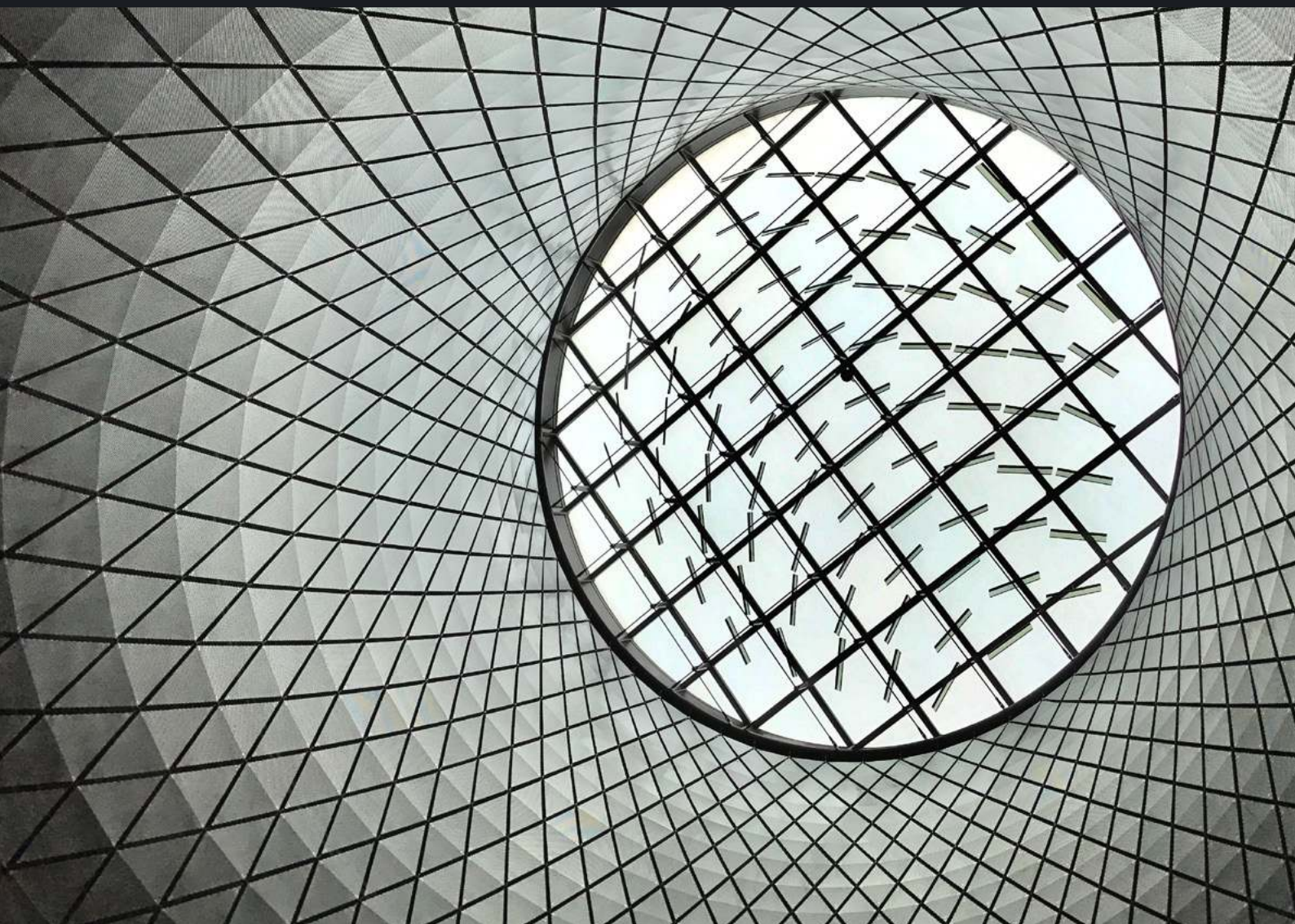


# Improving beneficial ownership transparency in Ukraine: Review and recommendations

---

Zosia Sztykowski and Tom Mayne — March 2018



# Executive Summary

Ukraine became the second country in the world after the United Kingdom to implement a public register of the beneficial owners of corporate entities registered in country. Laws were passed in 2014 and 2015, and a decree of the Cabinet of Ministers stipulated that this information should be published by spring 2016.

Since that time Ukraine has made significant progress, with some beneficial ownership data now available on Ukrainian legal entities via its companies register - the Unified State Register (USR). Ukraine should be commended for the subsequent steps it has taken to increase access to that information, including by becoming the first country in the world to commit to integrating with the OpenOwnership Register, which links beneficial ownership data from around the world.

The goal of this report is to determine the best next steps to take during an update of the companies register that is planned for 2018. This report is based on in-depth research and meetings with key officials and stakeholders in Ukraine which helped us formulate our findings.

We have identified several areas where changes are needed in order to improve access to, and usability of, the data.

## These include:

- The lack of beneficial ownership data in machine-readable format.
- The completeness of the database - a consequence of low compliance.
- A need for a stronger system of sanctions and robust enforcement to ensure compliance.
- Unreliable systems of disambiguation for individuals and companies.
- No representation of chains of ownership - that is, any companies in between a target company and its ultimate beneficial owner.
- A lack of granularity in the data, in particular on the means of control.
- No information given on when the data was submitted, and no confirmation statement required, meaning that it is not possible to know if the data is up to date.
- A need to close possible loopholes by requiring the reporting of detailed beneficial ownership data. This includes using the definition of “beneficial

owner” contained in the law as a basis for creating a clear test of beneficial ownership to share as guidance.

- No inline validation of beneficial ownership data at the point of collection, and inefficient processes of verification thereafter.

---

### **We recommend that:**

- The Ukrainian Ministry of Justice urgently address the problem of low compliance by understanding its causes and bringing sanctions and enforcement in line with international best practice, including by requiring and enforcing regular updates to the information.
- The Ministry update the necessary regulation to improve the granularity of the data provided by requiring comprehensive data on beneficial owners and the disclosure of means of control. The high 25% threshold of shareholding that beneficial owners must exceed in order for the reporting requirement to kick in should be removed, and the full range of definitions of beneficial ownership clearly specified.

- The Ministry work with technical implementers to create forms that can collect beneficial ownership as structured data by default, including a field to indicate when the data was submitted.
- The Ministry and technical implementers ensure that there are reliable means to disambiguate individuals and companies by providing unique identifiers for individuals and companies. Reliable identifiers for companies will also allow the Ministry to link companies and beneficial owners in a full beneficial ownership chain.
- Technical implementers update business process for collecting data, and design new forms which include inline validation, as well as processes for comparing it with other relevant datasets to verify its accuracy.

A fit-for-purpose database with higher quality data and more entries will enable a variety of groups to use the information more productively, creating a feedback cycle that will have genuine impact for government, society and business in Ukraine. We look forward to applying our technical tools and subject matter expertise in support of both the Ministry of Justice and technical implementers as they make improvements to the companies register.

# Contents

<b>Glossary</b>	<b>6</b>
<b>Introduction and scope</b>	<b>7</b>
<b>Background</b>	<b>10</b>
<b>Methodology</b>	<b>12</b>
<b>Use cases for beneficial ownership data</b>	<b>13</b>
Public sector users	13
Private sector users	14
Civil society users	14
<b>Findings</b>	<b>16</b>
Existing technology and functionality of the companies register	16
<i>Structures for technical project management in place</i>	16
<i>Sophisticated technology and open access with some limitations</i>	16
<b>Data quality</b>	<b>16</b>
<i>Data is not available in machine-readable format</i>	17
<i>Incomplete database</i>	17
<i>No reliable means of disambiguation for individuals or companies</i>	17
<i>Timeliness of data not recorded</i>	18
<i>Unclear beneficial ownership test</i>	18
<i>Data lacks granularity</i>	18
<i>No data on the chain of ownership</i>	19
<b>Business process</b>	<b>19</b>
<i>Lack of in-line validation and an efficient verification process</i>	19
<i>Unclear or unenforced sanctions and incentives</i>	20



Summary and discussion	22
<b>Recommendations</b>	<b>23</b>
Enforcement and compliance	23
<i>Understand the problem of low compliance</i>	23
<i>Clarify sanctioning regime and ensure robust enforcement</i>	23
Access to useful data	24
<i>Collect and publish beneficial ownership as structured data by default</i>	24
<i>Ensure unique identifiers for companies and individuals</i>	24
<i>Provide data about timeliness and access to historical data</i>	24
<i>Update regulation to require confirmation statements</i>	25
<i>Update regulation to close loopholes and ensure granularity</i>	25
Management of the register	25
<i>Put user needs at the center of development of the companies register</i>	25
<i>Design technology to validate and verify beneficial ownership data</i>	26
<i>Encourage verification by users</i>	27
<b>Summary and conclusion</b>	<b>28</b>
<b>Annex A: Collecting and publishing useful beneficial ownership data</b>	<b>29</b>
<b>Annex B: Integration with OpenOwnership Register</b>	<b>31</b>

# Glossary

**Beneficial owner** – A real, living person who ultimately controls, has influence over, or materially benefits from a company or other legal entity. The control or benefit could be either direct or indirect, e.g. via intermediate entities, nominees, or contractual agreements.

**Beneficial ownership chain** – The entire chain of entities that are linked by their control of one company, starting at that company and stretching to the beneficial owner, including any intermediate companies.

**Business process** – The functions and practices that result in published (and usable) beneficial ownership data.

**Open data** – Digital “structured” or “machine-readable” data that is “made available with the technical and legal characteristics necessary for it to be freely used, reused, and redistributed by anyone, anytime, anywhere.”<sup>[1]</sup>

**Public access** – Beneficial ownership data is made available to any user with no access restrictions (e.g. registration, fees). This does not mean that all data in the registry needs to be publicly available; sensitive data, such as a beneficial owner’s home address, identification codes and passport details of individuals, can be held back and available only to relevant authorities. A beneficial ownership register can be publicly accessible without being available in open data format - for example, individual records could be searchable by the public, but the data cannot be downloaded in bulk as structured data. Thus, it is important to define both terms.

**Use case** – A description of the needs different classes of users have when they use an application or web site, and how they will use the web site to perform tasks that help them reach these goals.

---

[1] OpenOwnership Briefing on Beneficial Ownership as Open Data

# Introduction and scope

In recent years, society has come to understand the importance of corporate transparency. The Panama and Paradise Papers and other high-profile corruption scandals have caused a radical shift in the narrative around anonymous companies and trusts. Ukraine has been deeply affected by corruption since it gained independence in the early 1990s, with former government officials accused of misappropriating state assets through the use of anonymous shell companies registered in Ukraine and abroad. It is clearer than ever that these anonymous corporate structures are often a cloak for corrupt and criminal activities such as embezzlement, contract fraud, organized crime and money laundering. The resulting capital flight deprives the citizens of Ukraine of much-needed revenue, degrades the business environment, and entrenches corruption and poverty at the expense of the many for the benefit of the few.

Increasingly, far-sighted governments, law enforcement and socially responsible businesses agree that making useful information about who owns companies available to the public is critical to tracking illicit financial flows and tackling corruption. At the 2016 Anti-Corruption Summit organized by the government of the United Kingdom, 12 countries committed to establishing central beneficial ownership registers. 15 countries have committed to establishing or exploring registers as part of their Open Government Partnership (OGP) National Action Plans, and 20 countries have committed to establishing central

public registers of beneficial ownership in their Extractive Industries Transparency Initiative (EITI) beneficial ownership road maps.<sup>[2]</sup>

According to provisions of the State Anticorruption Policy of Ukraine for 2014-2017, tackling corruption, including through the abuse of anonymous corporate vehicles, is a priority for Ukrainian society. The President of Ukraine, Petro Poroshenko, signed the Law of Ukraine “On Amending Certain Laws of Ukraine Relating to the Identification of Ultimate Beneficiaries of Legal Entities and Public Figures” on 23 October, 2014, one of five anti-corruption laws passed by the Ukrainian Parliament that month.<sup>[3]</sup> Although the original timeline envisaged that the law would come into effect in 2014, this was extended to spring 2016 due to difficulties with implementation. The policy ensures free access via the internet to the data in Ukraine’s companies register. The Unified State Register (USR) details information on legal entities and individual entrepreneurs, which allows both law enforcement and the wider general public to find information on the ultimate beneficiaries of Ukrainian corporate entities. The Ukrainian Ministry of Justice has been designated as the body responsible for establishing, maintaining and providing technical support to the USR, and for issuing fines for non-compliance.

Ukraine is also a member of the EITI, having joined in 2013. As stated above, the EITI will require all

---

[2] London Anti-Corruption Summit country statements. EITI beneficial ownership roadmaps. Discussion of OGP National Action Plans.

[3] Gordiyenko, Oliana & Matviychuk, Zoryana, “Ukraine: Upfront Disclosure of Beneficial Ownership Now Required”, Global Compliance News, 27 Oct 2014.

companies that hold extractive licenses in EITI-implementing countries to disclose their beneficial ownership from 2020. Ukraine's 2014 EITI Report notes that 66 of the 120 extractive companies covered by the EITI Report have disclosed their beneficial owners in the public register held by the Ministry of Justice (compared to an average of 2% compliance across EITI countries involved in the initial pilot scheme). Ukraine's incorporation of a beneficial ownership register as part of its company database goes hand in hand with this EITI requirement.

To date, approximately 253,000 Ukrainian companies have reported their beneficial ownership through the companies register. This information can be accessed via the electronic services portal.<sup>[4]</sup> Since then, Ukraine has undertaken multiple efforts to improve both the quality of this data, and access to it. In 2016, Ukraine committed to improve “the mechanism for verifying information about ultimate beneficial owners” and implement “mechanisms to search and display the relations between legal entities and their founders (participants)” as part of its Open Government Partnership (OGP) National Action Plan.<sup>[5]</sup> Since June 2017, the Ministry of Justice has made beneficial ownership data available as an open data set for bulk download, along with other company data.<sup>[6]</sup>

In May 2017, the government of Ukraine went one step further by signing a Memorandum of Understanding with OpenOwnership and Transparency International Ukraine to become the first country in the world to commit to integrating with the OpenOwnership Register.<sup>[7]</sup> Integration with OpenOwnership means that Ukrainian beneficial ownership data will update automatically to the OpenOwnership Register, linking this data with other data from around the world and allowing anyone to search for information on Ukrainian companies and

their beneficial owners. At the time, the Minister of Justice of Ukraine, Pavlo Petrenko, said: “We set the ambitious goal to ensure transparency and openness of all processes of our country...Creating [a global] register is a true breakthrough in transparency and the fight against corruption in business.”

These important steps put the Ukraine ahead of countries that have not yet turned their commitments to beneficial ownership transparency into action. Continued leadership in this field will require Ukraine to demonstrate that it is diligently working to meet the global “gold standard” on beneficial ownership transparency. As we will discuss in the body of this report, this means making improvements to the quality of their beneficial ownership data, and ensuring compliance with reporting requirements. The ultimate aims of an open beneficial register - the reduction of corruption, and the creation of a better business environment - depend on the use, and thus the usefulness, of the data it holds.

As the first step toward integration with OpenOwnership, our team conducted a technical scoping review of the Ukrainian company register and Ukraine's current beneficial ownership data in order to assess the usability of the data and provide recommendations for improving it. At OpenOwnership we have worked to develop a global standard for collecting and publishing beneficial ownership data alongside dozens of experts from around the world - the Beneficial Ownership Data Standard (BODS). We also have expertise in the domain of company data in general. Members of OpenOwnership's steering group, including Transparency International, Global Witness, the B Team, the ONE Campaign, OpenCorporates, and Open Contracting Partnership, have conducted research on best practice research that serves as the basis for many of our recommendations.

[4] <https://usr.minjust.gov.ua/ua/freesearch>

[5] <https://www.opengovpartnership.org/countries/ukraine>

[6] The data is updated weekly and can be accessed at <http://data.gov.ua/passport/73cfe78e-89ef-4f06-b3ab-eb5f16aea237>

[7] Transparency International, “Ukraine Takes Important First Step Towards Ending Corporate Secrecy”, 1 June 2017.

[8] *Ibid*



The OpenOwnership team's first technical scoping review was of Ghana's companies register (as yet unpublished). The observations from this report and others will form the basis for technical assistance packages and implementation guidelines for countries setting up central beneficial ownership registers. More directly, they will inform technical assistance we will provide to the Ukrainian Ministry of Justice as they begin the project of updating their companies register.

The content of this report was reviewed by staff at the Ukraine Ministry of Justice in October 2017 for accuracy. We addressed their comments by email and during a follow-up phone conference. We have indicated in the text where our findings and their comments could not be reconciled. Transparency International-Ukraine (an OpenOwnership partner) also provided feedback and advice on our findings and recommendations.

Our recommendations do not prescribe processes but set a direction for future conversations. We begin by explaining why publicly available data that gives complete, accurate and up-to-date beneficial ownership information is needed to stem corruption and improve good governance. Then we briefly review the methodology we followed in generating the observations in this report. We follow that by discussing our findings, which we assess and analyze against our knowledge of international best practice and our own expertise. Finally, we outline our key recommendations.

## Background

Effective user engagement transforms beneficial ownership data collection from a tick-box exercise to a policy tool with a real impact on stemming corruption and creating a better environment for business. Restricted access (i.e. private) beneficial ownership registers are focused on engaging users in law enforcement and tax authorities, who can use the data to find information they need about individuals' links to companies. The hoped-for impact is that this access will result in successful prosecutions and/or recovered tax revenue and assets, as well as acting as a deterrent for corrupt actions.

But when the data is open to the public, each of these effects is enhanced. Open access beneficial ownership data is available to a far greater number of users.<sup>[9]</sup> Additional users can serve to improve data quality by flagging missing information and inconsistencies, making it more difficult for corrupt individuals to hide behind lies or omissions. Beneficial ownership transparency gives more people and organisations a means to hold corrupt individuals accountable and a deterrent for unethical corporate behavior. It is likely no coincidence that most of the 21 anonymous UK companies involved in the infamous Global Laundromat scheme dissolved just months before the UK's beneficial ownership register came online.<sup>[10]</sup>

Public, open beneficial ownership data also has additional uses that are potentially transformative for a country's society and business markets. When

the data is published in an open, machine-readable format, it can be linked productively with other useful datasets, such as procurement data, sanctions lists, land registries, and so on. It can also be linked with beneficial ownership datasets from other jurisdictions, allowing users to track illicit financial flows across the world.

This is the premise behind OpenOwnership, our project to build the first global register of beneficial ownership. Hand-in-hand with the register itself is the Beneficial Ownership Data Standard (BODS), which (when in widespread use) will allow more beneficial ownership data to be linked transnationally. The structured, open data format is essential to allowing large amounts of data to be analyzed. This would be difficult, if not impossible, to do with data that is public but in non machine-readable formats such as PDFs and scanned picture files.

Crucially, public, open data on beneficial ownership opens up uses by the private sector that can result in a better environment for business and more efficient markets. With open beneficial ownership data, businesses can better vet prospective partners, clients or suppliers by requiring them to self-submit data, or use existing data to enhance due diligence and manage risk exposure, for instance in foreign direct investment. The business community has been vocal in their demand for beneficial ownership transparency in the B20 (representing the business

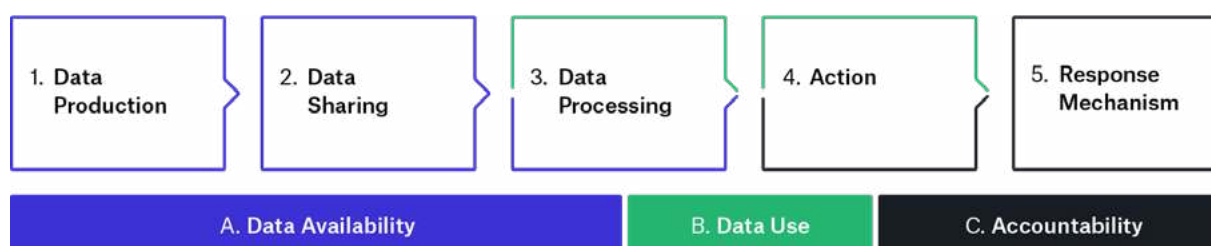
---

[9] In the UK, company data use has grown exponentially, to 10 million searches a day, since the data was made free and open (Email exchange between Companies House and OpenOwnership, 3 March 2017).

[10] Harding, Luke, et al. "British banks handled vast sums of laundered Russian money." The Guardian, 20 March 2017. News, 27 Oct 2014.

community of the G20) and in other fora, as a means to ensure stable and fair markets that do not unfairly privilege the corrupt. EY's 2016 Global Fraud Survey found that 91% of senior executives believe it is important to know the ultimate beneficial ownership of the entities they do business with.<sup>[11]</sup>

The flow from data production, to use, to impact is captured in this diagram of the open data value chain from the Open Data Charter:<sup>[12]</sup>



Rather than thinking of data sharing as a simple act of “opening up” information that is already there, the desired actions on the part of users, and response or impact in the world, must be considered from the primary stage of data production. The hoped-for outcome must be reflected in the design of the data sharing from the very beginning of the process to create a coherent flow.

Thus, it is by serving the needs of these users that the government of Ukraine will see the benefits of collecting and publishing beneficial ownership information. A public, open data register in Ukraine will engage a variety of users, not just in government but also in business and civil society. When the register and data are designed and maintained with user needs in mind, users will drive greater data quality, which results in more productive uses, in a feedback cycle that will have true impact for Ukrainian society.

In this report, we make recommendations tailored to the Ukrainian context on improving data quality and process to ensure the most useful data possible is generated. Below, we discuss the conversations that helped us to understand this context.

[11] EY, “Corporate misconduct - individual consequences.” 2016.

[12] Open Data Charter, “Anti-Corruption Open Up Guide Methodology.” July 2017.

## Methodology

This scoping study is based on in-depth interviews with implementers of the companies register register that took place during a research trip to Kyiv in August 2017. This included interviews with key staff at the State Enterprise “National Information Systems” (NAIS), which is the administrator of the USR. The Ministry of Justice is the “holder” of the companies register, meaning it is responsible for governance and policy. We had the opportunity to meet with Deputy Minister of Justice for State Registration, Olena Sukmanova, and the Ministry’s Head of External Relations, Oksana Reiter. In addition, we had multiple conversations with staff at Transparency International Ukraine and ProZorro, a partnership between the public sector and civil society that aims to increase the transparency of public contracts.

In developing the findings and recommendations in this report, we relied on the accounts of NAIS staff on the process of collecting, verifying, validating and disseminating beneficial ownership information. We also examined the type of information being stored, and how this could be improved in the future, based on comparisons with international best practice procedures. Finally, we performed some searches using the database in order to assess its usability.

## Use cases for beneficial ownership data

Before setting out our findings, we feel it is necessary to clarify in detail the various uses for beneficial ownership data, tailored as much as possible to the Ukrainian context. These use cases are informed by those we developed as the basis for the Beneficial Ownership Data Standard.<sup>[13]</sup> The below does not claim to be a comprehensive survey of all use cases, but can certainly be used as groundwork for further investigation of use cases unique to the Ukrainian context.

### Public sector users

Public sector users may include law enforcement or tax authorities such as:

- The National Anti-Corruption Bureau of Ukraine (NABU), a law enforcement body established in 2014 specializing in investigating and solving corruption-related offences committed by high officials authorized to perform functions of the state or local governments;
- The Specialized Anti-Corruption Prosecutor's Office (SAPO), an independent subdivision of the Prosecutor General's Office of Ukraine, which assists NABU in investigations, by supervising compliance with the law during operational and search activities of pre-trial investigations;
- The National Agency for Prevention of Corruption (NAPC), a central executive body with a special status ensuring development and implementation of the state anti-corruption policy. The NAPC develops projects in line with Ukraine's anti-corruption strategy and state program and verifies declarations of state officials regarding their income and business affiliations;
- The State Financial Monitoring Service of Ukraine, a central executive body which implements the state anti-money laundering and countering financing of terrorism policy;
- The National Agency for the Tracing of Assets Derived from Corruption and Other Crimes, a central executive body ensuring development and implementation of the state policy in tracing assets that can be seized during criminal proceedings and/or managing assets that were seized or confiscated in the criminal proceeding;
- The State Bureau of Investigations (SBI), a central executive body carrying out law enforcement activities aiming at preventing, identifying, stopping, solving and investigating crimes committed by officials of NABU and SAPO;
- The State Fiscal Service of Ukraine, subordinated to the Ministry of Finance, which collects taxes and helps fight against tax and customs crimes.

All of these agencies could use structured, high quality beneficial ownership data by combining it with their existing datasets (suspicious activity reports, land registries, etc.), or performing individual searches on a database, to find reinforcing pieces of information or unseen connections.

[13] "Beneficial ownership data standard: Narrative cases, user stories and requirements (working document)". 22 Dec 2016.



Another key user group is public contracting bodies. Ukraine is a trailblazer on open contracting as well, having in recent years launched ProZorro, a public e-procurement system that allows the public to see the deals that are being made. The project was the result of a collaboration between the Ukrainian government, the country's business sector, and its civil society, including Transparency International Ukraine and other local NGOs. ProZorro already collects some beneficial ownership data in order to shine a light on who stands behind the entities who win contracts with the government, but indicated in discussions with us that it would benefit greatly from reliable access to high quality data. This would not only allow the general public to assess whether a deal is fair, but would also allow those in the private sector to research markets, and size up the competition.

Licensing bodies such as the State Service of Geology and Mineral Resources, and the Ministry of Energy and Coal of Ukraine may already be collecting some ownership information as part of the licensing process, but they will also benefit from access to higher quality data. In particular, access to historical data about companies will allow such agencies to find out information on whether company owners have been involved in successful projects, or mismanaged, corrupt dealings. This will allow the licensing regime to become more transparent by giving the government full transparency over the background of company owners, avoiding the type of scandal that has affected Ukraine in the past.

For example, a 2012 shale gas contract was controversially awarded to a joint venture, 10 percent of which was owned by a previously unknown Ukrainian company which possessed unclear beneficial ownership, leading to allegations that it was a possible front for Ukrainian government officials.

<sup>[14]</sup> The company's shares were officially owned by three geologists, but questions were raised as to why

they were allowed a share in the company (worth potentially hundreds of millions of dollars if the project was successful) and not simply paid a salary as employees.<sup>[15]</sup>

By implementing a public beneficial ownership register in addition to other innovations in contracting transparency, the new Ukrainian authorities may escape the legacy of opaque contracting and ensure that lucrative government contracts are given to the companies that are best suited for the job at hand.

### Private sector users

Investors, compliance officers in the private sector, and third party agencies that have been hired to do due diligence on a Ukrainian company all require access to beneficial ownership data to ensure they are not exposing themselves to financial and reputational risk, sanctions under the US Foreign Corrupt Practices Act (FCPA) and UK Bribery Act, sanctions breaches, or other types of risk.

Certain private sector users, such as credit reference agencies, benefit in particular from having beneficial ownership data that can be downloaded in bulk and combined with their existing datasets. A cost-benefit analysis conducted in the UK calculated that this functionality would bring over £50 million back into the economy, mostly due to reduced rates of fraud and other types of financial misconduct.<sup>[16]</sup> Other private sector users, such as banks, may use the information in the Ukrainian register to compare against and verify data they have received bilaterally as part of their due diligence processes. A discrepancy between the two data sets could automatically trigger further scrutiny.

### Civil society users

Civil society and investigative journalism played a key role in Ukraine's revolutions of 2004 and 2014,

[14] Hill, Duncan, "Obscure Dutch firm bests two rivals for giant gas field", Kyiv Post. 14 Aug 2016.

[15] SPK Geoservice was later removed from the project, with reportedly the shares sold for a nominal value, so as not to give the perception of impropriety. See Kyiv Post, 14 Aug 2016.

[16] HM Treasury and DTI, "Regulatory Impact Analysis: Disclosure of Beneficial Ownership of Unlisted Companies." 2002.

with researchers attempting to uncover the beneficial owners hidden behind layers of corporate entities in companies that received government concessions and contracts. For example, after President Yanukovich fled his luxury compound Mezhihyria in February 2014, volunteer divers found nearly 200 folders of documents dumped in a lake at the residence by members of the former regime who were looking to destroy evidence of financial misdealings, including the laundering of state assets and other financial crimes. The recovered documents were painstakingly dried, copied, analyzed and uploaded to a dedicated website in order to cast light on the crimes of the previous regime.<sup>[17]</sup>

Documents recovered included important records on real estate transactions related to former President Yanukovich, and information on companies registered offshore which later were accused of trading in oil products using a tax evasion scheme that cost Ukraine's government an estimated US\$1 billion in lost revenues.<sup>[18]</sup> Both of these case studies involved the use of anonymous companies, highlighting how these structures are the “getaway cars” for the criminal and corrupt.<sup>[19]</sup>

Ukraine's adoption of a public beneficial ownership register will allow investigators and journalists to use beneficial ownership data to conduct investigations into individual companies, or use data analysis to uncover patterns or trends. The result is often a complementary relationship between civil society and law enforcement, wherein civil society (including journalists) conducts preliminary investigations,

prompting law enforcement to open criminal cases.

Ukraine also recently required public asset disclosures on the part of politicians. The clause - related to ‘politically exposed people’ - requires anyone who has held a senior government post (including ministers and deputy ministers, heads and deputies of central executive bodies, Members of Parliament of Ukraine, heads and judges of the Constitutional and Supreme Courts) to declare any business they have been involved in within the last three years. Beneficial ownership is a critical dataset for civil society investigators seeking to confirm the accuracy of these disclosures.

It is worth reviewing the unique policy outcomes each of these user groups brings. If it is easy for law enforcement to use the data, and if they trust it, this will lead to greater asset recovery and a deterrent effect for using company structures to facilitate criminal activity in Ukraine. Greater transparency in public contracting means a level playing field for corporates and ensuring good value for money in licensing and public services. If corporates can easily use the data, this creates a more stable market in Ukraine, as well as attracting greater foreign direct investment when investors know where their money is going. When criminality does occur, civil society can assist law enforcement in identifying leads, thus deterring would-be criminals, both in Ukraine and abroad. Overall, as we have stated above, more users means higher quality data, which reinforces these benefits and strengthens them over time.

[17] [YanukovichLeaks National Project](#): A group investigating the documents found in Mezhihiria, undated.

[18] Babinets, Anna, “Ukraine: Investigations Mushroom in Kurchenko's Wake,” [YanukovichLeaks](#), 14 March 2014.

[19] Global Witness, “[Anonymous Company Owners](#)”, undated.

## Findings

Overall we were impressed by Ukraine's progress so far in collecting and publishing beneficial ownership information, and the broad access to that information granted by the Ministry of Justice. There is still room for improvement, and we have identified several areas where the usability and quality of the data could be enhanced. We also discuss and analyze a key problem: the incompleteness of the dataset due to low compliance.

### Existing technology and functionality of the companies register

**Structures for technical project management in place** – The Ministry of Justice is the holder of the Unified State Register (USR), which contains information about companies. The information held on this register is shared with other public authorities, including the State Tax Service of Ukraine, the State Statistics Service of Ukraine, the Pension Fund of Ukraine, and other registers. NAIS is the Technical Administrator of the USR, ensuring the smooth operation of the registries and taking steps to create, refine and maintain the registry software. NAIS is responsible for providing broad technical and technological support including on data storage and protection. It translates directives from the Ministry of Justice into technical specifications, which are developed further in conversation with users and passed on to external developers, who are managed by NAIS.

**Sophisticated technology and open access with some limitations** – The Ukrainian companies

register<sup>[20]</sup> boasts sophisticated technology at the front and back ends. NAIS informed us that user testing has been carried out and users have been considered in the design of the register and related interface. A 0.05 Hryvnia fee is levied for searches on the USR. Beneficial ownership data is also available as a bulk download via the e-gov portal. Both datasets are available only in Ukrainian, with portals and fields also in Ukrainian. This is a high level of access for Ukrainian users, but limits the usability for those who aren't familiar with the language.

Users can view historical data by requesting extracts of data that were “true” on a certain date for limited liability companies but not joint stock companies (the Ukrainian equivalent of companies limited by shares). They are also able to view information about dissolved companies. Access to historical data is useful from a due diligence perspective, so that corporate entities can ascertain if they are going into business with someone whose previous company was closed due to fraud or bankruptcy, or are doing business with a company that has employed corrupt or criminal owners in the past. The European Court of Justice recently recognized this when it decided that there is no “right to be forgotten” in company registers.<sup>[21]</sup>

### Data quality

As with all databases of significant size, the USR is facing challenges with data quality and completeness.<sup>[22]</sup> We have identified specific areas where changes will result in an improved data set. Overall,

[20] The portal is available at <https://Usr.minjust.gov.ua>

[21] Court of Justice of the European Union, “Press Release No 27/17,” 2017.

[22] DAMA UK working group, “The six primary dimensions for data quality assessment,” Oct 2013.

our analysis is that while some of the challenges are technical, the majority are articulated by the legislative and regulatory framework.

### **Data is not available in machine-readable format**

– Data provided by the USR is not collected in a structured format. It is inputted by registrars (see our description of business process on [page 19](#)) as free-text within a single field (“Founders”) of an existing company registration form. As a result, the data is not available to users in machine-readable format, nor can the Ministry conduct verification and data cleaning in bulk. Thus, data quality suffers, and the number of uses is severely limited.

There is a stipulation in the relevant legislation that “the software of the Unified State Register should ensure, inter alia, the search for interconnections between legal entities and their founders (shareholders), ultimate beneficiary owners (controllers), including the ultimate beneficiary owners (controllers) of the founder, chief executives of legal entities, as well as visualization of all direct and indirect connections.” However, this requirement has not been implemented. This is a consequence of the unstructured nature of the data, which does not allow records to be linked.

NAIS informed us that the use of the free-text field within the existing form was a consequence of the quick push toward implementation after the revision of the initial law requiring beneficial ownership disclosure. The Ministry has agreed that there is a need to structure information about beneficial owners. They are intending to collect and publish the information as structured data as part of the modernization of the companies register slated for later this year.

**Incomplete database** – Only 16 percent of Ukrainian companies currently submit any information on their beneficial owners. As of August 2017 (the date of the most recent release of Ukrainian companies

data), approximately 1.5 million companies were registered. The OpenOwnership Register was able to extract beneficial ownership data for approximately 253,000 of them, though according to the Ministry of Justice this number should be closer to 281,000 companies.

Though beneficial ownership data is collected by default at the moment of company registration, it is not clear to us that there was a directive from the Ministry to existing companies that they must submit their beneficial ownership by a certain deadline. There is also no annual requirement to update or confirm the data and the Ministry has indicated that such a requirement would be impractical. Though there is a requirement that companies update their beneficial ownership data upon any changes, this is difficult to enforce without knowledge of a baseline. We analyze this further in the section on sanctions and incentives on [page 22](#).

### **No reliable means of disambiguation for individuals or companies**

– Users of beneficial ownership data must be provided with enough information to allow them to tell companies or people apart. Both company names and personal names are notoriously unreliable means of disambiguation<sup>[23]</sup>, particularly in a context where transliteration of these names can result in multiple spelling variations (e.g. Olesia vs. Olesya). In collecting company information, the Ministry of Justice collects company owners’ tax IDs and passport numbers, but does not make them publicly available because of data protection issues. We requested that they provide OpenOwnership with one-way hashes of the tax IDs, which would retain their distinctiveness but make it impossible to determine the actual number. This request was denied for the same reason. This means that the open dataset lacks a reliable way to disambiguate between individuals.

In addition, the identification codes of some discontinued companies are re-used for new companies.

[23] “...without additional information such as date of birth or ID details it is very difficult to distinguish between two shareholders in case of homonymy.” Taken from Project BOWNET, “The identification of beneficial owners in the fight against money laundering”, Ed. Michele Riccardi, 2013, p53.



NAIS has informed us that there are only a few instances where this has occurred. However, if this practice continues, it seriously undermines the reliability of company numbers for disambiguation.

**Timeliness of data not recorded** – Data on beneficial ownership is submitted when a person registers a company, and updates are required for certain events - for example, when there is a change of owner, director, or address. There is no deadline to submit the information after the change, no annual requirement to confirm company information, nor is there a currently a field to record the date when the information was reported. This means that it is impossible for users to judge whether the information is up to date and accurate, or whether the company has lapsed in its reporting requirements.

**Unclear beneficial ownership test** – Ukraine’s definition of beneficial ownership is inclusive, capturing both material benefit and control, as well as multiple means of control including nominee shareholders:

“ A final beneficial owner (controlling interest) is natural person that independently from formal ownership has right to execute the decisive influence on management or economic activity of legal entity directly or via other persons, which is fulfilled by means of realization of ownership right or right to use all active assets or significant part thereof, right of decisive influence on forming the composition, results of voting and consummation of deals that give a possibility to define conditions of economic activity, give binding instructions or fulfil functions of managing body, or that has possibility to exert influence by direct or indirect (via other individual or legal entity) ownership by one person singly or together with other related individuals or legal entities of share in legal entity in amount 25% or more percent of authorized capital or voting rights in legal entity.

*Along with this, final beneficial owner (controlling interest) cannot be the person that has 25% or more percent of authorized capital or voting rights in legal entity, but is an agent, nominal holder (nominal owner) or is only a mediator in regard to such right. ”*<sup>[24]</sup>

However, we believe that the definition as written leaves a lot of room for interpretation. The conditions under which an individual qualifies as a beneficial owner must be as clear and unambiguous as possible. Potential for misinterpretation of the guidance becomes yet another loophole to exploit.

**Data lacks granularity** – Beneficial ownership data should be granular, or detailed, in order to provide users with many pieces of information that they can link and compare with other data to surface red flags. Useful beneficial ownership data provides as many data points about beneficial owners and their means of ownership as possible. Another primary benefit of high granularity is to close loopholes that individuals attempting to avoid reporting their involvement with a company to a register can use.

One strength of the legislation is that it stipulates that companies that cannot find beneficial owners must provide this information and a reason why (which should then be made available in the companies register).

However, companies are not currently required by the legislation to report to the registrar the beneficial owners’ means of control. This is an important data point to capture - for instance, it may be a red flag if a beneficial owner has reported different means of control to the companies register than it is reporting to a bank.

It is also our judgment that the 25% ownership threshold is too high, creating a significant loophole for individuals attempting to hide their identity.

[24] As cited in [https://eiti.org/sites/default/files/documents/ukraine\\_bo\\_roadmap\\_in\\_english.pdf](https://eiti.org/sites/default/files/documents/ukraine_bo_roadmap_in_english.pdf)



There is widespread agreement throughout international civil society about the danger of high shareholder thresholds.<sup>[25]</sup>

**No data on the chain of ownership** – It is well known that companies can own other companies, often in long corporate chains. Beneficial ownership data, therefore, must be able to represent everything between a target company and the natural person beneficial owner(s). We call the full set of entities, from target company to beneficial owner and all the companies in between, the beneficial ownership chain. The data model (and data collection process) must be able to capture, as closely as possible, the full beneficial ownership chain.

Pending legislation that has been approved by the Cabinet of Ministers but not yet passed by Ukraine's parliament will require beneficial owners to stipulate the means of control, and to report the full "ownership structure" (i.e. the chain of ownership).

## Business process

The term "business process" refers to all of the functions and practices that result in high-quality, highly used beneficial ownership data - the "production" stage of the diagram on [page 11](#).

In Ukraine, the process from data submission to publishing in the companies register broadly works like this: the company must produce a draft charter of the LLC, hold a meeting of the company founders, and draft an application for the registration of the LLC. These documents, along with identification documents, are checked and then filed with the Companies Registrar, who enter the data manually

and issue electronic confirmation of the formation of the LLC.<sup>[26]</sup>

Parts of this process and the related technology have implications for data quality, as discussed below. We also discuss the lack of clear sanctions and incentives around timely reporting of beneficial ownership data, which we link to the problem of database completeness we have already described.

**Lack of in-line validation and an efficient verification process** – As discussed above, beneficial ownership data is inputted into the Ukrainian companies register as free-text within a single field. Currently, if the registrar spots a mistake, they rely on a copy of the registrant's identification documents to correct it. Otherwise, the registrant can request a change via a registrar who then corrects the information.

In general, this record-by-record approach is far less efficient and effective than technical solutions to ensure high-quality data. The lack of in-line validation of this data degrades the quality and usefulness of the data by allowing for spelling and factual errors.<sup>[27]</sup> Technical solutions such as bulk data cleaning and comparing structured data against other government datasets could improve the accuracy of the data (e.g. correct name spellings). In the UK, Companies House has been known to analyze and clean the data in the companies register as a result of problems identified by the wider community, including civil society.<sup>[28]</sup>

The Ministry of Justice is able to request reviews of the bulk data from individual state registers. There is no ability to do a review of the USR as a whole. We

[25] Global Witness, "A register of beneficial owners of overseas companies and other legal entities: Submission from Global Witness," 15 May 2017.

[26] <https://www.contactukraine.com/company-law/register-company-in-ukraine>

[27] This was a problem in the UK, where over 500 ways of describing UK nationality were discovered i.e. "English", "British", "United Kingdom", "UK", or even misspelled entries such as "Brittish". See Palmer, Rob "What does the UK Beneficial Ownership Data Show us?" Global Witness. 22 Nov 2016.

[28] An example of a productive civil society/government partnership is [this data dive by Global Witness](#) into Companies House data. The results were passed on to Companies House for further investigation. Another example of an entity doing data quality work is these regular reports produced by the G20-founded [Global Legal Entity Identifier System](#).

expect that this administrative barrier makes it less efficient to do bulk data cleaning.

### **Unclear or unenforced sanctions and incentives**

– Our assessment is that a lack of clarity around, and enforcement of, sanctions for noncompliance and incentives for compliance, is the direct cause of the incompleteness of the dataset we covered on [page 16](#).

An administrative penalty of 300-500 units of the minimum non-taxable income of citizens (roughly equivalent to 17-29 Ukrainian Hryvnias or \$US 0.65-1.09) can be levied against either a beneficial owner of a company or a person authorized on their behalf (e.g. directors) should that company fail to report its beneficial ownership. In order to levy these penalties, the Ministry of Justice must draft an “administrative protocol” proving that the information has not been reported and forward to the relevant court for its decision. It is not clear what happens if the fine is paid but not followed by a disclosure.

Reporting incorrect information about beneficial ownership carries criminal liability: 500 to 1000 units of the minimum non-taxable income of citizens (\$US 1.09-2.22), or arrest for three to six months, or imprisonment for up to two years. These sanctions can be levied against the beneficial owner or a person authorized to act on their behalf (e.g. directors). These offenses are flagged and investigated by a law enforcement agency outside of the Ministry of Justice.

It is our judgment that these sanctions are not strong enough. By way of comparison, in the UK, there are multiple sanctions against both companies and beneficial owners. Companies can be sanctioned for failure to request information from potential beneficial owners or failure to provide information on its beneficial owners to the central register. Beneficial owners can be sanctioned for failure to respond to requests for information from companies about their beneficial owners, or for knowingly or recklessly

making a false statement, as well as for failure to notify a company that they are a beneficial owner, even if they haven’t been contacted by the company. For all of these offences, where they are committed by a company, both the company and every officer of the company that has failed to comply are considered to have committed the offence. The penalties are imprisonment for up to 12 months, a fine, or both. In addition, Companies House has the ability to strike off any companies that default on their obligations to report to the register.<sup>[29]</sup>

The draft legislation discussed previously strengthens the current sanctions regime. It will require banks to conduct due diligence checks using data from the register, and to reject applications for accounts coming from companies that have not fully reported their beneficial ownership. It will also increase the administrative penalties for non-reporting tenfold.

A spokesperson for the Ministry indicated these sanctions have never been applied to their knowledge, raising questions about enforcement. Our desk research suggests that the Ministry has not taken advantage of public communications or softer methods of enforcement either: we could not find an indication that the Ministry of Justice has communicated with company owners regarding deadlines for disclosing beneficial ownership information to the Ukrainian companies register, as was done in the UK. The initial version of the 2014 law had terminology that some found confusing; this led to legislative amendments which seems to have impacted the initial deadline for disclosure of 25 May 2015, possibly causing further confusion. We also could not find an indication that the Ministry or its technical implementers were engaged in a process to identify those companies that hadn’t complied and follow up with them directly to remind them of their obligation to report.

Because timeliness data is not recorded, it is difficult to confirm the level of compliance with requirements

[29] Companies House, “Guidance. Strike off, dissolution and restoration,” October 2017.

to update the register. But we can extrapolate from our assessment of low levels of compliance with the first order requirement to report beneficial ownership to the register that a similar issue is being faced regarding updating information. There do not appear to be any regulatory or legislative sanctions for failing to update information in the Ukrainian companies register.

Incentives come from having the data open to many users, who will rely on the information in the register to help them make decisions related to due diligence. A company that repeatedly loses out on contracts or business deals because the information they have submitted to the register isn't timely is likely to want to give potential business partners more confidence by updating their information. This is a concrete example of the way greater engagement of users can lead to higher-quality data.

## Summary and discussion

Overall, we have found that Ukraine has taken many important steps toward having a comprehensive company register that is an authoritative source of beneficial ownership information, and is eager to continue on this path. Ukraine is well placed to continue to be a trailblazer on beneficial ownership transparency.

When the companies register is assessed from a user-centered perspective, as we have done, key areas of improvement surfaced. These are:

- A lack of access to structured data, which greatly limits usability;
- Incomplete data due to non-compliance and unclear sanctions;
- Unreliable means of disambiguating people and companies;
- A beneficial ownership test that leaves too much room for interpretation;
- Not enough granularity in the data, including on the data's timeliness and chains of ownership;
- No in-line validation at data entry stage or bulk data verification, leading to low quality and errors.

A register that is managed with user needs at its heart will have higher quality data. Not only is this a user need in itself, but also user engagement will drive data quality through feedback and the raising of red flags. In the recommendations section to follow, we address these issues under three broad categories: enforcement and compliance, access to useful data, and management of the register.

# Recommendations

The prerequisite for the benefits of user engagement to be reaped is that the beneficial ownership data is as complete as possible, and available to the public in open data format. Ukraine is a leader on beneficial ownership transparency for providing broad access to its companies data. However, this data could be improved in a number of ways to ensure that it can meet the policy goals of stemming corruption and improving the business environment in Ukraine. Below, we provide recommendations on how to improve the completeness and quality of the data.

As stated in the introduction, these recommendations are intended to spark further conversations rather than prescribe strict technical solutions. OpenOwnership will continue to provide Ukraine with direct technical assistance on implementing beneficial ownership transparency.

## Enforcement and compliance

It is critical that a robust system of sanctions against both non-compliant companies and beneficial owners be instituted and enforced by the Ministry of Justice in order to ensure a more complete data set. Below, we provide some recommendations and suggest initial steps for implementation. OpenOwnership would be pleased to provide the Ministry with support in setting appropriate sanctions and enforcement mechanisms.

**Understand the problem of low compliance** – The fundamental reasons behind the low compliance with the reporting requirements enshrined in legislation elude us without further investigation by the Ministry

of Justice. As we have discussed above, reasons could include a lack of awareness of the new legislation and related deadlines and a lack of clear sanctions and incentives.

The results of any further research into the causes of non-compliance could be used to suggest a clear policy and/or communications agenda to improve compliance. For example, a communications campaign could be launched if awareness of the legislation or how to submit data is low, and proper enforcement of fines, an increase in the fine, and eventual striking off the company register for continued non-compliance, would address the lack of fear of sanctions.

As previously discussed, ensuring the data is highly usable will provide an incentive on the part of companies to keep data fresh. But this benefit is only reaped when the norm is compliance, not non-compliance. The Ministry might also consider making beneficial disclosure rules a condition of pre-qualification for government tenders, licenses and permits, although this would cover only a small percentage of companies.

## Clarify sanctioning regime and ensure robust enforcement

– We can provide some specific recommendations on sanctions and enforcement to bring Ukraine's beneficial ownership legislation in line with international best practice. We suggest that both non-compliance and making a false declaration are sanctioned in the same manner, as recent legal commentary suggests that the fact that there is no single body responsible for compliance is creating



confusion.<sup>[30]</sup> We also recommend stronger sanctions against companies, including the ability to strike off those companies that are persistently non-compliant. In general, we find the UK's sanctions to be a good model for best practice.<sup>[31]</sup>

We do not have clear data on whether requirements have been enforced by the issuing of fines, but given the low levels of compliance we suspect it is not a common practice. The Ministry should issue a final deadline for disclosure after which enforcement should be pursued proactively, using regular bulk checks of the data to identify companies that have not provided statements to the Unified State Register.

### Access to useful data

We have repeatedly commended the Ministry for ensuring wide access to companies data. Below, we recommend changes it can make in partnership with NAIS to ensure that data is genuinely useful. OpenOwnership would be pleased to work closely with the Ministry and NAIS to provide best practice guidance and implement these recommendations.

**Collect and publish beneficial ownership information as structured data by default** – The Ministry of Justice should adopt a system whereby company information can be submitted electronically, perhaps without the need for a registrar, using in-line data entry points that allow for structured (i.e machine-readable) information. The Ukrainian companies register itself could be improved by reducing the number of entries where free text can be entered and replacing these with dropdown menus with discrete entries (for example, for nationality).

**Ensure unique identifiers for companies and individuals** – The Ministry should end the practice of reusing the company numbers of dissolved companies - through regulation if necessary. Additionally, it should work with NAIS to find a solution to the

problem of disambiguating individuals that does not violate Ukrainian data protection laws. Registrars already collect unique identifiers for beneficial owners; if hashing these is still a violation of data protection laws they can be used to generate unique ID numbers for the purposes of disambiguating in the companies register.

We also recommend that some biodata is provided, because this eases disambiguation when Ukrainian data is compared with data collected in other jurisdictions. As is done in the UK, registrars should collect the full birth date, home address, and contact address (usually a registered address) for each beneficial owner, and publish the month and year of birth and contact address only.

**Provide data about timeliness and access to historical data** – It is important that the beneficial ownership data model - and indeed the companies register in general - be able to represent beneficial ownership as statements made at certain times, where older statements are stored rather than replaced. We also recommend that access to historical data be extended to apply not just to small-medium sized limited liability companies, but to joint stock companies as well.

This will prevent corrupt or bankrupted individuals from hiding their past business history by simply dissolving a company and registering a new one. The UK's Companies House retains the data on now defunct companies, plus historic information on a company's directorships (though not as yet on beneficial owners), allowing for users to see how a company's officers have changed over time, and the dates between which a person served as a director.

Similarly, if we understand beneficial ownership data to be a set of statements about a relationship made at a certain point in time, it is important to show when that statement was made, and until when it is valid. This will allow users to assess its trustworthiness and

[30] Svintsitsky, Andrei, undated. Available at [http://uz.ligazakon.ua/ua/magazine\\_article/EA007997](http://uz.ligazakon.ua/ua/magazine_article/EA007997) [in Ukrainian]

[31] The UK's Small Business, Enterprise and Employment Act of 2015.

also to raise red flags; for instance, a company that has not updated its beneficial ownership for several years would raise suspicions. This has the corollary benefit of assisting the Ukrainian companies register with verification of the data and enforcing regular updates to the register. A simple way for users to flag out-of-date information for both the Ukrainian companies register and other users to see should be included in the register's design. This will give companies an incentive to keep their information up-to-date and avoid being flagged.

**Update regulation to set deadlines and require confirmation statements** – The current law stipulates that companies must report directorial or ownership changes, but does not set a deadline for this. It is difficult to enforce any such provision unless a baseline is set regularly. The Ministry should set a time frame by which changes should be reported, and require companies to submit a confirmation statement on a yearly basis covering all required company information, including beneficial ownership information.

**Update regulation to close loopholes and ensure granularity** – No information is currently available in the Ukrainian companies register on the means through which beneficial owners control a company. The draft legislation referenced above will require this to be reported. Alongside this legislation, regulation or guidance must be written to provide a clear test of beneficial ownership for people reporting data to the companies register, laying out all of the circumstances in which an individual would qualify as a beneficial owner, and instructing registrants to select one or more. These selections must include granularity within that data point. For instance, beneficial owners who control a company through a shareholding should be required to indicate the percentage of shares that they own.

The shareholding threshold should be abolished altogether. Critics argue that this would increase the reporting burden for companies with thousands of

shareholders, but this is only a minority of companies and is typically done deliberately for the precise reason of obscuring a true beneficial owner. Other countries where extractives companies operate, such as Ghana, are abolishing thresholds on the premise that even a small stake in an extractives company is highly lucrative.<sup>[32]</sup>

For those rare situations where a company genuinely has no beneficial owners, or where the company is in the process of finding out this information, this should be explicitly identified as such, and appropriate processes and sanctions put in place to ensure that this is not abused. Current legislation in the Ukraine allows for this but it is not uniformly applied and could be made more granular according to the UK model, which explicitly lists the reason for nondisclosure.

Most company structures are fairly straightforward, without a lengthy chain of ownership between the target company and the natural person owners. A small number of companies will have several entities between themselves and the beneficial owners. We will work with the Ministry of Justice and NAIS to implement the requirement in the draft legislation that companies report their means of control and full chain of ownership. We discuss business process recommendations around representing the full chain of ownership in Annex A.

## Management of the register

In this section, we offer recommendations on how the existing information can be improved in terms of submission, validation and verification. Each of our recommendations directly respond to what we observed in the Ukrainian context, but are informed by international best practice.

**Put user needs at the center of development of the companies register** – The Ministry of Justice should continue listen to users' needs and monitor the companies register use to see how it is being

[32] GHEITI, "Ghana EITI Beneficial Ownership Roadmap", October 2016, p10.

utilized. In particular, user needs underlie all of our recommendations to improve data quality and must remain central to improvements undertaken by the Ministry in the future. This prioritization is encapsulated well by the first of the UK Government Digital Services (GDS) Design Principles, “Start with user needs”:

*“Service design starts with identifying user needs. If you don’t know what the user needs are, you won’t build the right thing. Do research, analyse data, talk to users. Don’t make assumptions. Have empathy for users, and remember that what they ask for isn’t always what they need.”*<sup>[33]</sup>

Such processes are, thanks to GDS, both tried-and-tested and well-documented.<sup>[34]</sup>

Integration with OpenOwnership and use of the Beneficial Ownership Data Standard (BODS) will help Ukrainian data reach more users. Both tools have been developed with agile, user-focused strategies. Integration will enable Ukrainian beneficial ownership data to be accessible through the OpenOwnership Register’s simple but powerful interface, allowing easy access for end-users and improving usability. It will also enable the data to be linked with beneficial ownership data from other jurisdictions, and ultimately will improve data quality by making it more usable and more accessible. Additionally, we will translate the data to English, increasingly usability by non-Ukrainians. The method by which Ukraine’s beneficial ownership information can be linked to the Global Register is examined in Annex B.

**Design technology to validate and verify beneficial ownership data** – One critical step toward ensuring data is validated upon entry is to collect beneficial ownership data as structured data by default, allowing inline validation by design.

OpenOwnership can support NAIS on designing a form to capture data that is automatically in BODS format and has robust inline validation.

With company information available to Ukrainian companies register staff as data, and with staff technically trained to use that data, they will be able to verify and clean data in bulk. Transparency International recommends that verifying beneficial ownership data be done by “cross-checking the information provided with other government databases such as tax agencies, passport authorities, vehicle and property registries, electoral registries, (among others), on-site inspections, use of software, and other information from independent and reliable sources.”<sup>[35]</sup> In other words, by comparing granular, well-structured data with other data sets to surface inconsistencies – a function which we have said is a key argument for providing open beneficial ownership data. Structured data allows for discrepancies to be flagged automatically, without the need for time consuming manual checks from registrars on individual records.

When it comes to analyzing beneficial ownership data, civil society is a key knowledge partner. By comparing the UK’s beneficial ownership data with US sanctions lists, civil society organizations were able to identify 76 beneficial owners of UK companies whose personal data matches that of sanctioned individuals. Bulk data analysis can also surface data quality issues – these civil society organizations also found many beneficial owners who listed their birth dates as occurring in the future due to the lack of basic validation through the form they used to submit their information.<sup>[36]</sup>

We recommend that the Ministry work with international civil society and other investigative bodies (for instance, law enforcement) to identify key data-sets that can be combined to surface quality issues

[33] Government Digital Service, “Design Principles”.

[34] “Service Manual: Helping government teams create and run great digital services that meet the Digital Service Standard.”

[35] Martini, Maira. “Technical Guide: Implementing the G20 Beneficial Ownership Principles.” 2015.

[36] Palmer, Robert, “What does the UK beneficial ownership data show us?” Global Witness, November 2016.

and red flags. We would be pleased to support the Ministry and NAIS on identifying key datasets and defining a verification process.

**Encourage verification by users** – We have argued that users serve an important verification function, as they will discover inconsistencies and incorrect information in the course of using the data for their daily work. Companies House provides a simple form for users to submit notices of missing or incorrect information on company records, and states that it “has a duty to draw [these notices] to the company’s attention.”<sup>[37]</sup> Companies House has reported to us that it has received a great deal of these notices on its beneficial ownership data and is following up on them.

We recommend that NAIS implement a similar system that allows users to give feedback on individual records via a simple form, and to use this feedback to follow up with individual companies on errors or incomplete information.

---

[37] UK Companies House, “[Service Information](#).”

## Summary and conclusion

In major economies around the world, the companies register is understood to be a critical piece of business infrastructure, providing visibility and assurance, and playing a key role in creating a trusted, effective business environment. In recent years, with the increasing importance of data in many aspects of life and new capacities to analyze and combine this data in productive ways, many registers have moved toward publishing their data as open data, accelerating growth in access to, and utility of, these registers.<sup>[38]</sup>

The UK has been a world leader in this field. As the former Chief Executive of UK Companies House, Tim Moss, said last year: “We support the economy by providing data and allowing people to make decisions, compare companies they’re going to do

business with or not, and if nobody looks at the register we might as well pack up and go home.”<sup>[39]</sup>

Ukraine is joining the UK in becoming a world leader on corporate transparency, including by becoming the first country to commit to integrating with the OpenOwnership Register. We look forward to working with the Ministry of Justice and NAIS on reaching the ultimate goals of this transparency: the reduction of corruption and strengthening of the business environment and good corporate governance in Ukraine.

In this spirit, we have made specific recommendations on improving data quality and on widening the scope of the information collected. We believe these changes are critical to ensuring a sustainable beneficial ownership regime in Ukraine.

---

[38] See <http://registries.opencorporates.com/> for examples.

[39] See <https://www.accountingweb.co.uk/tax/hmrc-policy/accountingweb-quizzes-companies-house-ceo>



## Annex A: Collecting and publishing useful beneficial ownership data

Here we discuss in greater detail the element of ownership chain disclosure for making beneficial ownership data genuinely useful.

This recommendation is consistent with OpenOwnership's data standard, which will allow Ukrainian beneficial ownership data to be interoperable with data from other jurisdictions, and has also been developed in partnership with global experts on company data and beneficial ownership.<sup>[40]</sup>

Information on ownership chain. Collecting beneficial ownership data as structured data by default is a necessary first step to implement the requirements in the draft legislation, that would require an entire ownership chain to be reported (including offshore entities). To capture onshore entities, Ukraine could collect beneficial ownership information according to the UK model: if a Ukrainian company is owned by other Ukrainian companies only, it must report the identifying information of those parent companies. And, if a Ukrainian company is not owned by other companies, but by people, it must report them as beneficial owners. If all companies comply, then the Ukrainian companies register should be able to match the submissions of Ukrainian companies that reported Ukrainian parents with the submissions of those parent companies, in order to create a beneficial ownership chain for those entities that are registered in Ukraine.

The challenge of capturing intermediate companies registered offshore is the relative opacity of other jurisdictions. Steps must be taken to ensure this does not become a loophole. To capture intermediate companies that are registered in offshore jurisdictions, we recommend that the system include a validated template that captures the full details of these entities, jurisdictions and registries, drawn from a near-universal list like OrgID. Where validation is not possible because the data is not accessible, the data submitter must take steps to retrieve accurate data about intermediate companies. The system should be able to record where disclosure has been stopped by an intermediary or by failure to respond by an owned entity.

---

[40] A more detailed systems-level mapping to the data standard would be conducted as part of integration with OpenOwnership

A note on exemptions. In a few cases<sup>[41]</sup>, the nature of the work that a company does may mean that individuals linked to that company are genuinely put at risk by having their information in public. At the moment there is no provision in Ukrainian law for such companies to be allowed to keep their beneficial owners hidden. Should this become an issue, provable risk that is directly linked to ownership of a company can be managed, as UK Companies House has done, on a case-by-case basis, by allowing at-risk people to apply to the registrar to have information removed from the public register. These exemptions must be clearly and narrowly defined in regulation, and be adjudicated by an independent body.

Note that being wealthy is not a legitimate security risk. Wealthy people who are shareholders and directors of companies through straightforward means already have their information available to the public. The purpose of a beneficial ownership register is to capture those relationships that are not straightforward, because someone has chosen to keep their identity hidden for money laundering, tax evasion, and other reasons.

---

[41] To date, out of nearly 2 million companies that have reported only about 30 beneficial owners in the UK have been successfully granted the right to keep their names off the register.

## Annex B: Integration with OpenOwnership Register<sup>[42]</sup>

There are three main ways that the data could be integrated into the OpenOwnership Register (OOR):

- Regular data dumps (probably daily, or perhaps weekly), driven by a script and a scheduler (e.g. cron job). We would strongly recommend the dumps be done to the OpenOwnership Data Standard, and be made available as open data on a public interface as the UK register does with the PSC Register<sup>[43]</sup> (rather than either a secured FTP interface of some kind, either on USR or OOR's servers). This is the cheapest, quickest, and easiest to implement, and easiest for users to consume too.
- “Pull” interface. With this option, the Ukrainian companies register would provide an API that gives access to the underlying data as structured data (XML or JSON). We think that there are benefits to the company register having such an API, and that such an API (like that provided by UK Companies House) should provide full and free access to the register, to allow integration with other systems (e.g. procurement systems), to promote innovation, and increase use of the data.
- “Push” interface. With this option, the OpenOwnership Register would implement an API that would allow updates to be “pushed” by USR systems to the OOR. While this is best for synchronicity, it is also the most complex to implement, and for this reason, would not recommend starting with it.

We will work with NAIS to build an easy-to-maintain solution.

---

[42] & [43] See [http://download.companieshouse.gov.uk/en\\_pscdata.html](http://download.companieshouse.gov.uk/en_pscdata.html)

