



**TRANSPARENCY
INTERNATIONAL UK**
fighting corruption worldwide

HIDING IN PLAIN SIGHT

HOW UK COMPANIES
ARE USED TO LAUNDER
CORRUPT WEALTH

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Hiding in Plain Sight

How UK companies are used to launder the proceeds of corruption

Key Findings

UK companies are being used to facilitate corruption around the world. **Our research identified 766 UK corporate vehicles alleged to have been used in 52 large scale corruption and money laundering cases approaching £80 billion.**

[Read more on Page 12](#)

The introduction of the UK's public beneficial ownership register has been a major step forward in preventing the abuse of UK companies; however, some are still being used to launder corrupt wealth, representing an ongoing risk.

A quarter of UK companies we identified in this research are still active.

[Read more on Page 16](#)

Huge numbers of UK companies are created without any due diligence on who is setting them up. **40 percent of incorporations last year were done directly through Companies House, which does not undertake background checks on customers.**

[Read more on Page 19](#)

The credibility of the UK's company register is under threat because of insufficient resources dedicated to ensuring its integrity. **Just six people at Companies House police four million firms' compliance with company law, without proactive checks made on the accuracy of the information submitted.**

[Read more on Page 21](#)

Addresses across the UK are used for mail forwarding to companies involved in financial crime. **Around half of the 766 companies alleged to have been involved in high-end money laundering were based at just eight UK addresses.**

[Read more on Page 26](#)

UK companies can access the financial system and move illicit wealth with less scrutiny by using bank accounts in other countries. **90 per cent of UK firms involved in a scheme which moved £63 billion of illicit wealth out of Russia had bank accounts in Latvia or Estonia.**

[Read more on Page 29](#)

Providers of company services are operating within the UK illegally by not being registered with a supervisor to monitor their money laundering controls. Offshore business introducers are also buying and selling UK companies wholesale without being subject to the UK's Money Laundering Regulations (MLRs). **One in four firms authorised by Companies House to use electronic filing software to form companies en masse do not appear to be registered with a UK money laundering supervisor.**

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Executive Summary

In April 2016 the Panama Papers – a major leak of 11.5 million files from a Panamanian law firm – gave a unique insight into the secretive global corporate networks that help to facilitate corruption. The Paradise Papers – the latest exposé on the offshore world, covering 13.4 million files – continue to shine a light on how opaque structures conceal the identities of individuals as well as the origin of their wealth.

These scandals highlight the importance of anonymous ‘shell’ companies to these schemes,¹ as well as the individuals and businesses which create complex networks of these corporate vehicles to aid high-end financial crime. Much attention has been paid to Mossack Fonseca and Appleby – the firms at the centre of these two scandals – which have helped to set-up and manage hundreds of thousands of companies. However, the UK was the second most popular destination for intermediaries and middlemen used by Mossack Fonseca to create and maintain this network, and it is easy to see why.²

The UK is home to a thriving company formation industry and is a hub for professional corporate services. It is also one of the easiest places in the world to start a company, making it attractive to legitimate and illegitimate business alike. Costing as little as £12 and taking around 15 minutes to complete the forms, UK companies can be created on a large scale for a fraction of the price of those registered in other financial centres. UK companies also carry a veneer of legitimacy due to the country’s well established global status. Alongside a range of corporate vehicles, the UK’s company formation industry also offers a variety of services, from so-called ‘nominee directors’ and mailing addresses – giving companies a layer of secrecy – to offshore bank accounts allowing access to the global financial system. Often there will be no trail whatsoever to indicate who sold companies which then go on to be misused.

These factors have contributed to the UK featuring as a central location in which to set-up companies for laundering illicit wealth. Using open-source analysis, we have identified 51 major money laundering schemes made possible by the use of UK companies. Financially these scandals could amount to £80 billion or more in illicit wealth, with some of them threatening the financial stability of whole economies. The human damage inflicted on the victims of these crimes is still being counted.

By analysing the Trust and Company Service Provider (TCSP) sector and past money laundering cases we have found that, far from being the first line of defence against money laundering, some of these businesses have either been unwitting accomplices or complicit enablers for financial crime.

Central to government’s recent efforts to tackle money laundering has been introducing public access to information about who really controls companies incorporated in the UK. This constitutes real progress and has put the UK at the forefront of global corporate transparency. Yet this threatens to be undermined by three key issues we have identified during our research into the TCSP sector:

Insufficient controls on company formation: there are practically no barriers to UK companies being incorporated by money launderers and no way of tracing their use after they have been established.

Lack of checks on the UK company register: Companies House has neither the power nor the resources it needs to ensure the integrity of the UK company register, allowing inaccurate and misleading information being submitted by those wishing to hide illicit activity.

Inadequate anti-money laundering (AML) supervision: the UK’s patchwork of AML supervisors is not providing a credible deterrent to money laundering failings, which is allowing poor levels of compliance within the TCSP sector covered by the UK’s Money Laundering Regulations (MLR). There is also a whole industry of overseas professionals setting-up and managing UK companies who are subject to little or no AML supervision.

In this paper we have sought to analyse the potential nature, scale and impact of these problems by looking at the available evidence of what is going wrong. What we have found is that light-touch regulation is coming at a cost, both to the UK’s international reputation as a responsible place to do business, and in countries like Ukraine and Azerbaijan who suffer from rampant corruption facilitated by UK companies.

We have proposed ten recommendations in three themes that, if implemented, could help end the use of UK companies in laundering corrupt wealth and ensure the UK remains a world leader when it comes to corporate transparency.

¹ Firms carrying out no discernible business activity with no public information on who ultimately controls them.

² https://panamapapers.icij.org/graphs/#_ga=2.227018651.784433288.1509535650-932193325.1484231216 [Accessed 1 November 2017]

Enhancing controls on company formation: more checks and greater transparency are needed to prevent UK companies from being used for financial crime.

Increasing confidence in the UK company register: Companies House needs to be empowered and resourced to proactively identify and investigate suspicious activity, as well as seeking verification of information submitted.

Overhauling the UK's AML supervisory system: there needs to be a transparent, accountable and credible deterrent to prevent anti-money laundering failings by those incorporating and maintaining UK companies.

It is simply not enough to continue to adopt piecemeal changes after a large body of evidence of wrongdoing has already come to light. For the UK to be a global leader in corporate transparency and integrity it needs to be forward-looking and proactive, identifying emerging trends in suspicious behaviour before they develop into widespread abuse.

It is essential that the UK makes these changes, asserting itself as a trusted centre for responsible business practices and not an unregulated jurisdiction abused by money launderers and corrupt individuals.

Recommendations

Enhancing controls on company formation

Recommendation 1: Allow only UK registered agents to set-up UK companies

Under the Money Laundering Regulations 2017 (MLR 2017), only Trust and Company Service Providers (TCSPs) 'carrying on business in the UK' have to register with an anti-money laundering (AML) supervisor and comply with the UK's MLR 2017. This means that TCSPs with no UK presence can incorporate UK companies without any oversight from an AML supervisor and do not have to comply with UK standards for money laundering checks.

It is also too easy for companies to be formed and passed between those complicit in financial crime without a clear paper trail to identify who may have been complicit in facilitating money laundering. We have seen clear examples of where this has allowed non-UK TCSPs to obtain UK companies that have subsequently been used in large scale money laundering schemes.

To prevent UK companies from being created and used for money laundering schemes, the UK Government should:

- **Prohibit the incorporation of companies by TCSPs not carrying on business in the UK (see page 47)**
- **Make it possible to trace who is setting-up and administering UK companies (see page 26).**

Recommendation 2: Encourage UK registered companies to open UK bank accounts

We have found that UK shell companies often have bank accounts based in other jurisdictions, presenting the façade of a UK business whilst taking advantage of weaker money laundering practices abroad. Historically, this has helped to launder tens of billions of pounds of illicit funds relatively unnoticed throughout the global financial system.

To help mitigate the risk of UK companies being used for money laundering, the UK Government should introduce incentives to encourage them to hold a UK bank account (see page 33).

Recommendation 3: Know who is incorporating and selling UK companies

There is a clear money laundering risk posed by the lack of due diligence carried out by Companies House on individuals seeking to form UK companies. This currently allows 40 per cent of incorporations to happen without any background checks on those forming the company.

To combat the risk of Companies House incorporating legal entities directly for money launderers, the UK Government should empower Companies House to carry out obligatory due diligence on those seeking to incorporate new companies, just as is currently the case for regulated TCSPs (see page 26).

Increasing confidence in the UK company register

Recommendation 4: Empower Companies House to take a more thorough approach to identifying suspicious activity.

Companies House does not currently have sufficient resources – in terms of the number of personnel and expertise – to sufficiently monitor and ensure the integrity of data that is submitted to them. This allows a significant amount of false and misleading data to be submitted. There is a risk that some of this misleading data is purposefully being submitted to obscure the identity of individuals using UK companies to launder money.

To ensure the integrity of the register, the UK Government should provide Companies House sufficient resources build a capability to identify suspicious activity (see page 26).

Recommendation 5: Identify and implement measures to verify beneficial ownership information submitted by offshore corporate partners

We have found that offshore anonymous companies have been used regularly to obscure the real owners of UK limited partnerships (LPs) and limited liability partnerships (LLPs). The use of anonymous companies 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 who they are dealing with, and easier for money launderers to act with impunity.

The UK persons of significant control (PSC) register requires that a natural person or relevant legal entity³ is reported and made publicly available for UK entities with a separate legal personality. We have concerns that the PSC information for UK companies controlled by offshore secrecy vehicles is not verifiable because the details about their directors and shareholders are not made publicly available.

There are no equivalent PSC provisions for those without a separate legal personality, for example, English limited partnerships. For similar reasons to those mentioned above, we are also concerned that these entities can still be controlled by anonymous companies without any public information about their beneficiaries.

In order to ensure the integrity of the company and PSC registers, the UK Government should identify and implement measures that would provide a strong guarantee that the information being submitted is accurate and would reduce the risk of UK companies being used as shells for money laundering. This could include:

- **requiring that there is a direct and auditable link between the beneficial owner data for corporate partners controlling UK companies and PSC information submitted to Companies House,**
- **prohibiting the use of corporate partners unless they are a relevant legal entity, or**
- **prohibiting the use of corporate partners in most circumstances (see page 21).**

Recommendation 6: Explore options for verifying person of significant control data

Based on emerging evidence from the UK PSC register, there are risks that the data being submitted is not accurate. **In order to ensure the accuracy of the PSC register, there needs to be extra steps taken to verify the data being submitted (see page 27).**

As an easy win, there are some basic changes that could be made to the Companies House filing process to ensure that the information submitted passes some basic statutory tests. For example, it could prohibit the registration of corporate PSCs that are not relevant legal entities by introducing a drop-down box function on its online forms. It could also introduce automated verification software to identify where relevant legal entities have circular ownership structures, and if a relevant legal entity is registered on a stock exchange.

Where information is being submitted by an individual, there could be a new requirement to submit some form of official documentation to prove that the PSC is who they claim they are. This kind of information has to be

³ See guidance for PSCs for more detail <https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships> [Accessed 1 November 2017]

provided to TCSPs as part of their due diligence checks and is now a common feature of everyday activities, for example, checking-in for a flight. Although these need to be examined in more detail, new measures are needed to ensure the UK company register is not open to abuse.

Overhauling the UK's anti-money laundering (AML) supervisory system

Recommendation 7: Publish a thematic review of TCSP AML supervision

The UK's AML supervisory system does not provide a cohesive response to the threat of money laundering, featuring 25 different supervisors who have varying standards of transparency, supervision and enforcement. The TCSP sector is a prime example of this, with the Financial Conduct Authority (FCA), HMRC and 22 professional body supervisors sharing responsibility for the sector. Based on the evidence we have seen this is resulting in low levels of AML compliance.

The UK Government is currently in the process of setting-up the Office for Professional Body Anti-money laundering Supervision (OPBAS), which will have responsibility for overseeing the 22 non-public body AML supervisors for this sector. Under the current proposals, the Financial Conduct Authority (FCA) and HM Revenue and Customs (HMRC) will not be overseen by OPBAS.

To gain a clear picture of AML supervision for TCSPs the UK Government, in coordination with OPBAS, should publish a thematic review of the sector. This should include analysis of how many firms are operating in the sector, whether supervisors are sufficiently resourced, the monitoring activities of supervisors, and whether enforcement in the sector is transparent and providing a credible deterrent (see page 42).

Recommendation 8: Ensure TCSP supervisors are transparent and accountable for their activities

We are concerned about the continuing opacity around AML supervisors' enforcement activity. We are particularly disappointed by HMRC's insistence that providing this information "could prejudice the prevention and detection of crime". Having transparent enforcement policies and processes are not novel requirements, with similar provisions enshrined in law for a number of the UK's largest regulators. For example, authorities given civil sanctions under the Regulatory Enforcement and Sanctions Act 2008 (RES Act) are under a legal obligation to publish an enforcement policy and the details of their enforcement actions.

It should be made a requirement in the UK's money laundering regulations for professional body supervisors to meet the Macrory standards of transparency by requiring them to:

- **publish an enforcement policy outlining the powers and sanctions they have, how they intend to apply them in practice and the process for making appeals and representations against decisions, and**
- **publish the details of individual cases of enforcement (see page 42).**

Recommendation 9: Create a credible deterrent to prevent anti-money laundering failings

Currently there is no credible deterrent against money laundering failings within the sector. It is evident that typical fines issued by HMRC are so low that they do not deter bad practice.

To address the lack of consequences for AML failings, the UK Government should review the enforcement tools for tackling money laundering in the UK and ensure that all AML supervisors deploy the necessary sanctions to provide a credible deterrent to money launderers.

There are limited prospects that firms will be criminally prosecuted for money laundering failings as there is currently no corporate offence of failing to prevent money laundering.

The UK Government should seek to apply the ‘failure to prevent’ approach originally introduced in the UK Bribery Act to other forms of economic crime such as money laundering. TCSPs would fall within range of this offence, bringing about much needed accountability to those forming companies for clients which then use them for money laundering (see page 42).

Take a more proactive approach to identifying new money laundering threats

Recommendation 10: Monitor patterns in the use of UK legal entities

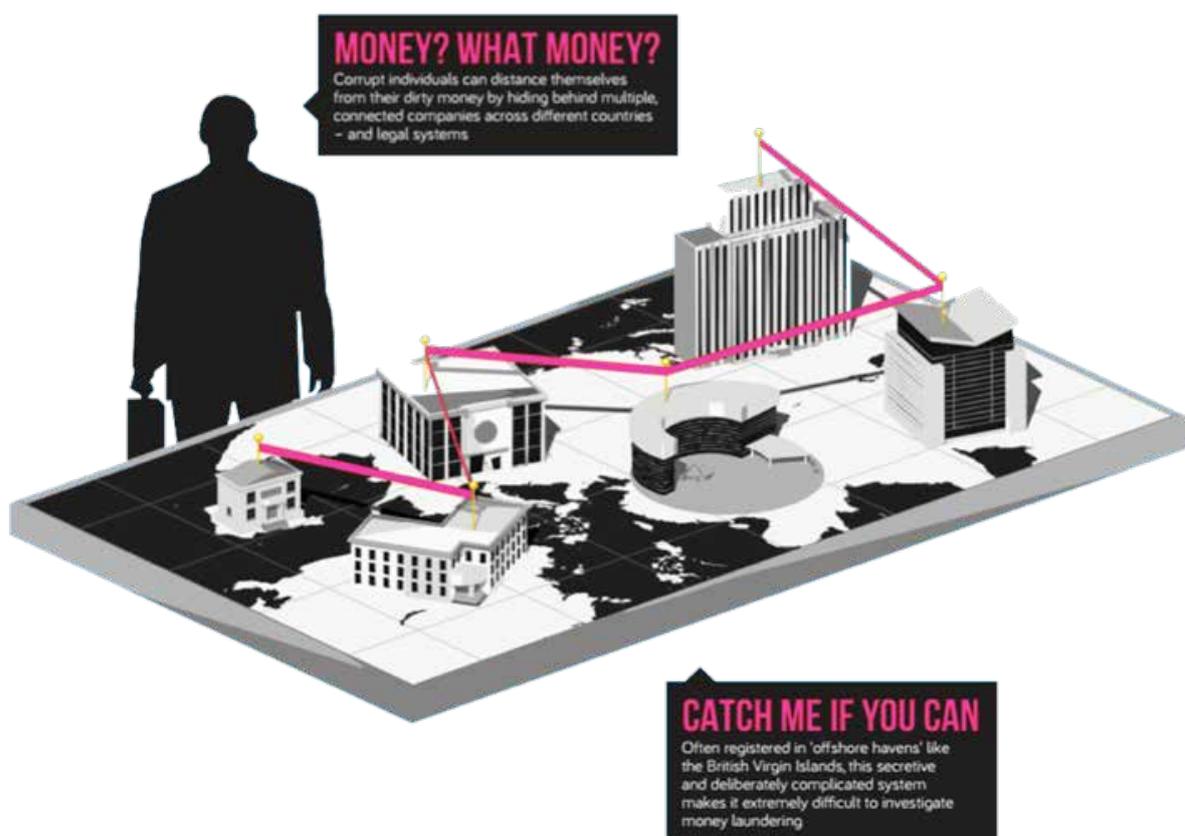
We have noticed that when companies in the past have been subject to further disclosure requirements there were noticeable increases in the use of alternative, more opaque corporate vehicles, possibly in order to avoid these new rules and maintain anonymity. One notable example was that after the Companies Act 2006 was amended to require UK private limited companies to list at least one natural person as a director, the number of incorporations of Scottish limited partnerships – then seen as the UK’s own home-grown secrecy vehicle – rose significantly. Many of these firms were then subsequently used to launder vast sums of illicit wealth.

To proactively identify money laundering risks, the UK Government should closely monitor trends in company activity, especially the incorporation of legal entities not within the scope of the persons of significant control (PSC) regime i.e. limited partnerships (LPs), private fund limited partnerships (PFLPs) and trusts. Due to the continuing anonymity offered by these structures, they may become the new vehicle of choice for those wishing to launder illicit funds using a UK entity (see page 21).

1. How shell companies facilitate corruption

Around the world, companies and other corporate vehicles are used to launder illicit funds, concealing their origin and ownership within the façade of legitimate economic activity. This helps to mask corruption like bribery, embezzlement and illegal political donations and loans, which causes enormous damage to some of the most impoverished economies and communities in the world whilst enriching local ruling elites.

Evidence collected by the joint World Bank-UN Office of Drugs and Crime (UNODC) Stolen Assets Recovery (StAR) initiative on 213 cases of historical grand corruption revealed that 70 per cent involved shell companies being used to disguise the ownership of stolen funds.⁴ Whilst it is often the case that companies based in secrecy havens like the British Virgin Islands (BVI) are used to launder corrupt wealth, UK companies are also an extremely popular vehicle through which to channel illicit funds.



A 2017 report by Europol found that a high proportion of suspicious transaction reports (STRs) – the information private sector firms submit to law enforcement agencies when they spot possible money laundering – throughout the EU involved UK companies.

“One of the most common countries of incorporation for legal entities reported in STRs across the EU is an EU Member State itself: the UK.”

Europol⁵

⁴ Stolen Asset Recovery Initiative (StAR), *Puppet Masters: how the corrupt use legal structures to hide stolen assets and what to do about it* (2011) <https://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf>

⁵ Europol, *From Suspicion to Action: Converting financial intelligence into greater operational impact* (2017) https://www.europol.europa.eu/sites/default/files/documents/ql-01-17-932-en-c_pf_final.pdf p.27

Recent revelations from the Organised Crime and Corruption Reporting Project (OCCRP) has illustrated vividly how these have helped launder tens of billions of pounds out of Eastern Europe, some of which has made its way into the UK. Estimates vary as to the scale of money laundering into the UK economy as a whole, but conservative assessments by the National Crime Agency (NCA) claim it is in the region of £36 billion to £90 billion each year, which may even significantly underestimate the problem.⁶

The UK represents an attractive prospect to those seeking to launder illicit wealth in part due to its role as a global financial hub, which makes it easier for corrupt individuals to hide suspicious financial activity within a huge volume of transactions. In addition to this the UK has a vast network of well-qualified professionals who can facilitate transactions of any type. Both of these factors make it a jurisdiction of choice for those seeking to form shell companies.

⁶ NCA, *National Strategic Assessment of Serious and Organised Crime (2017)* <http://www.nationalcrimeagency.gov.uk/publications/807-national-strategic-assessment-of-serious-and-organised-crime-2017/file>

2. Why people choose to set-up shell companies in the UK

The UK is one of the simplest places to start and run an enterprise in the world, ranking seventh in the World Bank's Ease of Doing Business Report 2016.⁷ A key factor behind this is the minimal effort and cost required to set up a company, with the UK coming third in the World Bank's ratings of this metric. Whilst this is in many ways a good thing and contributes a great deal to the UK economy, there are some significant loopholes which also make it attractive to money launderers.

Although secrecy havens are often the destination of choice to set up these companies, the UK offers an alternative location with a variety of appealing features:

- the low-cost of starting a business
- the ease and speed of starting a new firm
- the UK's respectable business reputation, which lends legitimacy to shell companies

What are 'anonymous' and 'shell' companies?

What is an anonymous company?

An anonymous company is a corporate vehicle registered in a secrecy jurisdiction – a place where details on who owns companies are kept hidden from public view.ⁱ These secretive corporate vehicles allow corrupt individuals to hide from scrutiny and enjoy their ill-gotten gains – such as bribes, kick-backs and stolen public money – with impunity.

What is a shell company?

Shell companies have no active business operations, often acting as holding companies. They are described by the US Treasury's Financial Crimes Enforcement Network as "non-publicly traded corporations, limited liability companies (LLCs), or trusts that have no physical presence beyond a mailing address and generate little to no independent economic value."ⁱⁱ In the UK context shell companies have historically taken the form of private limited companies, LLPs, LPs as well as trusts.

Shell companies can be anonymous, too, if they are registered in a secrecy haven – for example, a BVI company used purely to hold London property – however the terms are not interchangeable.

ⁱ We define secrecy jurisdiction in this paper as somewhere that scores 60+ on the Tax Justice Network's Financial Secrecy Index for 2015 <http://www.financialsecrecyindex.com/introduction/fsi-2015-results> [Accessed 17 March 2017]

ⁱⁱ https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf [Accessed 15 September 2017]

In April 2016 the UK Government introduced requirements for almost all UK companies to disclose their true owners – the persons of significant control (PSC) register – which is published by Companies House. This was a significant step forward: before this point all UK corporate vehicles could be used with limited transparency over who owned them, making them attractive to money launderers. Gaps still remain in the regime – it was only in June 2017 that Scottish limited partnerships (SLPs) were brought into the scope of the PSC register whilst LPs in the rest of the UK are still not covered.

⁷ World Bank, *Doing Business 2017: Equal Opportunities for all* (2017) http://www.doingbusiness.org/~/_media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf

Minimal cost and effort to create

Formation of UK companies is amongst the cheapest and fastest in the world, costing as little as £12 and taking a matter of minutes to complete the forms.⁸ In contrast, it costs around £1,000⁹ and takes a number of days to set up a company in the BVI.¹⁰ This means in the time it takes to set up one BVI company, an entire network of UK shell companies could be created for a fraction of the price.

 **£12 within 24 hours**
Cost and time it takes to incorporate a UK company

 **£1,000 in 3-6 business days**
Cost and time it takes to incorporate a BVI company

Reputation

Using a UK company offers a superficial layer of credibility, drawing on the UK's reputation as a secure place to do business. Trust and Company Service Provider (TCSP) websites often cite the UK's stability and reputation as a reason for incorporating a company there.¹¹ This veneer of respectability makes it easier to open bank accounts in the UK and around the world, as banks' procedures may identify UK companies as lower risk whilst offshore vehicles may raise red-flags.

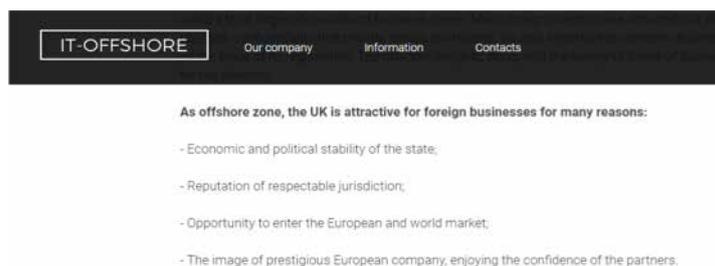


Figure 1: Offshore TCSP website outlining the benefits of a UK company

It is also possible to purchase a ready-made UK company 'off the shelf' which has been incorporated for a certain amount of time. Whilst these may be less popular now that companies can be created through electronic filing, 'shelf' companies remain popular for those seeking to make their business appear more established than it really is. One TCSP – Coddan – state on their website: "Before anyone does business with you, they're going to check how long your shelf company or existant (sic) company has been around. An already established company (our off the shelf company in this case) has a longer incorporation period appears more respectable than the new kid on the block."¹²

Owning a company which appears to have existed for a number of years could be used to 'game' pre-qualification questionnaires for contracts, which can require a company to have been trading for a certain period of time.

"The UK has the appearance of credibility. If you send your money through UK companies in and out of London, you have clean money."

Money Laundering Compliance Officer¹³

8 <https://www.gov.uk/limited-company-formation/register-your-company> [Accessed 19 June 2017]

9 <https://www.offshorebvi.com/bvi-company-fees.php> [Accessed 19 June 2017]

10 <https://www.offshorebvi.com/offshore.bvi.faq/company.ordering.pricing/lbc-incorporation-timing.php> [Accessed 19 June 2017]

11 <https://www.sfm-offshore.com/ukcompany.html> [Accessed 19 June 2017]

12 <https://www.coddan.co.uk/ready-made-off-the-shelf-companies/> [Accessed 19 September 2017]

13 Private Eye, *Where there's muck, there's brass plates: How UK ghost companies made Britain the capital of global corporate crime* (2013)

3. Companies available in the UK

There is a suite of legal structures available in the UK, with each vehicle offering a distinct set of features to meet a variety of needs in exchange for varying degrees of disclosure and reporting obligations.

| Type of company | Covered by PSC register? | Required to have real person as a director/ member/partner | Required to submit accounts |
|-------------------------------|--------------------------|--|---|
| Private limited | Yes – as of April 2016 | Yes | Yes – detail of accounts depends on the company's status ¹ |
| Limited liability Partnership | Yes – as of April 2016 | No | Yes – detail of accounts depends on the LLP's status ² |
| Scottish limited partnership | Yes – as of August 2017 | No | Not if partners are not liable to UK tax |
| Limited partnership | No | No | Not if partners are not liable to UK tax |

Using open-source data from investigative reporting dating back to 2004, leaked documents and records from Companies House and Open Corporates we have identified 52 cases relating to corruption and money laundering involving a total of 766 UK firms that are alleged or known to have facilitated these scandals.

Private limited companies

Companies limited by shares make up the majority of entities registered in Companies House. Until April 2016 it was possible to set up a private limited UK company without revealing the real person controlling it. As of April 2016 the persons exerting significant control – beneficial owners – must be reported on an ongoing basis.¹⁴

Private limited companies made up a quarter of UK corporate vehicles we identified through open-source analysis. This represents a much smaller proportion than in Companies House's breakdown of all UK corporate vehicles – as shown in Chart 1 below– where 97 per cent of UK companies are limited companies. This indicates that they could be less popular than other UK corporate vehicles for laundering money.

UK limited companies have been used for a variety of purposes to launder corrupt wealth in a number of cases. Blythe (Europe) Limited, for example, appears in a complex chain of companies set up for former Ukrainian President Victor Yanukovich to obscure ownership of his luxurious Presidential Palace compound.¹⁵ In other cases UK limited companies have been used to channel illicit funds into the UK, providing a respectable front to corrupt activity. In the 'Russian laundromat' which saw up to £63 billion worth of suspicious funds leave Eastern Europe during a four year period, OCCRP and The Guardian's investigation found Valemont Properties Limited – a UK company – received £142 million pounds through 'sham litigation' in Moldovan courts.¹⁶

Limited liability partnerships (LLPs)

Introduced by the Limited Liability Partnerships Act 2000, LLPs are popular vehicles for law firms as the partners do not bear legal responsibility for the firm's legal obligations or debts.¹⁷ As exposed by Private Eye, LLPs have historically been attractive to money launderers.¹⁸ They do not require real people to be partners, allowing them to be controlled by two companies based in secrecy havens, turning them into anonymous companies with a UK 'wrapper'.

Despite forming only a fraction (1.58 per cent) of the companies incorporated in the UK, LLPs appear to have been particularly popular with money launderers, representing over 50 per cent (388) of corporate vehicles we

14 An individual who a) holds more than 25 per cent of shares in the company b) holds more than 25 per cent of voting rights in the company c) holds the right to appoint or remove the majority of the board of directors of the company d) has the right to exercise, or actually exercises, significant influence or control over the company.

15 <https://www.globalwitness.org/en-gb/blog/anonymous-uk-company-owned-truncated/> [Accessed 14 September 2017]

16 <https://www.reportingproject.net/therussianlaundromat/russian-laundromat.php> [Accessed 14 September 2017]

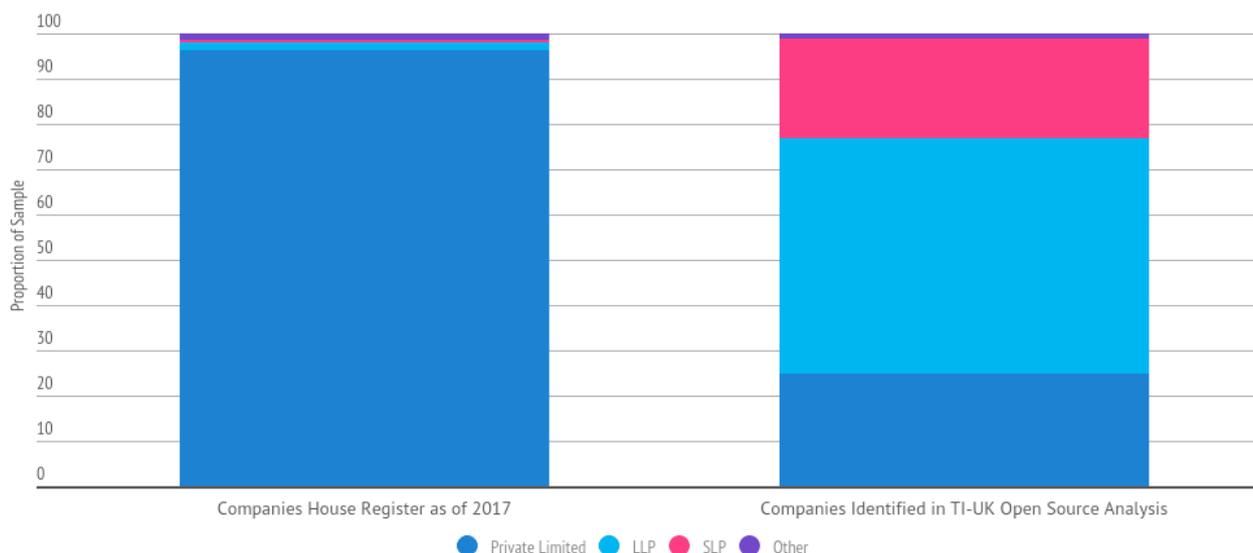
17 <https://www.legislation.gov.uk/ukpga/2000/12/contents> [Accessed 14 September 2017]

18 Private Eye, *Where there's muck, there's brass plates*

identified in large scale money laundering.

In their 2013 report, Private Eye looked into the widespread abuse of LLPs highlighting how the anonymity provided by these firms has led to them being used to move billions of pounds of suspicious wealth and mask the true beneficiaries in government contracts. More recently an investigation by OCCRP uncovered how Globex International LLP was involved in a deal which saw gold fields in Azerbaijan passed on to the President's family whilst hiding their ultimate ownership.¹⁹

Chart 1: Breakdown of Companies by Type: Companies House Register vs. Open Source Analysis of money laundering cases.



Our open source analysis found that the majority of LLPs used in high-end money laundering were effectively being used as anonymous offshore vehicles with UK addresses. The 388 LLPs we identified were controlled by 239 members over the course of their use – 82 per cent (198) of these were companies, with 77 per cent (183) registered in secrecy havens. The most common jurisdictions for companies controlling UK LLPs involved in money laundering schemes were Belize and the Seychelles. Both of these countries are infamous for corporate secrecy.

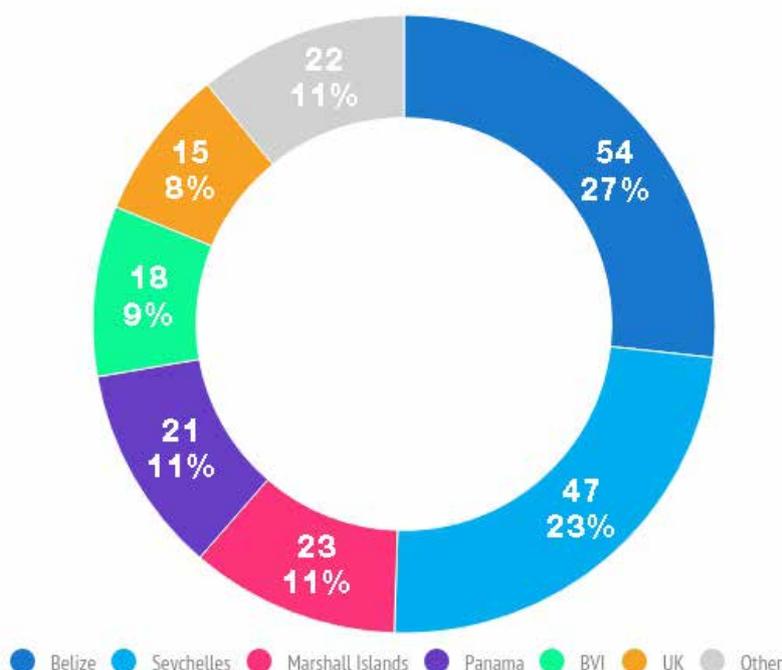
The same sets of offshore corporate members were used to control multiple LLPs, giving them anonymity before the introduction of the UK's beneficial ownership register. This suggests that the same actors were forming complex opaque structures for clients to hide their identities. Of the 388 LLPs we identified as being part of alleged money laundering schemes almost a quarter (92) have been controlled at some point by the same set of corporate members: Milltown Corporate Services Ltd and Ireland & Overseas Acquisitions Limited.²⁰ A quick search of Companies House shows these two companies have been used to provide anonymity to over a thousand LLPs.²¹

19 <https://www.occrp.org/en/panamapapers/aliyev-mining-empire/> [Accessed 14 September 2017]

20 Investigative Journalists have previously attempted to contact the directors of these two companies, both of whom testified to selling their names to a TCSP resulting in their extensive use as 'nominee directors' for thousands of shell companies <https://en.rebaltica.lv/2012/10/a-farm-of-directors/> [Accessed 16 October 2017]

21 <https://beta.companieshouse.gov.uk/search/officers?q=milltown&page=20> [Accessed 16 October 2017]

Chart 2: Breakdown of corporate LLP members by jurisdiction



Since the UK Government's consultation on the use of corporate members in 2014, LLPs have been moved within the scope of the PSC register, effective as of April 2016. This should, if enforced, increase transparency about who ultimately controls LLPs, making them less vulnerable to abuse by money launderers.

Limited partnerships (LPs)

The limited partnership concept was introduced in the UK in 1907 and provided for partners that could invest without participating in the day-to-day management of the business. They could also enjoy liability capped at the level of their investment contribution, like shareholders in a limited company. LPs are businesses with at least one limited partner, and one general partner that is responsible for the management of the business and its assets, and with unlimited liability for its debts. LPs do not require natural persons to be listed as partners and can also be controlled by two companies, potentially located in secrecy havens.

SLPs are LPs that have been registered in Scotland, rather than in England, Wales or Northern Ireland. Unlike other UK LPs, the SLP has its own separate legal personality, meaning the partnership itself has certain rights and obligations – it can hold property, enter into contracts, be a debtor or creditor and sue or be sued – and do so in the name of the partnership, not its partners.²²

Whilst SLPs make up a tiny fraction of entities in the UK – 0.32 per cent of the businesses registered at Companies House as of March 2016 – they made up 22 per cent (161) of corporate vehicles we identified in our open source analysis of UK companies used to launder illicit wealth around the world. Valton Group LP for example – an SLP registered at 272 Bath Street, Glasgow – is alleged to have been involved in the suspicious sale of a Ukrainian office block for £5.5 million despite it being sold just a year earlier for £100,000. The case is now being investigated by officers from Ukraine's National Anti-Corruption Bureau (NABU).²³

In a similar manner to LLPs, the SLPs we identified were overwhelmingly controlled by anonymous offshore companies. We were able to identify 96 partners controlling the 161 SLPs.²⁴ Of the 96 partners, 96 per cent (92) were anonymous companies registered in secrecy havens.²⁵ Unlike LLPs, however, we were unable to identify which jurisdiction around half of the corporate partners were registered in as they had no internet trace and Companies House does not require offshore partners to disclose this information.

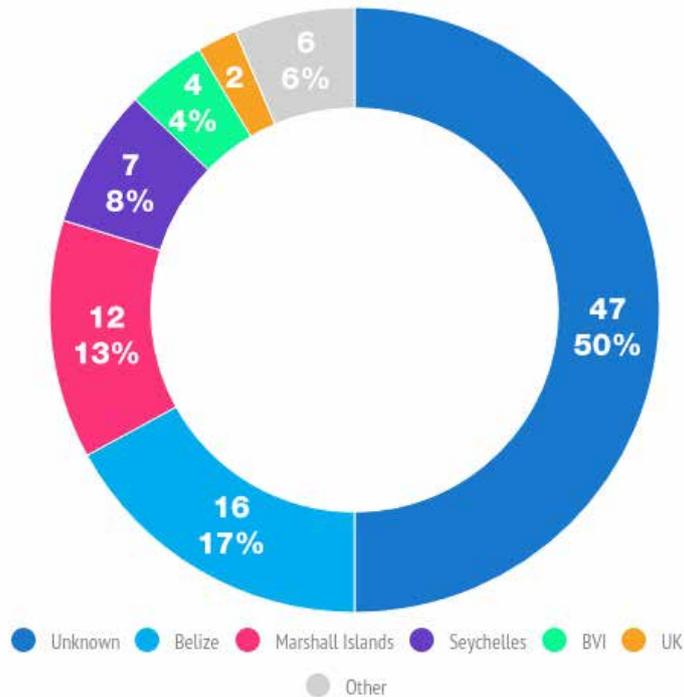
²² TI-UK, *Offshore in the UK: Analysing the use of Scottish Limited Partnerships in corruption and money laundering* (June 2017) p.8 <http://www.transparency.org.uk/publications/offshore-in-the-uk/#.Wfo4P1u0PIU>

²³ http://www.eveningtimes.co.uk/news/15327791.Assets_of_Scots_shell_firm_s_affiliate_embroiled_in_corruption_scandal_frozen_by_Ukraine/ [Accessed 15 September 2017]

²⁴ These 96 individual corporate partners formed 48 sets of two corporate partners, which in turn controlled the 161 SLPs we identified.

²⁵ 2 partners were known 'nominee directors' from Panama, whilst two partners were SLPs which themselves were controlled by two anonymous companies.

Chart 3: Breakdown of SLP corporate partners identified in open-source analysis by jurisdiction



As with LLPs, the data we analysed showed the same sets of corporate partners were used to control SLPs. Of the 161 SLPs we identified, over half (85) were controlled by just nine sets of corporate partners. This strongly suggests that the individuals forming these secretive structures used the same anonymous companies to mask their clients' identities time and again.

In June 2017, the UK Government rushed through measures to bring SLPs under the PSC register, closing a loophole which had allowed SLPs to be owned anonymously by offshore partners. Whilst this is a step towards ending the abuse of this type of company, analysis by Bellingcat and the Scottish Herald reveals risks remain with 16,000 SLPs – almost 60 per cent of active partnerships – which do not appear to be complying with the new laws.²⁶ Of those that appear to have complied, 72 per cent of reported beneficial owners come from former Soviet states with significant corruption problems.

LPs in England, Wales and Northern Ireland are not covered by the PSC regime, meaning they can still be controlled by anonymous companies with their owners remaining undetected. This could make them more attractive to money launderers in the future as loopholes around other types of company are closed. Historically LPs have featured less frequently in money laundering schemes. However, according to a leaked Kroll report, a Northern Ireland LP – Jasterport LP – was used to funnel over £23 million in a scheme which saw £760 million stolen from three Moldovan banks.²⁷

Table 34: Source of funds for down payment on Fortuna contract²⁶

| Date | Company from | Company to | Commentary | Amount |
|------------|---------------------|-------------------|--------------------------------|----------|
| | | | | MDL '000 |
| 26/11/2014 | Tennant Shipping LP | Jasterport LP | Payment for building materials | 551,110 |
| 26/11/2014 | Jasterport LP | Fortuna United LP | Contract dated 26.11.2014 | 551,110 |

Figure 2: Table from Kroll report showing payments made to and by Jasterport LP

²⁶ http://www.heraldsotland.com/news/crime_courts/15526548.Herald_research__Scots__tax_haven__firms_bypassing_transparency_laws/ [Accessed 19 September 2017]

²⁷ http://candu.md/files/doc/Kroll_Project%20Tenor_Candu_02.04.15.pdf [Accessed 14 September 2017]

Private fund limited partnerships (PFLPs)

A new form of collective investment scheme was introduced through amendments to the Limited Partnerships Act 1907 from 6 April 2017. PFLPs are intentionally designed to be 'light-touch', requiring just a single page confirmation from the general partner that it meets the conditions of a private fund. HM Treasury had considered requiring solicitors to certify that PFLPs are a collective investment scheme – which could have acted as a safeguard against potential abuse – however this was dropped in response to concerns from stakeholders that this approach would be too burdensome.²⁸ Whilst this provides flexibility for legitimate investors, these vehicles could present another type of UK company vulnerable to abuse by money launderers as they are not covered in the PSC register and could be used as alternative UK shell companies.

Trusts

Another vehicle used by corrupt individuals to hide illicit funds are trusts. Like companies registered in secrecy jurisdictions, the lack of transparency around who controls and benefits from trusts is abused to mask the identity of those who have criminal wealth to hide.²⁹ This is highlighted by the OECD³⁰ and the Financial Action Task Force (FATF), which both identify trusts as a money laundering risk.³¹ For example, the Sultan of Brunei's brother, Prince Jefri Bolkiah – accused of stealing billions from his country – is alleged to own a six storey building on Dover Street, London through a chain of companies ultimately owned by a trust.³²

Under the Money Laundering Regulations 2017 (MLR 2017), express trusts with tax consequences in the UK are required to maintain registers of beneficiaries with HM Revenue and Customs (HMRC). This will not be made public. As more legislation is introduced to bring transparency to the beneficial owners of companies and partnerships, the use of trusts to own property could become more popular among those seeking anonymity.

3.1 Identifying and mitigating risks posed by UK shell companies

In total, the UK companies we have identified as being part of major international money laundering cases linked to corruption facilitated the movement of up to £80 billion in illicit wealth. Almost all of this money originated from former Communist states in Eastern Europe, Central Asia and the Caucasus. The majority of funds – around 80 per cent – were part of organised 'laundromats' uncovered by the OCCRP. Whilst many of the companies have since been dissolved, having served their purpose, as of October 2017 195 were still active, representing ongoing money laundering risks.

Behind the 766 we analysed, there are at least 279 anonymous corporate partners that have been used to obscure the ultimate owner of these UK shell companies. Based on initial network analysis we have undertaken, it appears that they could also have been used to control thousands of other UK shell companies. In our previous research, we also found that similarly opaque ownership structures were used in 3,677 (71 per cent) of SLPs incorporated in 2016. Whilst the introduction of the PSC register should help pierce through the veil of secrecy provided by these offshore corporate entities, recent evidence has shown that there may remain difficulties in ensuring compliance with these rules in the short to medium term (see page 25 below). This must be in part due to the widespread use of offshore corporate entities to control SLPs, which provide an obstacle to those looking to independently verify whether or not SLPs and similar UK corporate vehicles, like LLPs, have complied with the new PSC reporting requirements. A solution to this challenge could be found elsewhere in company law.

28 http://www.elexica.com/-/media/files/articles/2015/asset%20management/joint%20law%20firm%20response%20to%20hm%20treasury_ip%20reform%20consultation.pdf [Accessed 19 September 2017]

29 Global Witness, *Don't take it on trust* (February 2017) https://www.globalwitness.org/documents/18781/Dont_take_it_on_trust.pdf

30 OECD, *Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector* (2007) <http://www.oecd.org/ctp/exchange-of-tax-information/42223621.pdf>

31 FATF, *Money Laundering & Terrorist Financing through the Real Estate Sector* (2007) <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20through%20the%20Real%20Estate%20Sector.pdf>

32 <https://www.theguardian.com/world/2016/dec/01/revealed-coutts-bank-managed-tax-havens-high-risk-clients-jefri-bolkiah-brunei-panama-papers> [Accessed 26 September 2017]

What is a laundromat?

'Laundromat' is the name given to complex money laundering schemes that are used over multiple years, involve thousands of companies, and use tens of thousands of transactions to 'layer' funds into the global financial system.

In recent years, laundromats have been exposed moving money out of Ukraine, Russia,ⁱ Moldovaⁱⁱ and most recently Azerbaijan,ⁱⁱⁱ with the transactions taking place between 2010 and 2014. Suspicious patterns of payments and the use of anonymous shell companies in leaked banking documents revealed potentially huge levels of money laundering amounting to £70 billion from just these countries.

These investigations revealed how embedded the laundromats were in each country's economies. Entire banks had been taken over by organised crime groups in order to process illicit funds, and corrupt judges used to 'rubber stamp' fake debt in order to give suspect funds a veneer of legitimacy. The laundromats were used by politicians, public officials and organized criminal groups, as well as businesses for embezzling funds, disguising the origins of money, evading taxes or sanctions, paying bribes, bypassing customs fees or legitimately moving funds from high corruption risk environments to 'safe haven markets'.

Based on our initial network analysis of companies involved in these schemes, it is highly likely that what has been exposed so far could only present part of the final picture.^{iv} Whilst currently undiscovered this could represent tens, if not hundreds, of billions of pounds in illicit wealth moving around the world, undetected by law enforcement agencies.

i <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/> [Accessed 19 September 2017]

ii <https://www.occrp.org/en/laundromat/> [Accessed 19 September 2017]

iii <https://www.occrp.org/en/azerbajjanilaundromat/> [Accessed 19 September 2017]

In 2006, the Companies Act made it a requirement for private and public companies to have at least one registered director to be a natural person.³³ This change reflected concerns that corporate directors were being used to help mask illicit activity, and there are still forthcoming changes awaiting commencement that would prohibit the use of corporate directors in most, if not all, companies.³⁴ As we mentioned in our previous report on UK shell companies, Offshore in the UK, we think that extending these amendments to cover UK legal entities that have a separate legal personality should reduce the risk that they are used to facilitate illicit activity.

We recognise that in some contexts it may be seen as essential to have a corporate partner, for example, for joint investment vehicles. In these contexts it could be permissible to have corporate partners if they are a relevant legal entity as defined under the UK's PSC legislation i.e. they provide sufficient information for the public to be able to determine their beneficial owner. This would balance the need to reduce money laundering risks with the needs of certain legitimate business practices.

Moving forward, it is important that the UK Government keeps abreast of how recent legislative developments in this area are working in practice. In particular, it is important to stay alert to behavioural changes that suggest new trends in the abuse of UK corporate vehicles. Analysing the similarities between companies involved in money laundering – for example, ubiquitous offshore corporate partners that are listed on the paperwork of multiple shell companies – can help produce 'red flags' for potentially suspicious activity. These characteristics may vary across the different types of UK companies that have been used as shells, and could change over time as new laws and regulations are introduced to tackle money laundering.

As shown in our analysis above, the use of anonymous corporate partners in LLPs and SLPs involved in high-end money laundering has been prolific. The reason for this could be the changes regarding the requirements to have one natural person as a director of private companies.³⁵ If so this would show that previous legislative change in this area has been successful in achieving some of its intended aims, albeit then displacing the problem elsewhere on the company register.

We have identified legal entities that remain at higher risk of being abused due to their relative opacity compared to other forms of UK companies. These should be kept under review, alongside wider trends in company incorporation, in order to proactively identify the use of UK entities as shells and evaluate the success of historical measures to tackle this phenomena.

33 <https://www.legislation.gov.uk/ukpga/2006/46/section/155> [Accessed 16 October 2017]

34 <https://www.legislation.gov.uk/ukpga/2015/26/part/7/crossheading/corporate-directors> [Accessed 16 October 2017]

35 TI-UK, Offshore in the UK p.6

Recommendations

Identify and implement measures to verify PSC data submitted by offshore corporate partners

We have found that offshore anonymous companies have been used regularly to obscure the real owners of UK limited partnerships (LPs) and limited liability partnerships (LLPs). The use of anonymous companies 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 who they are dealing with, and easier for money launderers to act with impunity.

The UK persons of significant control (PSC) register requires that a natural person or relevant legal entity³⁶ is reported and made publicly available for UK entities with a separate legal personality. We have concerns that the PSC information for UK companies controlled by offshore secrecy vehicles is not verifiable because the details about their directors and shareholders are not made publicly available.

There are no equivalent PSC provisions for those without a separate legal personality, for example, English limited partnerships. For similar reasons to those mentioned above, we are also concerned that these entities can still be controlled by anonymous companies without any public information about their beneficiaries.

In order to ensure the integrity of the company and PSC registers, the UK Government should identify and implement measures that would provide a strong guarantee that the information being submitted is accurate and would reduce the risk of UK companies being used as shells for money laundering. This could include:

- **requiring that there is a direct and auditable link between the beneficial owner data for corporate partners controlling UK companies and PSC information submitted to Companies House,**
- **prohibiting the use of corporate partners unless they are a relevant legal entity, or**
- **prohibiting the use of corporate partners in most circumstances.**

Monitor patterns in the use of UK legal entities

We have noticed that when companies in the past have been subject to further disclosure requirements there were noticeable increases in the use of alternative, more opaque corporate vehicles, possibly in order to avoid these new rules and maintain anonymity. One notable example was that after the Companies Act 2006 was amended to require UK private limited companies to list at least one natural person as a director, the number of incorporations of Scottish limited partnerships – then seen as the UK's own home-grown secrecy vehicle – rose significantly. Many of these firms were then subsequently used to launder vast sums of illicit wealth.

To proactively identify money laundering risks, the UK Government should closely monitor trends in company activity, especially the incorporation of legal entities not within the scope of the persons of significant control (PSC) regime i.e. limited partnerships (LPs), private fund limited partnerships (PFLPs) and trusts. Due to the continuing anonymity offered by these structures, they may become the new vehicle of choice for those wishing to launder illicit funds using a UK entity.

³⁶ See guidance for PSCs for more detail <https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships> [Accessed 1 November 2017]

4. How UK companies are incorporated

There are a number of actors involved in the formation and sale of UK companies. We have broken them down into three distinct strands, each of which carries different levels of scrutiny on the individuals involved:

1. direct through Companies House
2. through TCSPs operating in the UK
3. through business introducers operating outside the UK

As of the end of March 2017 there were just over 3.8 million UK companies registered at Companies House; over 640,000 of these were registered in 2016 to 2017 alone.³⁷ According to figures provided to us by Companies House, 251,628 companies (39 per cent) between 2016 and 2017 were formed directly through Companies House's online platform, whilst 386,626 (61 per cent) were formed by TCSPs operating in the UK and abroad.³⁸ Companies House was unable to distinguish between UK and overseas based incorporation agents. At the time of writing, there are 130 TCSPs (both based inside and outside the UK) that have been authorised by Companies House to submit incorporations, accounts and updates to company details using electronic filing software, allowing these firms to incorporate and administer UK companies en masse.³⁹

One of the main issues when trying to understand the individuals and businesses who form companies is the opacity of the incorporation process. Due to electronic filing and the lack of information required when creating a company, it is difficult to identify professionals involved in forming companies which are later used in financial crime. In a sample of 213 of the companies we identified as being alleged to have been used to launder money, we were unable to identify the professional or firm involved in over half (119). We encountered similar issues when analysing who formed SLPs for our Offshore in the UK report. From our sample we were unable to determine exactly who presented 25 per cent of the 5,214 SLP registrations to Companies House because this information is not a legal requirement and was often not provided.⁴⁰

Each method of company formation carries with it varying levels of money laundering risk depending on the amount of due diligence undertaken on the purchaser, as well as the associated services on offer by the provider, which can range from a simple one-off company incorporation all the way up to nominee services and offshore bank accounts. We explore these risks below and illustrate them through case studies to show how easily company incorporation can be abused.

4.1 Direct Incorporation through Companies House

Around 40 per cent of UK incorporations a year are done directly through Companies House. Thanks to online incorporation this is one of the fastest and easiest routes to forming a company, costing as little as £12 and taking minutes to complete the paperwork. This, however, brings its own risks.

4.1.1 Lack of Due Dilligence

Registering a company through Companies House requires no due diligence on the person wishing to form it, meaning individuals who have been involved in money laundering, have convictions, or have been disbarred as owners in other jurisdictions can gain access to UK companies through Companies House, no questions asked. This is because Companies House is exempt from the MLR 2017 due to its not-for-profit status. In the UK last year, 251,628 UK companies were created with no checks being made on the person setting-up the company or their source of wealth.

³⁷ <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-20162017> [Accessed 6 October 2017]

³⁸ Figures received in email correspondence 11 October 2017

³⁹ <https://www.gov.uk/government/publications/formation-and-company-secretarial-agents/company-formation-agents-and-secretarial-agents> [Accessed 17 October 2017]

⁴⁰ General Partners are legally responsible for submitting the documentation needed to establish an SLP, even if the task of putting together the documents has been delegated to someone else. See Companies House guidance for more details – Companies House, *Limited Partnership Act* (August 2013) p.8 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/395989/limited-partnership-act-gpo2.pdf

Investigative journalist Oliver Bullough highlighted the absence of checks by creating a limited company called Crooked Crook Crook Limited.⁴¹ The suggestive name was not flagged and the confirmation documents were delivered within 36 hours. Had Bullough not reported this in a media article the company could have gone on to partake in a myriad of activities, highlighting how cheap, easy and disposable formation through Companies House can be.



Figure 3: Example of how easily UK companies can be accessed through Companies House

The fact that a large proportion of firms are incorporated directly through Companies House and undergo no due diligence checks creates a significant money laundering risk to the UK framework. This may also undermine any attempt to better regulate TCSPs as it is possible that the risk would simply be displaced from the regulated TCSP sector to the unregulated services offered directly at Companies House. In other words, if a UK TCSP starts asking too many questions about a potential client, the individual seeking a money laundering vehicle can simply go direct to Companies House. This risk is partly mitigated by the fact that Companies House does not offer any of the extra services offered by company formation agents. However, once the individual has purchased the company they can then go on and seek these services from less scrupulous TCSPs in the UK or overseas.

To mitigate this risk, basic levels of due diligence could be introduced at Companies House for minimal costs. The provision of passport details by the proposed PSC would allow for background checks to identify any potential money laundering risk, something that is already common practice elsewhere, such as checking-in for flights. Using the UK Government's own cost calculations this could be a cost-neutral measure if there is a marginal increase in the cost of incorporating a company of around £5-10.⁴²

4.1.2 No Verification Capacity

The main focus of Companies House's work is ensuring that UK companies submit their statutory reports and documentation on-time. What it does not currently do is ensure the accuracy of the information it receives. This means corporate vehicles can be registered with inaccurate information, seemingly without consequence. This approach to company incorporation has been described by experts, like economist Richard Murphy, as a "voluntary honesty box arrangement" with information that is received taken in "good faith" and not subject to independent verification or checks.⁴³ Although Companies House is responsible for maintaining the register of companies, it "[does] not have the statutory power or capability to verify the accuracy of the information [it receives]".⁴⁴

A recent example of this came to light after an investigation by the Investigative Reporting Project in Italy found members of the Mafia setting up UK companies and submitting incorrect data. Antonio Righi – currently standing trial in Italy on money laundering charges – was a director of numerous UK companies through which illicit wealth is said to have been laundered.⁴⁵ One company which had Righi as a director was Magnolia Fundacion UK. Another director listed by the company had the surname "Il Ladro di Galline", which translates as "The Chicken Thief".⁴⁶ A corporate secretary for Magnolia Fundacion listed its address as "Street of the 40 Thieves" in the fictional Italian city of "Ali Babba".

One of the risks of having inaccurate data on Companies House is that it threatens to undermine confidence

41 <https://www.theguardian.com/business/2016/apr/19/offshore-central-london-curious-case-29-harley-street> [Accessed 11 July 2017]

42 Based on estimated due diligence costs in Money Laundering Regulations 2017 Impact Assessment http://www.legislation.gov.uk/ukia/2017/118/pdfs/ukia_20170118_en.pdf [Accessed 9 October 2017]

43 https://www.theyworkforyou.com/psc/2016-17/Criminal_Finances_Bill/01-0_2016-11-15a.30.1 [Accessed 15 September 2017]

44 <http://resources.companieshouse.gov.uk/serviceInformation.shtml> [Accessed 14 February 2017]

45 <https://www.standard.co.uk/business/occupation-fraudster-address-street-of-40-thieves-how-italians-mocked-uk-company-rules-a3589906.html> [Accessed 15 September 2017]

46 <https://beta.companieshouse.gov.uk/company/05806726/officers> [Accessed 15 September 2017]

in the UK's reputation as an open and honest place to do business, and its flagship corporate transparency measure, the PSC register. The potential value of the register has already been shown since its launch in April 2016. Private Eye identified 42 overseas Politically Exposed Persons (PEPs) – politicians, senior public servants, their associates and families who are considered a heightened money laundering risk – as the beneficiaries of UK companies.⁴⁷ Global Witness has also found 76 beneficial owners who share the same name and birthday as individuals on the U.S. sanctions list.⁴⁸

Whilst the ability to identify those who control UK companies is undoubtedly a step forward, the true value of this measure is in the accuracy of the data submitted. There are concerns that the data cannot always be relied upon:

- After SLPs were required to disclose PSC information, of the 8,500 which gave confirmation statements 6,500 claimed to have no PSC.⁴⁹ It is unlikely that such a high proportion have no PSC, indicating that many SLPs are submitting false data.
- There are also issues around companies listing anonymous offshore corporate entities as their PSCs, something which is not legal under PSC rules. Global Witness found 3,000 examples of this in initial research into the new PSC data carried out in November 2016.⁵⁰

To rectify this and ensure the data can be trusted, processes to more effectively verify information received should be explored. This could be achieved in part by enforcing rules against those who submit false or misleading data. There are sanctions in both the Companies Act 2006 and the Partnership Act to provide a disincentive for submitting false information.⁵¹ However, a 2016 Reuters investigation revealed the department for Business, Innovation and Skills – which is responsible for Companies House – said it had never prosecuted anyone for submitting false documents.⁵² A possible reason for this is that the team responsible for identifying breaches and maintaining the integrity of the Companies House database of around four million companies consists of only six people.⁵³

Whilst Companies House must play a role in ensuring information on the register is correct there is also a responsibility on the part of company formation agents to verify the information given to them in the company registration process. In the mid-2000s, Companies House changed to an electronic company filing system to increase the ease and speed with which companies could be formed. However, in this process the ability to trace the individuals and firms who helped form the companies was lost as signatures were no longer required from the agents involved. This represents a significant accountability gap as now the professionals are no longer identifiable from the information they submit on behalf of their clients.

If Companies House were to require information on the individual or business forming the company, this could help to improve the quality of data received, as professionals could be held directly responsible if they submitted false or misleading data. Similar measures are set to be introduced in a number of other jurisdictions, including the Netherlands and Italy.⁵⁴

47 Private Eye, Issue 1446 (16 June 2017)

48 <https://www.globalwitness.org/en/blog/what-does-uk-beneficial-ownership-data-show-us/> [Accessed 3 October 2017]

49 http://www.heraldscotland.com/news/15526548.Herald_research__Scots__tax_haven__firms_bypassing_transparency_laws/ [Accessed 3 October 2017]

50 <https://www.globalwitness.org/en/blog/what-does-uk-beneficial-ownership-data-show-us/> [Accessed 3 October 2017]

51 This consists of a prison sentence up to two years and/or a fine of up to £5,000 <http://www.legislation.gov.uk/ukpga/2006/46/part/42/chapter/6/crossheading/false-and-misleading-statements> [Accessed 19 October 2017]

52 The department for Business, Innovation and Skills is now called the Department for Business Energy and Industrial Strategy <http://uk.reuters.com/article/uk-regulations-agents-insight-idUKKCNOWK17W> [Accessed 15 September 2017]

53 <https://www.theyworkforyou.com/wrans/?id=2017-01-06.58846.h> [Accessed 15 September 2017]

54 Transparency International EU, *Under the Shell: Ending Money Laundering in Europe* <https://www.transparency.cz/wp-content/uploads/UNDER-THE-SHELL-Ending-Money-Laundering-in-Europe-2017.pdf>

Recommendations

Know who is incorporating and selling UK companies

There is a clear money laundering risk posed by the lack of due diligence carried out by Companies House on individuals seeking to form UK companies. This currently allows 40 per cent of incorporations to happen without any background checks on those forming the company.

To combat the risk of Companies House incorporating legal entities directly for money launderers, the UK Government should empower Companies House to carry out obligatory due diligence on those seeking to incorporate new companies, just as is currently the case for regulated TCSPs. Based on previous estimates by the UK Government, we think this could cost around £1.3 million per year and could be funded by a small increase in the cost of incorporation of around £5 per company.⁵⁵

It is also too easy for companies to be formed and passed between those complicit in financial crime without a clear paper trail to identify who may have been complicit in facilitating money laundering. **To help make it possible to trace who is setting-up and administering UK companies, TCSPs engaged in this activity should be required to record their details on incorporation documents and any subsequent filing, like confirmation statements.**

TCSPs submitting information should be obliged to record a 'unique identifier' like the full name of their business and their corresponding identification number provided by their AML supervisor. The use of unique identifiers could then be used to easily identify other activity of these agents on the register.

Empower Companies House to take a more thorough approach to identifying suspicious activity

Companies House does not currently have sufficient resources – in terms of the number of personnel and expertise – to sufficiently monitor and ensure the integrity of data that is submitted to them. This allows a significant amount of false and misleading data to be submitted. There is a risk that some of this misleading data is purposefully being submitted to obscure the identity of individuals using UK companies to launder money.

To ensure the integrity of the register, the UK Government should provide Companies House sufficient resources build a capability to identify suspicious activity. This would enable Companies House to take a more thorough approach to rooting out inaccurate submissions and assisting the Insolvency Service and law enforcement agencies in investigations into financial crime.

Explore options for verifying person of significant control data

Based on emerging evidence from the UK PSC register, there are risks that the data being submitted is not accurate. **In order to ensure the accuracy of the PSC register, there needs to be extra steps taken to verify the data being submitted.**

There are some basic changes that could be made to the Companies House filing process to ensure that the information submitted passes some basic statutory tests. For example, it could prohibit the registration of corporate PSCs that are not relevant legal entities by introducing a drop-down box function on its online forms. It could also introduce automated verification software to identify where relevant legal entities have circular ownership structures, and if a relevant legal entity is registered on a stock exchange.

Where information is being submitted by an individual, there could be a new requirement to submit some form of official documentation to prove that the PSC is who they claim they are. This kind of information has to be provided to TCSPs as part of their due diligence checks and is now a common feature of everyday activities, for example, checking-in for a flight. Although these need to be examined in more detail, new measures are needed to ensure the UK company register is not open to abuse.

⁵⁵ Based on estimated due diligence costs in Money Laundering Regulations 2017 Impact Assessment http://www.legislation.gov.uk/ukia/2017/118/pdfs/ukia_20170118_en.pdf [Accessed 9 October 2017]

4.2 UK TCSPs

TCSPs based in the UK offer another way to form companies and provide additional services along with company incorporation. The scope of businesses that qualify as a TCSP is broad, meaning it is difficult to identify how many are currently operating in the UK. Under the MLR 2017 a TCSP is any company or sole practitioner whose business is to:

- form companies or other legal persons
- provide a registered office, business address, correspondence address, or administrative address for a company, partnership, and other legal person or arrangement
- act or arrange for another person to act as a:
 - director or secretary of a company
 - partner (or in a similar position) for other legal persons
 - trustee of an express trust or similar legal arrangement
 - nominee shareholder for another person - unless the other person is a company listed on a regulated market which is subject to acceptable disclosure requirements

Although TCSPs provide essential and legitimate services to a range of clients, their expertise in establishing and maintaining networks of companies that can be used for money laundering and bribery makes them particularly useful to corrupt individuals. As far back as 2010, FATF had noted that:⁵⁶

“TCSPs are often involved in some way in the establishment and administration of most legal persons and arrangements; and accordingly in many jurisdictions they play a key role as the gatekeepers for the financial sector. . . TCSPs have often been used, wittingly or unwittingly, in the conduct of money laundering activities.”

This is a fact acknowledged by the UK Government in their 2017 national risk assessment for money laundering and terrorist finance (NRA), which claimed that law enforcement agency investigations into money laundering involving UK shell companies found that:⁵⁷

“Criminals continue to make use of third party TCSPs, to establish the structures within which illegitimate activity subsequently takes place.”

The NCA has also identified TCSPs as key enablers in high-end money laundering through the UK, acting as witting and unwitting gatekeepers to structures that help mask the true ownership and control of illicit wealth.⁵⁸

In the UK, TCSP services are cross-sectoral and may be provided by accountancy, legal and financial services providers. Because of this it is difficult to understand how many individuals and firms are undertaking these activities. Through data we obtained via FOI requests we established that as of July 2017 HMRC supervised 2,775 businesses carrying out TCSP services.⁵⁹ The number of TCSPs registered with one of the 22 other UK anti-money laundering (AML) supervisors for this type of business is, unknown as there is no central or public register of these entities.

As per the MLR 2017, TCSPs are obliged to identify money laundering risks that are relevant to their business and must consider factors such as the type of product or service requested, the geographical location of their client and whether they are being asked to create a complex structure with the potential to conceal underlying beneficiaries. They must also undertake due diligence and identify their customer's beneficial owner where the customer is a legal entity. It is the responsibility of TCSPs to have adequate risk-based systems in place to deal with potential money laundering and for the relevant AML supervisor to monitor and ensure compliance with that requirement. TCSPs are also obliged under the Proceeds of Crime 2002 Act (POCA) to report suspicious activity whenever they encounter it to the UK's Financial Intelligence Unit, which is based in the NCA.

We have found that the UK's money laundering supervisory system is not functioning as it should.⁶⁰ As a result, 56 FATF, *Money Laundering Using Trust and Company Service Providers* (October 2010) p.4 <http://www.fatf-gafi.org/media/fatf/documents/reports/Money%20Laundering%20Using%20Trust%20and%20Company%20Service%20Providers..pdf>

57 UK Government, *UK national risk assessment of money laundering and terrorist finance* (October 2017) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468210/UK_NRA_October_2015_final_web.pdf

58 NCA, *National Strategic Assessment of Serious and Organised Crime* (2017)

59 FOI 2017/01576 [25 September 2017]

60 For more see TI-UK, *Don't Look, Won't Find: Weaknesses In The Supervision Of The UK's Anti-Money Laundering Rules* (November 2015) <http://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/#.Wfil11tSzcs>

firms are operating unregistered with no regulatory oversight on their activities whilst those entrusted to oversee their compliance with AML rules offer an opaque approach to enforcement. Because of this, many UK TCSPs are not complying with money laundering obligations and represents a major weakness in the UK's defences against illicit money.

4.2.1 Understanding the business model

Through our research we have identified a number of business models within the TCSP sector, each of which carries its own incentive structures and also money laundering risks.

High volume, low margin

A significant part of the UK TCSP sector operates on a high volume, low margin business model, forming thousands of companies a year and making small amounts of profit on these formations and the services they provide.

@UKPLC – one of the UK's leading TCSPs – is a prime example of this, claiming to have formed over 300,000 companies in their 12 years of existence.⁶¹ The services they offer range in price from £16.99 for a basic limited company formation, up to £80 for a 'premier package', including a mailing address at their Berkshire office. These prices offer such low profit margins that they must sell thousands of these in order to stay in business.

Due to the introduction of the UK's PSC register and the lack of nominee director and offshore banking services offered by @UKPLC, this business model may be less likely to attract as many high-risk clients as other TCSP services. However, due to the sheer bulk of companies being formed there is always the risk that insufficient due diligence could be carried out on clients, resulting in companies being sold to those who then wish to use them to launder money.

Lower volumes, higher margins

As mentioned above, the number of LLPs and LPs being incorporated is relatively low compared to private limited companies. Therefore, the incorporation of these entities presents lower volumes but, in conjunction with a package of other companies and services, can offer far higher margins.

At the time of writing, GWS Offshore had seven SLPs owned through Anguillian companies with Latvian and Lithuanian bank accounts for sale ranging between £4,700 up to just under £7,400.⁶² The higher prices of the packages incorporates the cost of setting up offshore companies and bank accounts, in addition to the domain names and company logos which accompany them. This business model is echoed across the offshore TCSP sector where LLPs and LPs are still set up as de-facto offshore vehicles, despite LLPs and SLPs being subject to PSC requirements.

Higher costs can be attributed in part to setting up the offshore partners and members, as well as other related services such as mailing services and offshore bank accounts. For money launderers, whilst these services cost more than the standard incorporation fees of other TCSPs, they offer offshore companies through the wrapper of UK companies and therefore a lower chance of being detected. This makes UK company structures sold online at higher prices than standard packages more vulnerable to abuse from those wishing to launder money.

The structure behind Fortuna United LP – the SLP used to rob hundreds of millions from Moldovan banks – may have cost over £2,000, but ultimately it was able to escape with £760,000,000 in corrupt wealth. If we extrapolate this methodology across all 766 UK companies we identified – accounting for the cost of setting up offshore bank accounts and offshore partners – the total cost would be between £550,000 and £1.1 million.⁶³ This is a small fraction of the £80 billion these firms helped to launder.



Figure 4: Cost analysis of forming Fortuna United LP

⁶¹ <https://www.ukplc.com/> [Accessed 20 September 2017]

⁶² <http://gws-offshore.com/shelf-companies/> [Accessed 20 September 2017]

⁶³ We identified around 300 different offshore corporate members which would have cost around £1,000 each to form, offshore bank accounts cost £300 to £1,000 in addition to 760 sets of incorporation fees amount to between £10,000 and £20,000.

4.2.2 The services offered by TCSPs

In addition to the formation of companies TCSPs also offer a range of services. Whilst legal and often legitimate, these services can carry additional money laundering risk as they can make companies more secretive and give them routes into the financial system.

The 2017 NRA highlighted TCSPs which offer these services as posing a higher money laundering risk:

“The highest risk TCSPs are assessed to be UK TCSPs which offer a wide range of services (including nominee directors, registered office services, and banking facilities) which are used in conjunction to mask beneficial ownership whether through complicity, wilful blindness or negligence.”

‘Nominee’ directors

Nominee directors act on behalf of the true owner of the company, typically through some form of declaration or power of attorney agreement, allowing the true owner to exert influence from afar.

Strictly speaking this type of director cannot exist within the UK as the actions of the company are the responsibility of the director and the beneficial owner of the company.⁶⁴ Under the UK’s PSC rules, the beneficial owner of a company should also be declared, so they cannot hide behind sham directors; however, this does not appear to have stopped nominee directors from being used. Analysis conducted for us by Companies House has identified that as of July 2017 there were 1,980 officers with 50 or more appointments to active companies. This is an unusually high number of appointments for an actual director and a good proxy for nominee directorship.

We have also identified a range of TCSPs both inside and outside the UK who still claim to offer these services. Kedros formations, a UK TCSP, offers payments to members of the public in exchange for using their names as nominee directors.⁶⁵ They claim to transfer the companies on from the nominee director “usually within a month”, but this depends on whether Kedros can find a buyer for the company.

Due to the perception that nominee directors add a layer of corporate secrecy, they are often found in money laundering cases. The Home Office’s 2015 NRA found the use of nominee directors showed widespread poor understanding of company law, representing a money laundering risk:

“Current investigations have indicated TCSPs as nominee directors of a large number of limited companies. Enforcement of directors’ roles and legal responsibilities in the UK is weak and may not deter individuals from money laundering and predicate offending.”⁶⁶

Some nominee directors have been involved in laundering the suspected proceeds of corruption having acted as directors for numerous companies. One of these nominee directors, Lana Zamba, a yoga teacher from Cyprus, was the director of a company called Eurobalt Limited⁶⁷ which owned Altkom – a financial-industrial group based in Ukraine alleged to have benefitted from corrupt contracts given by the Ukrainian Government in the run up to Euro 2012.⁶⁸ At the same time Zamba was also acting as director for Nomirex Trading Limited, a UK shell company involved in the Magnitsky scandal, a £230 million tax and corruption scandal which resulted in the death of the lawyer Sergei Magnitsky.⁶⁹

64 <https://www.legislation.gov.uk/ukpga/2006/46/part/36/crossheading/liability-of-officer-in-default> [Accessed 9 October 2017]

65 <https://www.kedrosformations.co.uk/nominees/> [Accessed 11 July 2017]

66 UK Government, *UK national risk assessment of money laundering and terrorist financing* (October 2015) <https://www.gov.uk/government/publications/uk-national-risk-assessment-of-money-laundering-and-terrorist-financing> p. 52

67 <https://beta.companieshouse.gov.uk/company/04996464/officers> [Accessed 14 September 2017]

68 <https://www.reportingproject.net/proxy/en/russian-laundering-machine> [Accessed 14 September 2017]

69 <http://www.telegraph.co.uk/news/worldnews/europe/russia/10022843/The-yoga-guru-and-the-British-firms-at-the-heart-of-Sergei-Magnitskys-death.html> [Accessed 14 September 2017]

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Figure 5: Nominee directors being advertised online

Registered offices and mail forwarding

Some service providers offer an extra veneer of respectability by providing mailing addresses in the UK, including those in sought-after central London. British Monomarks, for example, provide mail forwarding services to companies wishing to appear to use a prestigious address in order to “Impress ... clients and colleagues”.⁷⁰

This can lead to the phenomenon of company factories – addresses where a thousand or more UK corporate vehicles are registered. These non-descript buildings house thousands – sometimes tens of thousands – of firms, offering the respectable appearance of a UK company address whilst in reality representing little more than a mailbox. Company factories can be found all around the UK. In Scotland, for example, we found over 70 per cent of SLPs incorporated in the last 10 years were registered to just 10 addresses.⁷¹ Companies House analysis has identified 66 current company factories operating in the UK with over 1,000 active companies registered at each address. The actual number may be higher due to the inconsistent way address data has been submitted to Companies House.

Although there can be completely legitimate reasons for using mail forwarding and virtual office services – for example, keeping the details of your personal home address secret for security reasons – we have identified their use in numerous UK law enforcement investigations. In addition, the 2015 NRA also found that: “criminals may use virtual office, mail forwarding or serviced office services provided by TCSPs, wittingly or unwittingly, to help add another layer of anonymity when laundering criminal finances”.⁷²

Our open source analysis of firms involved in money laundering found around half (374) of the 760 companies we identified were registered at just eight addresses. These eight sites have been the registered address of thousands of other companies over the years. A Reuters investigation into one of these company factories – 43 Bedford Street – identified a lack of due diligence on the people behind the companies registered there. Rikesh Nichani, the Mail Boxes Etc. manager at 43 Bedford Street at the time said “We don’t know who is behind the companies...we have no idea who they are.”⁷³

We make no allegation of corruption and money laundering against the owners of these addresses or the TCSPs operating there.

Top 8 Addresses used by companies identified in our open source analysis

| Address | Number of companies identified in open source registered there |
|---|--|
| Suite B, 2nd Floor, 175 Darkes Lane, Potters Bar | 105 |
| Cornwall Buildings, 45 Newhall Street, Birmingham | 74 |
| 78 Montgomery Street, Edinburgh | 44 |
| Office 11, 43 Bedford Street, London | 44 |
| Suite 1 The Studio, St Nicholas Close | 35 |
| Suite B, 11 Churchill Court, 58 Station Road | 26 |
| 5 Mitchell Street, Edinburgh | 25 |
| 44 Main Street, Douglas | 21 |

⁷⁰ <http://www.britishmonomarks.co.uk/virtual-office/> [Accessed 14 September 2017]

⁷¹ TI-UK UK, *Offshore in the UK* p.6

⁷² UK Government, *UK national risk assessment* (October 2015) p.52

⁷³ <http://uk.reuters.com/article/uk-regulations-mailbox-insight-idUKKBN13U168> [Accessed 14 September 2017]



Figure 6: 175 Darkes Lane, Potters Bar

Offshore bank accounts

TCSPs can also act as intermediaries to help new companies gain access to bank accounts around the world. This enables the individuals behind the company to pay funds into it and move the money to other jurisdictions. Whilst this ‘introducer’ role has many legitimate functions, it can be used as a way to bypass the due diligence checks conducted by banks on new clients.

A quick search on the internet reveals the range of options available to clients looking to set-up offshore bank accounts for UK companies. Both SFM⁷⁴ and Goodwin Management Corporation offer UK company formation with a range of optional services, including opening bank accounts in jurisdictions like Latvia, Belize, Switzerland and Cyprus.⁷⁵ The ease of accessibility of certain jurisdictions is highlighted, stating that this can be done remotely, with no client interview at the bank required. Neither company explicitly facilitates money laundering however if they do not conduct due diligence they open themselves up to significant money laundering risks due to the services they are offering.

| No | Name of bank | Country | How long it takes to open an account (working days) | Cost of opening an account | Minimum deposit | Client interview at the Bank |
|----|---------------|---------------|---|----------------------------|-----------------|------------------------------|
| 1 | Norvik Bank | Latvia | 10-14 | 550 EUR | not required | not required |
| 2 | C.I.M. Banque | Switzerland | 10-14 | 1 200 EUR | 10 000 EUR/USD | not required |
| 10 | Valartis Bank | Liechtenstein | 10-14 | 1 200 EUR | 300 000 USD | not required |

Figure 7: Goodwin Management Corporation international bank account options

Under the UK’s MLR 2017, agents offering to provide company formation services should be undertaking due diligence on potential clients, but it is known that this is not always done in practice. If banks rely on these third parties this could result in no due diligence being carried out and those seeking to launder money gaining access to a UK company and an EU bank account. The reputational advantage of a UK company makes it easier for these shell companies to then conduct business transactions around the world because other regulated professionals encountering them may assume they have been through multiple stages of background checks.

74 <https://www.sfm-offshore.com/rates-ukcompanies.html> [Accessed 14 September 2017]

75 <http://www.goodwin-gmc.com/en/uslugi/registraciya-kompanij-v-anglii/> [Accessed 14 September 2017]

Recommendation

Encourage UK registered companies to open UK bank accounts

We have found that UK shell companies often have bank accounts based in other jurisdictions, presenting the façade of a UK business whilst taking advantage of weaker money laundering practices abroad. Historically, this has helped to launder tens of billions of pounds of illicit funds relatively unnoticed throughout the global financial system.

To help mitigate the risk of UK companies being used for money laundering, the UK Government should introduce incentives to encourage them to hold a UK bank account. This could take the form of an annual fee on companies that cannot demonstrate they have a UK bank account. This mechanism could be added on to the confirmation statement process, which would not provide a significant regulatory burden. As a result, this measure could see more companies using UK financial services, thus reducing the risks around accessing offshore bank accounts. Payment of the fee could also act as an identifier for higher risk UK companies with offshore accounts and the revenue could contribute towards the UK's AML efforts.



Case Study: UK companies with Baltic bank accounts

The Russian Laundromat scandal saw over 5,000 shell companies move up to £63 billion of illicit wealth out of Eastern Europe and around the world.⁷⁶ According to data obtained by OCCRP, of 440 UK shell companies used in the scheme, 392 of these had Baltic bank accounts, with 270 UK firms using Latvian banks and 122 using Estonian banks. This shows how common the combination of UK corporate vehicle and Baltic bank accounts was to move illicit funds across the world.

Investigative journalist Graham Stack has identified numerous links between company formation agents incorporating UK shell vehicles and Baltic banks. One example of this is Arran Business Services, a TCSP based in the UK. One of the addresses used by Arran until May 2016 was 18/2 Royston Mains Street, Edinburgh – the same address used by Novland Limited⁷⁷ and Fortuna United LP,⁷⁸ both companies alleged to have been involved in the Moldovan bank robbery, which saw £760 million stolen from the country's financial institutions.⁷⁹ Arran Business Services forms part of Arran Consult, a 'business introducer' operating across CIS countries.⁸⁰

The Arran Consult Russian-language website publicises its partnership with leading Latvian banks with its services including forming companies – such those in the UK – and opening bank accounts for those firms. The Latvian banks listed as partners include ABLV – formerly known as Aizkraules – named in the investigation into the Moldovan bank scandal as having business relationships with 14 of the UK companies involved.⁸¹

Arran Business Services claims to have no PSC however according to Companies House the director since 2011 has been Vitalijs Savlovs.⁸² Savlovs is said to have had numerous links to the Latvian banking sector, both associates who formerly served on the board of Latvia's former biggest bank, Parex, as well as forming SLPs for another Latvian bank, Baltikums.⁸³ He is also cited as a company service provider for companies involved in a separate money laundering case in a London High Court decision on a £130 million fraud.⁸⁴ Whilst Savlovs may not have knowingly been involved in these scandals, the company formations he helped to create provided ideal vehicles for money laundering.

The banks listed on the website of Arran Consult, as well as a range of other TCSPs, form part of Latvia and Estonia's banking sector specialising in what the Latvian financial regulator calls "financial logistics" – the movement of funds from one jurisdiction to another. The majority of the time this involves moving wealth from former Soviet states around the world;⁸⁵ however, Latvian banks have also been involved in the transfer of funds to North Korea, breaching sanctions in the process after they allowed clients to use offshore companies to channel payments there.⁸⁶

Statistics released by the Latvian financial regulator in 2011 – around the time of the Russian laundromat – show that bank deposits from non-resident corporate clients came overwhelmingly from secrecy jurisdictions with the BVI amongst the most common place of incorporation.⁸⁷ Curiously, the UK was also a popular place of incorporation for non-resident corporate depositors. Given what we know now from the various laundromat exposés, UK companies appear to have been used widely to launder money via Latvian banks.

76 <https://www.theguardian.com/world/2017/mar/20/british-banks-handled-vast-sums-of-laundered-russian-money> [Accessed 15 September 2017]

77 <https://beta.companieshouse.gov.uk/company/SC422207/filing-history> [Accessed 15 September 2017]

78 <https://beta.companieshouse.gov.uk/company/SL017523> [Accessed 15 September 2017]

79 http://www.heraldsotland.com/business_hq/13414235.display/ [Accessed 15 September 2017]

80 Graham Stack contacted Arran Consult in Russia and they said they are no longer connected to Vitalijs Savlovs, had no connection to the Moldovan case

81 http://candu.md/files/doc/Kroll_Project%20Tenor_Candu_02.04.15.pdf [Accessed 15 September 2017]

82 <https://beta.companieshouse.gov.uk/company/SC332769/officers>

83 Baltikums Bank claims to have no current relationship with Savlovs <http://www.intellinews.com/latvia-banks-fuel-scotland-s-shell-company-factory-linked-to-moldova-fraud-500446872/?archive=bne> [Accessed 15 September 2017]

84 <http://www.baillii.org/ew/cases/EWHC/Comm/2014/191.html> [Accessed 15 September 2017]

85 <http://www.fktk.lv/en/media-room/press-releases/4040-2012-11-26-nonresident-banking-busi.html>

86 <http://www.reuters.com/article/us-latvia-moneylaundering/latvian-banks-fined-for-breaching-north-korea-sanctions-watchdog-idUSKBN1A6217> [Accessed 27 September 2017]

87 <http://www.intellinews.com/latvia-banks-fuel-scotland-s-shell-company-factory-linked-to-moldova-fraud-500446872/?archive=bne> [Accessed 15 September 2017]

In response to the numerous scandals, financial regulation authorities in both Latvia and Estonia have started to take action against major banks for money laundering control failures. In 2015, the Estonian financial supervision authority brought a control action against Danske Bank for its failings.⁸⁸ In Latvia, regulators assessed the money laundering performance of 12 banks, resulting in 19,000 high-risk clients losing their accounts in 2016 alone.⁸⁹ Consequently the banking sector has seen overseas deposits drop 26.3 per cent in recent years.⁹⁰



Figure 8: Parex Bank

88 https://www.baltictimes.com/media__usd_1_6_b_of_russian_money_laundered_through_estonian_banks/ [Accessed 15 September 2017]

89 <https://www.economist.com/news/international/21724803-charities-and-poor-migrants-are-among-hardest-hit-crackdown-financial-crime-means> [Accessed 15 September 2017]

90 http://lka.org.lv/en/compliance/Latvian_bank_compliance_status_review_2016.pdf [Accessed 15 September 2017]

4.2.3 Ineffective AML supervision

Ineffective AML supervision leads to inadequate compliance with the rules, and low and poor quality reporting of suspicious activity to the NCA. Our previous research has identified serious failings with the current framework for supervising money laundering compliance in the UK, especially for the supervision of TCSPs.⁹¹ TCSPs are supervised by HMRC, the Financial Conduct Authority (FCA) and professional bodies for legal services and accounting. In total there are at least 19 different supervisors overseeing the activity of this sector. However, if all private body supervisors in the legal and accountancy sectors are considered this could equate to 23 supervisors overseeing TCSPs. With no single sector supervisor who ensures TCSPs comply with the UK's money laundering rules, the true size of the sector is unknown.

Having multiple supervisors for one sector presents a number of risks, including inconsistent approaches to enforcement and a lack of coordination that could allow firms struck-off by one supervisor to continue operating under the auspices of another.⁹² From 26 June 2017, new regulations require professional body supervisors to inform HMRC of their members who carry out TCSP activity – a measure which should reveal the true size of the sector within the UK. HM Treasury has also acknowledged the inconsistency of the supervisory regime and intends to set up a new body to increase the consistency of regulation across professional body supervisors, the Office for Professional Body Anti-Money Laundering Supervision (OPBAS).

Register of firms

HMRC does not publish a full register of firms it supervises, despite claiming to do so.⁹³ Instead, members of the public as well as regulated professionals have to rely on a 'look-up service' where they must search for the firm they wish to find.⁹⁴ This service is flawed as it relies on the user knowing the exact name of the firm they are searching for or the supervised business number. Firms change their names and addresses regularly and this is not reflected on the register, making it difficult to find them when they re-brand. Even if a user is able to obtain the unique HMRC ID number given to AML regulated businesses, they are also required to enter a correct post code of the company, which may not be known.

HMRC have stated that, despite collecting information on all firms carrying out TCSP activity from June 2017, they will not be publishing this information in a public register that is accessible and searchable for all.⁹⁵

Unregistered firms

Historically, many in the TCSP sector have taken the position that formation services do not establish an 'ongoing business relationship' with clients, but are instead one-off transactions. Under the previous Money Laundering Regulations 2007 (MLR 2007) one-off businesses were exempted from AML due diligence requirements. This appears to be a miscommunication: under the MLR 2007, a TCSP was any firm "forming companies or other legal persons", thus covering one-off transactions. Many TCSPs also offer ongoing services such as nominee directorships and mailboxes, which also means they were previously covered by MLR 2007. This confusion about who was covered under previous AML regulations could have been clarified at any time by HMRC, but it took 10 years for the position to be resolved. The MLR 2017 clarify this, explicitly requiring customer due diligence for one-off company formation.

Partly as a result of confusion around who the MLRs apply to, evidence suggests there may be many TCSPs operating outside of HMRC's knowledge. We could find no identifiable money laundering supervisor for 33 of the 130 firms Companies House has authorised to use its electronic filing software. This indicates many of these businesses were filing companies – possibly en masse – without the sector supervisors' knowledge. In response to an FOI from us, Companies House said that applications to use electronic filing software do not take into account whether the firm has a money laundering supervisor.⁹⁶

Evidence shows that significant numbers of high-risk corporate vehicles are being formed by unregistered and unsupervised TCSPs. Analysis carried out by David Leask, Chief reporter of the Scottish Herald, on a sample of 6,000 SLPs found around half had been created by TCSPs which were not registered with HMRC.⁹⁷

A 2017 BBC investigation has also found that the website Craigslist hosts adverts for unregulated financial

91 TI-UK, *Don't Look, Won't Find* p. 46

92 UK Government, *UK national risk assessment* (October 2015) p.40

93 <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-09-08/9692> [Accessed 3 October 2017]

94 <https://customs.hmrc.gov.uk/msbregister/checkTerms.do> [Accessed 30 October 2017]

95 <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-10-06/105556/> [Accessed 2 November 2017]

96 FOI 317/09/17 [11 October 2017]

97 http://www.eveningtimes.co.uk/news/15368778.Analysis__How_controversial_shell_companies_conquered_everything_from_money_launderin_to_Formula_One/ [Accessed 10 October 2017]

services – such as the use of personal and business bank accounts – which could be abused by those seeking to launder money.⁹⁸ We found a number of suspicious adverts on the site including ‘no-questions-asked’ use of bank accounts and adverts soliciting the services of a ‘middle-man’ to conduct online bank transfers, both of which could be abused to launder the proceeds of crime.

⁹⁸ <http://www.bbc.co.uk/news/uk-england-41601075> [Accessed 26 October 2017]



Case Study: Formations House

In April 2016 The Guardian published a story by investigative journalist Oliver Bullough profiling the UK TCSP, Formations House, which uses 29b Harley Street as a forwarding address for the companies it creates.⁹⁹ Formations House is the TCSP responsible for forming a number of UK companies which have gone on to be used in fraud and money laundering cases. For example, Astute Partners Limited – the UK entity through which Victor Yanukovich allegedly held his vast hunting estate¹⁰⁰ – was incorporated by Formations House in 2004.¹⁰¹ One of the founding members of Formations House, Nadeem Khan, has also been cited in court documents as being responsible for providing company services for Luis Nobre, who then used them to steal £90million from an offshore oil firm, Allseas money.

“His [Khan’s] actions ... were key in allowing [Luis] Nobre to launder more of the stolen Allseas money”.¹⁰²

We are unable to find Formations House on HMRC’s register of supervised businesses. Despite this, the firm still appears on the Companies House website as authorised to electronically form companies, calling into question the due diligence applied on businesses wishing to file electronically.

99 <https://www.theguardian.com/business/2016/apr/19/offshore-central-london-curious-case-29-harley-street> [Accessed 19 September 2017]

100 <http://yanukovich.info/dr-reinhard-proksch/> [Accessed 19 September 2017]

101 <https://beta.companieshouse.gov.uk/company/05292775/filing-history/MDA3MDQ0MTMxNWFkaXF6a2N4/document?format=pdf&download=0> [Accessed 19 September 2017]

102 Court transcript in Regina v Luis Nobre & Buddika Kadurugamuwa (September 2015) Southwark Crown Court p. 25

Monitoring

As of August 2017 HMRC had 195 staff¹⁰³ tasked with overseeing the supervision of around 12,000 firms across the UK.¹⁰⁴ The last year where HMRC's AML supervisory activity was published was in 2015.¹⁰⁵ In 2014-15 HMRC carried out 891 desk-based reviews and 2,377 inspections across all the sectors it supervises.¹⁰⁶ Where results of these visits are available, HMRC found 101 businesses to be compliant, 254 to be generally compliant and 248 to be non-compliant. Whilst we cannot break down how well TCSPs did in these visits, there appears to have been generally poor performances by all sectors supervised by HMRC. In response to an FOI request we submitted to HMRC, it refused to disclose information on how many visits they carry out per year on TCSPs, stating disclosure of this information could "influence or assist those considering, or intent on, not paying the right amount of tax", "undermine public confidence in the tax system" and "damage the general climate of honesty among the overwhelming majority of taxpayers who use the system properly and that too is not in the public interest".¹⁰⁷

Something which makes monitoring potential money laundering difficult is the lack of information provided on company incorporation documents. Often there is no information on the presenter of an application, which results in there being no mechanism in place to find out who has set-up a particular firm. In an answer to a recent parliamentary question, HM Treasury confirmed that even AML supervisors face the same problem because they "do not have access to details of all the transactions carried out by the firms supervised, and do not know which companies have been set up by the specific agents."¹⁰⁸ This means that it is possible to set-up UK companies for money laundering purposes and avoid detection.

Enforcement

In order for AML supervisors to provide a credible deterrent there needs to be proportionate, transparent and robust enforcement action when firms do not comply with the MLRs. However, to date there is nothing in the public record of any AML regulatory enforcement action against TCSPs. When HMRC was asked in 2015 about its enforcement activity in the TCSP sector, it repeatedly claimed that providing this information "could prejudice the prevention and detection of crime".¹⁰⁹ This opaque approach to enforcement is contrary to the Macrory standard, which outlines good practice for civil regulatory bodies, and contrasts with the more transparent approach taken by the FCA.¹¹⁰

From what information is available it appears HMRC is not offering a credible deterrent for money laundering failings. In 2014-15 HMRC issued just 677 fines across all the sectors it supervises. These fines amounted to £768,205; just over £1,100 per fine, providing little disincentive to formation agents faced with lucrative clients and transactions which are suspicious and constitute a high money laundering risk.¹¹¹

In addition to low levels of fines, there are also limited prospects that firms will be criminally prosecuted for money laundering failings as there is currently no corporate offence of failing to prevent money laundering. In January 2017 the UK Government ran a call for evidence on bringing this offence into law – mirroring similar failure to prevent provisions in the Bribery Act.¹¹² This measure could act as a credible deterrent against money laundering – ensuring firms have better preventative measures in place – as well as providing a suitable sanction for firms which systematically facilitate money laundering.

103 Information obtained through Freedom of Information requests in 2013 and 2017.

104 In addition to TCSPs, HMRC also supervises Estate Agents and High Value Dealers as well as accountants and solicitors who are not supervised by professional bodies.

105 HM Treasury report on supervision, *Anti-money laundering and counter terrorist finance supervision report 2014-15* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525355/anti-money-laundering-counter-terrorist-report-2014-15.pdf

106 Estate Agents, Trust and Company Service Providers, Accountants and High Value Dealers.

107 FOI 2017/01576 [25 September 2017]

108 <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-11-07/52017/> [Accessed 2 Feb 2017]

109 <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Lords/2017-02-06/HL5284/>

110 The Financial Conduct Authority (FCA) and other civil regulators empowered under the Regulatory and Enforcement Sanctions Act 2008 are required to publish their policy for enforcement and the details of their enforcement actions.

111 HMT, *Anti-money laundering and counter terrorist finance supervision report 2014-15* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525355/anti-money-laundering-counter-terrorist-report-2014-15.pdf

112 <https://www.gov.uk/government/consultations/corporate-liability-for-economic-crime-call-for-evidence> [Accessed 9 October 2017]

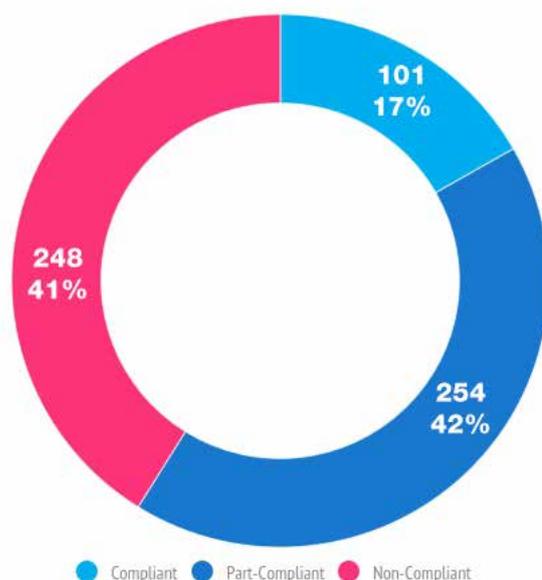
Weakness of fit and proper tests

According to the MLR 2017, applicants to be a TCSP must pass a 'fit and proper test', which is aimed at preventing 'unsuitable people' from providing these services.¹¹³ However, this merely requires an applicant to comply with a list of negative criteria relating to criminal offences. There are no requirements in respect of qualifications, experience or competence in this field. This makes it unlikely that unsuitable candidates will be prevented from becoming registered TCSPs.

4.2.4 Low levels of compliance in the sector

As mentioned above, where evidence is available it suggests that compliance with the MLRs in the sector is of a low standard. In particular, major question marks have been raised over how effectively TCSPs conduct due diligence on clients.

Chart 4: Results of HMRC's 2014-2015 compliance inspections (where available)



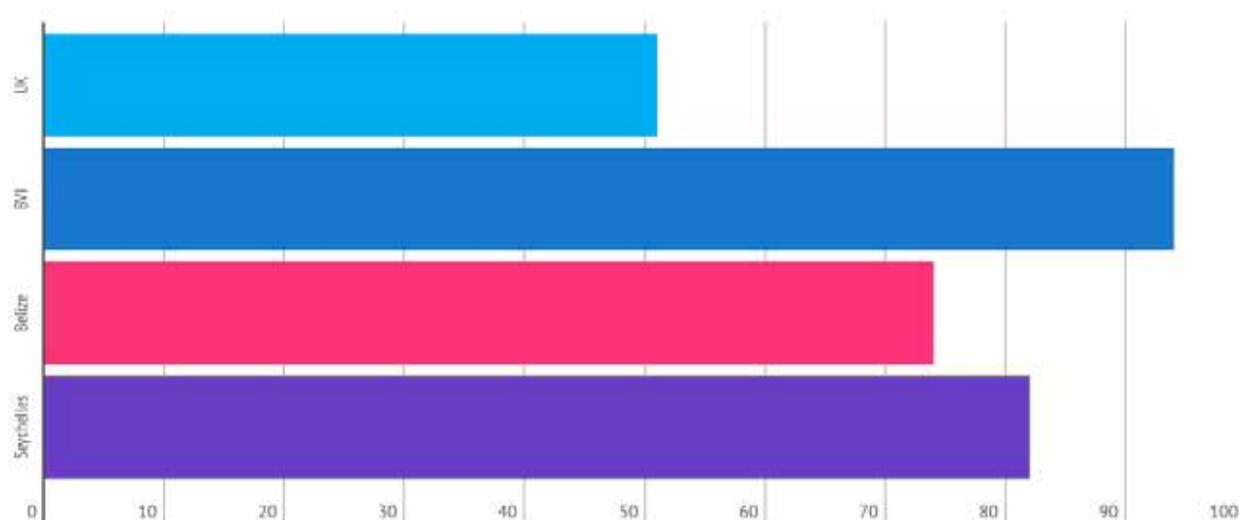
In 2012, a group of academics conducted an experiment to examine whether international rules on the collection of beneficial ownership information by TCSPs were being implemented in practice.¹¹⁴ Collecting beneficial ownership information of clients is an essential part of the 'know your customer' process and helps identify possible money laundering risk. Posing as high risk customers – including would-be money launderers, corrupt officials, and terrorist financiers – the research team emailed 3,700 different TCSPs in 182 countries asking to set-up anonymous companies that would help mask their identities.

The experiment revealed that in the UK, of the 96 TCSPs who responded, only half were compliant with AML rules, with UK TCSPs performing worse than TCSPs in secrecy jurisdictions like the BVI and Belize. It found UK TCSPs often did not ask for any identification documents at all, which is a legal requirement. Offers to pay providers a premium not to apply the rules encouraged fewer TCSPs to follow these regulations – even where sanctions for non-compliance were mentioned.

113 Regulation 28, Money Laundering Regulations 2007 <http://www.legislation.gov.uk/uksi/2007/2157/regulation/28/made>

114 Findley et al., *Global Shell Games: Testing Money Launderers' and Terrorist Financiers' Access to Shell Companies* (2012) https://www.griffith.edu.au/__data/assets/pdf_file/0008/454625/Oct2012-Global-Shell-Games.Media-Summary.10Oct12.pdf

Chart 5: Compliance rates of TCSPs in the UK, BVI, Belize and Seychelles in Shell Games Study



Whilst this shows a worrying lack of compliance on the part of UK TCSPs, the study does not necessarily show that TCSPs in secrecy havens are more compliant. These jurisdictions feature prominently in corruption cases, with companies in the BVI often the corporate vehicle of choice. 84 per cent of companies we identified as buying UK property for individuals with corruption allegations, arrest warrants or convictions against them were registered in the BVI, representing a total of around £2.4 billion worth of property. This means it is likely that TCSPs in the BVI have also given services to corrupt individuals however the methodology used during this particular experiment did not capture this.

In 2016, an investigation by the news agency Reuters provided further worrying evidence of the due diligence standards in the UK.¹¹⁵ Half of the 20 TCSPs they contacted explained that where a potential customer is a company they would not require proof of the ultimate beneficial owners, meaning they do not know who they are forming companies for.

Low levels of suspicious activity reporting

Under POCA, TCSPs are required to submit Suspicious Activity Reports (SARs) to the NCA if they identify transactions or business relationships that could signify money laundering. However, the levels of SARs submitted from this sector is very low, especially considering their proximity to transactions with a high level of risk as recognised by the UK's NRA,¹¹⁶ such as establishing SLPs with purposefully complex and opaque corporate structures controlling them.

According to the latest available data, between 2015 and 2016 TCSPs submitted just 74 reports, which represents just 0.02 per cent of all SARs submitted to the NCA during that period and 27 per cent fewer than the previous year.¹¹⁷ In contrast 2016 saw 3,677 opaque SLPs formed with both partners based in a secrecy jurisdiction. Considering the prevalence of these opaque corporate structures in money laundering cases, the low levels of SARs reporting for this sector alongside the low compliance levels mentioned above appear to reflect a poor understanding of risk by TCSPs.¹¹⁸

115 <http://uk.reuters.com/article/uk-regulations-mailbox-insight/weak-uk-regulation-lets-opaque-companies-persist-idUKKBN13U168>

116 UK Government, *UK national risk assessment* (October 2015) p.102

117 <http://www.nationalcrimeagency.gov.uk/publications/677-sars-annual-report-2015/file> [Accessed 6 February 2017]

118 Although we recognise that not all of these incorporations will have been undertaken by TCSPs, a significant proportion will have been and, considering the short time period involved, this illustrates how low SARs reporting is for this sector compared to the inherent risks.

Recommendations

Publish a thematic review of TCSP AML supervision

The UK's AML supervisory system does not provide a cohesive response to the threat of money laundering, featuring 25 different supervisors who have varying standards of transparency, supervision and enforcement. The TCSP sector is a prime example of this, with the Financial Conduct Authority (FCA), HMRC and 22 professional body supervisors sharing responsibility for the sector. Based on the evidence we have seen this is resulting in low levels of AML compliance.

The UK Government is currently in the process of setting-up the Office for Professional Body Anti-money laundering Supervision (OPBAS), which will have responsibility for overseeing the 22 non-public body AML supervisors for this sector. Under the current proposals, the Financial Conduct Authority (FCA) and HM Revenue and Customs (HMRC) will not be overseen by OPBAS.

To gain a clear picture of AML supervision for TCSPs the UK Government, in coordination with OPBAS, should publish a thematic review of the sector. This should include analysis of how many firms are operating in the sector, whether supervisors are sufficiently resourced, the monitoring activities of supervisors, and whether enforcement in the sector is transparent and providing a credible deterrent.

Ensure TCSP supervisors are transparent and accountable for their activities

We are concerned about the continuing opacity around AML supervisors' enforcement activity. We are particularly disappointed by HMRC's insistence that providing this information "could prejudice the prevention and detection of crime". Having transparent enforcement policies and processes are not novel requirements, with similar provisions enshrined in law for a number of the UK's largest regulators. For example, authorities given civil sanctions under the Regulatory Enforcement and Sanctions Act 2008 (RES Act) are under a legal obligation to publish an enforcement policy and the details of their enforcement actions.

By neither requiring supervisors to publish enforcement policies or the details of sanctions they impose, the UK Government is allowing professional body supervisors to fail to meet three of the seven key characteristics identified by Macrory in his review of effective regulatory enforcement standards.

It should be made a requirement in the UK's money laundering regulations for professional body supervisors to meet the Macrory standards of transparency by requiring them to:

- **publish an enforcement policy outlining the powers and sanctions they have, how they intend to apply them in practice and the process for making appeals and representations against decisions, and**
- **publish the details of individual cases of enforcement.**

Create a credible deterrent to prevent anti-money laundering failings

Currently there is no credible deterrent against money laundering failings within the sector. It is evident that typical fines issued by HMRC are so low that they do not deter bad practice.

To address the lack of consequences for AML failings, the UK Government should review the enforcement tools for tackling money laundering in the UK and ensure that all AML supervisors deploy the necessary sanctions to provide a credible deterrent to money launderers.

There are limited prospects that firms will be criminally prosecuted for money laundering failings as there is currently no corporate offence of failing to prevent money laundering.

The UK Government should seek to apply the 'failure to prevent' approach originally introduced in the UK Bribery Act to other forms of economic crime such as money laundering. TCSPs would fall within range of this offence, bringing about much needed accountability to those forming companies for clients which then use them for money laundering.

4.3 International business introducers

The ease with which individuals and firms can register UK companies means the creation and then sale of UK corporate vehicles has become a global industry. Businesses operating outside of the UK – international business introducers – are able to form UK companies and provide additional services for these without having to set foot here.

This raises a number of regulatory challenges in terms of understanding the money laundering risks around the supervision of offshore TCSPs and the abuse of UK legal entities. Under the previous MLR 2007 any individual or firm carrying on business as a TCSP in the UK is bound by the UK's MLRs.¹¹⁹ The way in which the law was drafted left this open to interpretation.

This ambiguity leads to the likelihood that many offshore TCSPs around the world with no physical UK presence will not have felt it necessary to abide by the MLR 2007 or other UK laws like POCA. This makes it likely that they will have been failing to conduct due diligence on their clients and not submitting SARs when they have seen suspicious activity.

The MLR 2017 further clarify the situation under Regulation 9,¹²⁰ stating that a company carries on business in the UK if that company's registered office (or if there is no registered office, the head office) is in the UK; and the day-to-day management of the carrying on of that company's business is the responsibility of that office or of another establishment maintained by the firm in the UK. This means that the regulation of individuals and firms setting up UK companies but with no physical UK presence falls to the jurisdiction in which they are physically based.

Due to their lack of a UK presence, this group represents a greater money laundering risk than unregistered firms based in the UK: money laundering supervisors and UK law enforcement agencies appear to find it harder to hold these individuals and firms accountable for money laundering breaches.

4.3.1 Interaction with UK TCSPs

Evidence suggests that whilst international business introducers operate outside the UK and in a global market, they often have links to UK TCSPs. This can come in the form of subsidiaries or informal links with businesses with whom they transact on an ad-hoc basis.

When international business introducers set up subsidiaries in the UK they become subject to the UK's MLRs because this constitutes 'carrying on business' here. For example, in the wake of the Panama Papers much attention was paid to the UK subsidiary of Mossack Fonseca – the RM Group – which is based in Hitchin, between Luton and Bedford. The leaks revealed the RM Group had offered offshore trust services to the first family of Azerbaijan in 2003.¹²¹ This family forms part of an élite in Azerbaijan around which there are allegations of serial human rights abuses as well as systemic corruption and electoral fraud.¹²²

Another way in which international business introducers may interact with UK based TCSPs is by purchasing batches of companies from them. In interviews with the press, numerous UK based TCSPs have indicated that they sold on firms they set-up to various international business introducers whilst continuing to provide a registered address for those companies – falsely believing that by no longer owning the company, their responsibility for it had ceased.

When UK TCSPs continue to provide a registered address, they are obliged to carry out due diligence on the eventual buyer of that company. As per the MLR 2007 and 2017, UK TCSPs can choose to outsource due diligence to a third-party who is regulated under EU law; however, they remain liable if the intermediary fails to apply these measures. Our research suggests it is likely that intermediaries operating outside the UK are unaware of their obligations under the MLRs, meaning they are not carrying out due diligence. This represents a significant money laundering risk as TCSPs may not know who they have formed a company for or are providing services to.

119 Part 1, Regulation 3, *The Money Laundering Regulations 2007* http://www.legislation.gov.uk/ukxi/2007/2157/pdfs/ukxi_20072157_en.pdf [Accessed 4 October 2017]

120 <http://www.legislation.gov.uk/ukxi/2017/692/made> [Accessed 4 October 2017]

121 <http://www.hertsb2bexpo.co.uk/news/manny-cohens-rm-group-wipes-sections-of-website-as-leaked-email-exposes-hitchin-link-to-mossack-fonseca-of-panama/> [Accessed 21 September 2017]

122 <https://www.theguardian.com/world/2017/sep/04/uk-at-centre-of-secret-3bn-azerbaijani-money-laundering-and-lobbying-scheme> [Accessed 25 October 2017]

4.3.2 Operating outside of the UK's jurisdiction

When offshore TCSPs have no physical UK presence – and therefore are not obliged to adhere to the UK's MLRs – it is left to money laundering supervisors and law enforcement agencies in the jurisdictions in which they operate to supervise and police their activities.

Relying on international standards of money laundering supervision to effectively regulate business introducers and TCSPs setting up UK companies can be problematic. Implementation of global standards for the regulation of TCSPs has been found to be lacking by FATF. Nine FATF jurisdictions have been assessed since the FATF standards were strengthened in 2012. Only two of those nine countries were found to have a substantial level of effectiveness in preventing the misuse of legal persons and arrangements.¹²³

This means that if firms carrying out these activities are not based in the UK there is a higher likelihood their money laundering procedures will be deficient, raising the possibility of money launderers gaining access to UK companies through which to channel their illicit wealth.

In 2012 the International Consortium of Investigative Journalists detailed how a number of UK individuals offering company services had moved their base of operations out of the UK, yet continued to form and act as nominee directors for UK companies.¹²⁴

Jesse Grant Hester – originally from the UK – moved to Cyprus to form Atlas Corporate Services before moving to Dubai and finally Mauritius. These jurisdictions have all been identified as presenting high money laundering risks in the past, with a Moneyval evaluation for Cyprus highlighting major weaknesses in its supervision of TCSPs,¹²⁵ whilst KPMG claimed the United Arab Emirates (UAE) was one of the highest risk areas for money laundering in the world.¹²⁶ Mauritius scored 5.92 out of ten on the Basel Institute of Governance's most recent money laundering risk index, where ten indicates the highest level of money laundering risk and zero the least.

Hester appeared on numerous occasions as a nominee director for companies embroiled in corruption scandals. In the Moldovan bank theft he signed fake promissory notes – under the guise of Mrs. Jasse Grant Hester – on behalf of UK firm Golbridge Trading Limited – a false name for Goldbridge Trading Limited – allowing £444 million to be stolen.¹²⁷ Atlas Corporate Services is associated with eight people who between them have held directorships of 3,613 UK companies.

Another former UK resident who went on to become internationally renowned for their company formation activities is Ian Taylor. Taylor moved to Vanuatu after he was banned from being a corporate director first in New Zealand in 2011,¹²⁸ then in the UK in 2015¹²⁹ as a result of companies he formed becoming involved in numerous scandals, including a land banking scam in Somerset.¹³⁰

Vanuatu's self-assessment on money laundering risk found the TCSP sector to be one of the most vulnerable to this activity.¹³¹ In 2015 the Asia/Pacific Group on Money Laundering found serious deficiencies in Vanuatu's AML system.¹³²

“The activities of TCSPs in creating and providing services to international companies and trusts are of greatest concern for AML risk purposes. In many cases, reliance is placed on third party introducers at the commencement of this process.”

APG-Mutual Evaluation of Vanuatu

123 FATF, *FATF Report to the G20: Beneficial Ownership* (September 2016) <http://www.fatf-gafi.org/media/fatf/documents/reports/G20-Beneficial-Ownership-Sept-2016.pdf>

124 <https://www.icij.org/offshore/nominee-directors> [Accessed 22 September 2017]

125 Council of Europe, *Cyprus: Report on Fourth Assessment Visit – Executive Summary* (September 2011) <https://rm.coe.int/report-on-fourth-assessment-visit-executive-summary-anti-money-launder/1680715f14>

126 <https://www.thenational.ae/business/uae-strengthens-enforcement-against-money-laundering-1.246840> [Accessed 22 September 2017]

127 <https://www.occrp.org/en/laundromat/grand-theft-moldova/> [Accessed 4 October 2017]

128 <http://www.stuff.co.nz/auckland/local-news/5107131/Shell-operation-shuts-after-crime-links-exposed> [Accessed 22 September 2017]

129 <https://beta.companieshouse.gov.uk/disqualified-officers/natural/x9YM3ogO1YnVSihjKzDuxjWdWdE> [Accessed 22 September 2017]

130 <https://bdaily.co.uk/articles/2012/07/30/land-banking-scheme-shut-down-following-investigation> [Accessed 22 September 2017]

131 Asia Pacific Group on Money Laundering, *Mutual Evaluation of Vanuatu* (2015) <http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-Mutual-Evaluation-Report-Vanuatu-2015.pdf>

132 <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/apg-statement-vanuatu-october-2015.html> [Accessed 22 September 2017]

Despite being banned in the UK, Taylor has managed to retain what appears to be a UK presence. Various investigations by journalists have identified a circle of nominee directors he works with. Amongst them is Abigail Kalopong – a Vanuatu resident – who is currently the director of more than 61 companies and took over from Taylor as a director for over 20 of these on the same date (22 October 2015).¹³³ These examples show how moving out of the UK physically does not result in a lack of activity within the UK. Networks of associates make it difficult to stop UK company formation by individuals who have already been disqualified.

¹³³ <https://beta.companieshouse.gov.uk/officers/x30YF1rcZXIRmF8DeFIGxnGPGEo/appointments> [Accessed 22 September 2017]



Case Study: Selling shells

In 2012, Liberton Associates Limited was one of multiple UK companies used to launder hundreds of millions of pounds out of Moldovan Banks, facilitated by corrupt court decisions. Following this, Liberton Associates featured in a chain of companies which allowed Mihaela Muruianu – daughter of the former president of the Supreme Court of Justice (SCJ) of Moldova – to pay around £78,000 in rent for a luxury property near Buckingham Palace.¹³⁴ Liberton Associates is just one of thousands of firms which have been registered to 122-126 Tooley Street.

When questioned why firms he set up were often controlled by individuals from former Soviet States, Brian Wadlow – director of a number of company service providers at 122-126 Tooley Street – said "the reason that there are so many companies from Eastern Europe here is that we have someone – agents – in those countries."¹³⁵ Wadlow may have been referring to an international business introducer, Suntiger International. An interview with a former Suntiger employee found that Wadlow occasionally sold firms to Suntiger, who then sold them on again.¹³⁶

When interviewed, Wadlow claimed: "Introducers just set up companies and check ID – they are not responsible for what happens with the company afterwards. What happened in Moldova is the banks' fault".¹³⁷ This shows a lack of understanding of the UK's MLRs: by providing ongoing services they remain responsible for carrying out ongoing due diligence on who controls those companies

¹³⁴ Mihaela Muruianu said the rent payment was part of an agreement her father had made with a Moldovan businessman however the former SCJ president, Ion Muruianu, initially told RISE reporters that his daughter had paid her rent from her own money. Later, he confirmed that there was a deal with a businessman, but he did not reveal his identity. <https://en.crimemoldova.com/news/investigation/russian-laundromat-daughter-of-the-former-scj-president-receives-1-6-million-lei-from-2-companies-in/> [Accessed 21 September 2017]

¹³⁵ <https://en.crimemoldova.com/news/investigation/russian-laundromat-daughter-of-the-former-scj-president-receives-1-6-million-lei-from-2-companies-in/> [Accessed 21 September 2017]

¹³⁶ <http://www.intellinews.com/ukraine-mp-s-uk-empire-raises-transparency-questions-500017636/?archive=bne> [Accessed 21 September 2017]

¹³⁷ <http://www.intellinews.com/mystery-latvian-linked-to-scottish-shell-companies-denies-role-in-1bn-moldova-bank-fraud-500447579/?archive=bne> [Accessed 26 October 2017]

4.3.3 Selling UK shell companies offshore

Offshore TCSPs also sell UK companies to other international business introducers. These transactions represent the highest money laundering risk due to the likelihood that neither party involved in the transaction would be an entity in a jurisdiction with strong money laundering enforcement against breaches, and therefore have little reason to adhere to the respective MLRs of the jurisdiction in which they are based. It is also difficult to track this kind of activity, meaning we have little insight into how these transactions work. Relatively few people are aware of these practices and we are reliant on the investigative work of journalists to track the offshore trade of UK companies between business introducers.

The sale of UK companies between offshore TCSPs poses a challenge to law enforcement agencies who must then investigate the sequence of events which lead to UK companies being abused for money laundering purposes. Due to the opacity in the sale of UK companies between TCSPs, money laundering breaches rarely go punished and repeat offenders are able to continue their malpractice. Due to the frequency with which certain corporate members appear in money laundering schemes, this leads us to believe that it is relatively few offshore actors involved the sale of firms used for illicit purposes. With this in mind there needs to be more work done to investigate these practices and identify the actors who set up purposefully opaque UK companies and then sell them on to those who wish to use them to launder illicit wealth.

Recommendation

Allow only UK registered agents to set-up UK companies

Under the Money Laundering Regulations 2017 (MLR 2017), only Trust and Company Service Providers (TCSPs) 'carrying on business in the UK' have to register with an anti-money laundering (AML) supervisor and comply with the UK's MLR 2017. This means that TCSPs with no UK presence can incorporate UK companies without any oversight from an AML supervisor and do not have to comply with UK standards for money laundering checks. We have seen clear examples of where this has allowed non-UK TCSPs to incorporate UK companies that have subsequently been used in large scale money laundering schemes.

To prevent UK companies from being created for money laundering schemes, the UK Government should prohibit the incorporation of companies by TCSPs not carrying on business in the UK.

Case Study: Constructing the Azeri laundromat.

The complex money-laundering operation and slush fund which funneled £2.2 billion from Azerbaijan through four UK companies involved a complex web of almost 3,500 corporate entities and individuals and almost 17,000 transactions. Integral to the scheme was the use of UK LLPs of which around 135 were used. These firms were sourced from a variety of places around the world, with some of these companies changing hands between numerous TCSPs over the course of their use. This makes it difficult for investigating authorities to assign accountability for the creation and sale of these companies to individuals who then use them to launder illicit wealth.

One example focuses on two LLPs identified through leaked banking documents obtained by OCCRP, Richboro Projects LLP and Granston Sales LLP. Collectively these companies were involved in 17 separate transactions through Danske Bank in Estonia amounting to over £2.7 million. This repeated involvement suggests a suspicious relationship with the four core companies at the centre of the scandal.¹³⁸

Both LLPs were incorporated on 4 August 2011 at Suite 1 the Studio, St Nicholas Close in Hertfordshire and dissolved on 25 March 2014. They also had the same corporate members – Luxhold Ltd and Rainhold Ltd – both anonymous companies registered in the Seychelles. Due to electronic filing it is impossible to tell from Companies House data who formed these LLPs.

Leaked invoices shared with us by investigative journalist Graham Stack show how these two LLPs, along with 18 others – all with the same two corporate members – were sold the day after they were incorporated by a Belize based TCSP – Trinity Services Inc. – to PB consults of 42 Chelmsford Terrace in Dublin. This is the address of Philip Burwell, a company formations agent who in a 2013 interview claimed he had set up around 2,000 companies for customers.¹³⁹ Richboro Projects and Granston Sales are not the first companies he has provided services for which have gone on to be involved in major money laundering scandals: Loginex Projects LLP was also formed by Burwell and used in a scheme which allegedly resulted in almost £4 billion being stolen from BTA Bank in Kazakhstan.¹⁴⁰

TRINITY SERVICES INC
Belize Office: Suite 100, Emerald Plaza, Belize Business, Care Park & Hubbell Streets, Belize City, Belize, C.A. Tel: (501) 223-2630 Fax: (501) 223-2630 E-mail: sales@trinityservices.com
Hong Kong Office: Suite 2418, Progress Commercial Building, 9 Irving Street, Causeway Bay, Hong Kong E-mail: hongkong@trinityservices.com

Invoice

| Tax Date | Invoice No. |
|------------|-------------|
| 05/08/2011 | 23863 |

Invoice To:
PB Consults
42 Chelmsford Terrace
Dublin 6
Ireland

| Description | Company Name | Amount |
|--|-----------------------|--------|
| Sale of UK Company UK Registered Office | Richboro Projects LLP | |

Figure 11: Invoice showing the sale of Richboro Projects LLP

138 <https://www.occrp.org/en/azerbajjanilaundromat/raw-data/> [Accessed 26 October 2017]

139 <https://www.irishtimes.com/business/financial-services/over-2-000-offshore-firms-set-up-from-home-in-ranelagh-dublin-1.1428114> [Accessed 22 September 2017]

140 <https://www.thegazette.co.uk/company/OC333793/filing-history/MzA4MTczODk3OWFkaXF6a2N4> [Accessed 22 September 2017]

“I do not deny that I set up some companies for IOS Group and for other agents in eastern Europe which were subsequently involved in criminal activities or other scandals, but I did not provide the directors or operate these companies. . . I did not know what the companies were doing and regret that companies which I set up have been involved in such activities.”

Philip Burwell, TCSP¹⁴¹

Burwell asserts that agents operating in Eastern Europe “cannot properly read company documents in English” and “have little understanding of actual company law”.¹⁴² This evidence supports the theory that the UK MLRs are not being followed to the letter of the law in Eastern Europe, representing a significant money laundering risk. Burwell believes the TCSP sector had a poor understanding of the risks around illicit activities in Eastern Europe until “too late”.

This case highlights how when shell companies are passed from one agent to another, it makes it harder to ascertain what the company will ultimately be used for by the agent and also conceals ultimate accountability for the individual of firm who sells the company to those wishing to launder money.

141 <https://www.irishtimes.com/business/financial-services/over-2-000-offshore-firms-set-up-from-home-in-ranelagh-dublin-1.1428114> [Accessed 22 September 2017]

142 <https://www.irishtimes.com/business/financial-services/over-2-000-offshore-firms-set-up-from-home-in-ranelagh-dublin-1.1428114> [Accessed 22 September 2017]

5. Conclusions

This report has assessed why UK companies have been a frequent vehicle of choice in recent money laundering cases, and how the system by which they are formed and sold is still open to abuse. In particular, we have discovered three key areas where action can be taken to help end the use of UK companies in laundering corrupt wealth:

- 1. Enhancing controls on company formation.**
- 2. Increasing confidence in the UK company register.**
- 3. Overhauling the UK's AML supervisory system.**

The scale of damage that has been caused through the use of UK companies is still being counted, and could well total hundreds of billions of pounds. Although much of what has led to this money being obtained – embezzlement, bribery and illegal kickbacks – will have taken place abroad, it has been facilitated by activity taking place in plain sight right here in the UK. We should not ignore this problem or leave it to others to solve. It is both within our means and capabilities to end the involvement of these businesses in corruption, and government action is now urgent.

