

Shell Companies

Shell Company. (*noun*). A company without active business operations or significant assets. In many cases, these companies are not required to furnish information that would reveal the identity of their ultimate beneficiaries (i.e., beneficial owners).

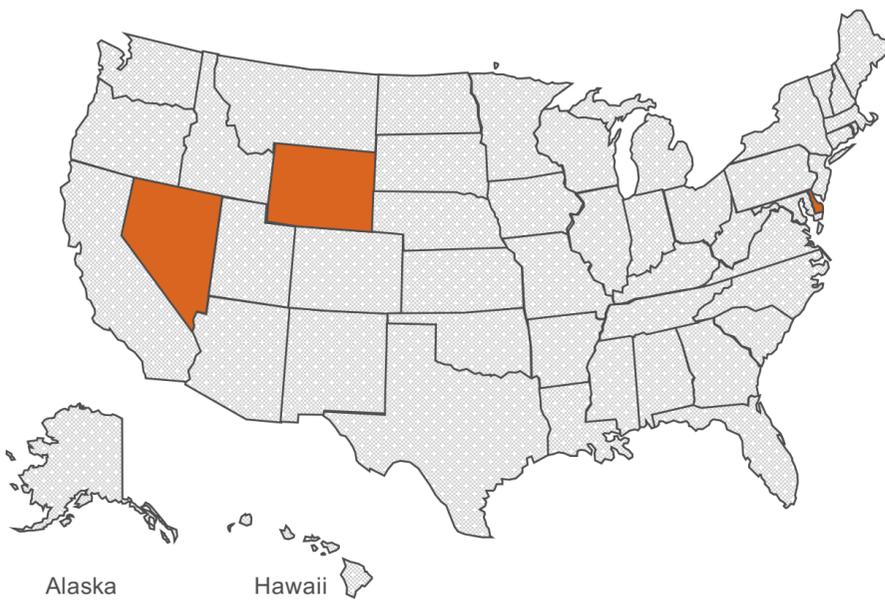
Legitimate

Legitimate purposes of anonymity include privacy and security, preventing competitors from discovering investment plans, trade secrets, international investment vehicles, and more...

Issue

...but they conceal the true ownership of assets and transactions, facilitating financial crime.

In the United States



Most U.S. states do not require business entities to disclose beneficial ownership information.

Delaware, Nevada, and Wyoming, however, have laws that are particularly attractive to shell companies.

Tax Havens



Delaware, for example, collects zero tax on income relating to intangible assets held by a "Delaware Holding Company," or a "Passive Investment Company."

To register a business entity in these states, the only requirement is a "registered agent" with a physical state address. This entity is often a third-party service provider that acts as the company's owner of record. Among other services, this entity can provide companies with officers and directors.

Due Diligence

Banks are required to understand the financial crime risks posed by their customer base, including understanding the nature and purpose of their customers' business operations. Most U.S. banks gather at least some beneficial ownership information as part of their due diligence programs.



FinCEN

Beneficial Ownership

Effective July 11, 2016, FinCEN's new customer due diligence rule will require covered financial institutions to identify and verify beneficial owners of customers who are legal entities, subject to certain exceptions. The rule will become mandatory on May 11, 2018.

Around the World



Panama

There are very few Panamanian regulations on the formation of shell companies. Similar to U.S. state requirements, only the name and address of a resident agent needs to be provided. Shareholder and beneficial owner information does not have to be disclosed.

In January 2016, BVI modified its law to allow local regulators to ascertain the identity of BVI beneficial owners. Upon request by the regulator, the registered agent must provide a company's beneficial owner information.

British Virgin Islands



United Kingdom

As of June 2016, UK companies will be required to provide beneficial owner information that will be uploaded to a public register.

For more information, contact:

Daniel R. Alonso
Managing Director and General Counsel
dalonso@exiger.com
+1 212 455 9401

Eunice Lee
Associate Managing Director
elee@exiger.com
+1 212 455 9448

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