



#end snowwashing

Implementing a Publicly Accessible Pan-Canadian Registry of Beneficial Ownership

Legislative and
Technical Options

© 2020 Transparency International Canada. All rights reserved.

Reproduction in whole or in parts is permitted, provided that full credit is given to Transparency International Canada and provided that any such reproduction, in whole or in parts, is not sold or incorporated in works that are sold. Written permission must be sought from Transparency International Canada if any such reproduction would adapt or modify the original content.

About Transparency International and Transparency International Canada



Transparency International (TI) is the world's leading non-governmental anti-corruption organization. With more than 100 chapters worldwide and an international secretariat in Berlin, TI has helped put corruption on the agendas of governments and businesses around the world. Through advocacy, research and capacity building work, TI strives toward a world that is free of corruption.



Transparency International Canada (TI Canada) is the Canadian chapter of Transparency International. Since its foundation in 1996, TI Canada has been at the forefront of the national anti-corruption agenda. In addition to advocating legal and policy reform on issues such as whistleblower protection, public procurement and corporate disclosure, we design practical tools for Canadian businesses and institutions looking to manage corruption risks, and serve as an anti-corruption resource for organizations across Canada.

About Canadians for Tax Fairness



Canadians for Tax Fairness is a non profit organization whose aim is to raise public awareness of crucial issues of tax justice and to change the way Canadians talk about tax. We advocate for fair and progressive government policies aimed at building a strong and sustainable economy, reducing inequalities and funding quality public services. Canadians for Tax Fairness believes in the development and implementation of a tax system, based on ability to pay, to fund the comprehensive, high-quality network of public services, and programs required to meet our social, economic and environmental needs in the 21st century.

About Publish What You Pay Canada



Publish What You Pay Canada is part of the global Publish What You Pay movement of civil society organisations working to make oil, gas and mineral governance open, accountable, sustainable, equitable and responsive to all people. As a movement, we envision a world where all people benefit from their natural resources, today and tomorrow. Launched in 2008, PWYP-Canada today numbers 15 members and realises its work through advocacy, research and public outreach to promote and achieve enhanced disclosure of information about extractive industry operations, with an emphasis on revenues and contracts.

Acknowledgements

Transparency International Canada, Publish What You Pay Canada, and Canadians for Tax Fairness are grateful to Open Society Foundations for supporting the research and writing of this report. The ideas, opinions, and comments within this publication are entirely the responsibility of its authors and do not necessarily represent or reflect the Open Society Foundations.

We would like to thank Eugene DiMira and Holly Wu for technical inputs during the development of this report. We are particularly grateful for the support and guidance offered by the members of TI Canada's Beneficial Ownership Working Group:

Charlene Cieslik, Kevin Comeau, Peter Dent, Eric Hansen, Dr. Vanessa Iafolla, Jonathan Légaré, Michael Lenczner, Denis Meunier, Alesia Nahirny, Lida Preyma and Adam Ross.

Author: Rob Davidson, Veracify

Design: Deana Oulianova, DIMA Design Studio

Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of May 2020. Nevertheless, TI Canada cannot accept responsibility for the consequences of its use for other purposes or in other contexts than those intended. Policy recommendations reflect TI Canada's opinion. They should not be taken to represent the views of the individual members of the Beneficial Ownership Working Group or other stakeholders, unless otherwise stated.

Table of Contents

Executive Summary	2
Introduction	4
Defining a Beneficial Ownership Transparency Strategy	6
Priorities for a Pan-Canadian Publicly Accessible Beneficial Ownership Registry.....	6
The Trouble with Canada's Current Beneficial Ownership Transparency Strategy.....	7
Looking Outside Canada: The U.K.'s Companies House.....	8
Framework and Components of a Registry.....	10
Canadian Beneficial Ownership Registry Framework Options	14
The Legislation.....	15
The Technical Toolbox	16
The Solution Architecture	18
Summary	22
Annex A: Methodology	24
References.....	26

Executive Summary

The goal of this report is to provide options on legislative and technological models to implement a pan-Canadian publicly accessible registry of beneficial ownership as a key tool to prevent money laundering.

Canada has much work to do to stop and repair the damage caused by ‘snow-washing’; the laundering of funds from illegal activities through Canadian legal entities and arrangements, taking advantage of our weak corporate transparency rules to conceal beneficial owners. As this report is published, Canada – and much of the world – finds itself in an unprecedented time of massive funds being disbursed rapidly with little oversight. Beneficial ownership transparency could mitigate funds from being exploited by anonymous companies for procurement fraud or relief fund hoarding. In turn mitigation against abuse will save time, livelihoods, and lives.


The coalition of Transparency International Canada, Canadians for Tax Fairness, and Publish What You Pay Canada believes that Canada must adopt a pan-Canadian publicly accessible beneficial ownership registry to address this issue.

Canada’s federated nature presents the question of how such a registry could be implemented. Key points of consideration include the federal government working unilaterally or with provinces and territories; legislative amendments to create a registry; and technologies to use for such a registry.

We considered these questions in the development of this report to address these concerns which different stakeholder groups have raised in recent years regarding a pan-Canadian publicly accessible beneficial ownership registry. The resulting report explores the pros and cons of options to implement a pan-Canadian registry of beneficial owners in Canada in order to help move discussions amongst stakeholders forward.

In summary, we make the following recommendations for public officials to consider as they study implementation of a pan-Canadian publicly accessible registry of beneficial ownership:

- Examine making a beneficial ownership registry separate from existing jurisdictional corporate registries, but using complementary information;
- Collect standardized beneficial ownership data across jurisdictions that follows global data collection standards;
- Legislate a registry through the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA);
- Work towards incorporating digital IDs into the registry for data verification; and
- Develop a registry as a centralized architecture.



The coalition of Transparency International Canada, Canadians for Tax Fairness, and Publish What You Pay Canada believes that Canada must adopt a pan-Canadian publicly accessible beneficial ownership registry to stop and repair the damage caused by ‘snow-washing’.

Introduction

The goal of this report is to provide options on legislative and technological models to implement a pan-Canadian publicly accessible registry of beneficial ownership as a key tool to prevent money laundering.

Momentum has increased on the discussion of a public registry amongst Canadian policy makers, civil society, and business. On February 13, 2020 the federal government launched consultations on a public beneficial ownership registry. Québec conducted a similar consultation in 2019, and British Columbia carried out a consultation in early 2020. This follows B.C.'s passage of the Land Ownership Transparency Act in 2019 and Québec's proposal for a public registry in their 2020-2021 budget.

A number of other countries have already implemented publicly accessible beneficial ownership registries (e.g., the UK, Ukraine) or are moving forward on the development of registries (e.g., EU countries following AMLD5; Extractive Industry Transparency Initiative members).

Canada has much work to do to fix our weak corporate transparency rules to stop money laundering, or what it is known in Canada as 'snow-washing.' A pan-Canadian publicly accessible beneficial ownership registry will serve as a powerful tool to fix this problem by helping to deter, detect, investigate and prosecute money laundering, terrorist financing, and tax evasion. The case for such a registry has been made through multiple publications and calls to action including, but not limited to:

- Transparency International Canada: No Reason to Hide: Unmasking the Anonymous Owners of Canadian Companies and Trusts¹
- Publish What You Pay Canada: Building a Transparent, Effective Beneficial Ownership Registry²
- Letter to Minister Morneau Seeking a Publicly Accessible Beneficial Ownership Meeting During Finance Ministers Meeting^{3,4}

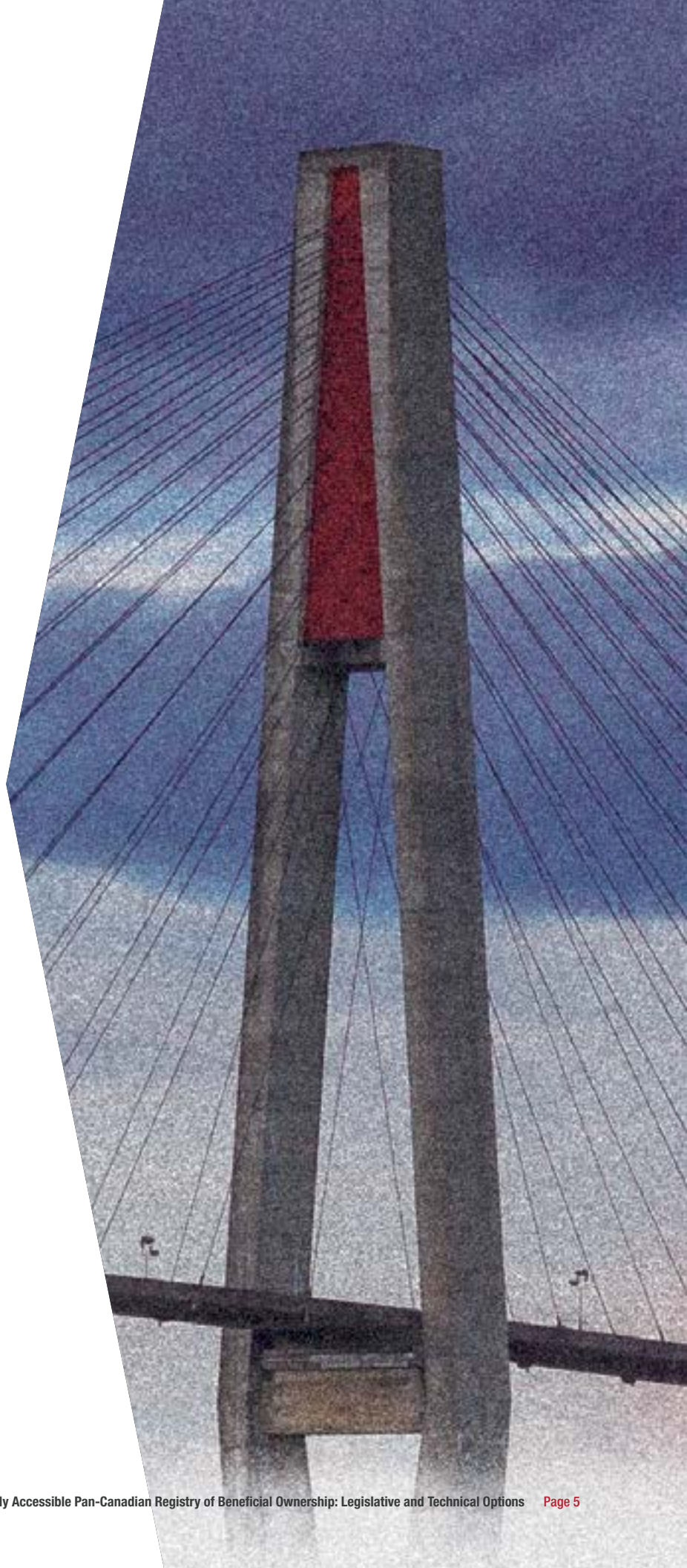
The international community has also highlighted Canada's weaknesses on corporate ownership transparency:

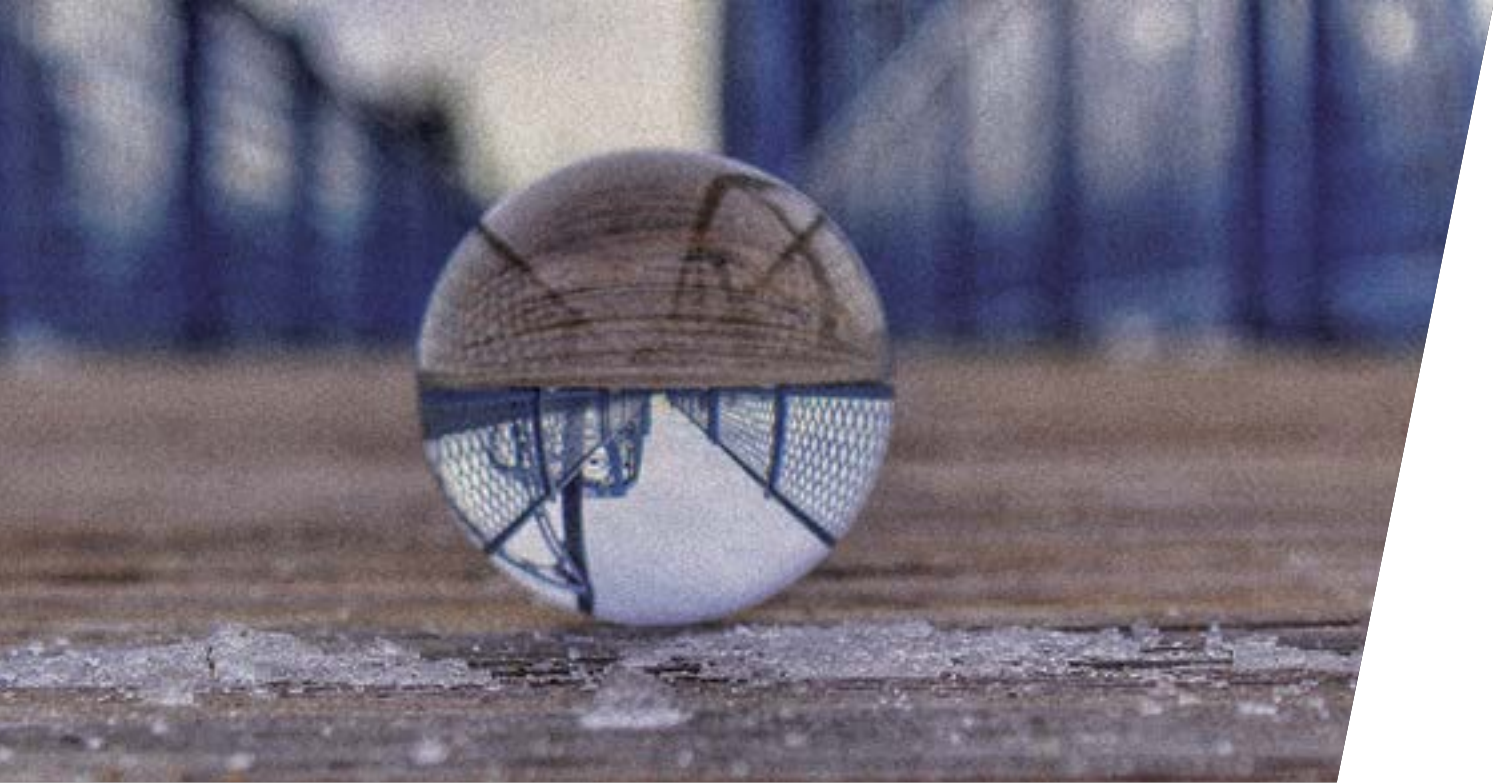
- Financial Action Task Force (FATF): Mutual Evaluation Report Canada – 2016⁵:
 - Technical Compliance Item #24, Transparency and beneficial ownership of legal persons: Partially compliant.
 - Technical Compliance Item #25, Transparency and beneficial ownership of legal arrangements: Non compliant.
- Transparency International: G20 Leaders or Laggards:
 - Beneficial Ownership Transparency: "Canada does not fully comply with any of the G20 Principles. It is one of just two G20 countries designated with a 'weak framework'." ⁶

In parallel to the discussion of why Canada should adopt a publicly accessible registry, our federated nature presents the question of how such a registry could be implemented. Could the federal government create a national registry unilaterally, and if it did, would provinces cooperate? What legislation would need to be amended or created to establish a registry? Is there technology already readily used by governments in different jurisdictions, or would emerging technologies need to be incorporated?

We considered these questions in the development of this report to address these concerns which different stakeholder groups have raised in recent years regarding a pan-Canadian publicly accessible beneficial ownership registry. The resulting report explores the pros and cons of several options to implement a pan-Canadian registry of beneficial owners in Canada to help move discussions forward among stakeholders.

To arrive at these recommendations, we conducted desk research, one-on-one interviews with experts, and two workshops with government officials and technical experts. For a full review of the research methodology, including summary insights from the two workshops, please see **Annex A**.





Defining a Beneficial Ownership Transparency Strategy

Priorities for a Pan-Canadian Publicly Accessible Beneficial Ownership Registry

The high-level objectives for a pan-Canadian publicly accessible beneficial ownership registry are straightforward:

- Provide a preventative framework that discourages the flow of illegal funds through Canada's financial system and companies.
- Identify and enforce against money laundering through Canadian companies.

The priorities may be simple but challenges lie in implementing a solution that conforms to Canadian individual privacy rights, federal-provincial-territorial (FPT) rules and regulatory differences, cost and resource constraints, and concerns about the impacts of a beneficial ownership registry on legitimate investment and business creation.

The Trouble with Canada's Current Beneficial Ownership Transparency Strategy

Until recent consultations on a public registry were initiated, Canada's current beneficial ownership transparency strategy has been implemented through amendments of the Canada Business Corporations Act (CBCA) and equivalent provincial legislation that require companies to maintain their own beneficial ownership information internally. These steps are interim measures in a multi-stage process, which is good, as this does not address either of the two priorities of a pan-Canadian publicly accessible beneficial ownership registry that are highlighted on the previous page.

First, the CBCA amendments require that law enforcement make a request for company beneficial ownership information, which would tip off criminals and would afford them enough time to move any problematic assets.

As for law enforcement's ability to find and prosecute money laundering activities, the limited scope of the current strategy is a harsh reality check that will not only tip off criminals but places additional burden on law enforcement as they have to make a request rather than anonymously search a public registry. In a 2019 report commissioned by the Attorney-General of B.C., former RCMP Deputy Commissioner Peter German found the following:

"..., the RCMP's money laundering team is more than three-quarters unstaffed. Of the 26 positions on the Federal Serious Organized Crime branch, only five are filled. All five officers are assigned to refer potential criminal cases to B.C.'s Civil Forfeiture Office."⁷

During a stakeholder workshop⁸ carried out for the research of this report, an RCMP participant re-iterated the struggle that they have working with the provinces and territories to get data to act on money laundering investigations and, in some cases, the high costs of accessing the data due to fees imposed by provincial and territorial governments for corporate information.

The lack of a centralized database for identifying possible money laundering activities and the lack of investigative resources (both human and financial) does not pose much of a problem for bad actors. From a risk assessment perspective, there is a low likelihood that a company engaged in money laundering will be worried about exposure under the current Canadian plan. The lack of investigative resources only increases the need for a publicly accessible registry so that Canadian financial institutions, civil society, and international anti-money laundering (AML) watchdog organizations can complement the RCMP's limited capacity.

Looking Outside Canada: The U.K.'s Companies House

In 2015, the U.K.'s Small Business, Enterprise and Employment Act 2015 (which amended the Companies Act 2006) set the stage for the 2016 launch of People with Significant Control (PSC) Register – a free, publicly accessible beneficial ownership registry managed by Companies House that is under the remit of the Department for Business, Energy and Industrial Strategy (BEIS). In many ways, it is a leader in the anti-corruption and transparency space. As a pioneer, it has also encountered issues and growing pains. In May 2019, anti-corruption NGO Global Witness analyzed the state of the PSC Register, based mostly on the U.K. government's self-assessment⁹ and open data that the publicly accessible register provides. Global Witness documented data quality issues including lack of standardisation of certain data fields, which led to a number of red flags such as disqualified beneficial owners of companies. In the review, Global Witness identified the following recommendations:

- The U.K. government should clearly mandate and resource Companies House to verify submitted beneficial ownership data and sanction non-compliance.
- Companies House should develop the capability to identify and investigate suspicious activity revealed through analyzing the data, in coordination with other relevant government departments.
- Regulatory and legislative loopholes that enable companies to file questionable beneficial ownership statements should be closed.¹⁰

The U.K. closed a consultation on August 6th, 2019 looking for recommendations for reform of the PSC. The goals of the proposed reform align with the Global Witness recommendations:

“The consultation seeks views on a series of reforms to limit the risk of misuse:

- **knowing who is setting up, managing and controlling companies**
- **improving the accuracy and usability of data on the companies register**
- **protecting personal information on the register**
- **ensuring compliance, sharing intelligence and other measures to deter abuse of corporate entities”¹¹**

Although the results were not available as of the writing of this paper, corporate transparency NGO Open Ownership has recommended that the threshold for “significant control” be reduced.¹²

The PSC registry, with all of its faults, has been held up by opponents of beneficial ownership transparency, in an attempt to show that open registries are ineffective. Rather than the ‘gold standard’, the PSC Registry is actually a test case to be improved upon. The UK government has consulted on how to improve the registry, and other jurisdictions can learn from its mistakes and shortcomings.



Canada needs to look at the U.K.’s current PSC Registry and their planned reforms. The Canadian government should also look to partnering with Companies House to embed Canadian representatives (e.g., Finance Department, Enterprise Architecture Review Board) in the PSC environment and reform process, to transfer knowledge, build relationships, and share technology.

Framework and Components of a Registry

Much of the government narrative concerning beneficial ownership transparency focuses on the challenges of a publicly accessible beneficial ownership registry. Everything from the complexity of Canada's jurisdictional framework to fears companies will avoid registering operations in Canada have been used to push back on a central registry. It is important, then, to define what a beneficial ownership registry is and what it is not, including by comparing it to corporate registries and reviewing what data it would collect and publish.

Distinction between a Beneficial Ownership Registry and Corporate Registries

During a stakeholder workshop it became clear that most provinces and federal departments responsible for the registration of companies consider the thought of a beneficial ownership registry as an extension to existing company registries for establishing legal companies in Canada. While that is one option, it is not the only possibility. Beneficial ownership could also be published in a separate registry. Beneficial owner information could be provided in either:

- 1 Corporate registries at the federal, provincial and territorial levels; or**
- 2 A separate beneficial ownership registry (whether central or administered at the FPT levels)**

Corporate registries and beneficial ownership registries serve different functions and audiences. A corporate registry is intended for articles of incorporation in a jurisdiction, issuing a registration number, and maintaining a file of that company. A beneficial ownership registry is for updating information on ultimate corporate ownership. While both are of interest for businesses and tax authorities, a beneficial ownership registry has added interest for law enforcement and civil society to monitor and ensure corporations are not abused by would be criminals.

Based on the findings of our stakeholder workshops, including beneficial ownership data in existing corporate registries creates concerns about cost, loss of control, and additional red tape when establishing a new company in a Canadian jurisdiction. Based on this, the Coalition recommends that policy makers assess the possibility of implementing a beneficial ownership registry that is separate, centralized, pan-Canadian and focused only on beneficial ownership requirements (i.e., not an extension to existing provincial, territorial and federal corporate registries). This should not preclude the use of the same company identifiers on each of the registries – and indeed we encourage this, so that authorized entities can merge the data to maximize regulatory compliance and investigative insight.

The example of the dual registry system of Companies House in the U.K., as well as the report of the Canadian House of Commons Standing Committee on Finance acknowledging interest in the U.K. model should help provide some more detail on what it could look like to set up a separate registry for beneficial ownership data.

Precedence for Stand Alone Central / National Registry

There was consensus from the government participants during the stakeholder workshop that a central beneficial ownership registry would face resistance from provincial and territorial governments. This was more to do with the concern about losing control of their respective corporate registries than it was about concerns regarding beneficial ownership disclosure. Registering beneficial ownership information centrally should be seen as no different than registering tax information centrally.

In the Canadian AML environment, there is already an example of a central registry for businesses regardless of where the business is registered within Canada: money services businesses (MSBs). MSBs were identified as a potential method for laundering money in Canada and steps were taken to provide oversight and management of MSBs. A central registry was established as part of The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).¹³ This establishes a precedent for implementing a central repository to provide AML services and capabilities.

Figure 1: FINTRAC MSB Registry Search

The screenshot shows the FINTRAC - Money services business (MSB) registry search page. The header includes the Government of Canada logo and navigation links for Canada.ca, Services, Departments, and Français. The main navigation bar contains links for Obligations, Guidance, Reporting to FINTRAC, Reporting entities, Financial Intelligence, and Publications. The left sidebar has a menu for MSB Search with options: Search by name, Search by address, and XML report. The main content area is titled 'Search by name' and includes a sub-header 'Search by name of business'. It states that a full or partial legal, operating or trade name OR a full registration number must be provided. There is a 'Show more about Name' link and a text input field for the Name. Below this is an 'Advanced search' section with a note that any of the fields can also be used to search. It includes three dropdown menus for MSB registration status, City, and Province. A 'Search' button is located at the bottom right of the search area.

Data Requirements for a Registry

There was concern expressed at both the stakeholder workshop and the technical workshop that it would be difficult to align beneficial ownership data across the FPT jurisdictions. This would not be the case if an agreement were reached between the FPT governments regarding standardized data collection. The Coalition recommends collecting the following data:

Table 1: Beneficial Ownership Data

Data Field	Public or Private Disclosure	Rationale for Collection and/or Disclosure
A unique identifier number that shows ties to other business entities over which the individual has significant control (generated by the database itself)	Public	Avoids confusion between registered persons of the same name.
Full legal name	Public	Needed for identification – assists with whistleblowers.
All other names commonly known by	Public	Needed to identify persons who do not use their exact legal name.
Date of birth	Partial (Month, Year) – Public Full (Day, Month, Year) – Private	Improves positive identification – assists whistleblowers.
Usual Residential Address and Service Address	Public	Improves identification and allows for correspondence.
Country of principal tax residency	Private	Important for financial institutions and allows CRA and other tax agencies to identify taxpayer information.
Country of usual residence	Public	Improves positive identification – assists whistleblowers.
Citizenship(s)	Private	Helps establish identity. Law enforcement requires this information for international cooperation.
Nature and extent of beneficial interest held	Public	Clarifies whether the person owns or controls a company and to what extent.
Day on which the individual became or ceased to be a beneficial owner	Public	Establishes a timeframe for the purchase or sale of shares, etc.
Politically exposed person status and/or Head of International Organization Standard	Public	This is especially useful for reporting entities as it helps meet their obligations under the Proceeds of Crime, Money Laundering and Terrorism Financing Act – assists with whistleblowers.

The data requirement should not be different for any company and/or individual. To further simplify and future-proof the data collected, we recommend the adoption of Open Ownership's Beneficial Ownership Data Standard (BODS)¹⁴, which is described further on **page 17**.

In Québec's 2020-2021 budget¹⁵, beneficial ownership information will have to be declared to the REQ (Registre des entreprises):

- Full name
- Residential or correspondence address (choice of the beneficial owner)
- Month and year of birth
- Type and percentage of control



Canadian Beneficial Ownership Registry Framework Options

Now that we have established the context and priorities of a publicly accessible pan-Canadian beneficial ownership registry, we can explore the legislation, the various technologies and frameworks necessary to successfully implement the registry.

There are two basic approaches Canada can take to implement a publicly accessible beneficial ownership registry:

- A federated distributed system of independent registries between provinces, territories, and the federal government;
- A centralized registry system created to collect all data from participating jurisdictions while providing data management capabilities to enable each jurisdiction to control their level of participation.

We will come back to these two models after reviewing legislative frameworks and technical tools that are available.

The Legislation

Federal

New legislation to define the need for a pan-Canadian publicly accessible beneficial ownership registry and institutionalize the necessary rules and regulations is unlikely and would face many hurdles. It is more appropriate to consider updating existing legislation, specifically the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). A comprehensive update to the PCMLTFA, following the same path as the MSB revisions, would enable the appropriate legislation to implement a centralized registry.

As the Privacy Act and the Personal Information Protection and Electronic Documents Act (PIPEDA) undergo review and revision¹⁶, it is important to include clarification of all privacy aspects of the PCMLTFA, including the proposed addition of a pan-Canadian publicly accessible beneficial ownership registry. Specific attention should be given to sensitive data elements of individual beneficial owners, such as citizenship and country of tax residency.



The PIPEDA accommodation of provincial legislation deemed substantially similar to PIPEDA needs to be reviewed through the lens of a pan-Canadian beneficial ownership registry.



It would also be prudent to review how the U.K. is handling Politically Exposed Persons (PEPs), both currently and in proposed updates to appropriate U.K. legislation.

Provinces & Territories

Following the legislative path forged by including MSBs under the PCMLTFA should minimize the need for enacting and harmonizing provincial and territorial legislation. This simplifies required legislative action and will avoid problems with provincial and territorial legislative arbitrage, where companies may “shop” to find registration jurisdictions that reduce information requirements.

As mentioned in the above Federal section, provinces will need to review their privacy legislation, mainly to align with the Privacy Act and PIPEDA modernization but also to enable specific beneficial ownership reporting requirements.

FPT Coordination

A perspective to frame the case for a centralized registry is offered by the Tax Coordination Agreements between the provinces, territories and the federal government.¹⁷ Just like tax collection, there are cost and strategic benefits associated with centralizing a publicly accessible beneficial ownership registry:

- Cost efficiency
- Leveraging limited-supply, highly specialized AML and technical talent
- Consistent, coordinated messaging to Canadian businesses
- Eliminating or reducing jurisdictional arbitrage

The Technical Toolbox

Digital IDs

Digital IDs hold the promise of making the processing of company and individual beneficial ownership data easier and more useful for compliance reporting. Technically speaking, most companies and individuals already have digital IDs, only they are mostly siloed to individual online accounts, which are not always secure and are difficult to verify and trust. Canadian banks are looking to a generalized digital ID framework and the Digital ID and Authentication Council of Canada (DIACC) is working on a pan-Canadian trust framework to provide the infrastructure for digital IDs in Canada.¹⁸

Given this framing of digital IDs, we can define a digital identification as a method of using trusted custodians of information (e.g. governments and trusted networks) to reliably and securely verify a person exists and is who they claim to be online.

Company digital IDs will be easier to implement first and can be synchronized with projects in the Federal Ministry of Innovation, Science and Economic Development (ISED) that are also looking at implementing digital IDs for companies. The verification process implemented to grant digital IDs to companies will also help ensure the veracity of company information in the registry.¹⁹ One example of how a digital ID verification service can work is allowing a user to avoid duplicating background check documents by allowing the user to share his or her verified information from a trusted institution that conducts background checks (e.g., a financial institution) with another service provider (e.g., insurance provider, or government license) so that the user does not need to conduct its own duplicate background check.²⁰

Digital IDs for individual beneficial owners would also be valuable, yet some further developments in the personal digital ID space must occur in Canada to make it viable for a beneficial ownership registry. Progress needs to happen connecting digital IDs to provincial IDs and Canadian passports before it will be easier for individual beneficial owners to get their digital IDs.²¹

Cloud Computing

Cloud computing entails organizations, including governments, pushing computing environments out of their own facilities and into cloud services like Amazon AWS, Microsoft Azure, Google Cloud and a growing number of niche players. The use of cloud computing makes the deployment, sharing and updating complex systems easier and more effective.

Cloud computing is germane to the beneficial ownership registry discussion as it makes it easier for all the FPT governments to have access to a centralized registry. A cloud-based registry can be designed to allow every stakeholder appropriate access to data from registered companies. Cloud solutions can provide the most advanced and hardened cybersecurity technology and practices and can enable rapid response to emerging cyber threats.

Open Ownership's Beneficial Ownership Data Standard



As stated above, to further simplify and future-proof the data collected, we recommend the adoption of Open Ownership's²² Beneficial Ownership Data Standard (BODS). BODS “describes what data should be shared and how... and provides guidance on data publishing processes and data use.”²³

By leveraging BODS, Canada can choose to collect the data identified in Table 1 listing fields for data collection. If and when data requirements need to expand in the future, the BODS is extensible and, because it is delivered via JavaScript Object Notation (JSON²⁴), it would be easy for Canada to modify underlying systems. By using an international open standard, Canada would have an advantage meeting its international beneficial ownership data sharing obligations and would be able to easily leverage software and algorithms (e.g., beneficial ownership compliance analysis) developed by international partners who also adopt BODS.



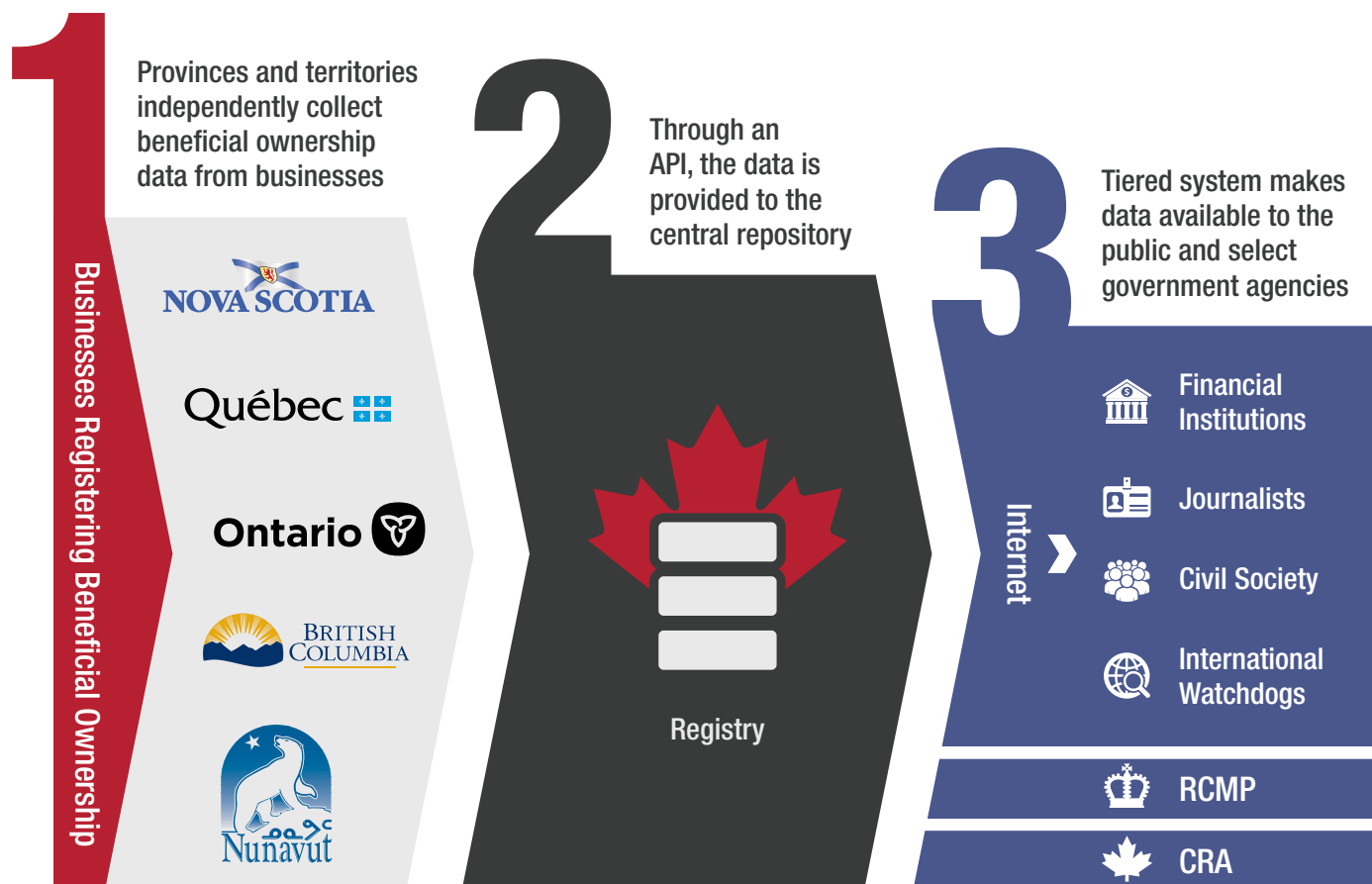
The Solution Architecture

A Federated, Distributed Architecture

One of the options available to deploy a publicly accessible beneficial ownership registry is to have the provinces and territories independently collect the beneficial ownership data and then provide the data to the central repository. Recommended components are as follows:

- Collaborative (between the federal, provincial, and territorial governments) development of data collection mechanisms and supporting protocols;
- Use of an open and international data standard like Open Ownership's BODS;
- Centralized beneficial ownership registry database and portal for access and compliance management, enabling authorized federal, provincial, and territorial public servants to manage their data;
- An application programming interface (API)²⁵ to enable the provinces and territories to upload beneficial ownership data to a central repository;
- Digital IDs for unique business identifiers (optional).

A Federated, Distributed Architecture



Architectural Benefits

- Enables the federal provinces and territories to better control what data is included in a registry as they collect the data.
- Enables the federal provinces and territories to determine when to collect the beneficial ownership data from businesses:
 - a. Upon incorporation (or within fixed number of days of incorporation);
 - b. During tax filing.

Architectural Challenges

- Significant development costs and data infrastructure required by all provinces and territories (especially if each province implements their own solution without sharing development costs).²⁶
- Potential loss of uniform quality of the central registry.
- Potential for legislative arbitrage where businesses may choose to register in a specific jurisdiction that requires less beneficial ownership information.
- Increased cyber threat due to API-based data transfer. This is a risk as data collected by the provinces and territories will have to be transferred to the central repository and this data transfer introduces additional cyber threats as bad actors can potentially intercept and/or alter the data during this transfer.

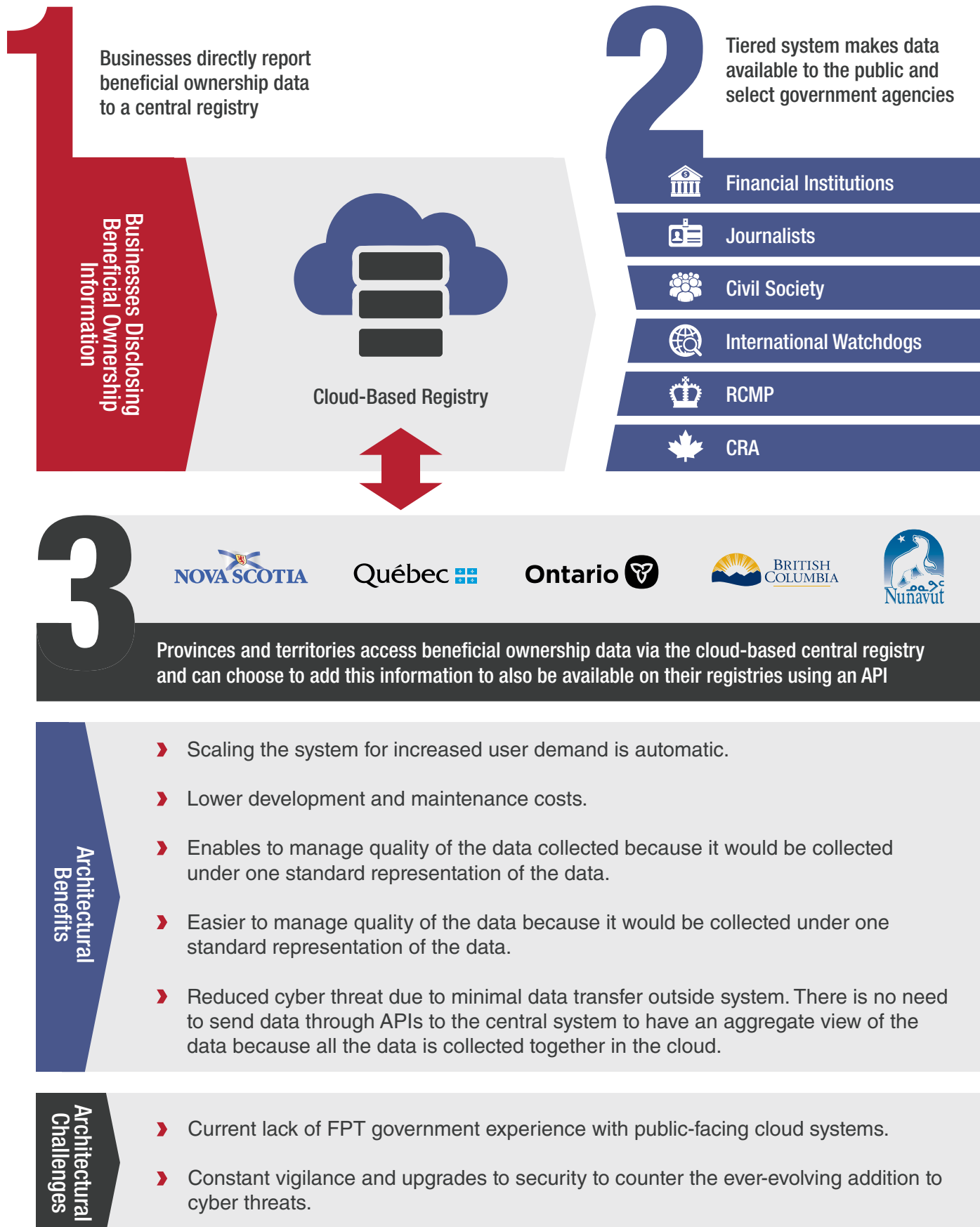


A Centralized Architecture

The second option is to create a centralized system that all jurisdictions can be a part of on their own timeline. Recommended components include:

- A single portal for the pan-Canadian registry to collect beneficial ownership data;
- Adoption and use of the Open Ownership BODS;
- A centralized registry database and access control management system and portal for access and compliance management to enable each jurisdiction to control their level of participation and data sharing;
- Digital IDs for unique business identifiers.

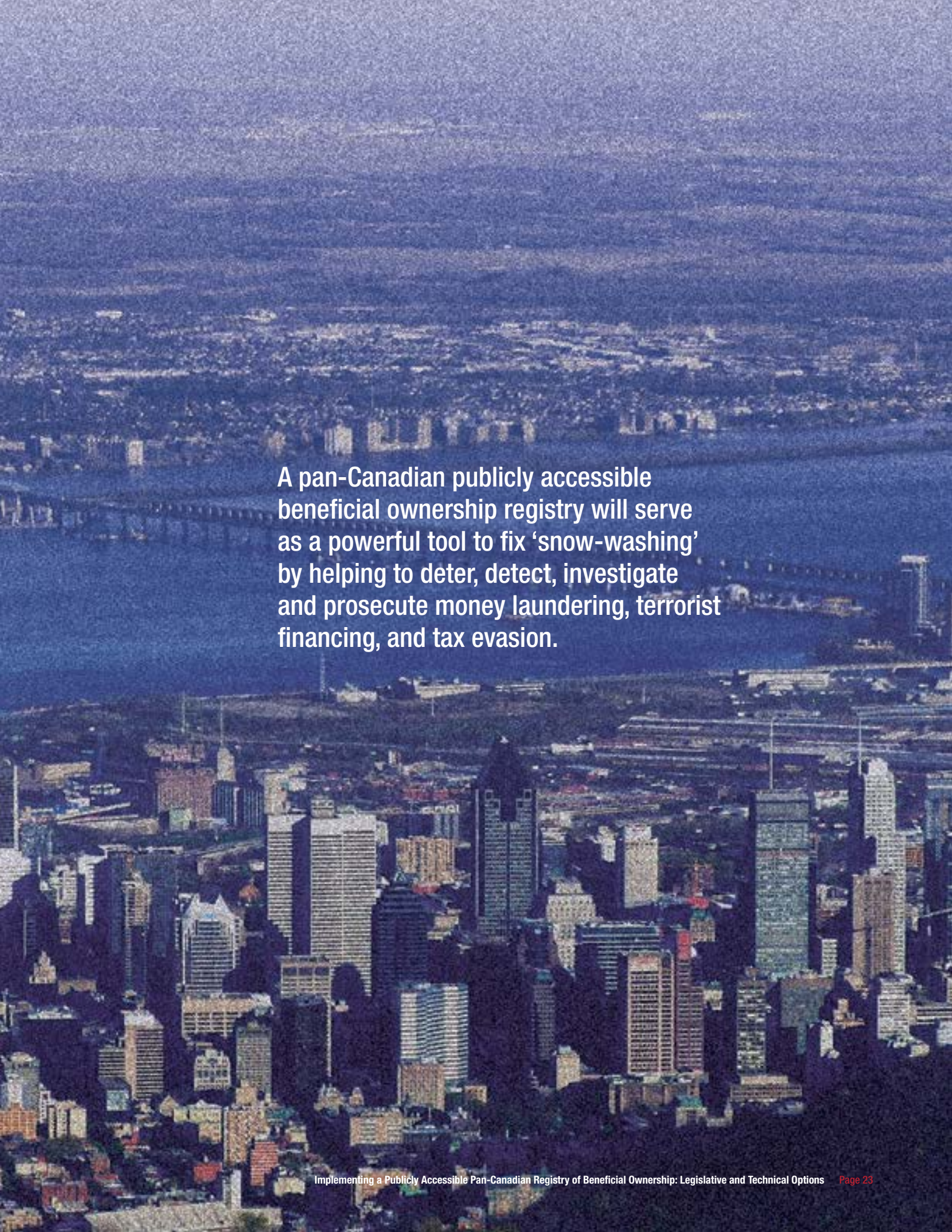
A Centralized Architecture



Summary

In summary, we make the following recommendations for public officials to consider as they study implementation of a pan-Canadian publicly accessible registry of beneficial owners:

- › Undertake a feasibility study of making a beneficial ownership registry separate from existing jurisdictional corporate registries, but using complementary information;
- › Collect standardized data across jurisdictions that follow global standards;
- › Legislate a registry through the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA);
- › Work toward incorporating digital IDs into registry for data verification; and
- › Develop a registry as a centralized architecture.

An aerial photograph of a city skyline, likely New York City, with a large body of water (the Hudson River) in the background. The city is densely packed with skyscrapers and buildings. The text is overlaid on the right side of the image.

A pan-Canadian publicly accessible
beneficial ownership registry will serve
as a powerful tool to fix ‘snow-washing’
by helping to deter, detect, investigate
and prosecute money laundering, terrorist
financing, and tax evasion.

Annex A

Methodology

The balance of the source material for this report was found through secondary reports by Canadian and international anti-corruption NGOs, government reports, and journalistic reports into Canadian beneficial ownership developments. The report author also carried out one-on-one interviews with experts, and facilitated two workshops:

- 1 Stakeholder workshop
- 2 Technical workshop

Stakeholder Workshop

A stakeholder workshop was held May 29th, 2019 in Ottawa to discuss with federal and provincial government officials the benefits of a publicly accessible beneficial ownership registry and to explore their understanding and concerns about the impact of such a registry.

Key Insights:

- › Concern about increased friction and cost for Canadian businesses and how it may be a competitive disadvantage for first movers losing company registrations to regulatory arbitrage.
- › The lack of quality and coherent beneficial ownership data from the provinces for law enforcement investigations and the high cost of accessing data in some provinces.
- › In Québec, a new law is required to share beneficial ownership information with the federal government.
- › Recognition that the biggest barrier may be a culture shift for government as they have always protected data like beneficial ownership information from getting out into the public sphere.

Technical Workshop

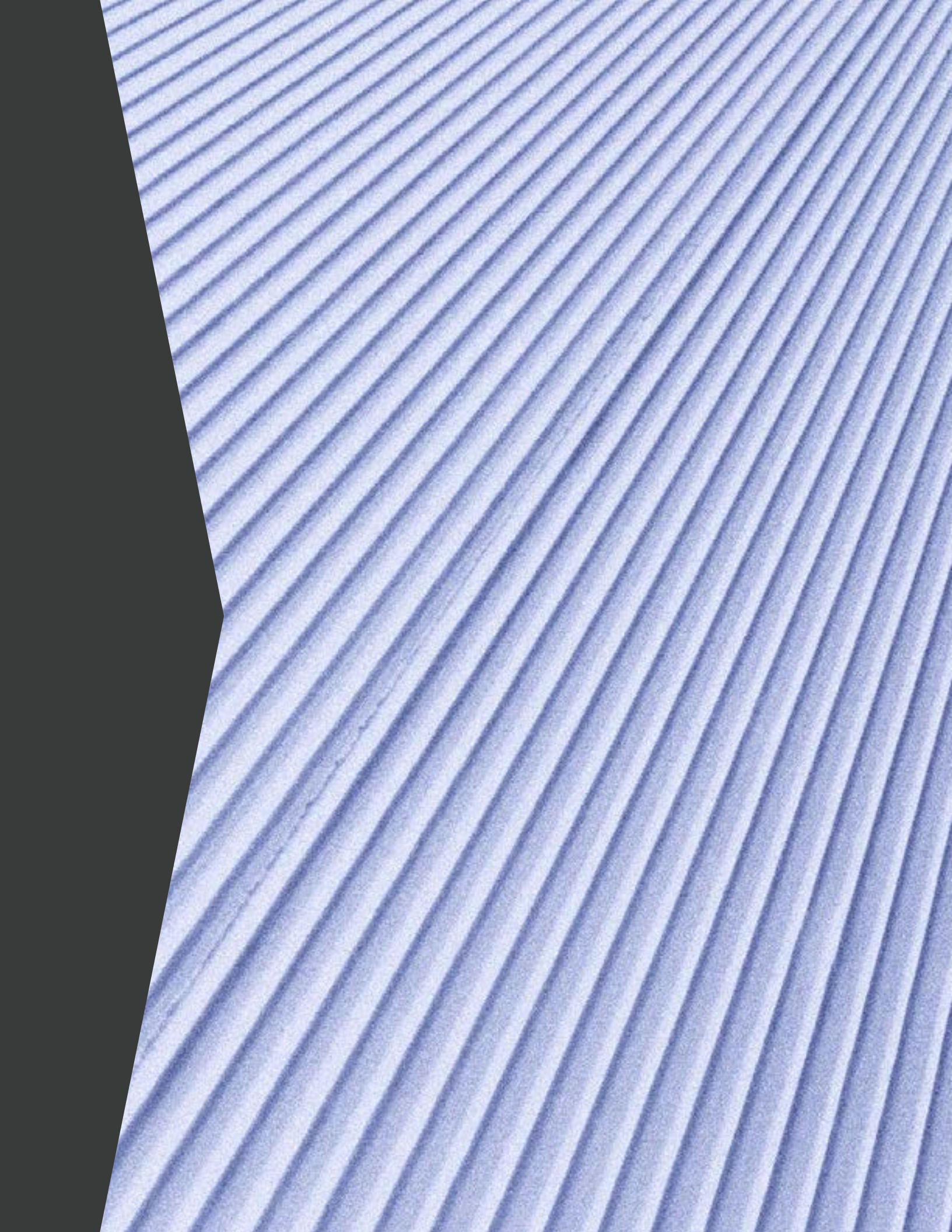
A Technical Workshop was held on June 25th, 2019 in Toronto, Ontario, bringing together industry and civil society experts on beneficial ownership transparency to discuss the regulatory and technical requirements for a registry.

Key Insights:

- The goal of the registry is to deter bad actors from leveraging Canadian business environment to launder money and to identify bad actors that are exploiting the Canadian business environment.
- Much of the discussion about regulations focused on the data elements to be represented in the registry. There were clear concerns about sharing full birth dates (consensus was the year of birth is sufficient), citizenship, tax residency and Politically Exposed Person information. The process for restricting access to individual's information on the U.K.'s People of Significant Control (PSC) register was discussed as a model for Canada.
- The verification of submitted beneficial ownership data was identified as the biggest issue for a registry to accomplish the identified goal. Without verification, the benefits of a beneficial ownership registry cannot be realized and may embolden legislators to claim 'problem solved' because a public registry is available. The veracity of the beneficial ownership data must be paramount in registry design and regulatory enactment.

References

- 1 Adam Ross: “No Reason to Hide: Unmasking the Anonymous Owners of Canadian Companies and Trusts,” <https://static1.squarespace.com/static/5df7c3de2e4d3d3fce16c185/t/5dfb8a955179d73d7b758a98/1576766126189/no-reason-to-hide.pdf>, Transparency International Canada, 2016.
- 2 Mora Johnson: “Building a Transparent, Effective Beneficial Ownership Registry,” <https://www.pwyp.ca/s/building-a-transparent-effective-beneficial-ownership-registry-english-interactive.pdf>, Publish What You Pay Canada, December 2017.
- 3 Letter to Minister Morneau Seeking a Publicly Accessible Beneficial Ownership Meeting During Finance Ministers Meeting, December 2018. As of May 2020, the information disclosure recommendations on behalf of the Coalition have changed based upon new evidence and considerations.
- 4 Please visit our coalition campaign website for all resources and calls to action at www.endsnowwashing.ca.
- 5 Financial Action Task Force & Asia/Pacific Group on Money Laundering: “Mutual Evaluation Report Canada - 2016,” <https://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-canada-2016.html>, September 2016.
- 6 Maira Martini, Maggie Murphy: Leaders Or Laggards, https://www.transparency.org/whatwedo/publication/g20_leaders_or_laggards, Transparency International, 2018.
- 7 CBC News, “No federally funded RCMP officers dedicated to money laundering in B.C., report reveals,” <https://www.cbc.ca/news/canada/british-columbia/peter-german-money-laundering-report-2019-1.5089036>, April 2019.
- 8 Please see the Annex A on methodology for a full explanation of stakeholder workshops used for conducting research for this report.
- 9 Review of the implementation of the PSC Register BEIS Research Paper Number 2019/05, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/822823/review-implementation-psc-register.pdf, March 2019.
- 10 Global Witness, “The Companies We Keep,” <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/companies-we-keep/>, July 2019.
- 11 UK Government, “Corporate Transparency and Register Reform,” <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>, May 2019.
- 12 Open Ownership, “Open Ownership response to BEIS consultation on Corporate Transparency and Register Reform,” <https://www.openownership.org/uploads/oo-response-to-corporate-transparency-and-register-reform-consultation.pdf>, August 2019.
- 13 Financial Intelligence Transactions and Reports Analysis Centre of Canada, “Money Services Businesses (MSBs),” <https://www.fintrac-canafe.gc.ca/msb-esm/msb-eng>, May 2020.
- 14 Open Ownership, “Beneficial Ownership Data Standard (v0.1),” <http://standard.openownership.org/en/0.2.0/>.
- 15 Gouvernement du Québec, “Budget 2020-2021,” http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/documents/Budget2021_AdditionalInfo.pdf, March 2020.
- 16 Innovation, Science, and Economic Development, “Strengthening Privacy for the Digital Age,” https://www.ic.gc.ca/eic/site/062.nsf/eng/h_00107.html, May 2019.
- 17 Ontario Ministry of Finance, “Comprehensive Integrated Tax Coordination Agreement,” <https://www.fin.gov.on.ca/en/publications/2009/citca.html>, November 2009.
- 18 DIACC, “Trust frameworks,” <https://diacc.ca/trust-framework/>, 2020.
- 19 Author interview with Joni Brennan, DIACC. August 7, 2019.
- 20 The example is based on the service provider Verified.Me, <https://verified.me/about/>.
- 21 Author interview with Joni Brennan.
- 22 Open Ownership, “What we do,” <https://www.openownership.org/what-we-do/>, January 2020.
- 23 Open Ownership, “What is the Beneficial Ownership Data Standard,” <http://standard.openownership.org/en/v0-2-0/primer/whatisbo.html>, January 2020.
- 24 W3resource, “JSON Introduction,” <https://www.w3resource.com/JSON/introduction.php>, November 2019.
- 25 Treasury Board of Canada Secretariat, “Government of Canada Standards on APIs,” <https://www.canada.ca/en/government/system/digital-government/modern-emerging-technologies/government-canada-standards-apis.html>, October 2019.
- 26 In 2014, the Impact Assessment by the U.K.’s Department for Business, Innovation and Skills concerning the PSC Registry, estimated the IT development cost between £72k-112k (\$130k-200k Canadian in 2014) and on-going maintenance at £225k per year (\$400k Canadian in 2014). The Companies House Annual Reports for 2015-2016 and 2016-2017 hint development costs may have been even higher but difficult to disaggregate numbers. Every jurisdiction that builds its own publicly accessible beneficial ownership registry would incur similar costs. Companies House Annual Report 2015-2016; Companies House Annual Report 2016-2017.



#end snowwashing



Follow the campaign @endsnowwashing
endsnowwashing.ca