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New “Due Diligence Index” from Interfax D&B makes the Russian business universe more transparent

An innovation from the D&B Worldwide Network enables global trade

In an article criticising the effectiveness of the US Securities & Exchange Commission,¹ The Wall Street Journal reported on the initial filing to sell stock to the public in early 2009 by a company called Ukragro Corp. of Zhitomir, Ukraine. According to the filing, the corporation’s sole employee and owner was a 79-year-old massage therapist. While stating plans to open a string of health spas, the Ukragro Corporation had no revenue and only \$100 in assets. And yet, as the WSJ reports: “Public records on file at the SEC show that the agency asked no questions and the application cleared through the commission eight days later.” After achieving its listing on a US stock exchange thanks to the SEC’s lack of diligent oversight and now with a new name, the company was acquired by an American businessman who changed its name a second time before using it as a finance vehicle for a dubious mining operation. By trading on the OTC Bulletin Board under the ticker name AMOK, the company enjoyed share prices as high as \$2.75 without any revenues.

The Ukgaro Corporation is one example of a “shell company” – a legal entity with no operations. Registered in any country of origin, shell companies can provide a “fast track” for actively trading private companies seeking to go public quickly and with less paperwork. A boon to entrepreneurs, shell companies can create a real hazard for investors in small company stocks, which was the point of the [Wall Street Journal](#) article. However, OTC and Pink Sheet investors are not the only parties at risk.

Shell companies also pose risks to businesses actively trading and seeking trading partners. For confident transactions, it’s important to know that a company is actively operating, not merely a dormant vehicle deployed only on occasion to raise capital. Yet the signals for companies that exist for only a single transaction are not always easy to read. To combat the risk shell companies incorporated in the Russian Federation pose to traders, Interfax – our WWN partner in Russia, who have been working closely with Russian leading analytical centers in economic modeling – has recently launched a new index that quantifies the risk that a business entity may be a shell company. Known as the Due Diligence Index, this innovation answers a real need in the marketplace. Emulating the other scores D&B formulates to assess the risks of trading with individual companies, the new Due Diligence Index is tailored specifically to the Russian commercial and regulatory context. This makes it a powerful new insight tool for business decision-makers active in or entering the Russian market.

Explains Mikhail Komissar, Interfax CEO: “Rebuilding confidence is very important for our economic recovery. Better commercial insight can play an important role in this. I see the new Due Diligence Index as an important contribution. Knowing the probability that a registered entity is actually trading lowers risk and boosts confidence.”



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The Due Diligence Index in Russia does not simply augment the information available to D&B customers. It also breaks new ground in terms of the scoring tools tailored to country context. Says D&B Senior Vice President of Analytics Bill Groves, "In a context like Russia where the D&B Business Failure Score is not available, our colleagues at Interfax-D&B have shown that it is possible to model risk by assessing the probability that a company is a shell or single-transaction entity rather than a true trading enterprise. As more and more emerging economies gain strength, tailored scoring models like the one Interfax-D&B has developed in Russia will help D&B Worldwide Network customers build confident trade relationships with foreign companies."

Says Komissar, "To develop the Due Diligence Index, our team worked closely with the leading analytical centers whose expertise in modeling was a welcome complement to our own, and also with the Russian Federation tax authorities. Their knowledge of the reporting behaviors of individual enterprises is an important aspect of our underlying model." Strong relationships have also proved advantageous in places as diverse as the United States and the United Arab Emirates.

The new index earns high praise from D&B. "We're delighted to see Interfax D&B build this new score. It's a great addition to the arsenal. The new index is tailored to the Russian context, illustrating yet again that customers trading across borders benefit from the D&B Worldwide Network's emphasis on local market expertise," says Senior Vice President for International Partnerships and Latin America Corinne Saunders. The final word however rests with Mikhail Komissar: "By evaluating companies in this way, with the Due Diligence Index we are overturning a belief that Russia is not an open and transparent economy."

¹ "The SEC's Russian Roulette: IPOs From Ukraine and Russia Were Cleared, With Few Questions Asked", By John R. Emshwiller and Kara, *Wall Street Journal* 29 June 2010.



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