## **The Puppet Masters**

How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It

> Emile van der Does de Willebois Emily M. Halter Robert A. Harrison Ji Won Park J. C. Sharman



Stolen Asset Recovery Initiative

The World Bank • UNODC





## Contents

rorewora	lX
Acknowledgments	xi
Abbreviations	XV
Executive Summary	1
A Significant Challenge	1
The Elusive Beneficial Owner: A Call for a Substantive Approach	3
Wanted: A Government Strategy	4
The Advantages of Service Providers	5
Why Service Providers Should Be Obligated to Conduct Due Diligence	5
Enforcing Compliance	6
Attorneys and Claims of Attorney-Client Privilege	6
A Two-Track Approach	7
Why Due Diligence Is Not Enough	8
Enhancing the Skills and Capacity of Investigators	8
Transnational Investigations	9
Building a Transnational Case	9
Conducting Risk Analysis and Typologies	9
Part 1. The Misuse of Corporate Vehicles	11
Part 1. The Misuse of Corporate Vehicles 1.1 Introduction	<b>11</b>
•	
1.1 Introduction	11
<ul><li>1.1 Introduction</li><li>1.2 Objective of This Report</li></ul>	11 13
<ul><li>1.1 Introduction</li><li>1.2 Objective of This Report</li><li>1.3 How to Use This Report</li></ul>	11 13 15
1.1 Introduction 1.2 Objective of This Report 1.3 How to Use This Report  Part 2. The Beneficial Owner	11 13 15
1.1 Introduction 1.2 Objective of This Report 1.3 How to Use This Report  Part 2. The Beneficial Owner 2.1 Introduction	11 13 15 <b>17</b>
1.1 Introduction 1.2 Objective of This Report 1.3 How to Use This Report  Part 2. The Beneficial Owner 2.1 Introduction 2.2 Origin of the Term "Beneficial Owner"	11 13 15 <b>17</b> 17 18
<ul> <li>1.1 Introduction</li> <li>1.2 Objective of This Report</li> <li>1.3 How to Use This Report</li> </ul> Part 2. The Beneficial Owner <ul> <li>2.1 Introduction</li> <li>2.2 Origin of the Term "Beneficial Owner"</li> <li>2.3 Defining Beneficial Ownership: The Theory</li> </ul>	11 13 15 <b>17</b> 17 18 19
<ul> <li>1.1 Introduction</li> <li>1.2 Objective of This Report</li> <li>1.3 How to Use This Report</li> </ul> Part 2. The Beneficial Owner <ul> <li>2.1 Introduction</li> <li>2.2 Origin of the Term "Beneficial Owner"</li> <li>2.3 Defining Beneficial Ownership: The Theory</li> <li>2.4 Applying the Concept of Beneficial Ownership in Practice</li> </ul>	11 13 15 <b>17</b> 17 18 19 23
<ul> <li>1.1 Introduction</li> <li>1.2 Objective of This Report</li> <li>1.3 How to Use This Report</li> <li>Part 2. The Beneficial Owner</li> <li>2.1 Introduction</li> <li>2.2 Origin of the Term "Beneficial Owner"</li> <li>2.3 Defining Beneficial Ownership: The Theory</li> <li>2.4 Applying the Concept of Beneficial Ownership in Practice</li> <li>2.5 The Service Provider's Perspective</li> </ul>	11 13 15 <b>17</b> 17 18 19 23 26
<ul> <li>1.1 Introduction</li> <li>1.2 Objective of This Report</li> <li>1.3 How to Use This Report</li> <li>Part 2. The Beneficial Owner</li> <li>2.1 Introduction</li> <li>2.2 Origin of the Term "Beneficial Owner"</li> <li>2.3 Defining Beneficial Ownership: The Theory</li> <li>2.4 Applying the Concept of Beneficial Ownership in Practice</li> <li>2.5 The Service Provider's Perspective</li> <li>2.6 Conclusion and Recommendations</li> </ul>	11 13 15 <b>17</b> 17 18 19 23 26 29
1.1 Introduction 1.2 Objective of This Report 1.3 How to Use This Report  Part 2. The Beneficial Owner 2.1 Introduction 2.2 Origin of the Term "Beneficial Owner" 2.3 Defining Beneficial Ownership: The Theory 2.4 Applying the Concept of Beneficial Ownership in Practice 2.5 The Service Provider's Perspective 2.6 Conclusion and Recommendations  Part 3. Where Does the Beneficial Owner Hide?	11 13 15 <b>17</b> 17 18 19 23 26 29

Part 4. Finding the Beneficial Owner	69
4.1 Introduction	69
4.2 Company Registries	69
4.3 Trust and Company Service Providers	84
4.4 Financial Institutions	97
4.5 Conclusion and Recommendations	102
Appendix A. Compliance with Financial Action Task Force	
on Money Laundering (FATF) Recommendations	
5, 12, 33, and 34	109
Texts of FATF Recommendation 5 and Recommendation 12	109
Texts of FATF Recommendation 33 and Recommendation 34	112
Appendix B. The Five Component Projects: Methodology	
and Summary of Findings	117
Project 1. The Grand Corruption Database Project	117
Project 2. The Bank Beneficial Ownership Project	122
Project 3. The Trust and Company Service Providers Project	134
Project 4. The Registry Project	143
Project 5. The Investigator Project	144
Appendix C. Short Description of Selected Corporate Vehicles	
Legal Persons	159
General Partnerships	159
Limited Partnerships	161
Companies	161
Limited Liability Company	164
Foundations	165
Legal Arrangements	165
The Trust	165
Appendix D. Grand Corruption: 10 Case Studies	171
Case Study 1: Bruce Rappaport and IHI Debt Settlement	171
Case Study 2: Charles Warwick Reid	175
Case Study 3: Diepreye Alamieyeseigha	179
Case Study 4: Frederick Chiluba	183
Case Study 5: Jack Abramoff	187
Case Study 6: Joseph Estrada	193
Case Study 7: Saudi Arabian Fighter Deals and BAE Systems	198
Case Study 8: Pavel Lazarenko	202
Case Study 9: Piarco International Airport Scandal	207
Case Study 10: Telecommunications D'Haiti	212
Appendix E. An Overview of Corporate Vehicles in	
Selected Jurisdictions	219
Glossary	265

Вохо	98	
2.1	The Origin of the Trust	18
2.2	Basic Attempt at a Concealment	28
3.1	Setting Up a Shell Company	35
3.2	Misusing a Shell Company	36
3.3	Using Shelf Companies to Conceal Ownership of Bank Accounts	37
3.4	A Typical Advertisement for "Shelf Corporations and Aged	
	Corporations"	38
3.5	Laundering Money through a Front Company	40
3.6	Setting Up Companies with Bearer Instruments	42
3.7	Misusing a Bearer-Share Company	42
3.8	Misusing a Trust	46
3.9	Hiding the Proceeds of Corruption in a Charitable Foundation	48
3.10	Receiving Fraudulent Government Contracts by a Partnership	50
3.11	Laundering Money through a Sole Proprietorship	51
3.12	"Chaining" Corporate Vehicles to Conceal Beneficial Ownership	53
3.13	Developing a "Nose" for Inappropriate Complexity	56
3.14	Setting up Formal Nominee Arrangements for BCP Consolidated	
	Enterprises (Nevada)	59
3.15	The Opacity Benefits of Using Nominees	60
3.16	Finding the Front Men: An Insider's View	62
3.17	The Control of Corporate Vehicles by a Front Man	63
3.18	The Experience of the United States	64
4.1	The Jersey Model	76
4.2	Tracking Down Disqualified Directors: United Kingdom	80
4.3	The Directors Index: Hong Kong SAR, China	81
4.4	Information Sharing and Financial Reporting Systems: Singapore	81
4.5	Establishing a Legal Entity Involving More Than One TCSP	86
C.1	The Liechtenstein <i>Anstalt</i>	166
C.2	The Panamanian Foundation	166
C.3	The British Virgin Islands VISTA Trusts	169
Figu	res	
3.1	Example of a Complex Legitimate Corporate Vehicle Structure	56
4.1	Types of Information on Corporate Vechicles Collected	
	by Registries	72
4.2	The Balancing Act of the Corporate Registry	74
4.3	Extensive Online Search Facilities Publicly Available at the	
	Company Register of Dubai International Financial Centre	78
4 4	Extensive Online Search Facilities Publicly Available at the ICRIS	

3.3 2.4	Using Shelf Companies to Conceal Ownership of Bank Accounts	37
3.4	A Typical Advertisement for "Shelf Corporations and Aged	20
2 5	Corporations"	38
3.5	Laundering Money through a Front Company	40
3.6	Setting Up Companies with Bearer Instruments	42
3.7	Misusing a Bearer-Share Company	42
3.8	Misusing a Trust	46
3.9	Hiding the Proceeds of Corruption in a Charitable Foundation	48
3.10	Receiving Fraudulent Government Contracts by a Partnership	50
3.11	Laundering Money through a Sole Proprietorship	51
3.12	"Chaining" Corporate Vehicles to Conceal Beneficial Ownership	53
3.13	Developing a "Nose" for Inappropriate Complexity	56
3.14	Setting up Formal Nominee Arrangements for BCP Consolidated	
	Enterprises (Nevada)	59
3.15	The Opacity Benefits of Using Nominees	60
3.16	Finding the Front Men: An Insider's View	62
3.17	The Control of Corporate Vehicles by a Front Man	63
3.18	The Experience of the United States	64
4.1	The Jersey Model	76
4.2	Tracking Down Disqualified Directors: United Kingdom	80
4.3	The Directors Index: Hong Kong SAR, China	81
4.4	Information Sharing and Financial Reporting Systems: Singapore	81
4.5	Establishing a Legal Entity Involving More Than One TCSP	86
C.1	The Liechtenstein Anstalt	166
C.2	The Panamanian Foundation	166
C.3	The British Virgin Islands VISTA Trusts	169
Figur	res	
3.1	Example of a Complex Legitimate Corporate Vehicle Structure	56
4.1	Types of Information on Corporate Vechicles Collected	
	by Registries	72
1.2	The Balancing Act of the Corporate Registry	74
1.3	Extensive Online Search Facilities Publicly Available at the	
	Company Register of Dubai International Financial Centre	78
1.4	Extensive Online Search Facilities Publicly Available at the ICRIS	
	Cyber Search Centre in Hong Kong SAR, China	79
1.5	Types of Information Made Available Online by Registries	80
1.6	Requirement to Provide ID in Forming Companies	
	(Sampled OECD Countries)	91
1.7	Requirement to Provide ID in Forming Companies (Other Countries)	92
1.8	Requirement to Provide ID in Forming Companies (Worldwide)	93
	Total to Frontie 12 in Forming Companies (Horianiae)	70

<b>A</b> .1	FATF Recommendation 5	111
A.2	FATF Recommendation 12	113
A.3	FATF Recommendation 33	114
A.4	FATF Recommendation 34	115
B.1	Questionnaire: Financial Institutions' Rules on Beneficial Ownership	
	and Their Implementation	124
B.2	Questionnaire: Investigator Project	147
C.1	Composition of Economic Activity Undertaken in the United States	
	as Ascertained by Internal Revenue Service Tax Data	160
Tabl	es	
3.1	Two Examples in Which the Registration of Corporate Directors	
	Is Addressed in Law	54
3.2	Examples in Which Nominees Are Addressed in Law	61
B.1	Grand Corruption Cases Database: Case Summary	120
B.2	Grand Corruption Cases Database: Corporate Vehicles	120
B.3	Grand Corruption Cases Database—Key Statistics	121
B.4	Complete Results of First Audit Study	138
B.5	Complete Results of Second Audit Study (noncompliant responses	
	in italics)	141
B.6	Combined Results	142
E.1	Companies	220
E.2	Exempt/International Business Companies	232
E.3	Limited Liability Companies	239
E.4	Partnerships	245
E.5	Limited Partnerships	248
E.6	Trusts	252
E.7	Foundations	260