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Financial Accountability & Corporate Transparency

August 20, 2021

The Financial Action Task Force
2, Rue André Pascal
75775 Paris Cedex 16 FRANCE

Submitted via email: FATF.Publicconsultation@fatf-gafi.org

Re: **Public Consultation on Proposed Amendments to Recommendation 24**

To Whom It May Concern:

On behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition, we write to respond to the Financial Action Task Force (FATF)'s white paper seeking public comment for its proposed revisions to Recommendation 24, which requires FATF countries to establish policies to promote beneficial ownership disclosure.¹

The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations in the United States working toward a fair tax system that addresses the challenges of a global economy and promoting policies that combat the harmful impacts of corrupt financial practices.²

The International Monetary Fund (IMF) and United Nations Office on Drugs and Crime (UNODC) estimate the scale of global money laundering falls somewhere around two to five percent of global gross domestic product — approximately \$1.5 trillion to \$3.7 trillion in 2015.³ According to the UNODC, less than one percent of global illicit financial flows are seized and forfeited.⁴ Companies with hidden owners have become ubiquitous tools used by wrongdoers to conceal and launder those illicit proceeds.

As such, we endorse the comments submitted today by Global Financial Integrity – a US think tank focused on illicit financial flows, corruption, illicit trade and money laundering – that highlight ways to strengthen the FATF recommendation on beneficial ownership. FACT encourages the FATF to prioritize amendments that will improve the transparency, accuracy and efficiency of, and access to, beneficial ownership data in relevant jurisdictions. To do so, FATF should move forward with a recommendation that favors a centralized beneficial ownership registry, accessible by competent authorities, that follows

¹ <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/white-paper-r24.html>

² For a full list of FACT Coalition members, visit <https://thefactcoalition.org/about/coalition-members-and-supporters>.

³ <http://www.fatf-gafi.org/fag/moneylaundering/>

⁴ https://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf

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best practices in verifying the data provided by reporting entities. We likewise believe that the issuance of new physical bearer shares should be prohibited, and that existing bearer shares should be converted into more traceable assets.

In line with the comments submitted by Global Financial Integrity, the FACT Coalition recommends:

1. ***Instituting a risk-based approach for foreign legal persons (Q1)***: Countries should be required to apply measures to assess the money laundering (ML) and terror financing (TF) risks to all types of legal persons created in the country, and also to at least some foreign-created legal persons and to take appropriate steps to manage and mitigate the risks. In doing so, countries would offer clear, standardized direction to local compliance professionals regarding how to treat foreign legal vehicles that lack a direct local equivalent.
2. ***Centralizing the collection of beneficial ownership information (Q3a, Q4)***: FATF's white paper requests comment about the key benefits and disadvantages of storing beneficial ownership data in a centralized registry – in contrast to requiring entities (corporations, financial institutions, and others) to hold this information on their own and to present it to competent authorities upon request. A centralized registry of beneficial ownership information is unequivocally more useful in serving the broader goals of transparency, efficiency, accuracy, and access. Collecting and storing information in a central database not only makes it easier to verify the accuracy of beneficial ownership data but it also facilitates timely access to beneficial ownership information for key entities – for instance, law enforcement and financial institutions conducting customer due diligence. In contrast, a decentralized system erects unnecessary barriers in the forms of time, cost, and geographic distance that complicate verification protocols and inhibit competent authority access to this information.
3. ***Establishing protocols to ensure adequate, accurate, and up-to-date information (Q10, Q11)***: Authorities overseeing beneficial ownership registries should be required to carry out comprehensive verification on all incoming data, rather than taking a risk-based approach to verification. Failing to verify the data even would, at best, leave room for error, and at worst, create an environment ripe for fraud and abuse. Either outcome undermines the transparency and accuracy of the registry and erodes its utility to investigators and financial institutions with anti-money laundering (AML) obligations. Registries should be verified and kept up-to-date at a pace that is both practical for small businesses and likewise satisfies the demand from competent authorities for current information.
4. ***Safeguarding access to beneficial information by national competent authorities, financial institutions/DNFBPs fulfilling their own AML obligations, and foreign law enforcement (Q12)***: Many countries have already established registries that are generally available to the public. If the FATF will not institute requirements for public disclosure, it should at least require that registries be made available beyond national competent authorities, to include financial institutions and designated non-financial businesses and professions (DNFBPs) with AML

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obligations, as well as foreign law enforcement agencies. Allowing this range of access strengthens the database by allowing these various constituencies to identify and share information about discrepancies.

5. ***Prohibiting the issuance of new bearer shares and requiring the conversion of existing shares (Q15):*** Bearer shares make it impossible to identify the owner of an entity at any given time. The untraceability and secrecy of bearer shares make them an unnecessary vulnerability at a time when financial regulators are steadily moving in the direction of financial transparency. Given the inherent opacity of these assets, FACT recommends that the issuance of new physical bearer shares be prohibited, and that existing bearer shares be converted into more traceable assets.

Thank you for considering these views. We welcome the opportunity to discuss these comments in greater detail during your deliberations.

Please contact Erica Hanichak (ehanichak@thefactcoalition.org) with any comments or questions.

Sincerely,

Ian Gary
Executive Director

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