

Global Financial Integrity Statement

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In support of beneficial ownership transparency and civil society space

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Madam President, Excellences, distinguished delegates, ladies and gentlemen, thank you for the opportunity to address you today. I congratulate you Madam President, and your fellow officers, on your recent election, and I thank you very much for taking the time to speak with civil society on Sunday. I share your view that prevention is of the highest value when it comes to combatting corruption.

Global Financial Integrity is an advisory and research organization in the United States that works on issues of domestic resource mobilization and illicit financial flows—which is money that is illegally earned, utilized, or transferred—in the context of development. We estimate that developing countries experienced measurable illicit financial outflows and inflows worth a combined 14.1 to 24.0 percent of total developing country trade over the period 2005-2014. These figures represent corruption, the proceeds of crime, and commercial tax evasion and are facilitated by a global shadow financial system. These illicit financial flows are a critical issue for development, and curtailing them is a formal target of SDG Goal 16.

I wish to address the Plenary today on a key foundation of this shadow financial system: anonymous companies and beneficial ownership transparency.

Transparency of beneficial ownership is vital for the effective prevention of corruption. Perpetrators of corruption use a global web of anonymous shell companies and trusts as well as fake foundations to conceal the true sources and controllers of assets—those earned legally and those earned *illegally*. Formation documents for these entities, if any exist, list a nominee director or nominee shareholders, so that no record exists linking the ultimate owner to his or her account and thus to his or her true activities.

The extensive secrecy that exists in the absence of beneficial ownership requirements is undermining rule of law, broad-based economic growth, democracy, and domestic and international security. Civil society organizations and journalists around the globe are dedicated to developing a clear understanding of these consequences. As an example I point to the investigations being published this week from the International Consortium of Investigative Journalists, or ICIJ, collectively referred to as the Paradise Papers. ICIJ and its partners' expert analysis over the last year of more than 12 million files, primarily from offshore Bermudian law firm Appleby, have shed light on previously unknown financial abuses by numerous large multinational companies and assets of current and former senior public officials that represent potential conflicts of interest and the secrecy of which is directly opposed to their public service. Businesses like Appleby, which has offices in numerous secrecy jurisdictions, including the Isle of Man, Mauritius, and Hong Kong, among others, face charges of handling money from corruption, transnational organized crime, and terrorist organizations. What we don't know is truly hurting us, and in this no country is exempt.

Beneficial ownership transparency supports prevention by reducing the incentive to engage in corruption in the first place in three key ways. First, it significantly curtails the ability of perpetrators of corruption to transfer the assets they have stolen outside of the country. Second, it increases the risk of being caught. Third, it limits their ability to spend the money on the properties, investments, yachts, cars, jets, and other luxury goods that they may desire. After all, much of corruption is just a means to an end.

The Convention includes several articles that refer to beneficial ownership transparency. In particular, **Article 12 (2) (c)** specifically calls for *"Promoting transparency among private entities, including, where appropriate, measures regarding the identity of legal and natural persons involved in the establishment and management of corporate entities"*. **Article 12 2 (d)** also refers to *"Preventing the misuse of procedures regulating private entities,"* which would include the formation of shell companies or trusts for the purpose of concealing the beneficial owner to circumvent AML and other laws governing financial transactions. **Article 14 (1) (a)** calls on States parties to institute comprehensive money laundering regulations and oversight for financial institutions, including a recommendation for record-keeping of beneficial ownership. States parties are also supposed to apply such regulations to service providers involved in the transfer of money or other forms of value, whom the Article recognises as being a particular risk for money laundering. The Financial Action Task Force, or FATF, the leading global body on anti-money laundering and countering the financing of terrorism, refers to these facilitators or enablers as Designated Non-Financial Businesses and Professions.

The Convention also calls for beneficial ownership in the Asset Recovery chapter in **Article 52**.

The precedent is thus there, but States parties need to follow up on their commitments. The Government of the United Kingdom has a public beneficial ownership registry up and running, the Government of Ukraine is close to this point, and several other states are working towards their own registries. This work needs to be given the utmost energy and support. You cannot prevent what you cannot see, and you cannot return what you cannot trace.

This week at the 7th COSP, GFI and other civil society representatives are calling on States parties to include further language on public access to beneficial ownership information for the purpose of prevention corruption, and for the benefit of asset recovery, as well as language recognizing the intimate links between corruption and transparency of beneficial ownership. Our experience as civil society is that such language should include reference to the public availability of beneficial ownership, and enforcement must have a particular focus on lawyers, banks and other corporate service providers, who create the global webs of secret companies, trusts, and foundations. At a minimum, this information should be available to law enforcement, tax authorities, investigators, and fraud compliance officers. We look forward to collaborating with States parties on this important issue in negotiations this week and in implementation after the COSP. With the 2nd review cycle now underway, the time for action is now. My colleagues and I are disappointed and surprised that States parties have declined to mention this vital issue in prevention resolution L.10. Ignorance—in this case of who is moving trillions of dollars through the legitimate financial system—is not bliss, and it is not in the best interest of any nation.

In addition to my work with GFI, I have the honor of serving on the Coordinating Committee of the UNCAC Civil Society Coalition, which you heard about from the previous speaker. The genuine and thorough inclusion of civil society in the UNCAC bodies and processes are fundamental to the Convention having success in preventing and combatting corruption. Numerous States parties have expressed this same view, but bodies and meetings related to the UNCAC are increasingly hostile to civil society. Participating in the three most recent COSPs and five IRGs, I have learned what it's like to be treated as an undesirable and to be told that I have less worth and am not equal to those around me by virtue of the color on my badge. Ironically, our badges are yellow, the color of sunshine, which is usually associated with transparency, but here it is a symbol of intentional humiliation.

In closing, thank you Madam President, Excellences, distinguished delegates, ladies and gentlemen for the chance to address you today.