Addressing the Increasing Fraudulent Use of Corporate Registers

Global Challenges and Solutions for Protecting Corporate Registers

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Introduction

The registers of business entities and corporations administered by Secretaries of State are critical tools for economic growth, transparency, and accountability. They enable businesses to operate lawfully and foster trust among stakeholders. However, increasing misuse by bad actors, including fraudsters, money launderers, shell companies, and foreign entities, threatens their integrity as well as jurisdictional reputations.

This white paper examines the increasingly common abuses in jurisdictions the United States, United Kingdom, and Australia. It highlights the legislative and regulatory responses to these challenges and proposes measures to ensure the reliability and integrity of corporate registers.

Government business registries or corporate registries can be subject to various types of fraud:

False Information Submission

Fraudsters may submit false or misleading information when registering a company, including:

- Providing fake identities for directors or shareholders
- Using fictitious addresses for the company's registered office
- Falsifying documents like certificates of good standing

Exploitation of Verification Gaps

Many registries operate on a "good faith" basis, allowing criminals to:

- Take advantage of minimal identity verification processes
- Exploit the lack of thorough background checks on company officers

Shell Companies

Fraudsters can create shell companies with no real business operations to:

- Launder money from illegal activities
- Evade taxes
- Facilitate other financial crimes

Impersonation Scams

Scammers may impersonate the registry itself by:

- Sending fake letters or emails requesting payments for "registration fees"
- Creating websites that mimic the official registry to collect sensitive information

Manipulation of Existing Records

Once a company is registered, fraudsters might:

- File false annual filings or financial statements
- Alter company details without proper authorization
- Remove or add directors without their knowledge

Identity Theft

Criminals may steal the identities of legitimate individuals to:

- Register corporations without the person's knowledge or consent
- List them as directors or officers of fraudulent businesses

Beneficial Ownership Concealment

Complex ownership structures can be used to:

- Hide the true beneficial owners of companies
- Make it difficult for authorities to trace illicit activities back to the real perpetrators

To combat these issues, registries need to implement measures such as enhanced identity verification, beneficial ownership disclosure requirements, and increased scrutiny of submitted information. However, the balance between ease of doing business and fraud prevention remains a challenge for many jurisdictions.

It's a Global Issue

The United Kingdom

The UK's Companies House has faced criticism for enabling fraudulent activity due to insufficient checks on company officers and beneficial owners[i]. Historically, Companies House did not verify the identity of individuals registering companies, which allowed fictitious or misleading data to proliferate on the register. This lack of scrutiny facilitated fraudulent schemes and undermined the register's reliability[ii].

In response, the UK government introduced significant reforms under the "Corporate Transparency and Register Reform" initiative. Key legislative changes included:

1. Mandatory Identity Verification: Individuals registering companies, as well as those updating company information, are now required to verify their identities through a regulated process. This step ensures that all filings are traceable to real, accountable individuals.
2. Increased Registrar Powers: Companies House has been granted enhanced authority to query, amend, and remove inaccurate or suspicious information from the register. This enables proactive detection and mitigation of fraud.
3. Enhanced Penalties: Tougher penalties have been implemented for providing false or misleading information, further deterring potential abuse.

Progress in addressing fraud has been promising. Since implementing these reforms, Companies House has reported a marked improvement in data quality and a reduction in cases of misuse. However, continued monitoring and enforcement are necessary to sustain these gains and adapt to evolving threats.

The United States

Recent reports from some US States highlight an increase in the trend of companies registers being exploited for illegal activities. Minimal disclosure requirements have allowed bad actors to register shell companies anonymously, facilitating fraud and money laundering. Lawmakers are now considering tighter regulations to curb this abuse, including stricter verification of business owners' identities[iii].

In some States, for instance, authorities have uncovered schemes where fictitious companies were registered to access fraudulent loans or launder illicit funds. To address these abuses, the State has introduced measures requiring increased documentation for business registrations and stricter penalties for submitting false information. Similarly, others have implemented enhanced monitoring of filings and has begun cross-referencing corporate data with federal and state crime databases to detect irregularities[iv].

In some states, Secretaries of State have partnered with federal agencies to establish real-time data sharing systems, allowing better tracking of suspicious activity. Public awareness campaigns have also been initiated to educate citizens and businesses about the risks and responsibilities associated with corporate filings.

The CTA, enacted in 2021, represents an effort to enhance corporate transparency in the U.S. It requires most corporations and limited liability companies to report their beneficial ownership information to the Financial Crimes Enforcement Network (FinCEN). This data is stored in a secure, non-public database accessible only to law enforcement and financial institutions conducting due diligence. While the CTA aims to curtail money laundering and other illicit activities, its implementation has faced challenges, including lawsuits questioning its scope and potential privacy implications.

Recent court interventions have temporarily delayed some aspects of the CTA's enforcement. Critics argue that the Act's requirements impose significant burdens on small businesses, while proponents assert that the measures are essential for combating corporate misuse[v].

Australia

In Australia, the Australian Business Register and the ASIC Companies Register have encountered similar challenges. The introduction of the Director Identification Number (DIN) system reflects an effort to improve transparency and accountability. Under this system, directors must verify their identities, thereby reducing the risk of fraudulent activity[vi]. Additionally, the Director ID system provides for:

1. Centralized database: The system facilitates the creation of a centralized database containing information about directors and their relationships with different companies.
2. Improved traceability: Director IDs establish a clear and traceable link between directors and the companies they oversee, promoting responsible and ethical conduct.
3. Enhanced accountability: By linking directors unequivocally to their corporate actions, the Director ID system fosters a culture of accountability. Directors are less likely to engage in unethical behavior when their actions can be easily traced back to them.
4. Efficient monitoring: The system enables authorities to efficiently monitor director activity, identify individuals disqualified from directorship, and enforce penalties or restrictions where necessary.

By implementing these measures, the Director ID system significantly improves transparency in corporate governance, making it more difficult for individuals to hide behind complex corporate structures or engage in fraudulent activities.

Steps Being Taken:

Business/Corporate registries are implementing several measures to address fraud on their registers. Here are some examples of how they are tackling this issue:

- **Identity Verification:**
  - Jurisdictions like the UK and Australia now require identity verification for company officers and beneficial owners. These measures significantly reduce anonymity and the risk of fraudulent filings.
- **Beneficial Ownership Disclosure:**
  - The US Corporate Transparency Act requires disclosure of beneficial ownership information to combat financial crimes.
- **Increased Oversight and Penalties:**
  - Regulatory bodies are enhancing oversight, with stricter penalties for providing false or misleading information in filings.
- **Technology is being leveraged to detect and prevent fraud:**
  - Registries are using data analytics to identify unusual patterns or anomalies in registration data that may indicate fraudulent activity.

Recommendations for Legislative Support

1. **Global Standards for Identity Verification:**
   - Legislators should adopt uniform identity verification protocols, leveraging technologies like biometrics and blockchain to ensure accurate and secure identification.
2. **Mandatory Beneficial Ownership Registers:**
   - Require public disclosure of beneficial owners in all jurisdictions, harmonizing global standards to prevent regulatory arbitrage.
3. **Director ID Registers:**
   - Enhance transparency and traceability across companies, preventing the use of fictitious identities, and enabling regulators to more effectively track directors of failed companies and combat illegal phoenixing activities
4. **Data Integrity and Technology Integration:**
   - Introduce blockchain technology to create immutable records of company filings, ensuring data integrity and traceability.
5. **Enhanced Interjurisdictional Cooperation:**
   - Establish cross-border regulatory frameworks to share information on suspicious activity and harmonize compliance standards.
6. **Public Awareness Campaigns:**
   - Educate stakeholders about their obligations and the importance of accurate filings to foster a culture of compliance[vii].
7. **Stronger Enforcement Mechanisms:**
   - Increase resources for enforcement agencies to detect and prosecute fraudulent activities effectively.

Conclusion

The integrity of corporate registers is essential for economic stability and public trust. While jurisdictions like the United States, the United Kingdom, and Australia have made strides in addressing abuse, more robust measures are necessary. The potential impact of a BO disclosure system will largely depend on the policy, legal, systems and technological aspects of its implementation. Open Ownership has developed a policy framework for considering the elements that influence whether the implementation of reforms to improve the BO transparency of corporate vehicles will lead to effective BO disclosure[viii].

By implementing comprehensive legislative frameworks, adopting advanced technologies, and fostering international collaboration, governments can safeguard the integrity of corporate registers and promote lawful business practices.

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[i] https://www.thebureauinvestigates.com/explainers/companies-house-what-is-it-and-how-is-it-failing-to-do-its-job/

[ii] https://www.which.co.uk/news/article/getting-companies-house-in-order-the-rise-of-fraud-on-the-uks-company-register-aAWfV5U6IpnD

[iii] https://county17.com/2025/01/04/bad-actors-and-abuse-spur-wyoming-lawmakers-to-consider-tighter-business-regulations/

[iv] https://www.transunion.com/blog/how-to-combat-state-business-registrar-fraud-risk?atvy=%7B%22261809%22%3A%22Experience+B%22%7D

[v] https://www.hklaw.com/en/insights/publications/2024/12/corporate-transparency-act-back-in-effect-but-with-extended-deadlines

[vi] https://asic.gov.au/for-business/running-a-company/company-officeholder-duties/director-identification-number/

[vii] https://www.trulioo.com/blog/verify-legitimate-businesses

[viii] https://www.openownership.org/en/principles/

Foster Moore®, a Teranet company, – is a global leader and specialist registry software company focused on digital services for modernizing government. For two decades the team at Foster Moore has developed and maintained online business registry systems, and a host of other smaller electronic registries across the globe.

Teranet® is Canada's leader in the digital transformation, delivery, and operations of statutory registry services with extensive expertise in land and corporate and personal property registries. For more than three decades Teranet has been a trusted partner to governments and businesses in building stronger communities and economies. Teranet developed and currently operates Ontario's Electronic Land Registration System and Writs System, Manitoba's Land Titles and Personal Property Registries.

Foster Moore and Teranet each bring distinct expertise to addressing the growing issue of fraudulent use of corporate registers, often collaborating to assist governments in protecting their registries. Foster Moore excels in creating intelligent registry solutions that enhance transparency, accountability, and operational efficiency, providing governments with powerful tools to combat fraud. Teranet complements this with its extensive experience in digital transformation and secure data management, offering innovative technologies that bolster identity verification and data integrity.

Foster Moore and Teranet help governments stay ahead of emerging threats, ensuring the reliability of corporate registries and strengthening trust in global business practices.

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