

BENEFICIAL OWNERSHIP (AMENDMENT) BILL 2020

Submission by Transparency International UK to the Isle of Man Consultation on the Beneficial Ownership (Amendment) Bill 2020

INTRODUCTION

For those seeking to conceal and launder the proceeds of corruption, the role of the anonymous and untraceable legal entity is critical. These secretive entities provide little to no public information about who they are and who controls them.

We welcome the commitment from the Isle of Man to further the accessibility and transparency of the register of beneficial ownership for companies in line with the principles of the Fifth Money Laundering Directive¹. Public registers are a key tool to help tackle corruption and other serious financial crime. The UK's first unexplained wealth order case was assisted by the respondent publicly identifying herself as the person of significant control behind a UK company which owned a £11 million golf course.²

Despite some claims to the contrary, public registers can and should be accurate. We welcome the amendments to the Beneficial Ownership Bill which will introduce measures to help increase the accuracy of information on its register. Given that public beneficial ownership registers are the new global standard for corporate transparency, it is important that the Isle of Man does not lag behind.

This amendment provides an opportunity to expedite public corporate transparency in the Isle of Man and provide leadership for others to follow among the Crown Dependencies.

KEY RECOMMENDATIONS

1. TI-UK welcomes the new powers to **verify information** submitted to the register and to remove false information from it when identified.
2. This amendment provides an opportunity to expedite public corporate transparency in the Isle of Man and **provide leadership** for other countries among the Crown Dependencies to follow.
3. Transparency International UK recommends that **Limited Partnerships** be included within the scope of the Bill and not made exempt from requirements to disclose beneficial ownership information.

IOM COMPANIES HOLDING THE UNEXPLAINED WEALTH OF POLITICALLY EXPOSED PERSONS

Isle of Man companies have been used to shield the assets of individuals with wealth of dubious origins, from the Azerbaijani first family to fugitive bankers wanted for embezzling funds.

In 2015, the Organised Crime and Corruption Reporting Project (OCCRP) [uncovered an £18 million mansion](#) on Hampstead Lane, North London, belonging to the First family of Azerbaijan. According to Land Registry documents the mansion is owned by Beckforth Services Limited – an Isle of Man company. Official company documents from 2000 state that Beckforth was controlled by Ilham Aliyev, the country's current President, and his wife Mehriban, who is now his Vice President. In 2012 the registered shareholder was recorded as Leyla Aliyeva, Ilham and Mehriban's eldest daughter. Since then it has been recorded as a British Virgin Island company, Sonymore Limited, and then another Isle of Man company, Locki Limited, of which Leyla was the sole shareholder until 2014. Since then Locki's

¹ Joint Statement by the governments of Guernsey, Jersey and Isle of Man on beneficial ownership registers, June 2019, <https://www.gov.im/news/2019/jun/19/joint-statement-by-governments-of-guernsey-jersey-and-isle-of-man-on-beneficial-ownership-registers/>

² <https://www.bbc.co.uk/news/uk-48433012>

registered shareholder has also been Sonymore and its current shareholder is itself a trustee of another company.

At the time the property was bought, Ilham Aliyev was Vice President of the country's state-owned oil company, SOCAR, and his father was the country's President. There is no public documentation about Ilham's wealth or income at the time when the house was purchased. However, the First family of Azerbaijan are alleged by the Organised Crime and Corruption Reporting Project (OCCRP) to have [collected vast amounts of personal wealth](#) by abusing their positions of power. Ilham Aliyev has been the country's President since 2003 and currently has an [official annual salary of £75,000](#). Although elected officials are not yet required to publish the details of their assets, latest estimates by the OCCRP claim the Aliyev family hold a global property portfolio worth at least [£100 million, including £41 million in London real estate](#).

VERIFICATION

Transparency International UK welcomes the changes to the Bill which establish powers to verify information submitted to the register and to remove false information from it when identified. Without verification powers, companies remain vulnerable to abuse due to the ease with which inaccurate data can be submitted. Permitting inaccurate information to remain on the register allows them to be used as shell companies for various illicit activities, including money laundering, as *de facto* anonymous legal entities. Improving the accuracy of the data submitted would make it harder for criminals to hide their identity.

LIMITED PARTNERSHIPS

Since the adoption of the Limited Partnership Legal Personality Act (2011) any new limited partnership can elect to adopt a separate legal personality³. Limited Partnerships can also have corporate partners based anywhere in the world, including jurisdictions where the ultimate beneficial ownership of the corporate partner can remain hidden. If this structure becomes exempt from the rules around declaring beneficial ownership information, it would further enable Limited Partnerships to be used as vehicles for money laundering while maintaining the perceived respectability of a legal entity incorporated on the Isle of Man.

There is extensive evidence that a similar limited partnership structure carrying these same traits has been abused by criminals and corrupt individuals in another jurisdiction, Scotland.

According to revelations from the OCCRP and Novaya Gazeta, Scottish Limited Partnerships (SLPs) played key roles in a giant money laundering scheme that moved somewhere between US\$20 billion and US\$80 billion out of Russia in just four years.⁴ Although the origins of these funds remain unclear, a significant amount is suspected to have been money diverted from the Russian treasury and state contracts. In 2014, 20 SLPs were also used to extract over US\$1 billion from Moldovan banks, costing the small ex-Soviet Republic almost an eighth of its GDP.⁵ There is still no sign of where this money has gone and no prospect of its repatriation.

Additional findings presented in our 2017 report, *Offshore in the UK*, discovered that:

- SLPs facilitated one of the largest corruption scandals in recent years. 20 SLPs formed part of the complex apparatus used to raid US\$1 billion from three Moldovan banks in 2014, costing the country around an eighth of its annual Gross Domestic Product (GDP).
- SLPs are attractive to money launderers because they can provide anonymous ownership and control while giving the impression of a respectable UK business. 71 per cent of all SLPs

³ http://documents.ocra.com/jurisdiction/europe/Isle_of_Man_LTD_Partnership_Information.pdf

⁴ <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/> [Accessed 28 March 2017]

⁵ <https://www.occrp.org/en/investigations/4203-grand-theft-moldova> [Accessed 15 March 2017]

registered in 2016 were controlled by companies based in secrecy jurisdictions, hiding who is really behind the partnership. Similar ownership structures have been used in a number of high-level corruption and money laundering cases

To reduce the risk of being used to facilitate illicit activity, Transparency International recommends that jurisdictions such as the Isle of Man and the UK should, in most circumstances, prohibit the use of corporate partners where a legal entity has a separate legal personality.

If a limited partnership adopts a separate legal personality, it is a legal person in its own right, like a company. This means the LP 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 and not its partners. This enables the laundering of significant amounts of money through incurring fake debts and participating in ‘sham litigation’⁶. It also acts as an initial layer of secrecy by leaving only the name of the LP – not the partners – on any associated paperwork or reports on their activities. This can be useful where the underlying partners are based in jurisdictions that are the subject of ‘deoffshorisation’ policies. De-offshorisation laws have recently been introduced in Russia to help restrict the use of opaque offshore structures that could be used to conceal the identity of Russian residents⁷.

Given the risk of the limited partnership structure being abused by crime groups and corrupt individuals, we recommend that Limited Partnerships should not be made exempt from requirements to disclose beneficial ownership information, as the beneficial Ownership (Amendment) Bill currently stipulates.

For more information on the abuse of Limited Partnership structures that are able to adopt a separate legal personality, please see Transparency International UK’s report, ‘*Offshore in the UK*’⁸.

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 anticorruption expertise in the UK.

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

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⁶ For examples and more information on sham litigation, see FATF, Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals (June 2013) pp.69-70 <http://www.fatfgafi.org/media/fatf/documents/reports/ML%20and%20TF%20vulnerabilities%20legal%20professionals.pdf>

⁷ International Monetary Fund (IMF), Russian Federation: Financial Sector Assessment Program Technical Note—Anti-Money Laundering and Combating the Financing of Terrorism (September 2016) p.13 <https://www.imf.org/external/pubs/ft/scr/2016/cr16305.pdf>

⁸ Offshore in the UK (2017), <https://www.transparency.org.uk/publications/offshore-in-the-uk>