



**Financial Services Commission**  
Mauritius

**A Synopsis of the Talk by Professor Jason Sharman from the Centre for  
Governance & Public Policy, Griffith University, Australia**

on his report on **“Shell Companies - Launderers Anonymous”**

held at the FSC House, Thursday 14<sup>th</sup> February 2013

In line with its supervisory duties and to promote public understanding of the financial system, the Financial Services Commission (FSC), the integrated regulator for Global Business and the financial services sector other than non-banking in Mauritius, welcomed the renowned Professor Jason Sharman for a talk on his report ["Shell Companies - Launderers Anonymous"](#) on 14<sup>th</sup> February 2013.

Professor Sharman is particularly known for his contribution to the knowledge in the regulation of global finance, especially relating to money laundering, tax, corruption and international financial centres. Professor Sharman is the renowned author of several books and various articles. His work has been featured in referred journals as well as in major media outlets like the Economist and the New York Times. He has worked as a consultant with the World Bank, Asian Development Bank, Commonwealth Secretariat, Financial Action Task Force, the Asia-Pacific Group on Money Laundering, Pacific Islands Forum and in the private sector.

**This report** by Michael Findley, Daniel Nielson and Professor Sharman on ["Shell Companies - Launderers Anonymous"](#) is a study on shell companies mainly because, for criminals moving large sums of dirty money internationally, there is no better device than an untraceable shell company. This report provides the results of an experiment soliciting offers for these prohibited anonymous shell corporations by a research team who impersonated dodgy customers requesting the setting up of anonymous companies from management companies all over the world. Evidence was drawn from more than 7,400 email solicitations to more than 3,700 Corporate Service Providers in 182 countries. Through this experiment, they were able to test whether international rules are actually effective in terms of laundering money, giving and receiving bribes, tax evasion and financing terrorism.

The results is said to provide the most complete and robust test of the effectiveness of international rules banning untraceable, anonymous shell companies. Furthermore, because the exercise took the form of a randomized experiment, it also provides unique insight into what causes those who sell shell companies to either comply with or violate international rules requiring them to collect identity documents from customers. Key findings included:

1. Overall, international rules that those forming shell companies must collect proof of customers' identity are ineffective. Nearly half (48 percent) of all replies received did not ask for proper identification, and 22 percent did not ask for any identity documents at all to form a shell company.
2. Against the conventional policy wisdom, those selling shell companies from tax havens were significantly more likely to comply with the rules than providers in OECD countries like the United States and Britain. Another surprise was that providers in poorer, developing countries were also more compliant with global standards than those in rich, developed nations.
3. Defying the international guidelines of a "risk-based approach," shell company providers were often remarkably insensitive to even obvious criminal risks. Thus, although providers were less likely to reply to clear corruption risks, those that did respond were also less likely than in the placebo condition to demand certified identity documents of potential customers from high-corruption countries who claim to work in government procurement.
4. Corporate service providers were significantly less likely to reply to potential terrorists and were also significantly less likely to offer anonymous shell companies to customers who are possibly linked to terror. However, compared to the placebo a significantly decreased share of firms replying to the terrorist profile also failed to ask for identity documentation or refused service.
5. Informing providers of the rules they should be following made them no more likely to do so, even when penalties for non-compliance were mentioned. In contrast, when customers offered to pay providers a premium to flout international rules, the rate of demand for certified identity documentation fell precipitously compared to the placebo.

As Mauritius was one of the jurisdictions which were tested through this experiment and with the number of companies holding Global Business Licences now running in thousands, the FSC is well aware that there is an increased risk associated with money laundering which can be magnified if there is a lack of robust Due Diligence system. Further, the FSC's vision is to be an internationally recognised financial supervisor committed to the sustained development of Mauritius as a sound and competitive Financial Services Centre. As such a vision cannot be achieved without the right balance between the need for strong regulations and business development, the FSC was particular interested in sharing the rational and findings of this report to its licensees and customers so that they are fully equipped with sufficient know-how and knowledge to maintain and increase the image of Mauritius as a recognized and vibrant International Financial Centre.

The talk by Professor Jason Sharman **proved to be quite** beneficial not only to the representatives of management companies present on the day but also for the image of the Mauritius International Financial Centre. According to the Professor *"The study by Michael Findley, Daniel Nielson and myself found that in terms of following international Know Your Customer standards on company formation Mauritius applies the rules more effectively than the average IFC, and far more effectively than the average OECD country. We measured policy effectiveness by our Dodgy Shopping Count: namely, how many corporate service providers would you have to approach on average before you found one who would offer to provide a company without the need for any identification? The higher the score on this measure, the more effectively the rules are applied, and vice versa. As such, Mauritius's score of 28 compares very favourably with countries like the United States, which got 10.9. Contrary to the conventional wisdom, when it comes to company formation, offshore centres are much less likely to allow the sorts of dangerous practices that facilitate money laundering, corruption, and the financing of terrorism than onshore centres."*

He also went on to say that, *“Judging from the results of our study, the Mauritius FSC is highly effective in ensuring that Mauritian management companies live up to international standards on company formation. However, the challenge faced by all jurisdictions linked in to the international financial system is that overall the rules designed to keep dirty money out of the system do not seem to work very well. A huge amount of regulation has been introduced in the last 20 years internationally, but it is hard to see much evidence that financial crime or money laundering has declined as a result.”*

Mauritius, especially, the FSC is committed to maintain and forge a robust regulatory framework to create an environment of transparency, stability, certainty and predictability to maintain its good repute as a Jurisdiction of Substance.