Creating clarity around ownership structures

Sanctioned by extension

Under OFAC’s 50% rule, a company is sanctioned by extension if owned by a sanctioned company or individual through a chain of ownership of 50% or more.

To the left is a real example of how a US registered company is connected to a Specially Designated National (SDN). As a result, all companies in the chain are sanctioned by extension.

In April 2018, OFAC added 12 Russian nationals to its SDN sanctions list for allegedly interfering with the 2016 US election.

Orbis identified 1,300 companies that became sanctioned by extension through their ownership chain to these new SDNs, and 90% of these companies were registered outside of the US.

These companies do not appear on any sanctions list, but could still be filtered for trading with them.

Beneficial owners

Beneficial ownership refers to the person(s) who ultimately own(s) or control(s) an asset (for example, a property or a company) and benefit(s) from it. The concept of beneficial ownership exists because the direct legal owner of an asset is not necessarily the person ultimately controlling and benefiting from the asset.

Traditionally, a beneficial owner is defined as an individual holding above 25%, or 10% depending on jurisdiction, of a company’s shares or voting rights. Even shareholders with less than a 1% shareholding can be beneficial owners as some structures allow them to effectively exercise control (see Power shareholders and Looking at circular ownership).

Power shareholders

The difference between ownership and voting power

Ownership and voting power can be very different. Here:

• it does not matter which two shareholders vote together to form a majority, so they have the same level of voting power
• thus, Shareholder A, despite only having 1% control, has a voting power of 50%

Indirect control can obscure the power of an individual or company. Here:

• Shareholder C has 0.75% control of Company A
• yet Shareholder C’s voting power is 75% because their share of Company B is enough to form a winning coalition with Shareholder A or Shareholder B most of the time and usually decide how Company B votes
• which means Shareholder C can form a coalition with Company B and succeed 75% of the time
• despite Shareholder D having 49.74% control, their voting power is only 25%, because if Shareholder C votes with any of the other parties on the left, this coalition will have control of the company, and Shareholder D will have zero influence

Probability of control is the term used to describe scenarios where a shareholder effectively has control despite holding less than 50% ownership. It is important because it reveals powerful owners who would normally go undetected despite their overwhelming influence. Here:

• ownership is widely dispersed
• shareholder A can flip the result in 99.9985% of possible voting combinations
• making it highly unlikely other shareholders will be able to vote Shareholder A down

Looking for sanctioned entities in different types of ownership

Direct ownership
If Company A is sanctioned, Company B will be sanctioned by extension because Company A owns 60% of Company B.

Single-path indirect ownership
If Company A is sanctioned, companies B and C will be sanctioned by extension because at every level ownership is 50% or more.

Multiple-path indirect ownership
If Company A is sanctioned, companies B and C will be sanctioned by extension because Company A owns 60% and 55% respectively. Company D will be sanctioned by extension as companies A, B and C own a combined 60% of Company D and can be considered at the same ownership level.

Aggregate ownership
If Company A and Company B are both sanctioned, Company C is sanctioned by extension (or aggregation) because the combined ownership of sanctioned companies at that ownership level is 51%.

Looking at circular ownership

Circular ownership is hard to assess but it’s important to be aware of when you’re researching beneficial ownership. Here individual A effectively owns 100% of companies A, B and C, despite on paper only owning 5% of Company A.

Orbis - creating clarity around ownership structures

Orbis is the world’s most powerful comparable data resource on private companies. It is the ideal platform to help you to find sanctioned and “sanctioned by extension” entities, “power” shareholders and beneficial owners. It gives you:

• information on around 300 million companies across all countries
• extensive corporate ownership structures and beneficial ownership information
• shareholder power and coalitions
• directors, managers and shareholders
• PEPs and sanctions
• news with adverse news filters
• standardized, detailed financial reports, and projected financials that make it easy to compare companies globally
• financial strength metrics even for companies without detailed financial information
• original documents and a document ordering service
• M&A deals and rumours