

AT YOUR SERVICE

Investigating how UK businesses and institutions help corrupt individuals and regimes launder their money and reputations.

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

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Acknowledgements: We would like to thank the Open Society Policy Center for their generous financial support that made the research possible.

We are grateful to Tom Keatinge, Helena Wood, Richard Brooks, Nick Lord, Paul Heywood, Laurence Cockcroft, as well as other members of the project's advisory group for providing robust and incisive challenge.

We would also like to thank OCCRP, Dedupe.io, Johnny Hammill and Will O'Connor for their assistance with the most challenging parts of this research.

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Published 24 October 2019

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Transparency International UK's registered charity number is 1112842.

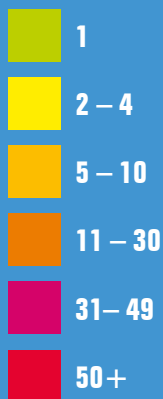
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CORRUPTION CASE STUDY HEATMAP

The findings in this report are based on data collected from over 400 cases of high-end corruption and associated money laundering in which UK service providers were involved. These cases involve at least £325 billion worth of funds diverted by rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets, taking place in 116 countries across the world. This map shows the key geographical connections to these cases. The bigger and redder the country, the more cases there are with this jurisdiction as a nexus. At a glance, this shows where UK service providers have been involved in some of the most egregious cases of corruption in our time.

Key





EXECUTIVE SUMMARY

The UK has a big problem with dirty money. The list of exposés detailing the investments and indulgences of a global cadre of corrupt individuals in or through our economy has become too large to ignore. Although this is deeply worrying, it is increasingly acknowledged within policy circles and business, which is a positive step towards taking meaningful action.

Much of the media attention to date has been on the palatial properties obtained by kleptocrats and oligarchs with funds of questionable origins. This is both understandable and welcome given the UK's international obligations to identify, investigate and, where possible, seize and return the corrupt funds used to purchase these opulent abodes. However, if Government and law enforcement agencies are going to make meaningful progress towards ending the UK's role as a safe haven for corrupt wealth, they need to understand and prevent these funds being obtained and moved to the UK in the first place.

In December 2018, we laid bare how 1,201 opaque companies in the UK's Overseas Territories had been used to inflict over £250 billion in economic damage through corruption over the past few decades alone. It is no longer news that the anonymity provided by these jurisdictions and their laws contributes towards economic crime. Yet, it is with the rare exception of leaks like the Panama and Paradise Papers that the lawyers, accountants and other service providers who incorporate and administer these conduits of crime are thrown into the spotlight.

Similarly, that London property is an attractive investment class for corrupt foreign officials looking to hide the proceeds of embezzlement and bribery is not a revelation. Though save for the occasional documentary like *From Russia With Cash* or crime dramas such as *McMafia*, it is unusual for those facilitating these transactions to be thrust into public view. Now, through forensic analysis of over 400 cases and interviews with almost 50 experts and academics in this field, we can reveal in more detail than ever before the services provided to those who have abused power entrusted in them for private gain.

The scale of this task has been immense, with one senior law enforcement officer describing it as akin to examining 'the whole history of corruption'. Peppered throughout most major cases of bribery, embezzlement and rigged procurement you will find a UK nexus: a secretive company in the British Virgin Islands, a Mayfair Mansion, a British bank. We have sought to examine how these individuals and institutions have played a role in some of the biggest abuses of entrusted power for private gain in recent times. The result is a guide through the lifecycle

of corruption, from the funds being **obtained**, to their **movement** around the global financial system, and their **defence** in British courts and the press.

Although most of the organisations and individuals we identified in our inquiry are subject to some form of regulation and scrutiny by UK authorities, many we identified are not. These require particular consideration by Government given they often play a key role in either growing or defending the ill-gotten gains of their clients or benefactors.

Given the complexity and nuance involved in each type of **enabling activity** it is impracticable to outline all of the issues identified and specific prescriptions within this report. Similarly, in order to make this inquiry manageable we have not attempted to pass judgement on how our findings reflect on these service providers as a whole. Unquestioningly, there are numerous professionals who are highly dedicated and active in the fight against corruption. For example, many lawyers and law firms have been extremely supportive of Transparency International (TI). This has helped TI take kleptocrats to court, provide legal advice for victims of corruption throughout the world, shape international conventions and formulate policy that has often led to important legislation.

What we have done, though, is seek to shine a light on where things have gone wrong, and invite the reader to reflect on what could be done to avoid this from happening again in the future. Based on this inquiry and our accumulated experience, we think there are **three key areas** where change is needed to help end the UK's role as a facilitator of global corruption:

- 1. Transparency:** corruption likes shadows, we need further corporate transparency reforms to ensure no place to hide for criminals abusing companies in the UK and its offshore financial centres.
- 2. Ethics and engagement:** we cannot rely on rules alone to spur good practice, we need businesses and institutions to say what they can do to ensure there is no-one to help those involved in corruption.
- 3. Oversight and enforcement:** rogue agents and poor practice cannot be solved with goodwill alone, there needs to be effective oversight of business and a credible deterrent against wrongdoing to stop the UK's dirty money problem.

We have outlined 10 recommendations for change below for how these can be implemented in practice.

RECOMMENDATIONS

Transparency

Offshore companies

There is a clear correlation between corruption cases and the use of the secretive corporate vehicles based in the UK's Overseas Territories and Crown Dependencies (see our report *The Cost of Secrecy*).¹ Transparency about the beneficial owners of these companies is an important part of the solution to tackling the laundering of corrupt and illicit funds.

The UK Government is required by law to provide assistance to the Overseas Territories in making this transition to public registers of beneficial ownership. In October 2019, the Government of the Cayman Islands committed to introducing a public beneficial ownership register by 2023; however, key jurisdictions, like the British Virgin Islands (BVI), are yet to do the same.²

In June 2019, the Crown Dependencies committed jointly to voluntarily introduce central public registers of beneficial ownership for companies based in their jurisdictions within 12 months of an EU review into their implementation across Member States.³ However, the commitment is unclear about when specifically these registers will be made available to the public.

Recommendation 1: Support public corporate transparency of company ownership in the UK's offshore financial centres

Government should set out public and time-bound plans for providing assistance to the Overseas Territories to enable them to establish public registers of beneficial ownership. The Government should also seek clarity from officials in the Crown Dependencies about their proposed timeline for implementing public beneficial ownership registers.

Luxury property

The UK's property market is a prime destination for corrupt individuals and other criminals to launder their stolen wealth (see our reports *Corruption on Your Doorstep*⁴ and *Faulty Towers*⁵). Using anonymous shell companies registered overseas, these individuals can purchase luxury property in the UK with the proceeds of their crimes and away from the prying eyes of businesses, politicians, law enforcement and the wider public. This enables them to enjoy their ill-gotten gains with impunity, and use much needed housing as their own personal safety-deposit box.

The Government's bill for a publicly accessible register of the true owners of overseas companies that buy or own UK property is a vital piece of anti-corruption legislation, and should be made law at the earliest possible opportunity. This would make it easier for the private sector to identify suspicious transactions and money laundering risk in the property market.

Recommendation 2: Introduce transparency over overseas companies holding UK property

Government should introduce the Registration of Overseas Entities Bill before Parliament at the earliest possible opportunity.

UK companies

UK companies regularly feature in corruption and associated money laundering cases (see our reports *Offshore in the UK* and *Hiding in Plain Sight*).⁶ This is because of the UK's hitherto laissez-faire approach to company incorporation. Companies House does not currently have adequate resources or powers to sufficiently monitor and ensure the integrity of the company register. This allows corrupt individuals and their agents to abuse UK companies for criminal purposes, and inhibits businesses' ability to identify and report suspicious activity to law enforcement.

¹ Transparency International UK, *The cost of secrecy: The role played by companies registered in the UK's Overseas Territories in money laundering and corruption* (December 2018) <https://www.transparency.org.uk/publications/cost-of-secrecy/>

² <http://www.gov.ky/portal/page/portal/cighome/pressroom/archive/201909/Statement%20on%20Beneficial%20Ownership> [Accessed 11 October 2019]

³ Joint commitment by Guernsey, Jersey and the Isle of Man, *Registers of beneficial ownership of companies* (June 2019) <https://www.gov.gg/CHttpHandler.ashx?id=119716&p=0>

⁴ Transparency International UK, *Corruption on your doorstep: How corrupt capital is used to buy property in the UK* (February 2015) <https://www.transparency.org.uk/publications/corruption-on-your-doorstep/>

⁵ Transparency International UK, *Faulty towers: Understanding the impact of overseas corruption on the London property market* (March 2017) <https://www.transparency.org.uk/publications/faulty-towers-understanding-the-impact-of-overseas-corruption-on-the-london-property-market/>

⁶ Transparency International UK, *Offshore in the UK: Analysing the use of Scottish Limited Partnerships in corruption and money laundering* (June 2017) <https://www.transparency.org.uk/publications/offshore-in-the-uk/> and Transparency International UK, *Hiding in plain sight: How UK companies are used to launder corrupt wealth* (November 2017) <https://www.transparency.org.uk/publications/hiding-in-plain-sight/>

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Government has recognised the need for reform and has consulted on ‘proposals to enhance the role of Companies House, increase the transparency of UK corporate entities and help combat economic crime.’⁷

This should reduce the risk of UK legal entities being used in corruption and money laundering, and increase businesses’ confidence in the accuracy of the UK’s corporate register.

Recommendation 3: Empower Companies House to increase the accuracy and reliability of the UK corporate register

Government should empower Companies House to identify and report suspicious activity, and provide it with the resources to develop a more thorough approach to rooting out inaccurate or false information on the UK company register.

Ethics and engagement

Ethical principles

In a competitive market environment, there are an array of pressures that can push businesses towards taking undue risks and on-boarding unsavoury clients. Some areas, like the legal profession, have to balance competing obligations – including responsibilities to the court, the public interest and ensuring access to justice – as well as financial demands. Others, like banks, may have millions of pounds at stake in a single transaction. Businesses are supposed to have policies, assessment processes and procedures in place to help inform some of these decisions; however, these risk becoming a tick-box exercise without ethical principles to guide them and they do not cover activities that fall beyond the scope of regulation. This can result in the protection of, and impunity for, powerful corrupt individuals with deep pockets.

Recommendation 4: Businesses to apply ethical principles to guide their engagement with high-risk customers

Businesses should adopt and publish ethical principles that inform how they implement their on-boarding policies, processes and procedures regarding high-risk customers; for example, if a law firm wants to take on a client accused of grand corruption on an ‘access to justice’ basis, it could decide only to do so at legal aid rates.⁸

Donations

There is growing evidence that numerous institutions and organisations have accepted donations from corrupt individuals seeking to burnish their reputations and hide past crimes. Some of these – such as universities, independent schools and art galleries – claim to have robust due diligence processes in place when accepting large contributions from philanthropists and benefactors; however, more could be done to develop and support the implementation of good practice standards when it comes to handling donations.

Recommendation 5: Help cultural and educational institutions make informed and consistent judgements about handling the donations they receive

Government and the Charity Commission should work with sectoral bodies – such as Universities UK, Independent Schools Association, and the Museums Association – and businesses to develop good practice guidance for handling donations. This should include:

- principles to guide decisions
- processes to provide clarity and consistency
- prohibited donations to define what form or source of contribution will not be accepted
- publication of donors (subject to legitimate privacy or security concerns)

Unregulated services

A lack of awareness of money laundering risk amongst those offering unregulated services, like schools and universities, legal advice and construction has provided an opening for corrupt individuals to make use of their services without challenge. In the absence of an obvious response to suspicious activity by these organisations, journalists and activists are left to expose those who have accepted suspect funds, which damages the reputation of the institutions involved.

Conversely, we have seen how un-regulated firms have the potential to work with those in the regulated sector to help law enforcement pursue suspicious wealth in the UK economy. We also note that Home Office and the JMLIT are exploring how to engage un-regulated businesses in activities where there is evidence of exposure to corrupt funds.

⁷ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform> [Accessed 10 September 2019]

⁸ For a draft legal definition of grand corruption see http://files.transparency.org/content/download/2033/13144/file/GrandCorruption_LegalDefinition.pdf [Accessed 10 September 2019]

Recommendation 6: Extend money laundering threat assessments to key unregulated sectors

The National Crime Agency's (NCA) National Assessment Centre should extend its threat assessments to cover key unregulated businesses and institutions, such as those outlined in this report. The improved understanding derived from these assessments should be used to support these sectors in playing a greater role in detecting corrupt wealth; for example, through advice and guidance on identifying suspected money laundering or the proceeds of corruption.

Oversight and enforcement

Corporate liability

There is a weak liability regime for money laundering failings in the UK at a corporate level (see Corruption Watch's report *The Corporate Crime Gap*).⁹ Currently, it is nearly impossible to bring a successful criminal prosecution against large and complex businesses who have facilitated what is sometimes industrial scale money laundering. In the absence of the threat of criminal conviction and the stigma it provides, big multinationals effectively operate above the law and may consider regulatory action against them as the cost of doing business.

Recommendation 7: Reform the UK's corporate liability laws

Government should bring legislation before Parliament at the earliest opportunity to introduce a 'failure to prevent economic crime' offence, akin to Section 7 of the Bribery Act 2010. This would help create a more credible deterrent against weak money laundering defences in large and complex businesses.

Government should also task the Law Commission with carrying out a 12-month review on the wider corporate liability framework to identify how major corporate bodies can be held to account for substantive money laundering offences without needing to prove the existence of a 'controlling mind' at board level. The results of this review should be introduced as draft legislation within six months of the Law Commission reporting its findings.

Anti-money laundering (AML) supervision

A disjointed approach to supervising businesses' compliance with the Money Laundering Regulations (MLRs) has left many private sector firms with weak

defences against corrupt funds (see our report *Don't Look, Won't Find*).¹⁰ There are 25 different supervisors responsible for this task, with 14 different supervisors for the accountancy sector alone. Most of them fail to meet basic standards of good governance and effective supervision, with many riven by conflicts of interest and lacking the powers or sanctions to provide a meaningful deterrent against bad practice. This system needs a radical overhaul.

Recommendation 8: Radically overhaul the UK's AML supervisory regime

Government should accelerate its reform of the AML supervisory system over the next 12 months by:

- strengthening the ability of supervisors to provide a credible deterrent by ensuring they all have the necessary powers, sanctions, resources, and transparency arrangements in place
- protecting the independence of AML oversight and removing conflicts of interest by ensuring professional body supervisors are institutionally separate from their promotional and commercial activities
- removing weaknesses in the AML supervisory regime by stripping duties from bodies failing to comply with the principles of effective and proportionate supervision
- ensuring police and supervisors pursue egregious breaches of the MLR 2017 through criminal prosecution

Personal liability

Under the Senior Managers Regime (SMR) for the financial sector, senior members of staff are responsible for maintaining their bank's systems and controls, including those intended to prevent money laundering, even if they are not directly involved in the day-to-day management of these functions. In theory, this provides a greater incentive for senior managers to take responsibility for the effective management of money laundering risks. Currently, this system only operates within the financial sector. Pending evidence from its implementation and reform of the wider AML supervisory framework, there could be a case for extending this regime into non-financial sectors, too.

⁹ Corruption Watch UK, *The corporate crime gap: How the UK lags behind the US in policing corporate financial crime* (March 2019) <https://www.cw-uk.org/corporatecrimegap>

¹⁰ Transparency International UK, *Don't look, won't find: Weaknesses in the supervision of the UK's anti-money laundering rules* (November 2015) <https://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/>

Recommendation 9: Consider extending the Senior Managers Regime beyond the financial sector

HM Treasury should review evidence from the implementation of the SMR and consider extending this approach to non-financial sectors. The SMR has the potential to introduce personal accountability, and therefore a greater deterrent, against individual money laundering failings. This would need to be considered in the wider context of AML supervisory reform and the capacity of the relevant supervisors to monitor and enforce these rules effectively.

Resourcing Law Enforcement

A lack of adequate resources for law enforcement agencies undermines the effectiveness of the UK's response to corruption and associated money laundering. The financial intelligence unit (FIU), which sits within the NCA and receives suspicious activity reports (SARs) from the private sector, has suffered from understaffing and an outdated IT system. In its recent review of the UK's money laundering defences, the Financial Action Task Force (FATF) – an international standards body – expressed 'serious concern' about these deficiencies, especially considering it raised similar issues with the UK over a decade ago.¹¹ Reform of the SARs system, including a new IT system and additional analytical capabilities, is included in the Government's Economic Crime Plan. However, there are also broader concerns about law enforcement's ability to attract, train and retain staff capable of successfully investigating and prosecuting complex corruption and money laundering cases.

The skills and expertise of staff in this area are also in demand by large businesses who can offer much more attractive remuneration packages than the public sector. Given the competition for this resource, it is crucial that law enforcement agencies can provide a competitive package for prospective and existing staff.

Recommendation 10: Adequately resource law enforcement agencies to investigate and pursue corruption and associated money laundering

The Government and law enforcement agencies should carry out and implement a joint review of the human resources and funding needed to establish and maintain an effective law enforcement response to corruption and money laundering.

¹¹ FATF, *Mutual evaluation review: United Kingdom* (December 2018) p.6 <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf>



INTRODUCTION

The UK is a hub for corrupt wealth from around the world. This money is acquired with the aid of companies incorporated in the UK and in its offshore financial centres, invested into luxury property here, and used to buy access to prestigious institutions and privileged lifestyles. Although the exact scale of dirty money entering the UK is difficult to quantify, the National Crime Agency (NCA) estimates over £100 billion in illicit funds impacts on our economy each year.¹² A substantial amount of this is obtained by those who have abused power entrusted in them for private gain.

The cost of this is threefold:

1. It damages the UK's global reputation as a beacon of good governance and a defender of the rule of law. Laying claim to these titles rings hollow when you are turning a blind eye to repressive kleptocrats who make their home on your soil with impunity.
2. It contributes towards the continued impoverishment of people throughout the world, many of whom the UK Government aims to support through aid. Poor governance stymies the development of local markets, hinders opportunity and can undermine the provision of basic public services, such as healthcare, education, water and sanitation.
3. Allowing it to go unchecked presents a national security risk we cannot ignore. Corruption overseas can undermine the strength of a country's armed forces and its ability to tackle terrorist insurgencies,

whilst repressive regimes that maintain their power through abusing public office feel emboldened by their impunity to commission hostile acts on British soil.¹³

Understanding how the UK contributes to these ills is a critical first step in trying to cure them. Currently HM Treasury's periodic national risk assessments for money laundering and the NCA's strategic assessments of serious and organised crime provide high-level overviews of this. However, they provide summaries that may leave the reader guessing what is really happening on the ground. This report seeks to build on these documents by providing vivid insights into the frontline of financial crime in the UK and its offshore financial centres.

Whilst an accurate estimate of the total scale of enabling activity is desirable, the methodological challenges this presents make the task almost impossible – how can anyone know the totality of what happens, often behind closed doors and away from the prying eyes of the authorities and the media. Instead, we have sought to provide illustrations of the problem at hand through investigative data collection techniques and real life case studies.

To do this we have examined the role played by a wide range of service providers based here in the UK and in its offshore financial centres in the Overseas Territories and Crown Dependencies. These individuals and organisations work predominantly in the financial and business service sector, which according to the latest available data

¹² <https://nationalcrimeagency.gov.uk/news/national-economic-crime-centre-leads-push-to-identify-money-laundering-activity> [Accessed 26 June 2019]

¹³ HM Government, *United Kingdom anti-corruption strategy 2017-2022* (December 2017) pp.14-15 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/667221/6_3323_Anti-Corruption_Strategy_WEB.pdf

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account for around half of the UK's service exports.¹⁴

The sector is recognised globally as being at a higher risk of exposure to corruption and associated money laundering due to the nature of its work. Consequently, the likes of bankers, lawyers, accountants, and trust and company service providers (TCSPs) are subject to strict regulations and are supposed to form the first line of defence against flows of dirty money. However, Government has admitted that until recently not enough was known about how these businesses were at risk of involvement in serious financial crime.¹⁵ Many more organisations – such as independent schools, universities and charities – are not subject to the same rules and oversight, yet we have found them to be targets of those looking to commit, cash in on or cover-up corrupt activity.

Through our research for this report, we have sought to shed more light on the nature of this problem and provided 10 headline recommendations on how to ensure the UK provides:

No place to hide: The ultimate owners of companies incorporated in the UK and its offshore financial centres should be reported accurately and open to public scrutiny to make it more difficult for corrupt individuals to use them to obtain and move illicit funds.

No one to help: There should be little incentive for UK professionals or service providers to willingly 'enable' corrupt individuals and regimes to obtain illicit wealth, launder their money, or burnish their reputations.

No impunity: There should be greater levels of sanction, including asset seizures and criminal convictions, against corrupt individuals who seek to use the UK as a safe haven.

To gain further insight into why and how this problem occurs, we have analysed more than 400 global corruption cases in which UK service providers were involved. These cases involve at least £325 billion worth of funds diverted by rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets, taking place in 116 countries across the world (see Map). Using open-source information – investigations by journalists, public company registers, the Land Registry and data from leaks like the Panama Papers – we have mapped key cases, in which 582 firms and individuals have been involved at some point, offering services in the UK or its offshore financial centres.

Where possible we have used data to assess the nature of involvement, identifying:

- individuals responsible for signing off accounts for companies involved in corruption and associated money laundering
- firms conveyancing property transactions involving unexplained and suspicious wealth
- those responsible for incorporating networks of shell companies for industrial-scale money laundering schemes, and UK businesses receiving funds of unknown provenance from them

Due to the type of activity under investigation, there is a dearth of hard data for analysis. Where data were not available, we have produced case studies to show real-life examples of how corrupt individuals have sought the assistance of UK service providers.

Historically, distinct professions – such as the finance, legal and accountancy industries – have framed Government's approach to assessing money laundering risk. However, we agree with the Royal United Services Institute's (RUSI) assessment, made in its report on intelligence gaps in the UK's anti-money laundering (AML) regime, which proposes a more activity-focused approach.¹⁶ Based on our appraisal of the evidence, this provides much more insight than defining risks and areas of concern in terms of what are often very diverse and overlapping industries.

We have presented the findings of our research in five main sections:

1. **Context:** an overview of the background to this research
2. **Research process:** an overview of how we conducted our inquiry
3. **Key findings:** a summary of what we found to be the range of enabling activity and the nature of involvement by UK service providers
4. **Enabling activities:** a review of key forms of enabling activity, including examples of high-risk activity and analysis of the available evidence
5. **Conclusions:** what we learnt from our research

¹⁴ Department for International Trade, *UK trade in numbers* (February 2019) p.11 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/791972/190402_UK_Trade_in_Numbers_full_web_version.pdf

¹⁵ HM Treasury and Home Office, *National risk assessment of money laundering and terrorist financing 2017* (October 2017) pp.5-6 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf

¹⁶ RUSI, *Known unknowns: Plugging the UK's intelligence gaps on money laundering involving professional services providers* (April 2018) pp.5-7 https://rusi.org/sites/default/files/20180409_known_unknowns_final.pdf

CONTEXT

Before examining high-risk and enabling activity in more detail, it is useful to understand these services in their wider context. They are not provided in isolation, rather they form part of a complex interplay between global market forces, Government policy initiatives, regulatory incentives and cross-border business relationships. We have provided a summary of these below.

When assessing the risk associated with each activity, it is worth considering how this wider context could inform the scale of the threat and the strength of the mitigation in place. For example, we know from previous research that UK companies have been used to facilitate large-scale money laundering.¹⁷ There are currently very few effective measures in place to prevent this, and anyone, anywhere in the world, can set up a UK company within minutes for just £12. There is also a disjointed approach to policing the company formation process, which means rogue agents can operate with relative impunity. Government has recognised this vulnerability and is seeking to implement radical reforms to Companies House to help protect against this abuse of UK legal entities for illicit purposes.¹⁸ However, until these changes are implemented effectively and the system for policing such activities in the UK is overhauled, this continues to be a high money laundering risk with a large potential impact.

We note that not all of the impact highlighted in this report can be attributed to a clear monetary value. The silencing of journalists and those seeking to expose corruption goes far beyond the financial cost of the original crime – free speech is at stake. Similarly, when UK parliamentarians accept expensive holidays from a repressive foreign regime in return for advocating on their behalf, the integrity of our democratic institutions is on the line.¹⁹ Responding to these challenges defines who we are as a country, and affects our ability to claim leadership on global initiatives.

The UK as a global financial centre

The UK is an attractive destination for corrupt individuals for the same reasons as it is for legitimate business:

- strong rule of law

- stable property market
- world class education
- large and varied services sector
- connection to offshore financial centres in its Overseas Territories and Crown Dependencies

The sheer volume of activity taking place through these markets makes it inevitable that the services sector here is exposed to corrupt individuals and their illicit wealth.

Legal framework

To help tackle the proceeds of corruption being laundered through the UK, Britain's domestic legislation and regulations implement the high-level commitments, recommendations and requirements from three principal international initiatives:

1. UN Convention Against Corruption (UNCAC)

A UN convention with 186 state parties as of June 2018, which describes itself as 'the only legally binding universal anti-corruption instrument'.²⁰ The UNCAC defines different forms of corruption, such as bribery and embezzlement, and covers five key areas:

- preventive measures
- criminalization and law enforcement
- international cooperation
- asset recovery
- technical assistance and information exchange

State parties to UNCAC are subject to peer reviews to assist their effective implementation of the convention (known as the Implementation Review Mechanism).²¹ An executive summary of the UK's last review was published in May 2019.²²

¹⁷ Transparency International UK, *Hiding in plain sight: How UK companies are used to launder corrupt wealth* (November 2017) <https://www.transparency.org.uk/publications/hiding-in-plain-sight/>

¹⁸ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform> [Accessed 3 September 2019]

¹⁹ <https://publications.parliament.uk/pa/cm201719/cmselect/cmstandards/1397/139702.htm> [Accessed 3 September 2019]

²⁰ <https://www.unodc.org/unodc/en/corruption/uncac.html> [Accessed 11 September 2019]

²¹ <https://www.unodc.org/unodc/en/corruption/implementation-review-mechanism.html> [Accessed 8 October 2019]

²² Implementation Review Group, *Review of implementation of the United Nations Convention Against Corruption* (May 2019) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/802272/Executive_Summary_of_the_United_Kingdom_-_Review_cycle_2_-_Chapter_II_and_V_.pdf

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The UNCAC's chapter on preventive measures provides a high-level commitment to much of what is covered by the following recommendations, directives and legal requirements.

2. Financial Action Task Force (FATF)

An international standard-setting body who has provided more specific recommendations 'to promote effective implementation of legal, regulatory and operational measures' to tackle money laundering.²³ Participating countries are subjected to routine mutual evaluations, which examine technical compliance with these proposals. The UK's last mutual evaluation review was published in December 2018.²⁴

3. EU Money Laundering Directives (MLDs)

EU legislation requiring Member States to transpose high level requirements into their domestic context. The UK has committed to implement the fifth money laundering directive (5MLD) even though it plans to leave the EU before its implementation date.²⁵

These international commitments, recommendations and directives are reflected in the following UK laws and regulations:

4. Proceeds of Crime Act 2002 (POCA)

This defines a number of substantive money laundering offences, including:

- concealing, disguising, converting and removing criminal funds
- failing to report suspicious activity to the UK's Financial Intelligence Unit (FIU), which is based in the NCA
- tipping-off a suspect about a police investigation

Breaches of POCA can be subject to criminal prosecution.

5. Money Laundering Regulations 2017 (MLR 2017)

This transposes the EU MLDs into domestic law and sets out basic requirements for 'regulated businesses' to help

identify suspected corrupt wealth, including:

- know your customer (KYC) screening (such as obtaining beneficial ownership information and undertaking due diligence checks)
- record-keeping requirements
- maintaining and following policies and procedures to drive compliance with these rules²⁶

Breaches of the MLRs can be subject to either civil penalties²⁷ imposed by the relevant AML supervisor or criminal prosecution.

6. Financial Services and Markets Act 2000 (FSMA)

This law governs the financial sector. It was amended in 2013 and 2016 to introduce and then extend new rules about the responsibilities and accountability of senior officials within banks, commonly known as the Senior Managers Regime (SMR). Where a bank breaches either POCA or the MLRs, senior managers within the organisation can be held responsible for failing to maintain adequate systems and controls (SYSC). The Financial Conduct Authority (FCA) – the regulator for financial services – can impose civil penalties in relation to AML breaches under the SMR.

Policy initiatives

Government and law enforcement agencies have launched numerous initiatives to address the role of UK service providers in money laundering, including:

- the creation of a National Economic Crime Centre (NECC)²⁸
- draft legislation that, when implemented, will shine a light on the real owners of UK property owned via overseas companies – currently a money laundering risk – and deter their use for hiding corrupt wealth
- a 'flag it up' campaign to promote awareness within the regulated community of their legal obligation to report suspicious activity to the UK's FIU²⁹

²³ FATF, *International standards on combating money laundering and the financing of terrorism & proliferation* (June 2019) <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>

²⁴ FATF, *United Kingdom: Mutual evaluation report* (December 2018) <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf>

²⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843> [Accessed 8 October 2019]

²⁶ See Annex I for the full list of public sector and professional body AML supervisors in the UK.

²⁷ Including monetary penalties and prohibitions on management.

²⁸ <http://www.nationalcrimeagency.gov.uk/news/1257-national-economic-crime-centre-announced> [Accessed 26 June 2019]

²⁹ <https://flagitup.campaign.gov.uk/> [Accessed 26 June 2019]

- a consultation on reform of Companies House and how UK legal entities are incorporated, managed and controlled³⁰

In January 2019, Government also established an Economic Crime Strategic Board (ECSB), comprised of public and private sector bodies, to oversee its economic crime policy.³¹ The economic crime plan this board produced laid out 52 actions for tackling money laundering.³²

Business initiatives

Alongside Government and law enforcement's response, there are an array of initiatives seeking to promote good anti-corruption and AML practices within the business community. Some of these involve working with policy makers, civil society and law enforcement agencies, including the B20, the B-Team,³³ the Joint Money Laundering Intelligence Taskforce (JMLIT),³⁴ TI-UK's Business Integrity Forum,³⁵ TI's Professional Supporters network,³⁶ Professionals Against Corruption.³⁷

Key issues

Inadequate system for AML supervision

There are 25 different supervisors tasked with ensuring firms adhere to the MLRs. Through a combination of advice and guidance, and audit and enforcement action, these supervisors should provide a strong incentive structure for regulated businesses to maintain high standards and effective controls against dirty money. However, our previous research has found this system is not fit for purpose.³⁸

Both civil society and, more recently, the Office for Professional Body AML Supervision (OPBAS) – a standards body established in 2018 to oversee non-public body AML supervisors, including some that 'double-hat' as both AML supervisors and representative bodies for their industry³⁹ – have identified numerous flaws in this

approach, including:⁴⁰

- inconsistencies in the quality of supervision across different bodies, leaving many firms without effective oversight
- real conflicts of interest amongst supervisors who also act as trade bodies for their industry, undermining the independence of their enforcement activity
- insufficient and opaque civil sanctions, providing little deterrent against future AML failings; fines issued by HM Revenue and Customs (HMRC) and professional body supervisors, in particular, are so low as to not be considered effective

These deficiencies inevitably have an impact on the quality of compliance within regulated businesses.

Lack of a credible deterrent

Whilst criminal money laundering offences relating to the conduct of enablers are reserved for the most egregious behaviour, these sanctions remain under-enforced, with evidence showing these crimes occur on a regular basis. This contributes to the lack of a credible deterrent against wrongdoing in this area.

There have been no prosecutions of firms or individuals failing to comply with the MLRs 2017, whilst between 2013 and 2018 there were just 15 prosecutions for failing to comply with their predecessor, the MLRs 2007. In April 2019, Mark Steward (FCA Director of Enforcement) indicated the FCA would open 'dual track' investigations into firms, which may result in criminal or civil proceedings for MLR breaches.⁴¹ HM Treasury is due to conduct a review of these regulations by 2022.⁴²

There are also significant deficiencies in the UK's corporate liability laws, which mean it is incredibly difficult to successfully prosecute a large multi-national for the substantive offence of money laundering or bribery.

³⁰ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform> [Accessed 10 October 2019]

³¹ <https://www.gov.uk/government/publications/economic-crime-strategic-board-minutes-and-agenda-january-2019> [Accessed 11 October 2019]

³² HM Government and UK Finance, *Economic crime plan 2019-2022* (July 2019) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/816215/2019-22_Economic_Crime_Plan.pdf

³³ <http://www.bteam.org/> [Accessed 11 September 2019]

³⁴ <https://nationalcrimeagency.gov.uk/what-we-do/national-economic-crime-centre> [Accessed 11 September 2019]

³⁵ <https://www.transparency.org.uk/our-work/business-integrity/business-integrity-forum/> [Accessed 11 September 2019]

³⁶ <https://www.tipsnetwork.org/> [Accessed 11 September 2019]

³⁷ <https://www.ibe.org.uk/professionals-against-corruption-pac/152/54> [Accessed 11 September 2019]

³⁸ Transparency International UK, *Don't look, won't find: Weaknesses in the supervision of the UK's anti-money laundering rules* (November 2015) <https://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/>

³⁹ The Solicitors Regulation Authority (SRA) is the only professional body AML supervisor that is institutionally separate from the lobbying arm of its regulated community.

⁴⁰ OPBAS, *Themes from the 2018 OPBAS anti-money laundering supervisory assessments* (2019) <https://www.fca.org.uk/publication/opbas/themes-2018-opbas-anti-money-laundering-supervisory-assessments.pdf>

⁴¹ <https://www.fca.org.uk/news/speeches/partly-contested-cases-pipeline-and-aml-investigations> [Accessed 11 September 2019]

⁴² HM Government and UK Finance, *Economic crime plan 2019-2022* p.20

11 At Your Service

Corruption Watch UK found that British authorities are yet to bring a successful corporate criminal prosecution against a UK bank for money laundering.⁴³ US authorities have brought criminal enforcement actions against seven different banks.

In 2016, Alun Milford, the General Counsel of the Serious Fraud Office (SFO), suggested the failure to bring criminal sanctions against large firms like banks was due to the UK's corporate liability law.⁴⁴ This requires prosecutors to identify a 'controlling mind' at board level in large and complex organisations to secure a prosecution against businesses for egregious wrongdoing. The Law Commission has also identified this 'identification doctrine' as a major issue that needs review.⁴⁵

The Bribery Act 2010 dealt with this issue in part by introducing a 'failure to prevent' offence,⁴⁶ in which a company could be held criminally liable for not stopping bribery within its organisation unless it had taken adequate measures to prevent this from happening. Since then, a failure to prevent tax evasion offence was introduced by the Criminal Finances Act 2017.⁴⁷ A similar approach should be applied to a failure to prevent money laundering offence, although the unsatisfactory situation regarding the identification doctrine also needs resolving.

At the 2016 anti-corruption summit in London, Government committed to consulting on reforming the UK's corporate liability laws.⁴⁸ However, this still has not happened and was notably absent from its recent economic crime plan. Given this omission – and the composition of the ECSCB, which includes many who could be subject to any tougher laws on corporate crime and no independent representation from civil society or smaller businesses – the governance of the board has been questioned. In particular, there are concerns as to whether it has the procedures in place to prevent vested interests from capturing the economic crime policy agenda.⁴⁹

Individuals in the private sector are subject to varying levels of personal liability for money laundering failings. In theory, individuals can be sanctioned by their AML supervisor for breaches of the MLRs, including monetary penalties and censure. However, given the issues noted above about the effectiveness of most AML supervision, the amount of enforcement action being taken by many supervisors does not match the likely scale of breaches.

However, there has been one noticeable development in the financial sector.

In 2016 the FCA introduced the SMR, which holds those in senior management positions responsible for a firm's business functions and activities, making them accountable should money laundering breaches occur.⁵⁰ An FCA survey of the effects of the regime found it had contributed to a change in the financial sector's behaviour, whilst acknowledging this was difficult to measure.⁵¹ Holes still remain in the regime, though; individuals found to have breached the rules remain able to move to other firms with no consequences.⁵²

Outside the financial profession there are no such equivalent regimes. This reduces the likelihood that individuals will be held accountable for money laundering failings and reduces incentives for cultural and behavioural change towards taking money laundering seriously.

In sum, there is not a strong enough civil regulatory or criminal prosecutorial response to deter those seeking to profit from facilitating corrupt activity.

Patchy domestic AML compliance

As a consequence of poor supervisory support and inadequate deterrent against careless or wilful non-compliance with the law, there is patchy compliance with the UK's AML rules. Regulated businesses – such as banks, lawyers, accountants, estate agents, TCSPs and those dealing in high-value goods, like jewellery and luxury yachts – are supposed to have systems in place to detect corrupt wealth and report it to the police. Some have well-developed compliance and financial intelligence functions, and are actively working with law enforcement agencies to help identify and pursue suspect wealth. However, across the regulated community, there is an inconsistent record in addressing the threat of suspicious funds. In 2019 alone:

- A review of 59 firms by the Solicitors Regulation Authority (SRA) – an AML supervisor for part of the legal sector – resulted in just under half being subject to disciplinary proceedings for insufficient AML procedures.⁵³
- Almost 50 per cent of businesses subject to a

⁴³ Corruption Watch UK, *The corporate crime gap: How the UK lags behind the US in policing corporate financial crime* (March 2019) <https://www.cw-uk.org/corporatecrimemap>

⁴⁴ <https://www.sfo.gov.uk/2016/09/06/control-liability-good-idea-work-practice/> [Accessed 27 August 2019]

⁴⁵ Law Commission, *Criminal liability in regulatory contexts* (June 2015) p.106 http://www.lawcom.gov.uk/app/uploads/2015/06/cp195_Criminal_Liability_consultation.pdf

⁴⁶ Bribery Act 2010, Section 7 <https://www.legislation.gov.uk/ukpga/2010/23/crossheading/failure-of-commercial-organisations-to-prevent-bribery>

⁴⁷ Criminal Finances Act 2017, Part 3 <http://www.legislation.gov.uk/ukpga/2017/22/part/3/enacted>

⁴⁸ <https://www.transparency.org.uk/press-releases/action-uk-government-gaps-economic-crime/> [Accessed 28 August 2019]

⁴⁹ <https://www.independent.co.uk/news/business/news/banks-money-laundering-hsbc-rbs-barclays-financial-crime-a9004841.html> [Accessed 28 August 2019]

⁵⁰ <https://www.fca.org.uk/firms/senior-managers-certification-regime/banking> [Accessed 29 August 2019]

⁵¹ <https://www.fca.org.uk/publications/multi-firm-reviews/senior-managers-and-certification-regime-banking-stocktake-report> [Accessed 10 September 2019]

⁵² <https://uk.reuters.com/article/uk-britain-banks-regulator/uk-watchdog-says-rolling-bad-apple-bankers-still-an-issue-idUKKCN1UV19C> [Accessed 10 September 2019]

⁵³ <https://www.sra.org.uk/sra/news/press/aml-tcsp-review-2019> [Accessed 28 August 2019]

money laundering compliance review by HMRC – the AML supervisor for a range of activities, from estate agency to company formation and the sale of high value goods – were found to be ‘non-compliant’.⁵⁴

- An FCA study of 19 firms found some remained unaware of money laundering risk through capital markets.⁵⁵

These deficient AML systems represent a major vulnerability in efforts to prevent dirty money entering the UK.

Dependency on other jurisdictions

The UK is also vulnerable to firms based overseas and offering services in the UK. Under the MLR 2017, these businesses are not required to be overseen by a UK AML supervisor, making the effectiveness of the system dependent on the quality of supervision in overseas jurisdictions.⁵⁶ Unfortunately, the standard of civil regulation in these countries have fared no better than in Britain, and in many cases is significantly worse.

Global standards for AML supervision have been shown to be weak. Of 73 countries assessed by the FATF, just nine were found to have substantially effective systems of supervision.⁵⁷ Only two jurisdictions achieved a substantially effective rating when assessed for how private sector firms prevented and reported money laundering. This is particularly worrying considering that FATF assesses countries based on a minimum standard, which sets a very low bar for jurisdictions to meet.

Poor implementation of AML laws globally presents a major external threat to the UK’s defences against dirty money.

RESEARCH PROCESS

The purpose of our research was to gain a better understanding of the breadth of services used by corrupt individuals to obtain, move and defend their illicit wealth. To explore this question, we triangulated evidence from three principal sources:

Literature review: We conducted a scoping review, using external outreach, key word searches and our accumulated knowledge of the subject area to identify relevant publications from a range of sources including academia, law enforcement, civil society organisations news and media organisations, Government, international organisations, and AML supervisory bodies.⁵⁸

Expert opinion: We consulted just under 50 experts from academia, law enforcement, civil society, the private sector, journalism and Government with experience of detecting, investigating, researching and developing policy responses to corruption and associated money laundering.

Data collection: We collected and analysed over 400 cases of high-level corruption and associated money laundering over the last 30 years covering 116 countries of origin.

Our sample of cases covers allegations at a range of stages, from prima facie evidence of corruption through to successful prosecution. Given that detection and prosecution rates of corruption are widely accepted to be low, the figures contained in this report are likely to be the tip of the iceberg.

⁵⁴ HM Treasury, *Anti-money laundering and counter-terrorist financing: supervision report 2017-18* (July 2019) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/823551/Supervision_report_2017-2018_final_08072019.pdf

⁵⁵ FCA, *Understanding the money laundering risks in the capital markets: Thematic review TR19/4* (June 2019) <https://www.fca.org.uk/publication/thematic-reviews/tr19-004.pdf>

⁵⁶ <http://www.legislation.gov.uk/ukxi/2017/692/made> [Accessed 26 June 2019]

⁵⁷ <http://www.fatf-gafi.org/publications/mutualevaluations/documents/assessment-ratings.html> [Accessed 26 June 2019]

⁵⁸ See our bibliography for a full list: <https://www.transparency.org.uk/atyourservicebibliography>

KEY FINDINGS

Range of activity

From a review of the cases and related data we collected, we have been able to provide an illustrative picture of the range of UK businesses providing services to very high-risk clients. Although this does not present a definitive view of the UK's total exposure, considering only a fraction of corruption cases are ever detected and exposed, the actual figures are a likely to be substantially higher.

It is difficult to determine the direct, total amount of economic damage caused in these cases; however, we think it is reasonable to estimate that it could exceed

£325 billion. These are funds diverted or misused through rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets.

During the initial scoping phase of this project, we identified data points in our case repository that we could explore in more detail to illustrate the nature of enabling activity within the confines of the time and resources we had available. From the 400+ cases, we used data points to identify 582 firms and individuals offering services in the UK, including:



86

Banks and financial institutions



81

Law firms



62

Accountancy firms
including all of the Big Four

Whether unwittingly or otherwise, these businesses helped acquire the following assets and entities used to obtain, move and defend corrupt or suspicious wealth:



2,225 Companies

incorporated in the UK, its Overseas Territories and Crown Dependencies directly involved in making payments



17,000+ Companies

more companies incorporated in the UK that we have reasonable grounds to suspect have facilitated similar activity



421 Properties

in the UK worth more than £5 billion



7 Luxury Jets

worth around £170 million



3 Luxury Yachts

worth around £237 million

We also identified the following businesses giving corrupt individuals the opportunity to spend their illicit wealth on luxury lifestyles and private education for their children.



118

luxury goods and services firms



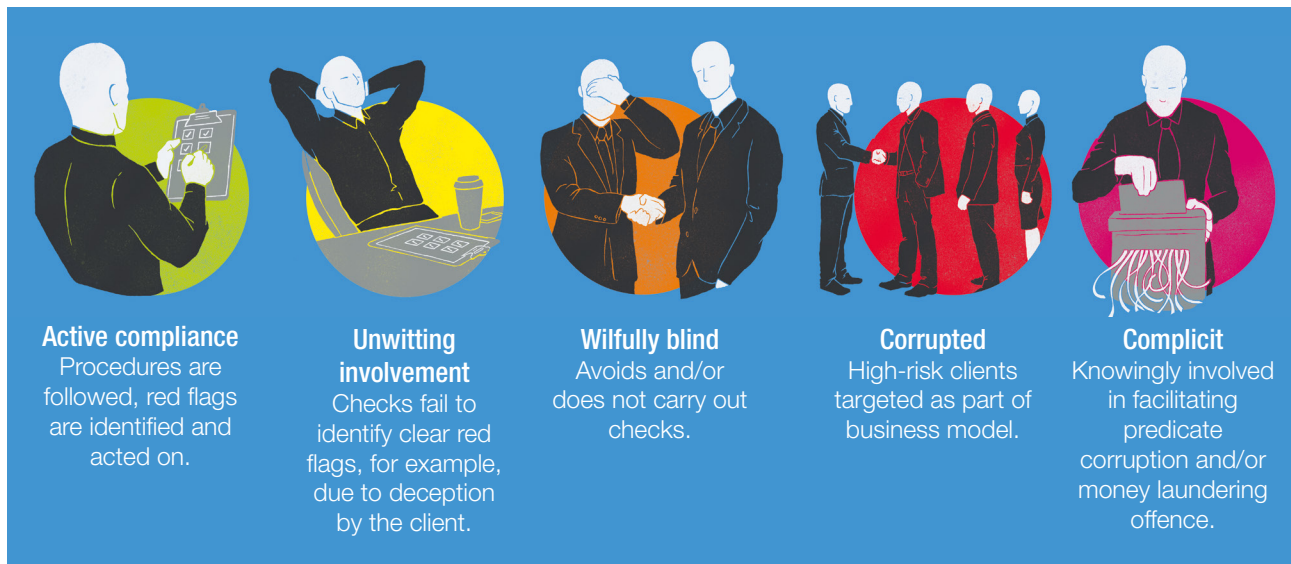
177

Schools and other educational institutions

Nature of involvement

Whilst it is beyond doubt that UK service providers are routinely exposed to suspicious funds, the nature and extent of their assistance to corrupt individuals varies. From an appraisal of the evidence, we have summarised this as a spectrum of involvement, acknowledging that some may have become involved through no fault of their own whilst others appear to have chosen to cater exclusively to criminals. Between these two extremes

are varying degrees of entanglement defined by the facts of each case. Whilst all the facts are not always known, we consider there to be indicators to suggest where on this scale an individual or organisation lies in relation to a case (for example, the extent to which AML checks were carried out, or the personal relationship between the service provider and the corrupt individual).



Varying levels of involvement can exist within organisations; for example, wilful blindness at a senior level can allow complicit actors further down the management hierarchy to actively assist criminals in cleaning their corrupt wealth. In some cases, entire firms are owned by individuals involved in corrupt activity, with enablers available to perform no-questions-asked services for the owner. For example, an Al-Jazeera investigation found that Pavel Fuchs – a Ukrainian businessman under investigation for his role in ‘assisting the unidentified persons of a criminal organisation’ related to the £1 billion stolen by Viktor Yanukovich⁵⁹ – owns a global company formation firm with a UK office, called ‘the Chesterfield Group’.⁶⁰

We recognise that this is probably an imperfect summary, and that it is possible to include additional gradations to capture the nuances of specific cases. For example, there is a substantive difference between a well-equipped compliance department with substantial expertise, which is highly capable of spotting and reporting suspicious activity, and an under-resourced and inexperienced one that is content to go through the motions without fulfilling their intended purpose. We also acknowledge that this does not map easily onto unregulated businesses or institutions,

which are not under legal obligations to conduct background checks on their clients or benefactors. Nonetheless, we hope these broad categories can help catalyse thinking about responding to the kinds of activity we catalogue in this report.

Understanding where supervised firms and individuals fall on this spectrum should help inform proportionate responses:

- Those found to be knowingly facilitating corruption and associated money laundering should face criminal prosecution, business-ending fines and/or debarment from offering services in future.
- Firms with inadequate systems in place to detect suspicious activity should face fines and other civil sanctions, with follow-up monitoring from their AML supervisor to ensure improvements.
- In cases where no clear red flags were found at the time, supervisors should identify how this behaviour could be spotted in the future; for example, by providing advice and guidance to staff.

⁵⁹ <https://www.aljazeera.com/news/2018/07/oligarch-named-al-jazeera-investigation-faces-questioning-180730132437308.html> [Accessed 26 June 2019]

⁶⁰ <https://www.aljazeera.com/indepth/features/oligarch-friend-trump-pavel-fuchs-171217151538382.html> [Accessed 26 June 2019]

ENABLING ACTIVITIES

Corrupt individuals face three key hurdles to enjoying the benefits of their activity:

1. First they must obtain corrupt wealth – for example, through soliciting bribes, rigging procurement, embezzling funds or unlawfully acquiring state assets – without being caught.
2. Then they need to distance themselves from the proceeds of these crimes by moving these funds, either to alternative bank accounts and companies or by investing them in assets such as property.
3. Finally, they must defend their corrupt wealth, via either the UK legal system or cleaning their reputations and integrating themselves into the UK's elite.

Our research has found UK individuals, organisations and services across a variety of regulated and unregulated sectors playing roles in each of these stages. Our analysis has confirmed this remains an ongoing problem, with a wide range of actors continuing to offer services to very high-risk clients and corrupt individuals.

How UK enablers help corrupt individuals

To understand where money laundering risks lie in the UK, and which individuals and organisations are exposed to them, we have broken down this risk by areas of activity. As observed by RUSI, examining enabling activities, rather than professions as a whole, allows for a fuller intelligence picture, taking into account the interplay between the services provided and opportunities for intervention. Further, businesses within the same profession may undertake a range of different activities; for example, law firms may offer some or all of the following services:

- shell company formation and management
- conveyancing
- litigation
- lobbying and public relations

Through our research, we have identified nine principal areas of activity, some of which also contain a range of sub-activities:

- banking transactions
- company formation and maintenance
- property transactions
- high value goods
- lifestyle management
- education
- legal defence
- influence
- high-profile investments

The following sections outline in more detail how UK service providers have facilitated corruption and/or associated money laundering, or have engaged in activity that presents a high risk of doing so.

Much of this constitutes regulated activity and is carried out by firms that are legally obliged to have AML procedures in place to help identify and report suspicious activity to the authorities. However, we have also identified a number of these activities that are not covered by the MLRs⁶¹ or POCA.⁶² This means firms offering such services are not required to carry out due diligence on clients or their source of funds, or to report any suspicious activity to law enforcement agencies, despite being exposed to money laundering risk.

Whilst we do not propose those offering unregulated services should take on full AML requirements, it is currently unclear how they are supposed to engage with the UK's more formal defences against corrupt wealth. At minimum, we think there are key institutions and organisations worth engaging with more, both to build a more comprehensive picture of this threat and to understand what they could do to help strengthen the response.

For example, intelligence could be solicited through an awareness-raising campaign amongst the unregulated service providers we have identified in this report. This could help inform those exposed to high-risk funds and clients how to identify and report suspicious behaviour. However, this may need to be piloted to assess these organisations' ability to provide meaningful and actionable information. It may also be possible for regulated businesses – for example, banks providing services to these organisations – to identify suspect clients without having to directly engage the unregulated client in the process.

⁶¹ The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, Part 2, Chapter 1 <http://www.legislation.gov.uk/uksi/2017/692/made>

⁶² Proceeds of Crime Act 2002, Schedule 9, Part 1 <http://www.legislation.gov.uk/ukpga/2002/29/schedule/9>



Banking transactions

The UK plays a key role as a global hub for financial activity, with trillions of pounds passing through banking institutions every year. These transactions take several forms, including:

- retail banking involving individuals and companies
- correspondent banking, facilitating international fund transfers on behalf of local banks
- buying and selling of equity (including shares in companies) and debt, for example government bonds, which generate interest for the beneficiary

However, as exposed by recent money laundering scandals, within these flows are billions of pounds of suspicious transactions linked to suspected corruption, particularly in the former Soviet Union (FSU). This exposure is reflected in the number of reports banks make annually to UK law enforcement agencies. Over 370,000 instances of suspected money laundering were reported in 2017-18, making up 80 per cent of all SARs submitted by regulated businesses.⁶³

The FCA oversees more than 19,600 firms offering these services. The FCA has strong statutory powers, and is well resourced compared to other regulators; however, questions have been raised over its capacity to sufficiently scrutinise all the firms it oversees.⁶⁴

The FCA has imposed financial penalties of almost £350 million on 10 firms and £92,700 on four individuals since 2012. It is also pursuing 19 investigations under the SMR.⁶⁵ Whilst financial sanctions against firms are large, FATF have noted that the FCA should increase the number of sanctions, on both firms and individuals, to create a

credible deterrent.⁶⁶

Retail banking (personal and business)

Corrupt individuals and those laundering money are frequently shown to have used UK bank accounts, in their own names and those of companies they control, to hold funds and pay for goods and services. Whilst banks should carry out checks on their customers and transactions related to them, this does not appear to prevent many from denying corrupt individuals access to these services.

Case study: Global 'Laundromats' and the UK banking connection

Over the past five years, the Organised Crime and Corruption Reporting Project (OCCRP) has published investigations based on leaked banking data, showing the movement of hundreds of billions of pounds in criminal and suspicious funds from the FSU.⁶⁷ These 'Laundromats' have helped reveal the role British banks play as entry points into the UK economy.

Often, these funds will be paid from secretive companies with Baltic bank accounts to UK banks' clients for goods and services.

Whilst many of the clients of UK banks were legitimate businesses – ranging from luxury goods stores to travel agents – some were identified as politically exposed persons (PEPs)⁶⁸ from high-corruption-risk jurisdictions.

We have conducted new analysis on all Laundromat data related to UK bank accounts. Through this, we have found that:

- Clients at 72 UK banks and branches sent or received over £570 million in suspicious funds between 2003 and 2017 with most of this activity occurring between 2005 and 2014.
- Clients at just 10 banks were responsible for sending and receiving more than 90 per cent of these funds. (see Table 1).

In total, these transactions involved more than 3,100 British bank accounts; however almost one third of the £575 million was paid into just five UK bank accounts.

⁶³ NCA, *Suspicious activity reports (SARs) annual report 2018* (2019) <https://nationalcrimeagency.gov.uk/who-we-are/publications/256-2018-sars-annual-report/file>

⁶⁴ FATF, *Mutual evaluation review: United Kingdom* p.10

⁶⁵ <https://uk.reuters.com/article/uk-britain-banks-regulator/uk-watchdog-says-rolling-bad-apple-bankers-still-an-issue-idUKKCN1UV19C> [Accessed 29 August 2019]

⁶⁶ FATF, *Mutual evaluation review: United Kingdom* p.124

⁶⁷ Organised Crime and Corruption Reporting Project (OCCRP), *The Russian Laundromat* (2014) <https://www.occrp.org/en/laundromat/>
OCCRP, *The Azerbaijani Laundromat*, (2017) <https://www.occrp.org/en/azerbajani-laundromat/>
OCCRP, *The Trojka Laundromat*, (2019) <https://www.occrp.org/en/trojka-laundromat/>

⁶⁸ PEPs are defined as an individual who is entrusted with prominent public functions, their family members or known close associates. They are recognised as presenting a high corruption and money laundering risk because of the power they hold and the access they have to public funds.

Table 1: Laundromat funds sent or received by individuals and organisations with UK bank accounts by financial institution

Bank	£	%
Citibank	131,377,937	24.15
Royal Bank of Scotland	92,331,197	15.21
J.P Morgan Chase Bank	76,749,994	12.44
HSBC	56,460,687	9.87
Barclays	52,963,588	9.41
Lloyds	41,218,594	7.06
Natwest	25,011,829	4.48
UBS	22,419,943	3.98
FIBI Bank	10,976,677	1.99
Bank of America	8,629,296	1.54
Other	57,121,028	9.87
Total	575,260,769	100

This data relates purely to funds paid into or from UK accounts; many UK-based banks had clients who played a much broader role in these schemes through their branches around the world.

In 2017, *The Guardian* highlighted how the UK-headquartered HSBC had processed more than £300 million through its global branches in relation to the 'Russian Laundromat'. When questioned about Laundromat transactions, these banks insisted they had strict AML measures in place.⁶⁹

Correspondent banking

Correspondent banking – the practice of a financial institution providing an intermediary service on behalf of other banks – is an essential link in the global economy. UK banks offering these services are not directly in contact with the origin or destination of the funds, making them reliant on the AML systems of other banks involved in the transaction. UK banks offering these services should therefore be confident that the other financial institutions involved in these transactions have sufficient processes in place to detect and prevent money laundering.

Case study: Standard Chartered Bank

In April 2019, US⁷⁰ and UK authorities⁷¹ fined Standard Chartered Bank £842 million. The FCA found weak due diligence and monitoring processes within its correspondent banking services, which left it exposed to money laundering.

Between 2010 and 2013, Standard Chartered's UK correspondent bank executed 400,000 transactions, worth \$213 billion, relating to customers originally taken on by its overseas branches with no additional due diligence, despite these processes being deficient in these institutions.⁷²

In 37 per cent of cases reviewed, Standard Chartered had not taken adequate steps to identify whether a PEP was involved in a transaction. Where PEPs were involved, Standard Chartered failed to understand the nature of that involvement 42 per cent of the time. These failures were particularly worrying because the bank was operating in high-risk jurisdictions, like Iran, Syria and Zimbabwe.⁷³

Capital markets

Financial institutions trading debt, bonds and stocks in the UK appear to be vulnerable to abuse by money launderers. Whilst the scale of illicit flows through these services is unknown due to the complex nature of these transactions, recent examples of these schemes have shown UK banks as well as those from across Europe to be at their heart.

In a recent thematic study of this activity, the FCA found that whilst there was emerging awareness within this industry about money laundering risks and some good practice for identifying and responding to it, there were also instances of bad practice. For example, some of those they engaged 'were not clear on their obligations'⁷⁴ for reporting suspicious activity to law enforcement, and others 'had not assessed the risks posed by money laundering to their business at all'.⁷⁵ Tensions also existed within firms between those seeking clients and compliance officers, with some seeing diligent on-boarding processes as potentially undermining their competitiveness.⁷⁶

⁶⁹ <https://www.theguardian.com/world/2017/mar/20/british-banks-handled-vast-sums-of-laundered-russian-money> [Accessed 30 July 2019]

⁷⁰ <https://www.justice.gov/opa/pr/standard-chartered-bank-admits-illegally-processing-transactions-violation-iranian-sanctions> [Accessed 9 July 2019]

⁷¹ <https://www.fca.org.uk/news/press-releases/fca-fines-standard-chartered-bank-102-2-million-poor-aml-controls> [Accessed 9 July 2019]

⁷² FCA, *Decision notice: Standard Chartered Bank* (February 2019) p.14 <https://www.fca.org.uk/publication/decision-notice/standard-chartered-bank-2019.pdf>

⁷³ FCA, *Decision notice: Standard Chartered Bank* p.13

⁷⁴ FCA, *Understanding the money laundering risks in the capital markets* p.4

⁷⁵ FCA, *Understanding the money laundering risks in the capital markets* p.7

⁷⁶ FCA, *Understanding the money laundering risks in the capital markets* p.16

Case study: Deutsche Bank

In January 2017, the FCA fined Deutsche bank £163 million for money laundering failings, which took place between 2011 and 2015, relating to ‘mirror trades’ between its Moscow and London branches.⁷⁷ This entailed a Russian corporate entity buying Russian securities, paying in roubles via the Moscow office, whilst a British Virgin Islands (BVI) firm sold the same amount of securities for dollars via the London office.⁷⁸ The same people controlled the Russian entity and the BVI firm, which the FCA indicated was highly suggestive of financial crime.⁷⁹ Trades like this happened every day for more than three years, resulting in around \$10 billion in suspicious funds being moved out of Russia.

A number of traders and brokers in both the Moscow and London offices knew about the scheme but were not aware of the individuals whose money they were moving. The head of the Moscow equities desk, Tim Wiswell, had greater involvement, and Deutsche Bank’s lawyer alleged that he took payments in order to oversee the mirror trades.⁸⁰ The scheme could continue unchecked because of deficient KYC procedures at the bank and a lack of scrutiny of the transactions.⁸¹ This, combined with individuals actively engaged in continuing the scheme, enabled billions of pounds in suspicious funds from Russia to be ‘cleaned’.

As a result its investigation, the FCA issued its highest ever fine. In the US, the New York Department of Financial Services also fined the bank £339 million for this breach.⁸² Deutsche Bank is under criminal investigation in the US for potential money laundering breaches, but is not currently facing similar action in the UK.⁸³

Audit in banking failure

Auditors play a key role in ensuring financial institutions are governed properly and can be partners in the fight against money laundering and corruption. Detecting corruption and money laundering are not the primary roles of auditors; however, under international accounting rules

they are required to take into consideration an entity’s compliance with laws and regulations in local jurisdictions, specifically those under which non-compliance could result in fines or litigation.⁸⁴ Therefore, auditors cannot be blind to red flags, and they do have a duty to identify and report any activity that could result in the institution becoming bankrupt or incurring significant losses through fines.

With privileged access to financial information relating to major loans and flows of money, auditors have uncovered instances of financial crime. In 2009, BTA bank began proceedings against its former Chairman, Mukhtar Ablyazov, after an audit by PricewaterhouseCoopers (PwC) identified a £6.38 billion hole in its balance sheet.⁸⁵

There are also cases in which the role of auditors has been questioned. Our case analysis has identified 21 instances, involving more than £185 billion in suspicious loans and transactions, where global financial institutions have gone bankrupt or suffered significant losses due to corruption and associated money laundering. The local branches of six global auditing firms, including the Big Four, were auditing these 21 financial institutions. In some cases, the auditors involved have faced sanctions for their conduct. We have provided a selection of these cases below.

Malaysian authorities fined **Deloitte** £400,000 for failing to report irregularities relating to the publicly-owned 1Malaysia Development Berhad (1MDB) investment fund, which saw billions in state funds stolen by public officials and their associates.⁸⁶ **KPMG** are also facing investigation for their role in the scandal.⁸⁷

EY was reported to the Danish Business Authority (DBA) in relation to a 2014 audit of Danske Bank. Danske saw almost £140 billion in suspicious funds flow through its Estonian branch during an eight-year period from 2007 to 2015.⁸⁸ The DBA has stated that EY failed to carry out further investigation or flag suspicious activity to authorities during its audit.⁸⁹ EY has said it is cooperating with the authorities.

In 2017, **PwC** was banned from formally auditing banks in

⁷⁷ <https://www.fca.org.uk/news/press-releases/fca-fines-deutsche-bank-163-million-anti-money-laundering-controls-failure> [Accessed 9 July 2019]

⁷⁸ <https://www.newyorker.com/magazine/2016/08/29/deutsche-banks-10-billion-scandal> [Accessed 26 June 2019]

⁷⁹ FCA, *Decision notice: Deutsche Bank* (January 2017) p.2 <https://www.fca.org.uk/publication/final-notices/deutsche-bank-2017.pdf>

⁸⁰ <https://www.newyorker.com/magazine/2016/08/29/deutsche-banks-10-billion-scandal> [Accessed 26 June 2019]

⁸¹ FCA, *Decision notice: Deutsche Bank* p.3

⁸² <https://www.dfs.ny.gov/about/press/pr1701301.htm> [Accessed 27 August 2019]

⁸³ <https://www.nytimes.com/2019/06/19/business/deutsche-bank-money-laundering-trump.html> [Accessed 27 August 2019]

⁸⁴ International Standard on Auditing (ISA) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (December 2009) <https://www.ifac.org/system/files/downloads/a013-2010-iaasb-handbook-isa-250.pdf>

⁸⁵ <https://www.hoganlovells.com/en/news/bta-bank-welcomes-judgment-for-breaking-privilege-in-ablyazov-fraud-case> [Accessed 22 May 2019]

⁸⁶ <https://www.theguardian.com/business/2019/jan/30/deloitte-fined-by-malaysia-over-breach-linked-to-1mdb> [Accessed 2 July 2019]

⁸⁷ <https://www.cityam.com/kpmg-and-deloitte-under-investigation-role-1mdb-corruption/> [Accessed 2 July 2019]

⁸⁸ <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch-.la-en.pdf> [Accessed 9 August 2019]

⁸⁹ <https://www.reuters.com/article/us-danske-bk-moneylaundering-ernst-young/danske-bank-auditor-ey-reported-to-fraud-squad-over-2014-report-idUSKCN1R00X7> [Accessed 2 July 2019]

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Ukraine after it failed to uncover the alleged embezzlement of billions of pounds from Privatbank by its owners.⁹⁰ This resulted in the state having to bail out the bank at a public cost of almost £4 billion. The owners deny these claims.⁹¹

Grant Thornton's Moldovan franchise was criticised in 2015 for failing to identify the theft of more than £700 million from three of the country's biggest banks – all of whom it was auditing.⁹² This scandal resulted in the then prime minister being jailed for his role in the scheme.⁹³ Grant Thornton Moldova deny wrongdoing and stand by the quality of their work in the audits.⁹⁴

Rosexpertiza, the Russian branch of **Crowe Horwarth**, were the auditors for Vneshprombank, which had its licence revoked in 2016 due to a £2.18 billion hole in its assets⁹⁵ – some of which is believed to have been stolen by senior managers at the bank.⁹⁶

⁹⁰ <https://www.reuters.com/article/ukraine-privatbank/ukraine-bans-local-pwc-unit-from-auditing-banks-after-privatbank-insolvency-idUSL5N1KB783> [Accessed 12 August 2019]

⁹¹ <https://www.occrp.org/en/investigations/oligarchs-weaponized-cyprus-branch-of-ukraines-largest-bank-to-send-5-billion-abroad> [Accessed 3 October 2019]

⁹² <https://www.theguardian.com/world/2015/jul/01/global-auditor-moldova-wealth-franchise-grant-thornton-banks-embezzle> [Accessed 2 July 2019]

⁹³ <https://www.rferl.org/a/moldova-former-prime-minister-filat-jailed-9-years/27823377.html> [Accessed 30 July 2019]

⁹⁴ <https://www.theguardian.com/world/2015/jul/01/global-auditor-moldova-wealth-franchise-grant-thornton-banks-embezzle> [Accessed 3 October 2019]

⁹⁵ <https://www.normickel.com/files/en/gsm/agm2015/materials/Rosexpertiza-in-english.pdf> [Accessed 2 July 2019]

⁹⁶ <https://www.ft.com/content/b4493730-5c7b-11e9-9dde-7aedca0a081a> [Accessed 30 July 2019]



Company formation and maintenance

The UK, its Overseas Territories and Crown Dependencies are hubs for company formation and management services, with criminals frequently using these jurisdictions to:

- **obtain** resources by hiding conflicts of interest, enabling embezzlement and channelling bribes
- **move** corrupt wealth, often through complex networks of companies, trusts and nominees
- **invest** corrupt wealth into luxury property, yachts, jets and art

Whilst it is possible to form UK entities directly through Companies House, money launderers often seek the assistance of those who provide additional services, like:

- submitting annual paperwork
- providing service addresses
- filing accounts
- arranging bank accounts
- nominee services

Those offering these services are required under the MLRs to ensure they know their clients and their source of funds. If intermediaries pass on clients, they are liable for the standard of checks carried out by those third parties.

There are thousands of legal and accountancy firms, as well as dedicated TCSPs, who operate in this area in the UK. Twenty-two different money laundering supervisors oversee this type of regulated activity. This fragmented approach has led to varying AML standards in businesses offering these services, as firms are subject to differing

levels of oversight and enforcement.

Individuals and businesses outside the UK are also able to form British companies. Those who do this as a business are subject to the regulations of the jurisdictions in which they are based, which may be weakly enforced or not in place at all. There is currently no regulation or oversight of individuals incorporating UK legal entities directly through Companies House. Both of these gaps represent major vulnerabilities to money laundering.

Company formation

Forming a company in the UK itself is cheap and easy; whilst requirements have been brought in to increase transparency regarding company ownership, criminals are still able to evade these and to control corporate vehicles secretly. The UK Government is seeking to address this and has issued a consultation that intends to introduce substantive changes to how companies are formed and the data collected from them.⁹⁷

In 2017, we found 766 UK companies used in 52 corruption and money laundering scandals amounting to more than £80 billion.⁹⁸ We have continued to collect this information, and have now identified 929 UK companies involved in 89 cases of corruption and money laundering, amounting to £137 billion in economic damage.

Case study: TI-UK shell company analysis

Our new analysis for this report suggests that Britain has been home to tens of thousands of shell companies over the past 10 years. Using Companies House data, we have identified 17,000 legal entities controlled by at least one individual or company that acted as an officer for Limited Liability Partnerships (LLPs) found to be involved in economic crime.⁹⁹ This is an ongoing problem; more than 5,400 of these shell companies remain active.

Many of these entities are structured almost identically to those used to facilitate corruption and suspicious financial activity, indicating that it is likely the same TCSP formed them. Whilst having the same features of companies used in money laundering is not a direct link to criminality, these entities should be considered as suspicious and high risk. Similarly, those incorporating and managing these entities should be subject to enhanced scrutiny from their AML supervisors.

For example, Milltown Corporate Services and Ireland & Overseas Acquisitions – which were used to control UK entities involved in dozens of money laundering and

⁹⁷ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform> [Accessed 29 August 2019]

⁹⁸ Transparency International UK, *Hiding in plain sight* p.16

⁹⁹ The true number of UK shell entities that have existed over the years is likely to be larger than this. We were unable to carry out analysis on entities dissolved over six years ago as well as Scottish Limited Partnerships, where data on officers is not available for bulk analysis.

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corruption cases – have been corporate partners of at least 1,400 UK LLPs.¹⁰⁰ The TCSP behind these entities, IOS Group, lists offices in Riga, Kyiv and Moscow. Their business includes setting up offshore companies as well as UK legal entities.¹⁰¹ It formed at least 35 of the 75 BVI companies at the centre of the Troika Laundromat, exposed by OCCRP.¹⁰² There is no evidence that IOS knows its clients will go on to commit crimes; however, it is apparent that it is often the formation of choice for criminals. OCCRP's efforts to contact the firm about its involvement in the Troika Laundromat were unsuccessful.

In a separate analysis, Bellingcat identified over 5,900 Scottish Limited partnerships (SLPs) with opaque structures formed between 2015 and 2019.¹⁰³ SLPs are a type of UK entity that corrupt individuals have used to launder money. The 5,945 entities Bellingcat found were registered by four groups of formation agents that have previously incorporated SLPs involved in money laundering. Bellingcat identified 86 offshore partners controlling thousands of these SLPs, who also controlled 4,637 other types of UK legal entities, usually LLPs. Currently, SLPs cannot be dissolved like other UK corporate entities; therefore, all of these SLPs could still be active.

Mailbox services

Mailbox services offer a solution to those looking to save money on renting a physical office space. They

offer clients a place to direct their mail for personal and business use, and often promote their location as a way for companies to look more professional. Although used by completely legitimate businesses, these services are also attractive to money launderers, with UK addresses offering a veneer of respectability.

Our research found that UK companies involved in money laundering are often registered at the same address; around half (374) of the 766 companies we identified as involved in corruption and money laundering in 2017 were registered at just eight addresses. More than one-third (6,073) of the 17,000 suspicious entities we found as part of our shell company analysis (see page 28) were registered at just 10 English addresses (see Table 2) another indication that the same TCSP formed and managed these shell companies. Whilst these addresses host hundreds, sometimes thousands, of suspicious entities, we do not suggest that every company registered at these locations are suspected of involvement in financial crime, which also host legitimate businesses.

Case study: Cornwall Buildings

Our analysis of the suspicious UK legal entities (above) identified various formation agents operating from the Cornwall Buildings, 45 Newhall Street, Birmingham. These agents are linked by both those involved in their management and their dubious clients.

One of these, Meridian Companies House, operated from

Table 2: Top 10 registered addresses for network of suspicious UK companies

Address	No. of suspicious companies registered
Cornwall Buildings, 45 Newhall Street, Birmingham	1,455
Suite B, 2nd Floor, 175 Darkes Lane, Potters Bar	1,094
Unit 5, Olympia Industrial Estate, Coburg Road, London	810
Office 11, 43 Bedford Street, London	636
Suite B 11, Churchill Court, 58 Station Road, Harrow	519
Unit W17, Mk Two Business Centre, Barton Road, Water Eaton, Bletchley	395
Suite 1, The Studio St Nicholas Close, Elstree	392
372 Old Street, Suite 1, London	270
Winnington House, 2 Woodberry Grove North, Finchley, London	259
10 Great Russell Street, London	243

¹⁰⁰ <https://www.occrp.org/en/daily/9401-swedbank-s-shady-business-in-estonia> [Accessed 28 August 2019]

¹⁰¹ https://www.private-eye.co.uk/pictures/special_reports/where-theres-muck.pdf [Accessed 28 August 2019]

¹⁰² <https://www.occrp.org/en/troikalaundromat/how-ios-group-supersized-the-shell-company-game> [Accessed 10 July 2019]

¹⁰³ Bellingcat, *Smash and grab – The UK's money laundering machine* (October 2019) <https://www.bellingcat.com/news/uk-and-europe/2019/10/01/smash-and-grab-the-uks-money-laundering-machine/>

this address between 2005¹⁰⁴ and 2014¹⁰⁵ – the period in which most of the companies identified in our analysis were registered at the address.

Meridian formed Nomirex Trading Limited,¹⁰⁶ a shell company used to launder funds stolen from the Russian Treasury originally belonging to Hermitage Capital – a private investment fund founded by Bill Browder.¹⁰⁷ Previously, OCCRP had identified the owner of Meridian as Erez Maharal. When OCCRP contacted him about his relationship with Nomirex, he said ‘We just registered the company, and nobody ever makes us aware what is going on with the company in future ... I feel that I was framed.’¹⁰⁸ Our research has found new evidence that shines a light on who controlled Meridian during the period in which so many of these suspicious companies were incorporated.

Sabine Boze, who later changed her name to Sabine Vickers, signed-off the accounts of many of the companies at Cornwall Buildings.¹⁰⁹ Currently, she is reported as the director of two UK TCSPs: B2B Company Secretary Limited¹¹⁰ and The Island Service Provider.¹¹¹ The Island Service Provider is registered with HMRC and reports its address as 372 Old Street, London.¹¹² Currently, the reported ultimate owner of B2B Company Secretary Limited¹¹³ and The Island Service Provider¹¹⁴ is Alex Zingaus, who runs a global firm called Pirineu Administrative Servei, ‘providing services for international corporate planning, asset management for High Net Worth Individuals.’¹¹⁵ Zingaus and Maharal are friends on Facebook, indicating at least a possible social relationship between the two.¹¹⁶ Although Meridian Companies House dissolved before the new Persons with Significant Control (PSC) transparency requirements came into force,¹¹⁷ a LinkedIn profile for Alex Zingaus states he is the owner of this TCSP.¹¹⁸ Meridian Companies House is also recorded as the accountant for one of the several identikit companies registered at Cornwall Buildings, Marshall Oil LLP, whose signatory for the accounts was Sabine

Boze.¹¹⁹

Nominee services

Nominee services are where individuals are employed to be a director or shareholder under the instruction of another person. They are used to try to hide the ultimate controllers or beneficiaries of a company. Technically, nominee directors acting purely on instruction from another person should not exist, as the law requires that directors must act independently and in the best interest of the company.¹²⁰ Since the introduction of the PSC register, those wishing to evade disclosing a company’s true owners have faced the choice of either claiming not to have a beneficial owner or choosing to pay for a nominee PSC. Both of these options could face criminal sanctions for submitting false or misleading information to Companies House.

Large scale TCSPs do not advertise nominee director, shareholder or PSC services. However, we have identified several smaller TCSPs that do not appear to understand or intend to follow the laws around nominees. We have identified at least one of these smaller TCSPs that has a connection to suspected financial crime.

Case study: Nominee Directors, Shareholders and PSCs

Using only a quick Google search, we found 23 active TCSPs offering nominee director, shareholder and PSC services. One of these firms, Coddan CPM Limited, was responsible for forming thousands of UK companies we identified in our analysis of suspicious UK legal entities (see page 28). In 2015, a Coddan employee was also found to have submitted false accounts.¹²¹ For its nominee PSC service, its website states:

¹⁰⁴ <https://beta.companieshouse.gov.uk/company/05072048/filing-history/NzY4Mzc3MzNhZGlxemtjeA/document?format=pdf&download=0> [Accessed 4 September 2019]

¹⁰⁵ <https://beta.companieshouse.gov.uk/company/05072048> [Accessed 4 September 2019]

¹⁰⁶ https://www.reportingproject.net/proxy/downloads/Russian%20Laundering%20Machine/doc_nomirex_04.pdf [Accessed 2 July 2019]

¹⁰⁷ <https://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 9 September 2019]

¹⁰⁸ <https://www.reportingproject.net/proxy/en/russian-laundering-machine> [Accessed 2 July 2019]

¹⁰⁹ <https://beta.companieshouse.gov.uk/company/08500723/filing-history/MzE1NDY2NTY5MWFkaXF6a2N4/document?format=pdf&download=0> [Accessed 4 September 2019]

¹¹⁰ <https://beta.companieshouse.gov.uk/company/07789221/officers> [Accessed 4 September 2019]

¹¹¹ <https://beta.companieshouse.gov.uk/company/08500723/officers> [Accessed 4 September 2019]

¹¹² <https://customs.hmrc.gov.uk/msbregister/search.do?type=getTrader> [Accessed 2 July 2019]

¹¹³ <https://beta.companieshouse.gov.uk/company/07789221/persons-with-significant-control> [Accessed 4 September 2019]

¹¹⁴ <https://beta.companieshouse.gov.uk/company/08500723/persons-with-significant-control> [Accessed 05 June 2019]

¹¹⁵ <https://bosco-conference.com/en/speaker/alex-zingaus> [Accessed 5 June 2019]

¹¹⁶ https://www.facebook.com/profile.php?id=100006352126870&lst=10000011217735%3A100006352126870%3A1567584548&sk=friends&source_ref=pb_friends_tl [Accessed 4 September 2019]

¹¹⁷ This requires most forms of UK legal entity to report the ultimate controller or beneficiary of the company, which is usually anyone holding over 25 per cent of its shares or voting rights, holds the right to appoint or remove the majority of the board of directors, or otherwise exerts significant control.

¹¹⁸ <https://www.linkedin.com/in/alex-zingaus-88920132/> [Accessed 4 September 2019]

¹¹⁹ <https://beta.companieshouse.gov.uk/company/OC310907/filing-history/MjA0MDU1MTY1MmFkaXF6a2N4/document?format=pdf&download=0> [Accessed 4 September 2019]

¹²⁰ Companies Act 2006, Sections 172 and 173 <https://www.legislation.gov.uk/ukpga/2006/46/part/10/chapter/2>

¹²¹ <https://www.gov.uk/government/news/high-court-orders-two-opaque-limited-liability-partnerships-into-liquidation> [Accessed 2 July 2019]

'If you do not want to be name [sic] as the PSC, check our fourth private company registrations for worldwide patrons.'¹²²

'With this option, the person with significant control doesn't need to be registered for public records. We will establishing [sic] a trust, arrange two trustees, create a UK company and prepare the annual return (confirmation statement).'

Coddan CPM Limited Website

Another TCSP, CFS International Formations, provides a nominee shareholder service that appears to suggest it can hide the details of a company's beneficial owner. In total, we were able to confirm that 21 of these 23 TCSPs were based in the UK or had branches here. Nine of these firms were registered with HMRC as their AML supervisor, including Coddan and CFS International Formations.¹²³

'A Nominee Shareholder is the registered owner of shares within a company. The beneficial owner may choose to appoint a Nominee Shareholder because they do not want to register the shares in their own name. A Nominee Shareholder is a great way to keep shareholder information away from public records. We do not get involved in the running of your company and are on the Companies House'¹²⁴

CFS International Formations website

Introducing

Introducing is the act of helping clients gain a business bank account. For money launderers this service can provide the entry point into the global financial system for their shell company. Thanks to the work of investigative journalists at the OCCRP, we now know more about how this works in practice, although the full scale of the activity remains unknown.

Case study: Baltic Banks and hot money from the FSU

One noticeable trend over the last decade has been the prevalence of opaque UK companies with accounts at Baltic banks, which have been used to move large amounts of suspicious wealth, principally out of the FSU.¹²⁵ From investigations into these financial flows, we have started to build a picture of how introducers have provided accounts in these institutions for UK shell companies.

Following reports of widespread irregularities from a whistle-blower at its local Estonian branch, an independent audit report of Danske Bank found almost £200 billion worth of suspicious transactions flowing through its books between 2007 and 2015. UK companies held a substantial element of the local bank's non-resident portfolio, with LLPs being the 'preferred vehicle for non-resident clients.'¹²⁶

At the peak of this activity, in 2013, almost 1,200 UK companies held accounts at Danske, and the UK was the single most prevalent country of origin for the bank's non-resident clients. The report indicated many of these legal entities obtained accounts through '25 agents receiving commissions for their efforts in locating customers.'¹²⁷

It is possible that similar arrangements have been used elsewhere to attract risky non-resident clients to banks in the region.

In February 2019, the Swedish financial regulator, Finansinspektionen (FI), and its Estonian counterpart jointly announced that they would investigate allegations the Swedish broadcaster, SVT, made into alleged money laundering failures at the Estonian branch of Swedbank. SVT claimed that, between 2007 and 2015, at least SEK 40 billion (£3.2 billion) of questionable payments passed between Danske and Swedbank's Estonian subsidiary.¹²⁸ These reports identified two UK companies involved in making suspicious payments of over £100 million from Danske to customers at Swedbank.¹²⁹

Currently, it is unclear whether introducers were also used to help secure accounts for non-resident clients at Swedbank. In April 2019, the FI announced it was initiating a joint investigation with its counterparts in Latvia, Estonia and Lithuania to assess potential breaches of money laundering rules at Swedbank. It expects the investigation

¹²² <https://www.coddan.co.uk/> [Accessed 7 August 2019]

¹²³ We were unable to identify whether the rest were supervised by professional bodies or were operating without having registered with a UK AML supervisor.

¹²⁴ [https://www.cfsformations.com/index.php?option=com_incorporations&Itemid=369&vg=service-pages&view=serviceadd&servicepos=0&services\[0\]=NOMINSUB](https://www.cfsformations.com/index.php?option=com_incorporations&Itemid=369&vg=service-pages&view=serviceadd&servicepos=0&services[0]=NOMINSUB) [Accessed 7 August 2019]

¹²⁵ Graham Stack, *Baltic shells: on the mechanics of trade-based money-laundering in the former Soviet space* (2015) <https://www.emerald.com/insight/content/doi/10.1108/JMLC-10-2013-0040/full/html>

¹²⁶ Bruun & Hjejle, *Report on the non-resident portfolio at Danske Bank's Estonian branch* (September 2018) p.51 <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch--la=en.pdf>

¹²⁷ Bruun & Hjejle, *Report on the non-resident portfolio at Danske Bank's Estonian branch* p.35

¹²⁸ <https://www.svt.se/special/swedbank/> [Accessed 8 August 2019]

¹²⁹ <https://www.svt.se/special/swedbank/varningsflaggorna/malvakter/> [Accessed 8 August 2019]

to conclude by October 2019, with any resulting sanctions being determined before the end of the year.¹³⁰

Accounts

A key element of company maintenance is preparing, auditing, signing-off and submitting annual accounts, which is a legal requirement for most forms of UK legal entity. Corrupt individuals use the expertise of enablers to help mask financial activity or use accredited accountants to give their company a stamp of approval.

Whilst auditors must receive accreditation and official qualifications, this is not true of accountants or those offering general accountancy services. This makes it a diverse sector – one that includes at least 24,000 regulated firms and individuals. Thirteen different professional bodies and HMRC oversee this regulated community. Our research has found many more unsupervised firms and individuals offering services in the UK.

Case study: Who is signing off accounts for UK shell companies?

We analysed the accounts, stretching back 10 years, of 583 UK companies we have identified as being involved in corruption and associated money laundering. This amounted to 2,775 documents.¹³¹ More than 60 different recognised UK accountancy firms of varying size – including all four ‘Big Four’ firms – had signed these accounts. There is no suggestion these firms were knowingly involved in economic crime.

Because there is no requirement for LLPs to use a professional accountant to prepare their financial statements, and because only their members usually sign off the accounts, there were some slightly less-recognisable names in these statements (see Table 3).¹³² Over half of the LLP accounts were signed by nominee directors of the companies or corporate members of the LLP, which were almost entirely registered in secrecy jurisdictions like Dominica, Belize and the Seychelles. The number of accounts with an identifiable signature totalled 2,037, a large number of which were signed by those who offered nominee services.

Table 3: Top 10 nominees signing off accounts for UK companies linked to money laundering and corruption

Nominee name	No. of accounts signed
Ali Moulaye	516
Sabine Boze/Vickers ¹³³	207
Erik Vanagels	133
Juri Vitman	62
Kang Dong-Hee	32
James Dickins	28
Rachel Amy Erickson	25
Dmitrijs Krasko	24
Daniel O'Donoghue	22
Ian Taylor	20

It has been difficult to establish the exact role these individuals played in authorising the accounts we analysed. The most prolific signatory of these financial statements was an individual called Ali Moulaye, who a BuzzFeed investigation found to be a dentist by training living in Belgium.¹³⁴ He said he used to live in Latvia, and claims individuals there linked to money laundering stole his identity.

OCCRP has identified both Erik Vanagels and Juri Vitman as frontmen whose identities have likely been stolen to form and administer companies in their names en masse.¹³⁵

Another signatory in these accounts was Rachel Amy Erickson, who an OCCRP investigation found was the former girlfriend of Ian Taylor, a TCSP banned from being a UK corporate director.¹³⁶ She claimed her identity had been stolen to sign off hundreds of accounts like those in our analysis.¹³⁷

Dmitrijs Krasko is a company formation agent who – according to Companies House – is based in Latvia, meaning he is subject to Latvian law rather than UK AML rules.¹³⁸

¹³⁰ <https://fi.se/en/published/news/2019/fi-comments-on-the-recent-events-involving-swedbank/> [Accessed 8 August 2019]

¹³¹ Limited Partnerships are not required to file accounts at Companies House.

¹³² <https://www.gov.uk/government/publications/limited-liability-partnership-accounts-guidance/llp-accounts> [Accessed 8 August 2019]

¹³³ Companies House records suggest Sabine Boze and Sabine Vickers are the same person, appearing as directors of the same companies consecutively and sharing the same birthday.

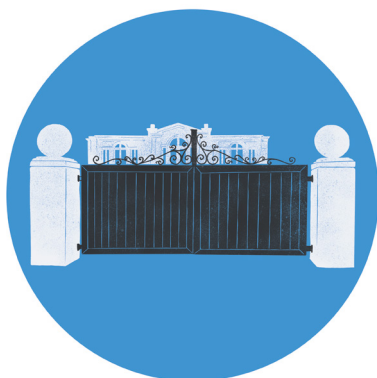
¹³⁴ <https://www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort> [Accessed 8 August 2019]

¹³⁵ <https://www.reportingproject.net/proxy/en/the-latvian-proxies> [Accessed 29 August 2019]

¹³⁶ <https://beta.companieshouse.gov.uk/disqualified-officers/natural/x9YM3ogO1YnVSihjKzDuxjWdWdE> [Accessed 05 June 2019]

¹³⁷ <https://www.occrp.org/en/component/content/article?id=1960:owners-battle-for-tv-station-ru> [Accessed 2 July 2019]

¹³⁸ <https://beta.companieshouse.gov.uk/officers/pjJEQRG13biFmVN6UxrTaM08xJ8/appointments> [Accessed 29 August 2019]



Property transactions

There is now a wealth of evidence that corrupt individuals see UK property as an attractive asset; it offers stable prices and, in the case of luxury property, status.

Around 100,000 properties are sold every month in the UK.¹³⁹ Almost 20,000 estate agents and thousands of solicitors offering conveyancing services, conduct this activity.¹⁴⁰

Using open-source data,¹⁴¹ we have identified 421 properties, worth £5 billion, bought with suspicious wealth.¹⁴² This may just be the tip of the iceberg because 87,000 properties in England and Wales are owned by companies based in secrecy jurisdictions, where there is no information about their beneficiaries.¹⁴³ These ‘anonymous’ companies appear regularly in corruption and money laundering schemes.

Of the land titles we identified, 138 (33 per cent), worth at least £660 million, have been sold without apparent intervention from law enforcement agencies. However, those with access to suspicious funds continue to own 283 properties (67 per cent), worth £4.4 billion. Of this property, £220 million’s worth is subject to freezing orders related to law enforcement cases or commercial court decisions, which involve disputes over the legal sources of funds used to buy these assets.

Property transactions can involve numerous service providers, each with differing obligations to carry out checks on their clients, including:

- solicitors
- estate agents
- mortgage providers
- letting agents
- architects and interior design firms

Property acquisition and conveyancing

Conveyancing property is a key risk area for the legal sector. An NCA analysis of SARs related to the sector in 2016 revealed that 50 per cent related to property transactions. Solicitors conveyance property transactions on behalf of buyers and sellers and are required to carry out money laundering checks on both.

The SRA regulates 80 per cent of the legal sector.¹⁴⁴ Data on the SRA’s supervisory activity indicates it has a limited reach, conducting under 200 assessments of the 10,400 firms it regulates in 2017/2018. As a result of these, just one firm was expelled and seven fines were issued, amounting to £70,500. This does not appear proportionate related to the likely levels of non-compliance with the MLRs within these firms given the number of properties we have found bought with suspicious funds.

Our analysis of Land Registry data identifies a wide range of law firms engaged in transactions that involved suspected or proven corrupt funds.

We analysed 293 property transactions, worth more than £4.4 billion, involving suspicious wealth relating to PEPs from high-corruption-risk jurisdictions or those charged or convicted with, or alleged to have committed, corruption offences. We identified 56 law firms involved in 132 of these transactions, which were worth more than £3.2 billion. These firms either offered conveyancing services to the buyer or were responsible for forming and maintaining the entity used to make the purchase.

They varied in size from major international businesses to those employing fewer than 10 members of staff. It is unclear whether any submitted SARs in response to the activity they carried out for the buyers.

Using Land Registry data on property that offshore companies currently own, we found that these 56 law firms have been involved in at least 4,200 further transactions involving secretive corporate vehicles, which are a common feature of high-end money laundering. Due to the opacity of the structures involved, we do not know who owns these properties at present.

Case study: Daniel Ford & Co.

We were sometimes able to identify a potential client base of these firms (due to the jurisdictions of the companies they used to complete transactions and their known

¹³⁹ HMRC, *UK Property Transactions Statistics* (August 2019) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833143/UK_Commentary_Sep_2019__cir_.pdf [Accessed 8 August 2019]

¹⁴⁰ HM Treasury and Home Office, *2017 National risk assessment* p.56

¹⁴¹ Investigations by journalists, the Panama and Paradise Papers, Land Registry and Companies House data

¹⁴² Property purchased by PEPs from high corruption risk jurisdictions, individuals with corruption allegations against them or those with charged or convicted with corruption offences.

¹⁴³ <https://www.globalwitness.org/en/press-releases/100bn-of-property-in-england-and-wales-is-secretly-owned-estimates-show/> [Accessed 1 August 2019]

¹⁴⁴ <https://www.sra.org.uk/sra/how-we-work/reports/upholding-professional-standards-2017-2018/> [Accessed 8 August 2019]

clients). One of the firms we identified, Daniel Ford & Co., was named in US court documents as acting on behalf of Diezani Alison-Madueke, the former Nigerian petroleum minister alleged to have received bribes in exchange for oil deals.¹⁴⁵ The documents reveal the firm ‘assisted in the purchase’ of three London properties linked to the investigation – two bought with Seychelles firms and another bought with a BVI company.¹⁴⁶

Our analysis shows that Daniel Ford & Co. has been involved in at least 74 more property purchases involving companies based in secrecy havens, including 32 Seychelles companies, 10 BVI companies and five Nigerian companies. It is unclear whether Daniel Ford submitted SARs related to any of these transactions.

Daniel Ford & Co. states it always conducts its work within the law and regulations.

Property Sales

Estate agents typically represent the sellers of property, but are required by the MLRs 2017 to carry out checks on buyers, too.

Estate agents are supervised by HMRC, which recently issued its highest ever penalty against the country’s largest estate agent, Countrywide, for group-level failings.¹⁴⁷ Whilst HMRC has increased its regulatory activity relating to estate agents,¹⁴⁸ it lacks the resources to sufficiently scrutinise all the (almost 10,000) property firms it oversees. RUSI estimates that around 20,000 estate agents operate in the UK, indicating that thousands are not currently overseen by an AML supervisory body and are unlikely to be carrying out checks on clients or their funds.¹⁴⁹

Estate agents rarely identify suspicious activity, submitting a tiny proportion of SARs. In 2017-18, estate agents submitted just 710 SARs.¹⁵⁰

Case study: Selling property bought with unexplained wealth

Regarding the UK’s first case involving unexplained wealth orders (UWOs), we have seen documents highlighting the property service providers can play in preventing property

bought with suspicious wealth from being sold. In 2017, two years after Jahangir Hajiyevev was jailed in Azerbaijan for embezzling funds from the bank he chaired, his family attempted to sell a UK golf course they owned. To do this, they approached Savills to market the property and act as their agents. After carrying out due diligence on the family, Savills declined to offer its services.

However, between 2013 and 2016, the family succeeded in building and marketing a country-house in Surrey.¹⁵¹ After helping to develop the five-bedroom, Regency-style mansion, Werner Capital – a family office – publicised its luxury features, including an indoor lap pool and a lift used to lower cars into an underground garage, in a promotional video.¹⁵² The property was originally put on the market for almost £9 million.¹⁵³ Werner Capital also helped set up companies used to acquire the family’s golf course in addition to producing a report stating Jahangir Hajiyevev was worth £55 million.¹⁵⁴ Tomas Werner, who runs the firm, declined to comment on the business relationship with the Hajiyevevs for client confidentiality reasons, but said they set up corporate structures used to acquire the golf course based on advice from a ‘top-tier’ UK Law firm. Werner Capital have stated they have never been involved in money laundering.

Mortgage provider

Suspicious transactions involving property are often completed in cash, with no finance needed. However, on some occasions corrupt individuals may seek to secure an asset or re-organise their finance with the help of a mortgage. Our analysis of property bought with suspicious wealth identified 24 FCA-supervised financial institutions providing finance for 83 property purchases for PEPs from high-corruption-risk jurisdictions or those charged or convicted with, or alleged to have committed, corruption offences. These properties are worth almost £2.5 billion.

Case study: Ali Dabaiba

Ali Dabaiba – a former Gaddafi associate who Libyan authorities believe to have stolen billions of pounds whilst he oversaw a public development agency – owns four London properties through companies registered in the BVI worth tens of millions of pounds.¹⁵⁵ Land Registry

¹⁴⁵ <https://www.ballardspahr.com/~media/Files/Articles/Galactica-Complaint> [Accessed 16 July 2019]

¹⁴⁶ <https://www.ballardspahr.com/~media/Files/Articles/Galactica-Complaint> [Accessed 1 July 2019]

¹⁴⁷ <https://www.gov.uk/government/publications/businesses-not-complying-with-money-laundering-regulations-in-2018-to-2019/current-list-of-businesses-that-have-not-complied-with-the-2017-money-laundering-regulations> [Accessed 31 July 2019]

¹⁴⁸ <https://www.gov.uk/government/news/estate-agents-targeted-in-money-laundering-crackdown> [Accessed 31 July 2019]

¹⁴⁹ RUSI, *Known unknowns* p.40

¹⁵⁰ NCA, *Suspicious activity reports (SARs) annual report 2018* p.6

¹⁵¹ https://issuu.com/ameliajgarcia/docs/amelia_garcia_issuu [Accessed 18 September 2019]

¹⁵² <https://www.youtube.com/watch?v=AuZUivAgAsc> [Accessed 16 September 2019]

¹⁵³ <https://www.primeresidential.org.uk/developer/werner-capital/> [Accessed 18 September 2019]

¹⁵⁴ <https://www.bloomberg.com/news/features/2019-07-30/dirty-money-spotlights-role-of-family-offices-as-enablers> [Accessed 16 September 2019]

¹⁵⁵ <https://www.occrp.org/en/investigations/8366-cyprus-records-shed-light-on-libya-s-hidden-millions> [Accessed 2 July 2019]

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documents show that, between 2012 and 2014, Dabaiba took out mortgages for all four homes with the Dublin branch of Liechtenstein-based LGT Bank AG, despite the Libyan Transitional Council blacklisting him in 2012. Numerous media articles on Dabaiba and his properties have since been published; however, the mortgages still appear on the land titles.¹⁵⁶

Property letting

When the UK transposes the 5MLD, letting agents facilitating rent transactions worth over a €10,000 a month will be required to carry out checks both on landlords and tenants.¹⁵⁷ However, prior to this there have been no mandatory checks on those letting expensive luxury property.

Case study: The former Prime Minister of Moldova's son and the £400,000 rental apartment

In February 2019, the NCA froze the UK bank accounts of the son of the former Prime Minister of Moldova, Vladimir Filat, who is currently serving a nine-year jail term for his role in large-scale embezzlement at three Moldovan banks. His son, Luca, arrived in the UK in 2016 – a year after Vladimir's arrest – and paid £400,000 up-front to rent of a Knightsbridge penthouse.¹⁵⁸

Case study: Suspicious Laundromat payments to lettings firms

Using Laundromat data, we have identified 27 payments to 17 different firms offering letting services. It is unclear who benefitted from these rent payments; they all came from anonymous companies with Latvian bank accounts. Whilst letting agents are not legally obliged to carry out checks under the MLRs, some of the firms we identified to be offering services were regulated for other activities they undertook during the period in which these transactions were made.

Architects and interior-design firms

There are many businesses offering high-end services in the property sector who are not required to adhere to MLRs, including architects and high-end interior design firms. Corrupt individuals may seek the services of these businesses to carry out work on property they own, increasing its value and laundering money in the process.

Case study: Laundromat payments to architects

Using Laundromat data, we have identified 433 payments to 37 UK architectural and interior-design firms amounting to £8.3 million. These payments came from anonymous shell companies with Baltic bank accounts.


Invoice № 12129
08/02/2008

Buyer:
DONCASTER LIMITED
Hansa Bank Building, 1st Floor Landsome Road, The Valley, Anguilla

Seller:
David Collins Studio Ltd - Re Holland Park
The Studio 74 farm Lane, London, SW61QA

Nº	Description	Quantity	Price, USD	Amount, USD
1	Bosch WAE 20160 OE	100	520,50	52 050,00
2	Bosch WAE 16160 OE	90	470,00	42 300,00
3	Bosch WAE 24160 OE	100	400,00	40 000,00
4	Bosch WOR 16150 OE	100	350,50	35 050,00

TOTAL: 672 500,00 USD

Signature: 




Figure 1: Laundromat invoice to Doncaster Limited

¹⁵⁶ <https://www.thetimes.co.uk/article/revealed-gadaffi-aide-ali-dabaibas-3m-edinburgh-property-haul-8wjfff9v9> [Accessed 8 August 2019], <https://www.wsj.com/articles/libyas-hunt-for-gadhafi-era-assets-leads-it-to-high-end-u-k-property-firm-1399514660> [Accessed 8 August 2019]

¹⁵⁷ The monetary threshold has not yet been set, however under 5MLD it must be no higher than 10,000 euros per month European Union Parliament and Council, *Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015L0843> [Accessed 10 September 2019]

¹⁵⁸ <https://web.archive.org/web/20190209124154/http://www.nationalcrimeagency.gov.uk/news/1565-son-of-moldova-s-ex-pm-renting-1000-per-day-knightsbridge-apartment-forced-to-hand-over-nearly-half-a-million-pounds> [Accessed 4 September 2019]

It is unclear what work the majority of these payments related to; however, two payments totalling £800,000 were made to David Collins Studios Ltd. in relation to work done on a property in Holland Park by Berglake Sales Inc. (a Belize company) and Doncaster Limited (an Anguillan company). Both these firms were part of a web of shell companies used to launder stolen wealth from the Russian Treasury.¹⁵⁹

One of the payments from Doncaster Limited claimed the transactions was for washing machines despite David Collins being an architectural firm (See Figure 1). This appears to show trade mis-invoicing, a common method money launderers use to hide the true value, volume or purpose of payments through the deliberate falsification of documents. An individual may have been seeking to hide transactions relating to expensive architectural work on their London home.

David Collins said that they do not take on clients without doing industry due diligence and that these invoices did not originate with them.

There is no suggestion that David Collins was actively involved in laundering illicit wealth; however, this case shows how the unregulated property sector can be exposed to suspicious wealth.

159 https://www.docketalarm.com/cases/New_York_Southern_District_Court/1--13-cv-06326/United_States_of_America_v._Prevezon_Holdings_Ltd._et_al/555/2/ [Accessed 2 July 2019]



High-value goods

Items like cars, jets and jewellery act as both stores of wealth for corrupt individuals and luxury purchases to enjoy. HMRC supervises high-value dealers, who are required by the MLRs 2017 to carry out money laundering checks if they receive payments in excess of €10,000 in physical cash.

As cash is rarely used or accepted, this is likely to mean that high value dealers in the UK are not carrying out checks on many of their clients. Despite this, they can still be held criminally liable for failing to disclose suspicious activity. Those offering these services infrequently report such activity. In 2017-18, auction houses and high-value dealers submitted just 105 SARs.¹⁶⁰ In practice, the onus often falls on banks or other financial providers to identify suspicious activity in relation to the purchase of high-value items.

A wide variety of service providers may fall under this broad category, including, but not limited to:

- auctioneers
- art houses
- jewellery stores
- car vendors
- yacht sales
- jet sales
- general luxury goods

Previous money laundering cases have shown a variety of these outlets offering services to corrupt individuals. For example, in addition to spending £400,000 on rent up front, Luca Filat, (aforementioned son of the jailed former Moldovan Prime Minister), spent £200,000 on a Bentley Bentayga at a Mayfair dealership.¹⁶¹

Case study: Suspicious Laundromat payments to high-value dealers

Our analysis of Laundromat transactions revealed at least 422 payments made to 118 UK luxury good outlets

for services totalling £17.6 million, 419 of which came from anonymous shell companies with Lithuanian bank accounts. A breakdown of these services can be seen in Table 4 below.

Table 4: Laundromat payments to luxury goods and service providers by type of goods or service

Service type	No. of transactions	Value of payments
Jet services	37	£6,028,894.71
Clothing	262	£5,370,885.29
Jewellery	32	£1,959,923.53
Yacht sales	34	£1,806,317.65
Art	13	£1,051,462.35
Cars	9	£507,378.82
Auction	7	£349,640.59
High-value goods	5	£169,271.18
Wine	10	£149,971.76
Sport event	1	£115,482.94
Antiques	11	£103,561.18
Grand total	421	£17,612,790

Whilst it is not clear from the data what each purchase was, it is possible to identify the nature of individual transactions, such as:

- a Chanel crocodile skin handbag and Tom Ford crocodile skin jacket from Harrods totalling £50,690
- two payments to Flying Fish Hover, a firm dealing in hovercrafts, totalling £34,827
- a shell company paying Chelsea Football Club for a corporate executive box at Stamford Bridge, £126,000

None of these companies are accused of any wrongdoing. The broad range of businesses identified in our review of this data shows how exposed the luxury goods and services sector is to suspicious wealth.

¹⁶⁰ NCA, *Suspicious activity reports (SARs) annual report 2018* p.15

¹⁶¹ <https://nationalcrimeagency.gov.uk/news/son-of-moldova-s-ex-pm-renting-1000-per-day-knightsbridge-apartment-forced-to-hand-over-nearly-half-a-million-pounds?highlight=WyJtb2xk63ZhlwibW9sZG92YSdzll0=> [Accessed 31 July 2019]

Case study: Luxury purchases related to 1MDB

The theft of £3.5 billion from the Malaysian state sovereign wealth fund 1MDB illustrates how, once laundered, high-value goods are used as leverage for further financing and an end in themselves. In the Department of Justice's (DoJ) complaint against Jho Low, the businessperson at the centre of the 1MDB scandal, prosecutors allege he used laundered funds to purchase a range of luxury goods including a yacht, a jet and diamonds.¹⁶² The complaint details how Jho Low used companies headquartered and operating in the UK, including a world-renowned auctioneers and a major law firm, to obtain these items.

In 2013, the DoJ alleges that Jho Low used stolen funds to purchase a Claude Monet painting called the *Petit Nymphéas* from Sotheby's London auction house for almost £34 million. Allegedly, Low also bought tens of millions of pounds of artwork from Christie's New York showroom, including works by Jean-Michel Basquiat and Vincent Van Gough. Subsequently, Jho Low used the artwork bought from Christie's as collateral for a loan that helped him purchase a yacht for over £100 million.¹⁶³ London law firm Hill Dickinson LLP helped facilitate this transaction.

Jho Low's legal team claim he is not guilty of bribery and money laundering.¹⁶⁴ Christie's have stated they are 'committed to the fight against money laundering and terrorist financing' and have a robust AML programme. After allegations relating to Low became known, they ended their involvement with him. Christie's state they have not been accused of wrongdoing in any government filing. Sotheby's state 'it always cooperates with government investigations'.¹⁶⁵

¹⁶² U.S. v. Low Taek Jho, et al <https://www.justice.gov/opa/press-release/file/973671/download> [Accessed 16 July 2019]

¹⁶³ U.S. v. Low Taek Jho, et al p.196

¹⁶⁴ <https://www.bbc.co.uk/news/business-46062576> [Accessed 26 November 2011]

¹⁶⁵ <https://www.lexology.com/library/detail.aspx?g=a226abde-c9be-4124-bc24-5c4647c388d3> [Accessed 16 July 2019]



Lifestyle management

A variety of firms in the UK and abroad offer corrupt individuals the opportunity to have not only their assets but also their day-to-day lives managed for them. These organisations:

- offer visa and immigration services to enable corrupt individuals and their families to gain UK residency, and even citizenship
- manage and invest wealth in different asset classes
- give logistical day-to-day support, including child-care, shopping and travel arrangements

Providers of these services are often subject to the MLRs and overseen by either the FCA (if they offer financial advice or products), HMRC or one of the legal AML supervisory bodies. However, many do not fall under the MLRs and are therefore not required to maintain policies, processes and procedures to identify this activity.

Visa and immigration services

The UK offers fast-track access to permanent residency, and even citizenship, through its Tier 1 (Investor) Visa system. In 2015, we released a report identifying weaknesses in the checks carried out on applicants to this system between 2008 and 2015, which was dubbed the ‘blind faith’ period due to banks’ and the Home Office’s lack of scrutiny on applicants’ sources of wealth during this time.¹⁶⁶ The Home Office relied on the commitment of the applicant to transfer their funds to a UK bank account after they were awarded the Tier 1 (Investor) visa. At the same time, a UK bank might typically have accepted the Tier 1 (Investor) visa as evidence that the individual was suitable to open an account. As a result, it is unclear how much scrutiny was given to the sources of wealth of the

3,000 individuals, and their families, who were granted these ‘Golden Visas’ during this period. During the blind faith period, 37 per cent (1,115) of these visas were awarded to Chinese (and Hong Kong) nationals, and 23 per cent (695) were awarded to Russian nationals.

Since our report in 2015, there has been growing evidence that our concerns were well placed; more information has come to light about individuals linked to financial crime being able to obtain these visas.¹⁶⁷ The UK Government claims that reforms it made to the scheme in 2015 – including requiring applicants to obtain a UK bank account before being granted a visa – reduced the scheme’s vulnerability to corrupt individuals gaining access to the country. However, a joint investigation by *The Sunday Times* and *Dispatches* has since uncovered financial advisers and banks claiming to be able to circumvent these checks for clients.¹⁶⁸ This calls into question the effectiveness of the new checks in deterring corrupt individuals from using the system.

Case study: The Hajiyev family

The Hajiyev family, whose property was subject to the UK’s first UWOs, benefitted from Tier 1 (Investor) visas, which facilitated their permanent leave-to-remain status in the UK. Court documents show that Gherson solicitors – a firm specialising in immigration law – supported the family’s application, including writing to the UK Border Agency on their behalf.¹⁶⁹ Bordier and Cie, a Swiss bank, also provided supporting documents, indicating the family held in excess of £1 million in their account there.¹⁷⁰

The court documents show both firms knew of the family’s background. For PEPs like the Hajiyevs, companies are required to undertake Enhanced Due Diligence measures, such as deeper background research and potentially source of wealth checks, to identify any evidence of financial crime. If during their relationship with a customer they have reasonable grounds to suspect money laundering, then they must report it to the NCA.

Financial investment assistance

UK based family offices and wealth management firms provide high net worth individuals who have made (all or part of) their money through corrupt means with advice and assistance on how invest and safeguard this money.

¹⁶⁶ Transparency International UK, *Gold rush: Investment visas and corrupt capital flows into the UK* (October 2015) <https://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk/>

¹⁶⁷ <https://www.thetimes.co.uk/article/whos-already-got-a-golden-visa-k7jg09f0f> [Accessed 6 August 2019]

¹⁶⁸ <https://www.channel4.com/press/news/ps2-million-passport-welcome-britain-dispatches> [Accessed 31 July 2019]

¹⁶⁹ NCA v. Zamira Hajiyeva, 19 February 2018

¹⁷⁰ NCA v. Zamira Hajiyeva, 19 February 2018

Case study: Fern Advisers

In a 2014 commercial court case, it emerged that Fern Advisers had begun acting as a family office for the Shchukins.¹⁷¹ They assisted in the relocation of funds deriving from the family's businesses in Siberia.¹⁷²

Alexander Shchukin is currently under house arrest for his alleged role in a scheme to illegally obtain a Siberian coal mine and bribe regional public officials investigating the mine.¹⁷³

Ildar Uzbekov – son in law of Alexander Shchukin, the businessman at the head of the family – is a director of Fern.¹⁷⁴ According to the court documents, Fern was tasked with maintaining the family's London presence (with Alexander Shchukin's daughter already residing in the UK) and investing their funds in for-profit ventures.¹⁷⁵ Fern remains an active UK company, but we could not identify it being registered with an AML supervisor. It is unclear whether funds derived from the mines under investigation are being routed through it.

The Shchukin family denies involvement in criminal activity, claiming the case is politically motivated.¹⁷⁶

Concierge services

Concierge services assist corrupt individuals with their day-to-day lives, including making appointments (such as restaurant bookings) and travel arrangements.

Those providing concierge services are rarely regulated for money laundering purposes. Criminals using these services therefore benefit from not having to personally interact with regulated activities, as it is the concierge who procures items from high-value dealers or arranges the rent of luxury property.

Case study: Nirav Modi

A recent example of this is that of Nirav Modi, an Indian diamond broker alleged to have defrauded Punjab National Bank, with the assistance of bank officials, of more than £1 billion.¹⁷⁷ In March 2019, he was detained in UK after *The Telegraph* found him living in London.¹⁷⁸ During his time in London as a fugitive, he engaged the services of a personal assistant, Frances Hallworth-Nobel, who runs The London Concierge Company.¹⁷⁹

The London Concierge Company specialises in 'lifestyle management', with services including:

- executive diary-management services
- organising VIP cars
- booking restaurants
- purchasing 'special gifts' for clients¹⁸⁰

The company does not fall under the MLRs and therefore does not have to carry out checks on clients. We make no allegation of criminal wrongdoing by the firm. Mr Modi has denied any wrongdoing.¹⁸¹

¹⁷¹ Fern Advisers Ltd v Burford & Ors [2014] EWHC 762 (QB) (01 April 2014) [https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWHC/QB/2014/762.html&query=\(fern\)+AND+\(cyprus\)](https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWHC/QB/2014/762.html&query=(fern)+AND+(cyprus)) [Accessed 2 July 2019]

¹⁷² Fern Advisers Ltd v Burford & Ors

¹⁷³ <https://www.pressreader.com/uk/the-sunday-telegraph/20181014/281719795547034> [Accessed 2 July 2019]

¹⁷⁴ <https://beta.companieshouse.gov.uk/company/06760138/officers> [Accessed 4 September 2019]

¹⁷⁵ Fern Advisers Ltd v Burford & Ors

¹⁷⁶ <https://www.pressreader.com/uk/the-sunday-telegraph/20181014/281719795547034> [Accessed 2 July 2019]

¹⁷⁷ <https://www.bbc.co.uk/news/world-asia-india-47621519> [Accessed 6 August 2019]

¹⁷⁸ <https://www.bbc.co.uk/news/world-asia-india-47621519> [Accessed 6 August 2019]

¹⁷⁹ <https://www.telegraph.co.uk/news/2019/03/23/concierge-super-rich-pa-forindias-wanted-man-nirav-modi/> [Accessed 6 August 2019]

¹⁸⁰ <http://www.londonconciergecompany.com/> [Accessed 6 August 2019]

¹⁸¹ <https://www.bbc.co.uk/news/world-asia-india-47621519> [Accessed 6 August 2019]



Education

Prestigious UK educational institutions are a key pull factor that brings corrupt individuals and their families to the UK. By sending children to independent school and university in the UK, they can start to integrate themselves into society's elite, gaining respectability and legitimacy in the process. This 'reputation laundering' could even lead to corrupt individuals gaining access to influence by building ties with other wealthy, powerful families.

There are a number of different types of education services offered in the UK, all of which represent targets for those seeking to buy world-class education with corrupt wealth. These include:

- independent schools and universities providing world-leading education services, as well as respectability and access to elite social networks for parents
- educational consultants helping to secure places at the most prestigious institutions
- guardians looking after children whilst their parents live outside the UK (this may be particularly useful if the parent is an overseas PEP in public office)

Those providing educational services are not covered by the MLRs, but may submit SARs.¹⁸² Usually, it falls to the banks involved in these transactions to carry out checks on where the money paying for these services comes from.

Case study: Gulnara Karimova's Daughter

In March 2019, *The Guardian* reported that the daughter of Gulnara Karimova – under global investigation for her role in bribery schemes worth £780 million – attended Brighton College,¹⁸³ which charges up to £14,400 per

term.¹⁸⁴

Case study: Relative of Bashar Al-Assad

In May 2019, the NCA seized more than £20,000 in from the niece of Bashar al-Assad, stating she had no legitimate source of income and had family members on international financial sanctions lists.¹⁸⁵ She had recently graduated from the University of the Arts London,¹⁸⁶ where international student fees were in excess of £17,000 per year when she attended.¹⁸⁷

Case study: Laundromat funds paid to UK educational institutions

Using Laundromat data, we identified 492 payments worth more than £4.1 million to 177 different institutions (see Table 5). These payments all came from shell companies with bank accounts at institutions that have since closed due to mismanagement and money laundering failings.

Table 5: No. and value of payments from Laundromats to types of UK-based educational organisations

Service type	Number of transactions	Value of payments
Independent schools	327	£2,795,046
Universities	59	£515,198
Private language school	32	£390,700
Education consultants	47	£330,523
Event	1	£61,967
Guardian	24	£53,725
Adult education	2	£2,489
Grand Total	492	£4,146,671

A variety of institutions and organisations received these funds:

- Prestigious independent schools like Charterhouse and Harrow, and universities like University of St.

¹⁸² NCA, *Suspicious activity reports (SARs) annual report 2018* p.15

¹⁸³ <https://www.theguardian.com/world/2019/mar/12/gulnara-karimova-new-details-emerge-in-story-of-uzbekistans-first-daughter> [Accessed 2 July 2019]

¹⁸⁴ <https://www.brightoncollege.org.uk/admissions/fees-online-payment/> [Accessed 2 July 2019]

¹⁸⁵ <https://nationalcrimeagency.gov.uk/news/al-assad-family-cash-forfeited-in-london-court> [Accessed 2 July 2019]

¹⁸⁶ <https://www.standard.co.uk/news/crime/assad-family-cash-frozen-after-dictators-niece-found-living-in-london-a4121211.html> [Accessed 2 July 2019]

¹⁸⁷ <https://www.arts.ac.uk/study-at-ual/fees-and-funding/tuition-fees/undergraduate-tuition-fees> [Accessed 2 July 2019]

Andrews and University College London received fees for teaching and tuition.

- Parents Abroad Limited and Bright World Guardians received payments for guardian services.
- Gabbitas educational consultants, who assist parents in gaining 'top school places' for their children, received funds through the scheme.¹⁸⁸

We make no allegations of wrongdoing against these institutions, however these payments highlight the exposure of those across the sector to suspicious wealth.



Legal defence

The UK is home to a legal community of thousands of individuals and firms offering a variety of services. Corrupt individuals are able to use these services to defend themselves and their commercial interests, and to cleanse their reputations.

FATF identifies litigation as a way in which criminals may seek to abuse the legal system.¹⁸⁹ UK courts have ruled sham litigation, involving fabricated disputes to make a transfer of funds appear legitimate, to be a form of money laundering. Lawyers must ensure the case brought to them is genuine and not an attempt to move criminal funds.

Legal advice, advocacy work and representation are not defined under POCA or the MLRs as ‘regulated activity’. Therefore, those providing these services are not required to carry out full AML checks on clients for these services. Law firms will, however, be regulated for other services they offer involving managing client funds, company formation or property transactions. For this work, one of nine legal supervisory bodies or HMRC oversees them.

A serious and worrying pattern is the repeated use of British law firms to issue cease and desist letters to journalists and non-governmental organisations (NGOs) seeking to expose potential corruption, even if the stories or journalists have no presence in the UK. Those providing these services will be required to abide by the MLRs, but may not view this type of activity as a high money laundering risk.

Criminal defence

Under UK law, it is possible to prevent corrupt individuals from using illicit wealth to pay for legal defence. This is reliant on the prosecuting authority successfully obtaining a restraining order on a defendant’s assets.¹⁹⁰ Such orders require reasonable grounds to suspect that the defendant has benefitted from criminal conduct. Legal expenses cannot be paid with such funds.

Even when these orders are granted they are not watertight, which can allow defendants access to corrupt wealth. Orders can be amended or varied, which can reduce their scope, giving a corrupt individual access to funds they may have already successfully laundered.¹⁹¹

Should corrupt individuals retain control of their assets, these can be used to pay for expensive defence lawyers.

‘The people that are involved in grand corruption, the corrupt elite, will be very litigious’¹⁹²

Rupert Broad, head of the International Anti-Corruption Co-ordination Centre

This has a knock-on effect for those seeking to pursue these individuals in court. If a defendant is acquitted, prosecutors face paying the costs of bringing the case to court, which may be considerable due to the length of time that corruption trials can last. This can deter police and prosecutors from using public funds to bring cases they may lose to court.

Commercial law

Corrupt individuals who have not yet been prosecuted for their crimes may seek to settle commercial disputes in UK courts, with the status of the legal system allowing them to gain respectability and legitimacy if they are successful.

A 2019 report by Portland highlighted how exposed those offering services in this sector are to those seeking to legitimise their money and reputations.¹⁹³ Overall, 119 litigants from India, Kazakhstan, Russia and Ukraine – all considered high-corruption-risk jurisdictions – used UK commercial courts in 2018-19.¹⁹⁴

¹⁸⁹ FATF, *Money laundering and terrorist financing vulnerabilities of legal professionals* (June 2013) pp.69-70 <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20vulnerabilities%20legal%20professionals.pdf>

¹⁹⁰ Proceeds of Crime Act 2002, Section 40 <http://www.legislation.gov.uk/ukpga/2002/29/part/2/crossheading/restraint-orders>

¹⁹¹ A variation or amendment will only happen either if the prosecution agrees to it or the court orders it.

¹⁹² <https://mlxmarketinsight.com/insights-center/editors-picks/anti-bribery-and-corruption/cross-jurisdiction/corrupt-elite-are-very-litigious,-which-complicates-probes,-says-anti-graft-police-chief> [Accessed 2 October 2019]

¹⁹³ https://portland-communications.com/pdf/Commercial-Courts-Report-2019.pdf?utm_medium=email&utm_campaign=Send%20email&utm_content=Send%20email+&utm_source=Email%20marketing%20software&utm_term=here [Accessed 10 September 2019]

¹⁹⁴ https://portland-communications.com/pdf/Commercial-Courts-Report-2019.pdf?utm_medium=email&utm_campaign=Send%20email&utm_content=Send%20email+&utm_source=Email%20marketing%20software&utm_term=here [Accessed 10 September 2019]

Case study: Laundromat Payments to UK law firms

Our analysis of Laundromat payments, leaked to OCCRP, identified 32 different UK law firms that received almost £9 million for legal services. Many of these are globally renowned firms with offices around the world. These payments came from shell companies with accounts at Baltic banks that have now been closed. These very same mechanisms have been used in the past to launder money. It is unclear from the transaction data what services these UK firms supplied.

Many of the payment references indicate trade mis-invoicing, with payment purposes bearing no relation to the services the beneficiary firms normally provide. For example, Clyde and Co LLP, a global law firm, received £1 million over seven different transactions for ‘computers’, whilst Edward Marshall LLP received a payment of around £140,000 for ‘furniture’. Edward Marshall LLP were unable to search their records or provide any information about the transaction they received because the relevant details were destroyed under data protection requirements. Clyde and Co. were unable to comment due to client confidentiality but say it holds itself to the highest professional, legal and ethical standards and takes responsibility for ensuring it meets them.

Case study: Oleg Deripaska

Many of the litigants using the UK courts are wealthy billionaires, who made their fortunes from post-Soviet state privatisations. Oleg Deripaska – a Russian billionaire accused of threatening the lives of business rivals, illegally wiretapping a government official and taking part in extortion and racketeering – has made repeated use of the UK commercial court system.¹⁹⁵ This has involved attempts to sue business rivals, as well as to overturn judgements against him.

Deripaska denies these allegations against him; however, UK court documents give an insight into the way in which he conducts business. He lost a 2019 court case over ownership of a Moscow factory after CCTV footage showed what appeared to be armed force being used to secure the facility.¹⁹⁶ During the course of this case, it emerged that Deripaska had employed forensic accountants and private investigators from a firm called

PKF to gather information on Vladimir Chernukhin (a business rival) and his wife’s financial activity.¹⁹⁷ Deripaska sought to pass the resulting information on to the NCA with a view to Chernukhin’s wealth being investigated.¹⁹⁸ Howard Hill, Richard Forrest and Lee Stewart – all of whom worked for PKF – were fined £100,000 for data protection offences related to this investigation in 2013.¹⁹⁹

Oleg Deripaska said his company sought regular ‘due diligence’ on Chernukhin, but he had no personal involvement in instructing PKF.²⁰⁰

Reputation defence

UK law firms are also able to assist with reputation-maintenance services. These services can be used to enable corrupt individuals to silence allegations against them and hide adverse media. This is achieved through initially issuing ‘cease and desist’ letters to journalists and NGOs seeking to publish information on criminal activity. Due to the high costs involved in legal battles that may arise from publishing, this can result in the articles or reports not being published, or even being destroyed.

Case study: Libel letters and the kleptocracy tour

In 2017, Private Eye profiled Mishcon de Reya who frequently provided cease and desist services to clients.²⁰¹ In 2016, the firm sent journalists who attended a ‘Kleptocracy Tour’ of London assets bought with suspected corrupt wealth²⁰² letters on behalf of their client, Andrey Yakunin, whose property was featured in the event.

The letter threatened to sue anyone reporting on the tour or on allegations against Andrey Yakunin (the son of Vladimir Yakunin, former head of Russian Railways, who is currently under US sanctions). Whilst larger outlets published pieces on the tour, the *Ham & High* newspaper chose to apologise for and withdraw its own piece.²⁰³

Case study: Can law firms choose clients?

Law firms are beginning to apply greater scrutiny to potential clients, even for services outside of MLRs. Following a Private Eye article highlighting how Clifford Chance had represented Teodoro Obiang in relation to

¹⁹⁵ https://www.washingtonpost.com/world/europe/whatever-he-wants-inside-the-region-russian-oligarch-oleg-deripaska-runs-like-a-personal-fiefdom/2019/02/15/c00f7e10-1e61-11e9-a759-2b8541bbbe20_story.html [Accessed 2 July 2019]

¹⁹⁶ <https://www.telegraph.co.uk/news/2019/02/07/putin-ally-loses-high-stakes-legal-battle-moscow-factory/> [Accessed 2 July 2019]

¹⁹⁷ Oleg Vladimirovich Deripaska v. Lolita Vladimirovna Danilina and Vladimir Anatolevich Chernukhin [2019] EWHC 173 (Comm) Paragraph 248 http://www.serlecourt.co.uk/images/uploads/news-and-events/Danilina_v_Chernukhin_approved.pdf

¹⁹⁸ <https://www.thetimes.co.uk/article/russian-oligarch-ordered-investigation-into-his-rival-s-wealth-7px0t66t6> [Accessed 2 July 2019]

¹⁹⁹ R v Howard Hill, Richard Forrest and Lee Stewart <https://www.judiciary.uk/wp-content/uploads/JCO/Documents/Judgments/Hill-others-sentencing-remarks-201213.pdf> [Accessed 2 July 2019]

²⁰⁰ <https://www.thetimes.co.uk/article/briton-spied-on-oligarchs-factory-rival-gqpnss2ch> [Accessed 2 July 2019]

²⁰¹ Private Eye, *Looting with Putin* (2018) https://www.private-eye.co.uk/pictures/special_reports/looting-with-putin.pdf

²⁰² <http://kleptocracytours.org/> [Accessed 8 October 2019]

²⁰³ Private Eye, *Looting with Putin*

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a US corruption case, the firm made a statement at our 2018 annual lecture saying they would not now ‘act for the likes of Obiang even on an access to justice issue.’²⁰⁴

Whilst it is important that all individuals benefit from access to justice, the UK legal community should consider what more could be done to prevent corrupt individuals from using the UK court system to attain impunity. For example, if a firm wants to take on a client in such circumstances on an ‘access to justice’ basis, it could be at legal aid rates.



Influence

The UK is home to businesses that can offer influence through media and political channels, both to corrupt individuals and regimes. This helps to build their legitimacy and gain political influence, which can help further cement their position of power.

Public relations work is not commonly perceived to be a high money laundering risk, and is not subject to any statutory KYC or due diligence requirements. However, those firms that are members of a trade association have codes of conduct they must adhere to, which include consideration of the public interest.²⁰⁵ Whilst it is rare, occasionally PR firms are thrown out of their trade associations for breaking these rules.

For example, the Public Relations and Communications Association (PRCA) expelled Bell Pottinger in 2017²⁰⁶ for its role in what was described as a ‘hateful and divisive campaign to divide South Africa along the lines of race’²⁰⁷ for a business owned by the controversial Gupta family, who were close associates of the then President, Jacob Zuma.²⁰⁸

Favourable media

A variety of UK firms offer advice and assistance to individuals and regimes with corruption allegations against them. This often involves managing media relations and coverage, with their clients seeking to suppress adverse publicity and promote favourable exposure.

Case study: Omnia Strategy and the Government of the Maldives

In 2016, it emerged that Omnia Strategy – a UK law firm headed by Cherie Blair – received £420,000 from the Maldives Government to advise on media relations and governance.²⁰⁹ This contract came at a time when the Government of the Maldives was under threat of sanctions for human rights violations.²¹⁰ After the contract was signed, Cherie Blair released a statement saying sanctions on the Maldives were ‘inappropriate and unjustified’.²¹¹

A *Daily Mail* investigation found that Mohamed Allam Latheef – a businessman at the time on the Interpol red notice list over his involvement in corruption, arms trafficking, terrorism, and the embezzlement of more than £30 million in public money – paid £210,000 of the contract.²¹² Omnia took on the contract despite allegations that the democratically elected Government of the Maldives had been deposed at gunpoint in 2012. The president at the time the contract was granted has now been arrested for corruption offences he is alleged to have committed whilst in office.²¹³

The contract was terminated once the allegations around Mohamed Allam Latheef came to light. Omnia said they would investigate the payment but they have not published an update. Whilst there is no suggestion of criminal wrongdoing on behalf of Omnia, this case calls into question their due diligence procedures.

Political lobbying

Public relations firms also offer their clients the opportunity to meet and gain familiarity with UK politicians, which may be to their benefit. In our report *In Whose Interest?* we identified lobbying by the Government of Azerbaijan, described in leaked US diplomatic cables as ‘feudal’ and mired by multiple allegations of systemic corruption, using the services of UK lobbyists. However, this was far from an isolated incident.²¹⁴

²⁰⁵ PRCA, *Professional charter* (2019) <https://www.prca.org.uk/sites/default/files/downloads/PRCA%20Codes%20of%20Conduct%20-%2028th%20Feb%202019.pdf>

²⁰⁶ <https://www.prca.org.uk/campaigns/ethics/bell-pottinger-case-study> [Accessed 6 August 2019]

²⁰⁷ <https://www.bbc.co.uk/news/business-41151361> [Accessed 4 September 2019]

²⁰⁸ <https://www.bbc.co.uk/news/world-africa-22513410> [Accessed 4 September 2019]

²⁰⁹ <https://www.dailymail.co.uk/news/article-3451999/Cherie-Blair-facing-corruption-probe-threat-420-000-deal-Maldivian-despot.html> [Accessed 05 July 2019]

²¹⁰ <https://www.independent.co.uk/news/uk/politics/cherie-blair-s-firm-accused-of-unethical-profiteering-over-deal-with-maldives-10330023.html> [Accessed 6 August 2019]

²¹¹ <https://maldivesindependent.com/politics/cherie-blair-speaks-out-against-sanctions-on-maldives-117458> [Accessed 05 July 2019]

²¹² <https://www.dailymail.co.uk/news/article-3451999/Cherie-Blair-facing-corruption-probe-threat-420-000-deal-Maldivian-despot.html> [Accessed 05 July 2019]

²¹³ <https://www.dw.com/en/maldives-court-orders-arrest-of-ex-president-yameen-abdul-gayoom/a-47565284> [Accessed 6 August 2019]

²¹⁴ Transparency International UK, *In whose interest? Analysing how corrupt and repressive regimes seek influence and legitimacy through engagement with UK parliamentarians* (July 2018) pp.7-10 <https://www.transparency.org.uk/publications/in-whose-interest>

Case study: New Century Media

New Century Media – a UK public affairs firm that claims to have ‘the highest level contacts across global business, media and politics’ to further its clients’ interests²¹⁵ – has donated more than £153,000 to the Conservative Party over the last 10 years.²¹⁶ In 2014, an investigation by *The Guardian* showed how the firm had helped Russian MPs close to Vladimir Putin gain access to senior UK politicians, including the then prime minister.²¹⁷ Their website shows that RosAtom, the Russian state nuclear company, have also been clients.²¹⁸

The firm also represented the personal foundation of Dmytro Firtash, who the US DoJ alleged in a 2013 indictment was part of a scheme, dating back to 2006, to bribe Indian officials in order to obtain a mining license.²¹⁹ New Century assisted the charity to secure a prestigious event in Parliament in September 2013, with prominent MPs such as John Whittingdale in attendance.²²⁰ Firtash has remained in Vienna since the indictment was published, seeking to fight extradition.

New Century Media is not a member of lobbying trade body the Public Affairs Board and has not registered with the statutory register of consultant lobbyists; its full list of clients is therefore unknown. There is no evidence to suggest New Century Media has broken the law; however, the way in which it accesses parliamentarians exposes how the UK political system is vulnerable to influence by questionable individuals and parts of repressive regimes.

²¹⁵ <http://www.newcenturymedia.co.uk/about/> [Accessed 2 July 2019]

²¹⁶ <http://search.electoralcommission.org.uk/>

Search?currentPage=1&rows=10&sort=Value&order=desc&tab=1&open=filter&et=rd&isIrishSourceYes=true&isIrishSourceNo=true&rptPd=3674&prePoll=false&postPoll=true®ister=gb®ister=ni®ister=none&optCols=Register&optCols=IsIrishSource&optCols=ReportingPeriodName [Accessed 2 July 2019]

²¹⁷ <https://www.theguardian.com/politics/2014/jul/01/sp-tory-summer-party-drew-super-rich-supporters-with-total-wealth-of-11bn> [Accessed 2 July 2019]

²¹⁸ <http://www.newcenturymedia.co.uk/experience/> [Accessed 05 July 2019]

²¹⁹ United States of America v Dmitry Firtash <https://www.politico.com/f/?id=0000016b-817e-d5f3-a1ef-87ffa4710000> [Accessed 6 August 2019]

²²⁰ <https://www.independent.co.uk/news/uk/politics/exclusive-tories-under-fire-for-links-to-pro-russia-lobbyists-9583023.html> [Accessed 15 July 2019]



High-profile investments

The UK is home to hundreds of globally renowned brands and institutions. Corrupt individuals may seek to launder their reputations by making philanthropic donations to these institutions, setting-up franchises of prestigious brands, or buying them outright.

Recipients will often be under no obligation to carry out money laundering checks on these funds; however, to protect their own reputations they may wish to carry out due diligence on donors and investors, and their source of wealth.

Philanthropic donations

Corrupt individuals may seek to spend their illicit wealth on setting up or donating to charitable or educational institutions. Whilst this might not generate profit for them, it is a way in which to launder their images, buying respectability and legitimacy.

Case study: The University of Cambridge and Dmytro Firtash

Between 2010 and 2012 Dmytro Firtash – currently fighting extradition to the US from Vienna (see New Century Media case study above) – invested £6 million to The University of Cambridge,²²¹ of which £4.3 million came from his UK charitable foundation. In 2011 he was made a member of the Guild of Cambridge Benefactors, and in 2012 he received the University of Cambridge Chancellor's 800th Anniversary Campaign Medal for Outstanding Philanthropy.²²²

Cambridge claim the benefaction 'was fully investigated and approved by the university's advisory committee on benefactions.'²²³

Prestige companies

Globally renowned brands in the UK are a target for corrupt individuals seeking to generate profit and build legitimacy.

Case study: Investment in UK luxury goods brands

In 2014 two Russian businessmen, Dmitry Tsvetkov and Rustem Magdeev, set up franchises for Graff Diamonds and London's Halcyon Art Gallery in Limassol, Cyprus. Dmitry Tsvetkov is the son in law of Rinat Khayrov, a Russian MP from Tatarstan. Tsvetkov is also alleged to have benefitted from Russian state funds intended for the production of drones. He has since denied involvement in this case.²²⁴

High Court documents relating to a case now being fought between the two former partners allege Magdeev has connections to organised criminals, a claim Magdeev denies.²²⁵ The pair are also alleged to have bought and sold tens of millions of pounds worth of Graff jewellery between 2014 and 2016, at which point the venture broke down due to a disagreement.

Graff and Halcyon have now terminated their agreements with the pair. It is unclear what checks they undertook before allowing the Limassol franchise to proceed.

²²¹ <https://www.varsity.co.uk/news/12328> [Accessed 6 August 2019]

²²² <https://www.varsity.co.uk/news/12328> [Accessed 6 August 2019]

²²³ <https://www.varsity.co.uk/news/12328> [Accessed 6 August 2019]

²²⁴ <https://www.letemps.ch/economie/nimaginez-point-hommes-daffaires-dorigine-russe-sommes-contrôles> [Accessed 05 July 2019]

²²⁵ <https://www.thetimes.co.uk/article/the-super-rich-graff-diamond-dust-up-6gqhk0c0h> [Accessed 6 August 2019]

CONCLUSIONS

There is continued debate about the economic damage caused by corruption globally, but what is not disputed is that the amounts easily total tens of billions of pounds per year. The loss of public funds and subsequent impact on the provision of basic services – such as health, education and the rule of law – is hard to quantify given the vast scale of money involved. Whilst this seems like a foreign problem, we cannot escape that UK services often enable this criminality and are the destination of its proceeds.

These are not homogenous villains in suits, hell-bent on making a fast pound at anyone's expense, but rather businesses and individuals that lie across a spectrum of involvement – from the unwitting to the unscrupulous. Understanding the role these enablers play in global corruption is important to defining targeted interventions to detect similar behaviour and deter it from happening in the future. In this report, we have sought to provide an indication of the breadth of this activity and bring to life some of the realities of what enabling constitutes in practice.

We do not pretend it captures all of the nuances, or even anywhere near the full picture, but it does provide more colour to what has been a stylised debate on this subject. We also recognise that there that a large proportion of businesses and professionals are extremely dedicated to doing their bit to help tackle corruption abroad and any proceeds of such activity that ends up here in the UK. We are not suggesting from our inquiry that their contribution is not recognised – it is both welcome and critical. However, we have felt compelled to shine a light on their less vigilant and scrupulous counterparts in the absence of an open debate about these awkward truths.

Though we cannot say for sure what the motivations and misjudgements are that led to the behaviour described in this report, we do know what fails to aid greater compliance with the law. It has been clear for some time that the UK's system for overseeing compliance with AML laws is inadequate. There are 25 different supervisors tasked with ensuring the private sector adheres to these rules however this system is deeply flawed. Many of these bodies act as both regulators and trade bodies for their industry, leading to obvious and real conflicts of interest. Furthermore, where wrongdoing is found, enforcement through both civil and criminal sanctions is low, leading to a lack of effective deterrent against cavalier AML practice. This then drives low compliance with regulations which in turn diminishes the number of actionable reports available to the police. This system requires a fundamental overhaul if the UK is to stand any chance of ensuring its private sector provide an effective frontline defence against dirty money.

In this report we have also identified several areas in which high levels of illicit wealth are handled by those offering services that are not even subject to AML oversight. Some of the revelations about these businesses' and institutions' involvement in the lifecycle of corruption are only now being revealed; as such, there is much less understanding of the risks they are exposed to compared to those who have a legal obligation to identify and report the suspected proceeds of corruption. It is important that those providing these goods and services – for example independent schools – are made aware of the potential money laundering risks they are exposed to. More work needs to be done to understand how those offering unregulated services can contribute towards the intelligence picture and help in the fight against money laundering.

As the UK seeks to re-negotiate its trading relationship with the world, these questions become even more important. If Britain wants to be a safe, reliable jurisdiction in which to do business, and where good governance and the rule of law are sacrosanct, then it must take measures to ensure its businesses meet the highest possible standards. Failing to do so would not only allow corrupt kleptocrats to continue plundering public money but would also leave the UK isolated; a rogue haven for dirty money floating off the coast of Europe.

ANNEX I: LIST OF UK AML SUPERVISORS

Public sector AML supervisors

1. Financial Conduct Authority
2. HMRC
3. Gambling Commission

Professional body AML supervisors

4. Association of Accounting Technicians
5. Association of Chartered Certified Accountants
6. Association of International Accountants
7. Association of Taxation Technicians
8. Chartered Institute of Legal Executives
9. Chartered Institute of Management Accountants
10. Chartered Institute of Taxation
11. Council for Licensed Conveyancers
12. Faculty of Advocates
13. Faculty Office of the Archbishop of Canterbury
14. General Council of the Bar
15. General Council of the Bar of Northern Ireland
16. Insolvency Practitioners Association
17. Institute of Certified Bookkeepers
18. Institute of Chartered Accountants in England and Wales
19. Institute of Chartered Accountants in Ireland
20. Institute of Chartered Accountants of Scotland
21. Institute of Financial Accountants
22. International Association of Bookkeepers
23. Law Society
24. Law Society of Northern Ireland
25. Law Society of Scotland

ANNEX II: RELEVANT TRANSPARENCY INTERNATIONAL UK PUBLICATIONS

The cost of secrecy: The role played by companies registered in the UK's Overseas Territories in money laundering and corruption (December 2018)

In whose interest? Analysing how corrupt and repressive regimes seek influence and legitimacy through engagement with UK parliamentarians (July 2018)

Accountable asset return: UK country level civil society report by corruption watch and transparency international UK (December 2017)

Hiding in plain sight: How UK companies are used to launder corrupt wealth (November 2017)

Offshore in the UK: Analysing the use of Scottish Limited Partnerships in corruption and money laundering (June 2017)

Faulty towers: Understanding the impact of overseas corruption on the London property market (March 2017)

Just on paper? Beneficial ownership legal frameworks in BVI, Cayman & Montserrat (December 2016)

Paradise lost: Ending the UK's role as a safe haven for corrupt individuals, their allies and assets (April 2016)

Don't look, won't find: Weaknesses in the supervision of the UK's anti-money laundering rules (November 2015)

Gold rush: Investment visas and corrupt capital flows into the UK (October 2015)

Empowering the UK to recover corrupt assets: Unexplained wealth orders and other new approaches to illicit enrichment and asset recovery (May 2015)

Corruption on your doorstep: How corrupt capital is used to buy property in the UK (February 2015)

Closing down the safe havens: Ending impunity for corrupt individuals for seizing and recovering their assets in the UK (December 2013)

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