



PARTNERS IN CRIME

**ANALYSING THE POTENTIAL SCALE
OF ABUSE OF LIMITED LIABILITY
PARTNERSHIPS IN ECONOMIC CRIME**

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KEY TERMS

ANTI-MONEY LAUNDERING (AML) SUPERVISOR

Body responsible for overseeing businesses' compliance with the money laundering regulations (MLRs). There are 25 AML supervisors in the UK: 3 public sector supervisors and 22 professional body supervisors, which are often run by business trade bodies.

CORRUPTION

The abuse of entrusted power for private gain, which can comprise a range of nefarious activity including bribery, embezzlement of funds, misuse of public resources and rigged procurement.¹

LAUNDROMAT

A large-scale money laundering scheme involving dozens, and sometimes hundreds or thousands, of shell companies used to conceal the origins of funds, which may include corruption, fraud and other forms of financial crime.

LIMITED LIABILITY PARTNERSHIP (LLP)

A UK legal entity that provides limited liability to both 'partners' of the partnership – protection against negligence or misconduct by their partner. They cost as little as £10 to incorporate, have a separate legal personality, are subjected to light-touch reporting requirements, are tax transparent, and have few restrictions on who their partners can be. Historically, filings from LLPs sent to Companies House were not checked for their accuracy. These entities are separate from other forms of limited partnership (LP), such as English, Scottish or Irish LPs.

MONEY LAUNDERING

The process of converting the proceeds of crime into assets that appear to have a legitimate origin, enabling criminals to keep them permanently or recycle them for further criminal purposes.²

MONEY LAUNDERING REGULATIONS (MLRS)

Rules requiring businesses to undertake activities to help detect, report and prevent money laundering, including identifying the beneficial owner of corporate clients, due diligence checks on customers, and establishing clear ownership over company AML policies and procedures.

SHELL COMPANY

A legal entity having no physical presence in any jurisdiction, no employees, and no genuine commercial activity. Often based in secrecy jurisdictions where there is little information about companies or their owners, they are commonly used to help move or hide the proceeds of crime.

TRUST AND COMPANY SERVICE PROVIDER (TCSP)

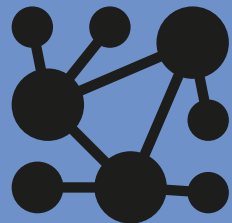
Business or sole trader providing services for those seeking to incorporate and control legal entities. Activities can include incorporating, preparing and submitting legal documents for legal entities; providing them with registered offices and mail forwarding services; and acting (or arranging for others to act) as a trustee, shareholder, director or secretary of a legal entity.

KEY FINDINGS



More than **one in ten** Limited Liability Partnerships (LLPs) (21,000+) that have ever been incorporated have characteristics identical to those used in serious financial crimes, such as bribery, embezzlement of public funds and sanctions evasion.

These LLPs form a vast, **inter-connected network**, usually with **three or more** of the following features:



- incorporation between **2005 and 2015**
- **one or more** corporate partners in one of **21 high-risk jurisdictions (HRJs)**, **15** of which are either British Overseas Territories or members of Commonwealth nations
- **ten or fewer** partners
- relatively few, if any, natural persons as partners
- partners spanning **dozens**, sometimes **hundreds**, of LLPs
- partners appearing in tandem alongside their '**pair**', usually another secretive offshore corporate partner, on the paperwork of **10 or more LLPs**
- both the LLPs and their officers registered at one of a relatively small number of addresses, typically alongside **hundreds of other identikit LLPs**
- where they have data on Persons with Significant Control (PSC), it is frequently either non-compliant or a natural person based in Russia, Ukraine, a Baltic state or somewhere else in the former Soviet Union





At the core of this network are **15,000 LLPs**
controlled by pairs of omnipresent offshore corporate partners.

TCSPs incorporated and managed these shell companies on a large scale – **often selling the LLPs and associated services to rogue bankers**, who used them to hide information about clients from their compliance colleagues.

Using available evidence from known cases, a reasonable and conservative estimate puts the economic damage caused by this network
in the tens of billions,
potentially hundreds of billions, of pounds.



While there are criminal cases in Denmark and Latvia against some of those involved, there are currently **no known cases before the UK courts** and almost no civil enforcement action by UK AML supervisory bodies.



Poor AML supervision and enforcement, combined with a slow public policy response, have provided an enabling environment for such widespread abuse of LLPs.

EXECUTIVE SUMMARY

Using data from Companies House and more than 50 corruption and money laundering cases, this paper sets out the likely scale of abuse of Limited Liability Partnerships (LLPs) in high-level white-collar crime. It builds on our previous work, and that of others, investigating the involvement of UK legal entities in financial crime. While this is a problem well documented in exposés by journalists and recognised by the government, its extent remained unknown. Until now.

From analysis of past corruption and money laundering cases, we identify a core set of eight characteristics that appear repeatedly with those LLPs involved. In total, we find over 21,000 LLPs – more than one in ten of those incorporated to date – with almost identical features.

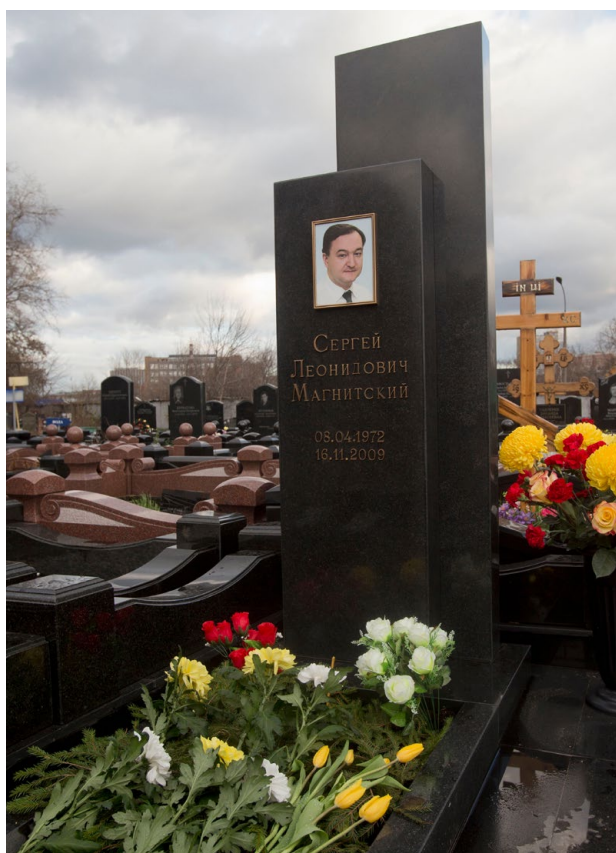
The overwhelming majority of these were formed between 2005 and 2015, the same period as several

known international ‘Laundromat’ schemes moving billions of pounds of suspect funds through the global economy. Corporate partners from 21 secretive jurisdictions with a high money laundering risk are omnipresent, with a relatively small number controlling a vast network of LLPs. The patterns are so clear and prevalent it is undoubtedly no coincidence – there were a small number of key people controlling this network on behalf of their clients.

The corporate secrecy in these places provided a layer behind which oligarchs and kleptocrats have hidden. Here too, the connections with the UK are astonishing – 15 are either British Overseas Territories or members of Commonwealth nations.ⁱ

Based on what we uncovered, it is a reasonable and conservative estimate to assume the economic damage caused by the abuse of LLPs is in the tens, if not hundreds, of billions of pounds. Known criminality enabled by UK LLPs includes the US\$230 million Russian tax fraud, uncovered by Sergei Magnitsky; large-scale bank thefts in Moldova, Kazakhstan and Ukraine; bribery and money laundering by Mexican drug cartels; and corruption in the Nigerian defence sector. There is also growing evidence of their use in sanctions evasion.

The government acknowledges this has happened in large part because Companies House has no powers to check the veracity of information it receives, making it an honesty box exploited by ruthless criminals and their associates. Ministers have brought a new economic crime bill before Parliament that should strengthen its role and provide it with the powers to stop the same level of abuse happening in the future, yet this would only solve part of the problem.



A tombstone on the grave of lawyer Sergei Magnitsky who died in jail, at a cemetery in Moscow. *Misha Japaridze/AP/Shutterstock*

ⁱ This includes Barbados, which recently declared itself a republic.



An SU-25 ground attack aircraft similar to those sold to Niger in a suspected corrupt arms deal involving UK LLPs.

At the heart of these schemes was a network of enablers providing legal and administrative services alongside banks, often in the Baltic region, to a range of corrupt clients. Prosecutors in Denmark and Latvia are bringing some of these enablers to justice, but curiously, the same has not yet happened in the UK despite it playing a central role in facilitating these crimes. This highlights vividly the UK's lamentable track record in economic crime enforcement.

While the identities of many of these enablers are no secret and should be known to UK authorities, almost no civil or criminal action has been taken against them. What little enforcement activity we have seen has not been sufficient to provide a credible deterrent against similar misconduct by others. This laissez-faire enforcement of AML regulations and laws has allowed those creating and using these illicit pipelines to go unchallenged. HM Treasury is consulting on how to raise standards across the private sector and provide more effective policing of businesses' conduct, but it did the same five years ago with little progress in-between. We cannot hope to end the UK's role as an enabler of corruption and kleptocracy

without an ambitious and more urgent policy response.

This illustrates a broader issue, in which the rate and scale of economic crime reform fails repeatedly to keep up with the pace of the problem. The challenges of enforcing sanctions against Russia, after its invasion of Ukraine, make this painfully clear. Similarly, we are already seeing some of those who enabled the various Laundromats of yesteryear now moving into the e-payment sector.³ The lesson to learn is blunt: the cost of meaningful and timely change pales into insignificance when compared against the cost of inertia.

RECOMMENDATIONS

In this report we identify five weaknesses in the UK's dirty money defences that criminals and kleptocrats have exploited with devastating effect. We propose ten solutions that would help tackle the UK's role as an enabler of global corruption.

→ ISSUE 1: Weak checks on information

✓ RECOMMENDATION 1

Empower Companies House

The UK Government should deliver on its commitment to empower Companies House with the means to police and ensure the accuracy of its corporate register, through legislation brought before Parliament as a matter of urgency.

→ ISSUE 2: Quick and easy formation

✓ RECOMMENDATION 2

Increase incorporation fees

The UK Government should increase incorporation fees for UK legal entities to at least £50 in order to generate sustainable revenue for Companies House's new responsibilities.



→ ISSUE 3: Transparency loopholes

✓ RECOMMENDATION 3

Prohibit secretive offshore corporate partners

Offshore corporate bodies should only be allowed to hold directorships and membership of partnerships when they are incorporated in jurisdictions with:

- the same beneficial ownership disclosure rules as Britain
- similar governance standards to the UK
- open and effective cooperation with UK law enforcement agencies

✓ RECOMMENDATION 4

Advanced beneficial ownership transparency globally

The UK Government should:

- work with the British Overseas Territories and Crown Dependencies to expedite their steps towards public beneficial ownership registers with full and free access to company data and not limited to individual entries, as recommended by the Foreign Affairs Committee
- provide Parliament with an update on progress to public beneficial ownership registers in the British Overseas Territories and Crown Dependencies before the end of 2022
- pursue wider uptake of the new global standard for corporate public disclosure through international fora, including: the Beneficial Ownership Leadership Group; the Commonwealth; and the Summit for Democracy financial transparency cohort



RECOMMENDATION 5

Strengthen the UK company register

In order to ensure the integrity of the corporate register, the UK Government should bring forward measures which would provide a strong guarantee that information submitted to Companies House is accurate, such as requiring information to prove the identity of beneficial owners.



RECOMMENDATION 8

Review AML supervision of high risk formation agents

The House of Commons Treasury Committee should consider a thematic review of supervisory and enforcement activity undertaken by the respective AML supervisors of those TCSPs covered by the money laundering regulations in the UK that are connected to cases of large-scale money laundering.

→ ISSUE 4: Ineffective supervision and enforcement



RECOMMENDATION 6

Investigate high risk formation agents

HM Treasury should commission an independent and urgent review of compliance by TCSPs involved in incorporating and maintaining this large network of suspicious LLPs connected to high-end money laundering.



RECOMMENDATION 9

Expedite AML supervisory reform

HM Treasury should expedite its work to reform the AML supervisory system so it is fit for purpose.

→ ISSUE 5: Emerging threats



RECOMMENDATION 7

Issue industry risk alerts

AML supervisors should issue industry alerts to their regulated community, highlighting the money laundering risks associated with LLPs and similar UK legal structures controlled by offshore corporate partners.



RECOMMENDATION 10

Mitigate emerging risks in e-payments

The Financial Conduct Authority (FCA) should implement the recommendations from our 2021 report, *Together in electric schemes*, which outlines emerging money laundering risks associated with UK electronic money institutions.

INTRODUCTION

Background

In recent years, the Organized Crime and Corruption Reporting Project (OCCRP) and its partners have unearthed numerous industrial-scale money laundering schemes run through banks in the Baltic and Nordic region. The principal source of these funds appears to be countries within the former Soviet Union, especially Russia and Azerbaijan, with many linked to major corruption cases, including the Moldovan bank robbery⁴ and the Hermitage Capital fraud.⁵

These schemes operated over a 12 year period between 2004 and 2016. Although at least US\$730 billion of suspicious funds moved through these schemes, the actual amount is likely significantly higher (Figure 1).

One common characteristic of these ‘Laundromats’ is the mass use of legal entities incorporated in the UK as conduits for funds of questionable provenance. In particular, LLPs and Scottish Limited Partnerships (SLPs) were regular features in these schemes.

Using data provided by the OCCRP and collected from open source research, we have identified 1,628 LLPs⁶ used in various corruption and money laundering schemes. Similar to findings from our previous research, corporate partners incorporated in 21 high-risk secrecy jurisdictions (see Annex I) like the Seychelles, the Marshall Islands and Belize controlled many of these entities.⁷ In some cases, the same offshore companies appeared repeatedly as the controlling partners of dozens of suspect LLPs. This pattern formed the initial driver of our investigation for this report. Our objective was to better understand the nature and scale of abuse of LLPs, and explore how these learnings could help reduce the UK’s role in high-end financial crime.

Scope of this report

This report analyses LLPs incorporated since the Limited Liability Partnerships Act 2000 and up until October 2021.ⁱⁱ We note there appears to be significant similarities and overlap between the abuse of LLPs and SLPs – the latter of which we have covered in our previous research.⁸

As of October 2021, a comprehensive database of SLPs and their limited partners was not available for detailed analysis. As such, this report is limited to just examining the potential scale of abuse of LLPs. However, were the data available, we contend that a similar exercise with SLPs would produce very similar results and deeper insights into the networks of suspicious legal entities registered at Companies House.

Disclaimer

We note that the inclusion of a company name or address in this report or the data we analysed does not of itself constitute an allegation of wrongdoing, and should not be construed as such.

Similarly, we do not allege solely by virtue of the fact an LLP shares common features with those connected with wrongdoing that they are also guilty of criminality. However, we do note those who do share these features should justifiably be treated with caution.

Where we do make allegations of wrongdoing, we wrote to all relevant parties for comment on our findings, and included their response below where provided.

Structure of this report

There are four main sections in this report:

Methodology: our research questions and how we answered them

Findings: how many LLPs we think might be, are or have been, involved in serious economic crime

Analysis: the significance of these findings and an exploration of why this activity has gone unchecked in the UK for so long

Conclusions: our thoughts on how to address the issues identified through our research, and further lines of inquiry

ii Note it does not include those dissolved before January 2010 – the data for which is no longer readily available in bulk form from Companies House due to their retention policies <https://www.gov.uk/government/organisations/companies-house/about/personal-information-charter> [accessed 10 August 2022]

Figure 1: Known money laundering schemes involving UK LLPs (the ‘ground truth’ data)

Scheme	Suspicious transactions	Period
Wachovia Bank ⁹	\$400 billion	2004-2007
Troika Laundromat ¹⁰	\$4.6 billion	2006-2013
Danske Bank (Estonia) ¹¹	\$224 billion	2007-2015
Russian Laundromat ¹²	\$20-80 billion	2010-2014
Deutsche Bank ¹³	\$10 billion	2011-2015
Azerbaijani Laundromat ¹⁴	\$2.9 billion	2012-2014
PrivatBank (Ukraine) ¹⁵	\$5.5 billion	2013-2016
Moldovan bank fraud ¹⁶	\$1 billion	2014
Russian ‘bottle’ Laundromat	\$820 million	2014-2016
Other	>\$1 billion	2014-2016
TOTAL	~\$730 billion	

Figure 1 summarises which known money laundering schemes involve UK LLPs (our ‘ground truth’ data), and the amount of money moving through these illicit payment platforms. The number of LLPs connected to these schemes is based on data available to us and is likely a conservative figure, given we had incomplete sight of the underlying transaction data and associated reports. Note that there is some overlap between them; for example, Danske Bank processed payments from the Russian and Azerbaijani Laundromats alongside a much larger set of suspicious transactions.¹⁷

The scale of suspicious transactions in this table includes payments via other forms of entities as well as LLPs, although the size of money flows through LLPs – where known – was substantial. Given the number of ground truth entities are likely the tip of the iceberg, these headline figures for suspicious transaction values are reasonable estimates, and could be at the low end of possibilities. Suspected predicate offences behind these payments include embezzlement of public funds, bribery, misuse of state resources, laundering drug money, and sanctions evasion.

METHODOLOGY

Research questions

Our research sought to answer three principal questions:

- **How widespread is the potential abuse of LLPs?**
- **Who facilitates this activity?**
- **What legislative and regulatory issues allowed this to happen?**

This section outlines how we sought to answer these questions.

Our hypothesis

Based on the available evidence from Laundromat and case study data (our ‘ground truth’ data), we concluded it was reasonable to assume that any other LLPs with almost identical characteristics are also likely to have been used for similar illicit purposes.

Given anecdotal evidence from our research over the years, and that of others, we thought it highly likely that a substantial number of LLPs were used for large-scale financial crimes.

We think they have been particularly attractive for those looking to move illicit funds because they provide three layers of secrecy:

1 Separate legal personality:

They can hold property, enter into contracts, be a debtor or creditor, sue or be sued, and – crucially – open up bank accounts in the UK and overseas, and do so in the name of the partnership and not its partners. This gives them the first layer of secrecy.

2 No natural persons:

Two or more ‘body corporates’ (that is, companies from any jurisdiction in the world) can be controlling partners for LLPs. Unlike UK private limited companies, they do not need a natural person as a partner. This gives them a second layer of secrecy.

3 Lack of information:

LLPs have very limited reporting requirements, meaning there are very few public documents to help trace their activities. This provides a third layer of secrecy.

Since 2016, LLPs have had to report anyone who owns or controls them – known in law as Persons with Significant Control (PSC).¹⁸ However, Companies House does not verify this information, so it is too easy for those reporting to provide false or no declarations without significant consequence.

Identifying the potential scale of abuse

To quantify the potential scale of the abuse of LLPs, we looked first at evidence from previous cases of alleged high-level corruption and money laundering. We called this our ‘ground truth’ data. From this, we identified the most salient characteristics displayed by LLPs in this dataset and then looked at how many others shared these unique and easily identifiable features (our ‘sample’ data). Then we checked for patterns in the ground truth and sample data, and compared them against the wider population of LLPs to test if our assumption that the scale of abuse was substantial.

Analysis

Building on our previous research, we set out later in this report our analysis of the structural factors that allowed this potential abuse of LLPs to occur on such a large scale. Specifically, we focus on UK company law and its administration by Companies House, and enforcement of the UK’s anti-money laundering laws. We recognise there are other factors at play, including the regulatory context in other jurisdictions connected to the networks under investigation. However, given time and resource limitations we were not able to delve into these with much detail.

FINDINGS

Identifying patterns in the ground truth data

Using data from Companies House and our ground truth data, we sought to establish the potential scale of LLP abuse. To do so, we looked at patterns and trends across three different cuts of data from Companies House.

The biggest dataset in our **analysis** was the **‘population data’**, which included all LLPs incorporated between April 2001 (the first registrations) and October 2021 (the cut-off point for our research). According to Companies House, there were 146,948 LLPs incorporated during this time.¹⁹

The second largest dataset in our analysis included those LLPs with one or more corporate partners in one of 21 HRJs. Our review of the ground truth data suggested this was the single most salient characteristic of suspect LLPs, and deserved closed scrutiny. This was a conservative approach given we have seen LLPs with partners who were natural persons based in these jurisdictions, too, with characteristics suggesting they could be part of the same networks. However, these offshore individuals were less prevalent in the ground truth data and more difficult to identify accurately in the population data, so we left them out for the sake of time and resources.

In the population data, there were 21,583 LLPs with this characteristic. In total, these LLPs had 88,072 appointments, of which 52,291 (59 per cent) were corporate partners incorporated in a high-risk location. These 21,583 LLPs formed our **‘sample data’**.

Our third dataset was the **‘ground truth data’** of 1,628 LLPs connected to known corruption and money laundering.

Where possible, we compared all three datasets to see whether the characteristics of LLPs in the ground truth data were atypical within the wider population and more frequent in our sample data. From this, we could make some conclusions about the likely level of potential abuse of LLPs. In particular, we sought to examine the prevalence of five characteristics from the ground truth data in more detail across the population and sample data:

Incorporation between 2002 and 2015

All ground truth LLPs were formed in the period 2002-2015, with the overwhelming majority (1,533 / 94 per cent) created in the decade between 2005 and 2015 – a substantial overlap chronologically with known Laundromats using these types of entity.

Partners in high-risk jurisdictions

Almost all of the ground truth LLPs (1,532 / 94 per cent) had at least one corporate partner with a registered address in one of 21 HRJs, such as the British Virgin Islands (BVI), Belize, the Seychelles, and the Marshall Islands (see Annex I for the full list).²⁰

Partners covering several LLPs

Just under half of LLPs in this dataset (679 / 42 per cent) had at least one of the ten most common offshore companies as members – a high degree of interconnectivity that indicates common control, coordination and/or market demand for these entities.

Common pairs of partners

Offshore corporate partners often appeared in pairs repeatedly across multiple LLPs. For example, the most prevalent, Ireland & Overseas Acquisitions Limited (Belize) and Milltown Corporate Services Limited (Belize), were partners together on 341 (21 per cent) ground truth LLPs.ⁱⁱⁱ

ⁱⁱⁱ According to the Belize corporate register, both companies are now inactive.

Registered at a small pool of addresses

Just five offices hosted 718 out of the 1,628 (44 per cent) ground truth LLPs, often alongside hundreds and sometimes thousands of other companies.

Looking through the filings of these entities confirmed our suspicions that they were the product of organised networks of TCSPs based in a range of jurisdictions.

We recognise there are some caveats to the conclusions we can make from this approach.

Firstly, because the ground truth data is a convenience sample – largely leaked Laundromat data – there is some inevitable bias in our methodology. Arguably, what we have identified is most likely a set of characteristics that is most common amongst those LLPs used in Laundromat-type schemes. Nevertheless, this is still useful when exploring the potential scale of LLP abuse more broadly, and we note that similar structures appear in other forms of financial crime, too.

Secondly, we recognise the way in which we define the sample data is arbitrary, but we do so for practical purposes. In an ideal world, we would have generated the sample data by seeing which LLPs within the population data had all of the five aforementioned characteristics. However, given the messiness of the data and its scale, this was not feasible with the time and resources available. In any case, based on our findings below, we think this choice of sampling based on one characteristic alone was justified.

Finally, we note that just because LLPs share these characteristics does not mean necessarily they have been involved in criminal conduct. Feasibly, these opaque structures could be utilised for a range of legitimate business activities. However, based on our findings below and what we know from available information about their abuse, we think it is reasonable to treat those entities with similar characteristics with extreme caution and heightened scrutiny.

Incorporation between 2002 and 2015

The peaks in the incorporation of sample LLPs broadly follows the same pattern as the ground truth data.

Figure 2 below shows that there was an initial spike in ground truth LLP incorporations between 2004 and

2007. This corresponds to a period involving ‘systemic’ money laundering failures at Wachovia Bank, which saw transactions totalling US\$400 billion go unmonitored,²¹ including payments via LLPs.²² The second peak from 2010 to 2015 coincides with the dates of various industrial-scale Laundromat schemes uncovered by the OCCRP, all of which used LLPs to move funds.

By comparison, the incorporation of sample LLPs broadly matches these trends, with an initial spike between 2004 and 2008, followed by a subsequent spike in 2010, which trails off in 2015. The figures are not in exact proportion, but the striking similarities seem too much of a coincidence. Noticeably, both ground truth and sample data incorporations have different profiles to the population data. They have far more pronounced surges in formations, while the population data has a smoother increase, followed by a levelling out and a brief spike in 2016 caused by a group of highly connected entities.

Overall, 94 per cent (1,533) of ground truth LLPs were formed in the decade between 2005 and 2015 (inclusive) compared to 87 per cent (18,905) for sample LLPs, and 67 per cent (98,895) within the population data. This last figure drops to 64 per cent (80,072) if you exclude sample data LLPs from the population data.

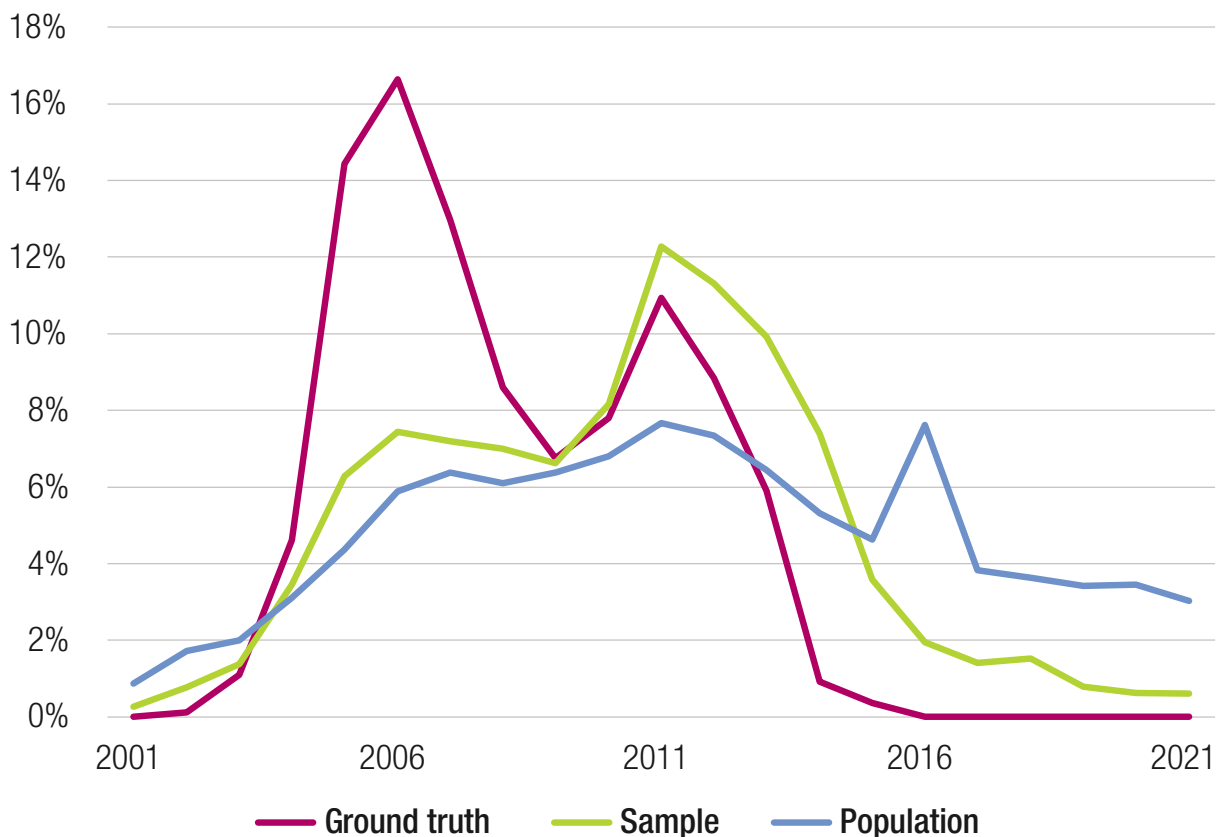
High rate of churn

There are also some similarities between the ground truth and sample data, which both show a high rate of churn compared to the wider population of LLPs. Of the 21,583 LLPs in our sample data, only 2,807 (13 per cent) were still active as of October 2021, with the remaining 18,776 (87 per cent) dissolved (Figure 3). The level of dissolved LLPs in the ground truth data was even higher, with only 113 (7 per cent) still active compared to 51,980 (35 per cent) in the population data.

The high proportion of dissolved LLPs in the ground truth and sample data may be because most were formed during the period 2005-2015. The average LLP lifespan across all three datasets is relatively short – four years for sample and population data LLPs, and five years for those in the ground truth data – so this is perhaps to be expected. However, there are some interesting patterns in the sample data that are worth exploring in more detail.

In the sample data, there are some noticeable bulk dissolutions. For example, 538 LLPs dissolved on 7 October 2009, which was almost five times more than the second most popular day for dissolutions, 9 March 2016 (117).

Figure 2: Proportion of LLP incorporations by year (2001-October 2021)



Looking more closely at these LLPs, it is clear this is no coincidence and there is a controlling mind behind this behaviour. Out of 1,300 appointments across the 538 LLPs dissolved on 7 October 2009, 635 (48 per cent) were held by just 10 corporate partners. Of these, seven were based in Belize (487 appointments), two in the BVI (110 appointments), and one in the Seychelles (38 appointments).

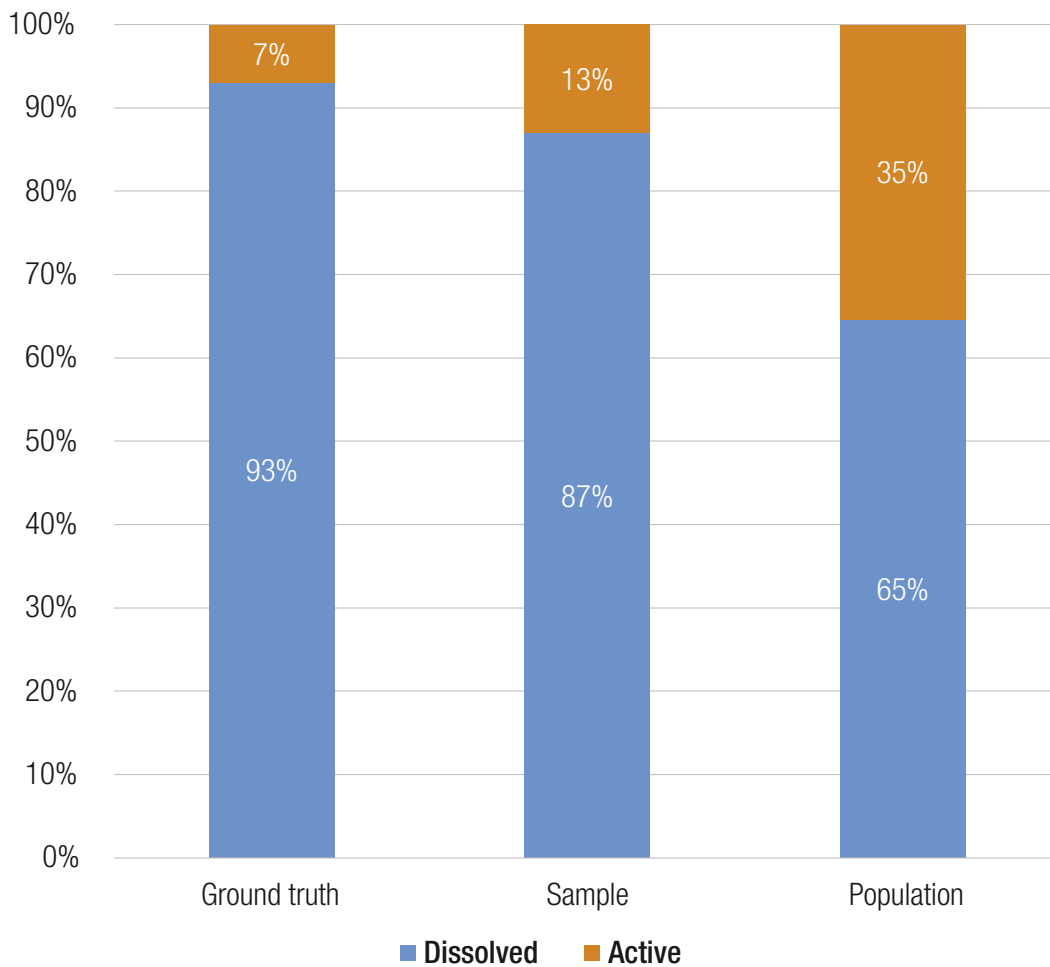
To illustrate this point further, many of those LLPs dissolved on 7 October 2009 also formed on the same day *en masse*, seemingly as a consequence of some form of centralised control. For example, Gertex Management Limited (Belize) and Watford Ventures Limited (Belize) controlled 17 of these LLPs that were all incorporated on 17 November 2006.^{iv}

This pattern occurs repeatedly: those companies dissolved on 7 October 2009 often formed on the same day as other LLPs with the same corporate partners.

Notably, LLPs with these common partners are not all registered at one address, but across several locations. This suggests those controlling these networks operated across numerous locations and/or in concert with other TCSPs.

^{iv} According to the Belize corporate register, both companies are now inactive.

Figure 3: Proportion of LLPs by status (2001-October 2021)



Partners in high-risk jurisdictions

In our ground truth data, 1,532 (94 per cent) LLPs have at least one of 565 unique corporate partners registered in one of 21 HRJs. Eighty-five per cent (481) of these were incorporated in just five places: Belize (153 / 27 per cent), the Seychelles (113 / 20 per cent), the BVI (99 / 18 per cent), the Marshall Islands (74 / 13 per cent) and Panama (42 / 7 per cent) (Figure 4). This is a very high proportion of corporate partners based in a very small and select number of jurisdictions.

In total, these secretive offshore entities held 4,255 (47 per cent) of the 9,108 appointments in this dataset, the

rest being individuals (4,670) or legal entities from other jurisdictions (183). Of all 4,438 corporate appointments, 3,824 (86 per cent) were held by companies registered in either Belize (1,675 / 38 per cent), the Seychelles (763 / 17 per cent), the Marshall Islands (618 / 14 per cent), the BVI (569 / 13 per cent) or Panama (199 / 4 per cent) (Figure 5).

There are some striking similarities in our sample data. Here, there are 21,583 LLPs with 38,781 identifiable unique officers.^v Of these, over one in four (10,039 / 26 per cent) are unique high-risk corporate partners. As in the ground truth data, the overwhelming majority of these 10,039 high-risk offshore corporate partners are registered in the same five jurisdictions: BVI (3,080 / 31 per cent), the Seychelles (1,644 / 16 per cent), Belize

^v Due to the size of the dataset and the inconsistency in which officers were named, we were not able to reconcile all of these into unique identities. Consequently, the number of unique officers is likely slightly lower. However, we were able to reconcile almost all entries involving corporate partners incorporated in a high-risk jurisdiction with a high level of accuracy.

(1,392 / 14 per cent), Panama (791 / 8 per cent) and the Marshall Islands (448 / 4 per cent) (Figure 4).

When looking at appointments, it is the same story. Of the 88,072 appointments across sample LLPs, 52,292 (59 per cent) are held by HRJ corporate partners (Figure 5). Again, the overwhelming majority of these HRJ corporate appointments (43,358 / 83 per cent) are held by entities incorporated in either Belize (16,323 / 31 per cent), the Seychelles (9,603 / 18 per cent), the BVI (8,337 / 16 per cent), the Marshall Islands (6,644 / 13 per cent) or Panama (2,451 / 5 per cent).

Given the criteria used to select the sample data, we know that 125,365 LLPs (85 per cent) in the wider population did not have at least one high-risk offshore corporate partner. Anecdotally, we know that many of the officers who are natural persons in this wider population dataset are also based in the HRJs we identify. Due to data issues, we cannot say exactly how many at present.

However, we can say that those LLPs with corporate partners from these HRJs form a very significant proportion of all those incorporated.

Several LLPs with at least one corporate partner in an HRJ were self-evidently real businesses. For example, some major financial services and legal firms had a number of officers in these locations, often alongside large numbers of natural persons who were partners in the firm. Others appear to have been used for investments in the film industry or paying staff. What differentiates the above from our ground truth LLPs is the number and nature of their officers.

The overwhelming proportion (1,602 / 98 per cent) of ground truth LLPs have 10 or fewer appointments. Ground truth entities rarely have a natural person as an officer. Where they do, they do so in large numbers. Again, this is because they are partners in established law firms and financial services providers.

Figure 4: Proportion of HRJ corporate officers by jurisdiction of incorporation for ground truth and sample data

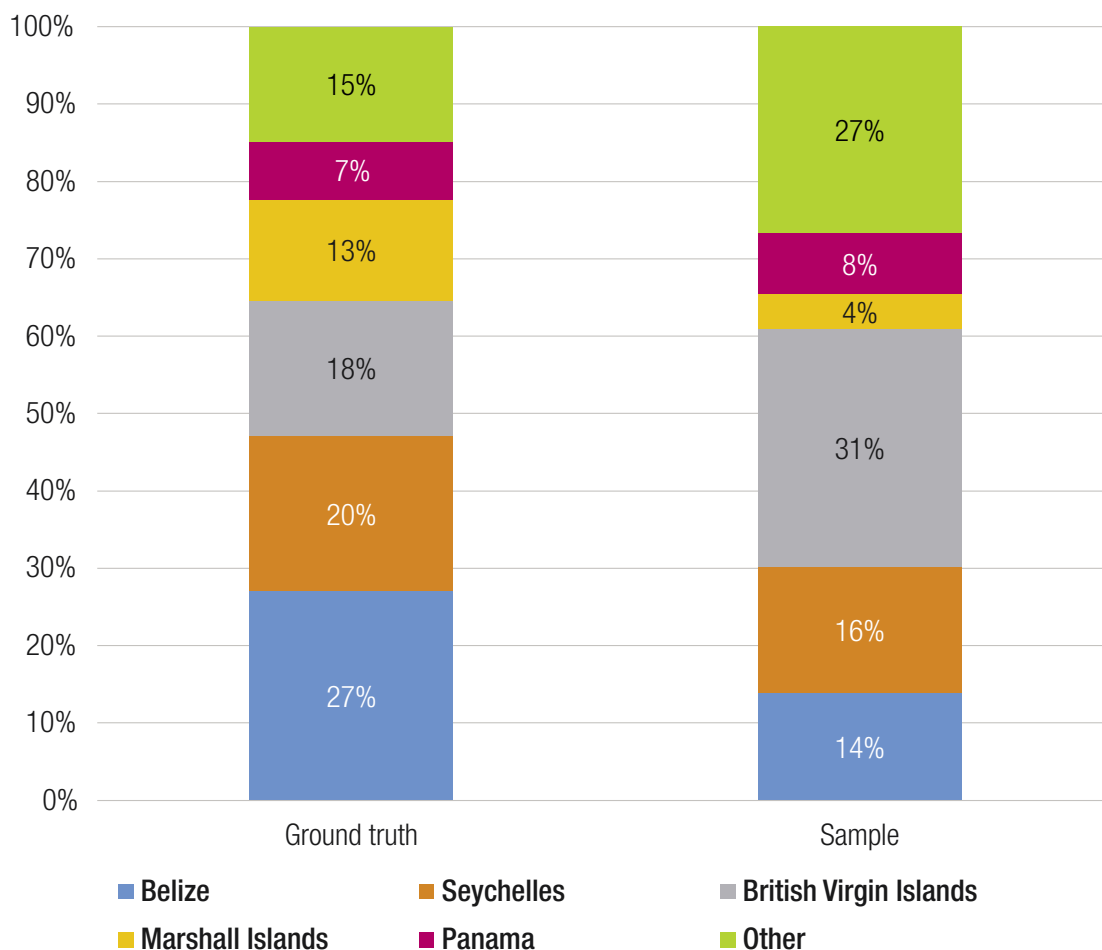
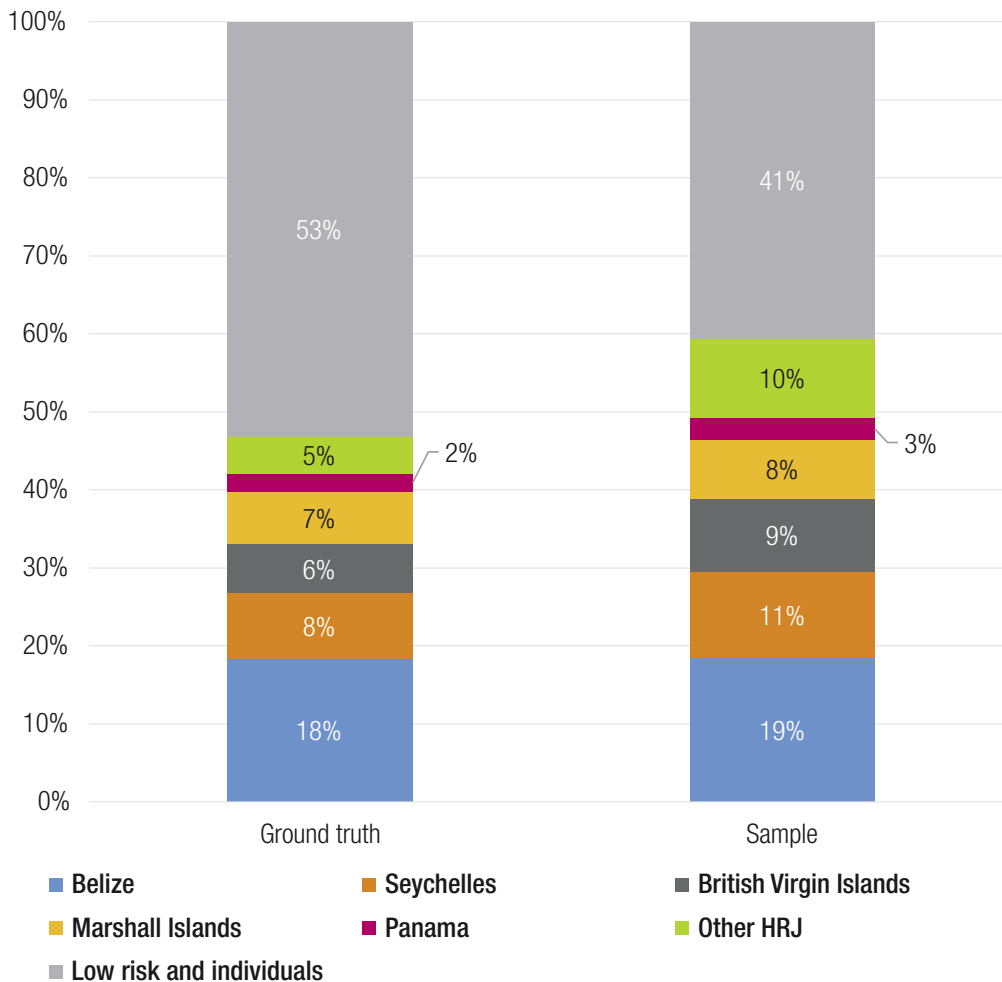


Figure 5: Proportion of appointments for ground truth and sample data by jurisdiction of incorporation



Partners covering several LLPs

Drilling into the data, we noticed that not only were there key jurisdictions of risk, but also key corporate partners, some of whom hold a staggeringly high level of connectivity within our sample data.

In the ground truth data, just ten corporate officers from HRJs held around one in five appointments (1,860 out of 9,108) (Figure 6). Together, these ten HRJ corporate officers controlled over two fifths (679 / 41 per cent) of all LLPs we know were connected to alleged high-level corruption and industrial-scale money laundering.

In the sample data, these same top 10 most frequently occurring HRJ corporate officers held 10,589 (12 per cent) appointments across 4,057 (18 per cent) of the

21,583 LLPs. This means around one in five LLPs in the sample data shared core HRJ corporate partners controlling LLPs connected to alleged corruption and money laundering.

More broadly, 15,226 (70 per cent) of LLPs in the sample data have at least one HRJ corporate officer from the ground truth dataset.

Due to time, data and resource issues, we could not standardise the population data to see whether it is usual for such a small number of officers to control such a high proportion of LLPs. However, based on what we have discussed already above and the substantial overlap between ground truth and sample data, and how they differ from the population data, we conclude that patterns in the ground truth and sample data do not indicate 'normal' business activity.

Figure 6: Top 10 most frequently occurring HRJ corporate officers in ground truth data by number of appointments, with prevalence in sample data for comparison

Officer	Ground truth #	Ground truth %	Sample #	Sample %
Milltown Corporate Services Limited (Belize)	380	4%	2,046	2%
Ireland & Overseas Acquisitions Limited (Belize)	348	4%	1,898	2%
Ireland & Overseas Acquisitions Limited (British Virgin Islands)	217	2%	1,324	2%
Milltown Corporate Services Limited (British Virgin Islands)	186	2%	1,177	1%
Monohold Ag (Seychelles)	130	1%	671	1%
Intrahold Ag (Seychelles)	130	1%	673	1%
Formond Inc (Marshall Islands)	124	1%	614	1%
Primecross Inc (Marshall Islands)	122	1%	617	1%
Advance Developments Limited (Belize)	112	1%	799	1%
Corporate Solutions Limited (Belize)	111	1%	770	1%
Other HRJ officers	2,408	26%	41,703	47%
Other officers	4,840	53%	35,780	41%
Total	9,108	100%	88,072	100%

CASE STUDY: Danske Bank

In 2013, a whistleblower at Danske Bank reported irregularities at its Estonian branch to the company's board in Copenhagen. They claimed colleagues were knowingly dealing with a criminal customer who had filed false information at UK Companies House, and that they continued to work with them despite knowing the customer repeatedly filed inaccurate accounts. Eventually, the branch closed the accounts of this customer because of its suspicious payments and lack of information about its beneficial owners, which the whistleblower suspected included members of the Putin family and the FSB, Russia's security service and successor to the infamous KGB.^{vi}

In their report, the whistleblower flagged 'UK LLPs are the preferred vehicle for non-resident clients' at the branch.

In 2014, auditors from Estonia's financial regulator inspected records at the Tallinn office of Danske Bank. They uncovered hundreds of millions of dollars' worth

of suspicious transactions flowing through accounts belonging to obscure companies incorporated in a range of locations, including the UK and the BVI. These were also part of the branch's non-resident portfolio of customers.^{vii}

In 2017, the Organized Crime and Corruption Reporting Project (OCCRP) reported the findings of their investigation into US\$2.9 billion worth of transactions at the bank's Estonian branch between 2012 and 2014.^{viii} At the core of this payment platform were two LLPs – Metastar Invest LLP, and LCM Alliance LLP – that processed hundreds of millions of dollars in payments that made no economic sense.^{ix} It concluded that these accounts enabled a large-scale money laundering operation, principally for the benefit of elites from Azerbaijan.

In July 2018, Danish newspaper *Belingske* reported the total amount of suspect payments moving through Danske's accounts could have been as high as US\$8.3 billion between 2007 and 2015.^x

In September 2018, the bank published the findings of an independent audit into activity in its non-resident portfolio conducted by law firm Bruun and Højle.^{xi} After reviewing a sample of 6,200 clients in this part of the business, it concluded almost all were suspicious and with shared characteristics.^{xii} At that point, it was yet to investigate 8,800 other customers.

In 2020, the OCCRP reported on leaked documents from a criminal investigation showing how high-risk people like this secured accounts at Danske. Staff at the bank's division for foreign customers sold LLPs and other overseas companies to clients as a means to hide their identity from their counterparts in AML compliance. A formation agent called Swiss Registry Consulting provided some of these LLPs, charging as much as US\$800 per entity.^{xiii} Incorporating LLPs directly via Companies House usually costs as little as £10.^{xiv}



vi Bruun and Højle, *Report on the Non-Resident Portfolio at Danske Bank's Estonian branch* (September 2018) p.51 <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch.pdf>

vii <https://www.occrp.org/en/investigations/newly-obtained-audit-report-details-how-shady-clients-from-around-the-world-moved-billions-through-estonia> [accessed 16 August 2022]

viii <https://www.occrp.org/en/azerbaijanlaundromat/> [accessed 16 August 2022]

ix Both entities are now dissolved.

x <https://www.berlingske.dk/virksomheder/nyt-laek-af-data-danske-banks-hvidvask-sag-vokser-eksplodivt> [accessed 28 July 2022]

xi Bruun and Højle, *Report on the Non-Resident Portfolio*

xii Bruun and Højle, *Report on the Non-Resident Portfolio* p.32

xiii <https://www.occrp.org/en/the-fincen-files/rinse-profit-repeat-how-a-small-team-of-estonians-turned-a-danish-bank-into-a-laundromat> [accessed 15 August 2022]

xiv <https://www.gov.uk/government/publications/companies-house-fees/companies-house-fees#llp-inc> [accessed 28 July 2022]

Using publicly available information and leaked emails, we identify Alex Zingaus^{xv} as the person running Swiss Registry Consulting, which is another trading name for a UK TCSP called Meridian Companies House Limited. In our previous research, we identified Meridian Companies House Limited was owned by an Alex Zingaus.^{xvi}

Meridian's registered address was Cornwall Buildings, 45-51 Newhall Street, Birmingham, B3 3QR – the most frequently used address for LLPs in our ground truth and sample data.^{xvii}

According to Companies House records, two of its directors were Advance Developments Limited (Belize) and Corporate Solutions Limited (Belize)^{xviii} – omnipresent offshore partners in both our ground truth and sample data. Over 90 per cent (760) of the 828 LLPs controlled by at least one of these corporate partners in our sample data were registered at the same address in Birmingham. This includes Metastar Invest LLP, a core Laundromat entity with an account at Danske's Estonian branch,^{xix} and 117 other LLPs we know were connected to similar large-scale money laundering operations.

These significant connections and an archived webpage^{xx} confirm that Meridian Companies House Limited was a trading name for Swiss Registry Consulting, the firm selling off-the-shelf shell companies to bankers at Danske's troubled Estonian division.

The UK's money laundering rules at the time required those undertaking TCSP services to register with HMRC or one of the 21 professional body AML supervisors at that time.^{xxi} They also allowed regulated businesses to rely on third parties for due diligence checks – for example, establishing the identity and money laundering risk of clients – while remaining legally liable for the third parties' compliance with these rules. Similar rules exist today, although those relying on third-party due diligence checks must obtain more information to provide assurance that they are receiving information which is accurate and complete.



Evidence revealed in the OCCRP's report raises serious questions as to whether the TCSP incorporating entities in the UK, or those they were selling them to bankers at Danske, undertook sufficient due diligent checks on their clients. HMRC's data is insufficient to check whether Swiss Registry Consulting or Meridian Companies House Limited were ever registered in the UK for AML purposes. However, we do know from an older version of its register that a connected TCSP owned by Alex Zingaus, The Island Service Provider Limited, was registered with HMRC for a period before it dissolved in September 2020.^{xxii}

We asked HMRC whether Meridian Companies House Limited was registered with them for AML supervisory purposes during the period in which they provided services to bankers at Danske Bank, but received no response.

We contacted Alex Zingaus for comment but received no reply.

Danske Bank stated they are committed to combating financial crime, and anti-money laundering is a key priority for the group. They recognise it should never have had the portfolio of non-resident customers in Estonia, which it has terminated, and have invested significantly in their compliance functions to strengthen their defences against financial crime.

xv Born April 1973 according to information filed at Companies House.

xvi https://www.transparency.org.uk/sites/default/files/pdf/publications/TIUK_AtYourService_WEB.pdf [accessed 28 July 2022]

xvii <https://find-and-update.company-information.service.gov.uk/company/05072048> [accessed 16 August 2022]

xviii <https://find-and-update.company-information.service.gov.uk/company/05072048/officers> [accessed 28 July 2022]

xix <https://www.occrp.org/en/azerbaijanlaundromat/the-core-companies-of-the-azerbaijani-laundromat> [accessed 15 August 2022]

xx <https://archive.ph/z5cAF#selection-213.370-225.404> [accessed 15 August 2022]

xxi Regulation 26, The Money Laundering Regulations 2007 <https://www.legislation.gov.uk/uksi/2007/2157/regulation/26/made> [accessed 15 August 2022]

xxii <https://find-and-update.company-information.service.gov.uk/company/08500723> [accessed 15 August 2022]



Common pairs of partners

To take the above point further, we identified that pairs of offshore corporate partners often appeared together, repeatedly. For example, Milltown Corporate Services Limited (Belize) and Ireland & Overseas Acquisitions Limited (Belize) appeared across 1,873 sample entities; Corporate Solutions Limited (Belize) and Advance Developments Limited (Belize) did the same across 732; and Intrahold AG (Seychelles) and Monohold AG (Seychelles) were partners together on 661 LLPs.

To understand the scale of this pattern, we identified those who appeared 10 or more times with their 'pair' on the paperwork of different LLPs. Overall, there were 15,000 (69 per cent) sample LLPs with these frequently occurring pairs. Like the patterns we identified in the section above, there are some dominant partners in this network, appearing on hundreds, sometimes thousands, of LLPs. These are astonishing figures and reinforce the industrial scale of these activities.

Again, due to time and resource constraints we could not check whether these patterns of pairs of partners across hundreds or more LLPs is usual in the population data. However, we contend it is reasonable to assume that it is not, especially given their other characteristics.

Curiously, there are also companies with identikit names based in different jurisdictions. For example, there are companies called Milltown Corporate Services Limited and Ireland & Overseas Acquisitions Limited in both Belize and the BVI. When they appear as officers for LLPs, they often do so together with their pair from the same jurisdiction. These namesakes from different territories also controlled LLPs during the same period, so it looks like the TCSPs managing them are working from multiple locations concurrently with a set group of core entities.

CASE STUDY: ABLV

In February 2018, the US Treasury's Financial Crimes Enforcement Network (FinCEN) designated Latvia's ABLV Bank as a primary money laundering concern. This measure shut ABLV out of the global financial system by banning its use of US dollars. Less than two weeks later, the European Central Bank concluded it was likely to fail and initiated winding-up proceedings.

FinCEN's designation notice makes for uncomfortable reading. It catalogues how one of Latvia's most strategically important financial institutions engaged in what it called 'institutionalized money laundering as a pillar of the bank's business practices'.^{xxiii} Those using it to funnel money of questionable origin included Serhiy Kurchenko, a Ukrainian oligarch subject to sanctions in the US; a Politically Exposed Person (PEP) from Azerbaijan 'engaged in large-scale corruption and money laundering'; and those involved in evading sanctions on North Korea.



Similar to Danske's Estonian branch, these issues focused largely on the bank's high-risk, non-resident portfolio of clients. This included accounts held by UK LLPs. Filings at Companies House and investigations by the OCCRP identified International Overseas Services (IOS) as the TCSP responsible for incorporating and managing many of these entities.

In July 2022, Latvian prosecutors filed charges against senior bankers at ABLV as well as a co-manager of IOS, Arvis Šteinbergs.^{xxiv} They allege senior managers conspired with IOS to administer shell companies with accounts at the bank in order to evade scrutiny from anti-money laundering checks.

The alleged money laundering methodology in ABLV is strikingly similar to that deployed at Danske – senior staff working together with TCSPs to provide clients cover from scrutiny by the bank's compliance staff. Although the exact names of the shell companies used are not yet known, reports on the indictment state it includes entities from the UK. Media outlet LSM.lv also reports one of the named entities is Soldmax LLP, which authorities claim Serhiy Kurchenko owns, and that it received hundreds of millions of dollars and euros between June 2012 and January 2017 – transactions, prosecutors allege, bearing the hallmarks of money laundering.^{xxv}

Those charged have pleaded not guilty.

We contacted ABLV, IOS, Arvis Šteinbergs and Soldmax LLP for their response to these allegations, but received no reply.

^{xxiii} Financial Crimes Enforcement Network, *Proposal of special measure against ABLV Bank, AS ukase a financial institution of primary money laundering concern* (February 2018) FR 6988 https://www.fincen.gov/sites/default/files/federal_register_notices/2018-02-16/2018-03214.pdf

^{xxiv} <https://www.lsm.lv/raksts/kas-notiek-latvija/raksti/bernis-un-7-dalibnieki-organizeta-grupa-naudas-legalizesanai-svarigakais-prokurores-apsudziba-ablv-lieta.a466867/> [accessed 13 September 2022]

^{xxv} <https://www.lsm.lv/raksts/kas-notiek-latvija/raksti/bernis-un-7-dalibnieki-organizeta-grupa-naudas-legalizesanai-svarigakais-prokurores-apsudziba-ablv-lieta.a466867/> [accessed 13 September 2022]

Registered at a small pool of addresses

A characteristic of this network that has gained it infamy in AML circles is the registered addresses of suspect LLPs. Some places have become so notorious for housing entities involved in financial crime, any company reportedly based there should instantly fall under suspicion. It is clear why from our ground truth data.

Just five addresses host half of LLPs in this dataset (718 / 44 per cent) (Figure 7). The most frequently used of these was Cornwall Buildings, 45-51 Newhall Street, Birmingham, B3 3QR, home to 269 (17 per cent) ground truth LLPs. This is almost double the amount at 175 Darkes Lane, Potters Bar, Hertfordshire, EN6 1BW – a location so infamous that it is described as one of the ‘world’s dodgiest addresses’,²³ and well profiled by those working in the financial crime space.²⁴

Perhaps unsurprisingly, four out of the five most populous addresses in the sample data overlap with those in the ground truth data.^{xxvi} For comparison’s sake, the top five locations in the ground truth data host 5,916 (27 per cent) sample LLPs – a smaller proportion, but still a significant one. There are also more addresses in the sample data with 100 or more LLPs. This is partially a product of the larger sample size, but also an indicator of the scale of suspect activity – these 39 places hosted 13,600 (63 per cent) sample LLPs (Figure 8).

At these addresses and others like them with large numbers of ground truth LLPs, you see the same HRJ corporate officers appearing repeatedly in the paperwork; almost always with their frequent ‘pair’ (see section above). Many appear across multiple addresses, such as the ever-present Milltown Corporate Services Limited (Belize) and Ireland & Overseas Acquisitions Limited (Belize). The top 10 most frequently occurring HRJ corporate partners in the sample data also control a large number of LLPs registered at these hubs (Figure 9).

Curiously, the use of some locations as a registered address stops abruptly. For example, incorporations registered to Cornwall Buildings end suddenly in 2013 after a decade of hosting 10-20 new sample LLPs per month. Similarly, after being the registered address of numerous LLPs for over a ten year period, the use of Unit 5 Olympia Industrial Estate, Coburg Road, London,

N22 6TZ ends abruptly in July 2015. Amongst the most populous addresses, there is a noticeable winding-down of incorporations from around 2014 onwards, with only 25 new sample LLPs incorporated and registered at the top 10 most used addresses from 2016.

We also looked at the registered addresses of HRJ corporate partners to see if there were similar patterns in that data. Again, there were a relatively small number of locations housing hundreds of companies. Just five addresses hosted a quarter of officers from HRJs in the ground truth data (Figure 10). This proportion drops to just under one in six in the sample data, although here 18 addresses hosted over 100 HRJ corporate partners, which accounted for over a third (3,468) of the 10,039 in this dataset. That is a high proportion of partners registered to a relatively small number of places offshore.

There are some caveats to add to the findings above.

Firstly, the data we used was the current registered address of the LLPs, some of which have changed location over time. Further systematic analysis of changes in address may provide more trends that are worth deeper exploration.

Secondly, to register an address at Companies House does not require the permission of the owner or occupier of that location. It is plausible that someone managing a group of shell entities could use an address which they have no presence at, or connection to, in reality. This could be in order to deceive and obscure their activities from scrutiny – a practice known as ‘cuckooing’.

Thirdly, these addresses may represent merely one part of a wider supply chain of services used to hide the control and management of these entities. There may be a TCSP at these addresses – providing virtual offices or mail forwarding – but they are not necessarily the controlling minds behind these networks, as we can see from the Danske Bank and ABLV case studies above.

Nonetheless, these figures still provide a compelling and easily identifiable sign of bulk incorporations and entity management that, alongside other information, such as corporate officers and snippets from annual accounts, allows one to develop a picture of how some TCSP networks operate.

^{xxvi} Cornwall Buildings, 45-51 Newhall Street, Birmingham, B3 3QR; 175 Darkes Lane, Potters Bar, Hertfordshire, EN6 1BW; Enterprise House, 82 Whitchurch Road, Cardiff, CF14 3LX; Suite 1, The Studio, St Nicholas Close, Elstree, Hertfordshire, WD6 3EW

Figure 7: Proportion of LLPs registered at addresses (top five locations and other)

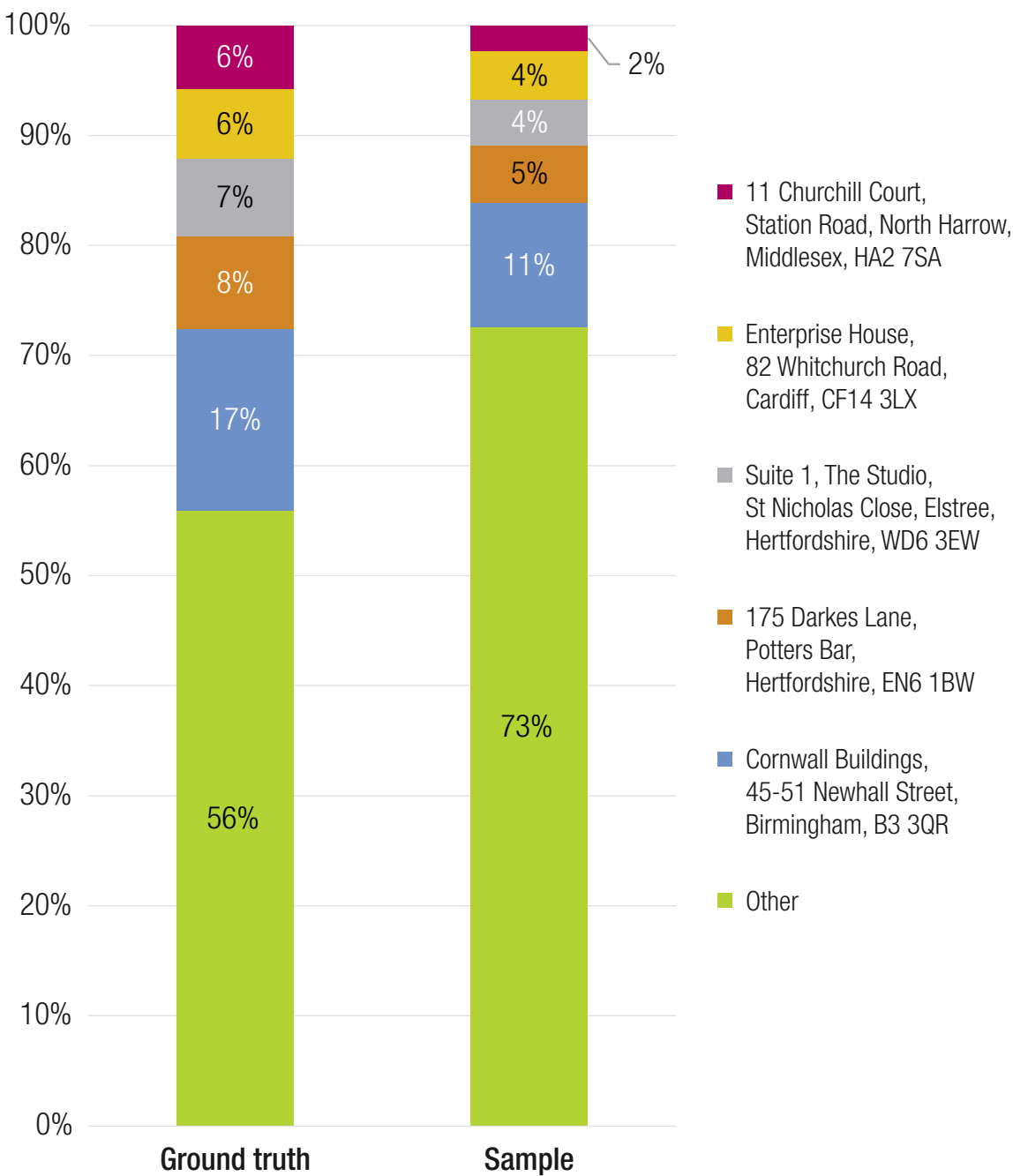


Figure 8: Proportion of addresses with 100+ LLPs

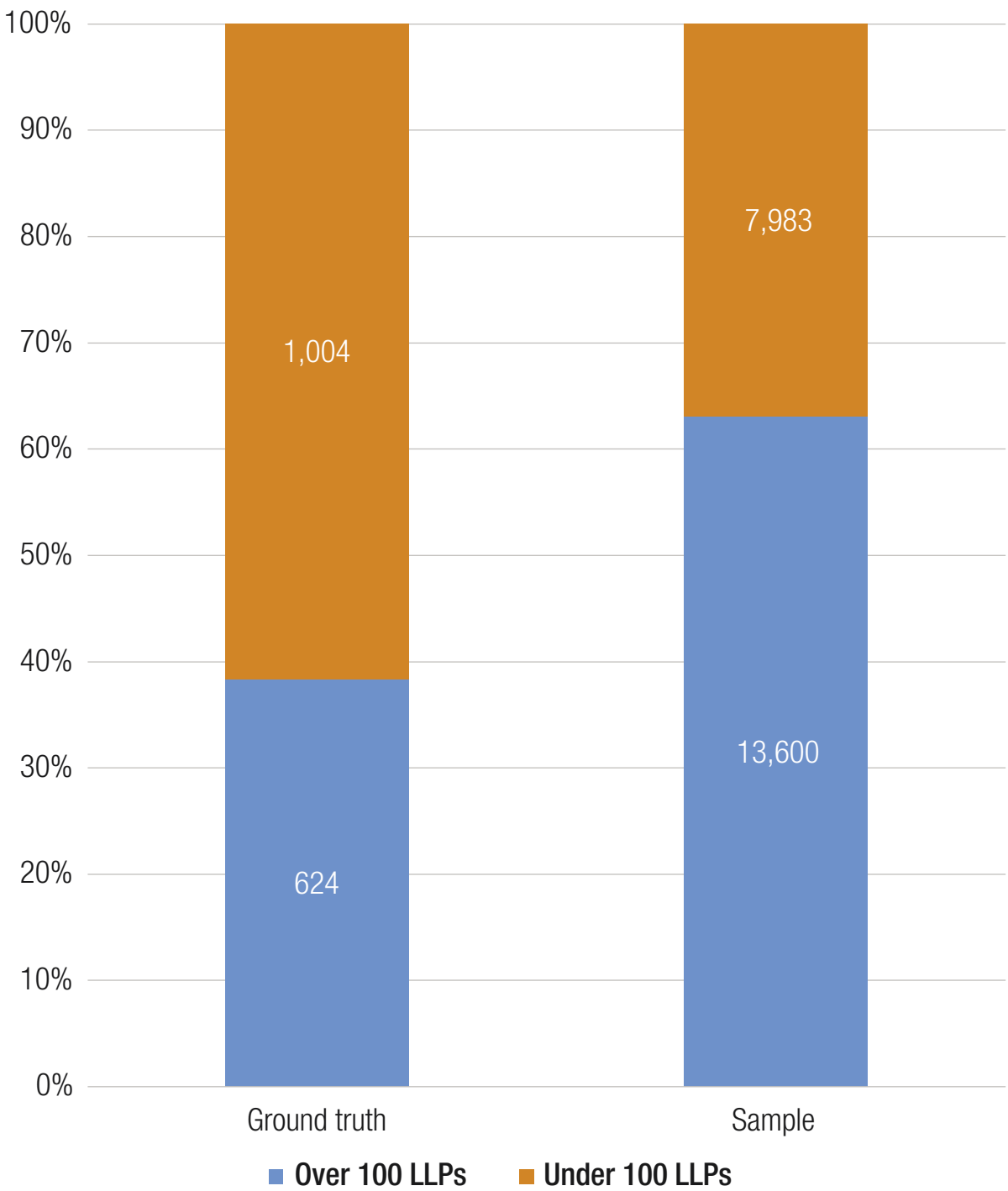
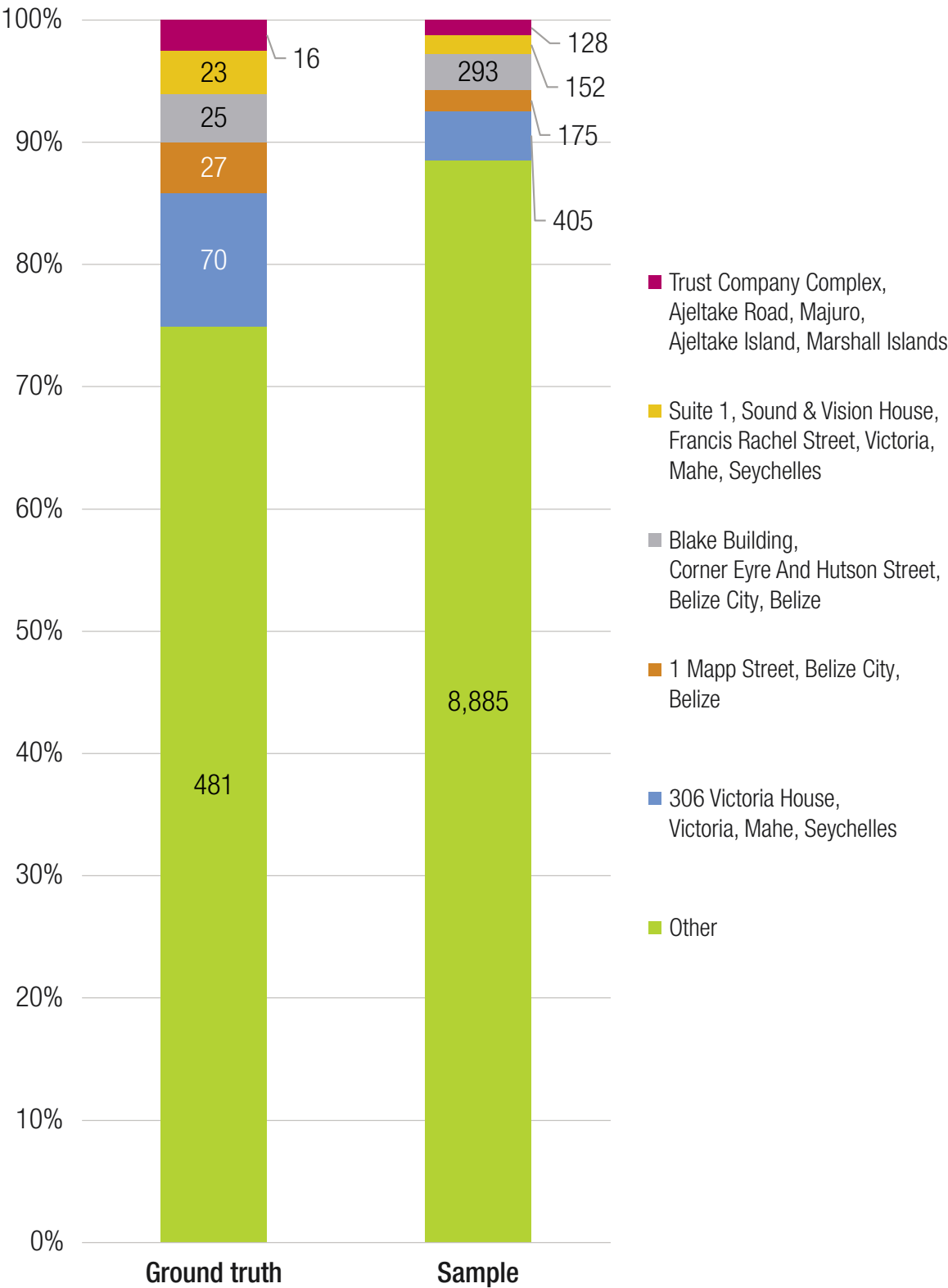


Figure 9: Count of top 10 most frequently occurring sample HRJ corporate partners by top 10 most frequently used registered addresses for sample LLPs

Partner name	11 Churchill Court, HA2 7SA	175 Darkes Lane, E6 1BW	372 Old Street, EC1V 9LT	39 Wetherby Mansions, SW5 9BH	5 Jupiter House, RG7 8NN	Cornwall Buildings, 45-51, B3 3QR	Enterprise House, CF14 3LX	Mk Two Business Centre, MK2 3HU	Suite 1 The Studio, WD6 3EW	Olympia Industrial Estate, W22 6TW
Advance Developments Limited (Belize)			2		1	737				1
Corporate Solutions Limited (Belize)			2		1	708				1
Intrahold Ag (Seychelles)	229	66	1				164			20
Ireland & Overseas Acquisitions Limited (Belize)	405	115	1	10	2		561		1	43
Ireland & Overseas Acquisitions Limited (British Virgin Islands)	54	10		421		2	352			1
Kenmark Inc (Dominica)	2	460	1							
Milltown Corporate Services Limited (Belize)	451	122	1	11	2	1	608		1	43
Milltown Corporate Services Limited (British Virgin Islands)	9	3		419		1	305			1
Monohold Ag (Seychelles)	229	66	1				164			20
Ostberg Limited (Dominica)	2	462	1							

Figure 10: Number and proportion of HRJ corporate officers registered at addresses (top five locations and other)



Non-compliant or geographically clustered PSC filings

As we note nearer the start of this report, a substantial amount of the incorporation activity for suspect LLPs took place between 2002 and 2015, and a substantial proportion of LLPs stayed active for less than four years. This means that despite new beneficial ownership reporting requirements effective from June 2016, many LLPs within the ground truth and sample data dissolved before these rules commenced. Nevertheless, 1,077 LLPs in the sample data have submitted one or more PSC filings. Reviewing this available data adds further credence to our view that LLPs with the characteristics we identify above were used for nefarious purposes.

Firstly, there is a noticeable pattern regarding the nationality of those reported as natural person PSCs. Eighty-four per cent of these filings (1,120 out of 1,329) relate to individuals who are not UK nationals. This in itself is not necessarily alarming – there is no requirement for those incorporating UK LLPs to be UK nationals – however, there are other numbers of note that do raise eyebrows. The most frequently occurring nationality in the data is Russian (221 / 17 per cent), followed by UK citizens (206 / 16 per cent), Ukrainians (205 / 15 per cent), Brazilians (49 / 4 per cent) and

Uzbeks (48 / 4 per cent). Combined, nationals from former Soviet states constitute half of those in these disclosures for natural persons (Figure 11). This seems unusually high, although due to issues with the quality of filings at Companies House, we cannot easily compare this with the wider population.

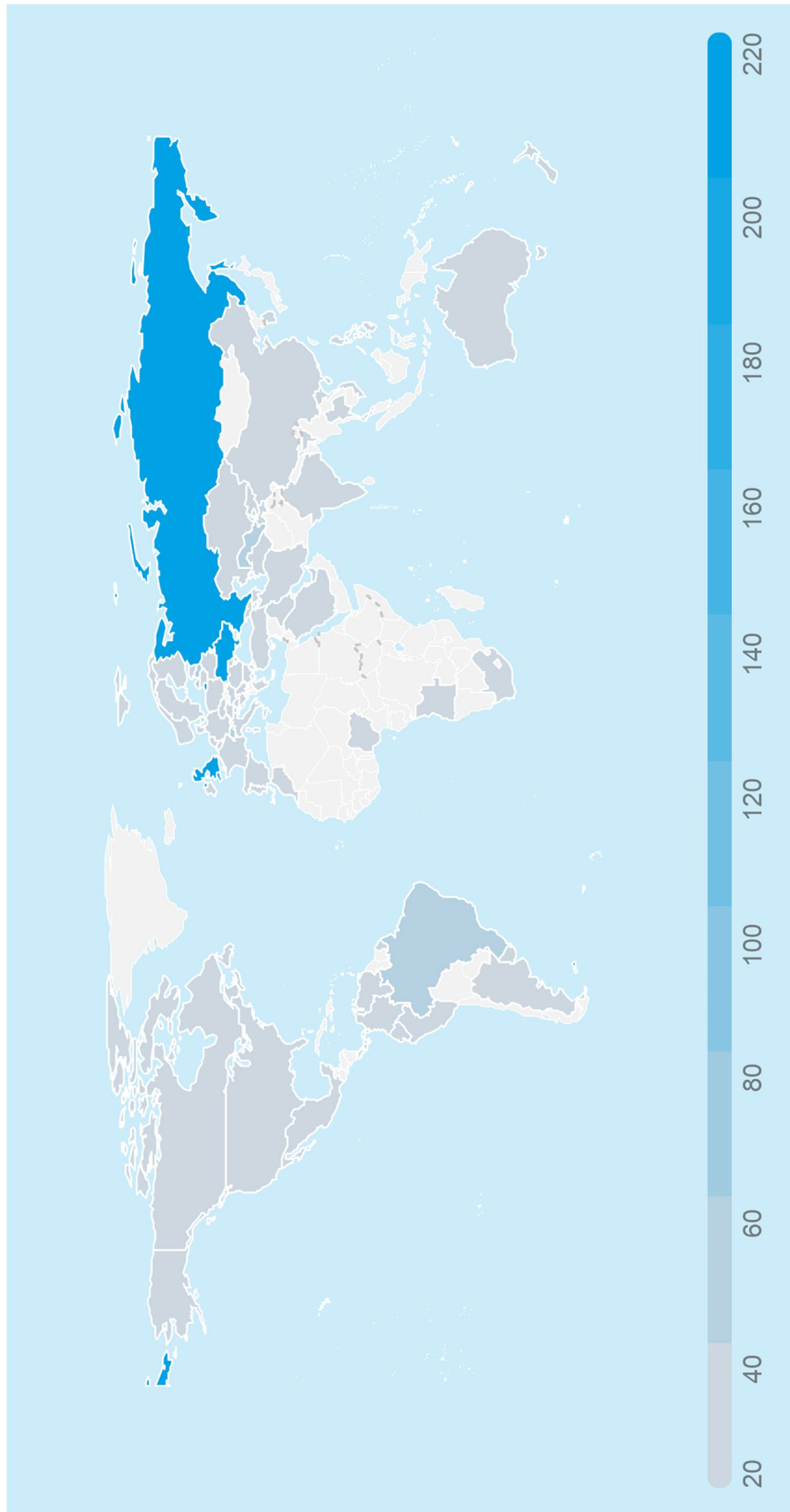
Secondly, there are some obviously non-compliant PSC filings for many companies reported to be a Relevant Legal Entity (RLE). Valid RLEs are companies which also disclose their beneficial owner, allowing people to follow a chain of ownership upwards until it reaches a natural person. By definition, those registered in secrecy jurisdictions with laws that withhold this kind of information, such as the 21 HRJs in Annex I, are non-compliant. Despite this, at least a quarter of RLE filings (135 out of 514) refer to a company based in places like these.

Thirdly, where they report a UK entity as an RLE, these companies frequently file seemingly non-compliant information. We assess a substantial proportion refer to another UK entity which is either not required by law to declare a PSC or RLE, such as English or Irish Limited Partnerships; claim that they do not know who their PSC is; or refer to an opaque offshore company in places like the BVI. In essence, the chain upwards to the ultimate ownership of the sample LLP goes cold.



Road Town, British Virgin Islands.

Figure 11: Number of PSCs for sample LLPs by jurisdiction (N = 1,326)



ANALYSIS

From our review of the available data, we count eight readily identifiable characteristics of LLPs used in serious financial crimes:

- incorporation between 2002 and 2016
- one or more corporate partners in one of 21 HRJs
- ten or fewer partners
- relatively few, if any, natural persons as partners
- partners spanning dozens, sometimes hundreds, of LLPs
- these partners appearing in tandem alongside their 'pair', usually another secretive offshore corporate partner, on the paperwork of 10 or more LLPs
- both the LLPs and their officers registered at one of a relatively small number of addresses, typically alongside hundreds of other identikit LLPs
- where they have PSC data, a significant proportion are either non-compliant or a natural person based in Russia, Ukraine, a Baltic state or somewhere else in the former Soviet Union

Over 21,000 LLPs have three or more of these red flags. At its core is a network of 15,000 LLPs controlled by pairs of offshore corporate partners who appear repeatedly on Companies House filings.

Based on reporting by journalists and financial crime experts, and our own research, we also add the following to the list above, although these are harder to prove at scale because either the relevant information is buried in LLP filings, or its availability is limited:

- accounts with reported turnover that does not match their known or suspected actual financial activities
- one of a small number of nominees signing-off their accounts and filings

What this tells us is that a substantial proportion of all LLPs ever incorporated show major red flags for their use in high-end financial crimes. This is an astonishing figure and one that raises serious questions about the integrity of the UK financial system. That so many of these entities have been open to abuse for so long highlights the slow pace of legislative change compared to the speed at which criminals can operate.

Those engaged in corruption and other major financial crimes have left the UK's public policy response in the dust.

Given the trends we have observed, it is clear this is mostly a past issue for LLPs, but one that remains unresolved and has likely just migrated to other forms of legal entity as well. More recent research by BBC *Spotlight*,²⁵ and Bellingcat and *The Sunday Times*²⁶ suggests even Irish and English Limited Partnerships are now being created and used in a similar fashion.

Evaluating the exact damage caused is difficult to establish precisely. We have seen LLPs abused in a range of corruption cases including embezzlement,²⁷ misuse of public resources, bribery, and associated money laundering.²⁸ Similarly, their use also extends to tax and sanctions evasion,²⁹ and weapons and goods smuggling.³⁰

Generally, the scale of the crimes involved relate to millions, sometimes billions, of pounds. Overall, based on what we do know from published cases, we think it is reasonable to estimate the damage is likely to be in the hundreds of billions of pounds over a decade or so. This does not include the potential damage done to communities and the lives lost because of their abuse.

Understanding why they have been so attractive for criminals and kleptocrats is key to preventing this happening in the future, whether with LLPs or other forms of legal entities in the UK.

The abuse of UK companies in global money laundering and corruption schemes is attributable in large part to the permissive environment that enables the formation of secretive UK legal entities *en masse*. In an attempt to make Britain as open for business as possible, successive governments neglected key safeguards against financial crime, in both law and practice. We identify four key areas where weaknesses in the UK's defences against dirty money have provided an open door to criminals and those working for them:

- weak checks on information
- quick and easy formation
- transparency loopholes
- ineffective supervision and enforcement

Case study: The Bottle Laundromat

Investigators at Transparency International Russia uncovered a complex global network of around 130 companies that moved over three quarters of a billion US dollars out of their country between 2014 and 2016.

Using trade data, they found 123 different transactions in which Russian firms claimed to have purchased bottle-moulding machines from businesses around the world, including those incorporated in the UK, Cyprus and Czech Republic. Three of these core entities were UK LLPs. All three share many of the characteristics we identify as suspicious in this paper, such as two or more offshore corporate partners from one or more of 21 HRJs.



The Russian companies bought these machines at grossly inflated prices, sometimes paying as much as 800 times the usual market rate. In some trades, the machinery does not even appear to have existed. The deals also benefited from Russian law, which saw no tax or customs duties paid on them, enabling hundreds of millions of dollars to cross the border while avoiding scrutiny from the authorities.

Analysis on the firms involved in these deals showed that they bear all the hallmarks of 'shell companies' – paper businesses used to hide their real owners and facilitate financial crimes. Key red flags included the companies:

- being newly formed just before entering into the trade deals, and often closing shortly after the scheme had run its course
- listing no financial history or assets in their accounts
- being controlled by opaque structures using secretive offshore companies and nominees to hide their true beneficiaries

These factors are highly suggestive that the scheme was facilitating tradebased money laundering – the process of disguising the proceeds of crime and moving these funds using fictitious or distorted cross border transactions.^{xxvii}

^{xxvii} <http://www.transparency.org.uk/bottle-laundromat-UK-russia-money-laundering-shell-companies-blog> [accessed 21 July 2022]

Weak checks on information

Presently, Companies House is a passive recipient of information because of its defined role in law. It has no function to monitor companies, and ensure that they comply with what is required of them, neither has it the remit to interrogate and investigate suspicious activity such as that we have identified above. Consequently, it remains an honesty box, in which criminals can provide false information readily without much recourse. Indeed, in 2018, the UK Government heralded what it thought was the first ever conviction for providing false information to Companies House in its 170-year history.³¹ Despite being trumpeted as a success at the time, it later transpired the perpetrator committed this act in a desperate attempt to get people to listen to his concerns over how open UK company law is to abuse.³²

Times have changed radically since the establishment of Companies House in 1844, and it must change with them. Preventing the kind of abuse we identify in this research not only requires advice and guidance, but also intelligence sharing with relevant agencies, the power to query or address inaccuracies on the register, and the ability to enforce the law robustly, whether through civil or criminal courts. The UK Government's white paper on corporate transparency and register reform committed to introducing these changes and there are provisions within the Economic Crime and Corporate Transparency Bill that would give effect to some of them, however these need careful scrutiny and the consent of Parliament.^{33 34} Given the scale of damage caused by those acquiring UK legal entities for malign purposes, ministers should expedite implementation of these reforms at the earliest possible opportunity once they have parliamentary consent.



RECOMMENDATION 1

The UK Government should deliver on its commitment to empower Companies House with the means to police and ensure the accuracy of its corporate register, through legislation brought before Parliament as a matter of urgency.

Quick and easy formation

UK companies can be formed quickly, costing as little as £10. You can incorporate them directly online through the Companies House portal, requiring no ID verification

or checks on the accuracy of data submitted, or with the assistance of a TCSP.

Globally, there is a thriving company formation industry, spanning the legal and accountancy sectors as well as specialised TCSPs. These businesses assist with a range of activities, including:

- initial company formation
- registering firms at mailbox addresses or virtual offices
- complying with filing requirements
- providing nominee shareholders and/or trustees

While these services come with additional costs, they make it easier to build and maintain entire networks of UK companies.

Given the mass use of LLPs and other UK legal entities in large-scale money laundering, these networks appear to form payment platforms for a variety of clients looking to move hot money of questionable provenance. Although the ease of company formation is an attractive proposition for those seeking to do legitimate business in the UK, our findings show that many have exploited this critical financial crime vulnerability ruthlessly.

It is telling that so few offshore companies controlled so many LLPs. Incorporating legal entities in jurisdictions like the BVI and Belize can cost between 40 and 100 times more than it does in the UK. At the same time, until Companies House is empowered to police the UK register, criminals can secure the same secrecy here through false declarations as they can abroad – where corporate beneficial ownership registers are private – albeit for a fraction of the price. While they will break the law when doing so, it seems like this has been a chance worth taking for many, especially given low rates of prosecution.

Additional responsibilities are likely to incur additional costs, and ministers have already promised a package of £63 million to help deliver this planned programme of reform.³⁵ However, there is scope to provide a more sustainable revenue stream for this activity by increasing incorporation fees. Even rates of £50 per company would make the UK highly competitive in this field,³⁶ and support work that would provide greater assurance in the integrity of British businesses. Given the Secretary of State has the power to vary these fees via statutory instrument, this change does not have to wait until more substantive register reform.



RECOMMENDATION 2

The UK Government should increase incorporation fees for UK legal entities to at least £50 in order to generate sustainable revenue for Companies House's new responsibilities.

Transparency loopholes

To help combat the criminal use of UK companies, transparency measures in place since 2016 have revealed many of those who own firms registered here. The PSC register requires companies to list individuals who fulfil any one of a set of five criteria relating to the ownership structure of a company:³⁷

- holding more than 25 per cent of the shares in the company
- holding more than 25 per cent of the voting rights in the company
- holding the right to appoint or remove a majority of the board of directors
- otherwise exercising significant influence or control over the company
- exercising significant influence or control over a trust or firm where the trustees or members meet any of the other conditions

Companies can also list legal entities, such as other UK companies, so long as they are also subject to similar disclosure requirements ('Relevant Legal Entities'), and they are the first RLE in the ownership chain.³⁸

These measures have made it easier for law enforcement agencies, regulated private sector firms and civil society to identify company owners linked to money laundering and corruption. However, gaps in this system remain, allowing criminals to continue hiding behind UK corporate entities.

As shown by our analysis above, the use of anonymous offshore companies obscures the real owners of LLPs. Our previous research shows the same applies for SLPs.³⁹ The use of these entities is favoured by money launderers because even basic details, such as their shareholders and directors, are not made public. This makes it almost impossible for businesses and

customers to know whom they are dealing with, and easier for money launderers to act with impunity. It even makes it difficult for trained financial investigators to know whether a beneficial ownership filing is accurate, or just contains a nominee for someone else.

Because of these issues and their associated money laundering risk, the UK banned this kind of corporate structure in other areas of company law. Section 155 of the Companies Act 2006, commenced in October 2008, requires that all UK private limited companies must have at least one director that is a natural person. The UK Government has since consulted on banning corporate directors because of concerns surrounding their use in illicit activity,⁴⁰ but they have refrained from extending this ban to cover members of LLPs in their white paper⁴¹ and Bill before Parliament. Given the evidence above, this is a major loophole.

Noticeably, two thirds of sample LLP incorporations (14,306 / 66 per cent) were between this legal change for private limited companies in 2008 and the end of 2015, just before the UK introduced its public beneficial ownership register. As we mentioned previously in our *Offshore in the UK* report, the potential scale of abuse of legal entities changes and adapts to the legislative context. When rules tighten in one area, activity displaces to another without similar safeguards.

The lack of willingness to address head-on the issues surrounding the use of offshore corporate partners for LLPs and SLPs means that changes intended to stop the abuse of private limited companies has merely displaced the issue rather than solved it. This should be an important lesson for forthcoming reform of company law. Given that behavioural change by criminals happens much faster than legislative change, reform must take a holistic approach if it is to avoid being tokenistic.

The UK Government can help avoid the mistakes of the past in three ways.

While there may be exceptional circumstances where it is legitimate to have an offshore corporate officer, this should only happen in the rarest of instances, the mechanics for which ministers could set out clearly in secondary legislation. Ideally, from an anti-money laundering perspective, this practice should be banned entirely, at least for opaque offshore entities that do not publicly state their beneficial owners.

The UK Government proposes to allow offshore corporate partners to control LLPs, as is the case currently. This would still allow secretive companies

to be partners of LLPs and LPs alongside potential nominee natural persons, which would continue to afford them greater secrecy than should be allowed. As a minimum, corporate partners controlling UK legal entities should be incorporated in jurisdictions with the same beneficial ownership disclosure rules as Britain, similar governance standards, and open cooperation and effective with UK law enforcement agencies. Continuing with the status quo fails to learn from past mistakes and leaves the door wide open to future abuse by unscrupulous criminals.



RECOMMENDATION 3

Offshore corporate bodies should only be allowed to hold directorships and membership of partnerships when they are incorporated in jurisdictions with:

- the same beneficial ownership disclosure rules as Britain
- similar governance standards to the UK
- open and effective cooperation with UK law enforcement agencies

Globally, the UK has sought to position itself as a leader in efforts to increase greater transparency over who owns companies, and providing fewer places for the corrupt to hide. Most recently, it was a signatory of the Beneficial Ownership Leadership Group, a voluntary association of nations committed to setting a new global standard for corporate transparency.⁴² These efforts are commendable and to be supported, but are undermined by the opacity provided by the UK's offshore financial centres in the British Overseas Territories (OTs) and Crown Dependencies (CDs).

As we have seen above, companies from these jurisdictions – in particular, the British Virgin Islands (BVI) – have played an outsized role in enabling the abuse of LLPs. Their use in corruption and money laundering elsewhere is also infamous.⁴³ Both the OTs and CDs have committed to introducing public beneficial ownership registers by the end of 2023 to help address this issue.⁴⁴ Yet the pace of change is too slow, and provides many opportunities for those using these territories for criminal conduct to cover their tracks. These reforms need expediting, especially given the current context and the frequency with which many of those subject to sanctions use companies from these

territories. Given the importance of these reforms and the UK Government's legal obligation to assist the OTs in delivering public beneficial ownership registers, ministers should update Parliament before the end of 2022 on progress and the likelihood of delivery within the following 12 months.

It is also noteworthy that 12 of the 21 HRJs in our research are members of the Commonwealth of Nations (See Annex I). Many of these barely allow basic searches for company names, let alone provide access to information about those controlling or benefiting from them. While these countries have a much looser constitutional relationship with the UK, the evidence we have uncovered suggests they should be priority jurisdictions to win over as part of the global beneficial ownership campaign. Two Commonwealth nation states are already: Kenya and Nigeria. Encouraging those key jurisdictions identified in this report to adopt public beneficial ownership registers, too, would help avoid a repeat of the issues we identify above.

Elsewhere, the UK has other opportunities to advance these efforts, including the Summit for Democracy financial transparency cohort. The more commitments Britain and its allies secure from other countries to advance these reforms, the fewer places there will be places for kleptocrats to hide.



RECOMMENDATION 4

The UK Government should:

- work with the British Overseas Territories and Crown Dependencies to expedite their steps towards public beneficial ownership registers with full and free access to company data and not limited to individual entries, as recommended by the Foreign Affairs Committee
- provide Parliament with an update on progress to public beneficial ownership registers in the British Overseas Territories and Crown Dependencies before the end of 2022
- pursue wider uptake of the new global standard for corporate public disclosure through international fora, including: the Beneficial Ownership Leadership Group; the Commonwealth; and the Summit for Democracy financial transparency cohort

Where the law permits corporate partners or directors, there needs to be greater assurance that the information they provide about the ultimate controlling parties of the LLP (or similar UK entities) is accurate. Currently, information provided to Companies House is not subject to any checks over its veracity, and there is no requirement for those submitting this information to prove it is truthful, including instances where LLPs and other entities subject to PSC requirements claim they have no beneficial owner or controlling party. This needs to change in order to make it more difficult to provide false information while imposing proportionate burdens on those undertaking legitimate business activities.



RECOMMENDATION 5

In order to ensure the integrity of the corporate register, the UK Government should bring forward measures that would provide a strong guarantee that information submitted to Companies House is accurate, such as requiring information to prove the identity of beneficial owners.

Ineffective supervision and enforcement

Those providing company formation services are the first line of defence against criminals abusing UK corporate vehicles. The money laundering regulations state that lawyers, accountants and formation agents are required to undertake due diligence on their customers. This enables them to better understand their clients, which could include checking their sources of funds and what they intend to do with their companies once they are formed. Regulated businesses must also report any suspicious behaviour that may constitute money laundering to the police under the Proceeds of Crime Act 2002.

As our data analysis corroborates, these defences against the abuse of UK legal entities have not worked as intended, allowing formation agents to form thousands of companies that go on to be used in serious financial crimes.⁴⁵ When contacted by journalists, the frequent response of TCSPs who incorporated and/or managed ground truth LLPs was that they merely provided a service to clients and were blind to the criminality that pursued.⁴⁶ Alternatively, they stonewalled and provided little or no comment.⁴⁷

These responses can be summarised as a defence of ignorance (real or feigned) and a defence against self-

incrimination. Both appear to have worked well because we do not know of any of these TCSPs being prosecuted for money laundering or even awarded substantial civil fines for AML failings in the UK.⁴⁸ Tellingly, Denmark recently convicted two TCSPs for their role in enabling money laundering at Danske Bank,⁴⁹ and there are further prosecutions in the pipeline in Denmark⁵⁰ and Latvia,⁵¹ yet there are no similar cases concerning TCSPs before UK courts. This gives the impression the UK is lagging behind its neighbours when it comes to enforcement, especially given the outsized role UK LLPs had in the non-resident portfolio at Danske Bank's Estonian branch.⁵² Intuitively, you would think there should be more accountability for actors in the UK.

Moreover, given the high level of interconnectivity between the LLPs in our analysis, and their links to those connected to known money laundering schemes, the ignorance defence seems highly questionable. If TCSPs as part of this network knew nothing of their clients' intentions, why were so many of their creations connected to unlawful conduct? Surely, this cannot be coincidence.

From what we do know from one of the Laundromats, bankers at Danske Bank bought UK companies in bulk. They then sold these entities to clients alongside a bank account.⁵³ This helps explain why there is so much uniformity in the LLP structures – there are likely a small number of intermediaries buying these companies from a relatively small number of agents. Given it is highly unusual for banks to buy shell companies for their clients, this arrangement should have raised alarm bells with the TCSPs involved and should not have proceeded.

Out of the identifiable TCSPs in our sample data, International Overseas Services (IOS) is the most noticeable TCSP, responsible for the prolific offshore corporate partners: Milltown Corporate Services, and Ireland & Overseas Acquisitions Limited (both those based in Belize and the BVI). The OCCRP reported IOS' connections to the now-defunct Parex Bank over a decade ago,⁵⁴ with subsequent investigations linking them to money laundering at Danske Bank in Estonia.⁵⁵ The frequency with which the entities they produced have ended up in financial crimes shows at least a carelessness that indicates a failure to comply with the UK's money laundering regulations. Yet, as the OCCRP note in their profile of this formation agent:

*Though many companies created by IOS Group have played a role in illegal activities, the formation agent itself has rarely been penalized.*⁵⁶

This remained true until Latvian prosecutors brought charges against a co-manager of IOS in July 2022.

When contacted for comment, IOS group provided no response.

The same applies for at least half a dozen or so other TCSPs who have provided services enabling similarly large-scale money laundering. While it is possible that these agents were completely ignorant of the activities they enabled, the evidence available suggests that they were at least reckless. The juxtaposition between the scale of the crimes they enabled and the consequences for them are hard to square, and needs further investigation.

In the first instance, this would normally fall to the relevant AML supervisory bodies. However, given the apparent inadequacy of their performance to date, we think it more appropriate work for an independent and competent body appointed by HM Treasury. They should consider whether the TCSPs:

- were registered, as required by the MLRs, during the time they provided these services
- had sufficient policies and processes in place to assess and manage money laundering risk posed by their clients
- kept accurate records of their clients and undertook relevant due diligence checks
- reported any suspicious activity to the UK's financial intelligent unit (FIU), as required by law
- possessed any evidence to suggest active involvement or knowledge of the use of their products by clients in financial crime, which should be reported to the National Crime Agency (NCA)

Given regulated businesses only have to keep records for five years after the end of a business relationship, and the period of suspicious LLP activity declined from around 2016, this is a matter of urgency.

Robust enforcement actions taken against TCSPs, who either wittingly or unwittingly enable this type of activity, help provide a credible deterrent against others doing something similar, and deliver a clear message to company formation agents to 'get their house in order'. Failure to do so provides the impression that firms can engage in negligent and even criminal behaviour and 'get away with it'.



RECOMMENDATION 6:

HM Treasury should commission an independent and urgent review of compliance by TCSPs involved in incorporating and maintaining this large network of suspicious LLPs connected to high-end money laundering.

While many LLPs in the vast network we identify have dissolved, a substantial number remain active. Likewise, there are strikingly similar characteristics held by limited partnerships across all parts of the UK, which indicate this problem still applies to other forms of legal entity that are also still in use. Our research shows that these kinds of entity should be treated with the utmost suspicion, and subject to much more intrusive due diligence than normal clients.

It is within the power of AML supervisors to issue alerts to their regulated sector, outlining situations in which they must undertake enhanced due diligence checks.⁵⁷ Given our findings, it would seem highly appropriate that they issue an alert requiring this increased scrutiny for clients seeking or using LLPs and similar UK legal entities with the characteristics we outline above. This requires no new legislation, helps inform their regulated community of relevant money laundering risks, and provides an extra enforcement hook for them to pursue businesses who fall woefully short of the standards expected of them.



RECOMMENDATION 7

AML supervisors should issue industry alerts to their regulated community, highlighting the money laundering risks associated with LLPs and similar UK legal structures controlled by offshore corporate partners.

Back in June 2020, we reported information to HMRC about one of the TCSPs incorporating multiple LLPs used in high-end financial crime. Reports on others connected to the Laundromats were available from as far back as 2012. Given the amount of information available, it is reasonable to expect HMRC should have investigated those involved. However, given the paucity of information about their enforcement activity, it is difficult to establish whether it has taken a proportionate and effective response as the industry AML supervisor.

Prior to 2017, HMRC did not publish any information about its activities as an AML supervisor, providing a black hole of accountability over its enforcement role. Since June 2017, the money laundering regulations require HMRC to be open about the use of their civil sanctions.⁵⁸ Despite this, there is little evidence it has investigated those firms we identify as involved in the creation and management of this substantial network of LLPs. As mentioned above, to date HMRC has only levied civil fines of less than £5,000 against these firms, which stands in stark contrast with the scale of the crimes they have enabled and their likely contraventions of the money laundering regulations.

Previously, HMRC provided evidence to the Treasury Select Committee's inquiries on economic crime. While this provided some opportunity to challenge its track record, time restraints did not allow committee members to delve into too much detail. Given the gap between likely non-compliance and enforcement action, there is a strong case for further scrutiny of HMRC's role as an AML supervisor, especially in relation to these particular TCSPs. Feasibly, this could also extend to other AML supervisors with similar responsibility for overseeing TCSP activity, such as ICAEW.



RECOMMENDATION 8

The House of Commons Treasury Committee should consider a thematic review of supervisory and enforcement activity undertaken by the respective AML supervisors of those TCSPs covered by the money laundering regulations in the UK that are connected to cases of large-scale money laundering.

More broadly, there are well-known issues with the effectiveness and coherence of the UK's AML supervisory system. There are 25 different anti-money laundering supervisors in the UK, overseeing a range of businesses including TCSPs, with an extra six covering financial institutions, businesses offering gambling, and law firms. This has resulted in an inconsistent approach, with differing levels of oversight and enforcement applied across the population.

As the supervisor for 'standalone' TCSPs, as well as some accountancy and legal firms, HMRC oversees the majority of those businesses providing trust and company services. These firms do not currently face a credible deterrent against egregious wrongdoing, with the average fine imposed by HMRC on TCSPs amounting to

just a few thousand pounds. While there is a possibility this merely reflects a high level of compliance amongst this regulated sector, the evidence we examined above suggests this is a remote one. Given the likely scale of misconduct we identify in this report, it seems improbable that there have not been serious breaches of the MLRs that, as far as we can see from publicly available information, remain unaddressed.

There are 24 supervisors overseeing this form of regulated activity in total, with 13 covering the accountancy sector alone.⁵⁹ All of these accountancy supervisors are professional body supervisors (PBSs), which invariably are also the lobbying arms of the industry they are supposed to supervise. Sitting above them is the Office for Professional Body Antimoney laundering Supervision (OPBAS), based in the Financial Conduct Authority (FCA). This has the unenviable task of trying to bring PBSs up to a reasonable standard of effectiveness. As is all too clear from OPBAS' reports, it is facing an uphill struggle.

In its latest assessment, OPBAS identified a significant proportion of PBSs:⁶⁰

- did not have clear governance arrangements
- did not take effective proactive action to ensure those they oversee address AML failings
- failed to adequately address conflicts of interest between their lobbying and supervisory responsibilities
- did not use their enforcement tools effectively
- failed to recruit staff with relevant expertise

Lamentably, these findings differ little from our research back in 2015, where we identified serious issues with governance and performance across most AML supervisory bodies, and especially PBSs.⁶¹ There are also echoes of similar assessments by the Financial Action Task Force (FATF), a global standards-setter for AML, which identified 'major' issues with the UK's AML supervisory regime.⁶² After years of calls for evidence and consultations, HM Treasury is starting to recognise this is a major structural issue with the UK's dirty money defences.⁶³ It has committed to undertaking a further consultation on what shape the reform of the AML supervisory regime should take, but cautioned that change is likely to happen over a number of years.

While there is understandable caution in not rushing through a dramatic shift in the current system, the

pace of change to date has been glacial. Similar to our longstanding concerns about the abuse of UK legal entities, the gap between identifying the problem and implementing the solution is sufficiently wide to allow those exploiting these weaknesses to do substantial damage and then move on before public policy catches up with them. Russia's invasion of Ukraine should focus minds as to the urgency of this task. If ministers want sanctions to stick, they need businesses with robust systems and processes in place to be able to identify and report attempts at evasion. Effective oversight of these firms is critical to achieving this aim.



RECOMMENDATION 9

HM Treasury should expedite its work to reform the AML's supervisory system so it is fit for purpose.

the power of the FCA. To date we have not heard of them moving forward any of our proposals. We counsel that the findings above provide a painful lesson for AML supervisors that it is prudent to take action on emerging risks sooner rather than later.



RECOMMENDATION 10:

The FCA should prioritise implement the recommendations from our 2021 report, *Together in electric schemes*, which outlines emerging money laundering risks associated with UK electronic money institutions.

Emerging threats

As we note earlier in this report, to an extent this research is looking in the rear-view mirror at what has happened to date, what lessons can be learned and what must be done to close the enforcement gap in the UK? We observe that criminality and those that enable it evolve their methods faster than many public policy responses, and the closing of opportunities for those engaged in money laundering will push them towards seeking new avenues for moving illicit wealth. We are already seeing this happening, with a displacement of activity as awareness of past money laundering methods increases and new laws seek to reduce the space for these schemes going forward.

Our 2021 report, *Together in electric schemes*, highlights how many of those involved in the more problematic parts of the Baltic banking sector, who made widespread use of UK LLPs and other legal entities to facilitate financial crime, are now entering this new field of alternative payment providers. These operate like normal banks, albeit with some limitations, such as not being able to offer loans or mortgages. For someone looking to move money from one part of the world to another with little scrutiny, these providers who are connected to institutions with a poor track record on AML provide an appealing proposition.

Many of the proposals we made in *Together in electric schemes* do not require legislation and sit mostly within

CONCLUSIONS

It is doubtful that ministers intended LLPs to become a vehicle of choice for money laundering. Yet two decades on from their inception in the UK, this is what many became. Their prevalence in corruption and associated illicit financial flows, alongside other nefarious activity, is astonishing and only matched by SLPs and companies from the BVI.

Now we have the luxury of 20:20 hindsight, aided by hard-hitting investigative journalism from the likes of the OCCRP and its partners, the causes of this mess are clearer. Yet they were also known for at least a decade, if not longer, which begs the question why more was not done to stop it.

Central to their industrial-scale abuse is a passive Companies House that still does not have the powers or resources to do anything. Government's proposed reforms will help address this glaring weakness in the UK's dirty money defences, but they cannot come soon enough. Russia's war on Ukraine, and the use of LLPs and other UK legal entities to skirt sanctions, provides a renewed impetus for expedited reform.

Yet empowering Companies House and strengthening company law alone will not solve the problem.

Those tasked with overseeing businesses which created and serviced these LLPs were asleep at the wheel. Despite a mountain of evidence now pointing to TCSPs – supposedly regulated by Britain's high AML standards – being central to the various Laundromats of recent years, they have felt no consequence. The enforcement gap is cavernous.

FATF was right to claim the UK's AML supervisory system was deficient four years ago, and it still is – given how little has changed. While it is possible to take further measures that would help reduce the ongoing risks within the current setup, these are no substitute for more substantive reform. If any of the recent rhetoric about cracking down on 'enablers' is to have any substance, we need people to police them with competence and vigour – qualities that are noticeably absent at present.

Looking forward, the UK Government, supervisors and law enforcement must learn this painful lesson and do more to nip emerging issues in the bud. A good starting point would be to address the growing risks associated with electronic money institutions. Failure to do so would be a big mistake. To paraphrase an old adage, those who do not learn from the past are doomed to repeat it.

FURTHER READING

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Global Witness, *Grave secrecy: How a dead man can own a UK company and other hair-raising stories about hidden company ownership from Kyrgyzstan and beyond* (June 2012) <https://cdn.globalwitness.org/archive/files/gravesecrecy.pdf>

Global Witness, *The companies we keep: What the UK's open data register actually tells us about company ownership* (July 2018) <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/companies-we-keep/>

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ANNEX I: HIGH-RISK SECRECY JURISDICTIONS

Anguilla*

Bahamas**

Barbados**

Belize**

British Virgin Islands (BVI)*

Cyprus**

Delaware

Dominica**

Gibraltar*

Hong Kong

Marshall Islands

Mauritius**

Niue

Panama

Samoa**

Seychelles**

Singapore**

St Kitts and Nevis**

St Vincent and the Grenadines**

United Arab Emirates (UAE)

Vanuatu**

* British Overseas Territory

** Member of the Commonwealth of Nations

ENDNOTES

- 1 <https://www.transparency.org/en/what-is-corruption> [accessed 29 June 2022]
- 2 See the Crown Prosecution Service's (CPS) legal guidance on money laundering offences in the UK for more information <https://www.cps.gov.uk/legal-guidance/money-laundering-offences> [accessed 29 June 2022]
- 3 Transparency International UK, *Together in electric schemes: Analysing money laundering risk in e-payments* (December 2021) <https://www.transparency.org.uk/sites/default/files/pdf/publications/Together%20in%20Electric%20Schemes%20-%20Transparency%20International%20UK.pdf>
- 4 <https://www.bbc.co.uk/news/magazine-33166383> [accessed 28 September 2009]
- 5 <https://committees.parliament.uk/writtenevidence/107143/pdf/> [accessed 28 September 2009]
- 6 Note this does not include those LLPs where there is no data available via the Companies House API currently and, with the exception of seven LLPs, this only includes data we collected up until May 2020. Were we to undertake a similar data collection exercise now, we anticipate the number in our ground truth data would be substantially higher.
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- 8 Transparency International UK and Bellingcat, *Offshore in the UK*
- 9 <https://www.reuters.com/article/us-wachovia-settlement-idUSTRE62G35720100317> [accessed 29 June 2022]
- 10 <https://www.ocrp.org/en/troikaandromat> [accessed 29 June 2022]
- 11 Bruun and Hjejle, *Report on the Non-Resident Portfolio at Danske Bank's Estonian branch* (September 2018). <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch%20-%20kpdf?rev=56b16dfddae94480bb8cdcaebaddc9b&hash=B7D825F2639326A3BBBC7D524C5E341E>
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- 14 <https://www.ocrp.org/en/azerbaijanilaundromat/> [accessed 29 June 2022]
- 15 <https://www.ft.com/content/284c0ae8-d663-488e-a414-9fce156ae81b> [accessed 29 June 2022]
- 16 Kroll, *Project Tenor II: Summary report* (December 2017) https://bnm.md/files/Kroll_%20Summary%20Report.pdf
- 17 Bruun and Hjejle, *Report on the Non-Resident Portfolio* p.33
- 18 These are natural persons who hold more than 25 per cent of shares in the company; hold more than 25 per cent of voting rights in the company; have the right to appoint or remove the majority of the board of directors; or otherwise exert significant control over the company.
- 19 Statistics from Companies House (received on 1 October 2021).
- 20 The small proportion of Laundromat LLPs without a corporate member in a high-risk jurisdiction were almost all UK law firms incorporated as LLPs that were mentioned in Laundromat schemes.
- 21 <https://www.reuters.com/article/us-wachovia-settlement-idUSTRE62G35720100317> [accessed 29 June 2022]
- 22 https://www.private-eye.co.uk/pictures/special_reports/where-theres-muck.pdf [accessed 29 June 2022]
- 23 <https://www.bbc.co.uk/news/uk-54204053> [accessed 16 June 2022]
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