

BENEFICIAL OWNERSHIP DISCLOSURE

Knowing who you do business with

"It is great for business and responsible companies that EITI now requires beneficial ownership disclosure – it is important for us to know who we are doing business with."

Carine Smith Ihenacho, Chief Compliance Officer at Statoil

The identity of the real owners – the 'beneficial owners' – of the companies operating in the extractive sector is often unknown, hidden by a chain of unaccountable corporate entities. **This problem affects other sectors and often helps to feed corruption and mistrust**, as anonymous companies can facilitate illegal financial activities and provide major risks to industry players.

In the last three years, the fight against secret company ownership has gained significant momentum. The G8 and G20 have made transparency in beneficial ownership a key priority. The European Union has required member states to establish ownership registers. Globally, several countries are working towards establishing public registers. Companies play an important role as the EITI requires they publish information on their beneficial owners. This provides stakeholders with information about who is operating in a country and creates a level playing field for all companies.

Benefits for companies of improved beneficial ownership transparency

Improving extractive sector transparency has led to strengthened relations with stakeholders and communities in EITI countries. It has also contributed to clear and consistent reporting requirements and a more stable investment environment in countries implementing the EITI Standard. Beneficial ownership transparency can provide further benefits for companies operating in the extractive sector and beyond:

▶ **Reducing risk in business relations:** Publicly available ownership information reduces the reputational, financial and legal risks of unknowingly doing business with people who might be politically exposed or subject to sanctions. This is particularly relevant for the extractive sector, where joint ventures

and production sharing agreements with other companies are common. Public beneficial ownership information can serve to reduce a company's exposure to prosecution under industry legislation such as the US Foreign Corrupt Practices Act and the UK Bribery Act by revealing the identity of their joint-venture and business partners. This would help reduce costs of compliance in the longer run.

- ▶ **Creating a level playing field:** Hidden ownership structures allow some companies to strike opaque deals or access lucrative projects because their owners are politically connected or willing to engage in deals aimed at generating quick profits rather than long term financial gain for both companies and society. In countries with weak governance systems, the allocation of rights to explore for or produce extractive resources can be based on political connections which can distort the markets. Beneficial ownership transparency can help ensure that all companies follow the same rules and therefore increase competitiveness. It reduces information asymmetries between bidders for oil, gas and mining licenses, which would improve their market intelligence.
- ▶ **Improved investment climate:** Ownership information allows investors to have confidence in whom they are investing. From the perspective of investors, having information on the identity of joint venture partners of companies they invest in would improve their visibility in companies and risks associated with certain projects.
- ▶ **Preventing corruption and illicit financial flows:** Publication of beneficial ownership information makes it more difficult to engage in illegal activities as there is a higher risk of being exposed. There is complementarity between EITI's beneficial ownership requirements and

compliance with other regulations requiring beneficial ownership disclosures ranging from Know Your Customer/Financial Action Task Force for the banking sector to UK Anti-Corruption Summit engagements. By publishing their beneficial owners, companies can ensure compliance with industry and anti-corruption regulations and promote responsible business conduct.

- ▶ **Building trust:** Being open about who owns a company can reduce suspicion and increase confidence that a company is best placed to extract the resources and return benefits to society through tax payments. By being transparent and showing stakeholders that there is nothing to hide, companies can gain a social license to operate.

What is required by the EITI Standard

With the 2016 EITI Standard, all EITI implementing countries must ensure that companies disclose their beneficial owners. This should include the identity of the owner, i.e. the name, nationality and country of residence. As a first step, 51 EITI countries will publish roadmaps outlining the activities and preparations that are considered necessary to ensure full implementation of the beneficial ownership requirements. **By 2020, implementing countries have to ensure that all oil, gas and mining companies that bid for, operate or invest in extractive projects in the country disclose their beneficial owners.** In addition to the identity of the owner, politically exposed

persons holding ownership rights must be identified. The EITI recommends that beneficial ownership information is made available through public registers. At a minimum, the information must be included in the country's EITI Report.

How companies can get involved

EITI implementing countries have a national multi-stakeholder group, consisting of representatives from government, companies and civil society, that decides the definitions of beneficial ownership and the level of reporting required in the country. The multi-stakeholder group may face considerable challenges, particularly at the outset, due to inexperience and unfamiliarity with some of the details of the beneficial ownership reporting process. Experienced companies can play a key role by providing leadership to help take the beneficial ownership transparency agenda forward.

Companies can provide support in the areas of strategic planning, beneficial roadmap design and implementation, as well as the technical and managerial issues involved in the reporting process. They can also contribute to the dissemination of information within the company's constituency and investors who might be required to report their beneficial owners.

As implementing countries start to develop their systems and build registers, reporting companies will be asked to submit their ownership information. The EITI International Secretariat will work with implementing countries to provide more guidance on how to report beneficial owners.

Is your company engaged in the extractive sector in an EITI country? Visit www.eiti.org/beneficial-ownership for more information or contact the EITI International Secretariat (secretariat@eiti.org).



The EITI Standard is available at www.eiti.org/document/standard

About the EITI

The EITI Standard is the international standard for countries in transparency and accountability around their oil, gas and mineral resources. It is developed and overseen by a coalition of governments, companies, civil society, investors and international organisations. The EITI Standard has a robust yet flexible methodology, which countries

adopt to address the specific issues they are facing. When implemented, the EITI ensures more transparency in how the country's natural resources are governed, and full disclosure of government revenues from its extractive sector.

To learn more, visit the EITI website www.eiti.org or follow us on Twitter [@EITLorg](https://twitter.com/EITLorg)