Ownership Anonymity

What Is the Effect on Company Formation?

Is it possible to register a limited liability company anonymously?

According to data from the 2012 World Bank Entrepreneurship Database, a majority of the economies surveyed require the name of the principal owner of a limited liability company at the time of registration. But a large share of the economies do not require further proof of the identity of the person listed as the principal owner. Analysis of the data finds a positive relationship between greater ownership anonymity and new firm registrations.

The L’Oréal heiress Liliane Bettencourt, the wealthiest woman in France, is involved in one of the country’s biggest tax evasion scandals. It stems from 2010 allegations that the 90-year-old heiress had planned to hide money in Swiss bank accounts through an anonymous shell company (a corporate structure that holds assets but has no business activities).¹

Corporate ownership anonymity allows a company to hide or disguise the identity of its ultimate beneficial owner or its shareholders. In some jurisdictions those registering a limited liability company (a legal form of corporation that protects its shareholders from personal bankruptcy by protecting their personal assets) are allowed to preserve the anonymity of its owners. Nominee directors, nominee shareholders, and bearer shares are all instruments that make it more difficult for competent authorities to determine who, in the final analysis, owns and controls a company.

The main reason for wishing to shield the identity of those who own or control a company from company registries, tax and other authorities, and the public at large is privacy. Ownership anonymity ensures privacy when developing any kind of business transaction, such as protecting a trademark secret. But ownership anonymity also reduces corporate transparency and can be misused as a way for company owners to evade tax liabilities. Indeed, a recent World Bank report that investigated 150 cases of grand corruption between 1998 and 2010 found that the vast majority involved the use of shell companies or other mechanisms (such as nominee shareholders) to shield the identities of the owners and commit fraud, corruption, and money laundering (van der Does de Willebois and others 2011).

This Note looks at the identity requirements to establish a corporation in 92 economies with available data: 28 high-income economies and 64 developing (low- and middle-income)
OWNERSHIP ANONYMITY WHAT IS THE EFFECT ON COMPANY FORMATION?

The data are from the 2012 World Bank Entrepreneurship Database. Building on earlier editions of the data, the 2012 database incorporates improvements in methodology and includes data from additional low-income economies. It includes data from 130 economies in all, with 23 economies participating for the first time. In almost all economies data are collected directly from business registrars.

The main indicator of interest is entry density, defined as the number of newly registered companies per 1,000 working-age people (ages 15–64) per year. As in the World Bank’s annual Doing Business report, the units of measurement are private, formal sector companies with limited liability (the data thus exclude informal firms and firms without limited liability). In addition to measurements of entry density, the database includes information on the following areas:

- Can a business register in locations other than the main business registry? Can a business register remotely (such as online, by phone, or through kiosks in government locations)? Is there a follow-up system to monitor the registration process?
- Are data available on newly registered corporations as well as total registered corporations? Is information on legal requirements, registration procedures, and fees available to the public?
- Is it possible to register a limited liability company anonymously?

Where is ownership anonymity allowed?

The information on company registration requirements reported by business registries shows that the vast majority of economies require the name of the principal owner when a limited liability company is being registered (figure 1): among 92 economies surveyed, 82 require the name of the owner, while 10 do not.

The survey also requested information on requirements for legal proof of identity—that is, whether the principal owner of a limited liability company that is being registered is required to show legal documentation verifying his or her identity. Of the 82 economies in the sample that require the name of the primary shareholder in order to register a limited liability company, 15 report that they do not require legal verification of this name. This opens the door to potential fraud, by making it possible for people registering a limited liability company to provide a fictitious name for the principal owner.

Differences in perspective

The data show that ownership anonymity is more commonly allowed in high-income economies than in developing ones. Some OECD high-income economies, such as Australia, Canada, and Denmark, do not require any kind of legal documentation to verify the identity of the principal owner. By contrast, many economies in Latin America and the Caribbean and in the Middle East and North Africa are much stricter and do require legal proof of the identity of the principal owner.

Several OECD economies that do require legal verification of the principal owner’s identity consider this a tool to prevent fraud. A spokesman from the Kamer van Koophandel Nederland (the Netherlands Chamber of Commerce) reported that "to prevent any abuse of the register the law says that we need to be convinced that the person is who they say they are. We demand legal identity documents to convince ourselves of someone’s identity."²

Other economies consider requirements for legal documentation of the principal owner’s identity an unnecessary burden for new entrepreneurs or have eliminated such requirements so as to allow online registration of firms. For example, the director general of Corporations Canada stated that "for several years now, we have
offered streamlined electronic filing processes for incorporation and certain other types of trans-
actions. The objective is to minimize unneces-
sary regulatory burdens, helping to reduce costs for business clients. Online processes have also
allowed us to realize efficiencies in our internal operations.”3

Though many countries consider identity veri-
fication an unnecessary burden, a need remains
to balance ease of incorporation with the integrity
of the registration system.

The case of offshore financial centers
Offshore economies are commonly known for
having fewer restrictions when it comes to com-
pany registration.4 Results show that 27 percent
of offshore economies in the sample have both
name and identity verification requirements,
while 60 percent require only a name and 13
percent require neither a name nor proof of
identity (figure 2). Compared with other econo-
 mies in the sample, offshore economies are less
likely to require verification of the identity of
the principal owner named in the registration
of a company. An important caveat, however, is
that service providers that set up companies and
trusts in offshore economies are subject to much
more stringent requirements for performing due
diligence reviews of company owners than those
that do so in other economies (Findley, Nielson,
and Sharman 2012; see also Sharman 2010).

Other ways to identify owners
In some countries anti-money-laundering laws
and other banking regulations allow regulators
to trace the identity of the principal owner of
an anonymous company. For example, under Ban-
gladesh’s Money Laundering Prevention Act,
article 8, banking activities such as opening a
new checking or savings account require iden-
tification documents for the beneficial owners
of the firm opening the account (Bangladesh
Bank 2012). Firms that choose not to use formal
financial services may preserve the anonymity
of their owners, however.

What is the relationship with firm
registrations?
What is the relationship between identity veri-
cation requirements and new firm registrations?

Data from 62 economies (excluding offshore
economies)5 show a correlation between higher
entry density and lack of requirements for verifi-
cation of identity (figure 3). The average entry
density for the economies that have no require-
ments for verification of identity is significantly
higher than in the economies that do have such
requirements—indeed, it is more than three and
a half times as high.

Consistent findings emerge from a compari-
son of entry density in the 16 OECD economies
in the sample that have name requirements,
2 of which have no requirements for identity veri-
fication (see figure 3). Results also show that the
average entry density in OECD economies without identity verification requirements is more than three times as high as in those with such requirements.

The analysis cannot ascertain whether the higher registration rates reflect greater business activity, however, or whether economies that have lower registration requirements also attract more shell company registrations.

Conclusion
Data from the 2012 Entrepreneurship Database show that a majority of the economies surveyed require the name of the principal owner of a limited liability company at the time of registration. But a large share of the economies do not require further proof of the identity of the person listed as the principal owner of the company. Analysis of the data finds a positive relationship between greater ownership anonymity and new firm registrations.

Notes
The authors are grateful to the Ewing Marion Kauffman Foundation for financial support.
2. Kamer van Koophandel Nederland (the Netherlands Chamber of Commerce), Bureau Handelsregister, email message to the World Bank, September 6, 2012.
5. Offshore economies are excluded from this analysis because they often require entrepreneurs to register a business to take advantage of tax exemptions. For additional information, see World Bank (2010).

References

To order additional copies contact Naoki Ogiwara, managing editor, Room F 4P-256B, The World Bank, 1818 H Street, NW, Washington, DC 20433.

Telephone: 001 202 473 1871
Email: nogiwara@worldbank.org

Produced by Carol Siegel
Printed on recycled paper

This Note is available online: http://www.worldbank.org/efpd/publicpolicyjournal

viewpoint

is an open forum to encourage dissemination of public policy innovations for private sector-led and market-based solutions for development. The views published are those of the authors and should not be attributed to the World Bank or any other affiliated organizations. Nor do any of the conclusions represent official policy of the World Bank or of its Executive Directors or the countries they represent.