

Transparency International UK's submission of written evidence to the Treasury Committee

Transparency International UK (TI-UK) welcomes the Treasury Committee's inquiry into economic crime. In recent years the UK has taken positive steps toward addressing loopholes in the UK's anti-money laundering defences – in particular through the introduction of the UK's public beneficial ownership register and Unexplained Wealth Orders – but further action is needed to end the UK's role in facilitating money laundering for the corrupt and other criminals.

TI-UK bases the following policy recommendations on robust, evidence-based research.

KEY RECOMMENDATIONS

To prevent the UK being used as a safe haven for the corrupt and their assets, the UK Government should urgently:

1. Accelerate its timeline for introducing a **public register** of the real owners of overseas companies being used to buy UK property and bid for UK Government contracts
2. Prohibit company formation agents that are not registered with a **UK anti-money laundering supervisor** from setting up companies in the UK
3. Empower Companies House to **identify suspicious activity** in the company register
4. Bring the **Overseas Territories and Crown Dependencies** up to UK standards of beneficial ownership transparency
5. Consolidate and further reform the UK's anti-money laundering (AML) **supervisory system**

RECOMMENDATIONS IN DETAIL

1. **The UK Government should accelerate its timeline for introducing a public register of the real owners of overseas companies being used to buy UK property and bid for UK government contracts.**

The UK is a top destination for money laundering. The National Crime Agency (NCA) estimates that **an excess of £90 billion in illicit wealth flows through the UK every year**.¹ The UK's property market is a prime destination for the corrupt and other criminals to hide their stolen wealth.

TI-UK has identified **176 properties worth £4.4 billion** in the UK that have been bought with suspicious wealth.² Of these, 108 are owned by companies with an identifiable jurisdiction of incorporation: 98% of these properties are owned by companies incorporated in a secrecy jurisdiction, with 90% owned by companies based in the British Virgin Islands alone. Amongst these are three properties owned by the Azeri first family, which are worth over £53 million. The owners of these properties were only brought to

¹<http://www.nationalcrimeagency.gov.uk/publications/807-national-strategic-assessment-of-serious-and-organised-crime-2017/file>

²Of our £4.4 billion figure:

- UAE: 1.8 billion
- Russia: 940 million (a fifth of our 4.4 figure)
- Ukraine: 762 million
- Kazakhstan: 252 million

We have also identified properties we believe are owned by individuals in Azerbaijan, Nigeria, Libya, Pakistan and others.

light due to leaks and court documents, and the true number of potentially illicit funds in the UK property market may be much higher than current estimates.

At the 2016 Anti-Corruption Summit in London, the UK Government committed to introducing legislation by April 2018 that would bring greater transparency to the housing market by requiring overseas companies owning property here to publicly declare their beneficial owners. Although this policy has wide support, the Government recently announced that it would now lay down a draft bill by Summer 2018 and formal legislation by Summer 2019 – **a significant extension of the Government's original deadline.**

Key statistics

Analysis of the most recent Land Registry data by Global Witness, Who Owns England?, and Transparency International UK revealed that **86,397 properties in England and Wales** are owned by companies registered offshore in secrecy jurisdictions, which do not require companies to publicly declare their beneficial owners:

- 87% of all properties in this dataset that are owned by overseas companies have an owner in a secrecy jurisdiction.
- 47,987 properties outside of Greater London are owned by companies incorporated in secrecy jurisdictions.
- Based on available data, the most expensive property owned by a company based in a secrecy jurisdiction is worth **£215,399,999**, and the top 10 most expensive properties owned by companies in secrecy jurisdictions are worth **over £1.5bn.**

2. The UK Government should prohibit agents that are not registered with a UK anti-money laundering supervisor from setting up companies in the UK.

UK companies are being used to facilitate corruption around the world. Research by TI-UK identified **766 UK corporate vehicles alleged to have been used in 52 large scale corruption and money laundering cases amounting to £80 billion.** A quarter of these companies are still active.

Although the firms that set up these companies must by law be registered with an anti-money laundering (AML) supervisor if they are 'carrying on business' in the UK, one in four firms listed on Companies House's website as being authorised to electronically form companies en masse does not appear to have a UK supervisor, and the regulation of individuals and firms setting up UK companies but without a UK presence falls to the jurisdiction in which they are physically based.³

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.

Key statistics

- 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 Eastern Europe had bank accounts in Latvia or Estonia.⁴

³Under the previous Money Laundering Regulations (MLR) 2007 any individual or firm carrying on business as a TCSP in the UK is bound by the UK's MLRs. The MLRs 2017 clarified the situation under Regulation 9, 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.

⁴<https://www.occrp.org/en/laundromat/> [Accessed 12 April 2018]

- Around half of the 766 companies TI-UK identified as having allegedly been involved in high-end money laundering were based at just **eight UK addresses**.⁵
- TCSP's filed just 77 of the 400,000 suspicious activity reports in 2016, which are designed to flag possible money laundering.⁶

3. The UK Government should empower Companies House to identify suspicious activity in the company register.

Companies House does not currently have adequate resources or powers to sufficiently monitor and ensure the integrity of company incorporation data that is submitted to them. This allows a **significant amount of false and misleading data** to be submitted to the company register, which keeps a public record of the beneficial owners of UK-registered companies. 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 UK company register, the Government should empower Companies House to identify suspicious activity and provide it with the resources to build up its capabilities. 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.

Key statistics

- Just twenty people at Companies House police around four million firms' compliance with company law, **without proactive checks** made on the accuracy of the information submitted.
- Huge numbers of UK companies are created without any due diligence on who is setting them up. **40 per cent** of incorporations last year were done directly through Companies House, which does not undertake background checks on customers.

4. The UK Government should bring the Overseas Territories and Crown Dependencies up to UK standards of beneficial ownership transparency

Corrupt individuals can easily hide their identities, making it difficult for law enforcement agencies and others to detect or prove the origins of their illicit wealth. They often use complex webs of opaque corporate structures to launder their money through the UK. These legal entities, like companies or trusts, can be created in a matter of hours and used to conceal the real owner of funds being moved around the world.

There is a very **clear correlation between corruption cases and the use of these secretive corporate vehicles**. Anonymous companies are also used to launder corrupt and illicit funds into the UK. Transparency about the beneficial owners of these companies has been identified as an important part of the solution to tackling the laundering of corrupt and illicit funds.

Key statistics

- In 2011, a World Bank study found that **70 per cent of over 200 corruption cases** involved the use of anonymous shell companies to launder funds and conceal the true identity of corrupt politicians.
- In the UK, over **75 per cent of corruption cases involving property** investigated by the (then) Metropolitan Police's Proceeds of Corruption Unit (POCU) involved anonymous companies

⁵*Hiding in Plain Sight: How UK Companies are Used to Launder Corrupt Wealth*, Transparency International UK (2017, p. 26)

⁶<http://www.nationalcrimeagency.gov.uk/publications/suspicious-activity-reports-sars/826-suspicious-activity-reports-annual-report-2017>

registered in 'secrecy jurisdictions'.⁷ Of these, 78 per cent of the companies involved were registered in either the UK's Overseas Territories or Crown Dependencies

- **57,318 UK properties** are owned by companies registered in the British Overseas Territories and Crown Dependencies - jurisdictions which don't publish beneficial ownership information.
- Polling consistently shows strong public support for ensuring transparency in UK's Overseas Territories. Recent YouGov polling shows that **over two thirds of people think the UK Government should take this action**⁸ with high levels of support across the political spectrum.

5. The UK Government should consolidate and further reform the anti-money laundering (AML) supervisory system

A radical overhaul of the UK's anti-money laundering system is needed to stem the flow of corrupt money and help prevent UK professionals from being unwitting facilitators of – or indeed corrupted by – vast sums of money stolen from around the world. The key deficiencies remaining in the UK's anti-money laundering (AML) supervisory system are:

- There are too many AML supervisors responsible for overseeing money laundering checks in the private sector, which **prevents consistent standards of supervision across sectors**. There remain **25** supervisors in total, all with varying standards and approaches to ensuring compliance with the UK's AML rules.
- The UK Government's new Money Laundering Regulations don't go far enough to control for potential **conflicts of interest**, leaving no institutional separation between many AML supervisors' lobbying and supervisory functions. This means that some supervisory bodies are also lobby groups for the sectors that they supervise, and are funded by the firms that they are obliged to investigate. This fails to comply with the Clementi principle of controlling for conflicts of interest amongst supervisory bodies.⁹
- There is a significant lack of transparency around the enforcement activities of most of the UK's AML supervisors, which fails to comply with the Macrory standards of effective regulation.¹⁰

Each of these issues needs addressing if the UK is to provide a coherent and effective system for overseeing AML checks in the private sector.¹¹

⁷Transparency International reached this statistic by looking at data from investigations conducted over a recent 10 year period. The POCU is no longer operational – it has since been subsumed into the International Corruption Unit in the National Crime Agency.

⁸https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/gai9julrov/OxfamResults_160926_Businesses_Tax_Website.pdf

⁹The Clementi principle requires that the same organization should not be both responsible for professional lobbying on behalf of their sector membership and provide supervision and enforcement actions over their sector.

¹⁰The Macrory standards require proportionate and transparent enforcement, and a detailed analysis of risk, for achieving effective implementation of regulations and a business environment that meets the standards set out by law.

¹¹See Transparency International UK's report *Don't Look Won't Find: Weaknesses in the Supervision of the UK's Anti-Money Laundering Rules* (2015) for more detail.

ABOUT TRANSPARENCY INTERNATIONAL UK

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK.

We work in the UK and overseas, challenging corruption within politics, public institutions, and the private sector, and campaign to prevent the UK acting as a safe haven for corrupt capital. On behalf of the global Transparency International movement, we work to reduce corruption in the high risk areas of Defence & Security and Pharmaceuticals & Healthcare.

We are independent, non-political, and base our advocacy on robust research.

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