

CORRUPTION ON YOUR DOORSTEP

How Corrupt Capital is Used
to Buy Property in the UK

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UNMASKTHECORRUPT

For more information on the Transparency International UK Unmask the Corrupt campaign – see here: ukunmaskthecorrupt.org

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GLOSSARY

AML	Anti-Money Laundering
BVI	British Virgin Islands
EDD	Enhanced Due Diligence
EU	European Union
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FIU	Financial Intelligence Units
FSA	Financial Services Authority
G8	Group of 8, now known as the G7 (Group of Seven), leading advanced economies
G20	Group of 20 major economies
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue & Customs
MLR	Money Laundering Regulations
NCA	National Crime Agency
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Centre
PEP	Politically Exposed Person
POCA	Proceeds of Crime Act
POCU	Proceeds of Corruption Unit
SARs	Suspicious Activity Reports
StAR	the Stolen Assets Recovery initiative
TI-UK	Transparency International UK.
UAE	United Arab Emirates
UNODC	The United Nations Office for Drugs and Crime

EXECUTIVE SUMMARY

UK property has long been a safe haven for overseas investors seeking a stable political and business climate, financial security or an attractive place to live. However, there is growing evidence that it has also become a safe haven for corrupt capital stolen from around the world, facilitated by the laws which allow UK property to be owned by secret offshore companies.

For those in possession of corrupt funds, a property in the UK can provide a secure investment, but also help bestow prestige, respectability and a bolthole when the going gets rough at home. Most importantly, property in the UK can be acquired anonymously through companies registered in secrecy jurisdictions and anti-money laundering checks can be bypassed with relative ease.

In order to reduce the risk that the UK is used as a safe haven for corrupt money, Transparency International's key recommendation is that transparency should be established over who owns the companies that in turn own so much property in the UK.

Our research makes use of two new datasets that are analysed for the first time in the context of corrupt capital. For the first time, using Metropolitan Police investigations data, we are able to shed light on the quantity and value of UK property involved in criminal investigations related to cases of grand corruption originating from around the world. Our research also benefits from analysis of the entire Land Registry record of corporate holdings of property in England and Wales.¹ Our findings include:

- Over £180m worth of property in the UK has been brought under criminal investigation as the suspected proceeds of corruption since 2004. Importantly, this is thought to represent only a small proportion of the total proceeds of corruption invested in UK property. UN estimates indicate that typical detection rates by law enforcement are only 1 per cent of total money laundering flows.²
- Over 75% of these properties make use of offshore corporate secrecy to hide their owner's identities, and this acts as a significant barrier to money laundering investigations. All foreign companies and trusts that hold titles for UK property under criminal investigation for grand corruption are registered in offshore secrecy jurisdictions rather than major economies. British Crown Dependencies and Overseas Territories³ are the preferred option for concealment for those under UK criminal investigation for grand corruption.
- 40,725 London property titles are held by foreign companies.⁴ 89 per cent of these titles are held by companies incorporated in secrecy jurisdictions, covering approximately 2.25 square miles of London property.⁵ More than one third of all foreign companies holding London property are incorporated in the British Virgin Islands (13,831 properties), this is followed by Jersey with 14 per cent (5,960 properties), the Isle of Man with 8.5 per cent (3,472 properties) and Guernsey with 8 per cent (3,280 properties).
- Almost one in ten properties in the City of Westminster (9.3 per cent), 7.3 per cent of properties in Kensington & Chelsea and 4.5 per cent in the City of London are owned by a company registered in an offshore secrecy jurisdiction.⁶

1. The UN defines grand corruption as corruption that pervades the highest levels of a national Government, leading to a broad erosion of confidence in good governance, the rule of law and economic stability. See : http://www.unep.org/training/programmes/Instructor%20Version/Part_2/Activities/Interest_Groups/Decision-Making/Supplemental/UN_Anti_Corruption_Toolkit_pages_10to16.pdf [Accessed: 16 Feb 2015]

2. UNODC *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes* (Oct 2011, UNODC) http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf [Accessed: 16 Feb 2015]

3. British Overseas Territories include: Anguilla; Bermuda; British Virgin Islands; Cayman Islands; Gibraltar; Montserrat; and the Turks and Caicos Islands. The Crown Dependencies of Jersey, Guernsey and the Isle of Man are also under the sovereignty of the British Crown, they are in a different constitutional relationship with the United Kingdom.

4. Including both residential and commercial properties, as Land Registry data does not distinguish between the two.

5. TI-UK calculation based on the Jones Lang LaSalle estimate of the average London residential property size of 1,722 square feet. The figure is likely to be an underestimate given the higher value range of properties at risk to corrupt capital money laundering and the possible role of (larger) commercial property in proceeds of corruption investments.

6. This definition of secrecy jurisdiction is based on the one proposed by Richard Murphy in "Defining the Secrecy World: Rethinking the language of 'offshore'" - www.financialsecrecyindex.com/ [Accessed: 16 Feb 2015]

Transparency should be established over who owns the companies that in turn own so much property in the UK

The prevalence of UK property holdings by companies incorporated in secrecy jurisdictions is a major barrier to law enforcement investigations of grand corruption and effectively prevents estate agents' due diligence checks for money laundering and their compliance with international sanctions.

To address wider money laundering risks associated with anonymous companies in the UK, the Government has recently set out legislation to require a public register of the true owners of UK-registered companies. While this is a significant step forward in corporate transparency, the UK property market remains vulnerable to investment of corrupt capital due to the secrecy around the owners of offshore companies. Although, many of the implicated offshore jurisdictions are theoretically under the influence of the UK Government, no British Overseas Territory has yet accepted the Prime Minister's call for public transparency of who owns companies and trusts. Many have yet to show a genuine attempt to resolve money laundering risks presented by anonymous owners hiding behind companies registered in their territories.

However, there are steps that the UK can take unilaterally to address the risk posed by secret offshore ownership of property in the UK.

In this paper **we recommend that any foreign company intending to hold a property title in the UK should be held to the same standards of transparency required of UK registered companies.**

We make several further recommendations to HM Treasury, HM Revenue & Customs (HMRC), and to the Land Registry in order to strengthen the safeguards in the UK against the risk that corrupt officials and business people will use UK property to launder their illegally acquired money.

There are steps that the UK can take unilaterally to address the risk posed by secret offshore ownership of property in the UK

1. WHAT IS MONEY LAUNDERING?

When corrupt individuals and other criminals obtain illicit funds, they seek out ways to disguise the illegal origin of the money and to store the value somewhere safe. All manner of investments can then be vulnerable to being used to launder the proceeds of crime and corruption. In this way, illegally acquired wealth such as bribes, kick-backs, illicit political contributions, embezzled funds and loans – but also proceeds of trafficking, frauds and tax evasion for example – are given an appearance of legitimacy, ready to be enjoyed by the corrupt or further moved on for other legal or illegal purposes. Law enforcement and anti-money laundering professionals seek to identify instances of money laundering and to investigate whether assets or transactions are the proceeds of crime.

Given its inherently secretive nature, it is very difficult to calculate the scale of money laundering. The United Nations Office for Drugs and Crime (UNODC) assesses the total amount of money and assets laundered worldwide in one year to be between US\$800bn and US\$2 trillion.⁷ Although the margin of error is very large, even the most conservative estimates indicate the massive scale of the problem.

In order to distance themselves from their crimes, corrupt individuals often use complex and opaque corporate structures and legal arrangements spanning across multiple jurisdictions, at least one of which is likely to be in a so-called 'secrecy jurisdiction'. These are jurisdictions where the legal system creates a deliberate veil of secrecy that obscures the identity of those arranging corporate structures and establishing companies, usually for the benefit and use of people or companies that are not resident in that country. The use of these secret and anonymous companies disguises the identity and source of funds of the owners of those companies, and constitutes a serious obstacle to investigating money laundering.

The misuse of corporate structures "appears to be almost ubiquitous in money laundering cases".⁸ Evidence collected by the joint World Bank-UNODC Stolen Assets Recovery (StAR) initiative of over 213 cases of grand corruption reveals that, in more than 70 per cent of the cases, the ownership of stolen funds is disguised through the misuse of corporate entities, half of which are anonymously-owned shell companies. In these 150 cases, the approximate total proceeds of corruption amounted to approximately US\$56.4bn.⁹

The money trail can be further concealed by using third parties and nominee agents who act on behalf of the corrupt without disclosing their beneficial ownership. While in some cases these could simply be business associates or family members, for complex money laundering schemes criminals usually purchase fiduciary or intermediary services from a range of financial and non-financial professionals who – wittingly or unwittingly – facilitate the laundering scheme. These can include banks, company and trusts service providers, estate agents, property lawyers, dealers in high value goods and accountants. Company formation agents, for instance, can provide so-called 'nominee services', which prevent the name of the actual beneficiary from appearing in any corporate document by introducing a front person who has no real control over the business of the company.

Typically when property is used to launder money, it is often acquired at the last stage of the money-laundering scheme (known as 'integration'), namely when funds are re-injected in the legal market after having gone through a series of intricate financial transfers (the 'layering' phase) that conceal their origin and beneficial owner. At this stage the detection of the illicit origin of funds involved in the transaction is most difficult, as they have already undergone the process of layering – including through the use of corporate structures in secrecy jurisdictions.

7. <https://www.unodc.org/unodc/en/money-laundering/globalization.html> [Accessed: 16 Feb 2015]

8. Stolen Asset Recovery Initiative *Puppet Masters: how the corrupt use legal structures to hide stolen assets and what to do about it* (2011)

9. Stolen Asset Recovery Initiative, 2011 - The data were calculated from a sample of 213 instances of grand corruption recorded in the last 30 years.

2. WHY DOES IT MATTER?

Corruption and the impunity achieved by perpetrators of corruption through money laundering is a major contributor to global poverty

Corruption and the impunity achieved by perpetrators of corruption through money laundering is a major contributor to global poverty. Money lost from corrupt officials embezzling large amounts of state funds considerably reduces the resources governments can use to provide social services, and invest in infrastructure and economic development in order to help their citizens lift themselves out of extreme poverty and move their countries towards greater prosperity. For example, in 2014, the ONE Campaign estimated that at least US\$1 trillion is being taken out of developing countries each year through a web of corrupt activity that involves the use of anonymous shell companies, money laundering and illegal tax evasion. The same research quantified the human cost of this financial loss by suggesting that as many as 3.6 million deaths could be prevented each year in the world's developing countries if action is taken to end the secrecy that allows corruption and criminality to thrive and the recovered revenues were invested in health systems.¹⁰ Other studies in the past decade, particularly those from the World Bank, have made broadly similar assessments.

10. https://s3.amazonaws.com/one.org/pdfs/Trillion_Dollar_Scandal_report_EN.pdf [Accessed: 16 Feb 2015]

3. WHY THE UK?

It is no surprise that the UK's combination of political stability, light-touch regulations and privileged connections with well-known secrecy jurisdictions in the British Overseas Territories and Crown Dependencies have made it one of the favoured destinations not only for legitimate business, but also for embezzled, stolen or otherwise illegally gained wealth by corrupt politicians, public officials and businessmen worldwide.¹¹

The UK is one of a small number of global financial centres that play a key role in processing substantial levels of corrupt capital

The UK is one of a small number of global financial centres that play a key role in processing substantial levels of corrupt capital. The UK represents an alluring location for individuals to hide the proceeds of their corrupt activities for many of the same reasons that the UK is attractive for legitimate business. The country's thriving financial community and its business-friendly attitude attract unrivalled numbers of financial and professional services from all around the world, as well as numerous real estate investors. There are over 1,400 financial services firms in the UK – the majority of which are foreign-owned¹² – and over 250 foreign banks, which is more than any other country in the world.¹³

In 2013 the – now dissolved – Financial Services Authority (FSA) estimated that every year between £23bn and £57bn was being laundered within and through the UK, which corresponds respectively to 1.4 per cent and 3.6 per cent of the national real GDP for that year.¹⁴

11. <http://www.independent.co.uk/news/people/profiles/david-clarke-villains-choose-safe-london-to-launder-their-dirty-money-9155974.html> [Accessed: 16 Feb 2015]

12. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326788/Establishing_a_financial_services_institution_in_the_UK.pdf [Accessed: 16 Feb 2015]

13. <http://www.ft.com/intl/cms/s/0/3cb84a28-26e1-11e4-8df5-00144feabdc0.html#axzz3NJxLx6Xg> [Accessed: 16 Feb 2015]

14. http://www.fsa.gov.uk/about/what/financial_crime/money_laundering/faqs [Accessed: 16 Feb 2015]

4. WHY IS THE UK PROPERTY SECTOR ATTRACTIVE FOR THE CORRUPT?

The high-end real estate sector is particularly vulnerable to money laundering, in part due to its capital-intensive nature.¹⁵ Luxurious properties in the UK provide a much-sought badge of wealth and respectability, and represent a very safe bet for criminals. Buying such properties allows the corrupt to launder considerable amounts of stolen money with a single purchase. Large amounts of money can be 'parked' in a high-end property and then re-invested somewhere else with very little risk of capital loss. A property can also produce further income by letting it or even used to conveniently launder even more money by signing bogus lease-contracts with fake tenants.

The high prices of the London housing market do not discourage money launderers; on the contrary, they represent an opportunity. The higher the prices, the more money can be laundered into property and through property to other assets.

According to KPMG, across all commercial and residential property sectors, the UK attracts the greatest foreign investment volumes among all European real estate markets, securing an estimated £24bn just in the first half of 2014, ahead of Germany's £16.2bn as the second largest.¹⁶

Foreign investment in context

London is a thriving and cosmopolitan city, with roughly 37 per cent of its residents born overseas. It is therefore not a surprise that a considerable number of properties in the city are bought by overseas purchasers. In order to avoid over-simplistic or xenophobic statements, a careful distinction among market segments and purposes of purchase should be drawn. The focus of our research is in luxury property in 'prime' London. The vast majority of foreign buyers – who, in many cases, live and work in London – buy so called 'mainstream' accommodations and represent a very low risk of money laundering, there is a significantly greater risk at the top end of the market.

International investment into 'prime London' residential property was over £7bn in 2012, up from little over £6bn in 2011 and significantly above the pre-recession highs of £6bn in 2007.¹⁷

According to a 2013 Savills report, 90% of new-build luxury properties (valued at over £2,000 per square foot) were purchased by overseas buyers.¹⁸ Eastern European and Russian investors held the biggest share of these high-end residential properties, followed by Middle Eastern and North Africa (MENA) and Chinese buyers.¹⁹ Alongside Sub-Saharan Africa, Eastern Europe and Central Asia have the highest perception of corruption of any region in the world according to the 2014 Transparency International *Corruption Perceptions Index*, followed by MENA. If China were compared to the regional averages, it scores in between the MENA and Eastern Europe/Central Asia.²⁰ It is reasonable to infer that the sources of foreign investment for the highest value properties in the UK tend to be from regions of the world with substantial domestic public-sector corruption challenges.

15. Transparency International UK, *TI-UK response to the National Risk Assessment of Money Laundering and Terrorist Financing* (May 2014)

16. <http://www.kpmg.com/global/en/issuesandinsights/articlespublications/pages/european-real-snapshot-autumn-2014-fs.aspx> [Accessed: 16 Feb 2015]

17. Savills World Research, *Spotlight: The World in London* (2013)) available at <http://pdf.euro.savills.co.uk/residential---other/spot-worldlondon-lr.pdf> [Accessed: 16 Feb 2015]

18. Savills World Research, 2013

19. <http://www.thisismoney.co.uk/money/news/article-2706757/The-City-London-WILL-feel-pain-Russia-sanctions.html> [Accessed: 16 Feb 2015]

20. <http://www.transparency.org/cpi2014/results> [Accessed: 16 Feb 2015]

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Investigating One Hyde Park²¹

In April 2013, a Vanity Fair investigation by Nicholas Shaxson into One Hyde Park, which at the time was the world's most expensive residential building, revealed the extent of ownership of the properties by companies incorporated in secrecy jurisdictions.

Out of the 76 properties that had been sold at the time of the investigation for a total value of US\$2.7bn, almost 80% were bought through anonymous companies registered in tax havens. Only 12 of the properties were registered in the names of individuals.

One Hyde Park was created through a joint venture between high-end real estate developers the Candy brothers and Sheikh Hamad bin Jassim bin Jaber Al Thani, the Prime Minister of Qatar. The selling points of the property include advanced-technology panic rooms, bulletproof glass, and bowler-hatted guards reportedly trained by British Special Forces. Occupants' mail is X-rayed before being delivered.

Many of the other owners of the properties were impossible to identify.

Shaxson describes the secrecy around a typical One Hyde Park home:

*"Such structures typically straddle several jurisdictions: an Isle of Man company may be owned by a BVI. company, which could be held by a Bahamas trust, with trustees somewhere else; either structure might own a Swiss bank account, and so on. At each step of this global dance of ownership, fees are skimmed off, and the secrecy deepens."*²²

The empty buildings include a row of 10 mansions worth £73m, which have stood largely unused since they were bought between 1989 and 1993

High-end properties are often purchased for investment value only. An investigation in February 2014 by Paul Palmer, published by the Evening Standard, found more than 700 'ghost mansions' – worth approximately £3bn in total – lie uninhabited in London.²³

A Guardian investigation revealed an estimated £350m worth of vacant properties on a single prestigious London street in Hampstead. The empty buildings include a row of 10 mansions worth £73m, which have stood largely unused since they were bought between 1989 and 1993. Most of the properties are registered to companies in the British Virgin Islands, Curaçao, the Bahamas, Panama and the Channel Islands, allowing international owners to remain anonymous.²⁴

21. Full investigation: <http://www.vanityfair.com/style/society/2013/04/mysterious-residents-one-hyde-park-london> [Accessed: 16 Feb 2015]

22. <http://www.vanityfair.com/style/society/2013/04/mysterious-residents-one-hyde-park-london> [Accessed: 16 Feb 2015]

23. <http://www.standard.co.uk/news/london/londons-3bn-ghost-mansions-foreign-investors-are-using-capitals-finest-homes-as-reallife-monopoly-pieces-9128782.html> [Accessed: 16 Feb 2015]

24. <http://www.theguardian.com/society/2014/jan/31/inside-london-billionaires-row-derelict-mansions-hampstead> [Accessed: 16 Feb 2015]

The impact of corrupt capital on property prices and communities

In the course of our research, we have not attempted to assess the impact of the flow of corrupt capital on the property market in London, or elsewhere in the UK. However, the following potential effects of large scale foreign investment in luxury UK property have been widely identified by property commentators:

1. raising average prices, particularly in certain London boroughs, with a reportedly widespread ripple effect down the property price chain and beyond London
2. removing the availability of housing stock for UK citizens
3. due to the interest of foreign buyers in high-end property, a shift in developers' priorities towards luxury flats and houses, and away from affordable homes
4. ghost communities, in which the presence of unoccupied houses with foreign owners, leads to a decline in local taxes, affecting local businesses and community life

Given the vulnerability of the high-end property sector to money laundering of the proceeds of corruption, it is likely that corrupt capital contributes to these effects, albeit to an unknown extent.

5. THE ROLE OF OFFSHORE OWNERSHIP OF PROPERTY IN LAUNDERING THE PROCEEDS OF CORRUPTION

Ownership of UK property by companies incorporated in secrecy jurisdictions is a highly effective tool for people to conceal ownership and launder corruptly acquired money.

Two reports produced in 2007, one by the OECD²⁵ and another by the Financial Action Task Force (FATF)²⁶, have assembled a list of the most common methods utilised for concealing the use of corrupt money when purchasing property or using property sale as a vehicle for laundering money. These include:

1. the use of trusts and companies to conceal the beneficial owners' identities, with the most common concealment methods being:
 - acquiring properties through complex or 'layered' ownership structures or offshore companies
 - not reporting the acquisition of property in other countries
 - the use of nominees to hold property
2. not declaring transactions or the true owners/beneficiaries of the property
3. the manipulation/escalation of property prices
4. the use of complex loans structures and credit finance

Our research finds that the UK, and London in particular, is routinely exposed to vulnerabilities arising from the first two of these risks, and the lack of Land Registry records of price for many situations where a company holds a property title increases the risk of the third.

The Land Registry does not hold information about the beneficial ownership of the companies that own property titles; instead it records the 'title holder' which may be a company, a trust, or an individual who is not the beneficial owner.

In jurisdictions such as the BVI, the authorities do not collect and disclose details about the shareholders of companies created under their jurisdiction, making it nearly impossible to detect who hides behind the company. Such companies can be created in less than 48 hours from any location in the world for as little as US\$1,000 and in some cases, an identity document is not even required. Properties owned through offshore companies can enjoy exemptions from capital gains taxes, succession taxes and stamp duties. British Overseas Territories also benefit from the fact that the local judicial system is based on English Common Law, that English is the official language and that UK government supervision guarantees political and defence stability.

What is clear is the role that secret offshore companies can play in enabling the concealment of the beneficial owner of a property, or any other asset. What has been less clear is the extent to which offshore companies frustrate criminal investigations against grand corruption in the UK and what the total property footprint in the UK of companies registered to secrecy jurisdictions is. Our research provides greater insight into those questions.

The Land Registry does not hold information about the beneficial ownership of the companies that own property titles; instead it records the 'title holder' which may be a company

25. OECD, *Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector* (2007)

26. FATF, *Money Laundering & Terrorist Financing through the Real Estate Sector* (2007)

6. THE SCALE OF SUSPICIOUS UK PROPERTY IN CRIMINAL CASES OF GRAND CORRUPTION

The risk of money laundering in the UK, and especially London houses, flats and office blocks has been widely reported.²⁷

For the first time, this research paper can put data to the scale of property that is, or has been, involved in suspected grand corruption investigations in the UK through access to the Metropolitan Police's own records.

According to data released by the Metropolitan Police's 'Proceeds of Corruption Unit' (POCU), over £180m worth of property in the UK is or has been under criminal investigation by the Unit as the suspected proceeds of corruption in the last 10 years. This total value represents 120 properties in the UK that have been brought under investigation since 2004 that have a recorded or estimated value. A remaining 24 have no estimated value.

75.5 per cent of investigated properties have been identified as being held through a company incorporated in a secrecy jurisdiction, with 3.6 per cent of properties under investigation held by an offshore trust. 100 per cent of overseas companies and trusts that hold titles for UK property under investigation for grand corruption are registered in offshore financial jurisdictions rather than major economies.

The average price of property under POCU investigation is £1.5m. Individual values range between a minimum of £130,000 to a maximum of £9m with a median value of around £910,000. Of the properties with estimated values listed, 48 per cent were valued at over £1m.

DCI Jon Benton, Director of Operations, Metropolitan Police's Proceeds of Corruption Unit (POCU):

"The London property market is attractive for many reasons, not least because of the safety of the investment and that it provides a home in this great capital. In nearly all the grand corruption cases we investigate, we find – what we suspect is – proceeds of corruption being used to purchase high-value properties. This should be taken into context – the percentage of properties purchased via illicit money is tiny in comparison to the legitimate trade, but the values are huge. Properties that are purchased with illicit money, which is often stolen from some of the poorest people in the world, are nearly always layered through off-shore structures."²⁸

The Metropolitan Police's Proceeds of Corruption Unit

The Metropolitan Police's POCU has operated under a unique model for funding of anti-corruption law enforcement. The unit has been fully funded by the UK Department for International Development since 2007, as a financial crime unit under the Specialist and Organised Crime Command of the Metropolitan Police Service. The unit specialises in the investigation of the theft of assets by foreign politicians, public officials, their family members and associates, from the developing world who launder these funds into and through the UK.

As part of the re-organisation of UK policing of corruption, it is expected that the unit will shortly be reformed under the Economic Crime Command of the National Crime Agency.

27. <http://www.independent.co.uk/news/people/profiles/david-clarke-villains-choose-safe-london-to-launder-their-dirty-money-9155974.html> [Accessed: 16 Feb 2015]

28. Interview, 6 Jan 2015

Over £180m worth of property in the UK is or has been under criminal investigation by the Unit as the suspected proceeds of corruption in the last 10 years

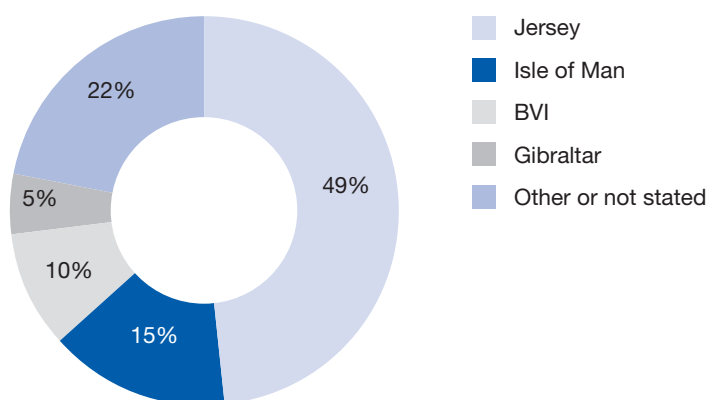
75.5 per cent of investigated properties have been identified as being held through a company incorporated in a secrecy jurisdiction

This data confirms for the first time that companies incorporated in the Crown Dependencies and British Overseas Territories, which are independent legal jurisdictions and are the international responsibility of the UK, are the preferred option for concealment for those under criminal investigation for grand corruption in the UK.

DCI Benton confirmed the difficulty for investigators in having to unpack layers of corporate secrecy:

“The lack of access to beneficial ownership information about offshore companies that hold property in the UK is a major barrier for our investigations. Investigators may spend months and years attempting to peel back layers of secrecy in order to uncover how the proceeds of corruption are being laundered in the UK.”²⁹

Location of incorporation (percentage out of all company held properties under POCU investigation)



Jersey is the most common location for these companies to be incorporated, comprising 49 per cent of all companies and trusts that hold property under investigation for grand corruption in the UK. The second most common jurisdiction is the Isle of Man at 15 per cent and the BVI third at 10 per cent. Other jurisdictions include Gibraltar, Mauritius and Panama.

Only 31 properties, out of the 144 in the data released, are registered to an individual's name, although in the majority of the cases it is a family member or close associate of the suspect rather than the suspect him/herself.

A distinct difference between properties held by individuals and those held through companies is that the former have, on average, a much lower value (about £800,000) than the latter (about £1.7m).

However, this is likely to be only a small proportion of the total proceeds of corruption invested in UK property, given resource constraints and geographic restrictions for POCU investigations.³⁰ Due to its funding model, POCU investigations against grand corruption are typically limited to countries where the UK has an aid relationship. In broad terms, the UNODC estimated in 2011 that the global detection rate of illicit funds by law enforcement is as low as 1 per cent for criminal proceeds, and the seizure rate is possibly 0.2 per cent.³¹

DCI Benton made clear that various forms of concealment of money laundering undermine a full understanding of the threat:

“The number of properties that we have identified as suspicious is very likely only the tip of the iceberg.”³²

This is likely to be only a small proportion of the total proceeds of corruption invested in UK property

29. Interview, 6 Jan 2015

30. Transparency International UK, *TI-UK response to the National Risk Assessment of Money Laundering and Terrorist Financing* (May 2014)

31. UNODC, *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes* (Oct 2011) http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf [Accessed: 16 Feb 2015]

32. Interview, 6 Jan 2015

Our findings complement the 2011 analysis from the UN Office on Drugs and Crime and the World Bank Stolen Asset Recovery (StAR) initiative, which examined over 150 grand corruption cases and found that out of the corporate vehicles involved in money laundering associated with the cases, the following territories had hosted the secret corporate vehicles: British Virgin Islands (91); United Kingdom (24); Cayman Islands (15); Bermuda (12); Jersey (12); Isle of Man (7).³³

Proceeds of corruption properties successfully identified for recovery

The list of property publicly identified as representing the proceeds of corruption in successful prosecutions or civil judgements is remarkably small. Two notable cases are the properties of James Ibori, a former State Governor in Nigeria³⁴, which include a property bought for £2.2m in Hampstead; and Saadi Gadaffi's £10m property, also in Hampstead, which was recovered by the transitional government in Libya through a civil court action.



33. StAR *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It* (2011)

34. See below for an expanded case study of James Ibori

7. OFFSHORE CORPORATE HOLDINGS OF PROPERTY IN THE UK

One of the key reasons that so few UK properties are ultimately identified, and the value confiscated, as the proceeds of corruption is the concealment of their true owner through the use of secret offshore corporate structures. The level of risk the UK is exposed to can be better understood by analysing the extent of property holdings by companies registered in secrecy jurisdictions.

The second data-set we have used in our research is the entire Land Registry record of corporate holdings in the UK. We have analysed the data in detail to ascertain the breakdown of corporate title holdings both in London and the rest of the UK.

These official figures show that there are 40,725 properties registered to overseas companies in London, including both residential and commercial properties. This represents 1.3% of all property titles in London.³⁵ We can estimate that, at the very least, a total of 2.5 square miles of London property is registered to an overseas company.³⁶ London by far dominates the footprint of foreign company holding of properties in the UK. However, our data shows that Manchester (with 1,491 properties registered to foreign companies), Leeds (1,200) and Salford (1,093) are the most significant three Land Registry regions outside of London for foreign company ownership of property, and the only regions in the top 15 that are outside of London.

A closer look at the countries of incorporation reveals a clear trend: out of all foreign company-registered properties in London, the overwhelming majority (89.2 per cent, or the equivalent of 2.25 square miles of London property) are incorporated in secrecy jurisdictions³⁷ with British Overseas Territories and Crown Dependencies receiving the lion's share.

More than one third of all foreign company-owned properties in London are registered in the British Virgin Islands (13,831 properties), followed by Jersey with 14 per cent (5,960 properties), the Isle of Man with 8.5 per cent (3,472 properties) and Guernsey with 8 per cent (3,280 properties). 2.5 per cent (1,030 properties) of London property owned by overseas companies is registered in unknown locations.

Table 1: Foreign-owned London titles by main jurisdictions of registration

Place of incorporation	Number of properties	% of all foreign-owned titles	% of all registered titles
British Virgin Islands	13,831	33.96	0.44
Jersey	5,960	14.00	0.19
Isle of Man	3,472	8.50	0.11
Guernsey	3,280	8.00	0.10
Panama	1,400	3.44	0.04
Unknown	1,030	2.53	0.03

Source: Land Registry

35. This Land Registry data disclosure is correct as at 3 July 2014

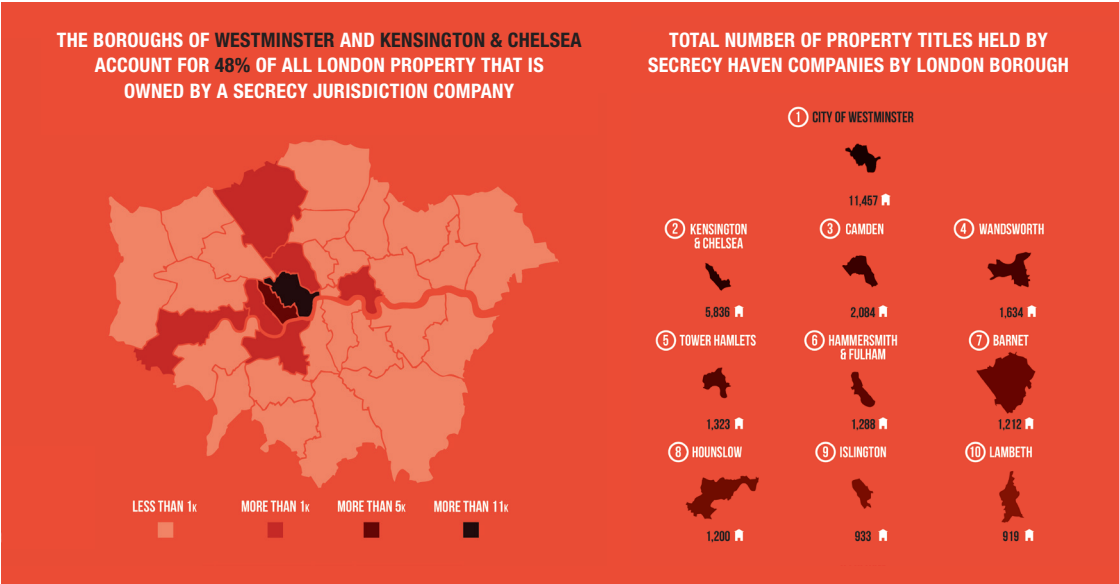
36. If we take Jones Lang LaSalle's 2011 estimate of the average property size (from a sample of properties sold) of 1,722 square feet (which does not account for the likely large size of high-value "enveloped" property or the higher size of commercial property titles, thus making our estimate a conservative one), we can estimate a total of 70,128,450 square feet, or 2.5 square miles, of London property registered to an overseas company <http://www.propertyweek.com/Journals/44/Files/2011/5/25/JLL%20London%20Heat%20Maps.pdf> [Accessed: 16 Feb 2015]

37. For a list of offshore financial centres elaborated by the Financial Stability Forum and the International Monetary Fund in 2000, see: <http://www.lb7.uscourts.gov/documents/08-3282ID.pdf> [Accessed: 16 Feb 2015]

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Breaking down these figures by borough, we find out that the City of Westminster, Kensington & Chelsea and the City of London have the highest ratio of properties registered to offshore secrecy jurisdictions, respectively with 9.3, 7.3 and 4.5 per cent of all titles. A correlation analysis between the proportion of properties registered to offshore companies in every borough and the median annual property price in 2013³⁸ gives a very high coefficient of 0.86,³⁹ indicating that the higher the average property prices in a borough, the more likely it is to have a high quantity of properties registered offshore.



At least £122bn worth of property in England and Wales was held via companies registered in secrecy jurisdictions in July 2014

According to additional analysis of Land Registry holdings by the Financial Times, at least £122bn worth of property in England and Wales was held via companies registered in secrecy jurisdictions in July 2014. This is likely to be an underestimate as many titles in the Land Registry held by offshore entities include no record of property value. Out of 91,248 foreign company-owned properties in England and Wales, nearly two thirds are held via the British Virgin Islands and Channel Island structures.⁴⁰

It is important to note that many properties registered abroad are likely to belong to bona fide foreign firms that own offices or other commercial properties in the UK for perfectly legitimate commercial or investment purposes. However, the absolute dominance of vehicles registered in offshore secrecy jurisdictions (rather than in major economies), allied to the data from criminal investigations, illustrates the risk of money laundering for the UK economy.

Property in the UK held by companies registered in secrecy jurisdictions enables anti-money laundering checks to be bypassed with relative ease and frustrates criminal investigations into grand corruption.

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38. <http://data.london.gov.uk/dataset/average-house-prices-borough/resource/347f5ac3-919b-480f-bfd9-346349ab3da2> [Accessed: 20 Nov 2014]
39. A correlation coefficient is a value between 1 and -1, whereby 1 means a perfect positive correlation, 0 no correlation at all and -1 a perfect negative correlation
40. <http://www.ft.com/cms/s/0/6cb11114-18aa-11e4-a51a-00144feabdc0.html> [Accessed: 16 Feb 2014]

Explaining the appeal of the British Virgin Islands

The BVI is by far the most common jurisdiction for London property to be registered, out of all properties owned by foreign companies. With 480,932 active registered companies as of September 2014, it is the biggest offshore jurisdiction worldwide.⁴¹ Since 1984 – the year when legislation was first passed launching the BVI as an offshore centre – the BVI have sold more than a million offshore entities. In 2011 alone, £3.8bn worth of UK property was bought by BVI-registered companies.⁴²

According to law and fiduciary firm Appleby, between July and September 2014 BVI-based firms were engaged in 110 deals for a cumulative value of US\$10.99bn.⁴³ The economy of the archipelago is heavily dependent on the offshore industry: in 2011 it collected £112m from company registration fees, which makes up more than 60 per cent of the island government's total revenue in that year.⁴⁴

Properties owned through offshore entities such as BVI companies enjoy exemptions from capital gains taxes, succession taxes and stamp duties. They also benefit from the fact that the local judicial system is based on English Common Law, English is the official language and British supervision guarantees political stability. Offshore companies can be created in less than 48 hours from any location in the world for as little as US\$1,000 and in some cases, an identity document is not even required.⁴⁵

However, a key attraction for money launderers to register a company in the BVI is likely to be secrecy. Local legislation grants to offshore companies complete confidentiality with regard to the identity of beneficial owners, directors and shareholders. The filing of corporate registers with the Registrar of Companies is purely optional, no commercial or financial records filing is required, nor is the specification of the company's operational objects. A bill making it mandatory for offshore services firms to keep a registry of shareholders was passed in 2012,⁴⁶ although the lack of a central registry and the possibility to create sham nominees and shareholders makes this requirement almost entirely ineffective against abuses.

The second data-set we have used in our research is the entire Land Registry record of corporate holdings in the UK

Jurisdiction of registration for all property in London (% of total foreign corporate holdings of property)

British Virgin Islands	34%
Jersey	14%
Isle of Man	8.5%
Guernsey	8%
Panama	3.5%

Location by incorporation, percentage out of all company held properties under criminal investigation for grand corruption (POCU data)

Jersey	49%
Isle of Man	15%
British Virgin Islands	10%
Gibraltar	5%
Other or not stated	22%

41. <http://www.bvifsc.vg/Portals/2/Statistical%20Bulletin%20Qtr%203%202014.pdf> [Accessed: 16 Feb 2014]

42. Land Registry Data, cited in <http://www.icij.org/offshore/secret-london-real-estate-speculators> [Accessed: 16 Feb 2014]

43. <http://www.compasscayman.com/caycompass/2014/11/26/Cayman-retains-lead-in-offshore-deals/> [Accessed: 16 Feb 2014]

44. <http://www.icij.org/british-virgin-islands-secrecy> [Accessed: 16 Feb 2015]

45. <https://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf> [Accessed: 16 Feb 2015]

46. <http://www.icij.org/offshore/british-virgin-islands-forbidden-city> [Accessed: 16 Feb 2015]

The role of Jersey and the Isle of Man incorporated companies is disproportionately large in criminal cases of grand corruption in the UK

There is an interesting difference between the use of offshore secrecy jurisdictions by those under criminal investigation for grand corruption, and the trends across London for the use of secrecy jurisdictions.

The role of Jersey and the Isle of Man incorporated companies is disproportionately large in criminal cases of grand corruption in the UK. While the BVI is the most common jurisdiction for incorporating companies that own property in London, it is the third most common jurisdiction for initial incorporation for companies that hold titles for property under criminal investigation, featuring below Jersey and the Isle of Man. This discrepancy may be attributable to closer cooperation between Jersey and the Isle of Man with the Metropolitan Police, relative to the BVI, and therefore conclusions are difficult to draw from the data alone. Jersey is the only Crown Dependency to hold a central register of beneficial owners of companies incorporated in the jurisdiction. Jersey has also agreed to voluntarily adopt the forthcoming Fourth EU Anti Money Laundering Directive. The BVI does not hold a beneficial ownership register of companies, and at time of the research, the result of its consultation on creating a register of the beneficial owners of companies had not yet been made public.⁴⁷ As a result this discrepancy must be interpreted carefully and the drivers of the difference require further research.

47. http://www.jerseyfinance.je/media/Technical%20-%20General%20Public%20Access%20Documents/Fourth%20Money%20Laundering%20Directive%202015.1.2015.pdf?utm_medium=email&utm_campaign=January+2015+Technical+Update&utm_content=January+2015+Technical+Update+CID_44951b49afef4f3de14bcf4526e972ce&utm_source=JFL%20email%20communications&utm_term=a%20Summary [Accessed: 16 Feb 2015]

8. THE RELEVANCE OF THE DRIVE TOWARDS CORPORATE TRANSPARENCY

Since 2013, an international consensus has developed around the importance of beneficial ownership transparency and several major markets have introduced proposals to increase corporate beneficial ownership transparency in their jurisdictions.

After the 2013 G8 Summit, the UK was the first national jurisdiction to put forward legislation to enable a public registry of beneficial ownership. The UK published the Small Business, Enterprise and Employment Bill on 25 June 2014, which delivered on its G8 Action Plan to introducing new rules requiring private companies to obtain and hold “adequate, accurate and current” information on who owns and controls them and to implement a central registry of company beneficial ownership maintained by Companies House.⁴⁸ The UK’s stated policy objective was to “deter illicit activity and improve enforcement outcomes where misuse does take place; and promote good corporate behaviour.”⁴⁹

Under the UK’s draft legislation, an individual is a beneficial owner of a corporate body if he or she owns or controls more than 25 per cent of a company’s shares or voting rights, or exercises influence or control over the company or the management of that company. An example of this control includes, but is not limited to, the ability to appoint and/or remove directors. Associates who share ownership through an arrangement (informal or formal) will each be treated as holding all of the shares or rights subject to the arrangement.

The register will hold the following information on the beneficial owners:

- full name and date of birth
- nationality
- country or state of residence
- residential address and service address
- the date on which the beneficial interest in the company was acquired
- the nature of the beneficial interest itself

However, the register will withhold the full dates of birth and residential addresses of the beneficial owners from the publicly accessible data for privacy reasons.

Companies will be required to maintain their own register. They will have to update the register if they know, or might reasonably be expected to have known, that a change to their beneficial ownership has occurred. Beneficial owners will be required to inform the company of any changes to the information recorded in the register. Companies will be required to confirm that the information held at Companies House is correct annually and to detail all changes that have occurred during that year.⁵⁰

Failure by the company to maintain a register, or failure by a beneficial owner to provide the required information, will be a criminal offence punishable by a fine and/or imprisonment.⁵¹

The UK’s stated policy objective was to “deter illicit activity and improve enforcement outcomes where misuse does take place; and promote good corporate behaviour”

48. <http://www.publications.parliament.uk/pa/bills/cbill/2014-2015/0011/en/15011en.htm> [Accessed: 16 Feb 2015]

49. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307560/2014-04-23-RPC13-BIS-1990_2_-_Enhanced_transparency_of_Company_Beneficial_ownership.pdf [Accessed: 16 Feb 2015]

50. <http://www.macfarlanes.com/media/382444/uk-companies-beneficial-ownership-register2.pdf> [Accessed: 16 Feb 2015]

51. <http://www.publications.parliament.uk/pa/bills/lbill/2014-2015/0057/en/15057en.pdf> [Accessed: 16 Feb 2015]

In January 2015, the negotiated final text of the Fourth EU Money Laundering Directive has been produced by the European Council. Further debate was ongoing at the time of researching this paper. If approved, as is likely, EU member states will then have two years to transpose the directive into their national law. The directive requires that companies and other legal arrangements (such as trusts) across the EU would have to identify ultimate beneficial owners – natural persons who ultimately own or control a legal entity, typically by holding a stake of 25 per cent plus one share or more, directly or through layered and multiple interests. Central registers of beneficial owners of companies are intended to be fully accessible to competent authorities, financial intelligence units (FIUs), and to obliged entities for the conduct of customer due diligence. Within four years of the directive coming into force the Commission will have to report on how national registers might be linked up across the EU.⁵² The US has also recently announced that beneficial ownership information will start to be collected by its tax authorities.⁵³

In November 2014, the G20 Leaders followed suit with the G8 and agreed to a set of High-Level Principles listing “concrete measures G20 countries will take” to implement beneficial ownership transparency in order to tackle the secrecy behind corruption, tax evasion and money laundering associated with shell companies. The G20 principles state that countries should ensure that legal persons maintain beneficial-ownership information onshore and that information is adequate, accurate and current, and also ensure that information is shared between domestic and international agencies, including law-enforcement bodies.⁵⁴ Relevant potentially to the property sector, one of the G20 principles also includes a commitment that parties should “identify high-risk sectors, and enhanced due diligence could be appropriately considered for such sectors”.⁵⁵

The G20 decision followed calls by the Business 20 group for beneficial ownership transparency.⁵⁶ Other business leaders have also increased their visibility in support of beneficial ownership transparency, with anti-corruption business group the ‘B-Team’ publishing *The Business Case Against Anonymous Companies* ahead of Davos 2015. The report claims:

*“Anonymous companies, companies whose ownership is difficult or impossible to discern, are the “get away vehicle” for corruption—the common thread between various acts of crime, corruption and schemes to defraud investors. Companies are one of the great inventions in legal history and anonymous companies pervert their purpose and form.”*⁵⁷

The Director General of the UK Institute of Directors stated that:

*“[s]o-called ‘anonymous companies’, in which the corporate veil is used to conceal illegal activities, have no place in a modern economy and bring the entire business sector into disrepute.”*⁵⁸

However, other groups, including the International Financial Centres Forum – with members of the Forum including professional service firms and businesses headquartered in Bermuda, the BVI, the Cayman Islands, Guernsey and Jersey – have responded to the UK’s legislation with caution about the potential deterrence effect on foreign investment in the UK of transparency over the beneficial ownership of companies.⁵⁹

52. <http://www.moneylaunderingbulletin.com/legalandregulatory/legislationandguidance/nearly-there--the-fourth-eu-directive-final-draft-105782.htm> [Accessed: 16 Feb 2015]

53. G20 leaders back drive to unmask shell companies - November 16, 2014 - <http://www.ft.com/cms/s/0/25ae632e-6d60-11e4-8f96-00144feabdc0.html#axzz3QBbCBOND>

54. <http://www.ft.com/cms/s/0/25ae632e-6d60-11e4-8f96-00144feabdc0.html#axzz3QBbCBOND> [Accessed: 16 Feb 2015]

55. <http://www.whitehouse.gov/the-press-office/2014/11/16/g20-leaders-communiqu> [Accessed: 16 Feb 2015]

56. <http://www.b20australia.info/Documents/B20%20Summit%20Documents/B20%20Key%20Messages%20and%20Recommendations.pdf> [Accessed: 16 Feb 2015]

57. http://issuu.com/the-bteam/docs/bteam_business_case_report_final.we?e=15214291/11025500 [Accessed: 16 Feb 2015]

58. <http://www.reuters.com/article/2013/07/15/us-britain-transparency-cable-idUSBRE96E0EV20130715> [Accessed: 16 Feb 2015]

59. Small Business, Enterprise and Employment Bill - Written evidence submitted by the International Financial Centres Forum (SB 43) - <http://www.publications.parliament.uk/pa/cm201415/cmpublic/smallbusiness/memo/sb43.htm> [Accessed: 16 Feb 2015]

Bermuda and Jersey are currently the only jurisdictions out of the Crown Dependencies and the British Offshore Territories that have a form of central registry for company ownership.

In terms of British Overseas Territories, in April 2013 ahead of that year's G8 Summit, the UK Prime Minister published a "letter to the Overseas Territories on beneficial ownership" which expressed a hope for British Overseas Territories and Crown Dependencies to consult on introducing a public register of beneficial ownership.⁶⁰ However, by February 2015, the only offshore territory to conclude its consultations and make the result public was the Cayman Islands, where the authorities rejected the proposal. Cayman Premier Alden McLaughlin stated in December 2014 that:

"[u]nless such registers become the new global standard and are being used by all major players - including the UK - then neither we nor any other Overseas Territory or Crown Dependency intend to go first and have our economies experimented with and potentially damaged. We see no need for a central registry that would increase cost to business and the country and also create a potential single data source, which motivated and skilled individuals could hack into for gain."⁶¹

Bermuda and Jersey are currently the only jurisdictions out of the Crown Dependencies and the British Offshore Territories that have a form of central registry for company ownership.

60. <https://www.gov.uk/government/publications/prime-ministers-letter-on-beneficial-ownership/prime-ministers-letter-to-the-overseas-territories-on-beneficial-ownership> [Accessed: 16 Feb 2015]

61. <http://www.lowtax.net/features/Transparency-of-Beneficial-Ownership-Realistic-or-a-Pipe-Dream-572510.html> [Accessed: 16 Feb 2015]

9. REGULATORY OVERSIGHT OF THE ESTATE AGENCY SECTOR

The UK's anti-money laundering legislation should act as a safeguard to deal with the risk of the corrupt and other criminals buying property as a way to launder money.

The estate agency sector is exposed to very high levels of foreign investment from high-corruption risk jurisdictions, and is characterised by substantial holdings by offshore corporate entities. In theory, anti-money laundering provisions should act as a safeguard to mitigate the risks in the sector.

The UK incorporates the offence of money laundering in two main pieces of legislation: the Proceeds of Crime Act (POCA) 2002 and The Money Laundering Regulations (MLR) 2007. The latter was adopted in partial implementation of the Third EU Anti-Money Laundering directive (2005/60/EC) and its implementing directive (2006/70/EC).

British law – in compliance with international anti-money laundering (AML) regulations – assigns a crucial role to the private sector in detecting and reporting episodes of money laundering. The banking sector has been subject to AML regimes for some years already, and most financial institutions have developed some processes to prevent the abuse of their services by criminals.

Gatekeepers (or 'enablers'), such as accountants, lawyers and estate agents are often used by corrupt individuals as intermediaries to gain access to legitimate institutions and carry out transactions while 'keeping the distance' from them. Shielded by the apparently credible reputation of the gatekeeper, criminals can more easily pass the initial eligibility checks.

Real estate transactions often involve financial institution lenders, as well as lawyers, solicitors, notaries, and real estate agents. Company formation agents also come into play if a company or trust is created in order to purchase the property. All such UK businesses and professions fall within the scope of both POCA 2002 and MLR 2007 as regulated, together with financial institutions. In the case of the UK, not only are such regulatory regimes recent, but often fragmentary and subject to frequent institutional change, such as the recent transfer of real estate regulation from the Office of Fair Trading to HMRC in 2014.

9.1 CUSTOMER DUE DILIGENCE

All regulated sectors (which include financial institutions, real estate agents, solicitors and high-value dealers) are expected to monitor their clients and, to some extent, the source of the money that will be accepted. This is done by performing a series of checks called customer due diligence whenever entering in a business relationship or undertaking an occasional transaction with a prospective customer. To comply with these obligations, an estate agency business must⁶²:

- assess the risk of the business being used by criminals to launder money
- check the identity of customers
- check the identity of relevant 'beneficial owners' of corporate bodies and partnerships
- monitor customers' business activities and report anything suspicious to the National Crime Agency (NCA) by filing Suspicious Activity Reports (SARs)
- make sure the necessary management control systems are in place
- keep all documents that relate to financial transactions, the identity of customers, risk assessment and management procedures and processes
- make sure that employees are aware of the regulations and have had the necessary training

Real estate transactions often involve financial institution lenders, as well as lawyers, solicitors, notaries, and real estate agents

62. <https://www.gov.uk/money-laundering-regulations-introduction> [Accessed: 16 Feb 2015]

For some low-risk customers – such as UK public authorities, listed companies or those already supervised institutions such as banks – a simplified due diligence process can suffice, meaning that no identity verification nor additional information on the business relationship are needed. In high-risk cases, on the contrary, Enhanced Due Diligence (EDD) is required.

This applies to situations when:

- The customer is not physically present for identification. In these circumstances further measures need to be undertaken in order to identify and verify the identity of the customer, such as requesting additional documents, requiring confirmatory certification by a credit card or financial institution subject to AML supervision and ensuring that the first payment is carried out through an account opened in the customer's name with a credit institution.
- The customer is a politically exposed person (PEP), a senior government official, as well as her or his family members, and associates, who could as result of their position have access to state funds or be in a position to take bribes. The decision to accept a PEP customer must be taken by senior management and reasonable steps have to be taken to establish the source of funds involved is legitimate and ongoing monitoring of the relationship must be conducted. The vast majority of PEPs will not be associated to illegitimate activity, but do represent a higher risk category for money laundering linked to corruption.

Who is a PEP?

The 2007 Money Laundering Regulations, in accordance with internationally-agreed rules, define a PEP as an individual who is or has, at any time in the preceding year, been entrusted with a prominent public function by:

- a state other than the United Kingdom;
- a Community [EU] institution; or
- an international body.

Close associates or family members are also considered PEPs.

The Fourth EU Anti-Money Laundering directive – currently under discussion – is expected to eliminate the exclusion of domestic PEPs from the definition, although they will be subject to less stringent checks than foreign and international ones.

In the case that the customer is a legal person (a company, a trust, a partnership, a foundation, etc.) the following information must be obtained:

- the full name of the company
- registration number
- registered address; and
- the country of incorporation

In theory, regulated businesses must also establish all beneficial owners of such entities. For private companies these would imply the identification of all directors, individuals owning or controlling more than 25 per cent of the shares or voting rights, or any other individual who otherwise exercises control over the company. Again, in theory, when it is impossible for a regulated sector to comply with the required due diligence obligations, no business relationship should be undertaken and any existing one must be terminated. The failure to do so could be interpreted as a criminal offence under the POCA 2002.

In theory, regulated businesses must also establish all beneficial owners

9.2 REPORTING SUSPICIOUS ACTIVITIES

Besides screening their clients, regulated sectors are also legally obliged to disclose any suspicious behaviour that they observe. Under the POCA 2002, Suspicious Activity Reports (SARs) must be filed with the NCA every time that a staff member in the business suspects or has reasonable grounds for knowing or suspecting that a person is engaged in money laundering.

An officer responsible for submitting reports must be nominated. Failure to report suspicious activities is considered an offence, unless the regulated professional is able to provide a “reasonable excuse for not making the required disclosure”⁶³ or is a legal professional adviser, accountant, auditor or tax adviser⁶⁴ to whom the information came under “privileged circumstances”.⁶⁵ Although such exceptions have been introduced with the purpose of addressing privacy concerns and expressly exclude information given with the intention of furthering a criminal purpose, their overly wide ambit of application represents a considerable legal loophole, which ultimately shields most gatekeepers from the duty to report to authorities potentially useful suspicions of money laundering.

9.3 REGULATORY SUPERVISION

There are 27 supervisory authorities overseeing different regulated sectors for money laundering. For instance, financial and credit institutions are supervised by the Financial Conduct Authority (FCA), while HMRC is the supervisory authority for estate agents.

In some cases, the supervisory power may be delegated to professional associations, such as the Solicitors Regulatory Authority (the regulatory independent arm of the Law Society that supervises legal professionals in England and Wales), the Law Society of Scotland, the Law Society of Northern Ireland, and many others. The National Federation of Property Professionals has submitted an application to HM Treasury for assuming the role of AML supervisor.⁶⁶ Supervisory authorities may establish mandatory registries for the sector they oversee.⁶⁷ Real estate agents are required to register with HMRC in order to lawfully conduct their business. These include all professionals acting in the course of business, and on instructions from a customer who wishes to buy or sell commercial or residential property, and that are acting to introduce someone who wishes to buy or sell a property to a customer; or acting after such an introduction to secure the sale or purchase of a property, whether in the UK or abroad.⁶⁸

There are 27 supervisory authorities overseeing different regulated sectors for money laundering

63. Legislative reference: POCA 2002, S.330 (6)(a)

64. Amendments introduced by the S.I. No. 308 of 2006 have added to the category of “professional legal advisers” also “relevant professional advisers”, hence extending the exemption also to non-legal advisers such as accountants, auditors or tax advisers who are “member of a professional body” (see POCA 2002, S.330(14)).

65. POCA 2002, S.330 (6)(b) and (c).

66. http://www.arla.co.uk/media/347255/final_unheaded.pdf [Accessed: 16 Feb 2015]

67. Legislative reference: MLR 2007, S.32 (3)

68. <https://www.gov.uk/registration-guide-for-estate-agency-businesses> [Accessed: 16 Feb 2015]

10. VULNERABILITIES AND REGULATORY GAPS IN UK PROPERTY AML

However, despite this regulatory oversight structure, there is widespread non-compliance and lack of enforcement across the range of relevant sectors.⁶⁹

The UK regulatory regime for property is characterised by a number of weaknesses

The UK regulatory regime for property is characterised by a number of weaknesses. Chief among these is the difficulty in securing information on the true owners of companies or trusts benefiting from property. Weaknesses also include that anti-money laundering regulations for estate agents only require due diligence on the seller, not the purchaser; the regime relies on lawyers to cover any estate agency risks, which ignores the risk of complicit lawyers; the lack of recorded sale price by the Land Registry; the historic lack of regulatory sanctions for AML breaches in the sector; and low levels of awareness of AML responsibilities within the sector.

10.1 LACK OF BENEFICIAL OWNERSHIP INFORMATION FOR DUE DILIGENCE

While the UK has made a laudable commitment to create an open public registry of corporate beneficial ownership, the same rules will not apply to land registry arrangements. In a similar way to corporate secrecy, land registry secrecy of corporate owners of properties considerably undermines the effectiveness of money laundering due diligence and investigations.

Land Registry records only show the title holder of a property, not the beneficial owner of the company through which the asset is held. Therefore, if the company owning the property comes from a jurisdiction with little or no corporate transparency, the beneficial owner of the property remains hidden.

Companies registered in the BVI, for instance, only provide information about the name of the company's agent – namely one of the local company formation firms that front thousands of offshore companies without having any information about their actual purpose or transactions. Moreover, ownership structures are often so complex, that even in the rare cases when international legal assistance is granted and a court order forces a local agent to disclose the name of the shareholder, this would be in most cases a nominee or another offshore company.⁷⁰

Even when real estate agents are committed in good faith to comply with the AML regime, the difficulty to obtain certain information may be overwhelming, especially for small-sized estate agencies. As pointed out by Peter Bolton King, global residential director at Royal Institute of Chartered Surveyors:

“When you have a company hidden offshore, it is ... almost impossible for your average estate agent to find out what on earth is going on.”⁷¹

While professional gatekeepers find themselves at the frontline of an AML regime, their limited resources and lack of any investigatory power poses serious limitations to their capacity to ascertain who the real beneficial owner of a complex legal arrangement is. It would therefore be unrealistic to expect them to be able to gather information where even the law enforcement authorities are facing substantial difficulties.

There is an issue that money laundering due diligence typically stops when it reaches an offshore corporate entity; a problem of ‘can’t look and don’t find’.

There is an issue that money laundering due diligence typically stops when it reaches an offshore corporate entity

69. Transparency International UK, *TI-UK response to the National Risk Assessment of Money Laundering and Terrorist Financing*, (May 2014)

70. <http://www.icij.org/british-virgin-islands-secrecy> [Accessed: 16 Feb 2015]

71. <http://www.ft.com/intl/cms/s/0/6cb11114-18aa-11e4-a51a-00144feabdc0.html#axzz3ND7xFNm8> [Accessed: 16 Feb 2015]

Mark Hayward, Managing Director of the National Association of Estate Agents, underlined the point:

“Proof of funds is often the main focus for estate agency checks, beyond that there is typically limited interest in or awareness of the need to carry out due diligence. If checks are carried out and they identify a company holding the property, the due diligence will very likely stop there.”⁷²

10.2 GAPS IN RECORDED SALE PRICE BY THE LAND REGISTRY

According to a report by the Financial Action Task Force, manipulation of the real value of properties is a common tool in money laundering schemes.⁷³ Keeping track of the purchasing price of a property is one way to detect early fictitious under- or de- valuations. However, more than a third of the data made available by the Land Registry for properties held by offshore companies does not contain a purchase price. This is because there are caveats for when the Land Registry obtains price information which apply when properties are purchased through a secret offshore corporate vehicle, which is the favoured method of concealment for grand corruption cases in the UK.⁷⁴ These include⁷⁵:

- where the price paid is stated in a foreign currency (as Land Registry do not calculate currency conversions)
- where the stated price paid is vague, for example “under £10m” or “over £1m”
- when the company is purchased through the transfers of shares or equity

10.3 ANTI-MONEY LAUNDERING REGULATIONS FOR ESTATE AGENTS ONLY REQUIRING DUE DILIGENCE ON THE SELLER

Currently, real estate agents in the UK are compelled to carry out due diligence on only one side of a property transaction. Money Laundering Regulations in the UK only legally require estate agents to undertake due diligence on sellers – the agent’s official clients – not purchasers of property.⁷⁶ This clearly stymies the effectiveness of AML in the property sector.⁷⁷

In theory, purchasers should already have had due diligence carried out by their legal representatives (solicitor) involved in the transaction.

A legal professional must apply due diligence measures when participating in the buying and selling of real property or business entities; the managing of client money, securities or other assets; and the creation, operation or management of trusts, companies or similar structures.

However, according to section 330 of POCA 2002, professional legal advisers and relevant professional advisers do not commit an offence if they fail to report suspicious activities that came to their knowledge in ‘privileged circumstances’. Under the same section, ‘privileged circumstances’ cover information communicated to a lawyer by a client in connection with the lawyer providing legal advice, by a person seeking legal advice, or in connection with legal proceedings or contemplated legal proceedings.⁷⁸ As a result, there is therefore a wide opportunity for corrupt legal advisers to not report suspicions of money laundering. SARs from solicitors have fallen dramatically over the last ten years, amounting to an 82.7 per cent fall from 2003/4 to 2012/13, as further rulings in court have strengthened legal privilege over the duty to report suspicions.⁷⁹

72. Interview, 6 February 2015

73. FATF, *Money Laundering & Terrorist Financing through the Real Estate Sector*, 2007

74. <http://www.ft.com/cms/s/0/6cb11114-18aa-11e4-a51a-00144feabdc0.html> [Accessed: 16 Feb 2015]

75. See more at: <http://www.landregistry.gov.uk/professional/guides/practice-guide-7#sthash.fudABeeE.dpuf> [Accessed: 16 Feb 2015]

76. HMRC, *Money Laundering Regulations 2007: supervision of Estate Agency Businesses*, 2014. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321830/MLR2007.pdf [Accessed: 16 Feb 2015]

77. Transparency International UK, *TI-UK response to the National Risk Assessment of Money Laundering and Terrorist Financing*, (May 2014)

78. Legislative reference: POCA 2002, S.330(10)

79. Calculated by using SARs data from the NCA’s 2013 SARs Report (<http://www.nationalcrimeagency.gov.uk/publications/94-sars-annual-report-2013/file>) and from academic research (<http://www.ucl.ac.uk/scs/downloads/research-reports/fleming-LEASARS>)

Money laundering regulations in the UK only legally require estate agents to undertake due diligence on sellers – the agent’s official clients – not purchasers of property

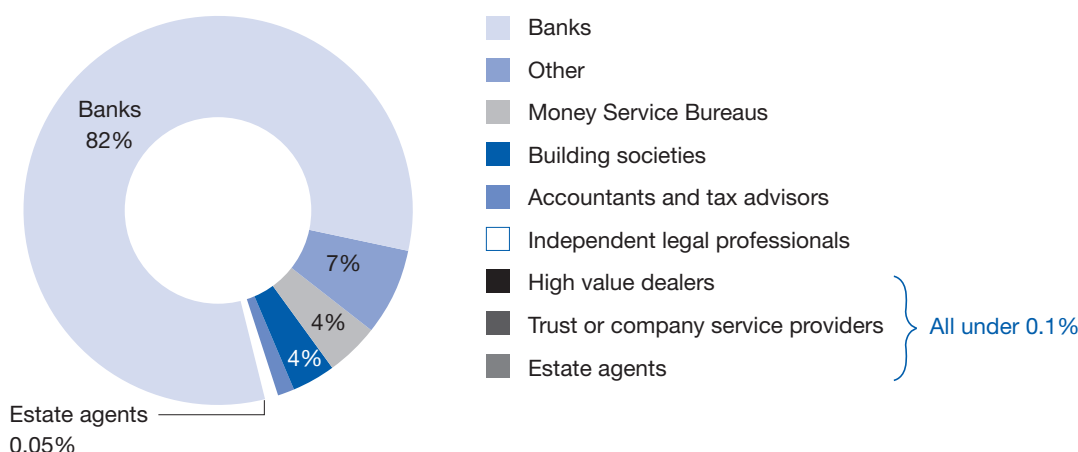
The International Consortium of Real Estate Associations, a consortium of the world's leading real estate associations, has raised numerous concerns over the proposal for real estate agents to conduct due diligence on both sides of a property transaction, as they would be too "onerous" for estate agents.⁸⁰ Among the causes of the burden of conducting due diligence is the fact that real estate agents do not possess the investigative powers required to crack the veil of secrecy created by complex offshore legal and corporate arrangements; and they may be lacking personnel with sufficient AML expertise.

10.4 LOW LEVELS OF SUSPICIOUS REPORTING OF MONEY LAUNDERING BY ESTATE AGENTS

While most AML efforts have targeted the financial and credit sector, there is a concern that political institutions and public opinion in general have very little understanding about the specific risk of money laundering in the real estate sector. Real estate agents – as with most of the regulated non-financial private sector – still lag behind in terms of compliance with existing rules and procedures. The volumes of SARs submitted by some of the professional gatekeeper sectors are typically low, especially considering the risk of money laundering they are exposed to. In 2013-14, estate agents contributed to only 0.05% of all SARs submitted, which equated to merely 179 reports.⁸¹ This marked even a decline in comparison with the 215 reports submitted in the previous year. Quite clearly, this figure is not commensurate to the risks posed by money launderers to the UK property market.⁸²

Estate agents contributed to only 0.05% of all SARs submitted

SARs by sector, % of total (Oct 13 to Sept 14)



10.5 PREVALENCE OF CASH PAYMENTS FOR PROPERTY

Large cash payments are typically regarded as a money laundering red flag risk.⁸³ However, cash payments are not uncommon in the property market. Research by Hampton's International found that 350,000 purchasers of UK property in 2013 were cash buyers, and of these cash purchasers, 70 per cent – as many as 245,000 property buyers – were not funding their deal through the sale of another property.⁸⁴ The term cash buyer may refer to both those buyers who are not funding the purchase through a mortgage and those who are purchasing with cash. In either scenario, the AML checks provided for by the UK financial sector may be bypassed.

80. <http://www.oppp-connect.com/22/05/2014/end-onerous-due-diligence-obligations-says-icrea/> [Accessed: 16 Feb 2015]

81. <http://www.nationalcrimeagency.gov.uk/publications/464-2014-sars-annual-report/file> [Accessed: 16 Feb 2015]

82. <http://www.nationalcrimeagency.gov.uk/publications/94-sars-annual-report-2013/file> [Accessed: 16 Feb 2015]

83. <http://www.transparency.org.uk/our-work/publications/15-publications/833-how-to-bribe-a-typology-of-bribe-paying-and-how-to-stop-it> [Accessed: 16 Feb 2015]

84. Hampton's International, *Market Insight: All Set to Go*, (March/April 2014) available at <https://www.hamptons.co.uk/media/193287/cod1101-marketinsight-march-april-lrweb.pdf> [Accessed: 16 Feb 2015]

10.6 A RELIANCE ON AML CHECKS BY CONVEYANCE SOLICITORS

Despite the estate agency sector being covered by the MLR in the same way as the legal profession, interviews for this research highlighted a perception in the property sector that the conveyance solicitors should have the principal role of conducting property related money laundering checks. However, this leaves the solicitor with the opportunity to claim “privileged circumstances” for failing to report suspicions.⁸⁵ Although such exceptions have been introduced with the purpose of addressing privacy concerns and expressly exclude information given with the intention of furthering a criminal purpose, their overly wide ambit of application represents a considerable legal loophole which ultimately shields professional gatekeepers from the duty to report suspicions of money laundering. Further, lawyers are not always, or necessarily, involved in a property purchase.

Case study: James Ibori

The case of the corrupt former Nigerian politician James Ibori demonstrates many of the problems in the system for anti-money laundering. He is reported to have owned three London properties – in St John’s Wood, in Hampstead, and Regent’s Park – as well as a house in Shaftesbury in Dorset.⁸⁶ Ibori’s Hampstead property was reportedly valued at £2.2m in 2012.⁸⁷ Despite being a classic red flag customer, Ibori would not have been subject to customer due diligence by the real estate agent involved because he was a purchaser of the property not a seller.

This is because UK regulations only require the property’s seller to undergo customer due diligence by the estate agent, on the assumption that the purchaser would already have been scrutinised by their solicitor. However, Ibori’s London-based lawyer was complicit in supporting Ibori’s money laundering, and he was jailed for 10 years in 2010 for his part in laundering over £50 million for Ibori.⁸⁸ In 2012, Ibori pleaded guilty to 10 counts of money laundering and was sentenced to 13 years in jail.⁸⁹ His confiscation hearing is ongoing.

During his time as the Governor of Nigeria’s Delta State between 1997 and 2008, James Ibori stole an estimated \$250m from the state. He used this money to fund a lavish lifestyle including luxury homes in the UK, US and South Africa, a \$20million private jet, and a fleet of luxury cars.⁹⁰

James Ibori’s case illustrates the potential for gatekeeper service businesses to neglect their compliance obligations in favour of profit, as well as serious flaws within the regulations that allow such abuse to occur.

James Ibori’s case illustrates the potential for gatekeeper service businesses to neglect their compliance obligations in favour of profit, as well as serious flaws within the regulations that allow such abuse to occur

85. Lawyers and other professionals may be excused from reporting suspicions in some circumstances where client confidentiality and professional privilege apply, relevant legislation here: POCA 2002, S.330 (6)(b) and (c).

86. <http://www.theguardian.com/global-development/2012/apr/17/nigeria-governor-james-ibori-sentenced> [Accessed: 16 Feb 2015]

87. <http://www.bbc.co.uk/news/world-africa-17739388> [Accessed: 16 Feb 2015]

88. <http://www.standard.co.uk/news/crime/moneylaundering-lawyer-in-50m-case-appeals-after-met-bribe-claim-8363822.html> [Accessed: 16 Feb 2015]

89. <http://www.theguardian.com/global-development/2012/apr/17/nigeria-governor-james-ibori-sentenced> [Accessed: 16 Feb 2015]

90. <http://www.globalwitness.org/library/sentencing-former-nigerian-politician-highlights-role-british-and-us-banks-money-laundering> and <http://saharareporters.com/2007/10/19/how-james-ibori-bought-bombardier-challenger-jet-canada> [Accessed: 16 Feb 2015]

10.7 HISTORIC LACK OF REGULATORY SANCTIONS FOR AML BREACHES IN THE PROPERTY SECTOR

The only substantial sanctions to occur for estate agency AML breaches were carried out in March 2014 by the Office of Fair Trading. In a swansong episode of enforcement before regulatory responsibility was passed to HMRC in April 2014, the Office of Fair Trading fined three estate agents almost £250,000 for “significant and widespread” anti-money laundering lapses. These were Hastings International of London (fined £48,000), Jackson Grundy of Northampton (£170,000), and Jeffrey Ross of Cardiff (£29,000).⁹¹

The introduction of punitive fines for AML failures by the Office of Fair Trading in 2014 was a substantial development, but it is yet to be seen whether HMRC – the new supervisor for the sector – will follow suit and send a clear signal to the sector that AML non-compliance penalties will be enforced with significant fines.

10.8 LOW LEVELS OF AWARENESS OF AML RESPONSIBILITIES IN THE SECTOR

Membership of the UK National Association for Estate Agents comprises approximately 60 per cent of the sector.⁹² There are limited options for supervisors to engage with and communicate with the remaining 40 per cent of the sector. Such low registration rates are a product of, and further contribute to, low levels of awareness about existing AML responsibilities in the sector and good practices.

In contrast to the UK financial sector, the AML regulators for the property sector have not produced publicly accessible surveys on the levels of AML awareness and compliance within the industry. However, industry leaders have repeatedly stated the need for greater oversight of these risks.⁹³

Mark Hayward, Managing Director of the National Association of Estate Agents, stated:

*“There are low levels of awareness in the sector about the importance of filing suspicious activity reports. When estate agency staff see something suspicious, it would be common for them not to know that they should report it or understand how. Training and awareness needs to be improved, and the reporting rates in the sector should be a lot higher.”*⁹⁴

10.9 FRAGMENTED AML SUPERVISION

The fragmented nature of AML supervision and an inconsistent approach to sanctions have previously been identified in TI-UK’s research as a significant deficiency in the UK’s money laundering defences.⁹⁵ It is hard to envisage that a regulatory regime with 27 different supervisory authorities can be consistent, coordinated, or ultimately effective in enforcing AML obligations. The vulnerabilities in the estate agency sector require a joined up approach from AML supervisors for estate agents, lawyers, financial professionals and accountants.

In contrast to the UK financial sector, the AML regulators for the property sector have not produced publicly accessible surveys on the levels of AML awareness and compliance within the industry

91. <http://www.se-law.co.uk/news-events/legal-updates/article/14-04-08/Anti-Money-Laundering-Compliance-for-Estate-Agents.aspx> [Accessed: 16 Feb 2015]

92. Interview with Mark Hayward, Managing Director of the National Association for Estate Agents, 6 Feb 2015

93. <http://www.estateagenttoday.co.uk/433-naea-says-statutory-regulation-needed-to-combat-rogue-agents> [Accessed: 16 Feb 2015]

94. Interview, 6 Feb 2015

95. Transparency International UK, *TI-UK response to the National Risk Assessment of Money Laundering and Terrorist Financing*, (May 2014)

11. CONCLUSIONS

Close business and financial relationships with the secrecy jurisdictions located in the British Overseas Territories and Crown Dependencies greatly increase the UK's exposure to money laundering risks and prevent effective due diligence checks from being carried out.

Investigations by law enforcement agencies, as well as due diligence by regulated sectors, can often stop or become exceptionally difficult when layers of secret offshore companies are structured as owning assets and holding property titles.

Our research identified five areas in which there are problems or weaknesses that allow corrupt capital to be laundered through UK property, and for corrupt individuals to use the UK as a safe haven for their assets while enjoying the lifestyle and status that accompany UK property ownership.

1. Attractiveness of the UK to corrupt capital

Given the ease of securing anonymity through secret offshore ownership of property in the UK, the regulatory shortcomings in the AML regime for property, and the general attractiveness of UK property as an investment location, the UK emerges as an alluring location for corrupt individuals to hide the proceeds of their criminal activities with impunity.

2. Evidence of corrupt capital invested in UK property

A large number of high-end properties in the UK appear in recent and ongoing criminal investigations against grand corruption in the UK, which is likely to represent only a small proportion of the scale of corrupt capital invested in UK property.

3. Problems caused by secrecy and offshore holding companies

Using companies that are registered in secrecy jurisdictions to hold property in the UK is a widely-used opportunity to conceal the ownership of UK properties. Such offshore ownership is a significant barrier to law enforcement investigations of grand corruption and effectively neuters private sector due diligence and the enforcement of international sanctions within the UK property sector.

4. Vulnerability of UK due to British Overseas Territories and Crown Dependencies

While the drive towards corporate ownership transparency gathers pace around the world, no British Overseas Territories have accepted the Prime Minister's call for public transparency of corporate ownership and many have yet to show a genuine attempt to resolve money laundering risks presented by companies registered in their territories.

5. Weaknesses of the UK's AML regime in respect of property

The UK regulatory regime for property is characterised by a number of weaknesses, including that anti-money laundering regulation for estate agents only require due diligence on the seller, not the purchaser; the regime relies on lawyers to cover any estate agency risks, which ignores the risk of complicit lawyers; the lack of recorded sale price by the Land Registry; the historic lack of regulatory sanctions for AML breaches in the sector; low levels of awareness of AML responsibilities within the sector; and fragmented supervision by different regulators.

Our research identified five areas in which there are problems or weaknesses that allow corrupt capital to be laundered through UK property

12. RECOMMENDATIONS

Despite the inter-dependence of multiple jurisdictions in the laundering of corrupt capital using secret offshore property ownership, there are steps that the UK can take unilaterally that will create greater transparency over these risks, enable more effective law enforcement and have a deterrent effect on corrupt capital.

KEY RECOMMENDATION:

Transparency should be established over who owns the companies that own so much property in the UK. Transparency International believes that any foreign company intending to hold a property title in the UK should be held to the same standards of transparency required of UK-registered companies.

Before completing a purchase on a property, overseas companies should be required to submit to Land Registry the same details that UK registered companies must submit to Companies House.

OTHER RECOMMENDATIONS TO THE UK GOVERNMENT

Recommendation 2.

Estate agents' anti-money laundering responsibility should be extended to include due diligence checks on the purchaser, not just the seller. These checks should include ensuring that the purchasing company has declared their beneficial owners and that appropriate checks have been carried out on those individuals.

Recommendation 3.

HM Treasury should regularly convene a property working group for all of the anti-money laundering supervisors that have some responsibility over the property sector transactions, including at least HMRC, the Financial Conduct Authority and the Solicitors' Regulatory Authority, to ensure that sector wide issues are being dealt with comprehensively by the various supervisors with some responsibility.

Recommendation 4.

HM Treasury should consider introducing a cap on cash payments for property, closing the loophole where banking AML protections are evaded.

RECOMMENDATIONS TO THE AML SUPERVISOR FOR ESTATE AGENTS (HMRC)

Recommendation 5.

The anti-money laundering supervisor for estate agents, HMRC, should conduct a detailed review of money laundering risks and the extent of compliance shortcomings in the sector, as other UK supervisors have done in other sectors, to ensure that their regulatory activity is risk-based.

Recommendation 6.

HMRC should be resourced to encourage AML training and awareness raising programmes for the property sector, with a stated objective to substantially increase SARs reporting from property (currently 0.05% of the total). This should include providing guidance to the property sector on due diligence obligations, particularly around companies and trusts.

Recommendation 7.

HMRC should make use of sanctions, such as financial penalties and incarceration, to create a clear deterrent for actions and an incentive to improve compliance.

Recommendation 8.

Estate agents should not be permitted to complete a property transaction with a foreign company unless they are registered with HMRC for AML purposes.

Transparency should be established over who owns the companies that own so much property in the UK

RECOMMENDATIONS FOR THE LAND REGISTRY

Recommendation 9.

The value of any property during a sale should be required and recorded by the Land Registry as standard.

Recommendation 10.

The Land Registry should publish the ultimate beneficial ownership information of those properties freely to the public, on the same basis as Companies House is set to do under current UK legislation. Accordingly, companies registered overseas would be required to update beneficial ownership information on the same basis as UK registered companies.

Crown Dependencies and Overseas Territories

While TI-UK's focus in this paper is how the UK can unilaterally strengthen the UK domestic property AML regime against proceeds of corruption risks, there are clearly steps that overseas territories can take to reduce their role as a safe haven for corporate entities that can be abused for money laundering purposes.

TI-UK believes that all corporate and financial centres should meet the standard set by the UK on corporate transparency, particularly Crown Dependencies and British Overseas Territories that benefit from UK foreign affairs and defence support.

The UK should use its influence to follow through on the Prime Minister's April 2014 letter to Overseas Territories in order to encourage anti-money laundering standards to be raised and to reduce the UK's vulnerability that secrecy rules in those territories have created.

Corporate transparency in offshore centres should be incentivised and lack of transparency should be disincentivised. TI-UK believes that relevant authorities should consider how companies that choose to operate in offshore centres that fail to meet corporate transparency standards should be held as a higher AML risk category, and how private sector due diligence, business refusal, and regulatory enforcement should reflect that higher risk.

TI-UK believes that all corporate and financial centres should meet the standard set by the UK on corporate transparency

