Signatures for Sale

How Nominee Services for Shell Companies Are Abused to Conceal Beneficial Owners

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WORLD BANK GROUP

STAR Stolen Asset Recovery Initiative
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StAR—the Stolen Asset Recovery Initiative—is a partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC) that supports international efforts to end safe havens for corrupt funds. StAR works with developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.

Executive Summary

This report analyzes a family of related corporate arrangements in which nominees act as agents of principals in control of shell companies. It focuses on how nominee arrangements can be abused to facilitate financial crime by obscuring the identity of those in control of shell companies and on policies designed to counter such abuses. The report draws evidence from a global *mystery shopping* exercise based on thousands of solicitations for shell companies, as well as marketing information from shell company providers, and journalistic and policy research on the topic.

Nominee arrangements are currently both a threat and a missed opportunity for policy makers. Such arrangements are critical to corporate beneficial ownership transparency as a major but underappreciated point of vulnerability. Strengthening the regulation of nominee arrangements can enhance the transparency of shell companies and help reduce financial crime. Taking best advantage of this opportunity requires greater attention to the transparency of nominee arrangements, better practical enforcement of rules, and replacement of a single country-by-country approach in national evaluations with a more multijurisdictional perspective.

Acknowledgments

This report was written by Daniel Nielson (University of Texas, Austin) and Jason Sharman (University of Cambridge). The project team included Sol Krause (StAR, UNODC) and Emile Van der Does de Willebois (StAR Coordinator, World Bank) who provided guidance, coordinated, and supervised the project. The authors and team are especially grateful to Michael Findley for his collaboration on the design, data collection, and analysis of the secret shopping experiment on which the report draws; to Tyler Morrow and Chris Zimmer for their research assistance; and to Cedric Mousset (Acting PM, FSI) for his overall support.

The team benefited from many insightful comments during the peer review process and thank the peer reviewers for offering their time, valuable perspectives and expertise which helped shape the report. The peer reviewers were Alan Bacarese (Director, INTVP, World Bank), Matt Collin (Economist, MTI, World Bank), Pasquale Di Benedetta (Senior Financial Sector Specialist, FCI, World Bank), Tanna Chong and Ashish Kumar (FATF Secretariat).

Key Findings

- Nominee services offered by corporate service providers can have many different uses, extending on a spectrum from those that are innocuous and are routinely used for legal business purposes, to those that have legitimate purposes but are also vulnerable to abuse by clients, to those where the primary purpose is to hide the beneficial owner.
- Their legitimate uses notwithstanding, nominee arrangements are one of the most common devices for hiding the identity of those controlling shell companies, and they are especially prevalent among the most problematic parts of the company formation industry.
- Currently, the lack of attention to the potential and actual abuses of nominee arrangements constitutes a major vulnerability in the on-going campaign to curb the use of untraceable shell companies in financial crime. Greater attention to enforcement is necessary: the evidence presented in this report is a stark reminder that beneficial ownership rules and those relating to nominees do not enforce themselves. This point applies in particular to beneficial ownership registries.
- A global "mystery shopping" exercise shows that on the illicit end of this spectrum, nominee services are often explicitly marketed to clients shopping for shell companies as a device to keep the identity of the beneficial owner off the public record. In 14 percent of active responses to email solicitations asking to set up shell companies, company service providers suggested, unprompted, to use a nominee type of arrangement.
- Networks of shell companies with nominees pose a threat to corporate transparency primarily because of their inherently multi-jurisdictional nature. Yet there is a fundamental disconnect between the multi-jurisdictional threat and the single-jurisdiction rules to address this.
- In summary, the evidence presented in this report shows that enforcing effective regulation of corporate service providers and regulation of nominee arrangements is critical to increasing transparency of beneficial ownership.
- It is hoped that the recent changes in the FATF rules on beneficial ownership of legal entities (Recommendation 24), will force a change in that direction, by requiring more robust transparency rules for nominees, by encouraging more robust enforcement, and obliging authorities to take into account the risks posed by foreign legal entities.

Introduction

> "Would you like to be anonymous where your ex-spouse, boss, renters, mooching friends and family, and the government doesn't know your business? Our nominee service keeps your name and contact information off public records by listing a nominee name and contact information instead of yours."[1]

Despite their legitimate uses, shell companies are one of the most common means of facilitating financial crime and flows of dirty money. They do so because such companies can be used simultaneously as an alter ego and a veil. As suggested by the previous quote, nominee arrangements are often a key part of the subterfuge whereby a corporate puppet obscures the identity of the puppet master.

This report investigates and analyzes the uses of related nominee services for shell companies in light of international rules on corporate transparency designed to combat financial crime. In the context of this report, a nominee is a person who holds a role in a company as a substitute or proxy for another who has a more substantive claim to control, owns the company, or both. Thus, a nominee is in essence a stand-in or a front for the real (beneficial) owner. A nominee is necessarily a derivative role; the term makes no sense without some sort of principal for whom the nominee is an agent.

Nominee company directors and nominee shareholders can function like a mask, obscuring the identity of the principal on whose behalf the nominee is acting. Like face masks, though nominees may be used to conceal, they also have a wide variety of legal and legitimate functions. It seems that in most cases, corporate nominee arrangements are used to carry out these legal and legitimate functions. Nevertheless, the masking potential of nominee arrangements makes them vulnerable to abuse. Evidence from a wide range of sources suggests that nominee arrangements are a central and recurring feature of shell company–enabled crimes. Thus, even if the majority of nominee arrangements are used for legitimate purposes, this report focuses on the potential for abuse of nominee and related arrangements, especially the use of powers of attorney, that can obscure the beneficial owner and thus facilitate financial crimes.

More generally, the report aims to shed light on the following questions:

- What are the legitimate and illegitimate uses of nominee services?
- How are nominee services marketed in connection with shell companies?
- What does evidence from a global mystery shopping exercise tell us about the prominence of nominee services in different jurisdictions, and how likely are they are to be offered to different types of customers?
- How does mystery shopping evidence about nominee arrangements compare with evidence from other sources, including Mutual Evaluation Reports conducted by the international standard setter on anti-money laundering and terrorism financing, the Financial Action Task Force (FATF) and FATF-style regional bodies?
- What are the overall implications for beneficial ownership rules?

The Nature of Nominee Arrangements and the Scope of the Report

Nominee arrangements are best thought of as a family of related legal and informal devices. They are not composed of a clear-cut category that can be neatly counterposed against normal or real directors and shareholders. This complexity is in part because nominee arrangements range on a continuum, from pure *signature for sale* agreements, in which the nominee is simply a front with no real connection with or knowledge or control of the company, to other circumstances in which the nominee plays an important and genuinely independent role.

Formal nominee roles may exist even when they are not explicitly specified in legislation. In this sense, finding which jurisdictions allow nominee arrangements in practice is more difficult than just reading laws on the books. In a strictly legal sense, there may be no such thing as a nominee director distinct from a normal director. In the context of a company law, a director is a director, regardless of what other private legal agreements the director has entered into with a principal. In this way, the category of nominees may be analogous to that of shell companies; strictly speaking, companies are companies regardless of their degree of substance. Complicating matters further, in instances where the agent (nominee) and principal are connected by personal ties of kinship, friendship, or sometimes identity theft, there may not be any legal specification of the relationship, as is the case with professional nominee arrangements set up on a commercial basis by lawyers and corporate service providers. These complexities make researching and regulating nominee arrangements difficult.

Of the different relevant services on offer, which are often used in combination, nominee directors receive the most coverage in this report, because they seem to be the most widely available nominee service, as well as the main point of vulnerability in hiding beneficial owners and hence facilitating financial crime. A particular point of vulnerability is the mismatch whereby nominee arrangements tend to be multijurisdictional, whereas regulation is imposed and assessed on a country-by-country basis. Tighter regulation of nominee directorships is an important but, so far, underappreciated point of regulatory intervention against the misuse of shell companies. In particular, there is a greater need for transparency in making explicit the identity of those performing the principal and agent roles in a nominee relationship, but an even more pressing need for greater enforcement of the rules. Once again, however, it is important to note that rather than a clear-cut separation between nominee and real directors, there is something of a continuum.

Nominee shareholders are also important, though as proxy owners their role tends to be simpler than that of directors. Once again, nominee shareholders provide a range of more and less legitimate functions. As discussed later in this report, power of attorney arrangements are commonly used in combination with nominee services.

This report distinguishes between nominee directors and nominee shareholders, on the one hand, and corporate directors and corporate shareholders, on the other—i.e., where one company serves as director or owner of another company. In many instances, the two types may provide equivalent functions. These functions can include the veiling or concealment purpose of hiding the names of those real individuals in control of the company. Nevertheless, despite these important similarities, corporate and nominee officeholders are not synonyms, and the differences are material. For this report, nominees are only natural individuals acting on behalf of another natural individual, the beneficial owner.

Sources of Evidence and Mystery Shopping

Most of the existing scholarly research on nominees deals with their role in publicly listed companies. This report, however, is concerned with only the (mis)use of privately owned shell companies, and thus work on public companies is only indirectly relevant. Because of this limitation in the secondary literature, much of the evidence is drawn from a global mystery shopping exercise (explained later in this report) relying on thousands of email solicitations for shell companies and associated corporate bank accounts. Further evidence is drawn from the way that the intermediaries who sell shell companies advertise and explain the role of the nominee services they offer.

These sources are supplemented with material from interviews, recent data leaks, investigative journalism, and earlier policy reports on shell companies and related topics. This report does not intend to contribute to the extensive legal debates about the nature and duties of the role of company director, but instead it focuses on the practical uses and abuses of nominees and, secondarily, the policies designed to regulate these arrangements.

The Global Shell Games and Banking Bad mystery shopping expeditions (more properly, field experiments) are based on more than 20,000 email solicitations from real shell companies and fictitious consultants seeking

shell companies, corporate bank accounts, or both. The responses from more than 7,000 corporate service providers from 2019 to 2021 provide the most systematic and direct picture of how shell companies are sold and their uses.

The overall goal of the study is to assess the effectiveness of international beneficial ownership rules. Though all email solicitations were made in line with a common template, deliberate variations were used to vary the risk profile. These included inserting short text prompts (such as insisting on secrecy) or changing the nationality of the person or company to signal different types of risk (such as corruption or terrorist financing). These variations are designed to test whether providers are sensitive to customer risk in accepting or rejecting solicitations, and following or breaking international rules on beneficial ownership transparency, in accord with the central regulatory principle of the risk-based approach.

In line with the aims of this report, the authors are particularly interested in offers from providers using nominee services and equivalents to hide the beneficial owner. Because of the different risks in different solicitations, one can see whether nominee services are more or less likely to be offered to particular types of customers. Because of the global nature and scale of the mystery shopping exercise, one can note how the provision of nominee arrangements varies by country.

Structure and Road Map

The first section is an introduction to the general uses of nominees, with the most coverage devoted to nominee directorships, followed by briefer consideration of nominee shareholders, corporate directors and corporate shareholders, and power of attorney arrangements. For each, the most important legitimate rationales for these services are set forth, followed by the way such arrangements can be abused in hiding the beneficial owner. Despite being presented separately, it is important to realize that these services are often offered and used in combination, with nominee directorships and power of attorney being a particularly frequent combination.

The second section considers two cases of the misuse of nominee arrangements: (a) those provided by New Zealand's GT Group, and (b) those of UK shell companies fronted by Cypriot nominees connected with the massive explosion in Beirut harbor in August 2020 that killed more than 200 people. These examples also provide a useful contrast between approaches to stop the abuse of shell companies: one focusing on the availability of nominee directors (New Zealand) and the other on beneficial ownership registers (the UK People with Significant Control register).

The third section looks at the marketing of nominee services from the corporate service providers encountered in the mystery shopping expeditions, including the paradoxical idea of the *nominee beneficial owner.* This material gives a flavor of not only the services that are available, but also, more important, an insider explanation of how they can be used in hiding the beneficial owner.

The fourth section discusses the contents of the mystery shopping dataset and summary statistics and provides analysis of the frequency of different types of nominee services, the relationship to other corporate services, the sensitivity to customer profile, and their geographic distribution. Rather than customers having to hunt for nominee services, they are routinely offered these services unprompted by those selling shell companies. Specifically, of those corporate service providers (CSPs) in the mystery shopping exercise willing to do business 14 percent offered nominee services of one kind or another, often as part of a strategy to hide the beneficial owner.

The penultimate section compares the mystery shopping evidence on nominee services from eight selected jurisdictions (Australia; Cyprus; Hong Kong SAR, China; New Zealand; the United Kingdom; the United States; and Vanuatu) against FATF Mutual Evaluation Reports from these same jurisdictions. The report discusses how the diagnoses and determination of risk match up.

Finally, the report concludes with a brief recapitulation of the main findings and assessment of some possible reforms to address the problems and vulnerabilities identified. In particular, policy makers may have underemphasized the importance of effectively regulating nominee arrangements in complementing existing measures to ensure beneficial ownership transparency. If nominee arrangements are not regulated, or if, as is common, regulations remain on the books without being enforced, the identity of the real people in control of shell companies will often remain hidden. Given the multijurisdictional nature of structures using nominee arrangements to conceal beneficial ownership, FATF country assessments should not only take into account more than domestic entities and regulations, but also consider features of those foreign entities that have a strong link with the assessed jurisdiction.

The Uses of Nominee Arrangements: The Good, the Bad, and the Ugly

High-profile leaks, recurrent scandals, and academic and applied research over the past two decades have shed light on the central role of shell companies in large-scale, cross-border financial crime. These sources also show that nominee arrangements are one of the most common devices for hiding the identity of those controlling shell companies. The authors' experience conducting and reviewing years of correspondence with thousands of CSPs and banks also confirms that these services often serve to obscure companies' real owners, either incidentally or by design.

However, it is important to note once again that many, and probably most, uses of nominee arrangements are perfectly legal and innocuous, just as most uses of shell companies more generally are perfectly legal and innocuous, including those formed offshore. The services that are discussed are used, defined, required, or modified to fit with different contexts in different jurisdictions, but this report focuses on general patterns and representative examples. The report gives brief coverage of nominee services as extending on a continuum from those that are innocuous and routinely used for legal business purposes to those that have legitimate purposes but are also vulnerable to abuse to those that have the primary purpose of hiding the beneficial owner.

Legitimate Uses of Nominee Directorships

Nominee directorships were created to allow the appointment of agents with specialized skills to conduct supervisory and advisory duties in complex corporate environments involving one or more publicly listed companies. Here, nominee directors are often appointed with the aim of achieving the principal's goal of improving corporate governance and business performance. As one source stated, "[today] corporate groups have replaced individual companies as the typical legal form for all but the smallest private enterprises" (Lee 2003, 449). Nominee directorships appear to have proliferated in the latter half of the twentieth century as a managerial tool to monitor developments in an environment dominated by conglomerate corporate groups comprised of diverse individual company interests. Their goals were to allow principals, including particular groups of shareholders, to better serve the principals' particular interests (Lee 2003). Multilateral development banks also use nominee arrangements for a similar aim. For example, the European Bank for Reconstruction and Development has used nominee directors to monitor and manage subsidiaries and investee companies, particularly with the goal of implementing processes that strengthen corporate governance and improve shareholder returns (EBRD 2020).

An important aspect of nominee directorships is the nominee's relationship to the nominator (principal). Often, nominee directors are appointed by individuals or groups of shareholders that require additional assistance in ensuring their interests are represented at board of directors meetings. In this context, a nominee director works on behalf of a specific nominator, often an existing board member or a shareholder with an "expectation of loyalty to [the principal] other than to the company as a whole" (Boros 1989). The potential for conflict of interest between a principal's interests and those of their larger company or organization as it relates to the obligations of a nominee director is the subject of much litigation and scholarship (Lee 2003), but is beyond the scope of this report.

Giving a broad sense of these nominee relationships as they were intended to be used is nevertheless informative, for three reasons. First, nominee directors were intended to be used in complex corporate groups composed of large, often publicly listed interlinked companies. Second, nominees are expected to have close familiarity with their principal in order to represent the principal's interests. Third, the nominee should be qualified to conduct tasks that advance and defend the interests of the principal. These criteria are quite different from the abuse of nominee arrangements in shell companies discussed later in this report, where nominees are simply signatures for sale designed to hide the beneficial owner.

Nevertheless, even with regard to privately owned shell companies, nominee arrangements have legitimate uses.

Shell companies are commonly used as component parts of more complex corporate structures, which may or may not include publicly listed entities (Phillips, Petersen, and Palan 2021). These structures may involve dozens or even hundreds of interconnected companies, meaning that the role of any one company in isolation is nugatory, and so a stand-in director who may act for many companies at the same time is all that is required. Holding companies of either physical assets or intellectual property rights require directors, but given that the only purpose of the company is to passively hold an asset, there is in practice little for directors to do. In such circumstances, one can imagine the same individuals being nominee directors of many different holding companies without anything sinister occurring.

With regard to the use of nominees in the management of private wealth, a company might be used as part of an estate planning structure, often in combination with a trust, or perhaps a foundation in civil law jurisdictions. Here the beneficial owner who is bequeathing the estate is equivalent to the settlor of the trust, and the nominee's role may be entirely passive until the principal (beneficial owner) has died, at which time the nominee has an important job in assisting the distribution of the estate in accord with the principal's will.

Another use of nominee directorships is to meet local regulations that require some or all company officers to be residents of that jurisdiction. For example, when the authors set up shell companies in Australia and New Zealand, they had to provide local resident directors (natural persons) to satisfy local laws on incorporation. Thus, nominee arrangements are in effect forced on foreign owners of companies when the requirement for local resident directors applies, rather than the owners deliberately seeking out a nominee service (equivalent local requirements may apply for power of attorney arrangements, discussed later in this report). This requirement once again underscores the fact that equating of nominee arrangements with suspicious activity is highly misleading, especially given the legitimate uses of such arrangements. However, even when nominee arrangements are obligatory, they are still prone to abuse in hiding the beneficial owner.

A final point that underscores the difficulty of defining nominee directors is that in some jurisdictions, beneficial owners may be legally considered directors with their knowledge. An example might be the British Virgin Islands, the single-largest jurisdiction for offshore company incorporation, which has a proliferation of nominee-like arrangements. A brief by a leading offshore law firm mentions de jure and de facto directors, as well as separate categories of shadow and nominee directors (Brown 2019). Some of these categories overlap, but even the authors of the brief admit it is not clear when or how, depending on interpretations of conflicting case law. As discussed in the penultimate section of this report, other countries such as the United Kingdom and New Zealand have a similar legal view of shadow directors, in that those who exercise the functions of a director should be legally treated as directors.

Nominee Directors as Signatures for Sale

In a turn from legitimate uses of nominees to their role as a veil to hide the real owner, the easiest explanation, received from one provider in the mystery shopping expedition, follows:

> "What is Nominee Service: Nominee service is basically renting another person's name to protect the identity of the real beneficial owner. Information of all directors and shareholders of Hong Kong companies are available to the public. Therefore, to preserve the confidentiality of the beneficial owner's information, the client can appoint a nominee Director and nominee Shareholder. The nominees do not sign any contracts on behalf of the company, but a Trust Deed and power of attorney will be issued accordingly in favour of the beneficiary. Our Nominee[s] cannot be used for account opening. The sole purpose of our nominee service is to keep the real beneficial owner's information confidential and their roles are restricted to that of company formation."[2]

It is worth reiterating the point evidenced here about the tendency of CSPs to offer a cluster of related services (nominee director, nominee shareholder, power of attorney) that work together.

Nominee directors employed only for concealment are not expected to offer technical expertise or have any substantive relationship with or knowledge of the beneficial owner. Instead, nominees simply rent their identity and are appointed as the legal officeholders of companies as signatures for sale (Johnson 2016). For example, when the Panama Papers were released in 2016, they revealed that Leticia Montoya—a Panamanian employee of Mossack Fonseca—served as the nominee director for "tens of thousands" of corporations. For Montoya, her career consisted

of nothing more than signing documents and issuing her identifying documents on behalf of corporations. She was paid a yearly salary of $6,000, while Mossack Fonseca charged clients $150 annually for a nominee director. She did not have any ties to beneficial owners or any corporate managerial experience other than being listed as such for thousands of companies (Brinkmann, Obermaier, and Obermayer 2016). A more recent brief search of the online database OpenCorporates suggests that Leticia Montoya continues to be listed as an active member of management for more than 16,000 companies in Panama six years after the release of the Panama Papers.[3]

The journalists who broke the Panama Papers scandal provide an explanation of how nominee directorships worked at Mossack Fonseca, but the details are generally applicable for many other providers that continue to operate today. The authors have themselves formed shell companies using this form:

> "When a new shell company is set up, sham [nominee] directors sign three initial documents that are sent to the true company owners. The first is a waiver declaring they won't pursue claims against the true owners or their companies. The second is a power of attorney that ensures the sham director hands over control of the company to the true owner. And the third is the sham director's termination of employment letter, which is signed without a date. This way, true company owners can fire their sham directors retroactively at any time. In addition to these three documents, sham directors sign papers such as the forms required to open a bank account, or the minutes of annual general meetings." (Brinkmann, Obermaier, and Obermayer 2016).

Beyond providing anonymity, nominee directors like Montoya offer utility in derailing investigations. Nominees selling their services and using their names on numerous companies create false trails connecting companies that have no relation other than using the same nominee director's name (FATF and Egmont Group 2018).

Nominee directors may be used so a company is considered legally resident within a certain jurisdiction for tax avoidance purposes. This approach is in line with the English law test that a company is liable for tax on the basis of the location of its "mind and management" rather than just the jurisdiction of incorporation (unlike US law, which is more interested in the jurisdiction of incorporation).

Historically, nominee directors were employed in line with this principle to establish a presence in the UK crown dependencies in order to take advantage of local tax laws and low tax rates (GSL Law & Consulting 2011). For example, previously residents of islands such as Sark in the English Channel might have made a living by acting as nominee directors for hundreds of companies about which they knew almost nothing. After an unfavorable court decision in 1999 hindered the practice, some of Sark's nominee directors relocated to other offshore jurisdictions (Leigh, Frayman, and Ball 2012). Gibraltar was another such jurisdiction where local nominee directors and shareholders could be used to establish a local tax presence, even though all a company's income and business was elsewhere (Doggart 2002, 39).

The use of nominee directors to conceal the real owner is by no means limited to offshore centers, however. One of the authors of this report formed an English shell company for which a CSP provided a nominee director, complete with a pre-signed but undated letter of resignation and a power of attorney agreement. Thus, the author could in effect fire the nominee unilaterally and, if necessary, retroactively. Each party also agreed to indemnify the other; the owner committed not to pursue legal action against the nominee for damage caused to the company or its assets, while the nominee committed to give a reciprocal undertaking. Beyond this, the nominee had no relationship with the owner, and as the CSP explained, her only role was to prevent the owner from having to reveal his practical control of the company. The author also formed a Nevada LLC with a nominee director in Panama City, Panama, once again for the sole purpose of obscuring the identity of the beneficial owner.

Media coverage amplifies this impression about the use of nominee directors in onshore shell companies. Aside from the New Zealand and UK examples later in this report, a Canadian nominee was paid $100 for each directorship of 200 companies, some involved in criminal activities worth over $100 million. When deposed for a New York court case, she described her responsibilities as follows:

> Q. It was just somebody paid you to use your signature and nothing more?
> A. That is correct.

Q. Is it literally nothing more?
A. It's literally nothing more.
Q. That you did nothing other than sign papers?
A. Nothing other than signed papers.
Q. So you were just a name to put on documents?
A. A Canadian director.
Q. Did you ever have any concern about the legality of the documents you were signing?
A. No.
Q. Why was that?
A. I was receiving them from lawyers.
Source: Oved and Cribb 2017

The same nominee then signed blank, undated power of attorney forms to allow those unknown parties owning the Canadian shell companies to act as they saw fit in her name without her knowledge, let alone consent (Oved and Cribb 2017). Given that these arrangements were organized by lawyers, they were arguably covered by legal professional privilege, even though the nominee director herself was not a lawyer. This Canadian sham graphically demonstrates how the use of straw man nominees is an exercise in formally ceding legal powers over a company to a third party, and then in a practical sense claiming these powers back through private legal arrangements. All that is left is the facade of the nominee director.

Geoffrey Taylor, the founder of the New Zealand GT Group corporate service provider discussed more fully later in this report, marketed his role frankly: "He can act as Director and Shareholder for clients without arousing suspicion that he is a nominee only. In this way he can act as your front man and attract attention away from you." For those with aristocratic pretentions, Taylor even offered his nominee services in the name of "Lord Stubbington" (Leigh, Frayman, and Ball 2012).

Other nominee directors have been infants, dead people, or people whose identities were stolen. For example, Global Witness discovered that one nominee director, Yuri Voznyak of Kaluga, the Russian Federation, apparently signed documents for the creation of a UK shell company on April 23, 2008, even though he had in fact died three years earlier. When this irregularity was pointed out to the London-based CSP that had formed the company, it declined any responsibility (Global Witness 2012, 16). The corrupt Nigerian state governor James Ibori listed his four-month-old child as the director of one of his Nigerian companies, Saagaris Properties Ltd. (Sharman 2017, 131).

The Risks of Nominee Directorships for Nominees and Owners

The misuse of nominee director arrangements, whereby nominee directors are purely signatures for sale and do nothing to fulfill their substantive directorial responsibilities, raises the question of accountability. If nominee directors fail to follow the law on discharging their responsibilities as directors, why are they not sanctioned? A Global Witness (2012) report on the abuse of UK shell companies is instructive in answering this question.

The report shows that in practice (as distinct from laws on the books), nominee directors of UK companies can neglect their duties in terms of failing to submit accounts and certify companies as dormant even though tens of millions of pounds are passing through their accounts, with little to no risk of punishment (Global Witness 2012). This point remains as applicable now as when the report was first published. A crucial point is that this impunity of delinquent nominee directors is especially pronounced if such nominees are not residents of the UK. On the rare occasions they are questioned, such directors tend to make the legally false argument that because they are only nominees, they have no responsibility to know anything about the company, let alone control its actions. For example, one Panama-based nominee director of a UK shell company connected with a major corruption scandal in Kyrgyzstan explained to Global Witness: "Yes, I acted as nominee director ONLY … but I had no access to their[the company's] daily operations, bank account management or any other activity" (Global Witness 2012, 14).

Regardless of whether the nominees have set up a private legal agreement with the beneficial owners, a director's responsibilities cannot be legally transferred. Yet whatever the law says, owing to a long-running lack of enforcement by UK authorities, signature for sale nominee directors of UK companies remain common in practice. Especially in cases where these nominees are outside the UK, they are beyond the reach of UK enforcement. The mistake of assuming that laws on the books will somehow enforce themselves is one of the most important conclusions of this report.

Somewhat ironically, if the risks of sanctions from the authorities for nominee directors of companies involved in criminal activity are slight, the risks posed by these nominees for their principals may actually be greater. Even when the nominee is intended to be nothing more than a placeholder, the formal powers of the nominee director create a risk for the beneficial owner—a nominee director can still exercise

legal powers that come with directorship. There is very little in the way of consumer protection for those skirting the bounds of legality, and even less for those who cross them. The nominees and proxies used by former dictator of the Philippines Ferdinand Marcos to launder his embezzled wealth in Switzerland apparently took control of many of these assets after his death, in defiance of the wishes of the remaining family members (Chaikin and Sharman 2009).

In justifying nominee directorships to one of the authors of this report, a lawyer who had served in this role provided the example of a beneficial owner who had suffered a mental breakdown and began issuing instructions that were obviously detrimental to the interests of the company and the owner. Drawing on his director's powers, the nominee was able to ignore these instructions until the owner returned to a sound state of mind. However, the lawyer failed to consider the reverse scenario: what if the nominee director instead of the owner had experienced the breakdown and begun making decisions that harmed the company? At the very least, the owner would have faced a long, difficult, and expensive legal battle to reverse these decisions. The owner could not have had the lawyer's decisions struck down on the grounds that the director was "just a nominee": to repeat, a nominee director is a director, and the creation of nominee arrangements by definition gives real legal powers to the nominees.

Beneficial owners thus face a risk in using nominee arrangements, in that legal fictions can take on a life of their own, and proxies can begin to exercise power in their own right. There is thus a basic trade-off between secrecy and control for those looking to keep their identity hidden through the use of corporate structures: more secrecy involves less control, and vice versa. Measures such as pre-signed and undated resignation letters from nominees ameliorate but do not eliminate this risk.

Nominee Shareholders

A nominee shareholder serves as a named shareholder for a company at the behest of another individual (the principal) who exercises real control and reaps the economic benefit of the company. For example, a lawyer may act as the legal owner of record for a company or certain shares in a company on behalf of the beneficial owner.

The primary legitimate use of nominee shareholders centers on registering shares in the name of a stockbroker or other financial services professional, rather than the buyer or seller, to facilitate efficiency in the clearance and settlement of trades. This practice primarily occurs in trades of publicly listed companies (OECD 2001). Other legitimate uses include political figures placing ownership and control of private assets into trust under the management of others to limit conflicts of interest while serving in public capacity.

However, nominee shareholder arrangements can be used to perform the now-familiar function of concealing information about the beneficial owner while also ensuring that the owner retains practical control of the company. In cases where only the legal owner is recorded, nominee shareholders effectively screen the real owner. For example, in Australia the nominee's name appears on the publicly available shareholder register, but the beneficial owner's name does not. Nominee shareholders commonly have had no responsibility to declare on whose behalf they are holding the shares.

The effect of the rise of public registers of beneficial ownership on the popularity of nominee shareholders for privately held shell companies remains to be seen. At least in theory, beneficial ownership registers look through and disregard the nominee arrangement in recording the identity of the real (beneficial) owner. Yet the example discussed later in this report of the Cypriot nominee standing in for the real owner on the UK People with Significant Control beneficial ownership register brings into question the practical effectiveness of this measure.

Corporate Directors and Corporate Shareholders

Depending on local laws, as legal persons, companies may be able to serve as directors or shareholders of other companies. The idea of one company owning another is a basic feature of modern capitalism in creating the basis for parent and subsidiary companies, including those operating on a multinational basis. Once again, rather than taking on this topic on a general basis, this report restricts coverage of corporate directors and corporate shareholders to shell companies and beneficial ownership transparency.

As noted earlier, though to the report keeps them separate, corporate directors and corporate shareholders are sometimes discussed as forms of nominee arrangements. Both types of arrangements can be functionally similar in obscuring the beneficial owner. Whereas a nominee shareholder who is a real person can at least potentially be sanctioned for involvement in a criminal scheme, sanctions are much more difficult when the shareholder in question is merely another shell company or a trust.

Sometimes, there are very practical reasons for having a company as a director of another shell company. For

example, one industry source noted that relying on a single (real) person as director can be inconvenient when that person is on holiday, sick, dead or otherwise unavailable and a decision needs to be made or approved. Conversely, if there is a corporate director, one of several authorized individuals can more easily sign off on decisions as needed. Corporate service providers often have an in-house shell company that may serve as corporate director for a whole suite of other companies formed by that provider.

Corporate directors and corporate shareholding can be used as another tactic to keep the beneficial owner's name off public records. Thus in correspondence, one provider from Hong Kong SAR, China, suggested: "Kindly note that the Directors and Shareholder particular information of HK company are open for public search at the Companies Registry page. You may consider to register another offshore company, like a BVI company, and use it to act as the Shareholder of the HK company in order to hide the ownership details."[4] In some cases, there can be a circular pattern of ownership, whereby company A is owned by company B, company B by company C, and company C by company A. In these circumstances (which may be illegal in some jurisdictions), there is no real beneficial owner, or at least control of the companies is exercised separately from ownership.

Companies can also be used as trustees (such as a private trust company), owned by trusts, or combined with civil law foundations. This kind of layering creates long, complex webs of a mix of interlocking corporate entities of different types, almost invariably across multiple jurisdictions. This structure creates serious challenges for investigators (OECD 2001). One example concerns Mukhtar Ablyazov, targeted by the Kazakh government for alleged fraud associated with BTA Bank, before being granted political refugee status in France. Following the assets in this case necessitated investigating corporate structures composed of several thousand linked corporate entities and separate legal action in the British Virgin Islands, England, France, Kazakhstan, Russia, the United States, and the Seychelles.

Power of Attorney

A power of attorney allows a third party the legal prerogatives to act on behalf of another within a defined scope of activities. In the context of this report, the person entrusted with these prerogatives is often a lawyer, and if so, the power of attorney may be covered by legal professional privilege. As discussed earlier, it is common for signature-for-sale nominee directors to hand back practical control of a shell company to the beneficial owner through a private power of attorney agreement.

Unlike other nominee services and more esoteric shell company features, the legitimate uses of power of attorney are relatively well-known and widely employed. A power of attorney is granted in a number of instances in which one person is not able to make legal decisions, including cases of absence, incapacitation, and deference to another's decision making. The authority granted can include making decisions about estates, buying or selling property, handling financial matters including bank accounts and other investments, and addressing tax matters.

In the mystery shopping exercise, it became apparent that in many countries, foreign owners forming a company faced a legal or practical prerequisite that the local CSP be granted power of attorney. Especially in Eastern Europe, this approach was presented as a requirement of local laws and regulations, rather like the requirement for local directors discussed earlier, and not specifically as a measure to obscure the owner's identity (though of course this might be an incidental effect). This requirement seems routine and squares with the fact that a variety of other routine business transactions in these countries also requires a power of attorney arrangement, such as selling property when the owner is outside the country.

Despite the widespread legitimate use of power of attorney, abuses of power of attorney relationships can be used to obscure the identity of the real person in control of a company and corporate bank account in the same way as a nominee director. Whereas nominee directors can conduct general functions on behalf of an anonymous beneficial owner, a power of attorney arrangement can be tailored to be broad or narrow in scope. As a private legal arrangement, it will rarely if ever be referenced in share registries or company documents. Abuses of power of attorney are often used in concert with nominee and corporate officeholder arrangements (Wolfsberg Group 2012). Most relevant for this report, a power of attorney may be used to complement or create nominee arrangements. Thus, the authors corresponded with several CSPs that suggested that the owner ostensibly grant control of the company to a nominee director, thereby keeping the owner out of sight, while also suggesting the owner retain control in practice through a separate power of attorney agreement with the nominee. The earlier example of the CSP offering nominee services for a company from Hong Kong SAR, China, illustrates this device.

Two Examples of the Misuse of Nominee Services

The abuses of nominee arrangements, often in conjunction with the other devices noted earlier, have been thrust into public attention over the past decade as a result of a series of prominent leaks. In this manner, the International Consortium of Investigative Journalists and those working with them have done more to enhance the understanding of the misuse of shell companies, and to promote accountability in this domain, than any government agency or intergovernmental organization. This section discusses two examples of the misuse of nominee arrangements. These examples are also relevant in terms of two regulatory responses to the abuse of shell companies: the first response centered on tightening the regulation of directors, and the second response centered on a beneficial ownership register.

The GT Group in New Zealand and Tightening of the Law on Directors

The first example deals with a particularly notorious provider of shell companies and nominee services, the GT Group, mentioned briefly earlier. Both the transgressions and the New Zealand government's reforms to company law in response are instructive. Geoffrey Taylor founded GT Group in 1995 (OCCRP 2011). Since that time, the GT Group has routinely appeared in the headlines for serving as the point of contact for those embroiled in scandals including illegal arms deals, drug smuggling, grand corruption, and tax evasion (Ryle 2011).

Thus, in December 2009, a plane was detained in Bangkok, Thailand, en route from North Korea to Iran. The cargo manifest listed oil drilling equipment as the plane's contents. However, Thai authorities discovered explosives, rocket-propelled grenades, and materials for the construction of surface-to-air missiles (Worthington, McClymont, and Christodoulou 2020).

The plane in question—once owned by the arms dealer Viktor Bout, also known as the "Merchant of Death"—was being leased by the firm SP Trading (Ryle 2011). SP Trading's incorporation documents listed as its sole director a recent Chinese immigrant to New Zealand, Lu Zhang, with a single corporate shareholder.[5] SP Trading listed its registered address as that of the GT Group.[6] Upon detaining Lu Zhang, New Zealand authorities quickly discovered she was an unwitting participant in the international arms trade. In an example of nominees as signatures for sale, Lu Zhang had recently found part-time employment with the Taylors of GT Group serving as a nominee director. For the rate of $15 per signature, the GT Group placed Lu Zhang's name on company documents, thereby obscuring who was really in control of this and other shell companies (Findley, Nielson, and Sharman 2014).

The corporate shareholder of SP Trading, Vicam (Auckland) Limited, which, like SP Trading, listed its registered address as care of the GT Group, had at various points listed several Taylor family members as its directors, though by 2009 the named director was Nesita Manceau. A brief review of Nesita Manceau suggests she has been another professional nominee director working for the GT Group; her name was listed on OpenCorporates as a director of more than 400 New Zealand companies.[7] Further, Vicam (Auckland) Limited named the GT Group itself as its sole shareholder at the time of the investigation into the arms shipment. In July 2010, this shareholder was amended to name Nesita Manceau the sole shareholder, giving Manceau the dual role of nominee shareholder and nominee director for a company embroiled in an international investigation.[8]

AP Photo

A plane leased by a New Zealand shell company was intercepted in Bangkok, Thailand, in 2019, loaded with weapons and explosives en route from North Korea to Iran.

The combination of the nominee director, nominee shareholder, and corporate shareholder helped cover the trail of the principal who had arranged for the shipment of arms from North Korea to Iran. No one in the GT Group or any member of the Taylor family faced charges for their roles in successfully hiding the identity of those behind the illegal arms trafficking or providing shell companies to the Sinaola drug cartel or the Magnitsky case. Provision of nominee directorships and shareholding was perfectly legal in New Zealand at the time. In November 2010, Lu Zhang herself was convicted of 74 counts of making false statements on company registration forms, though no penalty was imposed (SPCS 2010).

Significantly, the embarrassment caused by this case and the GT Group's no-questions-asked provision of shell companies more generally spurred the New Zealand government to undertake important reforms to its company law in 2014. This effort also reflected the European Union's earlier decision to remove New Zealand from its whitelist of countries with equivalent anti-money-laundering (AML) controls in 2011. The amendments mandated that every new and existing New Zealand company have a director who was a local resident real individual, whose name and date of birth would be registered.

When the authors formed a New Zealand shell company in 2018, they found that foreign nominee and corporate directors were unavailable (with the limited exception of Australian residents) and that local CSPs were unwilling to act as nominee directors because of the liability they bore under the amended laws (FATF and APG 2021, 139). In a practical sense, this situation created difficulty for nonresidents to form a New Zealand shell company without a genuine and substantial connection to the country. Corporate service providers were brought within the AML reporting regime. More important, the government set up a 17-member Integrity and Enforcement Team to check CSPs' compliance with the new standards and to independently investigate suspicious activity in line with media coverage, including the misuse of nominee director and nominee shareholder arrangements (FATF and APG 2021, 139–40). The use of New Zealand shell companies in international crime seems to have fallen significantly after these reforms, even though the amendments affected less than 1 percent of the 550,000 companies on the register (New Zealand, Office of the Minister of Commerce n.d.).

The Beirut Blast, Cypriot Nominees, and the UK Beneficial Ownership Register

On August 4, 2020, an explosion ripped through the heart of Beirut. The source of the explosion was found to be a long-abandoned stash of ammonium nitrate in the port that had been confiscated from the near-derelict ship *MV Rhosus* in October 2013 (Vasilyeva, Barrington, and Saul 2020). However, from that point on, answers became increasingly difficult to find as officials sought to understand the source of the eight-year-old shipment. A connected group of shell companies whose true owners were obscured by nominees were at the center of the affair (Dark Money Files n.d.).

The bill of lading for the *MV Rhosus*—which sank, seemingly abandoned, in the Beirut harbor in 2018—suggests a fairly simple line of transit for the shipment of ammonium nitrate. The shipper was listed as Rustavi Azot and the consignee as the International Bank of Mozambique on behalf of the commercial explosives company Fábrica de Explosivos de Moçambique (Ruhayem and Adams 2020). Yet, the explosives company explained to investigators that it had actually ordered the ammonium nitrate not from the manufacturer Rustavi Azot, but from a go-between company based in the United Kingdom, Savaro Limited (Vasilyeva, Barrington, and Saul 2020).

The UK company Savaro Limited is listed on the People with Significant Control register as being owned by Marina Psyllou. Psyllou is also listed as the director for Savaro. Psyllou owns Savaro through being the sole shareholder for the company Status Grand Limited (the entity named as the sole shareholder of Savaro).[9] A third Psyllou-controlled company (she is again listed as a director and beneficial owner) is Interstatus Limited, which is listed as the secretary for Savaro. Interstatus is, in turn, owned by Cypriot Interstatus Business Services. In addition to the shared connections to Marina Psyllou, the companies share a single registered and correspondence address.

Despite the information of the UK beneficial ownership register, however, Marina Psyllou is not the real owner of Savaro and had no involvement in or knowledge of the operations of the company (Bedford and others 2021). Instead, she was operating as a nominee director. She confirmed that she was acting as a nominee for the real owner in an email to journalists in January 2021 (Bergin 2021).

Hiba Al Kallas/Shutterstock.com

The source of the ammonium nitrate that led to a massive explosion in Beirut's port in 2020 was obscured by a UK shell company with a nominee director.

Standing in for the real owner in the register is in violation of UK law on beneficial ownership, yet the likelihood of sanctions being applied in such situations is extremely slim. UK enforcement of the register rules has been very weak (Bullough 2019), and being in Cyprus, the corporate service provider Interstatus Business Services Limited is effectively beyond the reach of UK authorities (somewhat ironically, Psyllou is listed as the Compliance Officer for Interstatus Business Services Limited).

Psyllou is listed on OpenCorporates as a company officer of at least 159 companies.[10] Psyllou is thus a professional nominee director and nominee shareholder. Further investigations by the Organized Crime and Corruption Reporting Project discovered an even more elaborate web of shell companies, which once again relied on nominee arrangements to hide the real owner (Bedford and others 2021). In the case of the Beirut blast, this means that the true source of the ammonium nitrate will likely face no consequences for its role in the events of August 4, 2020 (Litvinova 2020).

Mystery Shopping and the Marketing of Nominee Services

In the course of the mystery shopping exercise, the authors had a great deal of exposure to the marketing materials of those who specialize in professional privacy. This material provides an invaluable insider, applied guide to what nominee services are available and how they are intended to work.

Compliant but Secretive: Know Your Customers, but Hide their Identity

This section highlights CSPs who comply with international customer due diligence (CDD) rules, yet openly market their services as hiding the beneficial owner through nominee and other related services. A recurring theme in the marketing of these businesses is various arguments about property rights and tax freedom. They often openly espouse the virtues of tax avoidance, but their services also provide opportunities for tax evasion as well as other crimes.

One such business pitches its nominee services specifically with the assurance, "it doesn't matter who the front man for your corporation is, as long as it's not you.... Just to keep you assured, our directors are completely ignorant to the happenings of your corporation. They will never know who you are, and unless you request it for some special cases, they will have absolutely no information about you" (Panama Offshore Worldwide n.d.). Violations of the principle that directors are responsible for their company do not come much clearer than this.

The authors would sometimes receive a seemingly compliant response with an attachment that offered a variety of services that undermined the probity of response received. On the following pagr is a side-by-side comparison of the text of an email received with a portion of the order form from the same CSP.

The order form does indeed have an addendum on CDD requirements at the end, but the language suggests that for the sake of incorporation, the documents of the nominees would be deemed sufficient. Nominee directors and nominee shareholders are stated to be subject to the additional scrutiny of also requiring passport and driver's license photos be submitted as well. This condition suggests that the CSP would require the nominees listed on a new incorporation (likely ones provided by the CSP itself) to provide more information at the time of the incorporation than if the real owners were doing so.

Switching Ownership and Nominee Beneficial Owners

The extreme instance of a nominee arrangement used to conceal the real owner might be the oxymoron of the nominee beneficial owner service. A nominee beneficial owner is a contradiction in terms because one is either a nominee serving the real owner, or the real owner; one cannot be both. Nevertheless, both the Panama Papers and the authors' more recent correspondence with shell company providers show that such services have been and still are available.

Mossack Fonseca's service was daring in its simplicity: the real owner would simply give ownership to an individual appointed by the Panamanian law firm, who then would (hopefully) return it to the original owner (Brinkman, Obermaier, and Obermayer 2016). The advantage here would be to break the legal chain of ownership: ultimately, the original owner would enjoy possession of the company or other asset, while throwing any potential investigators off the trail by the earlier transfer of ownership to an ostensibly unrelated party.

Mossack Fonseca is defunct, but as the mystery shopping reveals, the sale of nominee beneficial owner services lives on. The simplest version of this is to incorporate the company in the name of one owner, who then later hands control of the company to the real owner. For example, as a provider from Ukraine explained in an email: "Companies in Ukraine are usually established by a specific natural person/natural persons or is used [sic] a nominee beneficiary—a citizen of Ukraine who fulfils the instructions of the real beneficiary. At least the nominee beneficiary is used in the first stage of the company's operation and then, when the business has already started and a positive prospect is visible, the nominee beneficiary is replaced by

"Dear XXXX,

Thank you for your inquiry into our company formation services. Please find attached details of our packages and their inclusions as well as prices for incorporation and yearly service thereon. Also attached is a list of our complete services and an order form with instructions also outlining our terms and conditions. There are certain activities and words that are not allowed in Seychelles Business Company Names and Activities so I have attached details.

We suggest that if you find us acceptable, then please send us at least two (2) proposed names of the company, by email before completing the order form, so that we may determine if the names are acceptable. Sometimes a company name has already been taken or it could be too close to an existing company name.

Once we receive the completed order form and all the required KYC (Know Your Customer) documents (see on the order form) that we are required to have prior to incorporation, and the payment (bank details at the end of the order form), the company is usually incorporated within 24 hours.

The bank account application can only begin after the company has been incorporated as the bank requires certain incorporation documents that we include in our packages (Apart from the Standard Package). Provided that the bank receives the required documents that support a bank application, to their satisfaction, it should be opened with 7–10 working days.

As payment is required before incorporation, it can be made by bank transfer or by credit/debit card using our voucher attached. Please let me know if you have any further questions.

Kind Regards,

XXXX"

4. The Ultra Protection (Corporate Nominee Director; Natural Person Nominee Shareholder) Package, for $749 which includes:

a. Certificate of Incorporation;
b. Two sealed Memorandum and Articles of Association
c. Two Originals of the Subscriber's Resolution appointing the First Director
d. Two Originals of the Minutes of the First Director's Meeting
e. Share Certificate(s);
f. One set of apostilled incorporation documents
g. Nominee Director services by a Corporate Body,
h. Nominee Shareholder Services by a Natural Person
i. Nominee Shareholder's Declaration;
j. Nominee Secretary service, if required;
k. A Meeting minute to facilitate resignation of Director/Secretary
l. Undated Director's resignation notification;
m. Undated Secretary's resignation notification, if applicable,
n. Blank undated Share Transfer to enable the transfer of shares at a later time;
o. Expression of Wishes (Offshore Will);
p. Director's Meeting resolution authorizing appointment of the Power of Attorney or Consultant;
q. Power of Attorney (if applicable)
r. Power of Attorney or Consultancy Agreement (in duplicate);
s. Management Services Agreement (in duplicate);
t. Delivery by Courier
u. One year's Registered Agent and Registered Address (for official use only):
v. Attending to mandatory reporting/filing requirements for year one including attending to keeping statutory records/company books;
w. Booklet Guide on "How to use and manage your IBC".

The highlighted items (above) are normally charged as extras by our competitors, but we include them in our "special" package price.

The annual renewal fee for an Ultra Protection (Full Nominee Company) Package is US$485.00 and this includes Company renewal including government fees, Incumbency Certificate, One Year's Nominee Service, One year's Registered Agent and Registered Office service and Delivery of Certificate of Incumbency by email.

Source: Banking Bad Data Global Shell Games Correspondence No. 4614

the real beneficiary."[11] Given that an assessment of whether the project is working out may take months or years, presumably the real owners might control the company yet be hidden behind the nominees for some time on Ukraine's beneficial ownership register.

Showing the widespread use of this approach, a Peruvian CSP replied to an email request to hide the identity of the beneficial owner along similar lines: "[We] incorporate the company and immediately after transfer the ownership of the shares to the entities/individuals indicated by the client. We recommend this option given that is the fastest and most efficient, while obtaining the exact same legal results."[12] If the transfer were indeed conducted quickly and official ownership records were also updated equally quickly, then the risks of such an arrangement would be low, but delays on either count would mean that the beneficial owner stays hidden. Notably, Latin American respondents sometimes also noted that all their communications and arrangements were covered by legal professional privilege, meaning that authorities may have difficulty accessing the information on the creation and subsequent transfer of the company. These Ukrainian and Peruvian examples are explained on the grounds of convenience rather than as part of a deliberate ploy to hide the real owner. But even taking this charitable interpretation, the potential for abuse is clear.

A more sophisticated approach is to use a professional stand-in. When the authors explicitly stated that their fictitious client wanted to keep the identity of the real owner secret, a provider in Vanuatu responded: "As you wanting to keep the beneficial owner details private, the service of 'nominee beneficial owner' would have to be provided to the bank, which makes it more difficult and expensive. The nominee beneficial owner would have to be one of our people in Australia and with good clean reputation. They would have to act as the owner of the business and take on the risk of all bank transactions. I would estimate USD2800 for this extra service on top of the company set up fees, in addition to .5% of bank account turnover."[13] In this case, the provider required the usual suite of identity documents of the real beneficial owner.

A Swiss provider offered to sell one of a range of shelf companies first incorporated as far back as 1956 with preexisting bank accounts, coupled with a local nominee director. This service did not come cheap, however, with prices beginning at more than 60,000 Swiss francs. Notably, these were bearer share companies, meaning that there is no central register of ownership and, thus, that whoever holds the physical share certificates owns the company. Thanks to the anonymity provided, bearer shares have a long and troubling history of misuse (Blum and others 1998; OECD 2001). At its plenary meeting in March 2022, the FATF adopted a welcome change to its standard on this issue, prohibiting any new issuance of bearer shares and bearer share warrants and mandating a conversion of existing bearer shares into registered shares, or immobilizing them within a "reasonable" timeframe (FATF 2022).[14]

An even more extreme version of this same strategy of a shelf company with nominees was suggested by a CSP operating in the United States and the Seychelles in response to a solicitation in the name of one of the main ringleaders identified in the Magnitsky legislation list:

> "Because your clients are russian citizen and the banks do not accept russian clients, we suggest to use full nominee service to set up the company and open the bank accounts. This is the best solution for you to be safe and confidental [sic]. We have set up our shelf companies with nominee director and nominee shareholder and set up each bank account with nominee signatory, so the bank won't see you as the beneficiary owner of the account, the bank can see the nominee beneficiary owner, so you will be full anonym. You can buy one company and use the account immediately and avoid the OECD tax exchange problem. If you buy any of these company + bank accounts you will receive all company documents, bank account details, internet login details, user name, password, tokens. So, everything you need to start immediately."[15]

In this example, the corporate service provider did not require proof of identity from the customer, not only putting it in flagrant violation of international rules, but also meaning that in effect it had no idea with whom it was offering to conspire.

In these kinds of cases, the CSP offers to conspire with the customer to use nominee services to defeat the banks' CDD procedures. These schemes are based on either the sale of an existing shelf company with an existing corporate account or the CSP setting up a company and establishing the account, and then transferring ownership to the customer without informing the bank, which amounts to much the same thing. The bank's initial CDD check is correct in identifying the true beneficial owner

of the company at the time the account is set up (that is, the provider), but it becomes inaccurate as soon as the unacknowledged transfer to the customer occurs. Some other providers offered something that could function in the same manner, with a nominee signatory service for a corporate bank account. The more usual way of achieving this end would be to use a power of attorney agreement.

This same tactic of the CSP establishing the company and then secretly transferring it to the customer could be used to beat public registers of beneficial ownership information. One of the authors was offered a variant of this tactic when the UK register had the requirement for only legal, rather than beneficial ownership, information: the provider was the shareholder of record for the register, before the shares were then issued to the bearer and transferred to the author, making the ownership untraceable. How do these types of interactions scale when thousands of requests go out to CSPs?

Data From Audit Study and Field Experiment on Secrecy Services

The following data summarize the responses by CSPs to more than 20,000 inquiries made by the research team in 2019 and 2020. A comprehensive list of CSPs operating internationally is not available, so the data analyzed here come from a convenience sample drawn using systematic internet searches employing a standardized list of key words and the names of countries and other financial jurisdictions. Any CSPs without a web presence are thus necessarily missing from the sample. However, if such CSPs were invisible to researchers compiling the sample, then they are likely to be equally invisible to most potential customers operating internationally.

A conversation is coded as compliant with global standards when the corresponding CSP or bank requested photo identification or an in-person visit of the beneficial owner or shareholders. Noncompliant responses did not require photo ID for the beneficial owner or shareholders. Responses were coded as refusals if, for any reason, the CSP declined to do business with the requester. Because the report focuses on the proffering of proxy services, it deemphasizes refusals and concentrates more on the compliant and noncompliant responses. In a refusal, even if a nominee service is mentioned, the service is being effectively withheld.

Across 20,079 contacts, if all mentions of nominee, local, or resident directors or shareholders are tallied, the number of offers for nominee services is 473—or 14 percent—of the 3,373 live responses that replied in either compliant or noncompliant ways. It is important to underscore that nowhere in the authors' correspondence did they prompt or prime nominee services explicitly. Offers for nominees came effectively unbidden.

To compile these data, the authors ran a set of keyword searches on the full texts of the correspondence received in the course of all inquiries. The text search was based on a library of terms conceived to capture language

Table 1. Frequency and Proportion of Secrecy Services Offered across Response Type

	Outcome			
Response	Noncompliant	Compliant	Refusal	Total
Any nominee service[a]				
Frequency	111	287	75	473
Percentage	23.47	60.68	15.86	100.00
Power of attorney or legal professional privilege				
Frequency	167	269	62	498
Percentage	33.53	54.02	12.45	100.00
Total				
Frequency	1,454	1,919	2,871	6,244
Percentage	23.29	30.73	45.98	100.00

a. This category includes any offer of nominee director, nominee shareholder, or local or resident director or shareholder.

that would be used in an offer of a secrecy service to an inquiry. The search term library is provided in appendix A. In some jurisdictions, to form a company, one must follow regulations that require a resident to be involved. As such, the terms *local director* or *resident shareholder*, for example, are used by a CSP to offer a nominee to fill that service. Searches capturing all mentions of nominee, local, or resident directors or shareholders thus constitute the broadest measurement of proxy services used here.

Frequency of Nominee Services by Response Type

Table 1 reports the number of offers of nominee and power of attorney services by response type. Note here that CSPs by a large margin offered nominee services while simultaneously demanding photo ID of the beneficial owner and therefore being categorized as compliant with international standards. This approach was true across offers of nominee and legal services.

Power of attorney or legal professional privilege is mentioned in 498 of the replies from CSPs, which is 14.8 percent of all live responses.[16] Interestingly, nominee services and power of attorney services are noted in the same CSP response 59 times. In the remainder of the correspondence, nominee and power of attorney services are not mentioned together, suggesting that explicit offers of the two types of services are not predominantly complementary. However, failure to mention power of attorney in an offer of a nominee service does not necessarily indicate that it would not be employed as part of the arrangement. Some means of reasserting control of the company is necessary in any nominee agreement, whether a power of attorney or an effective equivalent, and is therefore implied if not explicitly stated. The combination results in 912 responses that mention nominees, a power of attorney, or both, 27 percent of all live responses.

The majority of CSPs offering nominee or legal proxy services comply with CDD rules. This large share of compliant responses among the nominee offers provides grounds for optimism about the implementation of transparency standards: the majority of CSPs offering such services made efforts to stay within the law and comply with reporting rules on beneficial owners rather than cross the line into illegality.

However, these CSPs also seem to be effectively offering to shield their customers from disclosure on corporate ownership lists and thus keep them out of the public eye. Of course, if the CSP collects identifying information on the beneficial owner, as occurs in a compliant response, in theory law enforcement authorities have access to the information. This situation should reduce the room for using nominees to shield criminal activity. Nevertheless, by using nominees, even compliant CSPs are still helping keep their clients' names off the corporate register and public records, sometimes very explicitly offering services to get around disclosure rules. See an example in figure 1.

The large share of compliant responses among the nominee offers suggests that complying with CDD rules about beneficial owner identification alone does not prevent CSPs from partaking in the business of selling secrecy. It appears to suggest that without also stepping up enforcement of liability for nominees and greater transparency of nominee arrangements, current CDD rules may not be enough to prevent the abuse of shell companies using nominees.

In contrast, the many offers of nominee services that flagrantly skirt the rules in the noncompliant category show that there is still a sizable gap between rules on paper about identification of the beneficial owner and activity in practice. The greater transparency required by the new FATF rule changes (discussed later in this report) may help increase liability for nominees, and stepping up enforcement will further address the problem.

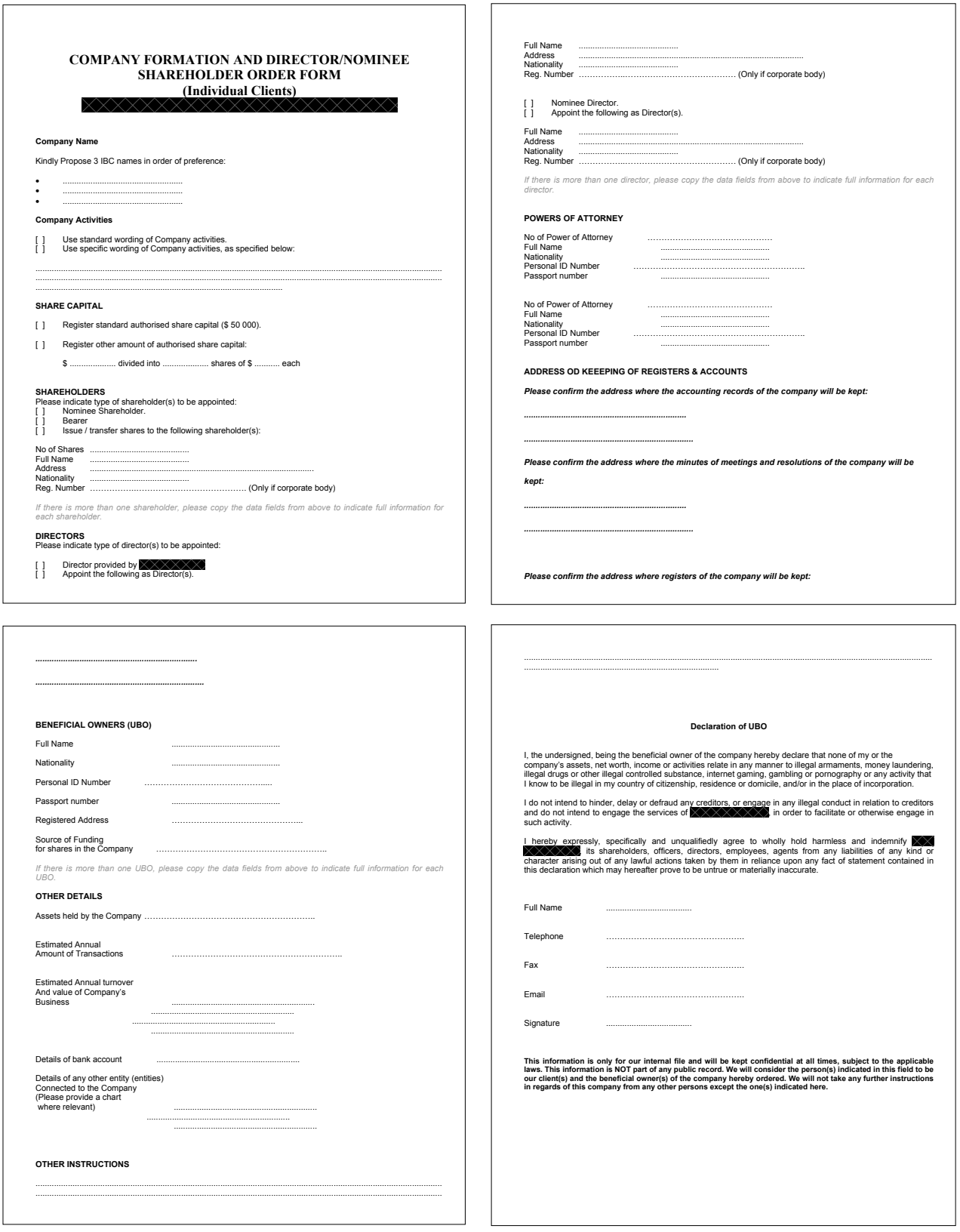
Tests for Treatment Effects of High-Risk Inquiries

The data were generated through a global audit study and field experiment. The field experiment involved the random assignment of experimental conditions systematically varying the risk of the contact according to the FATF's risk-based approach. This method enables rigorous testing of whether or not a treatment that significantly increases risk—for instance, demanding secrecy and stipulating up front that the owner will not reveal his or her identity—also increases CSPs' propensity to offer secrecy services such as nominee directors or nominee shareholders.

The treatments reviewed for this report are secrecy, corruption, terrorism, and Magnitsky. The secrecy treatment included language in the initial outreach that strongly emphasized an interest in protecting the privacy of the owner of the company to be formed or its bank account. It stated that the owner of the company would not reveal his identity.

The corruption and terrorism treatments both included language referencing specific jurisdictions as well as potential red flags (for example, references to employment in international charity work or work in the sector of government

Figure 1. Example of CSP Form Showing Prompts for Nominee Shareholder and Nominee Director



COMPANY FORMATION AND DIRECTOR/NOMINEE SHAREHOLDER ORDER FORM
(Individual Clients)

[redacted]

Company Name

Kindly Propose 3 IBC names in order of preference:

- .....
- .....
- .....

Company Activities

[ ] Use standard wording of Company activities.
[ ] Use specific wording of Company activities, as specified below:

.....
.....
.....

SHARE CAPITAL

[ ] Register standard authorised share capital ($ 50 000).

[ ] Register other amount of authorised share capital:

$ ..... divided into ..... shares of $ ..... each

SHAREHOLDERS
Please indicate type of shareholder(s) to be appointed:
[ ] Nominee Shareholder.
[ ] Bearer
[ ] Issue / transfer shares to the following shareholder(s):

No of Shares .....
Full Name .....
Address .....
Nationality .....
Reg. Number ..... (Only if corporate body)

If there is more than one shareholder, please copy the data fields from above to indicate full information for each shareholder.

DIRECTORS
Please indicate type of director(s) to be appointed:

[ ] Director provided by [redacted]
[ ] Appoint the following as Director(s).

Full Name .....
Address .....
Nationality .....
Reg. Number ..... (Only if corporate body)

[ ] Nominee Director.
[ ] Appoint the following as Director(s).

Full Name .....
Address .....
Nationality .....
Reg. Number ..... (Only if corporate body)

If there is more than one director, please copy the data fields from above to indicate full information for each director.

POWERS OF ATTORNEY

No of Power of Attorney .....
Full Name .....
Nationality .....
Personal ID Number .....
Passport number .....

No of Power of Attorney .....
Full Name .....
Nationality .....
Personal ID Number .....
Passport number .....

ADDRESS OD KEEEPING OF REGISTERS & ACCOUNTS

Please confirm the address where the accounting records of the company will be kept:

.....

.....

Please confirm the address where the minutes of meetings and resolutions of the company will be kept:

.....

.....

Please confirm the address where registers of the company will be kept:

.....

.....

BENEFICIAL OWNERS (UBO)

Full Name .....

Nationality .....

Personal ID Number .....

Passport number .....

Registered Address .....

Source of Funding
for shares in the Company .....

If there is more than one UBO, please copy the data fields from above to indicate full information for each UBO.

OTHER DETAILS

Assets held by the Company .....

Estimated Annual
Amount of Transactions .....

Estimated Annual turnover
And value of Company's
Business .....
.....
.....
.....

Details of bank account .....

Details of any other entity (entities)
Connected to the Company
(Please provide a chart
where relevant) .....
.....
.....

OTHER INSTRUCTIONS

.....
.....

.....
.....

Declaration of UBO

I, the undersigned, being the beneficial owner of the company hereby declare that none of my or the company's assets, net worth, income or activities relate in any manner to illegal armaments, money laundering, illegal drugs or other illegal controlled substance, internet gaming, gambling or pornography or any activity that I know to be illegal in my country of citizenship, residence or domicile, and/or in the place of incorporation.

I do not intend to hinder, delay or defraud any creditors, or engage in any illegal conduct in relation to creditors and do not intend to engage the services of [redacted] in order to facilitate or otherwise engage in such activity.

I hereby expressly, specifically and unqualifiedly agree to wholly hold harmless and indemnify [redacted] its shareholders, officers, directors, employees, agents from any liabilities of any kind or character arising out of any lawful actions taken by them in reliance upon any fact of statement contained in this declaration which may hereafter prove to be untrue or materially inaccurate.

Full Name .....

Telephone .....

Fax .....

Email .....

Signature .....

This information is only for our internal file and will be kept confidential at all times, subject to the applicable laws. This information is NOT part of any public record. We will consider the person(s) indicated in this field to be our client(s) and the beneficial owner(s) of the company hereby ordered. We will not take any further instructions in regards of this company from any other persons except the one(s) indicated here.

Note: CSP = corporate service provider; IBC = international business company; UBO = ultimate beneficial owner.

procurement). Such language should imply to the recipient that this potential client may pose increased risk.

The corruption treatment originated from nine jurisdictions ranked in the lowest quartile of Transparency International's Corruption Perceptions Index. As the name specifies, the index measures perceptions of corruption rather than corruption as such. Nevertheless, in the absence of any credible measure of actual corruption, this measure has become the de facto standard in assessing jurisdictional corruption risk. The terrorism treatment originated from four jurisdictions perceived to be associated with the financing of terrorism, though all the difficulties associated with measuring corruption risk apply even more strongly in assessing terrorism financing risks.

The Magnitsky treatment was used to test CSPs specifically for their response to inquiries from researchers using names that should by all expectations trigger an enhanced due diligence process. In the Magnitsky treatment, inquiries were sent from a set of alias names closely resembling individuals named in the US Department of Treasury's Global Magnitsky Sanctions list, except the middle initial was altered. Therefore, these names should have been perceived as extreme risks.

In statistical analysis, all the treatments are compared to innocuous jurisdictions that are widely considered to be low risk. These placebo conditions included no language that should have heightened concerns about regulation or signaled any increased risk such as a demand for secrecy. The placebo jurisdictions are Australia, Austria, Denmark, Finland, the Netherlands, New Zealand, Norway, and Sweden. All eight countries are very low in perceptions of corruption and terrorism, which makes for a good comparison set. However, three of the countries—Austria, the Netherlands, and New Zealand—have at times drawn criticism for facilitating financial secrecy. Given these concerns, the data were reanalyzed by omitting observations for these three jurisdictions and by including the United Kingdom as a substitute placebo jurisdiction. The reanalysis produced results substantively similar to those reported in this section. A detailed supplementary analysis can be found in appendix B.

Table 2 displays the number of observations assigned to placebo and treatment for each of the experimental conditions, the proportion of observations in each condition that offered the secrecy services, and the *p*-value for a difference in portions test assessing the statistical significance of the difference between the average values in the placebo and treatment conditions. The placebo numbers vary because each treatment has a different reference group in the fully crossed experimental research design. The *p*-values indicate the probability—if the null hypothesis were true and no meaningful difference existed—that one might observe a mean difference this large or larger. In essence, it indicates the likelihood that the difference one sees was produced by random chance. So, smaller *p*-values indicate that such a likelihood is diminishing. When *p*-values drop below 0.05, they are generally considered statistically significant.

Table 2 reports data across three different outcome measures: (a) any mention of nominee, resident, or local director or shareholder; (b) any mention of only nominee; or (c) any mention of power of attorney or legal professional privilege. Only one of the experimental treatments seems to provoke a significant difference compared to placebo. This treatment effect is for the terrorism condition, which appears to cause a drop in CSPs' likelihood of mentioning power of attorney or legal professional privilege. Of course, with 12 such significance tests, the likelihood of one being significant by chance alone is nontrivial, so it is difficult to place too much stock in that sole finding. Still, the treatment effect merits further investigation.

On the whole, however, a strong demand for secrecy, company origin in jurisdictions known for corruption, or explicit mention of names on a high-profile sanctions list do not appear to cause appreciable changes in offers of secrecy services. The lower number of observations offering secrecy services may possibly be making the statistical estimates imprecise. In part, this effect can be seen in figure 2, which plots a bar chart showing the proportion

Figure 2. Frequency of Nominee Services Mentioned across Outcomes for the Secrecy and Placebo Experimental Conditions

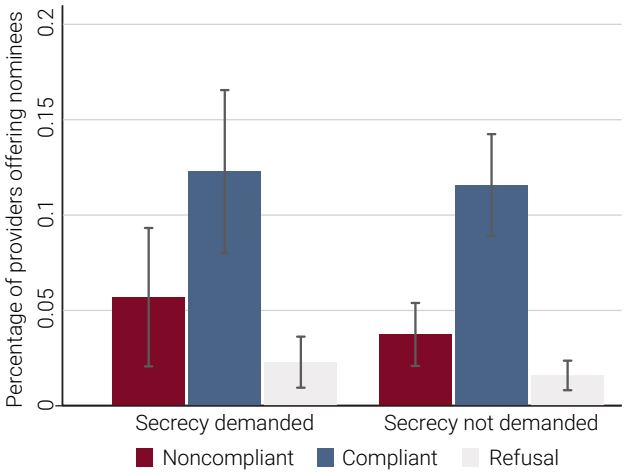


Table 2. Frequencies, Proportions, Differences, and Statistical Significance in Differences in Proportions Tests

Outcome	Placebo *N*	Placebo proportion	Treatment *N*	Treatment proportion	Difference	*p*-value
Nominee, resident, or local director or shareholder mentioned						
Secrecy	6,923	0.0199	3,361	0.0179	−0.0021	0.471
Corruption	5,885	0.0275	2,484	0.0229	−0.0046	0.230
Terrorism	5,885	0.0275	2,487	0.0237	−0.0038	0.321
Magnitsky	3,401	0.0212	486	0.0123	−0.0088	0.194
Only nominee mentioned						
Secrecy	6,923	0.0143	3,361	0.0143	−0.0000	0.994
Corruption	5,885	0.0212	2,484	0.0173	−0.0039	0.242
Terrorism	5,885	0.0212	2,487	0.0197	−0.0015	0.652
Magnitsky	3,401	0.0150	486	0.0123	−0.0026	0.649
Power of attorney or legal professional privilege mentioned						
Secrecy	6,923	0.0266	3,361	0.0226	−0.0040	0.229
Corruption	5,885	0.0296	2,484	0.0250	−0.0046	0.245
Terrorism	5,885	0.0296	2,487	0.0217	−0.0079	0.044
Magnitsky	3,401	0.0271	486	0.0185	−0.0085	0.269

Note: N = number.

of nominee services offered across the different outcomes—noncompliance, compliance, and refusal—for the secrecy and placebo conditions. The confidence intervals, shown by the gray lines, overlap appreciably, yet the point estimates indicated by the heights of the bars are nevertheless quite closely aligned across treatment and placebo conditions. Not even the threat of terrorism causes much movement from baseline, with the possible exception of CSPs' mention of legal secrecy services.

Note that compliant responses, while ticking the box requiring that clients produce photo ID for the beneficial owner, sometimes still provide loopholes and workarounds for customers' interests in secrecy. Indeed, nominee services raise exactly this concern. Although certainly better than the parallel situation in the case of a noncompliant response (wherein law enforcement arrives with a subpoena only to find there is no documentation anywhere of the beneficial ownership), this situation does show that entity-level compliance with FATF standards does not inherently mean that the business is incapable of participating in the secrecy services business.[17] An example can be seen in the form supplied by one CSP to a request shown in figure 1 above.

Correspondence with Beneficial Ownership Registries

One of the more interesting features of the correspondence data with CSPs is the relative differences in the frequencies of offered nominee services across countries with and without mandated beneficial ownership registers. Table 3 reports the categories of secrecy services across the two types of countries and shows meaningful differences between the countries with and without beneficial ownership registration laws.[18]

Table 3. Nominee and Legal Services Across Country Categories With or Without Beneficial Ownership Registers

	Beneficial ownership register		
Service	No register	Register	Total
Nominee, resident, or local director or shareholder			
Frequency	206	267	473
Percentage	43.55	56.45	100.00
Power of attorney or legal professional privilege			
Frequency	215	291	506
Percentage	42.49	57.51	100.00
Total			
Frequency	11,696	8,383	20,079
Percentage	58.25	41.75	100.00

Despite accounting for just more than 40 percent of the observations, CSPs residing in countries with beneficial ownership registers were more likely to offer nominee and legal shielding services compared to countries without such registers. This difference is highly significant statistically, though it is important to underscore that this significant difference represents an observational correlation and not necessarily a causal relationship. Indeed, the authors performed a subgroup analysis of offers for nominee services confined to only the jurisdictions with beneficial ownership registries. In these jurisdictions, the authors tested the effects of the secrecy, corruption, terrorism, and Magnitsky treatments described earlier. In all cases, the treatments produced no significant differences from placebo in the beneficial ownership jurisdictions, and the results are substantively similar to those reported in table 2.

Beneficial ownership registries may create incentives for CSPs to offer nominee services to keep shareholders out of the public eye, and some of those CSPs then offer these services routinely and indiscriminately to customers. Alternatively, the causality may be reversed: possibly, governments wanting greater transparency in their finance industries in light of frequent nominee services may have been more likely to accede to transnational norms promoting registers in the first place. Or a spurious factor, such as the sophistication of the financial services sector, may have caused both registers and nominee services to appear jointly. Or something else. The nature of the data allows for only speculation at this point. Nevertheless, the disproportionate appearance of nominee services in countries requiring registration of beneficial ownership warrants further investigation and policy attention.

In a first-cut analysis, this significant difference appears to be driven by the CSPs in the compliant outcome category in which they faithfully demand photo identity documents of the beneficial owner. The relationship between nominee services is statistically significant in the compliant category and not for noncompliant responses. However, there is also a significant, though smaller, difference in the refusal category. How are nominee services compensating for, complementing, or otherwise interacting with the trend toward registers? Further research is needed.

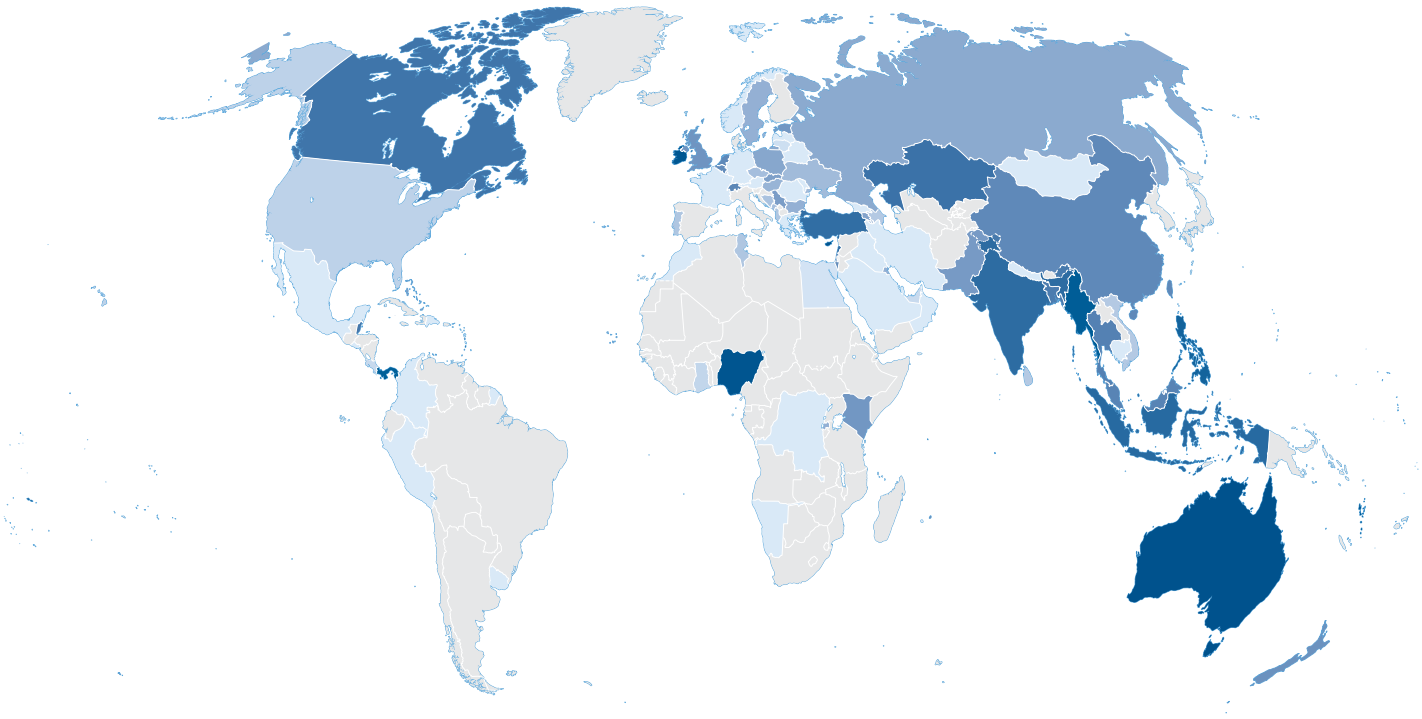
The distribution of the offers for nominee services around the world can be seen in appendix C, and table 4 shows the jurisdictions where nominees were most frequently mentioned. Table 4 and maps 1 and 2 show the proportion of responses offering nominee services for all jurisdictions from which 10 or more replies were received. The global distribution of offers is depicted in map 1 where countries are shaded according to the frequency with which nominees were offered in those jurisdictions. Map 2 shows a similarly shaded map of the Caribbean basin.

Table 4. Jurisdictions with the Highest Concentration of Offers for Nominee Services, Jurisdictions with 10 or More Responses

Country or economy	Live responses	Nominee service	Nominee service (%)	PoA service	PoA service (%)
Singapore	60	43	72	1	2
Australia	28	20	71	0	0
Cyprus	89	43	48	4	4
Nigeria	26	11	42	0	0
Ireland	35	13	37	1	3
Netherlands Antilles	11	4	36	0	0
Vanuatu	23	8	35	1	4
British Anguilla	12	4	33	1	8
Jersey	16	5	31	0	0
Myanmar	30	9	30	1	3
Panama	64	19	30	5	8
Seychelles	45	13	29	0	0
Gibraltar	30	8	27	0	0
Philippines	15	4	27	0	0
Samoa	19	5	26	2	11
St. Lucia	12	3	25	2	17
Indonesia	54	13	24	13	24
India	38	9	24	0	0
Isle of Man	38	9	24	0	0
Turkey	17	4	24	8	47
Lebanon	18	4	22	2	11
Cayman Islands	36	8	22	0	0
Kazakhstan	24	5	21	5	21
Canada	27	5	19	0	0
Belize	49	9	18	5	10
Malta	28	5	18	1	4
Bangladesh	17	3	18	0	0
Andorra	23	4	17	1	4
Thailand	76	13	17	3	4
Malaysia	30	5	17	0	0
Switzerland	37	6	16	3	8
Netherlands	26	4	15	8	31
St. Vincent and the Grenadines	13	2	15	1	8
China	26	4	15	0	0
Belgium	20	3	15	2	10
Dominica	20	3	15	1	5

Note: PoA = Power of attorney. Only jurisdictions with 10 or more responses are included.

Map 1. Distribution of Offers for Nominee Services around the World



Map 2. Distribution of Offers for Nominee Services in the Caribbean Basin

Comparisons With Mutual Evaluation Reviews

How does the evidence relating to nominee arrangements, from both the mystery shopping exercises and the other sources, line up with the formal FATF assessment process of mutual evaluation reviews? To what degree do FATF evaluations of technical compliance and effectiveness match what is actually available? This section briefly considers individual evaluations of eight countries already mentioned in the report in connection with nominee services: Australia; Cyprus; Hong Kong SAR, China; New Zealand; the United Kingdom; the United States; and Vanuatu.

The evaluations tend to confirm the idea that nominee arrangements are a messy cluster of related services, rather than a clear-cut discrete category. For example, the UK evaluation (FATF 2018, 151–52, 214) discusses "shadow directors," defined by section 251 (1) the 2006 Companies Act as "a person in accordance with whose directions or instructions the directors of the company are accustomed to act." The reference to "accustomed" signals that being categorized as a shadow director is a matter of behaving in a certain way, not a matter of holding an explicit, formal company position, or even signing a private agreement such as a power of attorney. Indeed, individuals can unwittingly fall into the position of being a shadow director without knowing or intending to do so. Thus, the FATF evaluation states that although there is no formal provision for nominee directors under UK law, in practice they exist, a point supported by research.

The US evaluation observes (FATF 2016, 225): "No State expressly permits corporations to use nominee directors; neither is there an express bar against them." In fact, the mystery shopping exercises show that nominee directors are readily available in practice, and that they are explicitly marketed as a way to hide the beneficial owner. To make matters even worse, many of the intermediaries offering such services do not identify their clients. Thus, the evaluation is entirely accurate in judging that "[t]here are no licensing requirements for nominee directors/nominee shareholders or requirements for them to disclose the identity of nominator. There are no other mechanisms to ensure compliance" (FATF 2016, 225).

The second, closely related point of agreement is the confirmation that a nominee director is still a director, with the same duties and liabilities, even in the case of informal shadow directors. As the evaluation of Hong Kong SAR, China notes: "[N]ominee directors are treated as directors in law' (FATF 2019, 142). The New Zealand review states: "Nominee directors have the same duties as ordinary directors, including acting in good faith and in what they believe to be the best interests of the company (section 131 of the Companies Act). This imposes upon them a duty of care (section 137). Although not explicit, a person who appoints and directs a nominee director would also likely be treated as a director under New Zealand law and be subject to the same duties" (FATF and APG 2021, 213). As noted earlier, the New Zealand government has set up a specialized unit that, among its other duties, is dedicated to combating the misuse of nominee arrangements.

Even though these evaluations are focused on financial crime, they do in passing note the legitimate use of nominee arrangements, including stockbrokers and nominee shareholding (FATF 2018, 214). With regard to Australia, the evaluation notes that "nominee companies play an important role for [stock market] investors in helping them to maintain a level of public anonymity, as well as providing flexibility in their investment options" (FATF 2015, 107).

The evaluation of Cyprus by the FATF-style regional body for Europe, MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism), seems to be accurate in diagnosing first the international banking but then the CSP sector as the major money laundering risk. Furthermore, the specific identification of the inherent nominee services offered by Cypriot providers again is borne out by our mystery shopping exercises (MONEYVAL 2019, 15–16). However, attention is focused on Cypriot providers acting as nominees for local companies; the bigger problem, epitomized by the Beirut blast example discussed earlier, is when Cypriot providers act as nominees for *foreign* companies. As noted, problems here fall in the cracks between different countries' regulatory regimes.

A similar cross-jurisdictional instance, but even more problematic, comes from Hong Kong SAR, China. The language of the 2019 fourth round evaluation is reassuring with regard to nominees. The evaluation notes approvingly that nominee shareholders must be disregarded and the beneficial owner entered on the Significant Controllers Register (FATF 2019, 144, 213). However, as noted earlier, a Hong Kong SAR, China, provider suggested that one could relatively easily defeat this measure and keep the real owner's identity hidden by holding ownership through a second British Virgin Islands company.

A similar sense of false security may apply to the highly positive 2019 UK evaluation, which concludes that the "risks posed by nominee shareholders are largely mitigated" (FATF 2019, 215). From the preceding discussion in the evaluation, the working assumption is clear that it is UK nominees acting in a UK company for UK-based beneficial owners. Yet as per the example of the shell companies connected with the Beirut blast, the bigger problem may be when a UK shell company has nominees provided by foreign CSPs who cannot be held accountable by UK authorities.

The final example of the same basic point might be taken from the 2018 third enhanced expedited follow-up report on Vanuatu by the Asia-Pacific Group on Money Laundering, the FATF-style regional body for the Asia Pacific region (APG 2018). Despite being a small, developing country and a classic offshore jurisdiction, Vanuatu is notably more compliant with international beneficial ownership rules than the United States or Australia. Yet even when the discussion addresses the offshore sector (APG 2018, 17–20), there is a relative lack of imagination in thinking about the multijurisdictional nature of these arrangements. The nominee beneficiary offer from a Vanuatu provider discussed earlier (see section titled "Switching Ownership and Nominee Beneficial Owners") suggests a combined Vanuatu-Australian arrangement that is unlikely to be caught under Vanuatu's regulations on local nominees.

The Cyprus and Hong Kong SAR, China, examples illustrate the degree to which, so far, evaluations by international organizations focus exclusively on the characteristics of domestic legal entities and their enforcement, without taking into account vulnerabilities of foreign origin (owing to the legal framework or limited enforcement), when in fact both money laundering and legitimate finance are more and more cross-border and transnational activities. Not surprisingly, this limitation applies even more strongly to individual governments and regulators.

The practical outcome of this mismatch of national evaluations versus a global problem most relevant for this report is that evaluations tend to assume that CSPs are establishing and managing local companies, even if they are doing so for foreign beneficial owners. As a result, even the comparatively simple structure of a provider in jurisdiction A selling a company from jurisdiction B to a customer in jurisdiction C is generally neglected. And as the previous material shows, arrangements that are at least as complicated as this example are quite common. Evaluations of beneficial ownership standards need to go further in considering and analyzing the multijurisdictional nature of such arrangements.

It is therefore encouraging that at the FATF Plenary in March 2022, FATF adopted changes to its rules on beneficial ownership (Recommendation 24), precisely requiring a greater awareness of, and focus on, risks emanating from entities with a foreign dimension (FATF 2021b; FATF 2022).[19] Where previously FATF required countries to assess the risks of entities incorporated under their own laws, countries will now be required to assess the risks of all classes of entities with a sufficient link to their jurisdiction, regardless of the law of incorporation, and to take measures to mitigate against that risk. Likewise, under the new rules, competent authorities will be required to have a mechanism for obtaining beneficial ownership information on foreign-created legal persons with a sufficient link to their country. Previously, this FATF rule covered only domestic legal entities created under a country's own laws. The test for determining which foreign entities fall into the "sufficient link" category should be based on risks, and examples include foreign entities that have an ongoing business relationship with a local corporate service provider or have significant real estate or other investments in the country.

Moreover, the new rules are more prescriptive in the treatment of nominee relationships. They require countries to (a) disclose nominee status and identity of the nominator, and make that disclosure of status public, or (b) license professional nominees and report the nominee status and identity of the nominator to the authority tasked with collecting beneficial owner information, or (c) enforcing a prohibition on the use of nominees altogether. Previously, countries had a wide margin of discretion by adopting unspecified *other mechanisms* and were thus afforded considerable latitude in dealing with this issue, ultimately resulting in the issue not receiving due attention in evaluation discussions. The changes to FATF's rule on beneficial

Table 5. New Glossary Definitions Related to Nominees, FATF Recommendations, updated March 2022

Term	Definition
Nominator	*Nominator* is an individual (or group of individuals) or legal person that issues instructions (directly or indirectly) to a nominee to act on their behalf in the capacity of a director or a shareholder, also sometimes referred to as a "shadow director" or "silent partner."
Nominee shareholder or director	*Nominee* is an individual or legal person instructed by another individual or legal person ("the nominator") to act on their behalf in a certain capacity regarding a legal person. A *Nominee Director* (also known as a "resident director) is an individual or legal entity that routinely exercises the functions of the director in the company on behalf of and subject to the direct or indirect instructions of the nominator. A Nominee Director is never the beneficial owner of a legal person. A *Nominee Shareholder* exercises the associated voting rights according to the instructions of the nominator and/or receives dividends on behalf of the nominator. A nominee shareholder is never the beneficial owner of a legal person based on the shares it holds as a nominee.

Source: FATF 2022.

ownership also, for the first time, explicitly spell out what beneficial owner identification means in situations where a nominee director or nominee shareholder controls a legal entity; stating that it "requires establishing the identity of the natural person on whose behalf the nominee is ultimately, directly or indirectly, acting" (FATF 2021b, 8 n.17).

A final important element of the revision of the rules on nominees under Recommendation 24 is also the introduction of definitions of nominee director, nominee shareholder, and nominator to the glossary of the FATF Recommendations for the first time (see table 5). One can hope that these changes in the international rules will effect change in the ways in which nominee relationships are abused. As noted, a change in rules will have limited effect if there is not due attention to the enforcement of those rules.

Conclusions and Recommendations

The evidence presented in this report demonstrates that effective regulation of nominee arrangements is critical to the transparency of beneficial ownership. Currently, the lack of attention to the potential and actual abuses of nominee arrangements constitutes a major vulnerability in the ongoing campaign to curb the use of untraceable shell companies in financial crime. For example, without proper attention to enforcing the transparency of nominee arrangements, beneficial ownership registers will not achieve their aims. This brief concluding section is devoted to sketching some of the main implications of the report.

First, rather than being marginal or peripheral to the broader beneficial ownership agenda, nominee arrangements are an important part of it. Given that 14 percent of the live responses to the thousands of email solicitations for shell companies offered nominee arrangements unprompted indicates that such arrangements are very common, generic, and quite cheap. Thus, even without specifically requesting such services, those shopping for shell companies are likely be directed to nominee services by providers, who often explicitly market these arrangements as a device to conceal the identity of the beneficial owner. If nominee services are common, they are especially prevalent among the most problematic parts of the company formation industry (such as Mossack Fonseca and GT Group) and in cases where shell companies have been used in money laundering and related crimes (as the earlier case studies demonstrate). Furthermore, nominee arrangements can be combined with powers of attorney to maximize beneficial owners' control while minimizing their public profile. Once again, it is doubtful that policy makers have given sufficient priority to either of these services in their designing and enforcing of beneficial ownership standards.

The next two points may seem too obvious to be merit mentioning, yet they are perhaps the most fundamental vulnerabilities. The first point is the distinction between the rules on the books and the practical enforcement and effectiveness of those rules. The second point takes up the final element of the previous section about the need for more multijurisdictional thinking.

Over its now 30-year history, the AML policy community has spent much more time and effort composing and diffusing formal rules than it has assessing whether these rules actually make any difference. According to senior FATF officials' recent public statements, the result of this proclivity is a sharp disjuncture between widespread formalistic tick-box compliance with AML rules and relatively low practical effectiveness. For example, referring to banks as the lynchpin of the AML system, the FATF Executive Secretary commented, "[w]hen we look at the measures, the preventative measures that we expect banks to take ... There's a 100% failure rate.... [A]ll too often it just becomes a tick-box process."[20]

This evidence is a stark reminder that beneficial ownership rules and those relating to nominees do not enforce themselves. This point applies in particular to beneficial ownership registers; absent enforcement, there is no reason to expect that legally requiring all beneficial owners to declare their true identities will make them do so. Rather than being alternatives, stronger controls on CSPs and better regulation of nominee arrangements are both necessary underpinnings of successful beneficial ownership registers. The same is true in ensuring that directors, including nominees, fulfill their legal duties and ensuring that those that do not are penalized.

Rather than a counsel of despair, both the qualitative and the quantitative evidence in the report provide examples of how governments can and have made major improvements in practical effectiveness. New Zealand's substantial investment in enforcement is a recent positive development. Even those providers that are most open in offering to veil the beneficial owner using nominee directors, nominee shareholder arrangements, or both more often than not verify the customer's identity. Twenty years ago, it is much less likely that they would have done so.

Worries about a dark side of globalization, the declining salience of national boundaries in the face of a tide of internationally mobile capital, and individual governments'

inability to combat cross-border flows of dirty money in isolation were crucial for the creation of the FATF. Yet the tacit assumption in the AML policy community seems to be that as long as individual jurisdictions are compliant with the rules, then multijurisdictional corporate structures that span these jurisdictions must also be compliant. With regard to nominee services and shell companies (and probably much else besides), this presumption is wrong.

Even if countries A, B, and C are fully compliant with beneficial ownership rules, a shell company incorporated in jurisdiction A, by a provider using nominees in jurisdiction B, for a beneficial owner in jurisdiction C, may well be opaque and untraceable. And this example sketches out only a very simple structure, which ignores the fact that the associated corporate bank account will often be in a different jurisdiction again. The very reason that shell companies with nominees pose such a danger is because of their inherently multijurisdictional nature. If the disconnect between technical compliance and practical effectiveness is now a welcome talking point in the AML policy community, then the disconnect between single-jurisdiction rules and multijurisdictional problems now needs equal attention. One can hope that the recent change in the FATF rules on beneficial ownership of legal entities (Recommendation 24) will force a change in that direction, by obliging countries to take into account the risks posed by foreign legal entities.

Notes

1 Offer by U.S. corporate service provider to authors, 2020.
2 Correspondence from corporate service provider in the Oceania region to authors, 2020.
3 Information obtained from a search for "Leticia Montoya" on the OpenCorporates website. See https://opencorporates.com/officers?jurisdiction_code=&q=Leticia+Montoya&utf8=%E2%9C%93.
4 Correspondence from corporate service provider to authors, 2020.
5 Information obtained from a search for "SP Trading Limited" on the Companies Office, Government of New Zealand, website. See https://app.companiesoffice.govt.nz/companies/app/service/services/documents/297748C743057D9AAC2963C2501E465D.
6 Information obtained from a search for "SP Trading Limited" on the OpenCorporates website. See https://opencorporates.com/companies/nz/2289331.
7 Information obtained from a search for "Nesita Manceau" on the OpenCorporates website. See https://opencorporates.com/officers/nz?q=Nesita+MANCEAU.
8 Information obtained from a search for "Vicam (Auckland) Limited" on the OpenCorporates website. See https://opencorporates.com/companies/nz/1184865.
9 Information obtained from a search for "Statue Grand Limited" on the OpenCorporates website. See https://opencorporates.com/companies/cy/HE113203. Additionally, this is based on the fact that Psyllou is named as PSC ('People with Significant Control') for Savaro, and Status Grand Limited is the shareholder for Savaro. As such, the rules of Companies House dictate via "pass through" that Psyllou is the PSC .
10 Information obtained from a search for "Marina Psyllou" on OpenCorporates website. See https://opencorporates.com/officers?q=MARINA+PSYLLOU.
11 Correspondence from corporate service provider to authors, 2020.
12 Correspondence from corporate service provider to authors, 2020.
13 Correspondence from corporate service provider to authors, 2020.
14 Public Statement on Revisions to R.24 (04 March 2022). Paris: FATF. https://www.fatf-gafi.org/publications/fatfrecommendations/documents/r24-statement-march-2022.html
15 Correspondence from corporate service provider to authors, 2020.
16 This is almost entirely driven by offers of power of attorney, because legal professional privilege is noted in only 26 of the responses.
17 Banking Bad Data Hybrid Correspondence No. 1525
18 The list of countries with beneficial ownership registers was drawn from Harari et al. 2020, p. 19. This is a broad definition of BO registers. The list includes 81 jurisdictions that had, as of April 2020, laws requiring registration of beneficial ownership information. As noted by the authors, the list also includes "countries whose beneficial ownership laws have loopholes or where bearer shares still pose risks (e.g. Germany, Czechia)."
19 Public Statement on Revisions to R.24 (04 March 2022). Paris: FATF. https://www.fatf-gafi.org/publications/fatfrecommendations/documents/r24-statement-march-2022.html
20 David Lewis, FATF (Financial Action Task Force), Executive Secretary, interview by Martin Woods and Stephen Platt. Podcast KYC360, November 18, 2020. Transcript available at https://kyc360.riskscreen.com/podcast/david-lewis-executive-secretary-fatf/.

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Appendix A: Search Term Library

Category	Search terms[a]
Nominee Director w/ Local & Resident	nominee dir* local dir* resident dir*
Nominee Share w/ Local & Resident	nominee ben* nominee shar* local shar* resident shar*
Power of Attorney	power of attorney PoA
Legal Professional Privilege	legal professional priv

a. All search terms were coded to be non-case sensitive.

Appendix B: Difference in Proportions Tests for Mention of Secrecy Services

Experimental results with the United Kingdom instead of Austria, the Netherlands, and New Zealand for Placebo

Outcome	Placebo *N*	Placebo proportion	Treatment *N*	Treatment proportion	Difference	*p*-value
Nominee, resident, or local director or shareholder						
Secrecy	5,052	0.0214	3,361	0.0179	−0.0035	0.258
Corruption	6,356	0.0264	2,484	0.0229	−0.0035	0.350
Terrorism	6,356	0.0264	2,487	0.0237	−0.0027	0.469
Magnitsky	5,052	0.0214	486	0.0123	−0.0090	0.180
Only nominee						
Secrecy	5,052	0.0158	3,361	0.0143	−0.0016	0.568
Corruption	6,356	0.0200	2,484	0.0173	−0.0027	0.411
Terrorism	6,356	0.0200	2,487	0.0197	−0.0003	0.933
Magnitsky	5,052	0.0158	486	0.0123	−0.0035	0.552
Power of attorney or legal professional privilege						
Secrecy	5,122	0.0266	3,361	0.0226	−0.0039	0.256
Corruption	6,634	0.0282	2,484	0.0250	−0.0032	0.400
Terrorism	6,634	0.0282	2,487	0.0217	−0.0065	0.086
Magnitsky	5,052	0.0267	486	0.0185	−0.0082	0.278

Note: N = number.

Appendix C: Frequency of Mentions of Nominee Services by Jurisdiction of Service Provider

Mentions of nominee services/power of attorney (PoA) in correspondence with service providers; jurisdictions with 10 or more responses

Country or economy	Live responses	Nominee service	Nominee service (%)	PoA service	PoA service (%)
Singapore	60	43	72	1	2
Australia	28	20	71	0	0
Cyprus	89	43	48	4	4
Nigeria	26	11	42	0	0
Ireland	35	13	37	1	3
Netherlands Antilles	11	4	36	0	0
Vanuatu	23	8	35	1	4
British Anguilla	12	4	33	1	8
Jersey	16	5	31	0	0
Myanmar	30	9	30	1	3
Panama	64	19	30	5	8
Seychelles	45	13	29	0	0
Gibraltar	30	8	27	0	0
Philippines	15	4	27	0	0
Samoa	19	5	26	2	11
St. Lucia	12	3	25	2	17
Indonesia	54	13	24	13	24
India	38	9	24	0	0
Isle of Man	38	9	24	0	0
Turkey	17	4	24	8	47
Lebanon	18	4	22	2	11
Cayman Islands	36	8	22	0	0
Kazakhstan	24	5	21	5	21
Canada	27	5	19	0	0
Belize	49	9	18	5	10
Malta	28	5	18	1	4
Bangladesh	17	3	18	0	0
Andorra	23	4	17	1	4

Country or economy	Live responses	Nominee service	Nominee service (%)	PoA service	PoA service (%)
Thailand	76	13	17	3	4
Malaysia	30	5	17	0	0
Switzerland	37	6	16	3	8
Netherlands	26	4	15	8	31
St. Vincent and the Grenadines	13	2	15	1	8
China	26	4	15	0	0
Belgium	20	3	15	2	10
Dominica	20	3	15	1	5
Israel	21	3	14	2	10
Mauritius	35	5	14	1	3
British Virgin Islands	42	6	14	1	2
Liechtenstein	15	2	13	0	0
New Zealand	15	2	13	0	0
United Kingdom	46	6	13	1	2
Estonia	32	4	13	17	53
Kenya	32	4	13	0	0
Pakistan	25	3	12	3	12
Serbia	18	2	11	10	56
Marshall Islands	18	2	11	1	6
Bahamas	18	2	11	0	0
Slovak Republic	39	4	10	8	21
Cabo Verde	10	1	10	1	10
Armenia	10	1	10	0	0
Poland	32	3	9	16	50
Russian Federation	54	5	9	13	24
Hong Kong SAR, China	87	8	9	0	0
Kuwait	11	1	9	4	36
Rwanda	11	1	9	4	36
Bulgaria	66	6	9	13	20
Sweden	11	1	9	0	0
Guernsey	23	2	9	0	0
Hungary	48	4	8	1	2
Sint Maarten	13	1	8	2	15
Curacao	13	1	8	1	8
St. Kitts and Nevis	26	2	8	1	4
Brunei Darussalam	13	1	8	0	0
Ukraine	53	4	8	18	34
Montenegro	28	2	7	11	39
Czech Republic	42	3	7	8	19

Country or economy	Live responses	Nominee service	Nominee service (%)	PoA service	PoA service (%)
Bosnia and Herzegovina	15	1	7	7	47
Portugal	16	1	6	3	19
Tunisia	16	1	6	3	19
Albania	16	1	6	2	13
Azerbaijan	17	1	6	7	41
Sri Lanka	17	1	6	2	12
Vietnam	17	1	6	1	6
Luxembourg	18	1	6	2	11
United States	159	7	4	2	1
Ghana	23	1	4	5	22
United Arab Emirates	56	2	4	3	5
Costa Rica	35	1	3	0	0
Lithuania	37	1	3	12	32
Egypt, Arab Republic of	38	1	3	9	24
Georgia	18	0	0	9	50
Moldova	13	0	0	6	46
Peru	14	0	0	6	43
Belarus	12	0	0	4	33
Norway	10	0	0	3	30
Saudi Arabia	14	0	0	4	29
Greece	12	0	0	3	25
El Salvador	18	0	0	4	22
Germany	23	0	0	5	22
Austria	20	0	0	4	20
Iran, Islamic Republic of	11	0	0	2	18
Mexico	23	0	0	4	17
Romania	35	0	0	6	17
Morocco	14	0	0	2	14
Qatar	15	0	0	2	13
Dominican Republic	10	0	0	1	10
Mongolia	11	0	0	1	9
Namibia	11	0	0	1	9
Colombia	24	0	0	2	8
France	13	0	0	1	8
Bahrain	15	0	0	1	7
Tanzania	16	0	0	1	6
Macao SAR, China	27	0	0	1	4
Barbados	10	0	0	0	0
Cambodia	12	0	0	0	0

Country or economy	Live responses	Nominee service	Nominee service (%)	PoA service	PoA service (%)
Canary Islands	13	0	0	0	0
Congo, Democratic Republic	11	0	0	0	0
Iraq	10	0	0	0	0
Latvia	13	0	0	0	0
Nepal	10	0	0	0	0
Oman	11	0	0	0	0
Uruguay	47	0	0	0	0

Note: PoA = Power of attorney.

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