for investment firms	No	Yes	Yes	<ul style="list-style-type: none"> - Notify to competent authority any changes in the management - No authorization until the communication of shareholders and members' identity - At least once a year communication of names of shareholders and the size of holdings
Takeover Bids Directive	2004/25/EC	Offeror of takeover bids for the securities of companies	To facilitate takeover bids and protect interests of holders of securities	No	Yes	Yes	<p>The Offeree companies shall publish:</p> <ul style="list-style-type: none"> a) Significant direct and indirect shareholding b) the holders of any securities with special control rights and a description of those rights c) the powers of board members

28 For a detailed list of EU Directives and Regulation in the field of Company Law see http://ec.europa.eu/internal_market/company/official/index_en.htm

29 Partially amended by Directive 2010/73/EC

30 Partially amended by Directive 2010/73/EC

Other EU regulatory initiatives: the Directive 2012/17/EU on the interconnection of Business Registers

Besides the provisions set by the Company law regulatory framework, other regulatory initiatives must be reminded. In particular the **Directive 2012/17/EU** as regards the interconnection of central, commercial and companies registers Text with EEA relevance³¹, helps to facilitate cross-border electronic access to business information, by ensuring business registers are updated, and business information is more easily and readily accessible.

In fact, as it will described in detail in Chapter 3, EU business registers are currently organised at national, regional or local level, and lack the capacity to share information in an efficient and transparent manner.

The Directive on the interconnection of Business Registers explicitly aims at addressing crucial problems such as:

- **Lack of up-to-date business information** in the register of foreign branches
- **Difficulties of cooperation between registers** in cross-border merger and seat transfer procedures
- **Difficult cross-border access** to business information

In the light of this study it is hence crucial to consider this directive as a framework to take into account when developing future EU initiatives in terms of strengthening the sharing of information on the ownership and control of EU corporate entities (see Chapter 4 and 5 for details).

³¹ http://ec.europa.eu/internal_market/company/business_registers/index_en.htm

Chapter 2

The identification of beneficial owners: what are the current practices of EU competent authorities and intermediaries?

The aim of this chapter is to describe and analyze the practices currently adopted at EU level to identify the BO of suspicious corporate entities for AML purposes. The focus is on:

- EU public investigators, agencies and competent authorities operating in the AML and anti-economic crime field (e.g. LEAs, FIUs or AROs);
- financial intermediaries and designated non-financial businesses or professions (DNFBPs) covered by EU AML provisions and specifically by BO identification obligations;

In particular this chapter answers the following questions: what are the current practices of EU competent authorities and intermediaries in BO identification? What information do they use? What problems does this activity encounter? For what information it would be necessary to improve availability? What needs should be addressed by future EU policy initiatives in this field and by new IT support systems?

Section 2.1 describes the practices adopted by competent authorities in BO identification; and section 2.2 the practices of financial and non-financial intermediaries. Section 2.3 presents an analysis of the software commonly used in the AML field and in particular in activities connected to CDD and KYC obligations, while section 2.4 provides some case-studies and practical examples of BO investigations carried out by EU competent authorities, intermediaries, and other investigative agencies.

The chapter identifies the problems that arise in BO identification and particularly in collecting and processing the information used to identify BO. It highlights the gaps which could be addressed by EU policy-makers and by future support systems to be developed in this field (see Chapter 4 and 5).

According to FATF Recommendations, “countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by competent authorities” (FATF 2012, Rec. 24). This chapter also serves to measure the “distance” between the framework set by the FATF and the current state of the art; and the distance between the set of obligations concerning BO identification and how these obligations are transposed into practice by EU-covered entities.

CHAPTER 2 - MAIN FINDINGS

- EU competent authorities and EU intermediaries show **similar BO identification practices** in terms of data, data sources and software used, and similar problems and needs related to BO identification;
- For both categories, **data on shareholders and directors** constitute the information most frequently used for BO identification purposes;
- **Business registers**, both at national and foreign level, represent the most valuable source of information for both categories
- However, problems in accessing BRs, especially foreign ones, exist, and they often require competent authorities to **pass through foreign police counterparts** in order to access the register;
- The same problems induce EU financial intermediaries and DNFBPs to resort to **customers’ documentation** as the main source of information, especially when dealing with foreign companies;
- For both EU competent authorities and intermediaries, **it is not the analysis, but the collection of the information** which is the main obstacle to BO identification activity;
- Both categories call for the greater availability of companies’ shareholding information and in particular **easier access to foreign BRs**;
- Other crucial concerns regard the difficulty of **verifying the timeliness, the accuracy, the reliability and the completeness** of the information provided by registers;
- Both EU competent authorities and intermediaries also call for **tools able to collect data from BRs** and, ideally, to reconstruct the OS and identify the BO of corporate entities;
- This problem may also be due to the **lack of software** on the market able to perform the direct collection of data retrieved from business registers and their analysis.



2.1. Current practices of EU competent authorities in BO identification

Although identification of natural persons who conceal their identities behind suspicious corporate entities is one of the most frequent purposes of investigations carried out by public authorities in the AML field, there is still a lack of knowledge about how this activity is actually undertaken. What information is used? Is any software adopted? What are the main problems encountered? This section seeks to answer these questions.

In particular this section provides evidence on:

- the information and data used by EU LEAs, FIUs, AROs and other competent authorities in identifying the BOs of suspicious corporate entities;
- the data sources accessed to collect this information;
- how these authorities collect this information and access the relevant data sources;
- the software used to process the collected information;
- the problems encountered by the competent authorities in collecting this information and in accessing the relevant data sources;
- the problems encountered in identifying the BO and in reconstructing the ownership structure of suspicious corporate entities;
- the needs for new data, information, software and support systems so as to improve investigations with regard to BO identification.

2.1.1 Methodology

To collect this evidence, a range of activities have been performed, and specifically:

- a comprehensive survey on EU LEAs, FIUs, AROs and other competent AML authorities;
- interviews with selected stakeholders in this field;
- consultation of those BOWNET partners representing competent authorities in the AML field, namely FIU Denmark and Direction V (Anti Financial Crime) of the Italian Ministry of Economy and Finance;
- the collection of case studies and practical examples of investigations to identify the BOs of suspicious corporate entities (reported in section 2.4).

As regards the survey, a questionnaire was administered to **80 competent authorities** in the AML field of the 27 EU MS, including Financial Intelligence Units (FIUs), Asset Recovery Office (AROs) and other law enforcement agencies operating in the AML field (such as the Italian Guardia di Finanza or the French Brigade de recherche et d'investigations financières). To be noted is that, in some cases, the same agency performed the role of both the national ARO and FIU. The questionnaire is set out in Annex 1 of this report.

The questionnaire was disseminated via email with the cooperation of ARO Platform, FIU platform, Europol, and using informal channels within the Egmont Group. **45 agencies** responded to the questionnaire (**56.2% response rate**), thus confirming the interest in the issue of BO identification.

This section reports the main findings of the questionnaires, integrated with comments drawn from interviews with selected stakeholders and partners' contributions.

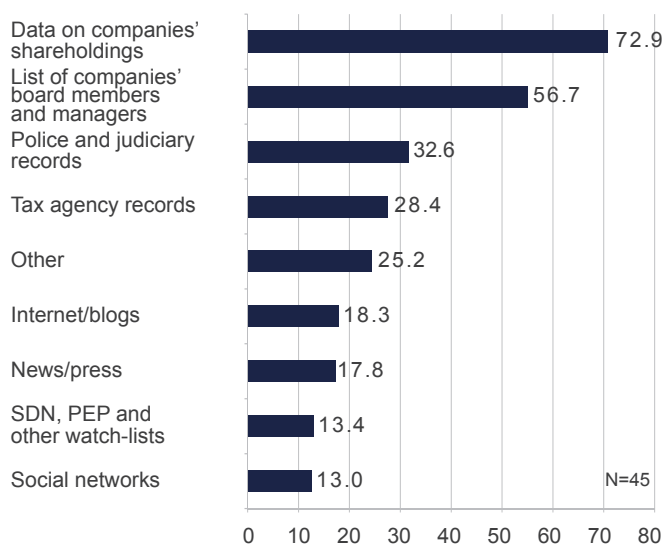
2.1.2 Results of the analysis

What information and data sources are used by competent authorities for BO identification purposes?

Information on the ownership and control structure of corporate entities is often acknowledged as being crucial for investigative purposes in the AML field. As said in Chapter 1, the Egmont Group recommends that "FIUs should in particular have access to [...] information on beneficial ownership and control of legal persons, such as corporate entities, trusts and IBCs" (Egmont Group 2004, 2). The FATF, in its Recommendations 24 and 25, recommends that competent authorities be able to access in timely fashion information on beneficial ownership and control of, respectively, legal persons and legal arrangements (FATF 2012, Rec. 24 and Rec. 25). As the OECD emphasises, disclosure of this information is particularly crucial in the case of listed companies (OECD 2012, 2)³².

But what exactly is meant by *information on the ownership and control structure* of companies? According to the survey conducted among EU competent authorities, the information most frequently used to reconstruct the ownership structure (OS) and identify the BO of suspicious corporate entities consists of data on **company shareholders** (72.9) followed by information on **board members and managers** (56.7) (Figure 4)³³.

Figure 4. What data/information do you use to reconstruct the OS and identify the BO of suspicious corporate entities? (Most used = 100)



Source: BOWNET survey on EU competent authorities

32 "Investor confidence in financial markets depends in large part on the existence of an accurate disclosure regime that provides transparency in the beneficial ownership and control structures of publicly listed companies" (OECD 2012, 2).

33 In this section, whenever a score is presented, it should be taken as an indicator where the maximum value (100) signifies that all respondents have attributed the maximum possible score to the category/variable selected.

Other data which prove useful in BO and OS investigations are police and judicial records, as well as tax agencies records, while open-source information (e.g. the press, internet, blogs, social networks) seems to be less important. Finally, the category *Other* includes, for example, Suspicious Transactions Reports, Cash Transactions Reports and other External Transactions Reports.

It is evident that, as some of the respondents noted, selection of the "most useful" information ultimately depends on the investigation. It is the purpose of the investigation to determine if one type of information (e.g. data on the shareholders) is more important than others (e.g. data contained in police archives)³⁴. However, generally speaking, it seems that information on shareholders and directors is by far the most important for investigations on the BOs of suspicious corporate entities.

It is consequently not surprising to find that the data sources most frequently used in investigations of this kind are **business registers**, which usually provide, among other data, also information on the shareholders and directors of the legal persons registered (see Section 3.1 for more details). The survey, in fact, distinguished two cases:

- investigations on the BOs of corporate entities registered in the country (Figure 5)
- investigations on the BOs of corporate entities registered abroad (Figure 6)

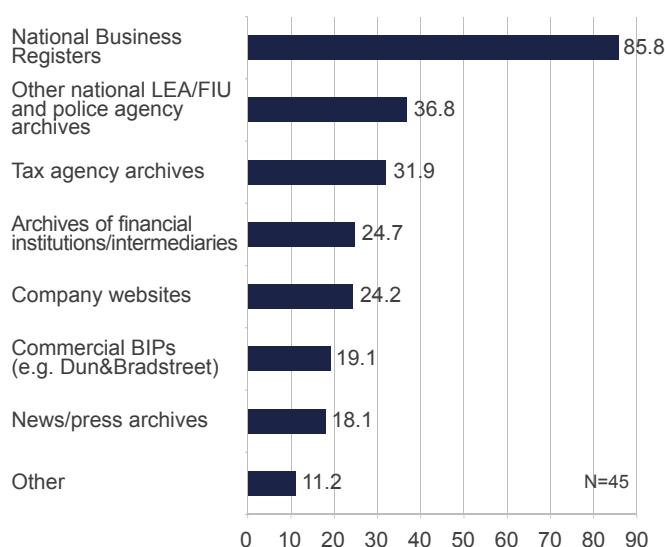
In both cases, business registers represent the most frequently accessed source. However, in the case of corporate entities registered abroad, the archives of **foreign police agencies** constitute an important complementary source. Before focusing on this finding, to be noted are the following:

- the minor role played by **commercial business information providers** (e.g. Bureau Van Dijk, Dun & Bradstreet, etc), mainly because of the high costs of accessing them, which cannot be borne by most competent authorities, and also because of concerns in terms of the accuracy and timeliness of the data provided³⁵. This is rather important considering that, as will be highlighted in Section 3.2, commercial registers often provide a wider and more comprehensive range of data and services than public business registers do;
- the minor role played by **open sources** (e.g. news, press archives), mostly due to problems of reliability and organization of the information.

34 "It should be remarked that there is no specific order to determine the ownership structure of suspicious corporate entities. Information is collected from different sources. [...] All depends on the case file." (Official of an EU FIU).

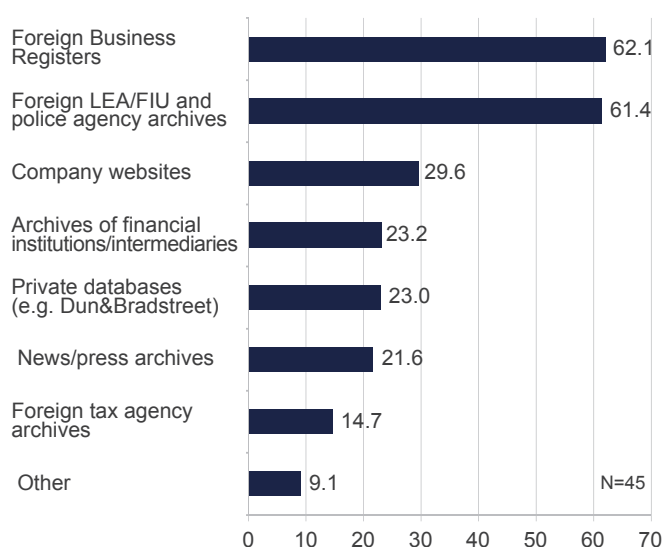
35 In particular because commercial BIPs are in fact secondary sources gathering information from public business registers.

Figure 5. What sources do you use when gathering data on the shareholders of corporate entities registered in your country? (Most used = 100)



Source: BOWNET survey on EU competent authorities

Figure 6. What sources do you use when gathering data on the shareholder of corporate entities registered in a foreign country? (Most used = 100)



Source: BOWNET survey on EU competent authorities

As said, the role played by foreign LEA/FIU archives is also central in cross-border investigations, i.e. ones involving corporate entities registered abroad (Figure 6). This may be explained by two factors which will become even clearer when we analyse how competent authorities access the information (Figure 7):

1. the added value provided by the FIU/LEA/ARO **international cooperation**, especially in the first stage of investigations, when the perimeter of the case is still not clear;
2. the difficulty of accessing the **relevant foreign data sources**, and in particular foreign business registers (see below for details, in particular the comments on Figure 8);

As regards the first factor, it is the FATF itself, together with other transnational organizations, which spurs cooperation among different competent authorities in the AML field: "Countries should rapidly, constructively and effectively provide international cooperation in relation to basic and beneficial ownership information [...]. This should include (a) **facilitating access by foreign competent authorities** to basic information held by company registries; (b) **exchanging information on shareholders**; and (c) using their powers, in accordance with their domestic law, to obtain beneficial ownership information on behalf of foreign counterparts." (FATF 2012, Interpretative Note to Rec. 24).

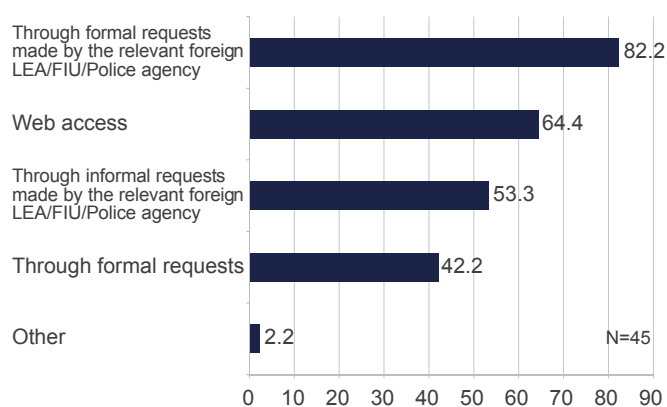
As noted by the OECD, when information is to be gathered on the ownership structure, international cooperation is particularly important because of the large number of differences in terms of company law and legal traditions across countries: "[they] will arguably complicate the exchange of information on an international level" (OECD 2012, 36). In this sense international collaborations, besides "facilitating the cross-border exchange of information among regulators" (OECD 2012, 36), may aid understanding of the different legal frameworks pertaining to different jurisdictions.

How do competent authorities access this information?

The results presented above are confirmed by the survey's findings on the methods usually adopted by competent authorities to access information from business registers. While at national level **direct access** (often through the registry website, if available) is more common, in the case of cross-border investigations direct web access does not appear to be the most frequent practice (Figure 7); instead, a request (either formal or informal) to the foreign register made through the **relevant foreign police counterpart** is preferred.

This, again, is due both to (a) the added value attached to international police cooperation and to (b) **difficulties in directly accessing foreign data sources**, and especially in accessing foreign business registers (see below, in particular the comments on Figure 10).

Figure 7. How do you request and collect information on BOs and shareholders from foreign business registers in cross-border investigations? (Most used = 100)



Source: BOWNET survey on EU competent authorities

This result is rather important. In fact, notwithstanding the important role played by FIU/LEA/ARO cooperation, it is direct access to data sources which most guarantees that information on the beneficial ownership is accessed "in a timely fashion", as explicitly recommended by Rec. 24 of FATF 2012.

For example, the **Egmont Group invites FIUs to access public data and registers directly**: “of course, company registration information can be obtained from the corresponding foreign FIU. But preparation of such request takes a long time and brings extra burden to counterpart FIU. Received reply from FIU with the public information inside still can be confidential” (Egmont Group 2009, 3).

Similarly, the guidelines issued by the Italian LEA Guardia di Finanza suggest three steps in identification of foreign legal entities which rely heavily on the consultation of public and private registers: “1) identifying the country of origin (in the absence of other details with regard to the suspicious entity, the legal form may be a valuable source of information: for example, SL is typical of Spanish corporate entities, GMBH of Austrian corporate entities, etc.); 2) verify its registration with the national Chamber of Commerce (usually available are official websites which provide a wide range of information); 3) verify the existence of the legal entity on worldwide commercial business information providers” (Guardia di Finanza Circ. no 83607/2012, 111)³⁶.

How do competent authorities process the information collected?

Besides identifying what information is used, it is important to determine how it is processed and analyzed once collected. It is worth enquiring in particular whether competent authorities **make use of software** to collate the information obtained from business registers and to reconstruct the ownership structure of suspicious corporate entities. The results are reported in Figure 8: interestingly, **almost half of the respondents (46.7%) did not make use of software** and IT tools to analyze such information.

36 Translation by the authors. Original Italian text: “Nella specifica ipotesi di individuazione di soggetti giuridici esteri si dovrà:

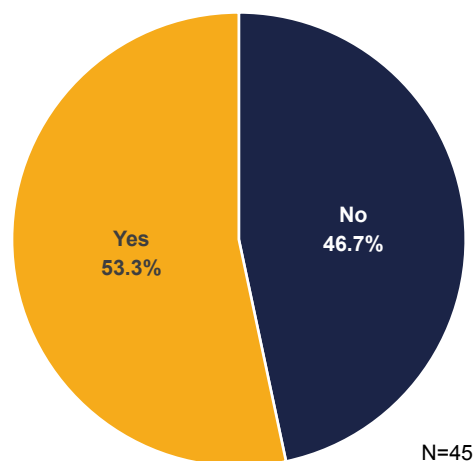
- individuare la nazionalità della società. Ove non si posseggono ulteriori informazioni oltre alla denominazione, la ragione sociale può essere un prezioso indizio. Ad esempio la sigla SL è tipica delle società spagnole, GMBH di quelle austriache, INC degli USA, LTD di quelle del Regno Unito, delle British Virgin Island, di Hong Kong, Singapore e etc..., SA di quelle svizzere, francesi, panamensi ed altre;

- verificare l'iscrizione presso la camera di commercio del Paese di origine. Normalmente esiste un sito internet per ogni Stato, che fornisce informazioni di vario tipo. Alcune richiedono l'immissione di una richiesta a cui verrà fornita una risposta via e-mail successivamente; altre, la maggior parte, forniscono gratis informazioni sul numero di iscrizione, la data di costituzione, il tipo di attività svolta, lo stato (attiva o cessata). A pagamento è possibile acquisire informazioni di carattere societario come il capitale sociale e i soci, nonché i bilanci depositati. Sul portale intranet del Nucleo Speciale di Polizia Valutaria è presente il link dove sono indicate le Camere di Commercio individuate nel corso delle attività investigative;

- verificare la loro presenza in banche dati internazionali private. In particolare, Dun & Bradstreet (<http://www.dnb.com/us/>) è tra le banche dati business più importanti del mondo che contiene informazioni commerciali e di affidabilità su milioni di aziende ubicate in molti Stati del mondo. Da interrogazioni on-line è possibile ottenere gratis informazioni in ordine all'esistenza della società in un Paese. Le ulteriori informazioni sono a pagamento e possono essere acquisite mediante richiesta da inoltrare a cura del Comandante di Reparto o di un suo delegato al seguente indirizzo di posta elettronica del Comando Generale - Il Reparto: IIReparto.Teletrattamento@gdf.it156.

Utile a tal fine, potrebbe essere anche la banca dati “Suite Mint”, che è un archivio gestito da una società multinazionale di consulenza gestionale, contenente informazioni economico-finanziarie di società di capitali, quotate e non, società di persone, banche e assicurazioni a livello mondiale. Tale archivio si compone di due sistemi informativi, ossia Mint Italy (attraverso cui si accede ad informazioni anagrafiche, economiche e commerciali di oltre 3,5 milioni di soggetti tra società di capitali, società di persone, banche ed assicurazioni italiane) e Mint Global, che permette di rilevare analoghe informazioni su circa 66 milioni di soggetti in tutto il mondo” 111 Gdf.

Figure 8. Do you use any software when collecting and analysing data on the ownership structure of suspicious corporate entities?



Source: BOWNET survey on EU competent authorities

It is evident that the non-use of software does not necessarily have consequences in terms of either the effectiveness of investigations or of their outcomes, but it may imply more time-consuming research or a loss of potential investigative leads. Also to be noted is that this result partly confirms the evidence of the World Bank and UNODC on disparities among investigators around the world in terms of the technological resources available for investigations, and the need, again stressed by the World Bank and by FATF, to **strengthen the investigative capacities** of competent authorities, in terms not only of new powers and regulations but also of new tools³⁷.

But why are softwares used by such a small number of public investigators in BO identification activities? The following hypotheses can be put forward.

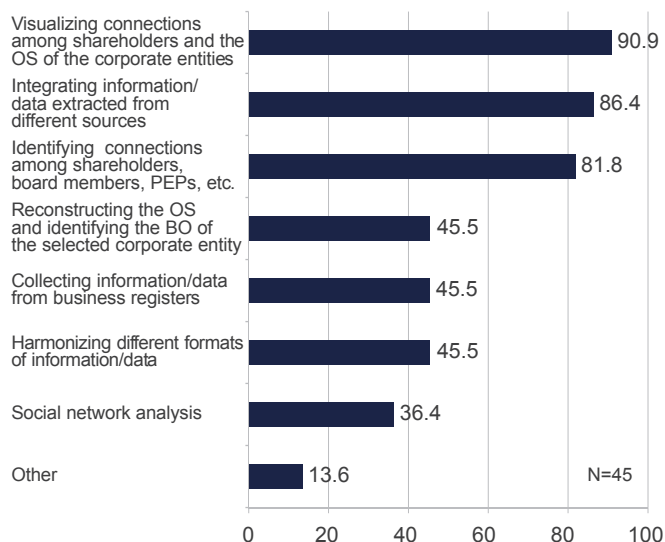
- First, IT technologies may require **expenditure** not easily borne by the notoriously low budgets of public agencies;
- Second, in some cases company information may be provided by registers in formats that can only be processed manually (e.g. in the case of **paper-information** or scanned documents not OCR readable). This hypothesis will be tested in Chapter 3 with analysis of the data formats made available by EU BIPs;
- Third, a **lack of software** able to collect and process information from registers may be the reason.

Evidence confirming the hypotheses is furnished by analysis of the services provided by the software currently used by investigators (Figure 9): while services/functions like data-fusion or visualization of connections among shareholders, board members and PEPs are quite often provided by the existing tools (e.g. i2 Analyst's Notebook), the **collection of data from business registers** and the **reconstruction of the ownership structure of corporate entities** seem to be **much less available**, so that users must collect and process these data manually.

37 “Efforts to counter the misuse of corporate vehicles have, in recent years, focused on introducing new laws and regulations. Although this certainly forms an important part of an effective response to grand corruption, it is by no means enough” (World Bank and UNODC 2011, 8).

These results will be confirmed by the analysis of AML software (Section 2.3), which clearly identifies a gap which needs to be addressed by new support tools to be developed in this field.

Figure 9. What services are provided by the software used to collect and analyse data on the ownership structure of suspicious corporate entities? (Most provided = 100)



Source: BOWNET survey on EU competent authorities

What problems do competent authorities have in identifying the BOs of suspicious corporate entities?

The main problem encountered by competent authorities in BO investigations is **accessing ownership information**, especially that referring to foreign corporate entities. This has been already recognized by previous studies, such as the *Puppet Masters* report edited by World Bank and UNODC in 2011 or the 2011 Deloitte study on the application of AML Directive: “The relevant documentation may be deliberately **dispersed across different jurisdictions**. Collecting information on a particular legal entity that is incorporated or formed under the laws of Country A but administered from Country B often entails first submitting a request in Country A and then submitting a request in Country B” (World Bank and UNODC 2011, 7).

The survey conducted within the BOWNET project confirms this evidence: it is **access to foreign business registers** which represents by far the largest obstacle to LEAs/FIUs/AROs investigations (Figure 10), especially cross-border ones (those most important for tackling transnational organized crime). These difficulties partly explain the need to pass through the foreign counterpart in order to access the relevant register (see above and in particular Figure 7).

According to some respondents, problems in collecting information on the ownership structure of corporate entities are particularly significant owing to:

- different company registration duties across EU MS
- personal data protection guarantees
- lack of ID details as regards shareholders and board members
- lack of data especially with regard to beneficial owners

- data stored in the registry but not publicly accessible
- lack of transparency requirements upon certain legal arrangements (e.g. trusts).

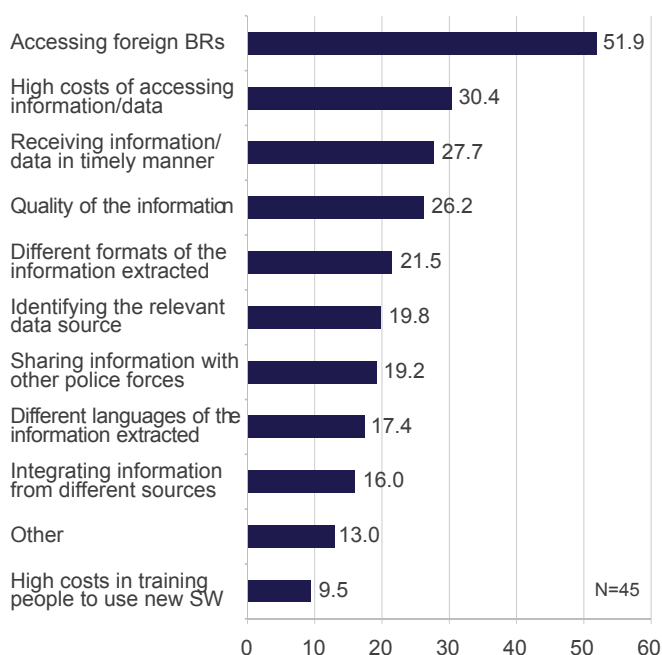
Besides access to foreign registers, other concerns highlighted by competent authorities were:

- the **high costs** of accessing the relevant information/data
- the **timeliness** of the information collected, which is not always up-to-date
- the **quality/accuracy** of the information collected

To be noted is that cost problems do not only refer to the large expenditure often required to purchase ownership and control information on corporate entities from registers (especially from commercial BIPs); they also concern **payment difficulties**, in particular those related to credit cards: business registers and private data providers very often accept as means of payment only credit cards, which are not often available to police investigators.

As regards **timeliness**, some respondents within EU LEAs and FIUs stressed the fact that it is important that data are updated to the current situation, but there is also the need to keep **historical records** for investigation purposes (e.g. past shareholders or directors at a certain point in time).

Figure 10. What are the main problems in investigating the ownership structures and the BOs of corporate entities, especially in cross-border cases? (Max = 100)



Source: BOWNET survey on EU competent authorities

What are the main needs of competent authorities in regard to BO identification?

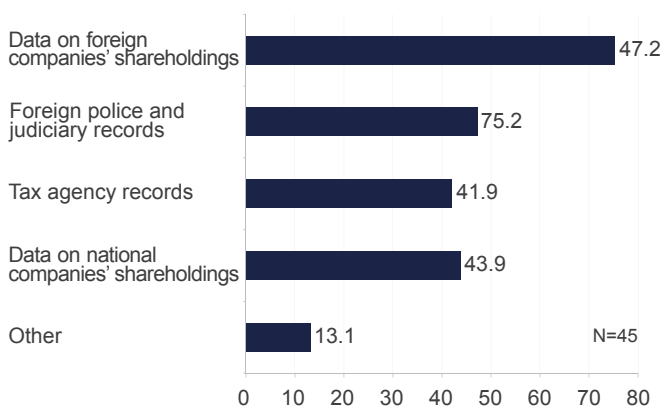
The importance of expanding the resources and the tools available to competent authorities in BO investigations is widely recognized at international level: “A concerted effort is required to improve law enforcement’s understanding of corporate vehicles, their function, and their rationale to enable proper investigation. [...] It is important that these investigators have **some basic understanding of common corporate**

structures under foreign laws [...]. In this way, they will be better able to distinguish legitimate from illegitimate uses" (World Bank and UNODC 2011, 9).

The survey conducted within the BOWNET project enabled EU LEAs/FIUs/AROs to highlight the needs that should be addressed by future policy initiatives and/or new support systems in this field.

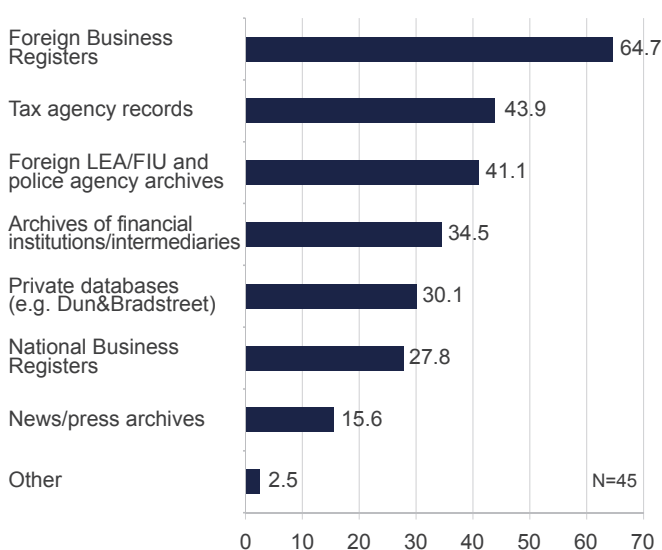
In line with previous results, data on **foreign company shareholdings** is the category of information most suggested to improve availability (Figure 11); similarly, it is the access to **foreign business registers** which should be facilitated (Figure 12). To be noted is that other types of data and data sources (such as foreign police intelligence or tax agency archives) are much less important: the data on shareholders provided by company registers still constitute the most important information used by competent authorities for BO identification purposes.

Figure 11. For which of the following kinds of data/information would you suggest improving the availability? (Max = 100)



Source: BOWNET survey on EU competent authorities

Figure 12. For which of the following sources would you suggest improving and facilitating access? (Max = 100)



Source: BOWNET survey on EU competent authorities

On the other hand, it is important to understand what services or functions should be provided by new software or support systems according to the competent authorities' needs. The results are reported in Figure 13: the main request is

for software able to **collect data from business registers**, and, ideally, to collate data so as to **reconstruct the OS of corporate entities**.

Responses to this question once again confirm:

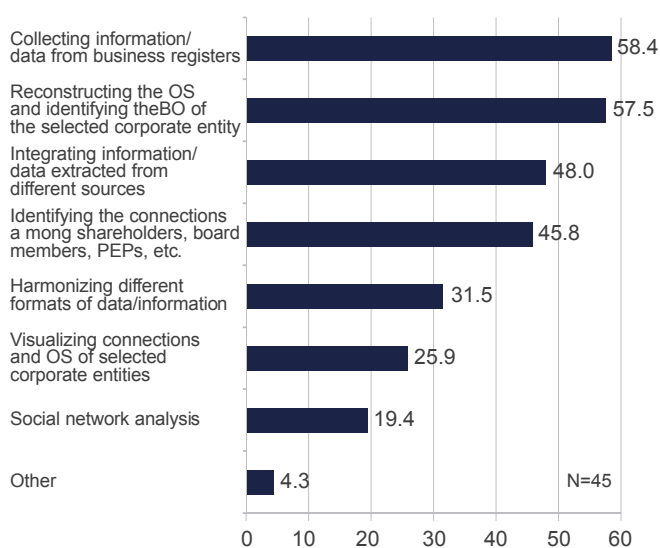
- the need to improve the collection of data from company registries
- the lack of software on the market able to perform this task.

This problem has already been anticipated (see in particular Figure 14), and it will be analysed in detail in section 2.4, where existing AML software will be reviewed.

By contrast, to be noted is that other functions, such as the identification and visualization of connections and cross-shareholding, which are already offered by commercial software (e.g. i2 Analyst Notebook), seem to be less important for future improvements of LEA, ARO and FIU investigations.

To conclude, **it is not the analysis, but the collection of information** which constitutes the main obstacle for competent authorities. Accordingly, future EU policy initiatives or support tools should address this gap and in particular improve access to the registers in which this information is stored. This applies especially to foreign business registers, which already make this data public but, in fact, not easy accessible to EU stakeholders.

Figure 13. What services should be provided by a new software/platform so as to improve investigations on the OS and the BO of suspicious corporate entities? (Max = 100)



Source: BOWNET survey on EU competent authorities

2.2. Current practices of EU financial intermediaries and professionals in BO identification

Identification of the BO of customers is one of the crucial obligations incumbent on the financial and non-financial intermediaries covered by the EU AML regulatory framework.

In particular, as described in Chapter 1, the Third EU AML Directive (Directive 2005/60/EC) requires intermediaries such as banks, auditors, accountants, lawyers and notaries to identify, within the Customer Due Diligence (CDD) procedures, the beneficial owners of their clients, as defined in Article 3(6) of the directive, and to take “risk-based and adequate measures to understand the ownership and control structure of the customer” (Directive 2005/60/EC, article 8(1)(b)).

Verification of the customer’s identity should be made “on the basis of documents, data or information obtained from a reliable and independent source” (Directive 2005/60/EC, article 8(1)(a)).

It can be presumed that the finalized version of the Fourth AML Directive, under discussion while this report is being written, although specifying notions such as *risk-based approach*, will in no way modify the pivotal importance of these BO identification obligations.

Previous studies on the implementation and the impact of AML directives (such as Transcrime 2007, Deloitte 2011 or ECOLEF 2012) have already shed light on how EU financial and non-financial intermediaries and professionals apply CDD and BO identification requirements in practice. This section provides further knowledge in this regard.

In particular, it describes:

- the information and data used by EU financial intermediaries and designated non-financial professions (DNFBPs) to identify the BOs of their customers;
- the data sources accessed to obtain this information;
- how intermediaries collect this information and access the relevant data sources;
- the software used to process the information collected;
- their problems in collecting this information and in accessing the relevant data sources;
- their needs in terms of new data, information, software and support systems so as to improve their BO identification capacity.

2.2.1 Methodology

As in the case of the analysis of competent authorities various activities were undertaken to achieve the above-listed objectives:

- a comprehensive survey on EU financial intermediaries and DNFBPs
- interviews with selected stakeholders
- consultation of BOWNET partners representing

the private sector, namely UniCredit S.p.A. and PricewaterhouseCoopers S.p.A.

- the collection of case studies and practical examples of investigations into the BOs of suspicious corporate entities (reported in section 2.4).

The survey was conducted by administering a questionnaire to 42 **representatives of EU financial intermediaries and DNFBPs**, including:

- EU and national banking associations
- EU and national associations of accountants, auditors, notaries and other DNFBPs
- Selected major EU banking groups and credit institutions
- Selected major professional service providers
- Other

Also in this case, the questionnaire (see Annex 1 of this report) was disseminated via national platforms or industry representatives. **21 representatives** responded to the questionnaire (**56.2% response rate**). To be noted is that in some cases the respondents completed the questionnaire on behalf of their associates or collected and then summed the associates’ completed questionnaires. Hence the actual number of respondents was higher (See Annex A4).

Respondents included, for example, the European Association of Public Sector Banks (EAPB), the Association of German Banks, the Association of British Insurers, the UK National Federation of Property Professionals and well-known multinational companies such as PricewaterhouseCoopers, Deutsche Bank, Unicredit Group and BNP Paribas³⁸.

This section reports the main findings of the questionnaires, integrated with comments drawn from interviews with selected stakeholders and partners’ contributions. In this case, too, whenever a score is presented, it should be treated as an indicator where the maximum value (100) signifies that all respondents have attributed the maximum possible score to the category/variable selected.

2.2.2 Results of the analysis

What information and data sources are used by EU financial intermediaries and DNFBPs for BO identification purposes?

Like the EU competent authorities, also intermediaries identify **data on shareholders** and **board members** as the information most frequently used for BO identification purposes (Figure 14).

Not surprisingly, **SDN, PEP and other watch-lists** also play a central role, given the CDD requirements applying to intermediaries, especially in regard to identification of politically

³⁸ Other respondents were Raiffeisen Zentralbank Österreich Ag, Malta Bankers’ Association, Federal Association of German Cooperative Banks, Law Society of England and Wales, Hungarian Banking Association, Nardello & Co, Airbank / Czech Banking Association, CSOB, Luxembourg Bankers’ Association - Association des Banques et Banquiers du Luxembourg, Banca Comerciala Romana, Deutsche Bank - London Branch, BGL BNP PARIBAS, Deutsche Bank Luxembourg, The Bank Association of Slovenia.

exposed persons (PEP)³⁹. On the other hand, the category *other information* refers to additional data and documents provided by customers (see below for details).

Figure 14. What data/information do you use to identify the beneficial owner (BO) and determine the ownership and control structure of the customer? (Most used = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

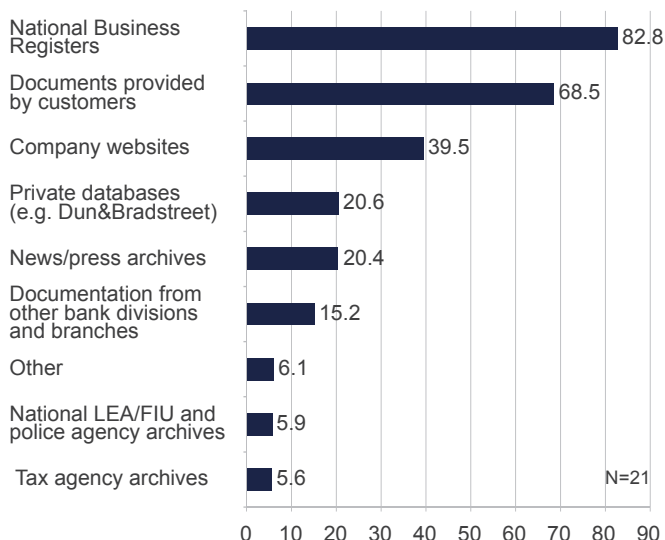
In regard to data sources, according to the FATF, “the relevant identification data may be obtained from a public register, from the customer or from other reliable sources” (FATF 2012, Interpretative Note to Rec. 10).

The range of options foreseen by the FATF is reflected by the outcomes of the survey: **business registers** again represent the main source of information, in particular when the company/customer is registered in the country (Figure 15). When the corporate entity is incorporated abroad, registers are integrated with **documents provided by the customers** (Figure 16). The other data sources (including commercial data providers or open sources) seem to be much less relevant.

The results confirm those of previous studies, such as **World Bank and UNODC (2011)**: “The first source of information mentioned by both investigators and service providers when seeking information about an incorporated entity (that is, any corporate vehicle, excluding trusts or similar arrangements) is the **company registry**” (World Bank and UNODC 2011, 4). Or **Deloitte (2011)**: “For analysis and verification purposes, covered entities often use the following sources: Public

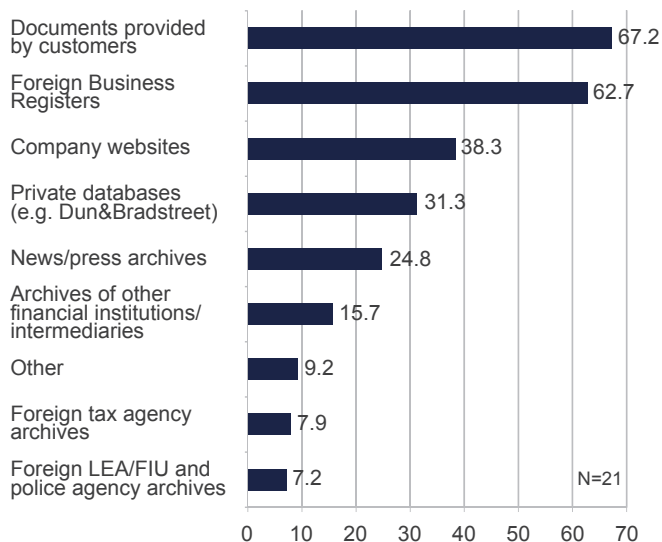
databases (such as trade registers); commercial databases; legal documentation (incorporation documents, shareholders registers, attendance lists of general meetings of shareholders, etc.); official websites of supervisory authorities; inquiries of other regulated persons; Internet searches; Letters from entity managers” (Deloitte 2011, 63).

Figure 15. What sources do you access to gather data on the shareholders and BO of corporate entities registered in your country? (Most used = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

Figure 16. What sources do you use when gathering data on the shareholders and BO of corporate entities registered in a foreign country? (Most used = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

But what are the documents most frequently requested by intermediaries from their customers? (Figure 17) Firstly, the **list of shareholders** (92.9), followed by the memorandum or articles of incorporation (73.2), ID information (72.4) and the list of members of the Board of Directors (64.3). In some cases, financial intermediaries and professionals may also ask customers to compile the so-called *declaration of beneficial ownership*. This may serve as a standard document for compliance with the obligations foreseen by the Third EU AML Directive.

³⁹ Directive 2007/60/EC specifies the notion of PEPs and better defines the perimeter of Enhanced Due Diligence which must be applied in the case of business relationships with PEPs. The FATF 2012 document further emphasises due diligence, recommending that “Financial institutions should be required, in relation to foreign politically exposed persons (PEPs) (whether as customer or beneficial owner), in addition to performing normal customer due diligence measures, to:

(a) have appropriate risk-management systems to determine whether the customer or the beneficial owner is a politically exposed person;

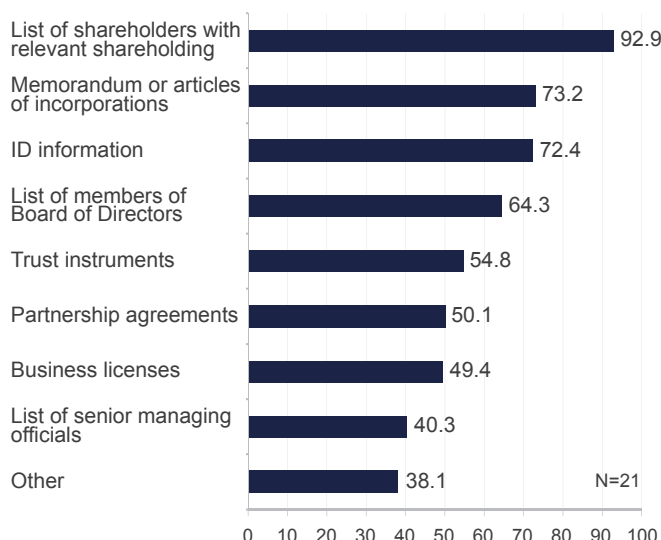
(b) obtain senior management approval for establishing (or continuing, for existing customers) such business relationships;

(c) take reasonable measures to establish the source of wealth and source of funds; and

(d) conduct enhanced ongoing monitoring of the business relationship” (FATF 2012, Rec. 12).

The request for customers' documentation replaces the use of registers especially in cross-border CDD activities where accessing foreign data may encounter difficulties (see below and in particular the comments on Figure 23).

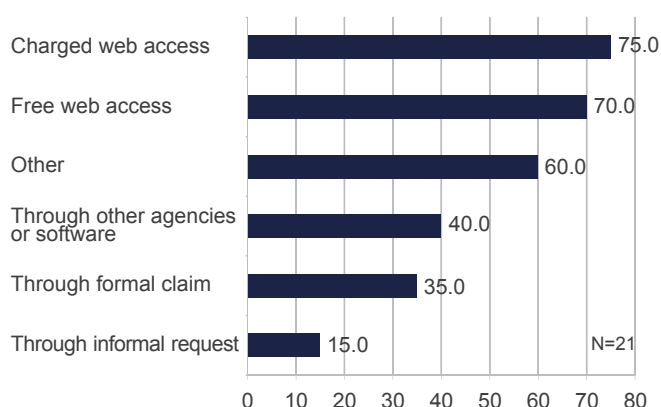
Figure 17. What types of documents do you usually require from customers in order to identify their ownership structure and their BO? (Most required = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

Direct web access, either for free or upon the payment of a fee, seems to be the preferred option when collecting data from registers (Figure 18). This may be partly explained by the fact that intermediaries can very seldom rely on the same level of international cooperation – often formalized in terms of agreements, memorandums of understanding, working groups – which on the contrary characterizes EU AROs, LEAs, FIUs⁴⁰.

Figure 18. How do you usually request and collect information on BOs and shareholders from foreign business registers? (Max = 100)

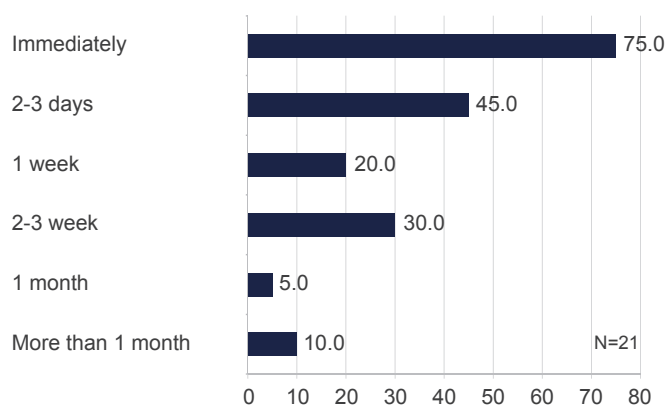


Source: BOWNET survey on EU financial intermediaries and DNFBPs

⁴⁰ Obviously, multinational banking groups or multinational professional services providers can rely on networks of foreign branches. However, cooperation and the exchange of information among branches or offices registered in different EU MS is not automatic and ultimately depends on the group's policy and organizational structure.

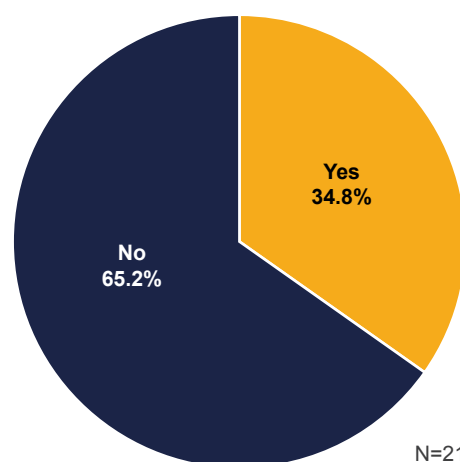
Interestingly, in most cases data on BO and shareholders are obtained from the relevant business registers **immediately** or in a relatively short time (Figure 19), thereby satisfying the requirement of "timely fashion" access to ownership and control information recommended by FATF. However, depending on the data provider and type of data requested, the time may vary from 2-3 days to 1 month.

Figure 19. What amount of time is usually needed to obtain information on BOs or shareholders from the relevant business register? (Max = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

Figure 20. Do you use any software when collecting and analysing data on the ownership structure of suspicious corporate entities?



Source: BOWNET survey on EU financial intermediaries and DNFBPs

Nor do EU financial intermediaries and DNFBPs often use **software** to collect and analyse information on the ownership and control of corporate entities from business registers (Figure 20). Surprisingly, the share of intermediaries not making use of IT is even larger than that of the EU competent authorities (see above). This may be due to the larger number of paper-documents gathered by intermediaries, most of them from their customers (see Figure 16).

However, also a lack of software able to collect and process data directly from BRs may induce intermediaries to collect and process the relevant information manually.

What are the problems of EU financial intermediaries and DNFBPs in BO identification?

Since the introduction of BO identification obligations on financial institutions and DNFBPs, intermediaries have often issued reports and releases to highlight the problems faced when performing CDD activities.

For example, during **FATF consultations in 2011**, the private sector raised the concern that existing recommendations focus on “competent authorities and do not require the information to be available to financial institutions” (FATF 2011). It also emphasised “dissatisfaction with having to rely on proprietary databases from private service providers [...] which **may prove to be inaccurate**” (ibid.).

The Deloitte study (2011) also focuses on the difficulties encountered by financial intermediaries and DNFBPs in CDD activity. They can be summarized as follows⁴¹:

- **Time-consuming process**
- Clients are **reluctant** to give the necessary information, often due to **data privacy** problems, especially in the case of smaller, non-listed companies owned by several shareholders
- Registers are **not always sufficiently transparent and comprehensive**, and with limited information made publicly available (especially on BOs)
- Language and **legal differences** across EU MS
- Difficulties in accessing information on the ownership of foreign corporate entities, and in accessing **foreign listings and registers** (Deloitte 2011, 69)

Concerns are also expressed by professional service providers about the lack of public registers on trusts and other legal arrangements, for which information on the ownership is even less available (Vedana 2011).

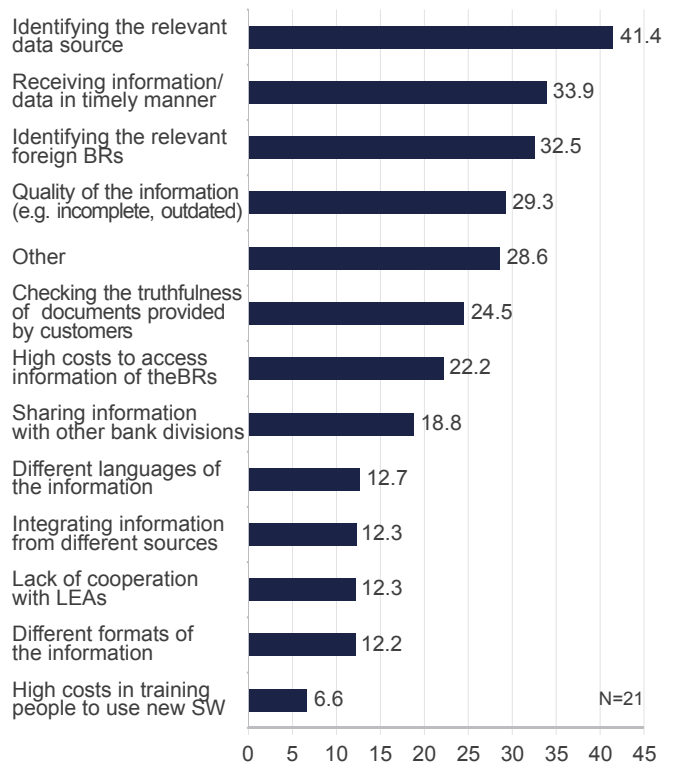
The results of the survey confirm these previous findings (Figure 21): it is the **identification** of the relevant data source, especially of the **relevant foreign business register**, which represents the main problem in BO identification from the intermediary’s perspective.

Other concerns regard the **timeliness** and the **accuracy** of the information provided (e.g. if the information is complete, verified or updated). In particular, the respondents to the survey noted that, although relevant documentation is often provided by the client, “**an independent and trustworthy source of information for verifying this information does not exist**”. The process is not sufficiently supported by the government agencies/regulators” (a representative of EU financial intermediaries). Consequently, “there is lack of independent data”, and this entails an “inability to know if the data is up to date” or reliable.

To conclude, the problem is not so much the **quantity** as the **quality** of the information. Intermediaries have several data sources on which they can draw (see also section 3.2 on this issue) but they are unable to determine whether the information stored in them is sufficiently reliable or accurate.

“Quality of information is the main problem because the official data are often **obsolete or incomplete** (even if data is coming from private sources with fee)” (Official of an EU banking group).

Figure 21. What are the main problems in investigating the ownership structures and the BOs of corporate entities, especially in cross-border cases? (Max = 100)



Source: BOWNET survey on EU financial intermediaries and DNFBPs

What are the main needs of the competent authorities in BO identification?

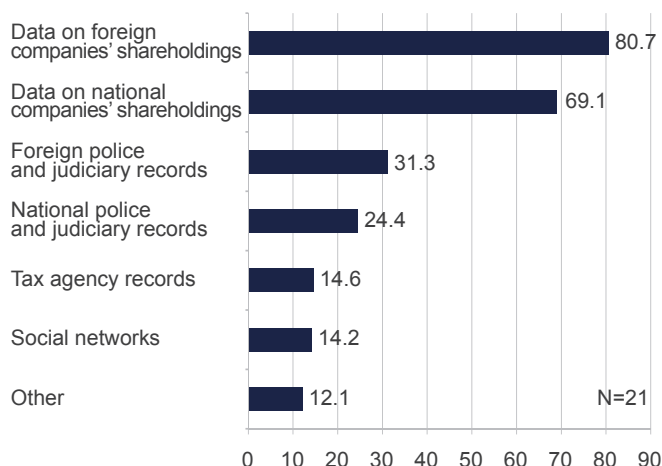
Given the problems encountered by intermediaries in CDD activities, it is not surprising that they ask for improved access to **data on shareholders** (especially of foreign companies) (Figure 22) and to **business registers**, especially foreign ones (Figure 23). Other data and sources seem much less important.

These findings are consistent with those of Deloitte (2011), in which stakeholders suggested, among other things:

- “More public available information [...]”
- Creation of public available registers with documentation and beneficial owners’ information (useful especially for multinational companies); [...]
- Company registries should contain both direct and indirect beneficial ownership data based on a new international standard.” (Deloitte 2011, 69-70)

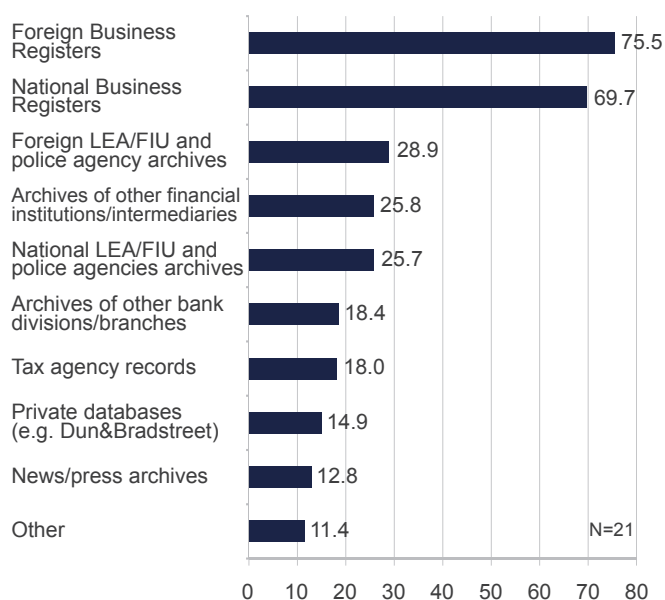
⁴¹ To be noted is that the authorities of nine MS (Austria, Czech Republic, Denmark, Estonia, Germany, Italy, Lithuania, Slovenia and Spain) were not satisfied with the steps taken by covered entities/persons to identify and verify BOs, and that the reasons were “almost all of an external nature” (Deloitte 2011, 63).

Figure 22. For which of the following kinds of data/information would you suggest improving the availability?



Source: BOWNET survey on EU financial intermediaries and DNFBPs

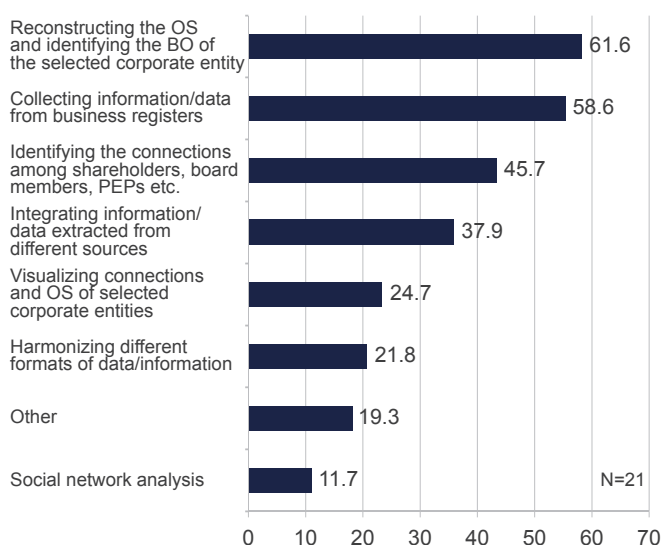
Figure 23. For which of the following sources would you suggest improving and facilitating the access?



Source: BOWNET survey on EU financial intermediaries and DNFBPs

In regard to suggestions for new software/platforms which could improve CDD activity by intermediaries, and in particular BO identification, respondents asked for tools able to **reconstruct the OS and BO** of the selected corporate entities and, again, able to **collect information/data from business registers** (Figure 24). This result reflects the same need as highlighted by EU competent authorities (see above and in particular Figure 13) and once again confirms that the main shortcoming is not the analysis of the information but its **collection**.

Figure 24. What services should be provided by a new software/platform in order to improve investigations into the OS and the BO of suspicious corporate entities?



Source: BOWNET survey on EU financial intermediaries and DNFBPs

To conclude, EU financial intermediaries and DNFBPs exhibit **patterns similar to those of EU competent authorities** in BO identification activity. Unlike police investigators, intermediaries often rely also on clients' documentation. But the need to verify the accuracy of the documents provided by the clients requires the use of **public, official and trustworthy registers** in order to validate this information, especially in the case of foreign companies. There is a consequent need to improve the availability of information on shareholders and directors and the access to business registers, especially foreign ones.

2.3. A review of the software used in CDD/ KYC activities and BO investigations

Information technology has become a crucial tool for investigators in the AML field. It has perhaps become even more important for financial intermediaries and DNFBPs, most of which make use of software and IT tools to fulfil obligations such as assessing ML risks or reporting to FIUs, and IT costs constitute the main expense related to AML compliance (Transcrime 2007, 16).

However, also considering the results of the survey described in section 2.1 and 2.2, it would be useful to know what software is available on the market and what functions/services it provides. Responses to the questionnaires (see the comments on Figure 8, Figure 9 and Figure 20) showed that a large share of both EU competent authorities and intermediaries **do not use software to collect and analyse data retrieved from business registers**, while they often process this information manually.

The aim of this section is therefore to determine, through a review of the marketed software, whether this happens because the existing tools are not originally designed to process the data which, according to the survey, appear to be the most relevant for BO identification purposes: **data on shareholders and directors** stored in **business registers**.

2.3.1 Methodology

The review was carried out on software tools commonly used by intermediaries in CDD/KYC activity or by competent authorities in AML investigations. They were identified:

- on the basis of an analysis of the IT market in the AML field performed by the Transcrime research team, with a focus on the EU region;
- on the basis of the indications provided by respondents to the survey on EU competent authorities and EU intermediaries (see section 2.1 and 2.2)⁴².
- on the basis of suggestions provided by BOWNET partners and other stakeholders in the AML field, including AROs, FIUs, LEAs, during face-to-face or telephone interviews.

For the purpose of the analysis, a distinction was drawn between *software* and *data providers*. The latter, which will be analysed in detail in Chapter 3, were defined as platforms, websites or repositories which distribute data but do not process them; whereas defined as *software* were tools also able to perform some processing or analysis of the data provided (e.g. visualization tools, social network analysis, etc).

Obviously, it is not always possible to make a clear distinction between the two categories. For example, some products developed by commercial data providers (e.g. GET[®] developed by Bureau Van Dijk and Vadis⁴³) provide data on directors in a social network analysis format, so that they ideally belong to both groups. For the sake of clarity, it is specified here that commercial business information providers (e.g. BVD Aida, BVD Amadeus, Dun & Bradstreet, etc) are covered by the analysis of data providers reported in Chapter 3.

As a result, **35 software** were reviewed (See Annex A5). For each of them, the following aspects were analysed:

- type of services/functions provided
- type of data processed
- geographical areas/markets covered
- type of operating system
- type of repository supported.

The review of the 35 software programs was carried out on the basis of:

- the description of the software provided by the relevant **website or brochure**
- whenever possible, a **trial of the software**
- interviews with **selected users** of the software and/or with **software houses/IT developers**.

It should be made clear that the analysis is **not intended to be exhaustive**, for four main reasons: firstly because the

purpose of this study is not to produce a market survey, but to determine the gaps and problems in BO identification affecting stakeholders in the AML field; secondly because the AML IT industry is in constant development and it is not possible to map all the tools marketed in detail; thirdly, because, owing to the impossibility of purchasing/subscribing for each of the softwares reviewed, in some cases information was not fully available; and fourthly because the focus was only on software adopted primarily by EU stakeholders, so that the analysis may have “missed” products used in the US or Asian or Middle-East markets⁴⁴.

However, the exercise may provide EU policy-makers with **an overview on the current state of the art of the IT AML industry** and hence highlight the gaps and the needs of EU stakeholders still not addressed by IT products currently on the market.

2.3.2 Results of the analysis

Services provided by the softwares

Analysed for each software was whether it provided services/tools belonging in the following eight categories:

- *customer identification*, i.e. any tool which automatizes the collection and analysis of information relevant for verification of the identity of the client (either individual or legal entity) according to CDD/KYC obligations or internal rules;
- *watch-list filtering*, i.e. any automatic cross-checking of the client's identity with existing watch-lists (e.g. PEP⁴⁵, SDN⁴⁶, FinCen⁴⁷ lists, etc.);
- *attribution of risk scores*, i.e. any automatic process which makes it possible to assess the risk of ML attached to either a business transaction or a client, and to attribute a risk score;
- *alert generation, examination and management*, i.e. any automatic process which generates (and manages) alerts as a consequence of the identification of a high risk of money laundering or of other types of risks;
- *monitoring of business transactions*, i.e. any tool that uses predefined analytical models to scan data on financial transactions and/or customer bank account information and analyses it to identify suspicious ML activities;

⁴⁴ Although most of the software analysed simultaneously covers different regions and markets, see below.

⁴⁵ Politically Exposed Persons.

⁴⁶ Specially Designated Nationals: list edited by of OFAC which lists individuals and organizations with whom United States citizens and permanent residents are prohibited from doing business.

⁴⁷ FinCEN, the Financial Crimes Enforcement Network, is a network of databases and financial records maintained by the U.S. federal government. Housed within the Treasury Department, FinCEN handles more than 140 million computerized financial records compiled from 21,000 depository institutions and 200,000 nonbank financial institutions. Banks, casinos, brokerage firms and money transmitters all must file reports with FinCEN on cash transactions over \$10,000. And FinCen is the repository for “Suspicious Activity Reports” which must be filed by financial institutions under the Bank Secrecy Act. FinCEN also uses a variety of law enforcement databases, including those operated by the Drug Enforcement Agency and the Defense Department, in addition to commercial databases of public records. FinCEN may also use databases held by the Central Intelligence Agency, the National Security Agency, and the Defense Intelligence Agency. For more information visit the website: <http://www.fincen.gov/>

⁴² Respondents to the questionnaire were also asked to provide the name of the software which they used in BO investigations and CDD Activities.

⁴³ <http://www.vadis.com/products/get.html>

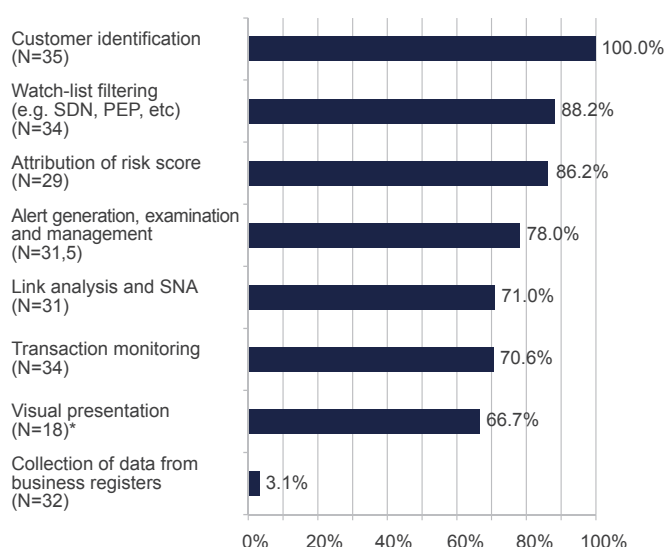
- *collection of data from business registers*, i.e. the direct collection of information or data stored within business registers (e.g. data on shareholders, directors, company information, etc.);
- *visual presentation*, i.e. any process able to identify and visualize, in diagrams or networks, the connections among data points (e.g. shareholders, directors, etc) on the basis of certain criteria;
- *link analysis and Social Network Analysis (SNA)*, i.e. any process able to provide SNA analytical and statistical tools.

The results are reported in Figure 25. It is evident that the softwares analysed provide many different types of services which **fully address CDD and KYC practices**: customer identification, watch-list filtering, risk assessment, cross-checks with PEPs lists, etc. It may be hypothesized that they have been designed specifically for financial and non-financial intermediaries, and in particular to satisfy AML compliance obligations.

A good number of them also offer additional analytical tools such as link analysis or SNA, and about two thirds also provide visualization tools which could also prove quite useful for police investigation activity (as demonstrated by the success of tools such as i2 Analyst Notebook among public investigators).

But the most important finding is that **only a minority of the softwares collect data directly** from business registers. Most of them can perform analysis but they need to be fed with data by the user, because they are unable to gather this information directly from public or commercial BIPs. This confirms the findings of Sections 2.1 and 2.2: it is the *collection* and not the *analysis* of the information that is the main problem faced by EU intermediaries and competent authorities.

Figure 25. Services provided by the software



Source: Transcrime 2013

Data processed by the softwares

Also in terms of the data processed it is evident that the softwares analysed were specifically designed to assist CDD/KYC activity (Figure 26). Most of them are able to process **customer ID** (94,3%) information or other documents and **information provided by the user** (93,3%). Data referring to the financial transaction itself (e.g. value of the fund transfer, country of the beneficiary, etc) are also quite common, and so are the names of individuals included in PEPs lists, e-CTSFL⁴⁸ and other watch-lists.

Interestingly, only a few of the AML software tools analysed are able to process company data and financial information (e.g. data from financial statements, accounts, etc) and, overall, a very small number have been designed to process **data on shareholders and BOs**. In regard to the latter, some softwares have been designed for AML investigations by competent authorities (e.g. the prototype developed within the BRACCO project⁴⁹), others for a wider usage (e.g. GET[®] developed by Bureau Van Dijk and Vadis), but they often focus only on a specific set of information (e.g. data on directorships).

The lack of software able to collect and process data on shareholders, directors and BOs may therefore explain the scant use of IT tools for BO identification purposes by both EU competent authorities and intermediaries (see in particular Figure 8, Figure 9 and Figure 21), and the fact that in most cases these users analyse the data manually.

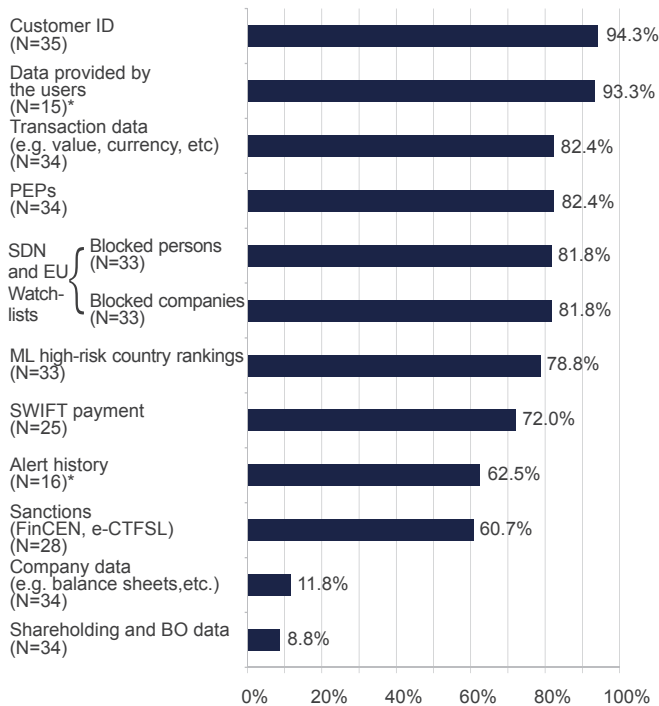
48 e-CTFSL, the "electronic-Consolidated Targeted Financial Sanctions List", is an electronic database established by the European Commission, in partnership with the four European Credit Sector Federations (European Banking Federation; European Savings Banks Group; European Association of Cooperative Banks; European Association of Public Banks), containing all relevant data concerning persons, groups and entities subject to European Union financial sanctions. For more information visit: http://europa.eu/rapid/press-release_IP-04-734_en.htm?locale=en

49 Bracco is a project developed by Italian provider Infocamere and software house Metaware and funded in 2007 by the EU Commission, DG JLS (JLS/2007/ISEC/431/30-CE-0220887/00-41). More detailed information could be found here: <http://braccoproject.infocamere.it/bracco/index.jsp>

Geographical coverage and usability of the software

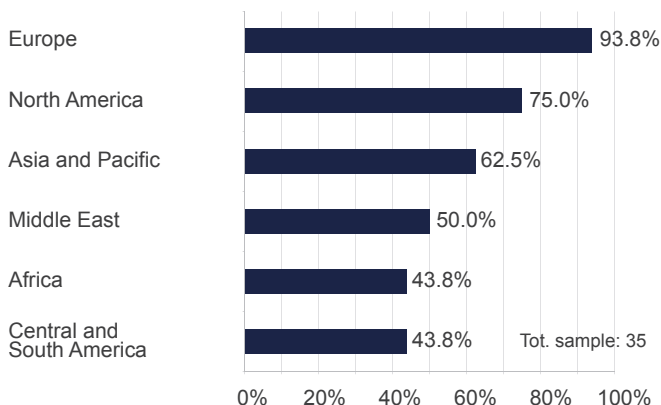
In regard to geographical coverage (i.e. the area where the software gathers and processes data), it is important to note that most of the tools analysed had worldwide coverage and had been designed to process information referring simultaneously to companies or individuals registered not only in Europe⁵⁰ but also in North America, the Middle East, Asia, Pacific and, to a lesser extent, South America and Africa (Figure 27).

Figure 26. Data processed by the software



Source: Transcrime 2013

Figure 27. Geographical coverage of the software



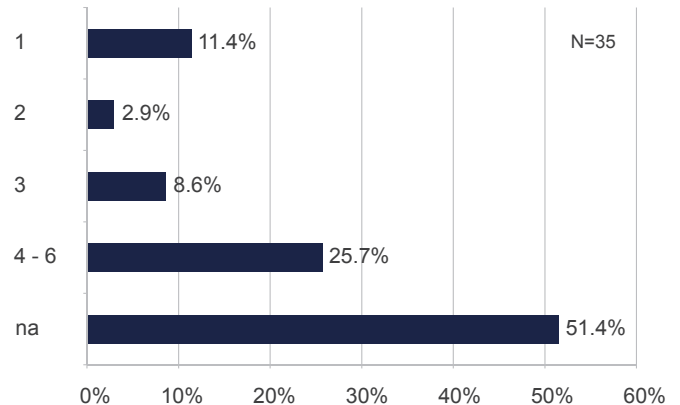
Source: Transcrime 2013

In regard to languages supported, although information was not available for a good number of software programs, 5 out of the 35 analysed provided information (or analysed information) in 20 or more different languages, while a further 6 covered a range from 2 to 6 languages (Figure 30).

Also extensive is the range of operating systems supported: almost 26% of the tools analysed worked with 4-6 different types of operating systems, with Windows being most frequent, followed by Mac OS and Mac OS X but also Linux, Unix, Solaris and other (Figure 28).

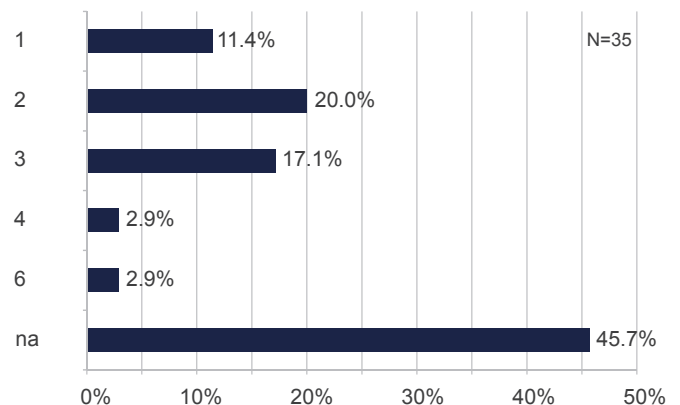
Finally, the software tools analysed could be applied to different types of repositories and database management systems (in 43% of cases at least two systems). The most common were Oracle, SQL based repositories and DB2 (Figure 29).

Figure 28. Number of operating systems supported



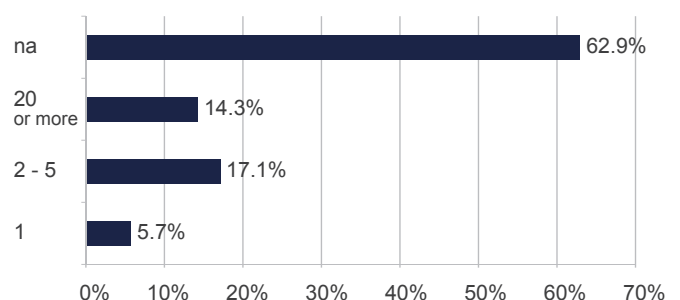
Source: Transcrime 2013

Figure 29. Number of database management systems supported



Source: Transcrime 2013

Figure 30. Number of languages supported



Source: Transcrime 2013

To conclude, the softwares commonly used for KYC/CDD activities comprise a variety of services and functions, including SNA analytical tools and visualization tools, and

⁵⁰ It should be borne in mind that the focus of this analysis was on the EU

they are designed to manage and process a wide range of data and information. Also good is the coverage in terms of geographical areas, languages, operating systems and database management systems. However, only a few of them have been **specifically designed to collect directly from business registers and to process the data on shareholders, directors and BOs**, which both EU competent authorities and intermediaries declared to be the most important for BO identification purposes.

2.4. Case studies on the investigations and BO identification activities of EU competent authorities and intermediaries

This section finally presents a number of case studies on investigations into the ownership and the control structure of corporate entities used to commit money laundering, frauds, corruption and other financial crimes.

The analysis serves to:

- provide examples of how legal entities may be misused for money laundering and financial crime purposes;
- provide examples of the practices adopted by investigators and intermediaries to identify the BOs of suspicious legal entities;
- provide evidence of the practical difficulties faced by authorities and intermediaries in collecting and analysing ownership and control information.

2.4.1 Methodology

Four case studies have been analysed:

- two investigations carried out by EU Law enforcement agencies;
- one investigation carried out by the AML compliance/security office of a large EU banking group;
- one investigation carried out by a university-based research centre.

This last investigation has been included because it can be located midway between LEAs and intermediaries: in fact, the aim of the investigation was similar to that of a police inquiry (determining whether the BO of a network of companies was connected to organized crime groups), but it was performed mainly on open sources information and without accessing police or judiciary records.

The cases have been provided by investigators themselves or drawn from sets of investigative best practices made public by the Egmont Group or CEPOL⁵¹. The names of the individuals or companies involved in investigative cases have been kept anonymous in order to comply with data protection rules.

2.4.2 Case studies

The four cases concern investigations carried out by EU competent authorities and intermediaries which led to the identification of criminal groups involved in money laundering, frauds and extortion activities. In at least two cases a connection with a mafia-type organization was also identified.

⁵¹ CEPOL is a European Union (EU) Agency, established in 2005 (Council Decision 2005/681/JHA of 20 September 2005). CEPOL's mission is to bring together senior police officers from police forces in Europe - essentially to support the development of a network - and encourage cross-border cooperation in the fight against crime, public security and law and order by organising training activities and research findings. For more information see: <https://www.cepola.europa.eu/index.php?id=home0>

BOX 5

A joint venture among Italian mafia groups

At the beginning of the 1990s members of a family connected to the Camorra criminal organization (Group G) settled in the region of Lake Garda in the North of Italy (Corte di Cassazione 2010), where, thanks also to illegal proceeds transferred from the province of Naples (Corte di Cassazione 2010; Tribunale di Brescia 2007), set up a network of companies managing discotheques and night clubs.

At the same time, another family (Group F), deemed to be connected to 'Ndrangheta clans based in the Gioia Tauro area (Corte di Cassazione 2010; Tribunale di Brescia 2007), and convicted in 2012 for mafia-type affiliation, was operating on the same territory, concentrating its investments in the construction and transport sectors.

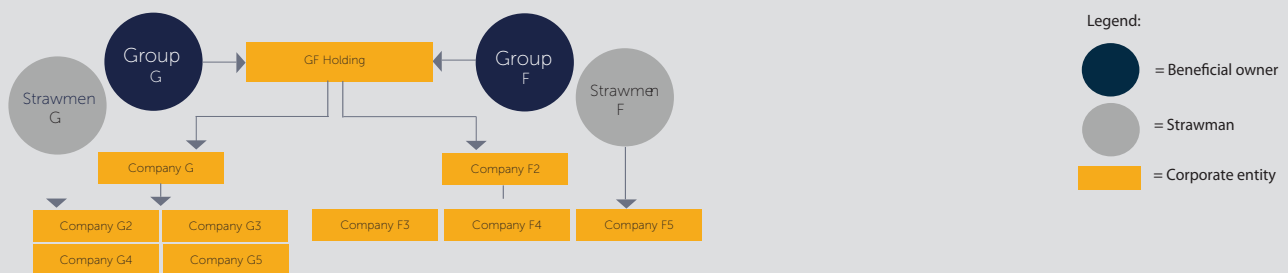
After a first phase of neutrality, in the mid-1990s Group F grew increasingly interested in the profitable nightclub business, an interest which led to intimidation and threats against Group G. Conflict between the two groups was eventually avoided, and a "joint-venture" was established for the purpose of jointly controlling the nightclub business. This economic and criminal cooperation was formally "certified" through the creation of a complex "Chinese boxes" scheme which, although it included the two different groups, was ultimately controlled by a single corporate entity, a trust (which we shall call *GF holding*) incorporated in Switzerland (Figure 31).

The ownership structure was finally revealed by an investigation carried out by the Italian LEA coordinated by the relevant Italian judicial authority, and most of the companies and corporate entities involved were confiscated⁵².

This case provides insights into some common practices adopted by criminals and criminal groups to conceal their identities through the use of corporate entities:

- use of "Chinese boxes" schemes
- use of legal entities incorporated in foreign countries
- use of strawmen.

Figure 31. The ownership structure of Group G and Group F corporate entities



Source: Transcrime 2013 (www.investimentioc.it)

Use of "Chinese boxes" schemes

Since the end of the 1980s, Group G had incorporated twelve companies in total (most of them limited liability companies) to control only three nightclubs (Tribunale di Brescia 2007, 37). The scheme was characterized by a large number of cross-shareholdings and connections. Moreover, the criminal entrepreneurs constantly changed the business names and business forms of the controlled entities so as to make it more difficult for LEA to map the ownership structure of the group and to trace the ultimate beneficial owners behind it⁵³.

Use of foreign legal entities

A trust was set up at the top of the business group. It was conceived as a shell company behind which the two groups concealed their identities. The legal arrangement had been incorporated in a foreign country (so called "esterovestizione"), Switzerland, to make it more complicated for Italian investigators to discover it, and also to protect the group's assets from criminal sanctions and proceedings issued by Italian authorities (Tribunale di Brescia 2007, 29). The trust was managed by professionals cooperating with the criminal group.

Use of strawmen

Another device adopted by the members of the criminal organization was the use of strawmen, who were formal owners of the companies managing the business. The bosses of the two criminal groups, Mister G and F, never appeared among the shareholders of the companies that they ultimately controlled. As very common in the case of mafia-companies (Transcrime 2013), most of the strawmen had been chosen within a close-knit circle of relatives, mainly partners and/or sons.

⁵² In particular, the investigation led to the confiscation of 9 companies (10 including minority shares) and 53 real estates.

⁵³ "[...] un continuo gioco di passaggio di quote, locazioni tra vari personaggi, giustificate non già da esigenze economico-gestionali, quanto piuttosto dalla necessità di rendere più difficoltosa possibile la ricostruzione della filiera di controllo"

BOX 6

A VAT carousel fraud

This case has been selected from a list of 100 cases of anti-money laundering best practices, carried out by FIUs, collected and then published in 2000 by the Egmont Group. The aim of the Egmont document was to provide cases of “laundering schemes that seek to conceal criminal funds within the normal activity of existing business or companies controlled by the criminal organisation” (Egmont Group 2000, 10).

This case represents a typical example of VAT “carousel” fraud. This kind of fraud circulates goods as many times as possible among complicit companies, stealing VAT on each occasion (for which reason they are referred to as “carousels”). Specifically, criminals take advantages of the different VAT regimes applied in EU to exports of goods (VAT tax free) and movements of goods within the same jurisdiction (subject to VAT taxation).

In a VAT carousel fraud, a criminal usually sets up different companies in different countries and starts a “fake” trade of goods among them, benefiting from the differences in VAT regimes. It is hence up to the competent authority to demonstrate that the same person is hiding behind the network of businesses, i.e. to show that s/he is the beneficial owner of the network of businesses trading among themselves. Identification of the BO is therefore crucial for recovery of the stolen assets.

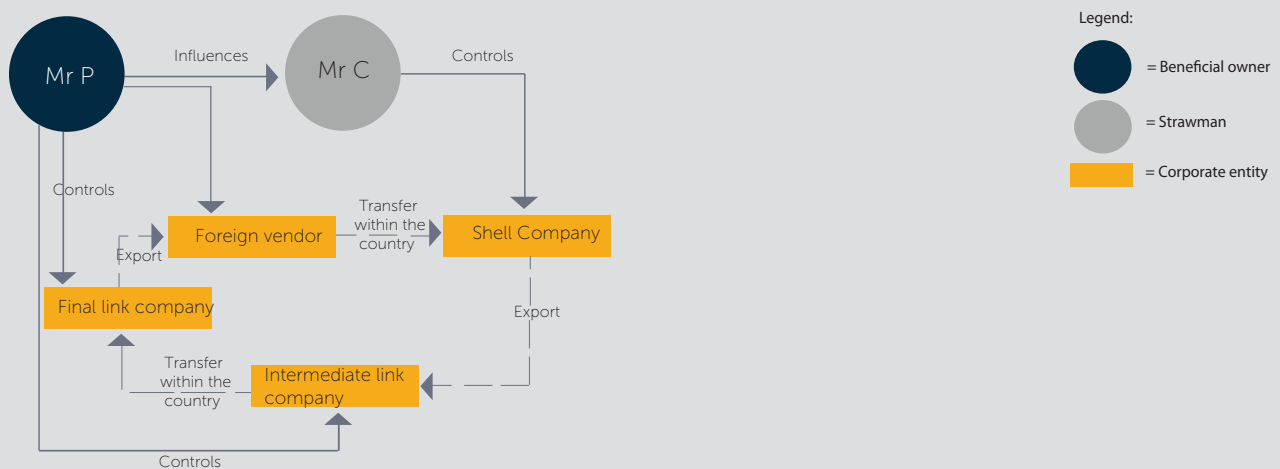
In order to facilitate the trade but at the same time to maximise the amount of VAT stolen, the goods are usually of small size but valuable, like mobile phones or microchips. Although it is difficult to evaluate the amount of fraud exactly, “the European Commission estimates that VAT fraud costs the Member States around Euro 60 billions annually” (FATF 2007, 3).

The case

Mr P imported mobile phones through a shell company, officially owned by Mr C, from a foreign vendor. The shell company then sold the goods to an *intermediate link company*, which hence resold the goods to a *final link company*, officially owned by the same Mr P. Both companies were registered in the shell company’s country. As the last step of the loop, the *final link company* exported the mobile phones (VAT-free trading) to the initial foreign company, ultimately controlled by the same Mr P.

Mr P was thus able, through the *final link company*, to claim large amounts of VAT back from the national tax authority. The carousel was carried out several times in order to generate more and more profits. It was estimated that Mr P. had generated at least 1 million USD from this fraud.

Figure 32. Mechanism of the fraud



Source: Transcrime Elaboration on Egmont Group case (2000)

Investigation of the case began when a large shipment of mobile phones imported by Mr C’s shell company was identified at the airport. Mr C had been previously involved in minor financial frauds, which attracted the attention of the national FIU.

The FIU, in cooperation with the customs enforcement service and the local tax authority, demonstrated that Mr C had sold the goods to an intermediate company for a price lower than the import price. The shipped mobile phones were therefore confiscated as a precautionary measure.

Further investigations revealed suspicious transactions and cash-flow among the foreign vendor (who had also a national bank account), the *intermediate link* and *final link* companies. The authorities were eventually able to demonstrate that Mr P was concealing himself as beneficial owner behind this complicated network of companies. He was convicted and ordered to refund the full value of VAT that he had stolen.

BOX 7

Racketeering and Construction

A southern Italian entrepreneur, Mr V, was found guilty of racketeering against another entrepreneur of the same area. The extortion was committed in cooperation with Mr G, boss of an important 'Ndrangheta clan in a southern Italian city. The competent authority found that the illegal proceeds had been reinvested in four construction companies which were indirectly controlled by both Mr V and Mr G. The companies were confiscated in 2011 together with thirteen vehicles (including bulldozers) and some properties (including warehouses and farmland).

The case represents another example of how criminals may misuse corporate entities for money-laundering purposes and to conceal their criminal identities. In particular, it provides further evidence concerning:

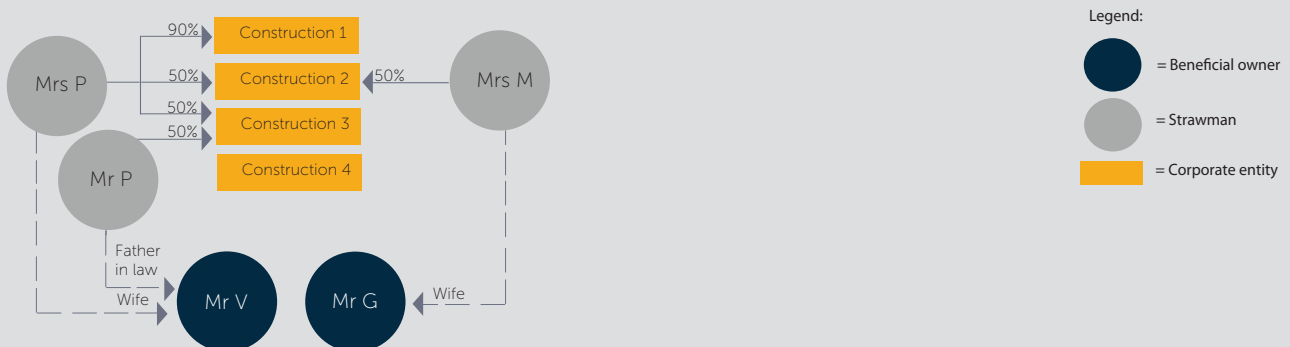
- the use of strawmen
- the use of Chinese boxes schemes

as devices commonly adopted to make it more difficult for competent authorities to identify the real BO behind the suspicious legal entities.

Use of strawmen

Figure 33 shows the ownership structure of the group. No companies and no assets (including vehicles and other movable goods) were directly controlled and attributable to Mr V and Mr G. The formal shareholders of the confiscated companies were strawmen chosen from within a close-knit circle of relatives: Mrs P and Mr P, respectively partner and father-in-law of Mr V, and Mrs M, wife of Mr G. The use of strawmen was also necessary because Mr V had been previously convicted for bankruptcy fraud, with the consequence that he had been prohibited, according to Italian law, from running other businesses either as shareholder or director. To be noted also is that the selection of the formal shareholders on the basis of kinship ties enabled the criminal group to manage the companies directly without hiring external professionals or service providers. Several studies on the Italian mafia Transcrime 2013, have shown how important it is for Italian organized crime to maintain in-house control over persons, assets and investments, especially in the case of 'Ndrangheta clans.

Figure 33. Ownership structure of Mr G's and Mr V's indirectly controlled companies



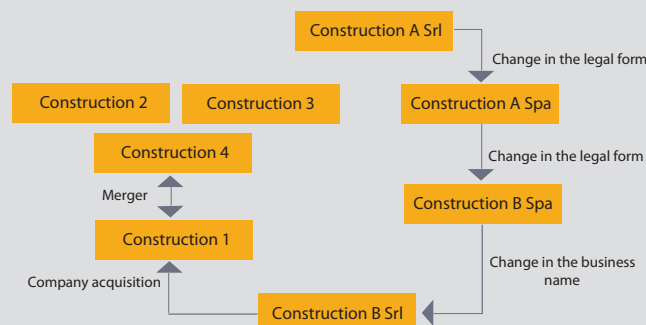
Source: Transcrime 2013 (www.investmentioc.it)

Use of Chinese Boxes schemes

Figure 34 shows the evolution of the group ultimately controlled by Mr V and Mr G since the beginning of the 2000s. In particular it presents the frequent modifications of the business names and of the business forms of the companies, which then resulted in the four construction companies confiscated in 2011.

Construction A was incorporated in 2000 as a limited liability company. Some time afterwards it was transformed into a joint stock company. It was therefore subject to a change of the company name (Construction B), and, later, of the business form (limited liability company again). Construction B was then conferred into the newly incorporated Construction 1 which had been planned to be merged later with another company (Construction 4) in order to yield tax credit.

Figure 34. The evolution of Mr V's and Mr G's business group



Source: Transcrime 2013 (www.investmentioc.it)

BOX 8

A case of a large banking group in AML and CDD investigations

This case has been provided by the AML security/compliance department of an important EU banking group. A client of the bank, Mr P, was suspected of money laundering and fiscal fraud. The investigation originated from a suspicious transaction report issued within the bank. The intermediary hence enhanced the CDD activity towards the client and the on-going business relationship.

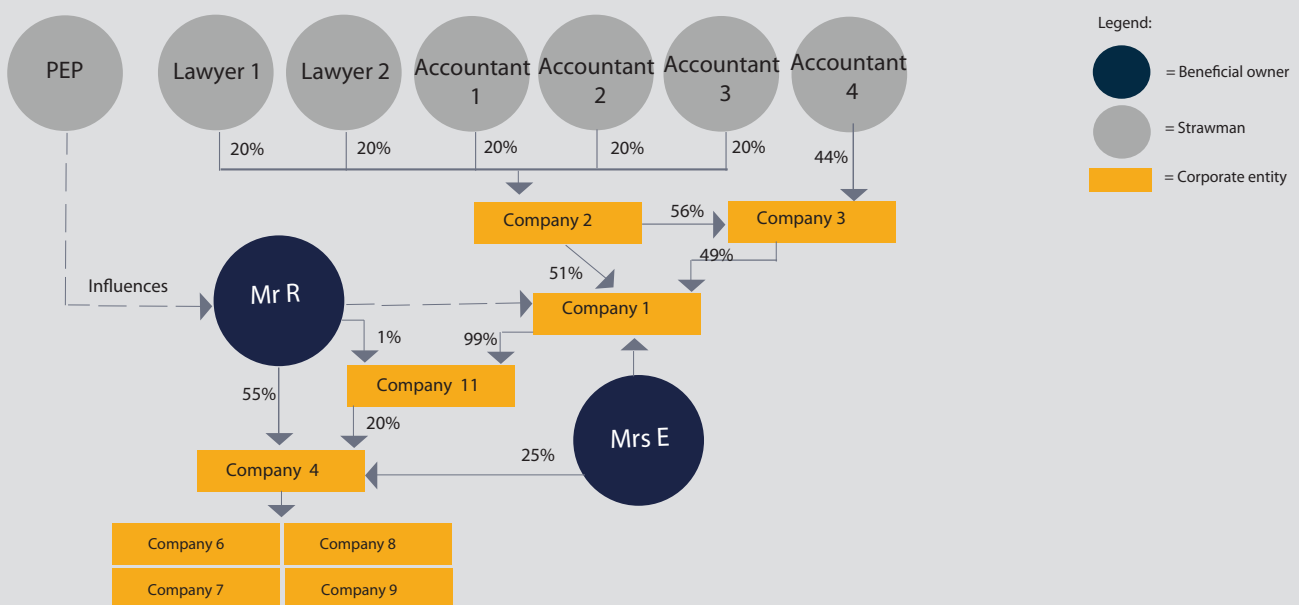
The investigation, carried out jointly by the AML security department of the banking group in cooperation with other branches, led to the discovery of a network of individuals, companies and cross-shareholdings whose main nodes consisted of two persons, Mr R and Mrs E (Figure 35).

Involved in the criminal network were:

- a wide range of EU and non-EU countries, including offshore jurisdictions;
- different types of corporate entities (most of them limited liability companies);
- professionals (e.g. lawyers and accountants as owners of a holding company);
- Politically Exposed Persons (a former mayor of an important city).

In other words, the main entries in a potential *money laundering encyclopedia* could be identified in this case.

Figure 35. The criminal network discovered by the EU banking group



Source: EU Banking Group – Security Department

It is worth also to know the amount of time and resources needed by the financial intermediary to map and reconstruct the criminal network described above.

The investigation, which lasted around two weeks, was based on data collected from a private database and open sources (e.g. news/press, blogs, social network). It was carried out through in-house IT tools and with the support of a private software program which helped the banking officer to visualise and analyse the connections among individuals, companies and assets. Two weeks of 1 FTE⁵⁴ were necessary to reconstruct the complex network shown in Figure 35.

⁵⁴ The FTE (Full Time Equivalent) is a unit indicating the workload so that it is comparable across different contexts. Usually, FTE= 1 refers to the workload of a full-time worker and FTE = 0.5 refers to a half-time worker

Chapter 3

The identification of beneficial owners: what information is available at EU level and who provides it?

Chapter 2 identified data on shareholders and on directors as the information most frequently used by EU competent authorities and intermediaries for BO identification purposes. This chapter analyses the sources and the level of availability of this information across the European Union.

Where is this information stored? Who provides it? Under what conditions and at what costs can it be accessed? What are the gaps in the dissemination of this information?

In order to answer these questions the chapter focuses on:

- **EU business registers (BRs)**, which, according to the surveys presented in Chapter 2, constitute the main data source for both competent authorities and intermediaries in BO identification activities;
- **other public and commercial business information providers (BIPs)** which could represent alternative sources of data on shareholders and directors of EU listed and unlisted companies.

In particular, section 2.1 presents the results of a comprehensive survey on EU business registers; and section 2.2 sets out the results of desk-based research on 150 public and commercial providers of business information and other data used for BO identification.

The findings of this chapter may enable:

- EU competent authorities and intermediaries to enlarge the set of databases and data sources which can be used for BO identification purposes;
- EU regulators to measure the “distance” between the framework set by the FATF (especially in terms of “company minimum basic information” (Int. Note to FATF Rec. 24)) to be recorded by companies and registries (see subsection 1.2.1) and the current situation;
- EU policy-makers to identify the gaps in the dissemination of the relevant information which could be addressed by future EU policy initiatives;
- users to understand which data and data sources could be accessed by new support systems developed in order to improve BO investigations by EU competent authorities, financial intermediaries and DNFBPs.

CHAPTER 3 - MAIN FINDINGS

EU Business registers

- Only a small number of business registers (BRs) provide information on beneficial owners, while information on shareholders and directors is much more widely available.
- However, in most cases information refers only to the names of directors/shareholders, while additional ID data are not made public. This could create problems of disambiguation in cases of homonymy.
- A significant amount of additional information stored by BRs is not public but can be obtained by EU FIUs, LEAs and AROs upon request.
- Lack of data format standardization: while almost all EU BRs provide information in PDF, only a minor share makes it available in XML or XBRL and still significant is the number of BRs storing it in paper.

Other EU public and private business information providers (BIPs)

- In the EU, a large number of public and commercial BIPs distribute information which can be used for BO identification purposes.
- On average, each EU MS is “covered” by eight BIPs. The *quantity* of information does not seem to be an issue, but its *quality* is a problem.
- Firstly, most BIPs cover only one country at a time. The lack of interconnections between different EU MS impedes cross-border investigations.
- Secondly, there is good coverage of limited companies, but the ownership and control information available for unlimited companies and legal arrangements (e.g. trusts, foundations, associations) is still not satisfactory.
- Thirdly, there are huge differences in terms of data formats. Public BIPs often distribute information in PDF or TIFF format, making its organisation and analysis difficult.
- Commercial BIPs offer a wider range of data and search facilities and guarantee a wider geographical coverage. However, they are often too expensive for public investigators needs.



3.1 The information provided by EU business registers

According to the surveys on EU competent authorities and intermediaries presented in Chapter 2, business registers represent by far the most important source of information used for BO identification, and one of those for which improved access is requested (see sections 2.1 and 2.2).

The FATF has also acknowledged the crucial role of company registries in providing information for AML purposes by asking (see Int. Note to Rec. 24) countries to maintain in BRs a range of data, including the company name, address, proof of incorporation and other documents which could be used for BO identification purposes (see subsection 1.2.1). It can be presumed that the final version of the Fourth EU AML directive will draw on these suggestions.

However, it is not clear what information is available in each EU MS company registry and to what extent it can be made available to interested stakeholders. This section explores these issues. In particular, it provides evidence on:

- the information available in EU BRs as regards the **directors** of registered listed and unlisted companies (e.g. name, home address, date of birth, etc.);
- the information available in EU BRs as regards the **shareholders** of registered corporate entities (e.g. name, extent of shareholding, home address, data of birth, etc.);
- the information available in EU BRs as regards the

beneficial owners of registered corporate entities (e.g. name, home address, role within the company, etc.);

- the **type of availability** of this information (e.g. publicly available, stored but available upon request, not available);
- the **format of the available data** (e.g. paper, PDF, HTML, XLS, XML, etc.).

3.1.1 Methodology

To achieve these objectives, an on-line survey was carried out by administering a questionnaire to the main EU and non-EU European business registers. The survey was carried out by Transcrime and the European Business Register (EBR) under the supervision of Bolagsverket – the Swedish companies registration office, which carries out the annual benchmarking survey⁵⁵ of the European Commerce Registers' Forum (ECRF)⁵⁶ in association with the Corporate Registers Forum (CRF)⁵⁷. A help desk was established to respond to queries, and a number of clarifications were issued.

34 registries of EU and non-EU countries were contacted, and **26 responded to the questionnaire - a 76.5% response rate** (see Table 4). Most of the BRs contacted are members

⁵⁵ <http://www.ecrforum.org/content/17/2011benchmarkingsurvey>

⁵⁶ <http://www.ecrforum.org/>

⁵⁷ <http://www.corporateregistersforum.org/>

of the EBR network⁵⁸. To be noted also is that registers which are not EBR-members (such as Hungary, Malta, Portugal and Romania) also responded to the survey.

The BOWNET survey is the first comprehensive study ever conducted at EU level with respect to the ownership and control information stored in EU business registers.

Table 4. Respondents to the BOWNET survey on EU business registers

No.	Country	EU or non-EU	EBR member	Responded to questionnaire
1	Austria	EU		
2	Belgium	EU		
3	Bulgaria	EU		
4	Cyprus	EU		
5	Czech Republic	EU		
6	Denmark	EU		
7	Estonia	EU		
8	Finland	EU		
9	France	EU		
10	Germany	EU		
11	Gibraltar	non-EU		
12	Greece	EU		
13	Guernsey	non-EU		
14	Hungary	EU		
15	Ireland	EU		
16	Italy	EU		
17	Jersey	non-EU		
18	Latvia	EU		
19	Lithuania	EU		
20	Luxembourg	EU		
21	Macedonia	non-EU		
22	Malta	EU		
23	Netherlands	EU		
24	Norway	non-EU		
25	Poland	EU		
26	Portugal	EU		
27	Romania	EU		
28	Serbia	non-EU		
29	Slovak Republic	EU		
30	Slovenia	EU		
31	Spain	EU		
32	Sweden	EU		
33	UK	EU		
34	Ukraine	non-EU		

3.1.2 Results of the analysis

Besides recommending that “all companies created in a country should be registered in a **company registry**⁵⁹” (FATF 2012, Interpretative Note to Rec. 24, A), the FATF defines a set of minimum basic company information which must be recorded by the BR. This information includes, for example, the company name, the address of the registered office and

proof of incorporation (FATF 2012, Int. Note to Rec. 24, par. 4(a) and 5).

It is also recommended that companies should maintain a **register containing the names of the shareholders and members** and the number of shares held by each shareholder (FATF 2012, Int. Note to Rec. 24, par. 4(b) and 6). Although it is not mandatory that this register be held at BR premises, it is important to understand what information on shareholders, directors and BOs is actually stored by EU BRs.

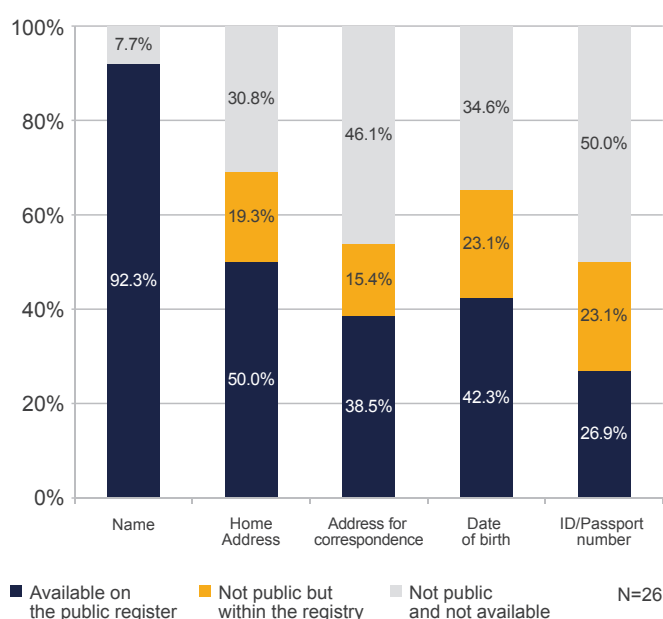
Information on directors

As shown in Figure 36, the **names of directors** is the information most frequently available on the public side of the register (i.e. the information which can be easily accessed by whatever user through the BR's website or upon request). Out of the 26 BRs to which the questionnaire was administered, 92.3% declared that this information is available to the public. **Home addresses** of the directors and their **dates of birth** are available in only half of the registers, while **addresses for correspondence** and **ID/Passport numbers** are much less publicly available.

To be noted is that in some cases information is not made available to the public but is **stored in the registry** and can **often be made available to competent authorities** upon request. This is crucial for the additional information, such as home address (not public but stored by 19.3% of the registers), date of birth (23.1%) and ID/Passport number (23.1%), which is extremely helpful for investigations and for disambiguating potential cases of homonymy.

The results are promising, therefore: although not explicitly required either by FATF or by EU AML framework, a satisfactory number of EU business registers already collect and make available, to different extents, information on company directors which could be used for AML purposes.

Figure 36. Information on directors available on EU BRs



Source: BOWNET survey on EU Business Registers

⁵⁸ <http://www.ebr.org/section/4/index.html>

⁵⁹ “Company registry refers to a register in the country of companies incorporated or licensed in that country and normally maintained by or for the incorporating authority. It does not refer to information held by or for the company itself.” (FATF 2012, 84)

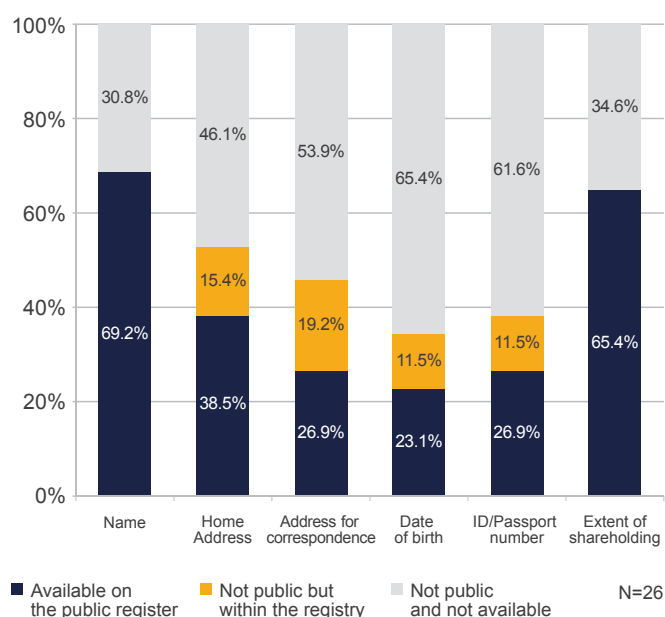
Information on shareholders

As regards shareholders, the results are less satisfactory. Again, the **names of shareholders** is the information most frequently available on the public side of the register (69.2%), followed by **the extent of shareholding** (65.4%) (see Figure 37).

Other information (e.g. **home address** or **date of birth**) is much less available, and it is furnished by only one-third or one-fourth of the 26 BRs analysed. This may create **problems of disambiguation** for investigative authorities, since without additional information such as date of birth or ID details it is very difficult to distinguish between two shareholders in cases of homonymy.

Also smaller is the set of information not made publicly available but stored in the registry, and which can be obtained by competent authorities upon request.

Figure 37. Information on shareholders available on EU BRs



Source: BOWNET survey on EU Business Registers

Information on beneficial owners

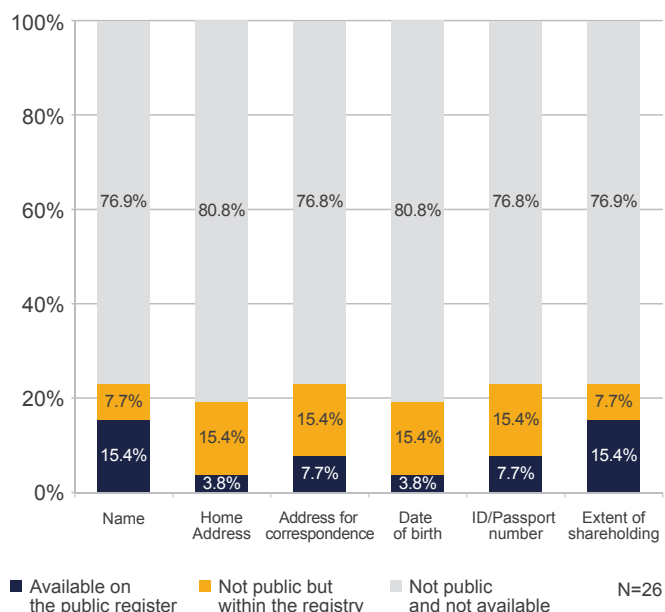
The survey also carried out an exploratory assessment of the level of availability of information on beneficial owners from EU BRs. The definition of BO provided by the Third AML Directive (Directive 2005/60/EC, art. 3(6)) was adopted.

The results are reported in Figure 38 and are rather discouraging: the name of the BO is provided to the public by only four EU MS business registers⁶⁰, equal to 15.4% of the sample, while additional information, such as date of birth or address, is even more rarely provided. To be noted is that, in some cases, information is available within the registry but not made public, so that ad-hoc queries by FIUs or LEAs are necessary.

These findings are very important, considering that EU intermediaries have often asked to establish registers of beneficial owners in order to improve their CDD activity; or at least to constitute within existing EU BRs specific sections containing information on the BOs of registered corporate entities (see section 2.2). It is evident that, on the basis of the survey findings, this objective is far from being reached.

60 The BRs of Estonia, Italy, Romania, Slovenia.

Figure 38. Information on beneficial owners available on EU BRs

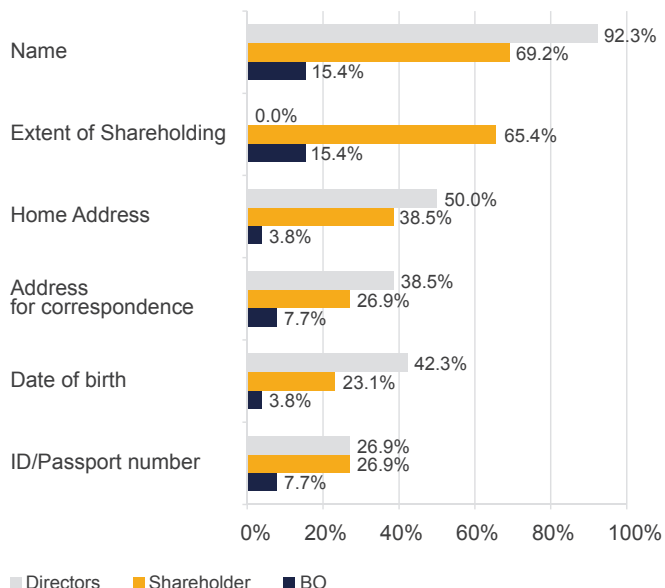


Source: BOWNET survey on EU Business Registers

Figure 39 compares the levels of availability to the public of information on directors, shareholders and beneficial owners. It is clear from the figure that information on directors is much more frequently available than that on shareholders and BRs in almost all cases where the comparison is applicable.

Figure 40 compares the three categories with respect to information which is not public but is stored within the registry and hence can be made public to competent authorities upon request. Interestingly, in all the cases in which BRs collect information on the names of shareholders and directors, this information is always made publicly available. By contrast, there is a large number of registers which collect additional information (such as home address, date of birth or passport number) but do not make it public unless requested by LEAs or FIUs. Data privacy concerns are undoubtedly among the main reasons for the different treatment of the data.

Figure 39. Directors, shareholders and beneficial owners: information available on the public side of BRs



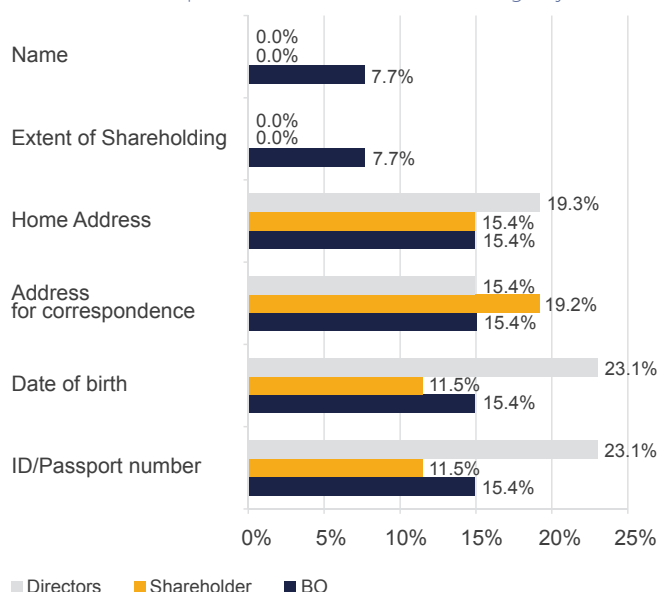
Source: BOWNET survey on EU Business Registers

Table 5. Format of the data made available by EU and other European BRs

Country	PDF	PAPER	TIFF	XBRL	HTML	DDOC	XML	Online viewing	No Answer
Austria									
Belgium									
Bulgaria									
Cyprus									
Czech Republic									
Denmark									
Estonia									
Finland									
France									
Germany									
Gibraltar									
Greece									
Guernsey									
Hungary									
Ireland									
Italy									
Jersey									
Latvia									
Lithuania									
Luxembourg									
Macedonia									
Malta									
Netherlands									
Norway									
Poland									
Portugal									
Romania									
Serbia									
Slovak Republic									
Slovenia									
Spain									
Sweden									
UK									
Ukraine									

Source: BOWNET survey on EU Business Registers

Figure 40. Directors, shareholders and beneficial owners: information not public but stored within the registry



Source: BOWNET survey on EU Business Registers

Data format

Even if information is available, it may be almost useless if recorded in a format which makes it difficult to process. For example, it is very complicated to perform queries or analyses of information recorded on paper, while formats such as XLS, XML or XBRL allow wider and more complicated interrogations and analyses.

Table 5 reports the type of formats made available by the 26 registers analysed. While all BRs provide information in PDF, some also make it available in XML and XBRL format. Also large is the number which still store and provide information on paper.

To be noted is that a PDF may be either a simple scanned image of a paper document (such as TIFF or JPG) or a OCR-readable PDF. In the former case, although systems to convert PDF into DOC exist, it is very difficult to analyse and to search across the file. By contrast, OCR-readable PDF allows much wider usage of the document.

To conclude, while for some types of information (such as the names of shareholders or directors) the level of availability among EU BRs is satisfactory, for other types it is rather low.

In particular, information on beneficial owners is provided by only a minority of the registries, as well as additional data and ID details of shareholders.

Another important finding is the existence of information that, although not publicly available, is stored in the registries and can be accessed by competent authorities upon request.

In regard to data formats, no standardization can be identified across registers: PDF is by far the most frequently available format, but it is not clear if it is only a scanned image of the original document (hence difficult to analyse) or OCR-readable so that it is easy to analyse and to interrogate. This would make a huge difference in terms of information usability.

3.2 The information provided by other public and commercial business information providers

Business registers are not the only data providers available on the market. Information on shareholders, directors and, sometimes, beneficial owners can also be gathered from **alternative data sources**. These include, for example, the repositories of data of companies listed on national stock exchanges (managed by the relevant financial service authority or by the stock exchange regulator) or commercial information providers.

Indeed, investigators are used to collect data from a wide range of sources, as Section 2.1 and 2.2 have shown. The Egmont Group points out that “open sources may provide extra information about transaction participants that give grounds for suspicions and further requests and investigations [...] There are commercial databases that provide information about companies and persons. They cover more countries, provide more detailed information, and all this in one search form” (Egmont Group 2009, 3).

In order to assess the level of availability of information used for BO identification purposes, and to identify who provides it, it is hence necessary to **extend the analysis** performed on EU BRs to include these alternative data providers.

This section 3.2 therefore investigates what information is provided, and on what conditions, by **EU business information providers (BIPs)** including:

- Officially Appointed Mechanisms (OAM) databases;
- databases managed by Stock Exchanges and Financial Supervisory Authorities;
- commercial business information providers (e.g. Dun&Bradstreet, Bureau Van Dijk, etc);
- business registers (already analysed in 3.1).

Various aspects have been analysed for each of the above, such as:

- information available on directors (e.g. name, address, etc)
- information available on shareholders (e.g. name, address, etc)
- geographical coverage
- types of corporate entities covered
- costs of accessing
- format of the data available.

3.2.1 Methodology

Desk-based research was carried out by Transcrime on **150 data providers** of information on EU corporate entities. This represents the most comprehensive study ever conducted in the EU with respect to the ownership and control information stored in public and commercial business information providers (BIPs).

The data sources analysed were identified on the basis of:

- an analysis of the business information market performed by the Transcrime research team, with the focus on the EU region;
- the indications provided by respondents to the survey on EU competent authorities and EU intermediaries (see section 2.1 and 2.2)⁶¹;
- suggestions provided by BOWNET partners and other stakeholders in the AML field, including AROs, FIUs, LEAs, during face-to-face or telephone interviews.

As anticipated above, the set analysed included databases:

- managed by the national Stock Exchange Management Companies (**SEMCs**) of the 27 EU MS⁶²;
- managed by the national Financial Supervisory and Regulatory Authorities (**FSRAs**) of the 27 EU MS;
- appointed as Officially Appointed Mechanisms⁶³ (**OAMs**) of the 27 EU MS;
- managed by Business Registers (**BRs**), and analysed in Section 3.1;
- managed by commercial Business Information Providers (**BIPs**).

Figure 41 below presents the composition of the set of BIPs analysed. To be noted is that in some countries the repositories held by Financial Service Authorities or by Stock Exchange regulators are also appointed as OAMs⁶⁴, and in a few cases FSRAs also manage the national Business Register⁶⁵. This means that some of the databases analysed belong to more than one category of BIP. For this reason a specific category (*More than one type of BIPs*) was created to include those cases in which the databases managed by FSRA or SEMC have been appointed as national OAMs or run the national BR.

61 Respondents to the questionnaire on EU competent authorities and intermediaries were also asked to provide the names of public registers or commercial data providers used in BO investigations and CDD Activities.

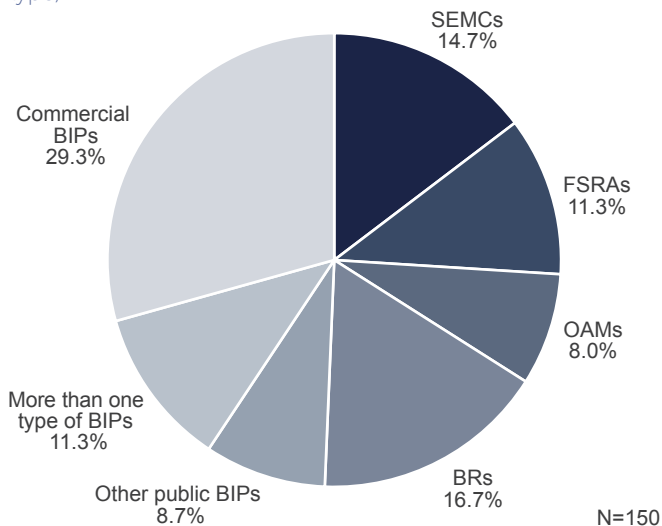
62 In some cases more than one stock exchange exists per each EU MS. In those cases only the main national stock exchange was included in the analysis.

63 Officially appointed mechanisms (OAMs) are data providers which serve, according to EU Transparency Directive (Directive 2004/109/EC), to disseminate regulated information on companies listed on EU stock exchanges.

64 The Transparency Directive does not place any restrictions on the type of OAM to be established. It only requires that: “The home Member State shall ensure that there is at least one officially appointed mechanism for the central storage of regulated information. These mechanisms should comply with minimum quality standards of security, certainty as to the information source, time recording and easy access by end users and shall be aligned with the filing procedure under Article 19(1)” (Directive 2004/109/EC, article 21, par. 2).

65 In particular 58.8% of the Financial Supervisory Authorities (FSRAs) and 29.4% of the Stock Exchange Authorities also act as Officially Appointed Mechanisms (OAMs). To be noted also is that 11.8% of the FSRAs also work as Business Registers.

Figure 41. Set of business information providers analysed (per type)



The analysis was carried out through:

- **desk-based** analysis of the information provided by BIPs websites and brochures;
- whenever possible, a **trial or an access to the BIP**, in order to perform queries and interrogations and to verify the information available;
- **interviews with selected BIPs** or with selected end-users, including both EU competent authorities, intermediaries and other stakeholders (e.g. academics, financial journalists, etc).

The results presented in the following subsections have been aggregated⁶⁶ according to different criteria:

- geography (e.g. information available per EU MS or per macro-region);
- type of repository (e.g. information available on *public* or *commercial* BIPs).

In regard to the latter distinction, *public* BIPs are those databases which are generally managed by public institutions (such as Financial Service Authorities or Chambers of Commerce), or which in general do not charge a fee for accessing the data; *commercial* BIPs are those data providers which collect information from institutional sources and redistribute it to end-users (generally charging a fee). However, the distinction is not always clear since, for example, some business registers have a private nature and others charge fees to download data. In the framework of our analysis, the databases managed by SEMCs, FSRAs, OAMs, Business Registers and those other types of BIPs or BIPs belonging in more than one category were considered as *public* BIPs (70.7% of the sample); the remaining as *commercial* BIPs (29.3% of the sample).

Finally, whenever possible, the analysis also included the Business Registers already covered by the survey described in section 3.1.

⁶⁶ The complete database used in the analysis has been made available to the EC. For data protection reasons it is not possible to disclose in this report the results per single register or BIP. In the future an access to the complete database could be evaluated for certain categories of users such as EU LEAs, FIUs or AROs.

3.2.2 Results of the analysis

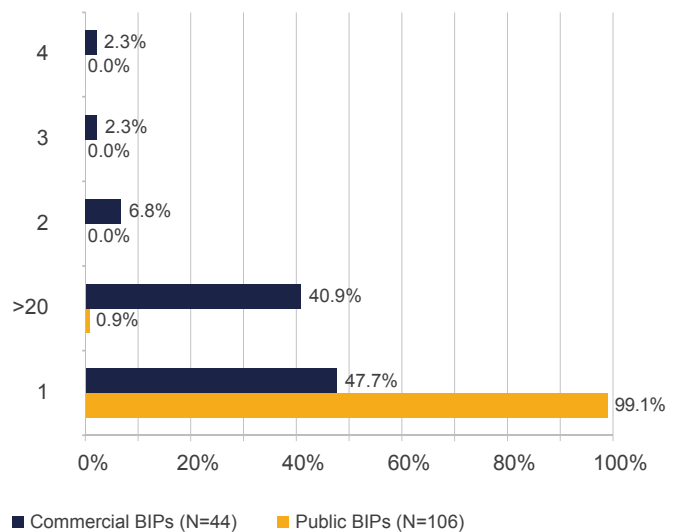
Geographical coverage of EU BIPs: cross-border perspective

Do existing BIPs provide ownership and control information for corporate entities registered in one or more than one countries? In other words, how many countries are covered, on average, by existing BIPs?

Figure 42 provides an answer to this question by grouping the commercial and public BIPs analysed according to the average number of countries covered. It will be seen that almost all the **EU public BIPs cover on average only one country at a time**. This is to be expected given the “country-based” nature of certain repositories, such as OAMs or those held by the national Financial Service Authorities, but it is surprising in light of such EU initiatives as the interconnection of business registers (see below) or the wave of mergers which have characterized EU stock exchanges in the past ten years⁶⁷.

In turn, the share of **commercial BIPs** covering only one country is significantly lower (47.7%) than that of public BIPs. But they can ensure **much wider geographical coverage**, with almost 41% of them able to provide, at the same time, information for corporate entities registered in more than twenty countries. To be noted is that 11 out of the 44 commercial BIPs analysed declared a *worldwide* coverage.

Figure 42. Average number of countries covered by EU BIPs

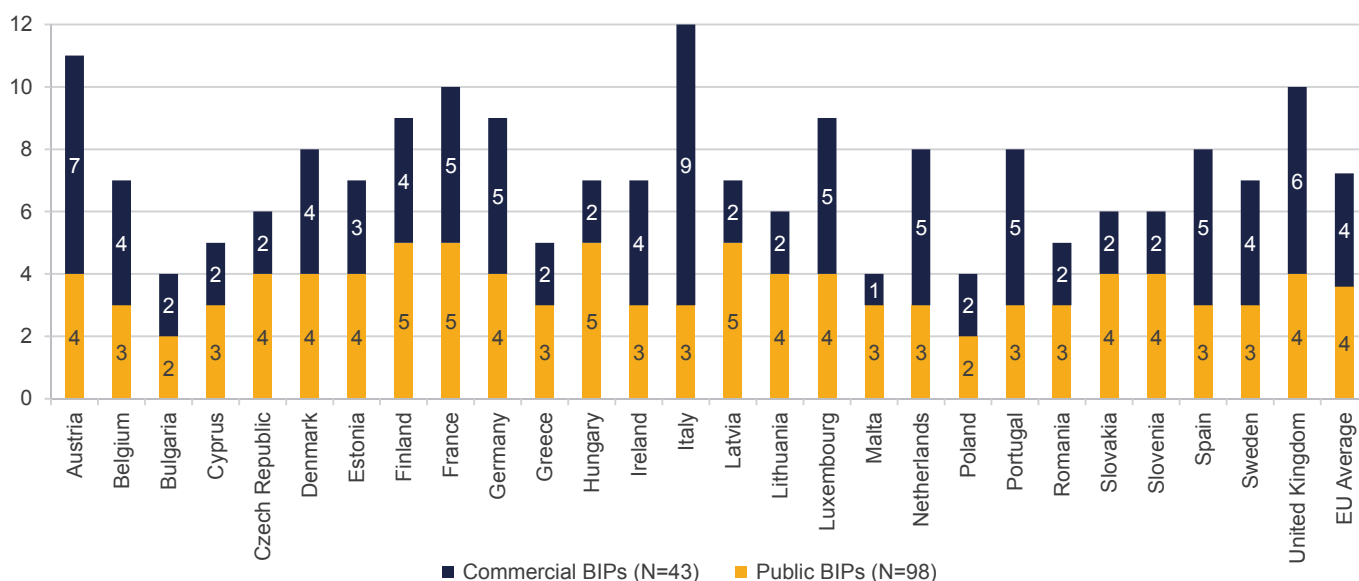


Source: BOWNET analysis of EU BIPs

The results confirm the problem already highlighted in Sections 2.1 and 2.2 of the fragmentation of ownership and control information across countries. In particular, they demonstrate the lack of **interconnections among EU BIPs and registers** which makes it very difficult to reconstruct the ownership structure of multinational groups or cross-border “Chinese boxes” schemes.

⁶⁷ At the moment, national stock exchanges in the EU are controlled by only a few international groups. Four main groups de facto control the main EU listings: Euronext- NYSE, London Stock Exchange, Deutsche Boerse and OMX. For more details see Economist, 1 February 2012 (<http://www.economist.com/blogs/freeexchange/2012/02/deutsche-b%C3%B6rse-and-nyse-euronext>) and Economist, 28th January 2012 (<http://www.economist.com/node/21543525>). For the sake of clarity, it must be said that cross-borders queries are possible among the stock exchanges belonging to the OMX network (Copenhagen Stock Exchange, Stockholm Stock Exchange, Helsinki Stock Exchange, Tallinn Stock Exchange, Riga Stock Exchange and Vilnius Stock Exchange).

Figure 43. Number of BIPs for each EU Member State



Source: BOWNET analysis of EU BIPs

On the basis of the situation depicted in Figure 42, whenever a public investigator or an EU intermediary wants to collect data on the shareholders of a group of companies registered in *N* different EU MS, s/he **must access the relevant *N* EU MS registers separately**. This is obviously a very time-consuming and highly ineffective practice, given also the **problems of accessing foreign registers** which EU competent authorities and intermediaries underlined in the survey presented in Sections 2.1 and 2.2.

A solution could be that the public investigator or an EU intermediary subscribes to a **commercial data provider**⁶⁸, but in most cases, as already mentioned in Chapter 2, this is not possible owing to the very expensive fees which cannot be borne by the competent authorities with their low budgets.

For the sake of clarity, to be noted is that at EU level the issue of **business registers interconnection** has become crucial and the topic of a specific EU Directive, but huge problems still remain: "[...] there is an increasing demand for access to information on companies in a cross-border context. However, official information on companies is not always readily available on a cross-border basis. [...] There are, however, no established channels of communication that could accelerate procedures, help overcome language problems, and enhance legal certainty" (Directive 2012/17/EU, 1).

Moreover EC Regulation 177/2008 has set out a common framework for the **harmonisation of national registers**, but it is still **limited to statistical purposes**⁶⁹: "[...] Member States shall set up one or more harmonised registers for statistical

purposes, as a tool for the preparation and coordination of surveys, as a source of information for the statistical analysis of the business population and its demography, for the use of administrative data, and for the identification and construction of statistical units" (Regulation 177/2008 EC, Art. 1).

Given the fragmentation of the information across different EU MS and the lack of interconnections among BIPs, and considering the difficulties in achieving a complete interconnection and harmonisation of databases, it can be concluded that **huge steps** have still to be taken to help investigators in **collecting and reconstructing ownership information on a cross-border basis**.

Geographical coverage of EU BIPs: national perspective

It is equally important to adopt the reverse perspective, i.e. to understand how many BIPs cover the same country. If, for example, an investigator needs to collect some ownership data on a company registered in a certain country (e.g. Austria), how many BIPs can s/he rely on to gather the information?

Figure 43 provides an answer to this question⁷⁰. The findings are quite surprising: **on average each EU MS is covered by eight BIPs**, i.e. there are on average eight data providers distributing ownership and control information on the companies registered in each EU MS⁷¹. The country with the highest number of BIPs providing some kind of ownership or control information is **Italy** (12 BIPs, 3 public and 9 commercial); the countries with the lowest number of BIPs are **Bulgaria, Malta and Poland** (4 BIPs identified for each of them).

68 In this regard, it is worth quoting the World Bank and UNODC: "In contrast to the depository nature of the central (that is, government) registry, commercial databases, such as Dun and Bradstreet (www.dnb.com), Bureau van Dijk (www.bvdinfo.com), and others, are designed specifically for business solutions, risk management, and client prospecting, and they actively gather their data from a variety of sources" (World Bank and UNODC 2011, 80).

69 Such as the Eurostat initiative of the EuroGroups Register (see http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/special_sbs_topics/eurogroups_register)

70 BIPs for which only a broad indication about geographical coverage (e.g. Europe or Worldwide) is available have been included in the analysis even though has not been possible to assess the exact number of countries covered by these data providers.

71 This number also includes those BIPs which cover more than one country at the same time. In other words, if, for example, a BIP covers France and Italy at the same time, it is counted as "1" for France and "1" for Italy. For this reason, the sum of the BIPs of all the EU 27 MS reported in the figure does not equal the total number of BIPs analysed in this section.

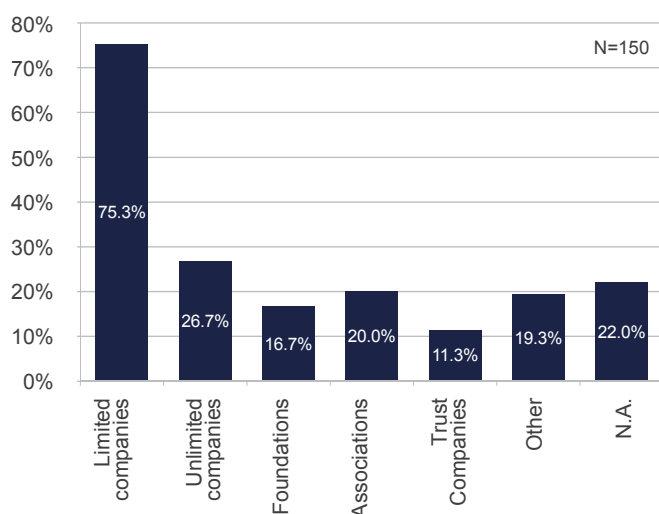
It therefore seems that the problem of the availability of ownership and control information is not the “quantity” of the data provided but their “quality”.

Type of corporate entities covered by EU BIPs

It is important also to consider the coverage ensured by EU BIPs in terms of the types of corporate entities for which information is provided. In fact, as anticipated in Chapter 1, the disclosure of ownership information is crucial not only for limited companies but also for **other types of corporate entities and legal arrangements**, such as unlimited companies, foundations, trusts, associations, which could be misused for ML purposes: “There has been an increasing international focus on the misuse of legal vehicles and, more specifically, the use of TCSPs⁷² to help facilitate this misuse. In recent years, the use of complex multi-jurisdictional legal structures has continued to cause concern for many international organisations, governments and national regulatory authorities” (FATF 2010, 5).

The results of the analysis (Figure 44) show that **limited companies** are the type of corporate entity for which information is most frequently available: 75.3% of the EU BIPs analysed cover this business form. **Unlimited companies** are much less covered (26.7% of EU BIPs), as well as **foundations and associations** (16.7% and 20% respectively). It is not surprising that only 11.3% of the 150 EU BIPs analysed provide information about **trusts**.

Figure 44. Types of legal persons and legal arrangements covered by EU BIPs



Source: BOWNET analysis of EU BIPs

These findings obviously reflect the fact that a large number of the BIPs analysed provide information only as regards *listed* companies (which take the form only of joint-stock limited companies), and also the fact that registers, especially public ones, have been conceived to respond to company law requirements rather than to anti-money laundering needs. They consequently focus on limited companies and do not require the registration of those kinds of legal arrangement, such as

trusts or foundations, which have attracted the attention of EU AML investigators.

Information on directors provided by EU BIPs

As done in Section 3.1 with reference only to EU Business registers, this section determines what information is provided by EU BIPs on directors and shareholders of EU corporate entities. In particular, so as to allow comparison with the findings presented in Section 3.1, verified for each BIP is whether it distributes the following data:

- name of the director/shareholder
- home address of the director/shareholder
- date of birth of the director/shareholder
- ID card number of the director/shareholder
- telephone number of the director/shareholder
- extent of shareholdings (% shares held), applicable only to shareholders
- changes in major holdings, applicable only to shareholders.

It has been decided not to focus on beneficial owners because in most cases it was difficult to verify whether information on BO was actually distributed by the BIP, and also to determine the definition of BO adopted by each BIP. In order to assess the availability of BO information on EU BIPs, therefore, it is recommended that, in the future, desk-based analysis should be integrated with further surveys such as the one performed with EU BRs (and presented in section 3.1).

Figure 46 presents the level of availability of information on directors among public and commercial BIPs. It will be noted that, even when the analysis is extended beyond BRs, the **name of the director** is still the most frequently available information provided by EU BIPs.

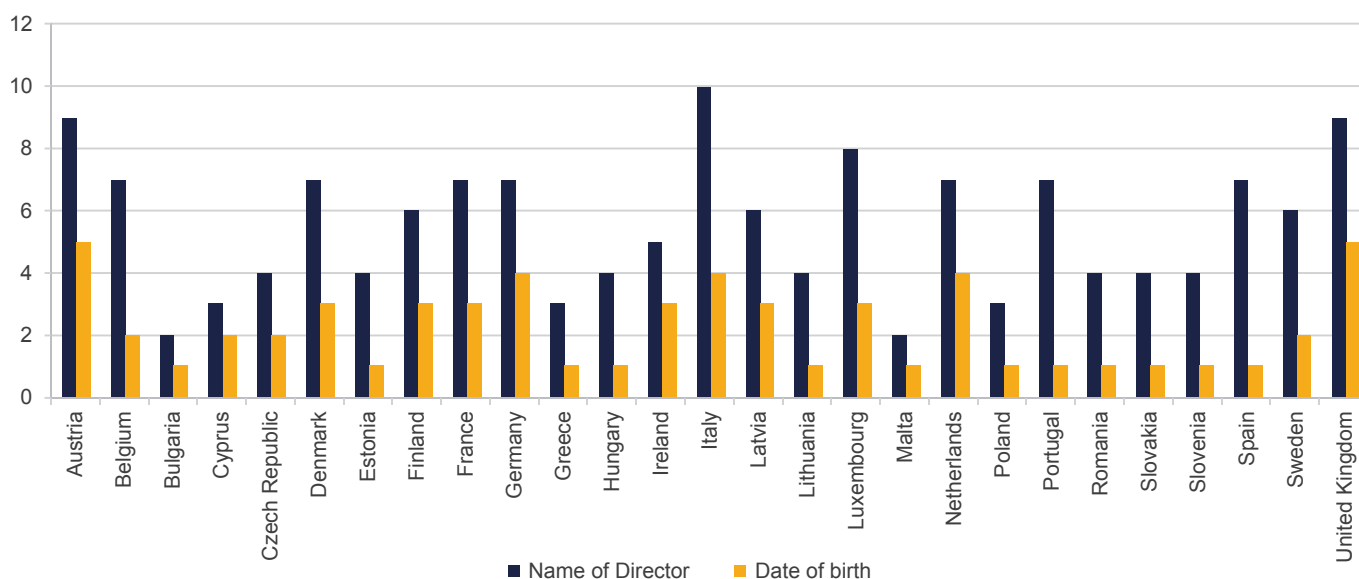
As in the case of business registers, additional items of information such as **home address** and **date of birth** are much less frequently available. However, a distinction can be drawn between *public* and *commercial* BIPs, with the latter making a much wider range of data available. For example, information on the director's date of birth is provided by 50% of the commercial BIPs analysed, compared with 16% of the public ones⁷³.

These results suggest that, in cases of homonymy among shareholders, investigators can resort to commercial providers in order to collect additional ID information useful **for disambiguating** these cases. It is also surprising to note that, in a few cases, commercial BIPs even provide the telephone numbers of board members.

⁷² Trust and Company Service Providers: “all those persons and entities that, on a professional basis, participate in the creation, administration and management of trusts and corporate vehicles” (FATF 2010, 5).

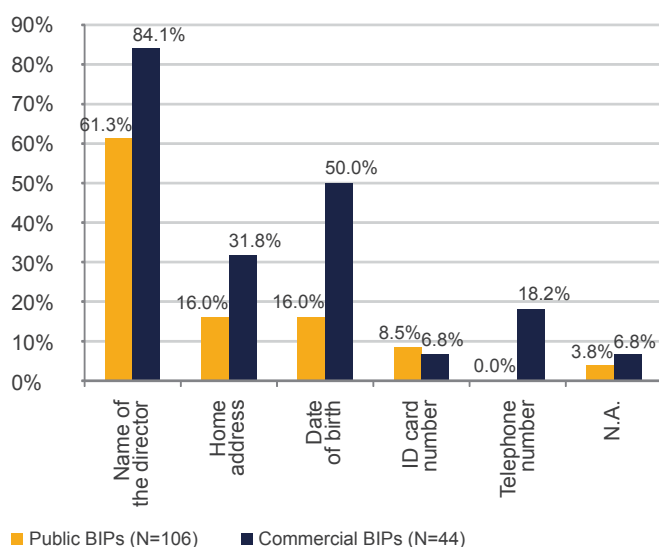
⁷³ Obviously, this information is available only as regards natural persons and not legal persons.

Figure 45. Number of BIPs providing information on directors per each EU MS



Source: BOWNET analysis of EU BIPs

Figure 46. Information on directors available on EU public and commercial BIPs



Source: BOWNET analysis of EU BIPs

Adopting a national perspective shows that the availability of directors' information is not uniform across EU MS.

Figure 45 presents, for each EU country, the number of BIPs (either public or commercial) providing information on the names of directors of companies registered in the national register and on the dates of birth of directors. **Italy** is the EU MS where the names of directors are made public by the highest number of data providers (10 BIPs) while **UK and Austria** are those countries which make information about directors' dates of birth most frequently available (5 BIPs).

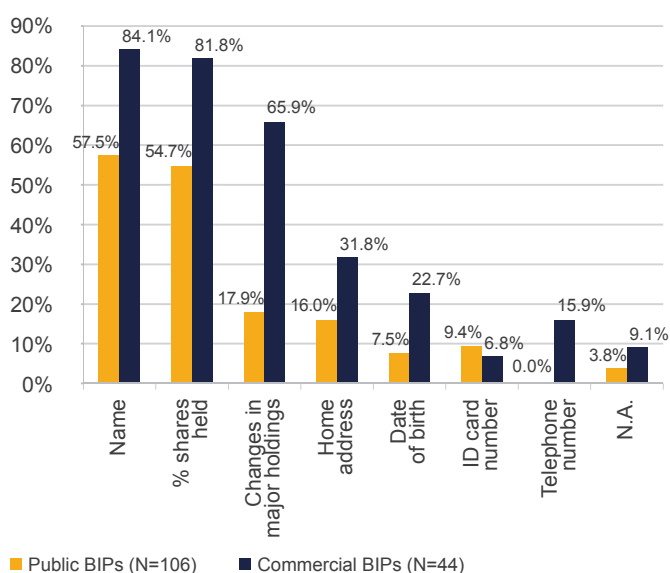
Information on shareholders provided by EU BIPs

The results on the **availability of shareholders' information** are similar to the previous ones (Figure 47). While the name of the shareholder and the extent of the shareholding (% shares

held) are still the data most widely available, other additional information seems much less frequently provided.

Also in this case significant differences between public and commercial data providers can be identified, with commercial BIPs always distributing a wider range of information, except for **ID details**, which are more frequently available within public BIPs.

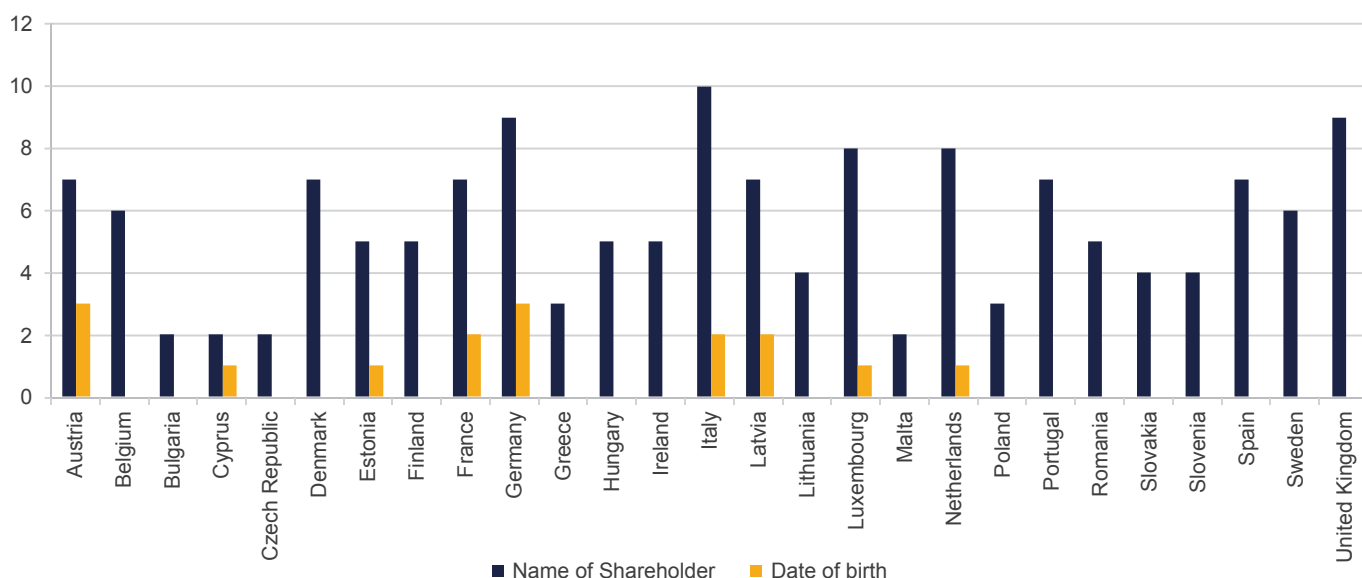
Figure 47. Information on shareholders available on EU public and commercial BIPs



Source: BOWNET analysis of EU BIPs

From a country perspective, while **Italy** is the EU MS where the highest number of BIPs provide information on the names of shareholders (10 BIPs), **Germany and Austria** are the countries with the largest number of data providers distributing information even on the dates of birth of shareholders (3 BIPs) (Figure 48).

Figure 48. Number of BIPs providing information on shareholders per each EU MS

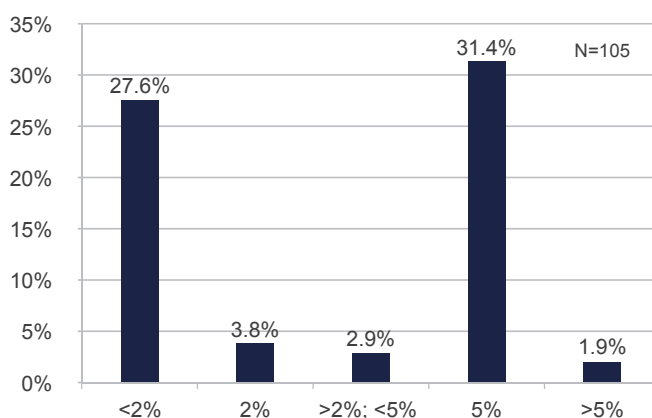


Source: BOWNET analysis of EU BIPs

It is also useful to determine the minimum threshold of shareholding for which information on shareholders is provided, i.e. the minimum percentage of the share capital which must be possessed by a person (either natural or legal) in order that information about his/her identity can be disclosed to the public.

As shown by Figure 49, one-third of the EU BIPs analysed disclose information about shareholders above the **5% limit**. This is not surprising since 5% is the minimum threshold set by Directive 2004/109/EC (*Transparency directive*) for notifying changes in the major holdings of listed companies⁷⁴. However, interestingly, a large number of EU BIPs apply **lower minimum thresholds**: 34.3% provide information on shareholders below the 5% limit, while 27.6% do so even below the 2% limit. In 32.4% of cases it has not been possible to collect information about the minimum shareholding threshold.

Figure 49. Minimum percentage of the share capital to be held for the disclosure of shareholders' information



Source: BOWNET analysis of EU BIPs

⁷⁴ "The home Member State shall ensure that, where a shareholder acquires or disposes of shares of an issuer whose shares are admitted to trading on a regulated market and to which voting rights are attached, such shareholder notifies the issuer of the proportion of voting rights of the issuer held by the shareholder as a result of the acquisition or disposal where that proportion reaches, exceeds or falls below the thresholds of 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % and 75 %" (Directive 2004/109/EC, art 9(1)).

Format of the data provided by EU BIPs

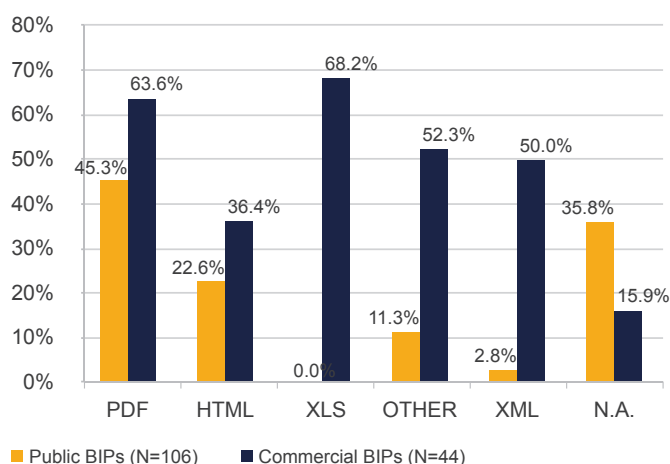
Figure 50 presents the results of the analysis of the formats of the data provided by EU BIPs. In the case of **public BIPs**, the most frequently available data format seems to be **PDF** (45.3% of the BIPs) followed by HTML (22.6%). As mentioned in section 3.1, PDF may be either OCR readable or not-OCR readable (i.e. an image of a scanned document). In the latter case the information would be much less useful since it is much more difficult to process and analyse.

In the case of **commercial data providers**, data are most frequently available in **XLS** (68.2%), followed by PDF (63.6%) and XML (50.0%). Also *other* formats, including XBRL⁷⁵, TIFF, DOC, RTF and TXT, are quite common.

It is thus evident that commercial BIPs guarantee a wider availability of those formats which can be more easily analysed, organized in repositories and interrogated such as XLS, XML and XBRL (see Section 3.1). In this regard, it is interesting to note that **no public BIP provides information in XLS format**.

Another aspect to be highlighted is that 65.3% of the BIPs analysed provide the same information in the same format (e.g. only in PDF or only in HTML). Although on the one hand, this practice could strengthen format standardization, on the other it could narrow the range of possibilities of analysis at the user's disposal.

Figure 50. Format of the information provided by EU BIPs



Source: BOWNET analysis of EU BIPs

Costs, language and search facilities of EU BIPs

"This is expected to improve efficiency in a number of important respects: **accelerating the process** of receiving and retrieving information, **facilitating timely disclosure**, **enabling instantaneous incorporation**, and generally **improving access** to corporate registries. These are all important in making the registry an even more useful tool in combating money laundering, as rapid, efficient access to information can save valuable time in a criminal investigation" (World Bank and UNODC 2011, 77).

⁷⁵ XBRL refers to eXtensible Business Reporting Language, which is an open and global standard for exchanging business information (such as financial statement) between business systems.

How much should be spent to access EU BIPs in order to collect ownership and control information? What is the price of the list of shareholders of an EU corporate entity? The analysis explored these issues as well. To be noted is that obtaining information on the cost of business information is not straightforward, for several reasons:

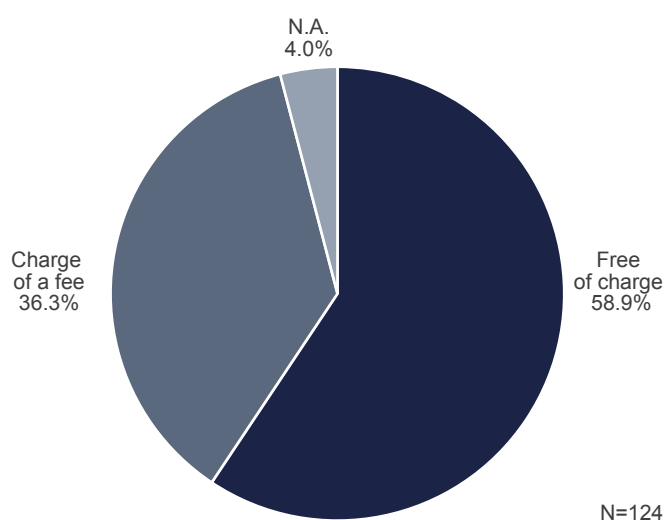
- different information (e.g. list of shareholders and list of directors) may have different prices;
- different EU BIPs may have different pricing policies (e.g. annual or monthly subscriptions or a certain cost per piece of information downloaded);
- different tariffs may be agreed depending on the type of user (e.g. commercial BIPs often apply "discounts" to university-based users or police agencies);
- in many cases prices are not declared a priori but only disclosed after a meeting with a sales manager (which in our case was not possible).

As a consequence, information about the cost was obtained only for 124 BIPs (Figure 51). Due to the fact that most (70.7%) of the BIPs analysed are public, in most cases (58.9%) information is made available **free of charge**, while in almost 40% of cases it can be obtained upon **payment of a fee** (either a price per item downloaded or a subscription).

As regards the amount to be paid in order to access the relevant information, fees range from **10-15 euros** for short reports including lists of shareholders and directors to **several hundred euros** for more detailed reports (including detail contacts). Periodic subscriptions to BIPs may be quite expensive, even up to **8,000-15,000 euros per year**.

To provide a rough idea, collecting information from commercial BIPs so as to reconstruct complex ownership schemes like those reported in the Boxes of Section 2.4 cost approximately 300-500 euros for each case, given the high number of companies involved and the need to collect information referring to more than one year.

Figure 51. Cost for accessing ownership and control information on EU BIPs



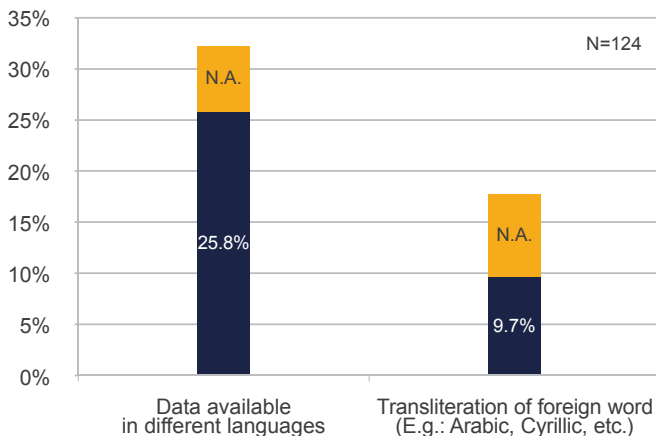
Source: BOWNET analysis of EU BIPs

Language facilities

Retrieving ownership and control information in foreign languages has been indicated as a major problem at least by EU financial intermediaries and DNFBS (see section 2.2). It is hence important to understand if and what type of language facilities are offered by EU BIPs.

The percentage of BIPs providing **information in different languages**, or at least in a language different from the national one, is quite low, approximately 25.8% (Figure 52). The percentage of BIPs which provide the transliteration of foreign words (e.g. from Arabic, Cyrillic, etc) is even lower.

Figure 52. Language facilities provided by EU BIPs



Source: BOWNET analysis of EU BIPs

Other search facilities

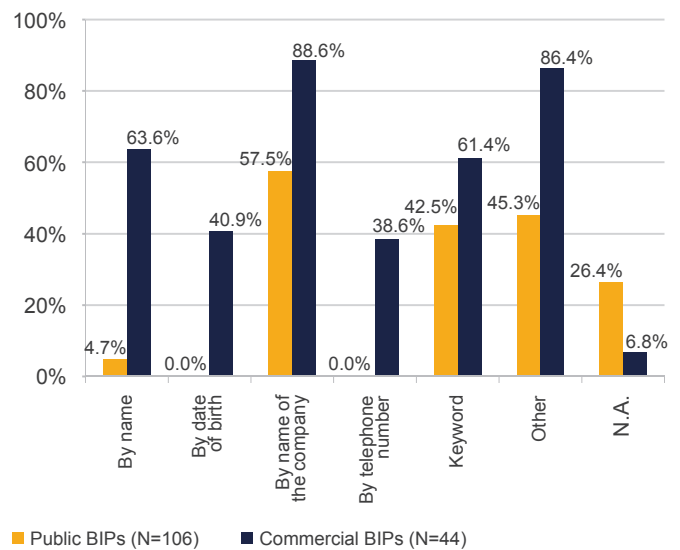
If repositories and registers are to be effectively used by EU competent authorities and intermediaries for BO identification purposes, they should be organized in such a way as to allow **rapid interrogations and queries**. Repositories which permit multiple queries (e.g. by name of person, of legal entity, per business sector or city of incorporation) make it possible to obtain the requested information among hundreds or thousands of companies, shareholders or directors.

It is accordingly crucial to understand what **ranges of search facilities** are foreseen by EU BIPs. The results, reported in Figure 53, confirm previous findings by World Bank and UNODC: "The registry databases currently online vary in sophistication and in the amount of information they make available. The simplest allow you to search within a given jurisdiction by entity name, and they show whether the entity is registered in that jurisdiction or not. By contrast, the most developed online databases have extensive search-engine capabilities, with the ability to search by numerous categories" (World Bank and UNODC 2011, 77).

Queries by **name of the company** are those most frequently allowed by both public and commercial BIPs. However, it should be noted that the number of commercial data providers which allow any kind of search is much higher. In addition, while only a minor share of public BIPs allow **search by name of person** (4.7%), a quite large number of commercial repositories (63.6%) permit this kind of search. A good number of private BIPs also allow queries by date of birth and even by telephone number, while public registers usually cannot do so.

Other criteria (e.g. search by legal form of the company, date of incorporation, address, business sector) are quite relevant for both categories (45.3% and 86.4% respectively).

Figure 53. Type of queries allowed by EU public and commercial BIPs



Source: BOWNET analysis of EU BIPs

Information provided by other public and commercial BIPs: final comments

To conclude, the analysis presented in section 3.2 has provided a number of insights into the availability of control and ownership information from EU BIPs. In particular, a large number of both public and commercial data providers have been identified. On average, each EU MS is "covered" by eight BIPs, although there are differences across EU MS.

However, the problem seems to be more one of *quality* than of *quantity*. Firstly, only a few of the BIPs analysed cover more than one country at a time, and there is a lack of interconnections between different EU MS, so that making cross-border queries is extremely complicated. The available data on shareholders and directors refer only to the name of the shareholder/director while additional information (such as date of birth, address or ID details) is much less available. This raises problems of disambiguation. Finally, difficulties exist in terms of data format, search and language facilities. In general, commercial BIPs seem to guarantee a much wider geographical coverage and range of data with respect to public registers. But they are usually the most expensive BIPs and, according to the surveys presented in Chapter 2, often pose problems concerning the accuracy and reliability of the information provided.

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Chapter 4

How can the existing gaps be addressed at EU level to improve the identification of beneficial owners?

Drawing on the findings of the previous chapters, this chapter explores if and how the gaps identified could be addressed at EU level in order to improve identification of the BOs of suspicious corporate entities for AML purposes.

How can access to foreign business registers be improved? How can the availability of data on shareholders and directors of EU corporate entities be strengthened? How can the accuracy and verifiability of the information provided be enhanced? How can the interconnections among different registers and repositories based in different EU MS be increased? Chapters 4 and 5 will seek to answer these questions.

In particular, two types of solutions are envisaged for the gaps identified:

- **policy or regulatory initiatives** to be taken at EU level;
- **new support systems** to be developed in the AML field.

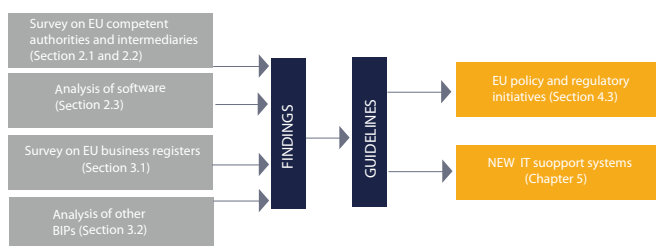
While Chapter 4 focuses on the former solution, Chapter 5 will propose a range of IT tools which could help both EU competent authorities and intermediaries in accessing and processing the information relevant to BO identification.

This chapter is structured as follows:

- Section 4.1 summarises the main findings of the analyses and surveys presented in the previous chapters.
- Section 4.2 translates these findings into guidelines which could be used to draft policy or regulatory initiatives at EU level and/or to design new IT support systems.
- Section 4.3 provides a more detailed description of the EU policy and regulatory implications identified.

Thereafter, as said, Chapter 5 will describe a possible range of IT tools (Figure 54).

Figure 54. From the findings to guidelines



4.1 What are the findings of the analyses and surveys presented thus far?

The main findings of the previous chapters are listed below. They are structured into four blocks: those resulting from the surveys on EU competent authorities and intermediaries in subsection 4.1.1; those resulting from the analysis of software used for BO identification in subsection 4.1.2; those from the survey on EU business registers in subsection 4.1.3; and those from the analysis of other EU public and commercial business information providers in subsection 4.1.4.

4.1.1 Findings from the survey on EU competent authorities and intermediaries

Detailed comments on the results of the two surveys carried out on EU competent authorities and EU financial intermediaries and DNFBPs can be found in Chapter 2, in particular Sections 2.1 and 2.2. Only the main findings are reported here:

1. EU competent authorities and intermediaries show **similar practices in terms of BO identification**, and also similar problems and needs.
2. **Data on the shareholders and directors** of EU corporate entities represent the information most frequently used for BO identification purposes.
3. Business registers are the most valuable source of this information; **access to business registers**, especially **foreign BRs**, must be improved, according to both the categories.
4. According to respondents (especially EU intermediaries), problems of **identifying the relevant BR** or data sources also exist.
5. The timeliness of the information provided by BRs must be improved in terms of both the **updatedness of the information** and **access to historical data**.
6. **The accuracy and reliability** of the information must be also improved; and it should be made possible to understand how (and by whom) the data provided by BRs and BIPs are verified.
7. According to both EU competent authorities and intermediaries, tools able to **collect data from BRs**, especially foreign ones, and to reconstruct the OS of corporate entities should be developed.



4.1.2 Findings from the analysis of software used for BO identification

The detailed comments on the results of the analysis of the software used in CDD/KYC activities and BO identification can be found in Chapter 2, in particular Sections 2 and 3. Although not exhaustive, the analysis could provide some findings which can be summarized as follows:

1. numerous software tools on the market designed **specifically to address CDD/KYC needs** (e.g. verification of customers' ID details, cross-checking with watch-lists and freezing lists, etc);
2. a good number of tools able to provide **SNA and link-analysis**;
3. numerous **visualization tools**;
4. a lack of software able **directly to collect data from BRs**.

4.1.3 Findings from the survey on EU business registers

The analysis has been described in detail in Section 3.1 of Chapter 3. The main results are the following:

1. Only a small number of EU business registers (BRs) provide information on **beneficial owners**.
2. Information about the **names of directors** is widely available to the public – although there are some EU MS which still do not collect these data.

3. Information about the **names of shareholders** is sufficiently available to the public – although there are some EU MS which still do not collect these data.

4. **Additional information** (e.g. dates of birth, addresses, ID details of directors/shareholders etc) is very seldom available to the public.

5. A significant amount of data are **stored by BRs but not publicly available**; however, they can be obtained by EU FIUs, LEAs and AROs upon request.

6. There is a lack of data format standardization: **PDF is the most common data format**, although in many cases it is not OCR-readable.

4.1.4 Findings from the analysis of other EU public and commercial business information providers

The detailed comments on the results of the analysis of other EU public and commercial business information providers (BIPs) can be found in Chapter 3, Section 3.2. Although not exhaustive, the analysis could already provide some findings as summarized below:

1. In the EU there are **a large number of public and commercial BIPs** which distribute information which could be used for BO identification purposes (on average eight BIPs per EU MS).
2. However, there are problems of **coverage** (most BIPs cover only one country at a time), and a **lack of interconnections** among different registers which impedes cross-border investigations.

3. There is satisfactory coverage of **limited companies** but scant coverage of **unlimited companies and legal arrangements** (e.g. foundations, associations, trusts, etc).
4. There is a lack of **data format standardization**. Whilst public BIPs often distribute information only in PDF or HTML formats, commercial BIPs also make the data available in XLS, XML, XBRL which are the best for analysis purposes.
5. **Commercial BIPs** offer a wider range of data, search facilities and formats, and they guarantee a wider geographical coverage; however, they are often expensive.
6. There are **high costs** for accessing the information, especially in the case of commercial BIPs, which very seldom fit the budgets of EU competent authorities.
7. **Problems of payment** arise because credit cards are often the only means of payment to access data stored in registers but are often not available to police investigators.

4.2 From the findings to guidelines for future EU policy initiatives and new support systems in the AML field

The findings of the analysis can be translated into guidelines. These could be followed for two purposes:

- in **future EU policy or regulatory initiatives** in the AML field, and specifically in initiatives aimed at improving the information at the disposal of EU competent authorities and intermediaries for BO identification purposes;
- in designing **new IT support systems** to be used by EU competent authorities and intermediaries in the AML field and in particular in BO identification activity.

Firstly, the results of the analysis could guide **EU policy-makers** when drafting new policies or adopting and revising regulations (e.g. circulars, framework decisions, regulations, directives) not only in the **AML field** but also in the **Company Law** environment or for the regulation of **EU financial markets** (e.g. in terms of obligations upon the banking sector, of transparency requirements upon companies registered in the EU, or interconnection of BRs, etc.).

Secondly, the findings could induce software houses to **develop new IT tools** for use in BO identification activity by both EU competent authorities and covered entities. In particular, the analysis could suggest the technical requirements that such tools should possess, and indicate the range of data on which new IT tools could draw.

Table 6 below reports on the left-hand side the findings of the analysis, aggregated according to three aspects (**data**, **data sources** and **software**), and on the right-hand side, the corresponding guidelines in terms of both policy or regulatory initiatives and new IT support systems.

4.3 Suggestions for future EU policy and regulatory initiatives

As said above, the results of the analysis carried out within Project BOWNET could be of service to EU policy-makers in drafting new policies and adopting or revising regulations (e.g. circulars, framework decisions, regulations, directives) so as to improve access to the information used for BO identification purposes.

These initiatives would not only impact on the AML field but could also entail modifications to other complementary fields, such as the EU company law or the regulation of financial markets.

Table 6 has already suggested guidelines which could be taken into account in this regard. This section provides a more detailed description of each of them. As in the above table, they are grouped into three subsections: data (4.3.1), data sources (4.3.2) and software (4.3.3).

4.3.1 Data

1. The collection and dissemination of **information (at least the names) of shareholders and directors** of corporate entities registered in EU BRs should be improved. Whilst some additional information (e.g. date of birth, address, ID details) is lacking, names of directors and shareholders are already widely available (see 3.1 and 3.2). Only a minority of EU MS still do not collect or provide these data (at least for limited companies). Evaluation should therefore be made of imposing an obligation on EU BRs to store as minimum information the names of the directors and shareholders of the corporate entities registered with them.
2. Given the significant amount of information stored by EU BRs but not made public (see 3.1), **access to these data by EU competent authorities**, upon request, should be strengthened. For example, an official contact point in each BR could be identified so as to respond better to EU competent authorities' requests and to give them access to the available (not public) information. Or secured gates on BRs websites could be created so as to allow ad-hoc accesses by competent authorities.
3. The EU should evaluate the opportuneness of improving the availability of ownership and control information with regard to certain types of legal entities such as **unlimited companies, foundations, associations** which are less covered by EU BRs but increasingly exploited for ML purposes (see 1.1 and 2.4).
4. EU BRs and other public BIPs should **hold up-to-date information** about shareholders and directors but also guarantee access to **historical records** of ownership and control⁷⁶.

⁷⁶ For example, the Italian public authority responsible for regulating the Italian securities market (CONSOB) holds updated data on the major shareholders (>2%) of the companies listed on the Italian stock exchange but also the historical records on the 31/12 and the 30/06 of each year since the company made its initial public offering.

5. Systems or procedures should be evaluated in order to **improve the verification and the validation of the data provided by EU BRs and BIPs**. EU competent authorities and intermediaries should be able to understand how (and by whom) the information stored by EU registers is verified.
6. At present, only a small number of EU BRs make **information on beneficial owners** public (see 3.1). Initiatives to increase the availability of BO information on EU BRs should be explored: for example, by requiring registered corporate entities to deposit within the national BR the information on BOs which they will be now obliged to obtain and hold on the basis of revised FATF recommendations and the provisional text of the EU 4th AML Directive⁷⁷.
7. According to EU competent authorities and intermediaries, business registers still remain the most valuable sources of data on ownership and control (see Sections 2.1 and 2.2). **Access to business registers** by EU competent authorities and intermediaries should be improved, and especially access to **foreign BRs**, which has been demonstrated to be the main difficulty in obtaining information for BO identification purposes (see 2.1 and 2.2). Awareness of, and knowledge about, the existing BRs in each EU MS should be strengthened so that EU stakeholders can better identify and use them.
8. The EU should publish **lists of existing BRs and other business information providers** (BIPs) available in each EU MS, and which EU stakeholders could access to gather information for use in BO identification. These lists could, for example, take the form of official webpages managed and updated by the national financial market authority or by the relevant ministry of economy or justice. These lists could eventually provide further details about the information distributed by each BIP, the format of the information provided, the type of corporate entity covered, and the costs of access.
9. Most existing BRs and BIPs cover only one country at a time, and there is a lack of interconnections among different registers and EU MS. This creates investigative problems for EU competent authorities and intermediaries, especially in cross-border investigations (see Section 3.2). The EU should **strengthen the interconnections among EU BRs** and other data providers by supporting the existing EU initiatives in this regard, such as Directive 2012/17/EU on the interconnection of business registers, and research projects like Eurostat's Euro Group Register and pan-European registers platforms such as EBR and ECRF.
10. **High costs** still represent a major obstacle to access by EU competent authorities to commercial providers of control and ownership information (see Section 2.1, 2.2 and 3.2). Agreements between commercial BIPs and EU LEAs, FIUs, AROs should be fostered so that they can access these data sources on more sustainable economic conditions. **Free access to the national BR** by the relevant national competent authority should be evaluated.
11. Credit cards are often the only accessible means of payment for purchasing data provided by EU BRs and other BIPs, but they are often not available to competent authorities. The **availability of credit or prepaid cards** should be improved among EU investigators and police officers so as to maximise their access to BRs and BIPs. Or alternative means of payments (e.g. subscription) should be made more widespread.
12. EU competent authorities and intermediaries request **new tools** able to perform the **direct collection** from EU BR and collate the ownership and control data gathered from different EU MS registers, which enable investigators to reconstruct the ownership structure of EU corporate entities, especially those which have a cross-border "Chinese boxes" scheme. Given the lack on the market of software which respond these needs, the EU **must support and fund the development and the design of similar IT support systems** which could be used, on sustainable economic conditions, by EU competent authorities but also by EU intermediaries.

⁷⁷ The provisional text of the EU 4th AML Directive states that "(1) Member States shall ensure that corporate or legal entities established within their territory obtain and hold adequate, accurate and current information on their beneficial ownership; (2) Member States shall ensure that the information referred to in paragraph 1 of this Article can be accessed in a timely manner by competent authorities and by obliged entities" (Art 29, par. 1 and 2).

Table 6. From the findings to guidelines: how BOWNET results could inspire future EU policy or regulatory initiatives and new IT support systems

	Findings	Guidelines for	
		EU policy or regulatory initiatives	New IT support systems (SS)
DATA	Data on shareholders and directors are the most frequently used information in BO identification.	1.Collection and dissemination by EU BRs of information on shareholders and directors (at least of their <i>names</i>) to be improved at EU level	1. New IT support systems (SS) to be able to collect and analyse data on shareholders and directors (at least their names)
	Names of shareholders and directors are the most widely available information – although some EU MS BRs still do not collect these data.		
	Additional information on shareholders and directors (e.g. date of birth, ID, address) is often not available; if stored, it is available only to EU competent authorities upon request.	2.Access by EU competent authorities to data not publicly available but stored by BRs to be improved	2. New IT SS to allow secured access by competent authorities to data stored by BRs but not publicly available
	Data are often available for limited companies , but not often for unlimited companies, foundations, associations.	3.EU to evaluate the opportunity to improve the availability of ownership and control information with regard to certain types of legal entities (e.g. unlimited companies, foundations, associations)	-
	Problems of timeliness : BRs and BIPs should guarantee access to both updated data and historical records.	4.EU BRs to hold up-to-date information but also historical records of directors and shareholders	3. New IT SS to allow queries for information filtered per year or range of time
	Problems of accuracy and reliability : it should be made possible to understand how (and by whom) information provided by BRs and BIPs is verified.	5.Verification of data provided by EU BRs and BIPs to be improved	4. New IT SS to specify the source and/or the level of verifiability/reliability of the information retrieved/analysed
	There is a lack of information on beneficial owners of EU corporate entities available on EU BRs.	6.EU to evaluate the opportunity to store within EU BRs minimum basic information on the BOs of EU corporate entities	-
DATA SOURCES	Business registers of EU MS are the most valuable source of information, although problems of access exist (especially for foreign ones).	7.Access to BRs, especially foreign ones, to be improved	5. New IT SS to be able to access and collect data from BRs
	A large number of alternative business information providers exist, but there are problems of identification of the relevant data source by EU competent authorities and intermediaries.	8.Lists of existing BRs and BIPs per each EU MS should be made public so as to help identification of relevant data sources	6. New IT SS to provide users with a list of available data sources (BRs, public and commercial BIPs) per EU MS, type of corporate entity, data format, etc.
	Most existing BRs and BIPs cover only one country at a time, and a lack of interconnections among different registers and EU MS exists.	9.Interconnections among EU BRs and other data providers to be strengthened; Common platforms allowing single access to different EU BRs to be supported and increased;	7. New IT SS to be able to put together data retrieved from different EU MS BRs and to create interconnections among EU BRs and other BIPs
	Problems of costs : although they offer a wider range of data and a wider geographical coverage, commercial BIPs are often too expensive for EU competent authorities.	10.Agreements between commercial BIPs and EU competent authorities to be fostered; alternative cheaper solutions to be explored	8. New IT SS to be economically sustainable by EU competent authorities
	Problems of payment : credit cards are often the only available means of payment for accessing the data of EU BRs and other BIPs, but often not available to competent authorities.	11.Availability of credit or prepaid cards to be improved among EU competent authorities and police officers	9. New IT SS to foresee alternative payments solutions than credit cards
SOFTWARE	There is a need for software able to perform the direct collection of data from BRs and their analysis.	12.EU to support and fund the development and the design of new software to be used to EU competent authorities and able to respond to these needs	10. New IT SS to be able to access and perform direct collection of data from BRs
	There is a need for software able to collate data retrieved from different EU MS BRs.		11. New IT SS to be able to collate data retrieved from different EU MS BRs and to create interconnections among EU BRs and other BIPs
	Need of software able to reconstruct the ownership structure (OS) of EU legal entities, especially in cross-border ownership schemes.		12. New IT SS to be able to collate data on shareholdings and to reconstruct the OS of EU legal entities
	There is wide availability of software which provides SNA, Link-analysis and visualization tools.		13. New IT SS to be able to rely on existing SNA and visualization tools

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Chapter 5

What support systems could be developed to improve the identification of beneficial owners?

As anticipated in Chapter 4, the problems related to the identification of beneficial owners could be addressed in two ways:

- by **improving the access to and the dissemination of the information** used for BO identification purposes through policy or regulatory initiatives to be taken at EU level;
- by designing **new IT support systems** able to make better use of the available information.

Whilst chapter 4 presented a set of EU policy and regulatory initiatives, chapter 5 suggests a range of **new IT support systems** which could be developed to improve BO investigations of both EU competent authorities and intermediaries.

What data should a new support system be able to collate and process? What services and tasks should it provide? What analysis and visualization tools should it be equipped with? What technical requisites should it have? This chapter addresses these questions.

It is structured as follows:

- Section 5.1 illustrates the guidelines on which the support system should be designed;
- Section 5.2 suggests a range of support systems designed in accordance with the guidelines previously described.

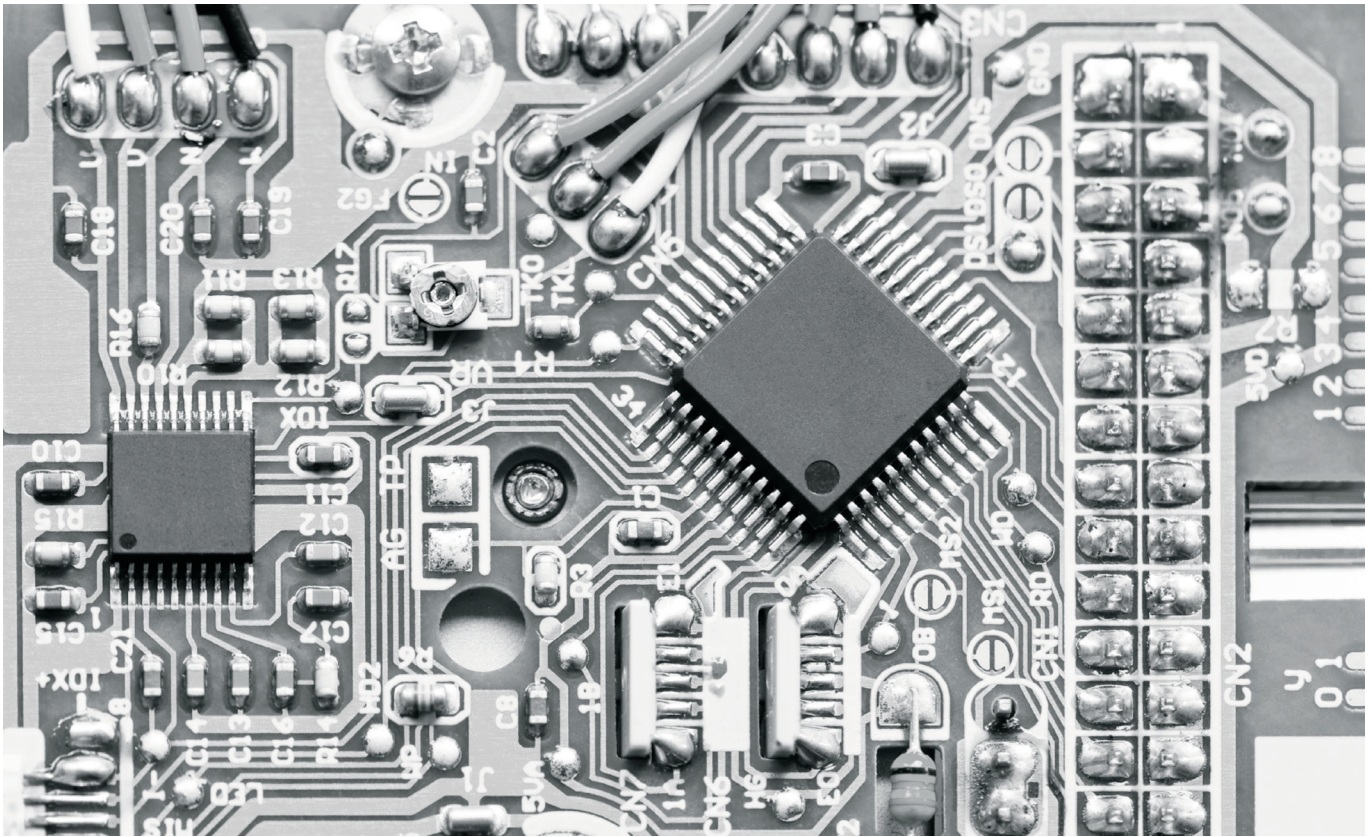
5.1 A set of guidelines to design new IT support systems

In Chapter 4 the findings of the analysis carried out within project BOWNET were **translated into guidelines** which could be taken into account both for drafting future EU regulations or policies and for designing new IT support systems. In particular Table 6 reported, for all the findings, the corresponding guidelines in regard to three aspects: **data**, **data sources** and **software**.

Whilst section 4.3 described those dedicated for EU policy and regulatory initiatives, this section comments on the second group of guidelines. They in fact represent technical requirements which could be followed to design IT tools able to **respond effectively to investigators' needs** using only the **existing and available information**.

5.1.1 Data

1. **Data on shareholders and directors** have proven to be the information most frequently used by EU competent authorities and intermediaries for BO identification purposes (see Sections 2.1 and 2.2). As a consequence, in order to be helpful to investigators, new IT support systems (SS) should be designed primarily so that they can process data on the shareholders and directors of EU corporate entities. The elaboration of other information (e.g. open sources, records from watchlists, financial data, etc.) could be useful, but the capacity to handle data on shareholders would be mandatory. New software should at least be able to **process the names** of shareholders and directors, which represent the information most frequently available across EU BRs and other BIPs (see Sections 3.1 and 3.2).
2. The analysis of EU BRs (Section 3.1) identified a significant set of information stored by business registers, which, although not made publicly available, could be obtained by EU competent authorities upon request. Therefore new IT SS should be designed so as to **foresee secured access ("leak proof")** by public investigators to BRs repositories where these additional not-public data are stored.
3. Timeliness of ownership and control information is crucial from an investigator's perspective (see Section 2.1 and 2.2): there is a need not only for **updated information** but also for **historical records** on the shareholding/ownership of a company at a certain point in time. New IT SS should consequently make it possible to perform queries for this type of information **filtered per year or range of time**.
4. Investigators also expressed concerns in regard to the accuracy of ownership and control information (see Section 2.1 and 2.2). Therefore new IT SS should be able to **specify the source** of the information retrieved and/or processed, and also the level of verifiability/reliability of such data. For example, they could indicate if the information has been collected from a primary source such as a public business register or from a secondary source such as a commercial data provider, or if it has been validated by a professional or notary.



5.1.2 Data sources

5. As described in sections 2.1 and 2.2, the business registers of EU MS are the most valuable source of information, although there exist significant **problems in terms of access (especially for foreign ones)** (see sections 2.1, 2.2 and 3.1). In order to be helpful to investigators, new IT SS should therefore **facilitate the access to BRs** and in particular facilitate the connection to foreign registers.
6. New IT SS should at least provide users with a **list of available data sources** (BRs, public and commercial BIPs) per EU MS, type of corporate entity or data format, and they should help them to **identify the register which best suits their needs**.
7. But in order to be very helpful, new IT SS should be able to **collate data on shareholders and directors** retrieved from different EU MS BRs, to create **interconnections among EU BRs** and other BIPs, and hence to **reconstruct the ownership structure** of EU legal entities.
8. The existing BIPs and IT tools which already provide this service, i.e. which already guarantee a wide coverage of EU BRs, are **often very expensive**, especially considering the low budgets at the disposal of EU competent authorities (see sections 2.1 and 3.2). New IT SS should therefore be **economically affordable by public investigators**, or the latter should consider alternative sources of funding to cover the costs of IT designing and updating.
9. In addition, the existing providers of information could pose problems in terms of mode of payment: **credit cards** are often the only available means of payment for accessing

the data of EU BRs and other BIPs, but they are often not available to competent authorities (see section 2.1 and 3.2). New IT SS should therefore permit either a **fixed fee** for all accessing, or they should allow **access free of charge** in order to overcome credit card blockage.

5.1.3 Software

10. As said above (see in particular guidelines 5 and 6), there are problems in accessing BRs, especially foreign ones. Moreover, the analysis of software (see section 2.3) highlighted that there is a lack of IT tools on the market able to retrieve data directly from BRs. New IT SS should hence **facilitate the access** to BRs and guarantee the **direct collection of shareholders and directorship data from BRs**, especially those regarding foreign companies and stored in foreign registers. As anticipated in the previous chapter, it is the collection of information, rather than its analysis, which is the main gap to address. Accordingly, the most innovative tools should **focus not on data analysis** but on **data collection**.
11. Once these data have been collected, new IT SS should **collate them** so as to create **interconnections** among different EU MS registers and other BIPs. This would be extremely helpful, given the crucial importance of cross-border investigations for tackling money laundering and organised crime, and also considering the lack of IT tools able to do so (see section 2.3 and 3.1). In addition, bearing in mind that there is a lack of harmonization of data formats across EU BRs, new IT tools should be able to search for information across different formats (e.g. **PDF, DOC, XLS, XML, HTML, XBRL**) and provide outputs in common usable formats (e.g. XML or XLS).

12. What was described above (guideline 11) would enable new IT SS to create **interconnections among companies**, even those registered in different and foreign BRs, and hence make it possible to **reconstruct the ownership structure** of corporate entities. In this way new IT SS would respond to the most important need of EU competent authorities and intermediaries (see sections 2.1 and 2.2). In fact, as highlighted in section 2.3, there is almost no software on the market able to apply **link-analysis tools to data on shareholders** and directors retrieved in a direct manner from EU BRs. In order to address potential disambiguation problems, new IT SS should make use of existing **company identification numbers**, for example those foreseen by Directive 2012/17/EU on the interconnection of Business Registers.
13. In regard to **visualizing the connections among BRs and companies** which would be identified by the IT support system, it should be borne in mind that there are numerous software packages already on the market which provide **visualization tools** in a “Social Network Analysis fashion”. Hence new IT SS could rely on existing SNA and visualisation packages. As said above, it is more important that new IT SS innovate on the **data collection and collation** side.

5.2 A range of support systems to improve BO identification

Drawing on the guidelines just presented, this section suggests a range of support systems which could be developed to improve the BO identification activity carried out by EU competent authorities and intermediaries.

In suggesting these support systems, technical issues are borne in mind so that these proposals could be actually implemented as IT applications in the future. The purpose of this exercise, in fact, is to provide a general scheme of tools and thus facilitate the future design of the software.

5.2.1 Structure of the support system

In order to be useful, support systems should respond to the needs of different users: for example, LEAs or FIUs performing investigations on suspicious companies, banks looking for the BOs behind companies opening bank accounts or professionals verifying the identities of their clients.

Although, as highlighted in section 2.1 and 2.2, both EU competent authorities and intermediaries consider data on shareholders and directors to be the most relevant information in this kind of activity, each of them integrates these data with other sources, such as proprietary databases (e.g. police archives in the case of LEAs or registers of bank account holders in the case of a credit institution), open sources (press/news, internet, blogs, etc), and watchlists (e.g. a list of PEPs or of persons previously investigated or prosecuted).

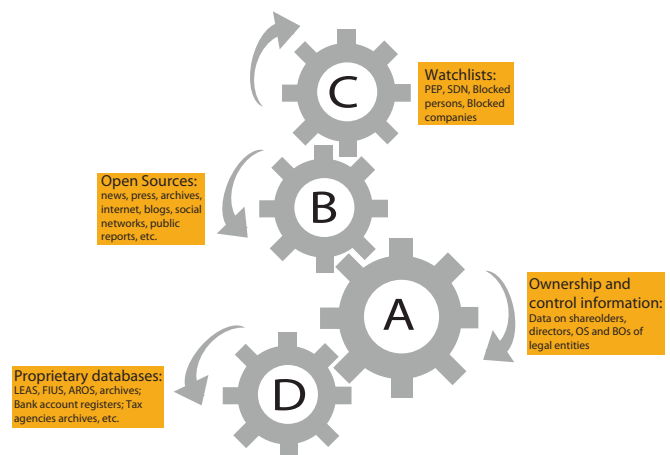
For example, as described in the case studies presented in section 2.4, a police officer could check whether the member of the board of a certain company has been previously investigated or her/his parents appear on a list of suspects; or a financial intermediary dealing with a new customer could verify whether he/she appears on PEP watchlists or whether a linked company already holds a current account within the same banking group.

Any support system to be developed in this field should therefore be flexible enough to respond to these different needs and be able to handle this **variety of information, data sources, databases and repositories**.

In particular, the support system could be conceived as an **assemblage of four components** (Figure 55), each of them dealing with a specific type of information which, on the basis of the findings of Chapter 2, could prove useful for BO identification purposes:

- **Component A**, dealing with ownership and control information, i.e. with data on shareholders and directors provided by BRs and other BIPs;
- **Component B**, dealing with open sources, i.e. news, the press, internet, blogs, social networks, public reports, etc;
- **Component C**, dealing with information included in the so-called watchlists (e.g. lists of PEPs, of designated persons or of subjects previously investigated or prosecuted, etc.)
- **Component D**, dealing with proprietary databases, i.e. repositories held and managed by the same user (e.g. police archives managed by LEAs and FIUs, registers of bank account holders held by financial institutions, or the repositories held by tax agencies).

Figure 55. The support system as an assemblage of four components



Each component should be able to “dialogue” with the others. In other words, the support system should allow **queries across the different repositories** and then **collate the information hence retrieved**. For example, it should enable a search to be made for a certain natural person, e.g. John Smith, across BRs, list of PEPs and other watchlists, open sources and other proprietary databases.

In what follows, the focus will be on **Component A** for three main reasons:

1. Because, as shown in section 2.1 and 2.2, these data are the **most relevant for BO identification purposes** according to both EU competent authorities and intermediaries;
2. Because, as pointed out by respondents to surveys (sections 2.1 and 2.2) and made evident by the review of software (section 2.3) and by the analysis of EU BRs and other BIPs (section 3.1 and 3.3), the lack of tools able to deal with data on shareholders and directors is the **main gap to be addressed to improve BO identification**;

3. Because already on the market are software tools which collect and process the information dealt with by the other **Components B, C and D**.

For example, with regard to **Component B**, there several search engines which work as aggregators of information retrieved from open sources. Some specifically gather and filter data from news and press archives (e.g. Lexis Nexis); others do so with information from open sources specifically related to financial crime or AML issues (e.g. Asset Recovery Intelligence System – ARIS⁷⁸). Some require quite expensive subscriptions, while others are open-source software free of charge at least for public users such as FIUs, LEAs or AROs.

As regards **Component C**, most of the software packages commonly used in the AML domain screen or process, as highlighted by section 2.3, data from PEPs and other watchlists. Thomson Reuters' World-CheckTM is perhaps the most popular of them⁷⁹, but others exist which are specifically designed to respond to the needs of financial institutions (e.g. BankersAccuity⁸⁰) but also to those of FIUs and AROs, for instance the goAML software developed by UNODC⁸¹.

Finally as regards **Component D** to be noted is that each agency or institution holding and managing a proprietary database has by definition developed or customized its own software or repository management system. New support tools must therefore be able to dialogue with existing databases.

5.2.2 A range of proposals to develop Component A of the support system

As anticipated, it is therefore Component A on which attention should be concentrated. The effort of IT developers should be focused on tools able to handle data on shareholders and directors retrieved from EU BRs and other information providers. The guidelines described in section 5.1 go exactly in this direction.

Three solutions are proposed. Each of them has a different impact in terms of **effectiveness** on BO investigations and a different degree of **feasibility/realization**. They are reported in Table 7 and described in detail below.

Table 7. A range of solutions to develop Component A of the support system

Number	Brief description
A1	A webpage listing EU providers of information on shareholders, directors and BOs of EU corporate entities
A2	A search engine collecting information on shareholders, directors and BOs from EU BRs and other BIPs
A3	An IT support system reconstructing the ownership structure of corporate entities and providing additional analytical tools (e.g. SNA, visualization, etc)

Proposal A1. A webpage listing EU providers of information on shareholders, directors and BOs of EU corporate entities

This proposal would consist in a webpage, publicly accessible, listing EU business information providers, both public and commercial, providing information on directors, shareholders and BOs of EU corporate entities. Table 8 provides an example of what the webpage could look like.

For each BIP listed on the webpage a set of basic information could be provided, including:

- the relevant website (if available)
- the country/ies covered by the tool
- the type of BIP (e.g. public business register, OAM, database held by a stock exchange management company, commercial data provider, etc)
- whether the BIP allows access free of charge or upon payment.

A tool of this kind would prove useful in investigations on the ownership structure of EU corporate entities. In particular, it would **help EU LEAs, FIUs and intermediaries to identify the registers** furnishing the data required (see Section 5.1, in particular guidelines 5 and 6).

The basic data described above could be integrated with further information, including:

- type of **information on shareholders** provided by the BIP (e.g. names, % shares held, dates of birth, ID numbers, etc);
- type of **information on directors** provided by the BIP (e.g. names, % shares held, dates of birth, ID numbers, etc);
- type of **information on BOs** provided by the BIP (e.g. names, % shares held, dates of birth, ID numbers, etc);
- type of **legal entities** for which this information is provided, where applicable (e.g. limited companies, unlimited companies, foundations, associations, trusts, etc);
- availability of **data formats**;
- availability of **language facilities**;
- **costs** of accessing the information;
- **the person** within the BR to contact in case of query.

78 Asset Recovery Intelligence System (ARIS), developed by the Basel Institute of Governance in cooperation with the Egmont Group, is a software tool to screen persons and companies based on the open-source data available on the Internet. It has been designed to assist both the private and public sector — financial institutions like banks, as well as Financial Intelligence Units (FIUs) and other national agencies — in more efficiently handling their compliance or investigative needs. The tool accomplishes this by enabling the analyst, compliance officer or investigator rapidly to identify any links in the public domain that relate a given person or company to corruption, money laundering, or terrorist financing. For more information see [http://www.baselgovernance.org/icar/it-services/project-details/article/asset-recovery-intelligence-system-aris/?tx_ttnews\[backPid\]=260&cHash=0d022e2750](http://www.baselgovernance.org/icar/it-services/project-details/article/asset-recovery-intelligence-system-aris/?tx_ttnews[backPid]=260&cHash=0d022e2750)

79 <http://www.world-check.com/#>

80 <http://www.bankersaccuity.com/>

81 <http://goaml.unodc.org/goaml/en/index.html>

This additional information set would enable the user to understand whether a certain BIP responds to her/his requirements in terms of data, data formats and costs **without having to access the BIP directly**, so that investigators could save a significant amount of time. For example, a police officer looking for the BO of a French unlimited company could use this webpage to identify which BIPs on the market provide information on the owners and directors of limited companies registered in France.

Owing to the sensitiveness of some of the information provided by this webpage (e.g. the contact person with the BR), **secured “leak proof” access** could be foreseen for EU competent authorities. In other words, whilst some of the

“columns” of the webpage database could be publicly visible, others could be hidden and accessible, via ID and Password, only to EU FIUs, LEAs and AROs.

The webpage could be managed by the European Commission, and it could be updated periodically (e.g. on annual basis) by including new BIPs on the market or updating/modifying the information on BIPs already included in the webpage. For the sake of clarity, it should be said that similar webpages and lists already exist (see e.g. the e-justice portal⁸² or the lists provided by the Egmont Group (2009)) but they are not constantly updated and offer much less detail. This proposal would therefore represent the first complete organised set of registers and data providers specifically compiled for AML purposes.

Table 8. Proposal A1: A webpage listing EU providers of information on shareholders, directors and BOs of EU corporate entities – An example

BIP name	Website	Type	Country	Covered legal entities	Info on shareholders available	Info on directors available	Data format
ALPHA	www.alpha.com	OAM	Italy	Limited companies;	Name; % shares; Address;	Name; Address;	HTML; PDF;
BETA	www.beta.net	Business Register	Ireland	Limited companies; Unlimited companies; Individual enterprises; Foundations;	Name; % shares; Address; ID Number;	Name; Date of birth; Address; ID Number;	HTML; PDF (OCR Readable); XML;
GAMMA	www.gamma.eu/search	Commercial BIP	EU-27 MS	Limited companies; Unlimited companies;	Name; % shares; Date of birth;	Name; Date of birth;	HTML; XLS;
DELTA	www.delta.de	Stock Exchange	Germany	Limited companies;	Name; % shares;	Name; position;	PDF;

Proposal A1	
PROS	CONS
<ul style="list-style-type: none"> It helps users to identify the data sources which can be used in BO identification activities It helps users to select the BIP which best responds to their needs in terms of data, geographical coverage, data formats, costs It allows a significant amount of time to be saved during investigations It would require a low budget and basic technical know-how in order to be realized It guarantees complete coverage of EU MS It could be accessed by users with no fees or low fees It would be the first complete list of registers for AML purposes, much more detailed and updated than existing lists 	<ul style="list-style-type: none"> No data provided directly by the webpage No further elaboration or processing of the data No language facilities Sensitive data and contacts: secured access to the webpage (or at least to some information included therein) for EU competent authorities should be foreseen

⁸² In particular see https://e-justice.europa.eu/content_business_registers_in_member_states-106-en.do

Proposal A2. A search engine collecting information on shareholders, directors and BOs from EU BRs and other BIPs

Tools, such as that in proposal A1, able to help investigators to identify the data sources from which to collect information on the ownership and control of EU corporate entities would be very helpful. However, as often stressed during this study (see for example sections 2.1, 2.2, 4.1, 4.2 and 5.1), tools able to **perform the direct collection** of these data would be even more effective. The difficulties in accessing BRs, especially foreign ones, and the lack of coverage and interconnections among different EU BRs, in fact, call for tools able to retrieve information simultaneously from different BRs based in different EU MS (see 5.1, in particular Guidelines 7, 10 and 11).

This is exactly the scope of Proposal A2. It would consist in a **search engine** able to **collect, collate and connect together data from different BRs and BIPs** in different EU MS. It would help investigators to access company registers, especially foreign ones, and to retrieve the information stored therein.

In particular, the search engine could enable **two types of queries** to be made:

- A) It would provide, in the case of a particular legal entity, the list of its shareholders and directors (either natural or legal persons);
- B) It would provide, in the case of a particular natural or legal person, the list of legal entities on which this person appears:
 - as a shareholder/owner
 - as a director/officer (only for natural person).

The response to the query would be accompanied by **additional information**, where already publicly available in the relevant registry. This would help to solve potential disambiguation problems, for example:

- % shares held by the shareholder
- ID of the natural person
- ID of the legal person (e.g. unique company identification number)
- date of birth of the shareholder/director
- home address of the shareholder/director
- ID/Passport number of the natural person.

It should be stressed that, in order to avoid data privacy problems, this information would be provided **only if already public** in the relevant register. In the case of a query performed by a EU competent authority, it could be discussed whether data already stored although not publicly available (see Section 3.1) could be made available through **“leak proof” queries**.

The boxes below describe the structure of the interrogation/response for each of the two types of query.

QUERY A	
QUERY MESSAGE	
Item	Description
Company name	The legal name of the company for which ownership and control data are requested
Company ID	The unique identifying company number for which ownership and control data are requested
Date from/Date to	Range of time for which a response is returned to the query
RESPONSE MESSAGE	
Item	Description
Company Name	The name of the company
Company Details	Some basic company details
Ownership Information	List of owners with the following attributes completed where possible
Percentage holding	The percentage of the owner's shareholding in the company
Type	Indicates if owner is a company as opposed to a natural person
Nationality	Indicates if the owner is a foreign company or person
Company ID	ID company number if the shareholder/owner is a company
Company information	Other company information (e.g. legal name, address, telephone number, etc.)
Person ID	Name of the shareholder/owner if s/he is a natural person
Person information	Other personal information (e.g. date of birth, address, passport number, telephone number, etc.)
Directorship Information	List of directors with the following attributes completed where possible
Type	Indicates position of the officer within the company (e.g. CEO, member of the board, etc.)
Nationality	Indicates if the director is a foreign company or person
Person ID	Name of the director if s/he is a natural person
Person information	Other personal information (e.g. date of birth, address, passport number, telephone number, etc.)

QUERY B	
QUERY MESSAGE	
Item	Description
PersonName	Name of the natural person
CompanyName	Name of the legal person
Other information	Other search criteria related to natural person or company (e.g. date of birth, ID number, passport, etc)
RESPONSE MESSAGE	
List of matching persons with the following attributes	
Item	Description
Company ID	Unique identifier for the person on system
PersonName	Person's Name
RelationshipClass	Ownership or Director
OfficerType	Type of position within the company (e.g. CEO, board member, etc)
Percentage Holding	The owner's percentage of shareholding in the company
Company ID	The ID of the company where the natural or legal person holds a shareholding and/or director position
Company Name	The name of the company where the natural or legal person holds a shareholding and/or director position
Other Company information	Other information on the company where the natural or legal person holds a shareholding and/or director position

For example let us hypothesize that an Italian police officer needs to know the list of shareholders of a company registered in the UK, Company 2 (**QUERY A**). The tool would provide as a response the names of three natural persons, John Smith (with 45% of the share capital of Company 2), Liam Matthews (with 25%) and Italo Verdi (with 30%). If available in the relevant register, the tool could also return additional information, such as the dates of birth or the home addresses of the three shareholders.

Or the Italian police officer might wish to know the names of the companies where a certain natural person, e.g. John Smith, holds a share of the share capital or a position on the board (**QUERY B**). As a response, the tool would provide the names of the related companies (e.g. Company 1 registered in Ireland, Company 2 and 3 registered in the UK, and Company 4 registered in Estonia), the relevant shareholding or the position held in each of them, and additional information on the four companies, such as their unique ID numbers, their dates of incorporation or their legal addresses.

It is evident that when ownership schemes are particularly complicated, with companies registered in different EU MS, as in this case, a tool like Proposal 2 would **enable the investigators to obtain the required information without having to access each of the BRs involved**, thus saving an enormous amount of time and avoiding the problems of identifying and then accessing foreign registers.

In both cases, in order to respond to investigators' needs (see 5.1 and in particular Guideline 3) the tool would allow performance of the query across a certain range of time, i.e.

with regard to the **current shareholders or past shareholders/directors** of the company.

Finally, a customized version of the search engine could be developed with **secured access** for EU competent authorities in order to provide them with the information stored by BRs (see section 3.1) but not publicly available. For example, sensitive data such as the date of birth or the passport number of a natural person could be returned as a response to the query only if it is performed by a recognized EU FIU or LEA or ARO (see 5.1 and in particular guideline 2).

To conclude, this tool would have a much more significant impact on the effectiveness of the investigation with respect to Proposal A1. The investigator would in fact be able to retrieve **data from different BRs through a single query/interface**; and would be able to collect the most **updated, reliable and accurate information** on shareholders/directors because primary sources (i.e. business registers) are accessed.

On the other hand, in order to be implemented, Proposal A2 would require **much greater expenditure** and a higher level of technical and IT expertise. Moreover, it would require a **good level of harmonization and standardization among the BRs involved** at least in terms of data standardization.

Finally, although data would be directly retrieved from the relevant BRs, this tool would not collate such data so as to **reconstruct the ownership scheme** of the target company. Thus the user would be left with a large amount of data which s/he would have to process or organize further in order to map the ownership structure of the company or group of companies.

Proposal A2	
PROS	CONS
<ul style="list-style-type: none"> Significant impact on the effectiveness of BO investigations It allows direct collection of data from different EU BRs through a single query/interface, hence avoiding problems of access to BRs, especially foreign ones It would collect updated, reliable and accurate information thanks to the access to primary sources (i.e. BRs) It would allow queries across a certain range of time, thus furnishing data on both current shareholders/directors and past shareholders/directors Lack of privacy concerns: it would gather only information which is already public on the relevant national register Possibility to customize the tool so as to guarantee secured access by EU competent authorities to data stored within BRs but not publicly available 	<ul style="list-style-type: none"> Lack of reconstruction of the ownership scheme Lack of visualization of the ownership structure Lack of statistical and SNA analysis High costs of IT implementation High level of technical and IT complexity

Proposal A3. An IT support system reconstructing the ownership structure of corporate entities and providing additional analytical tools (e.g. SNA, visualization, etc)

Proposal A3 would represent a sort of follow-up on the previous one. Besides the direct collection of data on shareholders, directors and BOs from EU business registers, this tool would also provide **additional analytical and visualization tools** enabling **reconstruction of the ownership structure** of the companies involved and its **visualization** on the screen.

These additional services would **strengthen the user's investigation capacity even further**. For example, the use of SNA would enable investigators to identify the most central node in a complex ownership scheme made up of tens of companies and cross shareholdings. Visualization of the shareholding tree, like the one depicted in Figure 56, would be much more effective and easy-to-read than the large amount of unorganized information provided by the previous tool, Proposal 2.

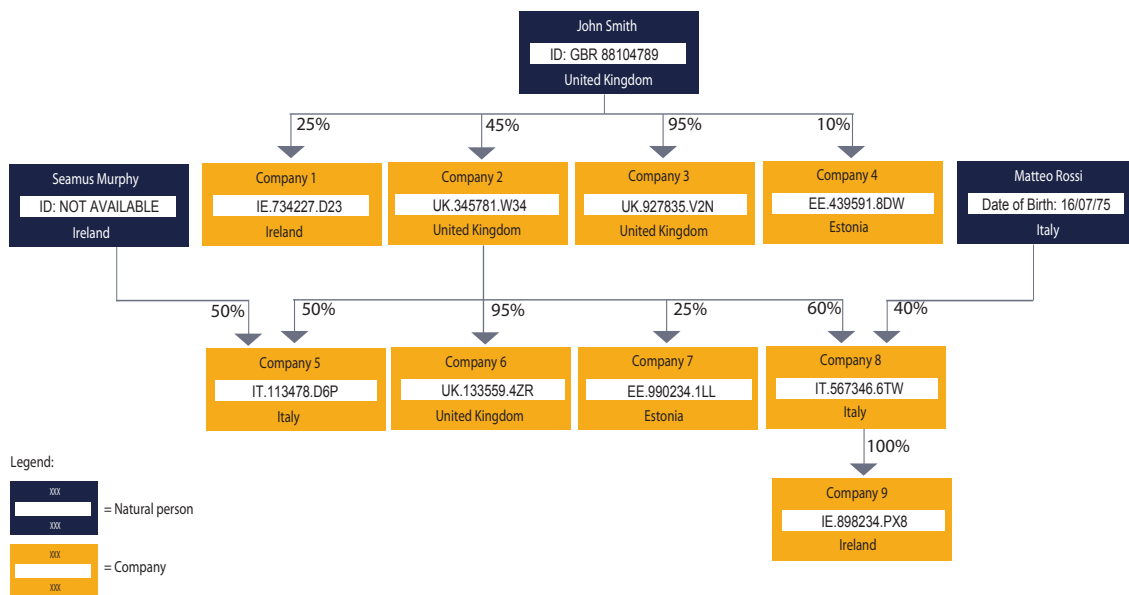
Also in this case, in order to solve potential homonymy cases, the names of shareholders and directors could be integrated with **additional information** such as the dates of birth of legal persons (where available) or the unique ID numbers of legal entities.

As highlighted by the analysis of existing software (section 2.3), similar tools already exist, but they mainly operate at the national level. For example, the **prototype BRACCO** developed by Italian Infocamere⁸³ works as a search engine for data on shareholders and directors, eventually reconstructing and visualizing the ownership structure. But it does so only in regard to corporate entities registered in Italy. Similarly, the **Estonian BR** provides users with a service visualizing the connections among companies registered in Estonia⁸⁴.

By contrast, the added value of this proposal would be its cross-border nature: it would enable users to gather data from BRs based in different EU MS and then reconstruct even **transnational ownership schemes**, which are perhaps the ones most significant for AML investigations.

Yet, as in the previous case, also Proposal A3 would entail a significant expenditure in order to be realized, and a higher level of technical expertise. Moreover, owing to the need to produce a single output (i.e. an ownership scheme to be visualized on the screen) it would require the **stronger standardization of data formats** since the original data may be provided by the relevant BRs in different formats (e.g. PDF, HTML, XLS, XML, etc).

Figure 56. Visualization of a complex ownership scheme



Proposal A3	
PROS	CONS
<p><i>The same pros applicable to Proposal A2 plus the following:</i></p> <ul style="list-style-type: none"> It allows reconstruction of the ownership structure of corporate entities It allows visualization of the ownership structure thus reconstructed By applying SNA and link analysis tools, it would enable investigators to identify crucial nodes in complex ownership networks It guarantees closer harmonization in terms of data formats 	<ul style="list-style-type: none"> Higher costs for IT implementation with respect to Proposal 2 Higher level of technical and IT complexity Strong level of harmonization and standardization required among EU BRs involved (at least in terms of data format)

⁸³ See for more details braccoproject.infocamere.it

⁸⁴ https://ariregister.rik.ee/ettevotja.py/visuaalne_demo?lang=eng

chapter 1	chapter 2	chapter 3	chapter 4	chapter 5
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Conclusions

The feasibility study produced by Project BOWNET has determined what information is available and what is needed to develop a support system which could be used by EU Financial Intelligence Units (FIUs), Law Enforcement Agencies (LEAs), Asset Recovery Offices (AROs), financial intermediaries, and legal professions in the fight against money laundering, and specifically to identify beneficial owners (BO) who conceal themselves behind suspicious corporate entities.

In particular the study has addressed three issues:

1. Understanding how EU **competent authorities and intermediaries operate** in investigations aimed at identifying the BOs of suspicious corporate entities, what their problems and needs are, and what information they use;
2. Identifying where **this information is stored**, how it can be accessed, and what are the problems related to its dissemination;
3. Exploring how the available **information could be collated to improve BO identification** activity by EU competent authorities and intermediaries.

As regards the first issue, after a review of the main international and EU standards in terms of BO identification (**Chapter 1**), the study has analysed the findings of two surveys, one carried out on EU LEAs, FIUs, AROs (**Section 2.1**) and the other on EU financial intermediaries and DNFBPs (**Section 2.2**). The surveys highlighted that **data on shareholders and directors** represent the information most frequently used for BO identification purposes by both the categories, and that **business registers** constitute the data source most frequently accessed.

However significant problems exist in terms of both **identification** and **access** to business registers, especially **foreign ones**. Additional concerns refer to the **timeliness** of the information provided by BRs and to their **accuracy and reliability**, since it is not easy to understand if data are verified, and by whom. According to both EU competent authorities and intermediaries, if new tools are to be helpful and effective, they should perform the **direct collection** of data from BRs, and eventually reconstruct the ownership structure of corporate entities.

The analysis of software (**Section 2.3**) has evidenced that there is a **lack of tools** able to handle data on shareholders and directors, whilst most of the software on the market has been designed to respond only to KYC and CDD activity and to deal with information from watchlists (e.g. PEPs, blocked persons, blocked companies, etc) and open sources.

At the same time, the analysis of EU business registers (**Section 3.1**) and of other public and commercial business information providers (**Section 3.2**) highlighted that there is a **lack of interconnections** among registers based in different countries: most of them in fact cover only one country at a time, so that it is difficult to perform cross-border investigations, which are the ones most important for tackling transnational money laundering networks.

The analysis also showed that **data on beneficial owners** are provided by only four EU BRs. Much more widely available is **information on directors and shareholders**, although with differences across EU MS: whilst 92% of the BRs analysed make the names of directors available, only two-thirds of EU BRs provide information on the names of shareholders. Much less publicly available is additional information such as the dates of birth, addresses, and ID/Passport numbers of directors and shareholders, which would be of great help in cases of homonymy. However, to be noted is that these data are often stored within BRs and, although not public, could be **obtained by competent authorities upon request**.

The analysis of business information providers also highlighted a lack of **standardization in terms of data formats** (with most registers providing information in PDF, not always OCR-readable) and a lack of **ownership and control information** as regards unlimited companies, associations and foundations (whilst the availability of data on limited companies is satisfactory).

To be pointed out in this regard is that **commercial data providers** often guarantee a wider geographical coverage and a wider array of information and services, but they are often too expensive for EU competent authorities' needs. In addition, there are concerns about the accuracy of the data disseminated by these secondary sources.

As regards the third issue, the study has identified two directions which could be followed in order to address the gaps identified and thereby improve the BO identification activity of EU stakeholders (**Section 4.1**).

The first is to **improve the access and the dissemination** of ownership and control information through **policy or regulatory initiatives to be taken at EU level**. In this regard, a set of suggestions to EU policy makers and regulators has been provided (**Sections 4.2 and 4.3**), including a recommendation to strengthen the **interconnection of EU BRs** (and to support existing initiatives in this sense, such as full implementation of Directive 2012/17/EU).

The second is to **develop new support systems** which could make better and more effective use of the available information (**Chapter 5**). In particular, a range of tools have been proposed (**Section 5.2**): these vary in terms of both their impact on EU investigators' practices and their feasibility and cost of realization. The purpose of these systems would be primarily to **facilitate access to BRs**, especially foreign ones, and to retrieve data from registers based in different countries, so that investigators could **perform cross-border investigations** on the ownership and control of EU corporate entities.

It is recommended that the EU support the development of such tools which, because they **collect and collate only existing and public available information**, would not pose significant problems in terms of data privacy and would not require substantial modifications to the company law framework of EU MS.

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Annex

This annex contains:

- A1.** The questionnaire administered to EU competent authorities. The results of the survey on EU competent authorities are presented in Chapter 2, Section 2.1;
- A2.** The questionnaire administered to EU financial intermediaries and DNFBPs. The results of the survey on EU intermediaries are presented in Chapter 2, Section 2.2;
- A3.** The list of EU competent authorities who responded to the survey;
- A4.** The list of EU financial intermediaries and DNFBPs who responded to the survey;
- A5.** The list of software, used in CDD/KYC activity, which have been analysed in the analysis presented in Chapter 2, Section 2.3;
- A6.** The list of EU and non-EU business registers analysed in the survey presented in Chapter 3, section 3.1.

A1. Questionnaire administered to EU competent authorities

This section reports the questionnaire used for the survey on EU competent authorities. Findings of the survey on EU competent authorities are presented in Chapter 2, Section 2.1.

PART 1 – DATA AND SOFTWARE USED IN BENEFICIAL OWNERSHIP INVESTIGATIONS

1. Which data/information do you use for reconstructing the ownership structure and identifying the beneficial owner⁸⁵ (BO) of suspicious corporate entities? Please rank in terms of frequency of use (1=most used; 9=least used).
 - ☐ Data on companies' shareholdings
 - ☐ List of companies' board members and managers
 - ☐ Police and judiciary records
 - ☐ SDN, PEP and other watch-lists
 - ☐ Tax agency records
 - ☐ News/press
 - ☐ Internet/blogs
 - ☐ Social networks
 - ☐ Other (Please specify:)

2. Which sources do you access for gathering data on the shareholding of corporate entities **registered in your country**? Please rank in terms of frequency of use (1=most used; 8=least used).
 - ☐ National Business Registers
 - ☐ Other national LEA/FIU and police agencies archives
 - ☐ Tax agencies archives
 - ☐ Financial institutions/intermediaries archives
 - ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
 - ☐ Companies websites
 - ☐ News/press archives
 - ☐ Other (Please specify:)

3. Which sources do you use when gathering data on the shareholding of corporate entities **registered in a foreign country**? Please rank in terms of frequency of use (1=most used; 8=least used).
 - ☐ Foreign Business Registers
 - ☐ Foreign LEA/FIU and police agencies archives
 - ☐ Foreign tax agencies archives
 - ☐ Financial institutions/intermediaries archives
 - ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
 - ☐ Companies websites
 - ☐ News/press archives
 - ☐ Other (Please specify:)

⁸⁵ For the purpose of this questionnaire please refer to the definition of beneficial owner provided by EU Directive 2005/60/EC (Third EU AML Directive), i.e. "the natural person(s) who ultimately owns or controls the customer and/or the natural person on whose behalf a transaction or activity is being conducted" (EU Directive 2005/60/EC, Art. 3).

4. In cross-border investigations, how do you request and collect information on BOs and shareholding from **foreign business registers**? Please tick the relevant boxes.
- ☐ Through formal claim
 - ☐ Through formal claim made by the relevant foreign LEA/FIU/Police agency
 - ☐ Through informal request made by the relevant foreign LEA/FIU/Police agency
 - ☐ Web access
 - ☐ Other (Please specify, if possible:)
5. When collecting and analysing data on the ownership structure of suspicious corporate entities, do you use any software?
- ☐ No, all information are collected and processed manually
 - ☐ Yes (Please specify name of the software if possible:)
6. If you answered yes to the question n° 5, what services are provided by the software? Please tick the relevant boxes.
- ☐ Collecting information/data from business registers
 - ☐ Integrating information/data extracted from different sources
 - ☐ Harmonizing different formats of information/data
 - ☐ Reconstructing the ownership structure and identifying the beneficial owner of the selected corporate entity (i.e. identification of parent/holding companies and of controlled companies; identification of natural persons behind parent/holding companies, etc)
 - ☐ Identifying the connections among shareholders, board members, PEPs and other high-risk individuals linked by family/business/criminal relationships
 - ☐ Visualizing such connections and the ownership structure of the selected corporate entities
 - ☐ Social network analysis
 - ☐ Other (please specify)

SECTION 2 – HINTS/SUGGESTIONS FOR NEW DEVELOPMENTS AND SOFTWARE/PLATFORMS:

7. Which are the main problems in investigating the ownership structure and the BO of corporate entities, especially in cross-border cases? Please rank in terms of relevance (1= most relevant; 11= least relevant).
- ☐ Problems in identifying the relevant data source (e.g. identification of the database website, etc.)
 - ☐ Problems in getting authorizations to access foreign business registers
 - ☐ High costs to access information/data
 - ☐ High costs in training people to use new software
 - ☐ Problems in sharing information/data with other police forces
 - ☐ Problems on the quality of the information (e.g. wrong names, incomplete addresses, etc.)
 - ☐ Problems in receiving information/data in timely manner
 - ☐ Different formats of the information/data extracted
 - ☐ Different languages of the information/data extracted
 - ☐ Problems in integrating information from different sources (e.g. business registers, internet, news, police records, etc.)
 - ☐ Other (Please specify:)
8. For which of the following data/information would you suggest to improve the availability? Please rank in terms of relevance (1 = most relevant; 5=least relevant).
- ☐ Data on national companies' shareholdings
 - ☐ Data on foreign companies' shareholdings
 - ☐ Foreign police and judiciary records
 - ☐ Tax agency records
 - ☐ Other (Please specify:)

9. For which of the following sources would you suggest to improve and facilitate the access? Please rank in terms of relevance (1=most relevant; 8=least relevant).
- ☐ National Business Registers
 - ☐ Foreign Business Registers
 - ☐ Foreign LEA/FIU and police agencies archives
 - ☐ Tax agencies records
 - ☐ Financial institutions/intermediaries archives
 - ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
 - ☐ News/press archives
 - ☐ Other (Please specify:)
10. On the basis of the above considerations, what services should be provided by a new software/platform for improving investigations on the ownership structure and the BO of suspicious corporate entities? Please rank in terms of relevance (1=most relevant; 8=least relevant).
- ☐ Collecting information/data from business registers
 - ☐ Integrating information/data extracted from different sources
 - ☐ Harmonizing different formats of data/information
 - ☐ Reconstructing the ownership structure and identifying the beneficial owner of the selected corporate entity (i.e. identification of parent/holding companies and of controlled companies; identification of natural persons behind parent/holding companies, etc)
 - ☐ Identifying the connections among shareholders, board members, PEPs and other high-risk individuals linked by family/business/criminal relationships
 - ☐ Visualizing such connections and the ownership structure of the selected corporate entities
 - ☐ Social network analysis
 - ☐ Other (please specify)
11. How much would you spend for a new software/platform which, integrating the data extracted from different EU business registers with other sources, could improve the investigation on the OS and the BO of suspicious corporate entities, especially in cross border cases?
- ☐ Nothing: the software/platform should be free of charge or its cost funded by other agency/government/institution.
 - ☐ Up to euro per year (please complete).

12. Further comments / Notes:

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CONTACT DETAILS OF THE PERSON WHO COMPLETED THE QUESTIONNAIRE

Name / Surname:

Position / Role:

Agency / Institution:

Address:

Telephone / Fax:

E-mail:

A2. Questionnaire administered to EU intermediaries

This section reports the questionnaire used for the survey on EU intermediaries. Findings of the survey on EU competent authorities are presented in Chapter 2, Section 2.2.

PART 1 – DATA AND SOFTWARE USED IN BENEFICIAL OWNERSHIP INVESTIGATIONS

1. Which data/information do you use in identifying the beneficial owner⁸⁶ (BO) and understanding the ownership and control structure of the customer, as requested by the EU Third Anti Money Laundering Directive⁸⁷? Please rank in terms of frequency of use (1= most used; 9 = least used).
 - ☐ Data on companies' shareholdings
 - ☐ List of companies' board members and managers
 - ☐ Police and judiciary records
 - ☐ SDN, PEP and other watch-lists
 - ☐ Tax agency records
 - ☐ News/press
 - ☐ Internet/blogs
 - ☐ Social networks
 - ☐ Other (Please specify:)

2. Which sources do you access for gathering data on the shareholding and BO of corporate entities **registered in your country**? Please rank in terms of frequency of use (1= most used; 9 = least used).
 - ☐ National Business Registers
 - ☐ Documents provided by customers
 - ☐ National LEA/FIU and police agencies archives
 - ☐ Tax agencies archives
 - ☐ Documentation presented by other bank divisions and branches
 - ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
 - ☐ Companies websites
 - ☐ News/press archives
 - ☐ Other (Please specify:)

3. Which sources do you use when gathering data on the shareholding and BO of corporate entities **registered in a foreign country**? Please rank in terms of frequency of use (1= most used; 9 = least used).
 - ☐ Foreign Business Registers
 - ☐ Documents provided by customers
 - ☐ Foreign LEA/FIU and police agencies archives
 - ☐ Foreign tax agencies archives
 - ☐ Other financial institutions/intermediaries archives
 - ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
 - ☐ Companies websites

⁸⁶ For the purpose of this questionnaire please refer to the definition of beneficial owner provided by EU Directive 2005/60/EC (Third EU AML Directive), i.e. "the natural person(s) who ultimately owns or controls the customer and/or the natural person on whose behalf a transaction or activity is being conducted" (EU Directive 2005/60/EC, Art. 3).

⁸⁷ See article 8 of the EU Directive 2005/60/EC.

- ☐ News/press archives
- ☐ Other (Please specify:)

4. Which types of **documents** do you usually require to customers in order to identify their ownership structure and their BO? Please tick the relevant boxes.

- ☐ ID information
- ☐ List of shareholders with relevant shareholding
- ☐ List of members of Board of Directors
- ☐ List of senior managing officials
- ☐ Memorandum or articles of incorporations
- ☐ Business licenses
- ☐ Partnership agreements
- ☐ Trust instruments
- ☐ Other (Please specify:)

5. How do you usually request and collect information on BOs and shareholding from **national business registers**? Please tick the relevant boxes.

- ☐ Through formal claim
- ☐ Through informal request
- ☐ Free web access
- ☐ Charged web access
- ☐ Through other agencies or software (Please specify, if possible:.....)
- ☐ Other (Please specify,)

6. How do you usually request and collect information on BOs and shareholding from **foreign business registers**? Please tick the relevant boxes.

- ☐ Through formal claim
- ☐ Through informal request
- ☐ Free web access
- ☐ Charged web access
- ☐ Through other agencies or software (Please specify, if possible:.....)
- ☐ Other (Please specify,)

7. Please specify the amount of time usually needed for obtaining an information on BO or shareholding from the relevant business register:

- ☐ Immediately
- ☐ 2-3 days
- ☐ 1 week
- ☐ 2-3 week
- ☐ 1 month
- ☐ more than 1 month

8. When collecting and analysing data on the ownership structure of suspicious corporate entities, do you use any software?

- ☐ No, all information are collected and processed manually
- ☐ Yes (Please specify the name of the software if possible:)

9. If you answered yes to question n°8, what services are provided by the software? Please tick the relevant boxes.

- ☐ Collecting information/data from business registers
- ☐ Integrating information/data extracted from different sources
- ☐ Harmonizing different formats of information/data
- ☐ Reconstructing the ownership structure and identifying the beneficial owner of the selected corporate entity (i.e. identification of parent/holding companies and of controlled companies; identification of natural persons behind parent/holding companies, etc)
- ☐ Identifying the connections among shareholders, board members, PEPs and other high-risk individuals linked by family/business/criminal relationships
- ☐ Visualizing such connections and the ownership structure of the selected corporate entities
- ☐ Social network analysis
- ☐ Other (please specify)

SECTION 2 – HINTS/SUGGESTIONS FOR NEW DEVELOPMENTS AND SOFTWARE/PLATFORMS:

10. Which are the main problems in investigating the ownership structure and the BO of corporate entities, especially in cross-border cases? Please rank in terms of relevance (1= most relevant; 13 = least relevant).

- ☐ Problems in identifying the relevant data source (e.g. identification of the database website, etc.)
- ☐ Problems in identifying the relevant foreign business registers
- ☐ Lack of cooperation with LEAs
- ☐ Problems in checking the truthfulness of the documents provided by the customers
- ☐ High costs to access information/data of the business registers
- ☐ High costs in training people to use new software
- ☐ Problems in sharing information/data with other bank divisions or branches
- ☐ Problems on the quality of the information (e.g. wrong names, incomplete addresses, outdated, etc.)
- ☐ Problems in receiving information/data in timely manner
- ☐ Different formats of the information/data
- ☐ Different languages of the information/data
- ☐ Problems in integrating information from different sources (e.g. business registers, internet, news, police records, etc.)
- ☐ Other (Please specify:)

11. For which of the following data/information would you suggest to improve the availability? Please rank in terms of relevance (1= most relevant; 7 = least relevant).

- ☐ Data on national companies' shareholdings
- ☐ Data on foreign companies' shareholdings
- ☐ National police and judiciary records
- ☐ Foreign police and judiciary records
- ☐ Tax agency records
- ☐ Social networks
- ☐ Other (Please specify:)

12. For which of the following sources would you suggest to improve and facilitate the access? Please rank in terms of relevance (1= most relevant; 10 = least relevant).

- ☐ National Business Registers
- ☐ Foreign Business Registers
- ☐ National LEA/FIU and police agencies archives
- ☐ Foreign LEA/FIU and police agencies archives

- ☐ Tax agencies records
- ☐ Other bank divisions/branches archives
- ☐ Other financial institutions/intermediaries archives
- ☐ Private databases (e.g. Factset LionShares, BVD Amadeus, etc)
- ☐ News/press archives
- ☐ Other (Please specify:)

13. On the basis of the above considerations, what services should be provided by a new software/platform for improving investigations on the BO and ownership structure of the customers, as requested by the EU Third Anti Money Laundering Directive? Please rank in terms of relevance (1= most relevant; 8 = least relevant).

- ☐ Collecting information/data from business registers
- ☐ Integrating information/data extracted from different sources
- ☐ Harmonizing different formats of data/information
- ☐ Reconstructing the ownership structure and identifying the beneficial owner of the selected corporate entity (i.e. identification of parent/holding companies and of controlled companies; identification of natural persons behind parent/holding companies, etc)
- ☐ Identifying the connections among shareholders, board members, PEPs and other high-risk individuals linked by family/business/criminal relationships
- ☐ Visualizing such connections and the ownership structure of the selected corporate entities
- ☐ Social network analysis
- ☐ Other (please specify)

14. How much would you spend for a new software/platform which, integrating the data extracted from different EU business registers with other sources, could improve the investigation on the OS and the BO of suspicious corporate entities, especially in cross border cases?

- ☐ Nothing: the software/platform should be free of charge or its cost funded by other agency/government/institution.
- ☐ Up to euro per year (please complete).

15. Further comments / Notes:

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CONTACT DETAILS OF THE PERSON WHO COMPLETED THE QUESTIONNAIRE

Name / Surname:

Position / Role:

Company / Institution:

Address:

Telephone / Fax / E-mail

A3. Respondents to the survey on EU competent authorities

The following table lists the respondents (name of the organization and relevant country) to the survey on EU competent authorities.

No.	ORGANIZATION NAME	COUNTRY
1.	Ministry of the Interior, Bundeskriminalamt	Austria
2.	CTIF-CFI	Belgium
3.	General Attorney Office Brussels (Brussels Court of Appeal)	Belgium
4.	Commission for establishing of property acquired through criminal activity	Bulgaria
5.	State Agency for National Security	Bulgaria
6.	Combating Organized Crime General Directorate	Bulgaria
7.	MOKAS	Cyprus
8.	Economic Crime Investigation Office	Cyprus
9.	Police of the Czech Republic, Unit Combating Corruption	Czech Republic
10.	FIU / Ministry of Finance	Czech Republic
11.	FIU Denmark	Denmark
12.	ARO Estonia	Estonia
13.	National Criminal Police	Estonia
14.	National Criminal Police	Estonia
15.	FIU Finland	Finland
16.	Customs national intelligence and investigations service	France
17.	Brigade de recherché et d'investigations service	France
18.	Platform for Identification of Criminal Assets (PIAC) – French ARO (Ministry of Interior)	France
19.	FIU Germany	Germany
20.	Financial Economic Crime Unit (SDOE)/Greek ARO	Greece
21.	National Tax and Custom Administration	Hungary
22.	Criminal Assets Bureau	Ireland
23.	Banca d'Italia – Unità di informazione finanziaria (FIU Italy)	Italy
24.	Guardia di Finanza – Il reparto Analisi e relazioni internazionali	Italy
25.	Ministry of Economy and Finance	Italy
26.	Competition Council	Latvia
27.	Financial Crime Investigation Service	Lithuania
28.	Prosecutor General's Office	Lithuania
29.	Management of criminal and judicial affairs	Luxembourg
30.	Service de Police Judiciaire Police Grand-Ducale du Luxembourg	Luxembourg
31.	FIU	Malta
32.	FIU – The Netherlands	Netherlands
33.	Asset Recovery Department of Criminal Investigation Bureau of National Police Headquarters	Poland
34.	Department of Financial Information	Poland
35.	UIF / PJ – Portugal	Portugal
36.	Portuguese Criminal Police FIU/ARO	Portugal
37.	Unit for Crime Prevention and Cooperation with EU Asset Recovery Offices	Romania
38.	National Office for Prevention and Control of Money Laundering	Romania
39.	General Inspectorate of Romanian Police – IGPR	Romania
40.	FIU Slovakia	Slovakia
41.	Criminal Police Directorate, General Police Directorate, Police of the Republic of Slovenia	Slovenia
42.	Office for Money Laundering Prevention – Ministry of Finance	Slovenia
43.	Intelligence Centre against Organized Crime (CICO) – Spanish ARO	Spain
44.	SEPBLAC (SPAIN FIU) / Banco de Espana	Spain
45.	National Bureau of Investigation FIU/ARO	Sweden

A4. Respondents to the survey on EU intermediaries

The following table lists the respondents (name of the organization and relevant country) to the survey on EU financial intermediaries and DNFBPs.

No.	ORGANIZATION	COUNTRY
1.	Raiffeisen Zentralbank Österreich Ag	Austria
2.	Airbank	Czech Republic
3.	CSOB	Czech Republic
4.	European Association of Public Sector Banks (EAPB)	EU
5.	Federal Association of German Cooperative Banks	Germany
6.	Association of German Banks	Germany
7.	Hungarian Banking Association	Hungary
8.	PricewaterhouseCoopers S.p.A.	Italy
9.	UniCredit Group – Security department	Italy
10.	UniCredit Group – AML department	Italy
11.	Luxembourg Bankers' Association – Association des Banques et Banquiers du Luxembourg	Luxembourg
12.	BGL PNP PARIBAS	Luxembourg
13.	Deutsche Bank Luxembourg	Luxembourg
14.	Malta Bankers' Association	Malta
15.	Banca Comerciala Romana	Romania
16.	The Bank Association of Slovenia	Slovenia
17.	Association of British Insurers	UK
18.	Law Society of England and Wales	UK
19.	Legal & Policy of National Federation of Property Professionals (NFOPP) ⁸⁸ ,	UK
20.	Deutsche Bank – London Branch	UK
21.	Nardello & CO	UK

⁸⁸ In fact the questionnaire was distributed among different NFOPP members and the following responded to the survey: Arch Estate Agents Ltd, Kingsleys Estates, Colin Mackenzie Ltd, Hurford, The Home Partnership, Stratford & Stratford, RPMS Ltd; Robert Irving Burns, Kent Estate Agencies, DLR Properties, Lawson Commercial, StewartLilly Associates Ltd, Morgan & Co. Estate/Letting Agents, Hollier Browne.

A5. Review of software used for KYC/CDD purposes

The following table lists the software and other IT support systems used by intermediaries and competent authorities in the AML field, and in particular for KYC/CDD purposes, which have been reviewed by BOWNET researchers. The findings of the analysis are reported in Chapter 2, Section 2.3 of the report.

No.	NAME	WEBSITE
1.	Fiserv	http://www.fiserv.com/
2.	3i Infotech Inc. (AMLOCK)	http://www.3i-infotech.com/content/index.aspx
3.	Actimize Inc .	http://www.niceactimize.com
4.	GIFTS Software Inc.	http://www.microedge.com
5.	World Check – Thomson reuters	http://accelus.thomsonreuters.com/solutions/screening/world-check
6.	OASIS – Advanced software design	http://www.asdc.com/oasis.php
7.	SIOPEIA AML – Grupo AIA	http://www.aia.es/internet/SiopeiaAML.html
8.	SGR Consulting	http://www2.sgrconsulting.ch/sgrconsulting/index.cfm
9.	Bosch Software Innovations Corp.	http://www.bosch-si.com/homepage/homepage.html
10.	Oracle Financial Services AML	http://www.oracle.com/us/industries/financial-services/overview/index.html
11.	SAS Institute Inc.	http://www.sas.com
12.	BHIS Limited	http://www.bhis.co.uk
13.	ATTUS Technologies Inc.	http://www.attustech.com/
14.	ACE software solution	http://www.acesw.com/HomePage/Default.aspx
15.	I2	http://www-01.ibm.com/software/industry/i2software
16.	IMPAQ	http://www.impaqgroup.com
17.	Project Bracco	http://braccoproject.infocamere.it/bracco/index.jsp
18.	IBM (Open Pages)	http://www-01.ibm.com/software/analytics/openpages/
19.	Detica NetReveal – Norkom	http://www.deticanetreveal.com/en/
20.	Wolters Kluwer	http://www.wolterskluwer.com/Pages/Home.aspx
21.	ACI payments	http://www.aciworldwide.com
22.	EastNets	http://www.eastnets.com/Homepage.aspx
23.	FICO	http://www.fico.com/en/Products/Pages/default.aspx
24.	Intellinx	http://www.intellinx-sw.com
25.	Memento	http://www.mementosecurity.com/About/Management-Team.aspx
26.	Pegasystems	http://www.pegasystems.com/
27.	RSA archer	http://www.emc.com/domains/rsa/index.htm
28.	SmartSoft, Banking Risk Solution	http://www.smartsoft.it/
29.	Temenos	http://www.temenos.com
30.	Tonbeller	http://www.tonbeller.com
31.	Accuity	http://www.accuitysolutions.com
32.	Info4c	http://www.info4c.net/en/index.html
33.	GO AML	http://goaml.unodc.org/
34.	Lexis Nexis	http://www.lexisnexis.com/en-us/home.page
35.	ARIS	http://www.softwareag.com/corporate/products/aris_platform/default.asp

A6. Respondents to the survey on EU business registers

The following table lists the business registers, both based in EU and non-EU countries, which responded to the survey presented in Chapter 3, Section 3.1.

No.	ORGANIZATION	COUNTRY
1.	Ministry of Justice	Austria
2.	Banque – Carrefour des Entreprises	Belgium
3.	Ministry of Justice	Czech Republic
4.	Danish Commerce and Companies Agency	Denmark
5.	Centre of Registers and Information Systems	Estonia
6.	National Board of Patent and Registration	Finland
7.	Bundesanzeiger	Germany
8.	Companies House	Gibraltar
9.	Guernsey Registry	Guernsey
10.	Ministry of Public Administration and Justice	Hungary
11.	Companies Registration Office	Ireland
12.	InfoCamere	Italy
13.	Jersey Financial Service Commission	Jersey
14.	Lursoft	Latvia
15.	Register de Commerce et des Sociétés Luxembourg	Luxembourg
16.	Centre of Registers of Macedonia	Macedonia
17.	Malta Financial Services Authority	Malta
18.	KvK NL	Netherlands
19.	The Bronnoysund Register Centre	Norway
20.	Instituto dos Registos e do Notariado	Portugal
21.	National Trade Register Office	Romania
22.	Serbian Businesses Register Agency (SBRA)	Serbia
23.	Ajpes	Slovenia
24.	Colegio de Registradores	Spain
25.	Bolagsverket	Sweden
26.	Companies House	UK

