



STRENGTHENING THE ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Submission of written evidence from Transparency International UK, prepared with support from Open Ownership

INTRODUCTION

Russia's continued **war against Ukraine** and its **impact on our economy** here at home has reinforced the need to combat dirty money flowing into the Western financial system, in particular from former Soviet countries. In bringing forward the Economic Crime and Corporate Transparency Bill, the Government has taken an **important step toward cracking down on kleptocrats, criminals and terrorists** – including associates of the Putin regime – who abuse UK companies for nefarious purposes.

This Bill presents a number of welcome reforms to the operation of Companies House that, if implemented effectively, would help to prevent money launderers from abusing the UK's company incorporation system, and attract clean business to our economy. These include:

- A new responsibility for the Registrar to promote and maintain the integrity of the UK company register. This is a change from the Registrar's current statutory responsibility, which is primarily to act as a passive administrator of the register.
- A new requirement for the Person of Significant Control¹ of companies, limited liability partnerships (LLPs), Scottish Qualifying Partnerships (SQPs), unregistered companies, and anyone submitting information to the UK company register to verify their identity.
- A new requirement for third-party agents – those who form companies on behalf of someone else – to (a) register with Companies House and (b) be registered in the UK with an anti-money laundering (AML) supervisor. Both AML supervisors and third-party agents will be required to inform Companies House if their registration with a UK AML supervisor ends.

However, in its current drafting, **the Economic Crime and Corporate Transparency Bill risks leaving vulnerabilities for money launderers to exploit**. Below, we set out what these shortcomings are, how to address them, and which additional reforms are needed to prevent the abuse of UK companies for corruption and money laundering schemes.

KEY RECOMMENDATIONS

To strengthen the Economic Crime and Corporate Transparency Bill – and get Companies House reform right the first time – Parliament should legislate to:

1. Prevent UK companies being used to provide a veneer of legitimacy for money launderers by **prohibiting opaque shareholders, members and partners**.
2. Improve the register's accuracy by **verifying and publishing shareholder information**.
3. Catch rogue operators by providing Companies House with the **powers to review the documentation of 'know your customer' checks** carried out by third-party agents.

The Government should recognise that Companies House reform is only part of the solution to the problem of dirty money. To address the UK's role as an enabler of financial crime globally and safe haven for illicit funds, the Government should

4. Create a credible deterrent against money laundering by adequately **resourcing law enforcement** agencies tasked with investigating economic crime.
5. Ensure an effective first-line of defence against economic crime by expediting the process to **reform the UK's fragmented and ineffective system for policing anti-money laundering rules**.
6. Increase the efficiency of transparency arrangements for the new Register of Overseas Entities (ROE) by enabling Companies House to **publish information on the ownership of trusts that control Overseas Entities**.

¹ Someone who owns or controls a company; sometimes called the 'beneficial owner'.

RECOMMENDATIONS IN DETAIL

1. Prevent UK companies being used to provide a veneer of legitimacy for money launderers by prohibiting opaque shareholders, members and partners.

In the White Paper on Companies House reform published in February 2022, the Government recognised that: “illicit activity is facilitated by multi-layered company control across multiple jurisdictions where the use of registered UK companies can give organised crime a respectable front behind which to pursue their activities”.²

In Numbers: Abuse of UK Companies

Using data provided by the OCCRP and collected from open source research, Transparency International UK has identified 1,628 LLPs used in various corruption and money laundering schemes.³ These schemes operated over a 12 year period between 2004 and 2016. Although at least US\$730 billion of suspicious funds moved through these schemes, the actual amount is likely significantly higher.

Further to this Transparency International have also identified hundreds of Limited companies and Limited Partnerships used in global corruption and money laundering, many of which remain active to this day. This is likely to be just the tip of the iceberg with the scale of abuse of these company types far higher in reality.

Abuse of UK-registered companies is possible in large part because they can be controlled by opaque offshore corporate entities, making it virtually impossible to identify who is really behind them.

Despite the risks associated with opaque corporate ownership, the Bill in its current form makes no changes that would disallow private limited companies, limited liability partnerships (LLPs), limited partnerships (LPs), or Scottish limited partnerships (SLPs) from having opaque corporate shareholders, partners or members based in secrecy jurisdictions.

In circumstances where companies and partnerships are controlled by opaque offshore entities, it will continue to be difficult to verify their true owners and whether the information on Companies House about them is correct.

Getting this reform right is key. There is a wealth of evidence that private limited companies, LLPs and LPs have been abused on an industrial scale⁴, seemingly in large part because they can be controlled by offshore corporate members, partners and shareholders registered in secrecy jurisdictions where there is little public information about companies and their beneficiaries.

To ensure transparency over control of UK companies and partnerships, Parliament should legislate to prohibit opaque corporate shareholders, partners and members. This can be resolved through:

- Prohibiting opaque corporate shareholders, partners and members for new companies and partnerships, and
- Extending the Register of Overseas Entities to offshore corporate control of companies; overseas corporate shareholders, partners or members would then need to register as ‘overseas entities’ with Companies house, filing verified beneficial ownership information in the process.

² <https://www.gov.uk/government/publications/corporate-transparency-and-register-reform>

³ <https://www.transparency.org.uk/partners-in-crime-UK-LLP-Limited-Liability-Partnership-money-laundering>

⁴ The Government’s White Paper (<https://www.gov.uk/government/publications/corporate-transparency-and-register-reform>) notes the use of UK registered LLPs in the Azerbaijani and Russian laundromats and Danske Bank scandal (p.17).

2. Improve the register's accuracy by verifying and publishing shareholder information.

Transparency over shareholder information is key to preventing abuse of companies. It is also regarded by the World Bank⁵ as being critical for creating a 'business-enabling' environment that **promotes growth** by creating equality of opportunity and ensuring a sustainable economy.

The Bill introduces a new requirement for private limited companies to record full names for shareholders in their registration (information companies must already collect), as well as a requirement for certain companies to provide a one-off full shareholder list. While these reforms are a step in the right direction, shareholder data will continue to be of a worse standard than other information on the register without further reform.

In Brief: Shareholder Data at Companies House

- Information about the shareholders of UK-registered companies is **difficult to access**: for most companies, this information is spread across multiple PDF documents spanning several years. This means there is not one single place you can go to see an up-to-date picture of a company's shareholders, nor is there a single place where all companies' shareholders are listed one can see the connections between them.
- Shareholder information is also **extremely limited**, with just a name given for either a person or a company. There is no additional information required that would clarify who that person or company is: unlike a company's directors, there is no information on address, month or year of birth, nationality or country of incorporation (for legal entities). This makes it impossible to know with any certainty exactly who shareholders are.
- Shareholder information is also **not verified**. Neither Companies House nor the third-party agents setting up companies have to verify that shareholders are who they say they are. This reduces the reliability of shareholder information published by Companies House, and in turn the accuracy of the corporate register as a whole.
- Shareholder information is **incomplete** and does not state when someone is holding shares as a nominee on behalf of another person. Requiring shareholders to flag when they are acting as nominees (and on whose behalf they are acting) would increase transparency over company control and reduce the scope of attempted evasion of the people of significant control (PSC) rules.⁶

To prevent false declarations to the company register, and to ensure information is accurate and up to date, all companies' shareholder data ((company number, address, nationality, country of incorporation, month and year of birth, and nominee status if applicable), should be published on an annual basis and in open data format. Supporting documentation should be required from significant shareholders who hold more than 5 per cent⁷ of shares in Public or Private Limited companies to help authenticate their identities. This should apply for both natural persons and legal entities.

Case study: Savaro Ltd.

In August 2020, tonnes of ammonium nitrate exploded in portside Beirut, flattening the surrounding area and killing over 200 people and wounding thousands more. The reported owner of these dangerous chemicals was a UK-registered private limited company called Savaro Ltd.⁸

⁵ <https://www.worldbank.org/en/programs/business-enabling-environment>

⁶ Publishing nominee status as part of up-to-date shareholder information offers a means of compliance with Financial Action Task Force (FATF) recommendation 24, which includes the disclosure and publication of nominee status as a mechanism for preventing and mitigating the misuse of nominee shareholding. See <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>, p. 95 paragraph 13.

Similarly, while the Bill introduces requirements to verify the identity of beneficial owners, it should also require verification of the declared means through which ownership or control are exercised. This approach would be fully compliant with recommendation 24, which calls for verification of both the identity and "status" of the beneficial owner (p. 94, paragraph 9). Some checks of this information could be conducted with Companies House's new powers, provided they are used proactively to query information based on risk. Requiring this in primary legislation will ensure this aspect of verification can be appropriately covered in regulations.

⁷ 5% is a recognised threshold for certain levels of control in how a company is run (those with at least 5% shareholdings have the right to apply to court to prevent the conversion of a public company into a private company, call a general meeting, require the circulation of a written resolution to shareholders (in private companies) and require the passing of a resolution at an annual general meeting (AGM) of a public company.)

⁸ <https://www.reuters.com/article/uk-lebanon-crisis-blast-britain-idUKKBN29S014>

The data provided by Savaro Ltd. gives an insight into the poor quality of shareholder information held on Companies House presently, which hinders rather than helps investigations. To identify the company's shareholders at the time of the blast, you have to go to filings as far back as 2015, where documents name 'Status Grand Limited' as its sole owner.⁹ Instead of confirming the identity of shareholders annually, companies merely have to say no shareholders have changed. Similarly, this information is hidden in PDF documents, so it is often unnecessarily time-consuming to establish who held shares in an entity at a particular point in time.

Even then, no further information is given as to where Status Grand is registered or its contact details. Having this information is critical to financial investigations because there are often multiple companies with the same name, incorporated in different jurisdictions, with little or no connection to each other. Knowing the jurisdiction of incorporation for an entity provides a solid starting point for further enquiries, which could include mutual legal assistance requests for law enforcement agencies. Not having this information significantly slows down investigations and can even lead to dead ends.

Savaro Ltd.'s real owner was only revealed after substantial further research by the Organized Crime and Corruption Reporting Project (OCCRP), the identity of whom had been hidden behind complex layers of nominees.¹⁰ Providing more information about Savaro Ltd.'s shareholders and in data form would have sped-up this process significantly. When contacted previously by investigators at OCCRP, Savaro's British lawyer, Richard Slade, did not respond to a request for comment.

⁹ <https://find-and-update.company-information.service.gov.uk/company/05841913/filing-history/MzEyNzUxMTY5N2FkaXF6a2N4/document?format=pdf&download=0>

¹⁰ <https://www.occrp.org/en/investigations/ownership-of-chemicals-that-exploded-at-beirut-port-traces-back-to-ukraine>

3. Provide Companies House with the powers to check the documentation of 'know your customer' checks carried out by third-party agents.

Trust and company service providers (TCSPs) are third-party agents who form companies or other legal entities and provide services such as acting (or arranging for another person to act) as a partner, director or secretary of a company, or as a trustee for a trust. While TCSPs can provide a legitimate service for businesses, our research has shown that in many cases abuse of the UK's company-formation system is facilitated by those within this profession.

Case Study: Nominee Directors, Shareholders and PSCs

In 2019, using only a quick Google search, Transparency International UK found 23 active TCSPs offering nominee director, shareholder and PSC services.¹¹ One of these firms was responsible for forming thousands of UK companies we identified in our analysis of suspicious UK legal entities. In 2015, one of its employees was also found to have submitted false accounts. For its nominee PSC service, its website states:

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

'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).'

Another TCSP 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 anti-money laundering (AML) supervisor, including the two in the cases mentioned above.

Investigations by civil society organizations¹² and journalists have demonstrated that time and again UK TCSPs have been responsible for building and maintaining secretive networks built from thousands of shell companies, used to launder billions of pounds in illicit funds over the years.¹³

Under this new legislation, Authorised Corporate Service Providers (ACSPs) – TCSPs who have registered with Companies House and a UK anti-money laundering supervisor – will be required to verify information that their clients are required to submit to Companies House. The detail of these checks is still to be defined in secondary regulations. **The Bill also provides that a power may be given to Companies House to review the documentation provided by these ACSPs, but it is not clear what how this power will work, or when it can be deployed.**

Companies House should be given the power to check 'know your customer' documentation in cases where they suspect information may be misleading. Importantly, such a power would not impinge on third-party agents who are operating within the scope of the law, as no further reporting requirements would be placed on them; it would simply provide the Registrar with a useful tool to identify wrongdoing and hold rogue actors to account.

¹¹ <https://www.transparency.org.uk/publications/at-your-service>

¹² <https://www.transparency.org.uk/publications/hiding-in-plain-sight>

¹³ <https://www.financeuncovered.org/stories/english-limited-partnerships-secrecy-formation-agencies-ios-las-lotus-comform-corruption>

4. Create a credible deterrent by sufficiently resourcing all agencies in the economic crime landscape to enforce against those abusing UK companies.

Whilst the Bill does state that the role of Companies House will be changed to promote the integrity of the register, no assurances have been given that the Registrar or law enforcement agencies will be given additional funding in order to carry out this new role and achieve the ambition of the legislation.

This could partly be achieved through increasing the price of company incorporation (from £12 to at least £50) to enable Companies House to have a sustainable self-funding model for the future while still ensuring Britain remains globally competitive.

In Numbers: Company Incorporation Fees

In the UK, it costs £12 to register a company directly with Companies House.

The costs of incorporation in other English language jurisdictions include Ireland (€50 / £42), Delaware (US\$89+ / £74), New Zealand (NZD136.55 / £69.28), Canada (C\$200 / £130), Australia (AUS\$538 / £310), BVI (US\$450+ / £376), and Cayman Islands (KY\$800 / £803).

In the Netherlands, it is €50 (£42) to set up a company, plus notary fees. In Singapore, it is Sing\$315 (£198.04). In Hong Kong, it is a combination of fees exceeding HKD1500 (£171.16).

In addition to this, a cross-system response will be needed to clamp down on the use of UK companies in money laundering, which will require law enforcement agencies and regulators acting upon new streams of intelligence received from Companies House. Currently these bodies are under-resourced – as evidenced by the low levels of prosecutions and sanctions for money laundering offences.

This response will need higher levels of resourcing for bodies like the NCA to ensure Companies House reform creates a real credible deterrent against the abuse of UK companies.

In Numbers: Resourcing for the National Crime Agency (NCA)

Research by Spotlight on Corruption has shown that the government spends the equivalent of just 0.042% of GDP to tackle economic crime that costs the UK at least the equivalent of 14.5% of GDP. They also established that the NCA budget had declined in real terms by 4.5% over a period of five years.¹⁴

In recent years the NCA has called for its budget to be more than doubled to crack down on organised crime.¹⁵

¹⁴ <https://www.spotlightcorruption.org/closing-the-uks-economic-crime-enforcement-gap-proposals-for-boosting-resources-for-uk-law-enforcement-to-fight-economic-crime/>

¹⁵ <https://www.bbc.co.uk/news/uk-48261477>

5. Ensure an effective first-line of defence against economic crime by expediting the process to reform the UK's ineffective anti-money laundering system.

The UK's anti-money laundering (AML) supervisory system is made up of a group of 25 supervisors (three statutory bodies, and 22 professional body supervisors) overseeing the private sector's compliance with anti-money laundering rules. **Clearly, this system is failing to ensure the UK has an effective first line of defence against economic crime.**¹⁶

In Brief: HMRC as a Statutory Anti-Money Laundering (AML) Supervisor

HM Revenue & Customs (HMRC) is the body with primary oversight of the high-risk trust and company service provider (TCSP) sector. Although it has responsibility for ensuring the businesses it oversees comply with the Money Laundering Regulations to prevent them being used for money laundering and terrorist financing, questions have been raised about the quality of supervision HMRC provides given the continued role of TCSPs in money laundering schemes.

In 2019 the Treasury Select Committee noted that these concerns – including whether HMRC's role as a tax authority was having a negative influence on the quality of its anti-money laundering (AML) supervision - "raise doubts about whether HMRC should maintain its role as an AML supervisor".¹⁷ Since then, although it remains an AML supervisor, in its 2021 outcome delivery plan¹⁸, HMRC failed to mention anti-money laundering supervision. More recently, HMRC revealed it had failed to issue a single fine¹⁹ to TCSPs for money laundering failings in the most recent reporting period, despite high levels of evidence of non-compliance in the sector.

The UK's AML supervisory system is unfit for purpose. Oversight of private sector practices is often threadbare or non-existent; enforcement is inconsistent, inadequate and failing to provide a credible deterrent to wrongdoing; and conflicted governance – supervisors retaining both trade body representative and supervisory functions – is undermining objective oversight and fair application of sanctions for those who have acted in breach of the rules.

In Brief: The Office for Professional Body Anti-Money Laundering Supervisors (OPBAS)

The Government established OPBAS to help ensure higher standards of supervision for professional body supervisors (PBSs) in the legal and accountancy sectors, and to facilitate information sharing between PBSs, statutory supervisors and law enforcement. Below is a selection of findings from OPBAS's annual reports that exemplify problems with PBS supervision.

- **Poor resourcing.** Only 50 per cent of PBSs were fully effective at resourcing their supervisory functions, and only a 'third of supervisors assessed were effective in recruiting and retaining staff with relevant experience and providing support through ongoing professional development.'²⁰
- **Conflicts of interest.** There are significant governance concerns relating to PBSs, many of whom still do not have adequate division of their advocacy and supervisory functions. This issue was raised by OPBAS in September 2021: 'A third of PBSs did not have an effective separation of their advocacy and regulatory functions, presenting a clear risk of conflict of interest.'²¹
- **Ineffective supervision.** This issue severely undermines PBSs' ability to effectively supervise their communities. In 2018, OPBAS found 92 per cent of accountancy supervisors expressed concerns about taking robust action if this would damage their ability to attract or retain members. This risk will remain as long as conflicts of interest are not adequately handled.²²
- **Limited enforcement.** The most recent report from OPBAS found around two thirds of PBSs didn't have effective enforcement frameworks.¹⁶ For example, some PBSs could not explain their criteria for taking enforcement action and which tools would be used. It also found only a quarter of PBSs used their enforcement tools effectively.²³

¹⁶ <https://www.transparency.org.uk/publications/call-evidence-review-uks-amlcft-regulatory-and-supervisory-regime>

¹⁷ https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/2010/201005.htm#_idTextAnchor035

¹⁸ <https://www.gov.uk/government/publications/hm-revenue-and-customs-hmrc-outcome-delivery-plan/hm-revenue-and-customs-outcome-delivery-plan-2021-to-2022--2>

¹⁹ <https://www.gov.uk/government/publications/hmrc-economic-crime-supervision-annual-assessment-report-2021-to-2022/hmrc-economic-crime-supervision-annual-assessment-report-1-april-2021-to-31-march-2022#enforcement>

²⁰ <https://www.fca.org.uk/publication/opbas/supervisory-assessments-progress-themes-2020-21.pdf>

²¹ <https://www.fca.org.uk/publication/opbas/supervisory-assessments-progress-themes-2020-21.pdf>

²² <https://www.fca.org.uk/publication/opbas/themes-2018-opbas-anti-money-laundering-supervisory-assessments.pdf>

²³ <https://www.fca.org.uk/publication/opbas/supervisory-assessments-progress-themes-2020-21.pdf>

In September 2021 the Office for Professional Body Anti-Money Laundering Supervisors (OPBAS) noted: 'A third of PBSs did not have an effective separation of their advocacy and regulatory functions, presenting **a clear risk of conflict of interest.**'²⁴

The Government has recognised that reform is needed and has committed to consulting on the approach it should take. It has already completed a call for evidence on the AML supervisory regime, and should now seek to consult on reforms and bring forward legislative proposals on a priority basis. At the same time, the Government should produce best-practice metrics for supervisors, and produce a clear strategy for revoking responsibilities from professional body supervisors that fail to comply with the Money Laundering Regulations, in particular those that retain conflicts of interest between their supervisory and representative functions, in order to minimise disruption and maximise effectiveness during any period of transition.

²⁴ <https://www.fca.org.uk/publication/opbas/supervisory-assessments-progress-themes-2020-21.pdf>

6. Prevent money launderers circumventing new rules for the ROE by enabling Companies House to publish information on the ownership of trusts that control Overseas Entities.

In March of this year, the Government delivered on its longstanding commitment to introduce greater transparency over who owns property via secretive offshore companies. The Economic Crime (Transparency and Enforcement) Act 2022 allows for companies to identify trustees as the owner of the overseas entity, but this represents another limitation of the legislation as currently drafted.

In these circumstances, the trust must give Companies House information on its name and creation date, names of all trustees, beneficiaries, settlors, grantors or interested persons. This additional information is not currently published by Companies House, but anyone is able to obtain information on trusts with a controlling interest in an offshore company - registered outside the UK and EEA - from HM Revenue & Customs (HMRC). Whilst in theory this bridges some of the gap in information on the ROE, in practice this arrangement is inadequate and inefficient.

The process for requesting trust information for those that control offshore companies from HMRC can take two months²⁵, making it inefficient and undermining Parliament's intent to provide the public with accessible information about the identities of those controlling offshore companies holding UK properties. This process is also limited to companies outside the UK and EEA meaning companies from high-risk EEA jurisdictions, such as Cyprus²⁶, are not in scope.

Case Study: Trusts and Russian Sanctions

The UK's sanctions regime is already being impacted by the use of trusts to control companies which in turn hold property. A 2022 investigation by the Guardian revealed Alisher Usmanov's assets may be out of reach of sanctions regime due to companies and properties he previously controlled being placed into an irrevocable trust.²⁷

Under the current Register of Overseas Entities, companies linked to Usmanov which hold property will report information on the trust to HMRC, however Companies House will only be able to publish the name of a trustee and nothing more, preventing any public scrutiny of these ownership arrangements.

Not disclosing information on those controlling trusts which own offshore companies holding UK property to those investigating financial crime in a timely manner threatens to undermine the Register of Overseas Entities. This in turn erodes the impact it will have on identifying and pursuing suspicious funds in the property market.

To address this major issue, the legislation should be amended as soon as possible to allow Companies House to publish this vital information on trusts proactively. This could build in the broader privacy measures which apply to other beneficial owners of property meaning that children and vulnerable people are not identified. This would strike the right balance between ensuring trusts are not used to obscure criminal property ownership and ensuring legitimate privacy concerns are managed.

²⁵ <https://www.gov.uk/hmrc-internal-manuals/trust-registration-service-manual/trsm60060>

²⁶ <https://www.thetimes.co.uk/article/cyprus-the-island-awash-with-money-from-putins-elite-3fmz530n3>

²⁷ <https://www.theguardian.com/world/2022/mar/22/alisher-usmanov-ex-arsenal-shareholder-russian-billionaire-assets-sanctions>

ABOUT TRANSPARENCY INTERNATIONAL UK

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

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

ABOUT OPEN OWNERSHIP

Open Ownership (OO) believes that information on the true owners of companies is an essential part of a well-functioning economy and society. Public registers of beneficial owners give access to high-quality data about who owns, controls, and benefits from companies and their profits. This information, known as beneficial ownership transparency (BOT), helps tackle corruption, reduce investment risk, and improve national and global governance.

OO helps countries generate high quality data on company ownership that complies with international standards and meets the needs of data users across government, civil society, and the private sector. OO supports people and organisations to use this data to build trust as well as reducing corruption and tax evasion.

Since 2017, OO has worked with almost 40 countries to advance implementation of beneficial ownership reforms, as well as supporting the creation of over 15 new central and sectoral registers. OO has developed the world's leading data standard for beneficial ownership information, co-founded the international Beneficial Ownership Leadership Group, and built the world's first transnational public beneficial ownership register.