



# MITIGATING CLIMATE- FINANCING RISKS WITH BENEFICIAL OWNERSHIP REGISTRIES

Cross-Comparison and Analysis

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## Introduction

Experts predict that adaptation costs from anthropogenic climate change will become more onerous and disproportionately borne by Global South countries by 2050. As a coordinated global response, governments are planning to mobilize an unprecedented volume of financial capital through bilateral and multilateral financing initiatives. It is estimated that at least USD 215 billion per year is required for climate adaptation over the coming decade, specifically targeting Global South countries, and it is worth noting that many of these countries happen to have high perceived corruption index scores.<sup>1</sup>

Supranational bodies such as the Financial Action Task Force (FATF), The World Bank Group, and the International Monetary Fund (IMF) are requesting national governments to implement beneficial ownership registries as a tool to reduce corruption risks. As the implementation of these registries are underway, there is an opportunity for supranational bodies to use national registries as preventative tools and call for registries to include best-in-class features to deter much-needed climate funds from being misused by kleptocrats.

In exploring this topic further, an overview of the general benefits of beneficial ownership registries in a climate finance context will be summarized. Next, a comparison is undertaken that identifies key features of active registries in G7 countries. Finally, best-in-class trends in registry implementation are discussed with key takeaways for supranational actors.

## Kleptocracy and Climate Finance Risks

Kleptocracy is known as “rule by thieves,” where powerful stakeholders steal or exploit country-level wealth for personal enrichment at the country’s expense. Transnational kleptocracy, in other words, theft beyond country borders, is when stolen resources flow from “source” countries where corrupt leaders misappropriate public resources to “host” countries where the ill-gotten gains are invested or spent. Rather than investing in their own countries, kleptocrats prefer to stash funds in “safe” countries characterized by stability and robust rule of law.<sup>2</sup>

An illicit financial transaction refers to money that is generated illegally (e.g., the proceeds of crime) and used to purchase assets in any form for safekeeping. The goal for a kleptocrat is to ensure the transaction can be carried out smoothly and anonymously and the most effective way to safeguard these transactions is to use anonymous shell companies.

The harm caused to the host countries is multifaceted, including political interference, money laundering, warping of capital and real estate markets, public safety risks such as drug and weapons trafficking, and the proliferation of organized crime. Understanding to what extent climate funds are being stolen and used for nefarious purposes is unknown at present date, yet it is well-recognized that anonymous shell companies regularly facilitate the objectives of kleptocrats. In short, it is prudent for supranational actors to consider the risk posed by anonymous companies in the context of climate financing and aggressively minimize this risk.

## Beneficial Ownership Registries and Supranational Initiatives

Beneficial ownership registries are directories that list the ultimate, natural owners of assets. These registries address the problem of understanding who happens to own, control, and influence a large asset, namely a company or a property. Oftentimes, criminals are known to secretly own or control shares in companies where they use these entities to launder stolen money. As of March 2024, there are 149 countries worldwide that have committed to beneficial ownership registries, and there are also global standards for beneficial ownership collection and disclosure set by the FATF to which countries must adhere.<sup>3</sup> As beneficial ownership registries have a principal aim to combat money laundering, fraud, and terrorist financing, is FATF is requiring that information contained in these registries must be accurate, adequate, and timely for access by competent authorities (e.g., Financial Intelligence Units or FIUs) and law enforcement.

Other supranational actors are also stepping up efforts on the topic of beneficial ownership disclosure. The World Bank Group Stolen Asset Recovery Initiative regularly provides capacity building for governments and has issued country-specific guides to understand complicated beneficial ownership legislative frameworks.<sup>4</sup> The IMF recently launched its AML/CFT strategy in which it solicited consultations from civil society groups and other global experts.<sup>5</sup> Beneficial ownership disclosure was a notable part of the strategy itself where capacity development modules and related digital resources are being developed particularly for Global South countries.<sup>6</sup> The IMF also includes analysis of beneficial ownership regimes when the fund carries out country reports.<sup>7</sup>

## Mitigating Misuse of Climate Funds

While there are yet to be formally documented examples of climate funds being stolen for money laundering activities, below is a summary of benefits as to how beneficial ownership registries can play a preventative role against the misuse of climate funds; moreover, how these registries can benefit key stakeholders such as supranational actors, governments and law enforcement.

### Enhanced Transparency and Accountability

- **Deterrence of Money Laundering Activities:** By requiring the disclosure of the real owners behind companies, beneficial ownership registries can disrupt the anonymous mechanism that facilitates illicit financial flows.
- **Improved Oversight:** With access to detailed ownership information, supranational actors, competent authorities, law enforcement, journalists and civil society can analyze ownership data and conduct forensic analysis to identify suspicious trends, especially by cross-referencing with international sanctions databases.<sup>8</sup> Registries help in identifying and preventing fraudulent activities, including the diversion of funds intended for climate projects.

## Economic Benefits

- **Increased Investor Confidence:** Transparency in ownership information can boost investor confidence and attract legitimate investment into economies. Potential investors are more likely to invest in sovereign jurisdictions with strong credit ratings and low-risk perceptions. This can lead to increased legitimate foreign and domestic investment, driving job creation, productivity, and economic growth. Left unchecked, sovereign jurisdictions will be at risk from corrosive capital inflows and outflows by kleptocrats, which undermines democratic institutions.<sup>9</sup> Improved investor confidence in climate finance can also lead to increased funding for future climate adaptation and mitigation projects.
- **Prevention of Property Market Manipulation and Localized Asset Bubbles:** By curbing the use of real estate for money laundering, beneficial ownership registries help stabilize country-level real estate markets and capital markets from volatility, which benefits national economies in the long-term.<sup>10</sup>

## Legal and Regulatory Efficiency

- **Streamlined Legal Processes and Improved Risk Management:** Having readily available information on company ownership can significantly streamline legal and regulatory processes. Climate funders can better assess and manage risks related to money laundering and corruption, ensuring that funds are used for their intended climate-related purposes.
- **Policy Formulation and Implementation:** Access to beneficial ownership information assists policymakers in understanding the landscape of property and corporate ownership. Governments and supranational bodies can more effectively implement and enforce policies and regulations aimed at ensuring that climate finance reaches its intended stakeholders.

## Social and Community Benefits

- **Promotion of Public Safety and Trust:** By countering organized crime networks run by kleptocrats, beneficial ownership registries indirectly contribute to public safety and reduce risks to communities. When citizens see proactive measures being taken by governments to combat corruption, trust in public institutions becomes stronger.

## International Cooperation and Reputation

- **Supporting International Cooperation:** Best-in-class beneficial ownership registries can facilitate international cooperation in tracking and recovering stolen assets, including those related to climate finance.

- **Reducing Corruption and Enhancing Integrity:** By making ownership information accessible, beneficial ownership registries help to reduce corruption and comprehensively enhance the integrity of financial transactions.

## Comparison of Beneficial Ownership Registry Features Across G7 Countries

The table below provides a comparison of core features for beneficial ownership registries across G7 countries: The United Kingdom (UK), Germany, France, Italy, the United States (US), Japan, and Canada.

Comparison of Beneficial Ownership Registries Across G7 Countries							
Feature	United Kingdom	Germany	France	Italy	United States	Japan	Canada
Registry Available	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Public Access	Yes	Legitimate interest	Yes	Legitimate interest	No <sup>11</sup>	No	Yes
Searchable	Yes	Yes	Yes	Yes	Yes	No	Yes
Free-of-cost	Yes	No <sup>12</sup>	Yes	TBD <sup>13</sup>	Yes	N/A	Yes
Access by law enforcement and competent authorities	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership Threshold	25% threshold for shares and voting rights	25% threshold for shares and voting rights	25% threshold for shares and voting rights	25% threshold for shares and voting rights	25% threshold for shares and voting rights	25%-50% threshold for voting rights. <sup>14</sup>	25% threshold for shares and voting rights
Direct/Indirect Control	Yes	Yes <sup>15</sup>	Yes	Yes	Yes	Yes	Yes
Centralized	Yes	Yes	Yes	Yes	Yes	Yes	In progress
ID document submission for verification purposes	In progress <sup>16</sup>	No	No	No	Yes – ID number required only	Yes	No <sup>17</sup>
Disclosure of Trusts	Trusts that own or control companies	Yes	Yes	Yes	Trusts that own or control companies	No	Trusts that own or control companies
Disclosure of Real Property	No	Yes	No	No	No	No	No

### **Legend:**

N/A: Not Applicable/Available.

TBD: To Be Determined.

In progress: Policy/Legislative commitments have been enacted and awaiting implementation.

Legitimate interest: Prospective users are required to prove to the registrar they have a legitimate interest to be able to search the registry and access data. Legitimate interest criteria vary according to each jurisdiction.

## Beneficial Ownership Registry Regimes in G7 Countries

**United Kingdom:** In 2016, The UK was the first amongst the G7 to launch the Persons of Significant Control (PSC) register system. This registry requires companies to report individuals who own or control more than 25% of the company's shares or voting rights, or who otherwise exercise significant influence or control over the company or its management. The PSC register is publicly available and searchable at no cost through Companies House. Law enforcement and competent authorities can access detailed information from the registry. ID verification requirements for directors are currently being implemented.<sup>18</sup>

**Germany:** In 2017, Germany's Transparency Register operated on a "need-to-know" basis, where information was available only to certain authorities and people with a legitimate interest. As of 2021, amendments aligned with the EU's Fifth Anti-Money Laundering Directive (5AMLD) have made the register searchable by those with legitimate interest and with a fee structure for access. Corporate entities, trusts, and entities that own real estate must report their beneficial owners, defined as those holding more than 25% of the capital or voting rights.<sup>19</sup>

**France:** In 2017, France made corporate beneficial ownership information available in its National Institute for Industrial Property (INPI) publicly accessible, searchable, and free of cost. As of 2023, the French Government maintained its information in the INPI system shall remain publicly accessible due to national security interests, despite the European Court of Justice (CJEU) ruling that public access to beneficial ownership information infringes upon EU privacy rights.<sup>20</sup>

**Italy:** As of 2023, Italy launched its national beneficial ownership registry, requiring companies and trusts to report beneficial ownership information to the Italian Ultimate Beneficial Ownership Registry. The information will be accessible to law enforcement, and competent authorities. Public access can be granted upon request to stakeholders with a proven interest.<sup>21</sup>

**United States:** In 2021, Congress enacted the Corporate Transparency Act (CTA) as part of the National Defense Authorization Act. The CTA mandates the creation of a beneficial ownership registry that is managed by the Financial Crimes Enforcement Network (FinCEN). Companies are required to disclose beneficial owners (those owning 25% or more of the company or exerting significant control) to FinCEN. The registry has access limited to only law enforcement, competent authorities, and financial institutions. There is also a basic ID verification requirement where companies must submit ID numbers from government-issued identity documents to FinCEN.<sup>22</sup>

**Japan:** As of 2022, Japan introduced the Legal Persons List System where companies can request commercial registry offices to safely hold beneficial ownership records. The commercial registry offices can submit certificates for any/all due diligence requests.<sup>23</sup> Additionally, Japanese stock companies are required to send information about beneficial owners to notaries, who in turn, verify that the beneficiaries are not members of organized crime or terrorist networks.<sup>24</sup>

**Canada:** As of January 2024, The Government of Canada launched the Individuals of Significant Control Registry (ISC) for federal corporations. Canada's registry is publicly accessible, searchable, and free of cost. More detailed information about beneficial owners is available to law enforcement and tax authorities upon request.<sup>25</sup> Canada's provinces and territories are currently in discussions with the federal government regarding a centralized approach to collecting beneficial ownership information in a harmonized manner.

## Conclusion and Recommendations for Supranational Actors

Across the G7, beneficial ownership registry systems provide law enforcement and competent authorities access to detailed information to assist with investigations, whereas public access for a limited scope of information remains a balancing act between privacy laws and national security interests. Best-in-class features such as registries being searchable, free of cost, and covering as many high-risk entities as possible (e.g., trusts and real property) are generally common across G7 countries as they can deter criminals who are seeking to avoid detection. ID document submission for beneficial owners is a very recent requirement that improves the accuracy of the information contained in the registry. To date, the UK, Japan, and the US have such measures in place.

When considering the size and urgency of climate financing needs worldwide, it is plausible to assume that beneficial ownership registry systems will need to become more sophisticated to deter the proceeds of crime which can better assist supranational actors carry out due diligence. Expanding registries to include real property, granting full public access, enhancing searchability, and requiring ID verification for directors are key "best-in-class" features which supranational actors should call for to ensure that registries are sufficiently versatile to handle the increasing volume of climate financing need within the next decade. In conclusion, supranational actors must recognize that climate kleptocrats will aggressively innovate to hide nefarious activities and will exploit any loopholes in antiquated registry systems or legal frameworks.

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<sup>2</sup> The dichotomy of host countries versus source countries is a relationship coined by Jodi Vittori. Jodi Vittori, *Committing to Combat Kleptocracy: A Guide for OGP Members* (Washington DC: National Democratic Institute and Open Government Partnership, January 2024), [https://www.ndi.org/sites/default/files/Vittori\\_OGP\\_NDI%20kleptocracy.pdf](https://www.ndi.org/sites/default/files/Vittori_OGP_NDI%20kleptocracy.pdf)



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- <sup>4</sup> Stolen Asset Recovery Initiative, "Search Results For Beneficial Ownership Guides," <https://star.worldbank.org/publications?f%5B0%5D=category%3A89>, Last accessed April 2024.
- <sup>5</sup> Andres Knobel, "The IMF's anti-money laundering strategy review is promising, but it all comes down to implementation," Tax Justice Network, February 2024, <https://taxjustice.net/2024/02/26/the-imfs-anti-money-laundering-strategy-review-is-promising-but-it-all-comes-down-to-implementation/>
- <sup>6</sup> International Monetary Fund -- Anti Money Laundering and Combatting the Financing of Terrorism (AML/CFT), "Blog Post: New Direction in the Fund's AML/CFT Engagement," <https://www.imf.org/en/Topics/Financial-Integrity/amlcft> Last accessed April 2024.
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- <sup>9</sup> Adam Goldstein and Eric Hontz, "Corrosive Capital: Known Unknowns" Center for International Private Enterprise, November 2021, <https://www.cipe.org/resources/corrosive-capital-known-unknowns/>
- <sup>10</sup> "Following the establishment of a real property beneficial ownership registry in British Columbia, similar registries are needed in other real estate markets vulnerable to the laundering of illicit proceeds." "Canada: Staff Concluding Statement of the 2023 Article IV Mission," International Monetary Fund, June 20, 2023, <https://www.imf.org/en/News/Articles/2023/06/20/canada-staff-concluding-statement-of-the-2023-article-iv-mission>
- <sup>11</sup> Access to beneficial ownership information is limited to law enforcement, competent authorities, and financial institutions. Information is searchable and free to those stakeholders. Financial Crimes Enforcement Network. "Fact Sheet: Beneficial Ownership Information Access and Safeguards Final Rule." FinCEN.gov. Last modified December 2023. <https://www.fincen.gov/news/news-releases/fact-sheet-beneficial-ownership-information-access-and-safeguards-final-rule>
- <sup>12</sup> Access for registry documents requires a fee of 1.65 Euros. "Wirtschaftlich Berechtigter." Initiative Rohstofftransparenz. Last Accessed March 8, 2024. <https://rohstofftransparenz.de/en/rohstoffgewinnung/wirtschaftlich-berechtigtter/>
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<sup>22</sup> Norton Rose Fulbright. "The Corporate Transparency Act is Here." Last modified January 2024. <https://www.nortonrosefulbright.com/en/knowledge/publications/55b72cd0/the-corporate-transparency-act-is-here>

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<sup>24</sup> Morgan, Lewis & Bockius LLP. "Japan Introduces New Requirement to Identify Companies' Beneficial Owners." Last modified January 2019. <https://www.morganlewis.com/pubs/2019/01/japan-introduces-new-requirement-to-identify-companies-beneficial-owners>

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