



TRANSPARENCY
INTERNATIONAL
SLOVENSKO

**HOW TO MAKE BENEFICIAL
OWNERSHIP REGISTER WORK
*LESSONS FROM THE SLOVAK
BENEFICIAL OWNERSHIP
REGISTER***

Transparency International Slovakia is a leading NGO founded in Slovakia and belonging to over 100 national branches of the worldwide anti-corruption movement Transparency International. TI Slovakia believes that increasing transparency and reducing bureaucracy can combat corruption. The anti-corruption strategy of TI Slovakia is based on a close dialogue with partners from the private sector, civil society, and the public sector. TI Slovakia strives for cooperation with all relevant stakeholders in order to fulfill its aim, which is to push for introduction and implementation of anti-corruption measures and to increase transparency in the public sector.

www.transparency.sk

Author: Gabriel Šípoš

© Cover photo: Roger Schultz, New York from above, TI Photo Library (flickr)

Every effort has been made to verify the accuracy of the information contained in this report. Nevertheless, Transparency International Slovakia cannot accept responsibility for the consequences of its use for other purposes or in other contexts.

© December 2017 Transparency International Slovakia. All rights reserved.

TABLE OF CONTENTS

SUMMARY	2
ADOPTION OF THE REGISTER.....	2
IMPACT	3
COSTS	4
RECOMMENDATION	5

HOW TO MAKE BENEFICIAL OWNERSHIP REGISTER WORK

LESSONS FROM THE SLOVAK BENEFICIAL OWNERSHIP REGISTER

SUMMARY

In November 2015 Slovakia became the first EU country to set up a public register of companies' beneficial ownership. The register is currently limited only to companies in active business with the state, which is around 5% of companies listed in the Slovak business register. Over 80% of the beneficial owners are Slovak citizens, the rest are mostly Czechs, Austrians and Germans.

The register has brought some benefits so far. Since 2015, the growth of the number of Slovak firms owned in offshore destinations dropped from 10% annually to 1%. Two companies have been sanctioned for misrepresenting their ownership, out of which one is a construction giant. Both then changed their ownership structure into a more transparent format.

On the other hand, the Slovak registration system is rather costly. Verification through external attorneys costs as much as 15 million euros per year. Better impact monitoring is also required. Nevertheless, expanding publicly accessible beneficial ownership register to all companies in 2018 is likely to boost the potential for less motivation of carrying out corrupt or tax fraud transactions in the future.

ADOPTION OF THE REGISTER

While Panama leaks in the early 2015 served as a major wake-up call to the problem of shell companies in most of the world, in Slovakia it was the case of pending bankruptcy of the largest state construction contractor Váhostav that pushed the leaders to adopt a public register of company ownership early on. When TI Slovakia uncovered¹ that Váhostav was, according to the business register paper trail from four countries, owned by five Costa Rican lawyers and two Cyprus shell companies through four New Zealander companies, the law on public procurement was soon amended in a way which requires the final beneficiaries of businesses in contracts with the state to be declared.

The register was widely supported from both experts and politicians from all of the political spectrum. The new register was set up in November 2015 and at its peak contained 11 thousand companies.

Soon, however, the register² was expanded to cover any state contractor, not just procurement parties. Land sales, loans providers or grantees were also included from February 2017, with the

¹<https://www.facebook.com/transparencysk/photos/a.464749149455.259115.277077069455/10153215965209456/?type=1&theater>

²<https://rpvs.gov.sk>

limit of at least 100,000 worth of contract. As of end of December 2017, as many as 14 500 companies with over 30 thousand beneficial owners were registered.

As many as 80% of owners were Slovak, another 10% Czech, the rest mostly Austrians and Germans. Very few owners were declared to have come from tax heaven countries, and even these appear to be legitimate owners.

The register is searchable and published in open data format. The names and addresses of owners, their nationality as well as their birthdates are published. It is also indicated whether they are Slovak public officials or not. The ownership has to be verified by external lawyer or notary.

While the first version was run by the Office for Public Procurement, the current one is administered by the Zilina District Court, two hours away from Bratislava, the capital.

There was basically no debate whether to make register publicly available, nor whether to include full names and addresses of the beneficial owners in it. Slovakia has had a tradition of publishing registers with personal information online. The business register has done that since 2000. From 2011, all public contracts are being published online in full, too³. From 2014, financial accounts of companies are also available free of charge on the public website⁴.

IMPACT

Before 2015, the year when the register was open, a number of Slovak companies owned through offshore destinations was rising by 10 percent per year. Since then, it grew on average by only 1% annually. Some jurisdictions suffered a significant pullout in the past two years – Seychelles and Malta by a third, the British Virgin Islands and the Isle of Man by 14%.⁵

Whether this is the result of global leaks or Slovak legislation is impossible to tell, though. Ownership from Cyprus, Latvia and United Arab Emirates still keeps growing significantly.

The Czech republic has experienced an overall decline from offshore since 2015, yet they will introduce the (non-public) register only in 2018⁶.

Limiting Slovak beneficial ownership register to companies in active business with the state means that it contains only about 5% of companies registered in the business register (in 2018 it is to be expanded – but without the requirement of external verification – to all the companies in line with the AMLD-4). Moreover, only about one tenth of ownership information is new – that is, until now it was not available in business register, which is also freely available to public in Slovakia⁷.

In all of 2016, only 15 thousand visits were recorded in the register (for 2017 data was not available yet). This is about 2% of the volume that the Slovak business register gets in a month.

In 2016, two companies were caught misrepresenting their ownership. Vahostav was one of them and after a fine of 20 thousand euros they finally revealed their true owner, the local oligarch Juraj

³ <http://www.crz.gov.sk/>

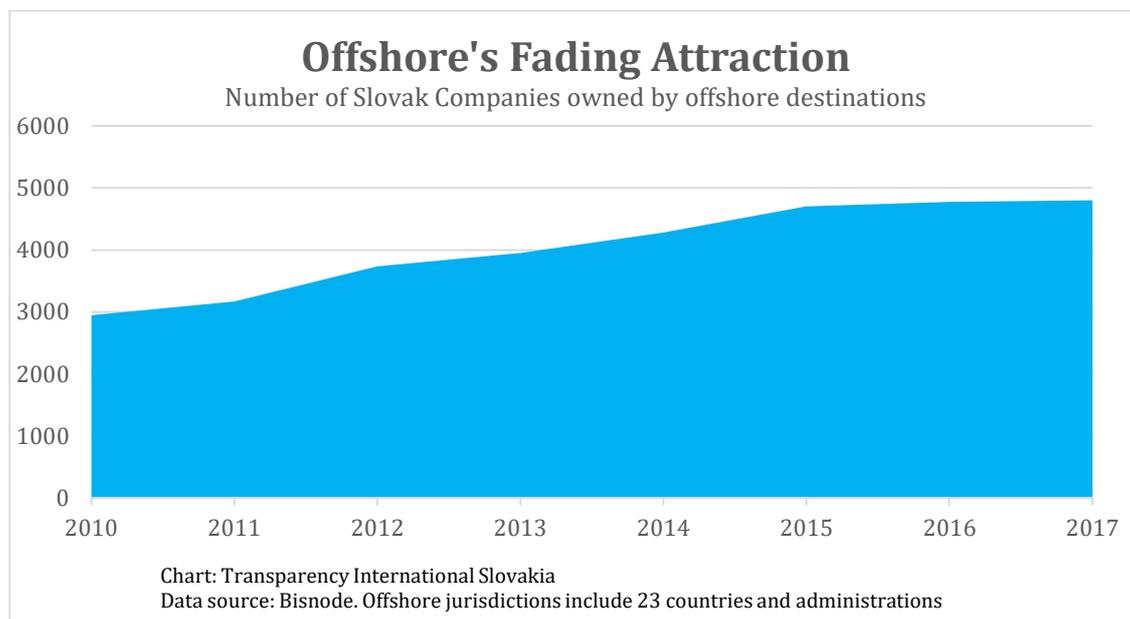
⁴ <http://www.registeruz.sk/>

⁵ Bisnode press release: The summer brought a pullout of Slovak companies from tax havens, Oct 11, 2017, <https://www.bisnode.sk/o-bisnode/o-nas/novinky/leto-prinieslo-odlev-firiem2/>

⁶ Bisnode press release: Companies lose interest in tax havens, July 17, 2017, <https://www.bisnode.cz/o-bisnode/o-nas/novinky/podnikatele-ztraceji-zjem-o-daove-raje/>

⁷ <http://orsr.sk/Default.asp?lan=en>

Siroky. Another company, a medical supplier, was fined 10 thousand euros for declaring the owner in Cyprus rather than a true one in Slovakia.



In all of 2017, seven motions challenging the correctness of information on beneficial owners in the register were filed. One was dismissed for inappropriate filing, another was dismissed as unconvincing and five are still being analyzed⁸.

No big story on uncovered beneficial owner carried the news in 2017. However, top 10 mainstream media cited the register over two dozen times throughout the year in their investigative stories. In two cases public authorities cancelled the contracts as the contractors failed to declare their owners in the register. In another case, the public press agency TASR was found to have signed a 120-thousand-euro contract in 2016 without the supplier having declared the ownership, which is likely to lead to the fine of 6 thousand euros in the early 2018.

COSTS

As for the costs to the firms, a single registration with outside attorney costs 500 euros on average. We estimate internal costs at another 300-500 euros (three workdays for a lawyer and a day for an assistant, for instance). Hence costs for 14 500 companies per year may have reached 12 to 15 million euros in total.

Building online register together with backend totaled 450 thousand euros, according to the information from the Ministry of Justice. Annual IT costs of servicing the register as well as the more demanding business register are 210 thousand euros. Another 100 to 200 thousand euros of annual costs are accounted by court staff and the registration portal administration.

⁸ Ministry of Justice report, December 19, 2017, <https://www.justice.gov.sk/Stranky/aktualitadetail.aspx?announcementID=2285>

RECOMMENDATION

In general, it is rather hard to measure the impact of the register. This is because there is no easy way to verify the information in the register. On the contrary, one can siphon off the profits from a company easily through disadvantageous supplier contracts (transfer pricing) and thus hide the true beneficiary of a firm. It appears from our own investigations that this is indeed happening in Slovakia as well⁹.

On the other hand, there might be benefits such as higher trust in government and business, or lower propensity to corrupt deals that are just as hard to measure. Here are our recommendations for those who hope to make registers work:

- **Make the register public:** Company insiders or business partners are often those in the know about who the real owners. Making the register public enhances control of the data provided, and thus its usefulness. Limiting the access to the register, especially in the countries with weak enforcement institutions, undermines the main channel to make the register work.
- **Make it easy to use the register:** Make them completely searchable, free of charge for public, interconnected to business register and other business data, such as financial accounts. The more people use the data, the more pressure is put on transparency and hence the higher public return on the register.
- **Do not make the verification too costly:** The Slovak case indicates that verification costs can easily sky-rocket. But those who want to cheat on the register will find ways to do so, by paying for unscrupulous “independent” lawyers, if necessary. It is better to leave the verification for public control by letting firms upload the information themselves and making it easy to file a complaint if the data are incorrect.
- **Measure the impact:** Look at how the register data are used – in media, police investigations, in public usage.
- **Promote introduction of registers abroad:** The more registers exist in other countries, the more likely one can get a complete picture of ownership in today’s globalized world.
- **View beneficial owner register realistically:** Some initial hype over registers suggested that this is a key tool to eradicate corruption. This seems very unlikely, though. It is an additional hurdle to make corruption transactions a bit more difficult. Too optimistic expectations will only make it easier to disappoint the public.

⁹ Sipos, G., Tholtova, B., Slovak firms took fright – and started moving back to Slovakia, April 29, 2016, <https://transparency.blog.sme.sk/c/416730/schrankove-firmy-sa-zlakli-a-stahuju-sa-na-slovensko.html>

CREATE CHANGE WITH

US JOIN US

To support Transparency International Slovakia means to fight for a better Slovakia. Join those who believe it is our personal obligation to change something for the better.

SUPPORT US

Our fight against corruption would not be possible without the help of our supporters. If you find our activities meaningful, please consider financial or other forms of support. Find out more at www.transparency.sk

DONATE

Your Donation will contribute to our ability to continue doing our work expertly, independently, and promptly. We appreciate every donation, however large or small. We want to build a fairer, more just world. With your help, we can. To donate, you can do so at: <https://transparency.darujme.sk/761/>

For more information, contact us: podporte@transparency.sk

And join the conversation: facebook.com/transparencysk

Transparency International Slovensko
Bajkalská 25
827 18 Bratislava
Slovensko

Phone number: 02 5341 7207

tis@transparency.sk
www.transparency.sk

www.transparency.blog.sme.sk
www.facebook.com/transparencysk
www.twitter.com/transparencysk