

# Shopping for Anonymous Shell Companies: An Audit Study of Anonymity and Crime in the International Financial System

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**T**he last few years have seen an international campaign that seeks to ensure that the world's financial and banking systems are "transparent," meaning that every actor and transaction within the system can be traced to a discrete, identifiable individual. The impetus behind this campaign is to limit international financial crime, especially money laundering, large-scale corruption, and tax evasion. Thus, international organizations, private financial institutions, and states have promulgated rules outlawing anonymous participation in global financial and banking networks, a provision now legislated in over 180 countries (Financial Action Task Force, 2009). This article presents an audit study of compliance with the prohibition on anonymous shell companies, based on solicitations I made to a range of firms in the business of incorporating and selling shell companies.

To understand the usefulness of anonymous shell corporations for international financial crime, consider three examples. First, a U.S. Senate report (Senate Permanent Subcommittee on Investigations, 2006) dug into issues of overseas tax evasion. It relates the story of Sam Congdon, who established offshore companies for roughly 900 individual clients. In 2005, a potential client e-mailed: "I am interested in opening an offshore account to protect my assets from my ex-wife and Uncle Sam . . . What does the offshore corporation that you offer provide above the protection offered by Swiss banks?" Congdon replied: "Having an offshore account won't really protect your assets because everything is still in your personal name. What will protect you from lawsuits and such is an offshore structure" (p. 27). In an e-mail to another client, Congdon wrote: "As long as everything is done in the

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name of the offshore company, then it is private and no one (including Inland Revenue) can get any information about it” (p. 26). The same hearings discussed another offshore service provider, Lawrence Turpen, who told his clients that “the key to a successful offshore structure was to separate the client from the paper ownership of the client’s assets, while retaining the ability to benefit from them” (p. 30). Legal separation between the client and the funds was achieved using companies and trusts formed in Nevada and the Isle of Man, while practical control of the flows of money was retained via fictitious consultancy arrangements between the company and the individual. As Turpen related (p. 33): “I sent \$60,000 a year to my offshore corporation for advice. The advice was never worth a damn, but at the end of the year I had \$60,000 in my offshore [company’s] account.” Money was then repatriated from the company to the owner through further “consultancy work” or fake loans.

As a second example, consider the corruption probe into an £43 billion (US\$ 86 billion) arms deal between the British company BAE Systems and Saudi Arabia. The U.K. government canceled this probe in December 2006 following threats that the Saudi government would suspend all intelligence cooperation with the United Kingdom and cancel the deal if the investigation were not quashed. The OECD Anti-Bribery Working Group strongly condemned this decision (OECD Directorate for Financial and Enterprise Affairs, 2008). Details of BAE’s illegal activity first came to light from a former employee and were followed up by investigative reporters Rob Leigh and David Evans (“BAE’s Secret Money Machine,” *Guardian*, July 9, 2007). After years of denials, in February 2010 BAE Systems agreed to plead guilty in the U.S. to lesser charges of conspiracy. It admitted to paying secret commissions of more than £135 million that reached foreign governments via what were ostensibly “marketing advisors” in arrangements that were crucially dependent on shell companies. Court documents relate that “various offshore shell entities” were used “to conceal BAES’s marketing advisor relationships, including who the agent was and how much it was paid; to create obstacles for investigating authorities to penetrate the arrangements; to circumvent laws in countries that did not allow agency relationships; and to assist agents in avoiding tax liabilities for payments from BAES” (District of Columbia Court, 2010, p. 8). Just like Turpen’s fictitious “advice” that “was never worth a damn,” the court noted “the material that was purportedly produced by the advisors was not useful to BAES, but instead was designed to give the appearance that legitimate services were being provided” (District of Columbia Court, 2010, p. 9).

A third example involves how corrupt heads of state and other senior politicians disguise the illicit origins of (that is, launder) the bribes they receive. In a World Bank study, Richard Gordon (2009) analyzes 21 cases of corruption-related money laundering, from Russian energy company Gazprom, to current Pakistani President Asif Ali Zardari, to former U.S. Congressman Randy “Duke” Cunningham. The key feature identified in the report is the involvement of anonymous shell companies (for example, pp. 15 and 22). Echoing others, Gordon (p. 18) notes that the most common alibi for funds transferred to and from such shell companies is “consultancy fees.”

The issue of anonymous corporations has been widely identified in a parade of reports and studies as crucial in combating a range of high-priority international problems: the drug trade, organized crime, terrorism, money laundering, tax evasion, corruption, corporate crime, and systemic financial instability.<sup>1</sup> As a result, a slew of global standards mandate the imperative for financial institutions to “Know Your Customer,” meaning that beneficial ownership of corporate vehicles must be ascertained. These include standards in relation to corporate governance (OECD Principles of Corporate Governance, Chapter V A3); money laundering (Financial Action Task Force Recommendations 5, 33, and 34); banking supervision (Basel Core Principle 18); corruption (UN Convention Against Corruption, Article 52); and securities regulation (International Organization of Securities Commissions Multilateral Memorandum of Understanding, paragraph 7(b)ii). There is no question that the formal rules are in place; the great unknown is their effectiveness.

In this paper, I describe my attempts to found anonymous corporate vehicles without proof of identity and then to establish corporate bank accounts for these vehicles. Transactions processed through the corporate account of such a “shell company” become effectively untraceable—and thus very useful for those looking to hide criminal profits, pay or receive bribes, finance terrorists, or escape tax obligations. The research design involved soliciting offers of anonymous corporate vehicles from 54 different corporate service providers in 22 different countries, and collating the responses to determine whether the existing legal and regulatory prohibitions on anonymous corporate vehicles actually work in practice. To foreshadow the results of this study, 45 providers responded to offer their services, of which 17 offered to set up an anonymous corporate vehicle. Thirteen of the 17 successful approaches were to service providers in OECD countries, compared with only four of 28 in countries often labeled as “tax havens.” Establishing a corporate bank account while preserving anonymity proved much more difficult. Nevertheless, five of the solicitations were successful in obtaining offers for an anonymous corporate vehicle with an associated bank account without having to provide any certified identification documentation as to the true owner of the company and account. An optimist might look at these results and perceive the cup as 90 percent full: that is, existing prohibitions on anonymity were effective almost 90 percent of the time. A pessimist might point out that those seeking anonymity in their international financial transactions can try to set up a shell company many different times—and by making dozens or hundreds of efforts, as well as seeking out more willing providers of anonymity, they are likely to succeed. Furthermore, criminals are likely to be often better-resourced and almost always less bound by ethical and legal considerations

<sup>1</sup> For examples of prominent reports on this subject, see the IRS (1981) report *Tax Havens and their Use by United States Tax-Payers*; the United Nations (1998) report *Financial Havens, Banking Secrecy and Money Laundering*; the Transcrime (2000) study *Euroshore: Protecting the EU Financial System from the Exploitation of Financial Centers and Offshore Facilities by Organized Crime*; the OECD (2001) study *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*; and the study from the Financial Action Task Force (2006), an intergovernmental body that focuses on these issues, titled *The Misuse of Corporate Vehicles, Including Trust and Corporate Service Providers*.

than I was in interacting with service providers. Finally, with a couple of exceptions, the service providers selected had a relatively high public profile, and it may well be they are thus more rule-compliant than those less visible to regulators or those attracting their business through personal contacts through intermediaries. As discussed below, this kind of *a fortiori* logic (if one statement is demonstrated, then “with even stronger reason” it can be inferred that another statement holds true) suggests that we should be relatively pessimistic about how effective current rules are in preventing criminals’ access to anonymous shell companies.

## Setting up Anonymous Shell Companies

My first step was to compose a standard short approach e-mail to corporate service providers. This letter was designed to emulate the profile of a representative would-be miscreant, based on recurring elements identified in the various reports referred to above and my own interviews with offshore service providers in the British Virgin Islands, Liechtenstein, Samoa, Seychelles, Panama, and elsewhere. The e-mail stressed the need for confidentiality and tax minimization as part of an international consultancy project. As already noted, consulting fees are often a useful cover story for illicit cross-border flows. The approach also indicated a fairly modest level of business and thus relatively low fees for the provider. This is significant as interviews indicate that, unsurprisingly, providers and banks are often willing to show much more flexibility in applying standards for clients who can credibly promise to invest tens of millions of dollars and thus generate a lucrative stream of fees.

After designing the approach letter, the next step was to identify relevant corporate service providers whose business is to establish and provide basic administration for shell companies. This search took place in the period from early 2007 until late 2008. While in offshore jurisdictions, service providers are generally licensed, and thus are possible to count, this is usually *not* the case in OECD countries. In the OECD countries, law firms, accountants, or private individuals may offer incorporation services. The largest provider administers up to 80,000 shell companies at any one time (probably between 5 and 10 percent of the total of active companies from offshore jurisdictions, meaning those outside the OECD countries). Other providers create companies on an incidental basis.

The aim in compiling a list of providers to be contacted was to include service providers from a range of countries that are regarded (or at least regard themselves) as leaders in Know Your Customer standards like the United States and Britain, as well as countries that have commonly been stigmatized as offshore financial centers. The first half-dozen providers were identified through advertisements in *The Economist*. The bulk of the offshore providers were then taken from the directory section of the specialist trade publication *Offshore Investment*. Belize was overrepresented in the directory, and so to ensure diversity in jurisdictions, only four of those listed were included. While nine of the onshore providers were listed in the above sources, the

remainder were found using Google search for “company incorporation,” taking those first on the list.

The service providers on the list that resulted were atypically large and high profile. My interviews with those in the industry indicate that while larger firms rely on advertising to attract business, smaller and more private concerns usually rely on word-of-mouth referrals and introductions through trusted intermediaries like private bankers, lawyers, or investment advisors. Advertising (including securing a high ranking in Google searches) is expensive. Advertising is also public, making providers and their wares known to potential clients but also to regulators and law enforcement agencies. Because the providers contacted for this study tended to be atypically large and more comfortable with a public profile, they were probably less likely to offer anonymous companies and bank accounts than others.

Fifty-four service providers were contacted, of which 45 returned valid replies (valid for the purposes of this study). Two of the nonvalid replies stated that they did not provide company incorporation services. The other seven either provided no reply, or promised to respond with details of their services but then failed to do so. I considered the reply to be valid if the service providers recommended one or more corporate structures that could achieve the goals set out in the approach letter, together with a pricing schedule. First responses were usually brief, commonly including an attachment or link to a brochure specifying further services, and encouraged further contact, which was carried out via e-mail so as to preserve a record of all exchanges. Thus two examples:

Dear Mr. Sharman

Thank you for your email. Please find enclosed our brochure on company forms in Liechtenstein. An Establishment or a Company Limited by Shares is probably the best vehicle [sic] for setting up a commercially active company. Please do not hesitate to contact me if you need further information.

Dear Mr. Sharman

Thank you for contacting [Service Provider X] regarding setting up of an off-shore structure for your commissions that you are looking to receive, I would suggest that as you are in Australia that you consider using a TCI [Turks and Caicos Islands] Hybrid Company. Should you have any questions please do not hesitate to contact me [An explanation of TCI Hybrid Companies and an order form were attached to the message].

Subsequent correspondence revolved around specifying the jurisdiction of the company to be formed, and continued as long as necessary to elicit what identity documentation, if any, had to be provided for the transaction to go ahead.

Where the response made provision of the company and/or bank account conditional on notarized copies of a passport together with bank references, utility bills, and the like to establish identity and residence, this was coded as “not anonymous.” It may be possible to falsify or forge such documents, but doing so is a serious offense

*Table 1*  
**Overview of Letters Sent and Responses**

	<i>Offshore Centers</i>	<i>United States</i>	<i>Other OECD Countries</i>
Contacted	35	4	15
Valid reply	28	4	13
Required ID for company	24	0	4
No ID for company	4	4	9
Solicited bank account	4	4	9
Notarized ID for account	3	2	7
Unnotarized ID for account	1	2	2

(fraud), and I was unwilling to break the law in this manner. Criminals are almost by definition less pusillanimous. Where the corporate service provider required only name, address, credit card details, and the like to be entered into an online form without any supporting documentation, this was coded as anonymous (because credit cards can be issued for corporate vehicles or supplied by a third party).

Of the 45 corporate service providers indicating a willingness to provide a shell corporation, 28 required official identification: typically a notarized copy of a passport, usually complemented by utility bills as proof of residential address, as well as sometimes bank or professional references. However, 17 were content to form the company without any independent confirmation of identity, requiring only a credit card and a shipping address for documents. Table 1 provides an overview of the responses.

Although the cost varied, establishing an anonymous shell corporation is a relatively cheap proposition, ranging from \$800 to \$3,000 as an up-front cost followed by a slightly smaller amount on an annual basis. The cost variation is generally explained by the optional extras, in particular the extra layers of secrecy, but also various corporate accessories and accoutrements like mail- and phone-forwarding, brass plate, rubber stamp, letterhead, embossed seal, and the like. Relative to the corporations requiring identification checks, the anonymous vehicles were slightly cheaper, again depending on the accessories purchased. Rather than reflecting any lesser quality, this price difference seemed to reflect the laxer regulatory requirements that allowed providers to incorporate companies more quickly with less work (GAO, 2006, p. 6; National Association of Secretaries of State, 2009).

### **A Short Digression: Why Anonymity, and Not Just a Tangled Legal Trail?**

In six cases, service providers recommended holding the ownership of the shell company in an overarching common law trust or civil law foundation. Either legal structure would present investigating authorities with one more obstacle in seeking to find the beneficial owner: tracking the bank account to the company, the company to the trust or foundation, and then control of the trust or foundation to me via the

service provider, presumably with each link in a different jurisdiction. Following the money trail in such cases would be difficult, time-consuming, and expensive.

However, in this exercise I chose to focus not on the ability to create a tangled interjurisdictional web of interlocking legal ownership, but instead to stick with whether outright anonymity was possible. Even if the legal trail is complex, as long as the service provider has proof of the identity of the ultimate beneficiary of a firm, the veil of secrecy is vulnerable to being pierced. First, hosting jurisdictions are often vulnerable to pressure from outsiders to hand over client identity documentation. For example, after the Cayman Islands repeatedly announced that it would not join the tax information exchange program of the European Union, Britain forced reversal of that decision by threatening to suspend the Caymans' self-government and to pass the legislation from London (Sharman, 2008).

Second, financial intermediaries can also be vulnerable to outside pressure. The United States government successfully took VISA and MasterCard to court to obtain details on 230,000 offshore credit and debit cards held by U.S. residents (Sharman and Rawlings, 2005).

Third, service providers may disregard their own advice about keeping confidential documents. Offshore service provider Turpen had advised his client Holliday: "You should read these documents and destroy them. It would not serve your best interests for them to be found in your possession." But Turpen himself left numerous documents in his Nevada office naming Holliday—which were then found when the Internal Revenue Services executed a search warrant. According to the U.S. Senate (2006, p. 40 ) report, after being informed of the situation by Turpen: "Mr Holiday told the Subcommittee that he responded to the effect of, 'You idiot! That is exactly what you told me never to do.'"

Finally, rogue employees of the service provider like Heinrich Kieber of Liechtenstein's LGT bank may steal and sell sensitive material. In 2006, Kieber sold the details of 4,500 accounts in exchange for €4.2 million from the German intelligence service, which then on-sold the information to the tax authorities of many other countries ("Banking Scandal Unfolds like Thriller," *New York Times*, August 14, 2008, by Lynnley Browning). (Kieber was provided with a new identity after the Liechtenstein government issued a warrant for his arrest and various former LGT account holders began searching for him.) However, if no information is collected by the service provider in the first place, nothing can be disclosed later.

## **In What Jurisdictions Is an Anonymous Corporation Easiest?**

Even for someone like me, who is looking for corporate service providers in want advertisements and through Internet searches, and who does not forge identity documents, forming an anonymous shell company is an easy proposition, requiring little money and time. But perhaps even more striking than the ease with which this rule can be violated is the pattern of jurisdictions that routinely violate this rule. Attempts to incorporate anonymously with providers in the Bahamas, the British

Virgin Islands, the Cayman Islands, Dominica, Nauru, Panama, and the Seychelles all met with failure. Agents in these places refused to proceed without proof of identity. Moreover, in nearly all cases these agents explicitly noted that anti-money laundering regulations necessitated their keeping this information on file. This applied even when providers indicated they promised total confidentiality. Thus, from one e-mail response I received:

The anonymous structure we offer is totally secure since we manage the bank account on behalf of the owner. The owner's name appears nowhere. Using this structure, no investigator could determine the true ownership of the structure . . . We offer additional security by the fact that we could change the nature of the structure and relocate it to other jurisdictions literally within minutes if required . . . Having said that, we should make it clear that we will not engage in any illegal practices on behalf clients. However, what is illegal in one country may not be illegal in another.

Yet in this case, the service provider required notarized passport copies and other identity documentation. Even the Liechtenstein-based agent of the Somali International Financial Center required notarized passport copies (though they were much less stringent about bank accounts, as discussed below). One provider in Belize offered to incorporate a Belize shell company without identity documents, as did another in Uruguay for Seychelles companies, and one each from Hong Kong and Singapore regarding Delaware and other tax haven-domiciled companies.

Yet of the 17 providers in high-income countries that were approached, no less than 13 agreed to form shell companies without requiring identification documents: seven from the United Kingdom, four in the United States, one in Spain, and one in Canada (the sole Swiss and Czech providers responding were more scrupulous). Of these 13 providers, only one limited its stock to offshore shell companies (from Belize), three of the U.S. providers offered only American companies, while the remaining U.S. company along with the Canadian and all the British providers sold a mix of onshore and offshore vehicles, in some cases from more than 30 jurisdictions.

In combination, these findings cast strong doubt on the proposition that the problem of financial opacity is caused by palm-fringed tropical islands, rather than large high-income economies like the United States and Britain. This finding contradicts conventional wisdom. Only a handful of other sources cast doubt on the presumed superiority of OECD country regulation relative to offshore centers (Tran-scrite, 2000, p. 15; IMF, 2005, p. 3). Although nearly all offshore centers regulate corporate service providers, Britain and the United States have chosen to leave them unregulated. In the United States in particular, this result may reflect the political power of incorporators over regulators in states like Delaware and Nevada.

An example of one shell company set up for this paper, André Pascal Enterprises, may prove illustrative. The company was an England and Wales Private Company Limited by Shares set up by a U.K. provider. Upon payment



and submission of the order, the provider electronically lodged the application with UK Companies House. The provider became the initial shareholder of the company and subscriber to the Memorandum and Articles of Association for the purposes of the government records. Upon receipt of signed documents from me (once again, without the need for supporting identification), the provider issued “bearer share” warrants, erasing the provider’s name from the share registry without substituting any other. Bearer shares mean that whoever holds the physical share certificate owns the company. André Pascal Enterprises had a nominee director and nominee secretary (once more courtesy of the provider), again providing separation from the beneficial owner (me). The incorporation process took less than a day, filling out the online forms took 45 minutes and the total cost was £515.95. Moreover, as a U.K. corporation, André Pascal avoids the taint associated with offshore companies while securing much tighter secrecy. Until 2006, the same U.K. provider offered corporate accounts at a Latvian bank without the need for any supporting identity documentation.

### **From Anonymous Shell Corporation to Anonymous Bank Account**

Focusing on the 17 providers offering anonymous corporations, I then took the next step and sought to set up a bank account associated with an anonymous company. I soon ran into requirements for proper (notarized) identity documentation from all but five providers.

The provider most flagrantly in breach of international standards offered a Wyoming Limited Liability Corporation with a U.S. bank account. The provider offered to use their employees’ own Social Security Numbers in applying for an Employer Identification Number (EIN), the tax identification number for the corporate vehicle. As the provider breezily informed me in an e-mail. “You can open a bank account in any state in the nation. It does not have to be in Wyoming. You will need an EIN number for the LLC, which we may be able to get for you, if you elect the nominee tax ID service. There are no supporting documents required at this time, outside of your contact information.”

In the months between receiving this e-mail and going ahead with an attempt to buy this structure, the laws in Wyoming changed to prevent this service being offered. Yet of the countries examined, the United States appears to be in last place in terms of corporate and banking due diligence. A revealing comparison chart from a service provider specifies the documentation necessary to open a bank account in various countries, along with an overall difficulty rating or “Due Diligence Level”: ([http://www.offshoreinc.net/new\\_bankcomparison.shtml](http://www.offshoreinc.net/new_bankcomparison.shtml)). This ranges from “very high” (Seychelles and Jersey), to “high” (Hong Kong and Singapore), to “medium” (Cyprus and Dominica); the United States is the only country ranked as “low,” allowing accounts to be opened with an unnotarized copy of a driver’s license.

To test this ranking directly, I established two companies with accounts in 2009: a classic offshore structure and an onshore equivalent. The first example involved

approaching a service provider in Singapore and buying the most secret vehicle and bank account available. This was a Seychelles company (Gruppo 20 Enterprises) formed with a nominee director, authorized share capital of \$1 million, and bearer shares. The Singaporean offshore service provider acted as retailer, buying the Seychelles company from another wholesale service provider in Hong Kong before selling it on to me. The accompanying bank account was in Cyprus (and thus within the European Union), picked on the advice of the first service provider because of the bank's willingness to accept bearer share companies. Despite being the most *laissez faire* offshore bank available, the Cypriot bank still required a notarized physical passport copy, original bank reference, an original utility bill, and a long questionnaire as to the likely use to which the bank account would be put before opening the corporate bank account. The bank also insisted on taking physical possession of the sole bearer share issued. Establishing the company and opening the account cost €1,754, paid into a Hong Kong bank account of the Singaporean service provider.

In contrast, the second, onshore vehicle, BCP Consolidated Enterprises, was a Nevada corporation set up by a Nevada service provider with a nominee director and nominee shareholders. As such, my name appears nowhere on the incorporation documents, but in any case, Nevada refuses to share tax information with tax authorities either at the federal level or in relation to foreign inquiries (Senate Permanent Subcommittee on Investigations, 2006, pp. 37, 48). (There appears to be a vigorous dispute between corporate service providers in Nevada and in Wyoming as to who offers the most secret companies.) BCP Consolidated then opened an online bank account with one of the five-largest U.S. banks. The cost of establishing the company and the bank account was \$3,695. Neither the original service provider nor the bank required more than an unnotarized scan of my driver's license (showing an outdated address). The U.S. National Association of Secretaries of State, responsible for setting and policing incorporation standards have confirmed in Senate testimony that service providers do not try to verify driver's licenses and that the Association believed any such effort would be prohibitively expensive (Marshall, 2009). This lack of knowledge as to the person really in control of the company and bank account is clearly in violation of international standards. While U.S. law enforcement agencies have robust investigative powers, they cannot gain access to information that has not been collected in the first place. Thus, even a lax offshore bank has due diligence standards higher than those applied by U.S. institutions.

One other example, First Oceanic Bank, is unusual in having stricter requirements for establishing a company compared with opening an account. First Oceanic Bank claims to be licensed by the Somali government, enjoying the "liberal, proactive business environment" Somalia supposedly provides, while being administered from Liechtenstein. Although setting up a Somali shell company explicitly requires a notarized passport copy, both the provider's website and e-mail communications repeatedly note that, although they require a scanned copy of some piece of photo identification, there is no need to get this notarized or certified as a true copy in

opening a corporate bank account. A repeated emphasis on this last point suggests that the providers are broadly hinting at the possibility of a de facto anonymous account. I tested this by establishing first a personal account (€300), and then a second U.S.-dollar corporate account for BCP Consolidated Enterprises (Nevada) in Somalia via wire transfers hosted by two Italian banks, for another €300. This required only a scan of my unnotarized driver's license (again, showing an old address) and the company's Articles of Association (which, to repeat, includes only the nominees' names rather than mine). The resulting accounts, however, have a curiously one-way quality: my attempts to transfer money into them via the Italian banks always succeed, while all efforts to transfer money out fail. This illustrates another reason as to why both licit and illicit customers may prefer onshore jurisdictions to offshore. A service provider seemingly aiming at the least scrupulous end of the market, and legally (if not physically) based in a jurisdiction where consumers have zero chance of redress through the courts, may simply be a scam.

The greater difficulty of obtaining anonymous corporate bank accounts does mark an important change from the situation a decade or more ago (IRS, 1981; United Nations Office for Drug Control and Crime Prevention, 1998). But even without direct access to the banking system, having anonymous vehicles can be useful in financial crime.

Attempts to establish the provenance of a plane-load of North Korean weapons intercepted in Thailand were defeated when the trail of shell companies involved petered out in New Zealand ("New Zealand Businessman Unaware of North Korea Weapons," *Wall Street Journal*, December 18, 2009, by Chris Hutching and Simon Louisson). For 30 years after the revolution, the Iranian government successfully disguised its ownership of a 36-story building in Manhattan via shell companies ("Why U.S. Law Helps Shield Global Criminality," *Time*, February 2, 2010, by Ken Stier). On a more quotidian level, property and shares may be held by shell companies to evade tax obligations. In addition, in a chain of corporate entities even one anonymous vehicle (for example, a company acting as the sole shareholder or director of another company) can disrupt the effort to establish the true owner at the end of the chain.

## **Onshore versus Offshore**

Outright fraud to one side, probably the more important general advantage enjoyed by onshore over offshore jurisdictions has to do with reputation. In corresponding with me, it was common for service providers to offer advice on the reputational pros and cons of the various jurisdictions. For example, one provider suggested that because "folks might look askance if you formed your company in Labuan, Vanuatu, Panama or a similar jurisdiction of ill repute," Delaware was a better option. The provider then applied the same logic applied to the bank account: "We believe that the bank account we can help you open in Hong Kong would be the direction to go. Again, we are talking about a jurisdiction with a high level of legitimacy." The contradiction whereby companies formed onshore require

less information on the owner, but are nevertheless perceived as being more strictly regulated and thus more reputable, has been noted by World-Check (2008, p. 9), the world's biggest provider of anti-money laundering software:

There is a false sense of security when carrying out due diligence on or dealing with an onshore company, trust, foundation or charity, in comparison to the equivalent offshore vehicles. The registration of a company in most onshore jurisdictions carries little or no KYC [Know Your Customer] requirements on the beneficiaries, owners or company directors. The knowledge that a company is registered in the United Kingdom, the United States or in the EU, as opposed to some small tax haven island nation, for some reason would appear to make us think it must be above board.

The reason why it is commonly assumed that onshore companies are above-board is not at all hard to discern given the constant presumption of onshore diligence and virtue versus offshore laxity and vice that underpins both the kind of international reports cited earlier and the associated media coverage.

## Conclusion

Barriers to the cross-border exchange of financial information have been widely linked to a variety of financial crimes. Progress in responding to these threats depends in particular on the ability to establish the real owners of shell companies. Policymakers in the leading institutions of global economic governance have consistently acted on the basis that offshore "tax havens" pose the greatest threat to the integrity of the financial system by providing strict financial secrecy. This presumption has existed for at least a decade (for some older examples, see OECD, 1998; United Nations Office on Drug Control and Crime Prevention, 1998; Financial Stability Fund, 2000, IRS, 1981; for recent examples, see G20, 2009a, p. 4; G20, 2009b, pp. 34–36; OECD, 2009; European Commission, 2008; Senate Permanent Subcommittee on Investigations, 2008).

The small sample size of this exercise necessitates a degree of modesty about the strength of these findings; of course, a large and carefully-structured exercise would provide more support. But it is worthwhile considering the *a fortiori* logic at work in this article. If one law-abiding individual with a modest budget can establish anonymous companies and bank accounts via the Internet using relatively high-profile corporate service providers, how much simpler is it likely to be for criminals, who are not bound by any of these restrictions, to replicate this feat? The degree of noncompliance with international standards discovered even in response to the relatively easy test represented by this study is thus especially significant. With this point in mind, the evidence here suggests the possibility that small island offshore centers have standards for corporate transparency and disclosure that are higher than major OECD economies like the United States and the United Kingdom.

In the United States and the United Kingdom, anonymous companies are freely available to anyone with an Internet connection and a few thousand dollars. The rules barring anonymous entities from the international banking system are better enforced. Yet even here, high-income OECD countries lag offshore centers. Not only do the world's major financial centers offer tighter secrecy, but corporate entities formed therein enjoy a status, standing, and legitimacy that are far less likely to arouse suspicion than those from stigmatized offshore locales.

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