

Offshore in the UK

ANALYSING THE USE OF
SCOTTISH LIMITED PARTNERSHIPS
IN CORRUPTION AND
MONEY LAUNDERING

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Analysing the use of Scottish Limited Partnerships in corruption and money laundering

Key Findings

Scottish Limited Partnerships (SLPs) have recently experienced an unusual rise in popularity. **The number of SLPs rose by 23,625 (430 per cent) between 2007 and 2016. In one year alone (2016), more SLPs were registered (5,215) than in the century after they were introduced in 1907 (4,458).**

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Over 100 SLPs were involved in the Global Laundromat, a giant money laundering scheme that moved between US\$20 billion and US\$80 billion out of Russia in just four years. A significant amount of this money is suspected to be the proceeds of corruption – funds stolen from the Russian treasury and state contracts.

[Read more on page 7](#)

SLPs are attractive to money launderers because they can provide anonymous ownership and control while giving the impression of a respectable UK business. **71 per cent of all SLPs registered in 2016 are controlled by companies based in secrecy jurisdictions, hiding who is really behind the partnership. Similar ownership structures have been used in a number of high-level corruption and money laundering cases.**

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SLPs facilitated one of the largest corruption scandals in recent years. **20 SLPs formed part of the complex apparatus used to raid US\$1 billion from three Moldovan banks in 2014, costing the country around an eighth of its annual Gross Domestic Product (GDP).**

[Read more on page 11](#)

Two SLPs are reported to be key parts of a major bribery scandal in the Council of Europe. They could be the tip of the iceberg – we have identified a network of over 1,500 other UK legal entities connected to this incident alone.

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Executive Summary

For those seeking to conceal and launder the proceeds of corruption, the role of the anonymous and untraceable legal entity is critical. These secretive entities – often based in offshore financial centres like the British Virgin Islands (BVI), Belize and Seychelles – provide little to no public information about who they are and who controls them. Their role in financial crime has been recognised by the UK Government and law enforcement agencies; however, in 2016, the Panama Papers – the largest financial data leak in history – provided the world with an unprecedented glimpse into the scale of the abuse of these anonymous companies.

Although opaque corporate structures are often associated with far-flung jurisdictions halfway around the world, these vehicles also exist right on our doorstep. Originally used for managing agricultural tenancies, there are signs that Scottish Limited Partnerships (SLPs) are increasingly being abused by money launderers, possibly because of their unique characteristics. They have their own separate legal personality; allow for minimal filing requirements and interaction with UK authorities; and can have corporate partners based in secrecy jurisdictions¹ while maintaining the perceived respectability of a UK-incorporated legal entity. As a result, they are the UK's own home-grown secrecy vehicle, which have played a key role in some of the most audacious and shocking money laundering schemes in recent history.

According to recent revelations from the Organised Crime and Corruption Reporting Project (OCCRP) and Novaya Gazeta, 113 SLPs played key roles in a giant money laundering scheme that moved somewhere between US\$20 billion and US\$80 billion out of Russia in just four years.² Although the origins of these funds remain unclear, a significant amount is suspected to have been money diverted from the Russian treasury and state contracts. In 2014, 20 SLPs were also used to extract over US\$1 billion from Moldovan banks, costing the small ex-Soviet Republic almost an eighth of its GDP.³ There is still no sign of where this money has gone and no prospect of its repatriation.

Although these cases provide insights into how SLPs are being used, the potential scale of their abuse is much larger. Since 2007 there has been an explosion in the number of SLPs being registered, with 82 per cent (23,625) of all SLPs registered between 2007 and the end of 2016; 70 per cent of the SLPs incorporated during this period (16,461) are registered at just 10 addresses.

An overwhelming proportion of these are designed with an opaque ownership structure. According to research by investigative journalists, Bellingcat, 71 per cent (3,677) of SLPs incorporated in 2016 are controlled by companies registered in secrecy jurisdictions, which is a known indicator for money laundering risk. This proportion could be even higher, as Bellingcat could not ascertain the jurisdiction of corporate partners in almost a fifth of the SLPs registered in this year.

Whilst the prevalence of SLPs in moving illicit wealth is a relatively recent development, the abuse of UK structures more widely is not. Rather, the rise of the SLP illustrates how the design of money laundering schemes evolve alongside the regulatory landscape in which they operate. Alongside the abuse of SLPs, we have also identified thousands of other UK corporate entities connected to secretive offshore companies involved in a number of corruption cases. In short, the SLP is a case in point of the vulnerabilities which persist in the UK's defences against financial crime, not an anomaly.

Despite their name, the laws governing SLPs originate in Westminster, so it is for the UK Government to implement the urgent reforms outlined in this report to ensure they are no longer open to abuse. But more fundamentally, if the UK Government hopes to end the UK's role as facilitator of global corruption, then it needs to have a better understanding of how corporate vehicles have been abused and what the response from money launderers may be to future action.

¹ We define secrecy jurisdiction in this paper as somewhere that scores 60+ on the Tax Justice Network's Financial Secrecy Index for 2015 <http://www.financialsecrecyindex.com/introduction/fsi-2015-results> [Accessed 17 March 2017]

² <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/> [Accessed 28 March 2017]

³ <https://www.occrp.org/en/investigations/4203-grand-theft-moldova> [Accessed 15 March 2017]

Recommendations

Recommendation 1: Extend corporate beneficial ownership transparency to SLPs

To increase transparency about who controls Scottish Limited Partnerships (SLPs) and deter their use in money laundering schemes, the UK Government should legislate to bring SLPs within the scope of the Persons of Significant Control (PSC) register as part of its transposition of the EU's Fourth Money Laundering Directive (4MLD).

Recommendation 2: Verify all initial filings for SLPs under the new rules

To ensure the integrity of the PSC register, Companies House should undertake a thorough verification exercise to ensure there is confidence that the information submitted during SLPs' transition to the new rules is accurate.

Recommendation 3: Prohibit the use of corporate partners in most circumstances

To reduce the risk of being used to facilitate illicit activity, the UK Government should, in most circumstances, prohibit the use of corporate partners where a UK legal entity has a separate legal personality.

Recommendation 4: Introduce unique identifiers for directors and partners of UK legal entities, and publish this as open data

To help increase the speed at which financial investigators can identify potentially suspicious corporate networks, Companies House should introduce 'unique identifiers' into the register as soon as possible for directors and partners of registered entities, and start publishing details of partners for UK partnerships, including SLPs, as open data.

Recommendation 5: Require more information about SLP partners

To help deter their use in money laundering schemes and increase their transparency, the UK Government should introduce a requirement for the general and limited partners of SLPs to provide a correspondence address, as is the case for the officers of companies and Limited Liability Partnerships (LLPs).

Recommendation 6: Consider requiring UK legal entities to have a UK bank account

To ensure that their financial activities are overseen by the UK's anti-money laundering framework, the UK Government should consider making it a requirement for SLPs and other forms of UK legal entities to hold a UK bank account.

1. What are Scottish Limited Partnerships?

The simplest form of partnership is a general partnership, a business with two or more owners where all partners have equal responsibility, authority and liability. The limited partnership concept was introduced in the UK in 1907 and provided for partners that could simply invest without participating in the day-to-day management of the business.⁴ They could also enjoy liability capped at the level of their investment contribution – rather like shareholders in a limited company. Limited partnerships are businesses with at least one limited partner, and one general partner that is responsible for the management of the business, its assets and with unlimited liability for its debts.

Scottish Limited Partnerships (SLPs) are limited partnerships that have been registered in Scotland, rather than in England and Wales or Northern Ireland. Although we pay particular focus to the SLP in this report, it operates in the same way as limited partnerships registered elsewhere in the UK but for one important feature: unlike other UK limited partnerships, the SLP has its own separate legal personality, distinct from the partners themselves.

Despite their name, SLPs are governed by laws produced in Westminster, not Holyrood, so they fall under the legislative competence of the UK Government.

Money laundering and corruption

Money Laundering is the process of concealing the origin, ownership or destination of illegally or dishonestly-obtained money by hiding it within apparently legitimate economic activities to give the impression of legality. Money laundering is used to mask corruptly acquired wealth – such as bribes, kick-backs, illicit political contributions and embezzled funds. It allows corrupt individuals, organisations and regimes to escape justice, and after the funds have been successfully laundered to enjoy or use them as they please. Estimates vary, but the UK's National Crime Agency thinks that billions of corrupt funds could be laundered through the UK every year.ⁱ

ⁱ NCA, *National Strategic Assessment of Serious and Organised Crime 2016* (September 2016) p.30

<http://www.nationalcrimeagency.gov.uk/publications/731-national-strategic-assessment-of-serious-and-organised-crime-2016/file>

⁴ <http://www.legislation.gov.uk/ukpga/Edw7/7/24/contents> 26 January 2017] [Accessed 15 March 2017]

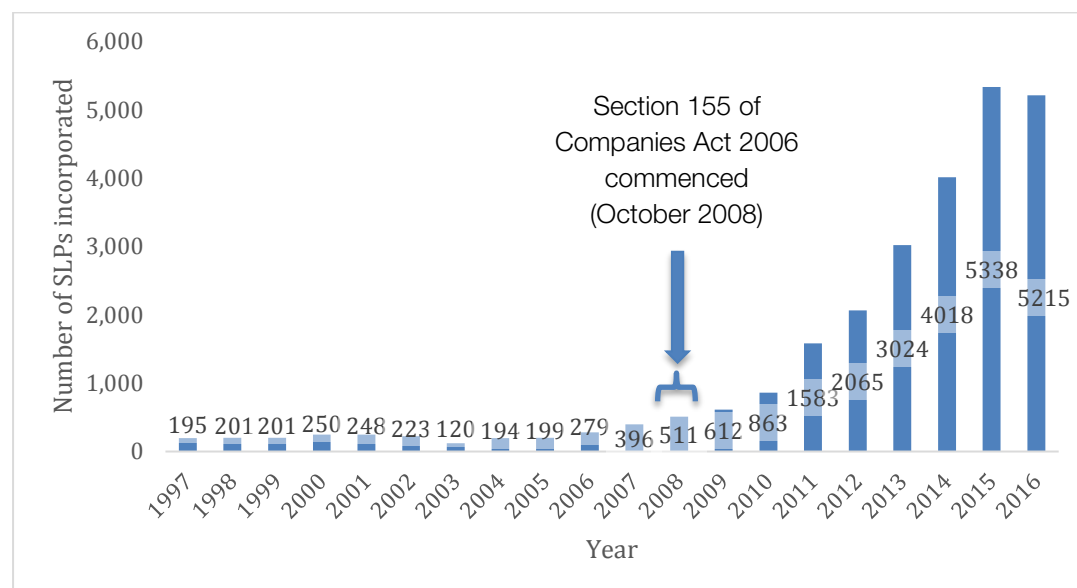
2. How are they being abused?

Partnerships vary enormously in size and formality. Defined simply as “*persons carrying on a business in common with a view of profit*”,⁵ they can facilitate a wide range of activities from farming to venture capital. SLPs, however, have recently become more synonymous with corruption, tax evasion and organised crime, including e-commerce scams and the distribution of child pornography.⁶ Introduced in 1907, the SLP remained relatively under-used until very recently. According to data from Companies House, between 1907 and the end of 2006 there had been just 4,458 registrations; at the close of 2016 there had been more than that in a single year (5,215).

Compared to other forms of partnership, SLPs have recently experienced an unusual rise in popularity. The number of SLPs rose by 23,625 (430 per cent) between 2007 and 2016 (see Chart 1), with an average year on year growth of 36 percent during this period, compared to around 5 per cent for other types of limited partnership.⁷ 70 per cent of the SLPs incorporated during this growth period (16,461) are registered at just 10 addresses.

Our research outlined in this report suggests that the recent surge in SLP registrations indicates they are potentially being abused on an industrial scale, including for money laundering linked to high-end corruption.

Chart 1: Scottish Limited Partnership incorporations (1997 to 2016)



⁵ <http://www.legislation.gov.uk/ukpga/Vict/53-54/39/section/1> [Accessed 26 January 2017]

⁶ http://www.heraldscotland.com/news/14623297.Fears_grow_over_Scottish_firms_used_for_money_laundering_in_for_mer_Soviet_Union/ [Accessed 13 march 2017]

⁷ Department for Business, Enterprise and Industrial Strategy (BEIS), *Review of Limited Partnership Law: A Call for Evidence* (January 2017) p.8
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/583800/review-of-limited-partnerships-law-call-for-evidence.pdf

Case study: The ‘Global Laundromat’

According to an investigation by the Organized Crime and Corruption Project (OCCRP) and Novaya Gazeta, at least US\$20.8 billion was secretly moved out of Russia between 2010 and 2014 through a vast money laundering machine comprising over 5,000 legal entities.⁸ Law enforcement agencies believe that the total amount laundered through this process could be as high as US\$80 billion.⁹ Although it is not clear where all of this money came from, investigators claim it includes significant amounts of money that were diverted from the Russian treasury and state contracts.

Amongst the entities involved were 113 SLPs registered between 2009 and 2014; 94 per cent (107) of them were incorporated between 2011 and 2013. Where data is available, all except one of these SLPs are controlled by corporate partners. All of the corporate partners with a publicly available place of incorporation were registered in either the Marshall Islands, Belize, BVI, Bahamas and Seychelles – all offshore secrecy jurisdictions.

One of the laundromat SLPs, Progate Solutions LP, is reported to have moved US\$194 million into Estonia between January 2013 and April 2014. Another, Rekart Petroleum LP, laundered US\$19 million during the same period.

According to the data collected by Bellingcat for 2016, there are over 300 other SLPs that share the same corporate partners as those involved in the ‘Laundromat’. One of the general partners that controlled six of the 113 SLPs involved in the Laundromat, Solberg Business Ltd., also controlled Polux Management Ltd and Hilux Services LP, which are alleged to have been conduits for bribes totalling over EUR 1 million as part of the Caviar Diplomacy scandal (see below).

How the laundromat worked

The first step in the scheme involved the creation of 21 core entities, with UK-based entities playing a major role, alongside others based in Cyprus and New Zealand. These core firms conducted sham business deals, including huge fictitious loans between the core entities, where no money actually changed hands. Backing these loans were co-guarantors, always Russian companies and a Moldovan citizen, which would pay out if the shell company borrowing the money ‘defaulted’.

To move the money out of Russia, a sham dispute would be created between the shell creditor and borrower companies. For example, the debtor would ‘default’ on repaying the fictitious loan, creating the opportunity for the creditor to call in the Russian company’s guarantee. As a Moldovan citizen acted as a co-guarantor, the subsequent litigation could take place in Moldovan courts, presided over by a pool of corrupt Moldovan judges.

The complicit Moldovan judges would order the Russian guarantor company – the party seeking to launder the funds in the first place – to pay the debt. Hundreds of millions of dollars at a time could be cleansed through this process, with the funds then bearing an authentic court order. Having made their way to accounts in Moldovan banks, the funds were then moved around the world by a network of entities and subsequent transactions. This is reported to have involved a total of 70,000 banking transactions spanning 96 countries.¹⁰ Most of the billions that have been laundered as part of this scheme are still to be accounted for.

⁸ <https://www.occrp.org/en/laundromat> [Accessed 23 March 2017]

⁹ <https://www.theguardian.com/world/2017/mar/20/the-global-laundromat-how-did-it-work-and-who-benefited> [Accessed 23 March 2017]

¹⁰ <https://www.theguardian.com/world/2017/mar/20/how-dirty-money-from-russia-flooded-into-the-uk-and-where-it-went> [Accessed 23 March 2017]

3. Why are Scottish Limited Partnerships being abused?

There are a number of features that make SLPs appealing to money launderers. In isolation they may seem insignificant, but put together they provide a vehicle which has similar characteristics to 'offshore' corporate entities more commonly associated with the transfer of illicit funds. They can engage in business transactions whilst hiding their beneficial owner; only leave a small paper trail behind them; and perhaps most importantly, they have the reputable status that comes from incorporation in the UK.

Separate Legal Personality

Unlike limited partnerships registered elsewhere in the UK, the SLP is a legal person in its own right, like a company. This means the SLP itself has certain rights and obligations – it can hold property, enter into contracts, be a debtor or creditor and sue or be sued – and do so in the name of the partnership and not its partners. This enables the laundering of significant amounts of money through incurring fake debts and participating in 'sham litigation'.¹¹

It also acts as an initial layer of secrecy by leaving only the name of the SLP – not the partners – on any associated paperwork or reports on their activities. This can be useful where the underlying partners are based in jurisdictions that are the subject of 'deoffshorisation' policies. De-offshorisation laws have recently been introduced in Russia to help restrict the use of opaque offshore structures that could be used to conceal the identity of Russian residents.¹²

Image 3: Example of how SLPs are being advertised internationally (translated from Russian)

The screenshot shows the Nexus Financial Consulting website. The header includes the company logo, contact information (Str. Vladimirskaia 11, office 6, +380 (44) 585-29-89), and a search bar. A navigation bar lists various services: Importers, exporters, Internet business, Intellectual property rights, Investments, The property, Boats and planes, and asset protection. The main content area is divided into three columns. The left column lists services such as Tax planning (Offshore companies, Recovery companies, Multiple agency scheme, British company with the English face, Reorganization of UK companies and partnerships LTD LLP, Cyprus company IP-box, Eastern midshory, Loans "Back-to-Back", Special offers), asset protection (Trusts, Private foundations), and Investments (index funds). The middle column is titled "Scotland - SLP Partnership" and features the Scottish flag and the Royal Coat of Arms. It contains the text: "The unique instrument of international tax planning. British British image without taxes and almost no accountability." and a paragraph explaining that for tax planning purposes, Scotland is attractive due to the special form of business organization - Scottish Limited Partnership (Limited is the Scottish Partnership About - the SLP). Subject to a number of simple conditions of this partnership is completely exempt from tax. Respectability Scotland SLP can be used as an alternative to traditional offshore companies doing business with the State conducting an aggressive anti-offshore policy. The right column is titled "Offshore companies" and lists various jurisdictions: Bahamas (IBC), Belize (IBC), Bulgaria (DTE), British Virgin Islands (BC), UK (LTD), United Kingdom (LLP), Hungary (KFT), Gibraltar (LTD), Hong Kong (LTD), Ireland (LP), Canada (LTD), Cyprus (LTD), Liechtenstein (AG), Mauritius (GBC-II), Maine (LTD), and Nevis (LLC).

¹¹ For examples and more information on sham litigation, see FATF, *Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals* (June 2013) pp.69-70 <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20vulnerabilities%20legal%20professionals.pdf>

¹² International Monetary Fund (IMF), *Russian Federation: Financial Sector Assessment Program Technical Note—Anti-Money Laundering and Combating the Financing of Terrorism* (September 2016) p.13 <https://www.imf.org/external/pubs/ft/scr/2016/cr16305.pdf>

No natural persons required

Similar to other types of UK limited partnership, partners in SLPs can be natural persons or a 'body corporate' in any jurisdiction in the world, and all the partners can be body corporates. However, other than LLPs, there is currently no other type of UK legal entity that has a separate legal personality and allows both partners to be offshore companies.

The ability to have two offshore corporate partners gives SLPs the second layer of opacity, as these can include companies based in secrecy jurisdictions like the BVI, Belize and Seychelles, where information about the directors, shareholders and beneficial owners are not publicly available. This means that SLPs can be used as a front to hide who is really controlling the partnership.

Because of their money laundering risk, this kind of corporate structure has been prohibited in other areas of UK company law. Section 155 of the Companies Act 2006, commenced in October 2008, required that all UK private and limited companies must have at least one director that is a natural person.¹³ The UK Government has since consulted on banning corporate directors because of concerns surrounding their use in illicit activity, and there are prospective changes that would give effect to this.¹⁴

Since the Section 155 requirement was introduced for private and limited companies, there has been a significant increase in the number of SLPs being incorporated. Although more analysis needs to be done to examine this trend in more detail, it appears that this legislative change could have triggered a migration to SLPs amongst those looking to facilitate illicit activity (see Chart 1 above).

We examined a sample of SLPs to see how many of them were being set-up in a way that would effectively make them a UK front for anonymous companies registered in secrecy havens. This shows the potential scale of their abuse by money launderers, who have used this type of corporate structure in recent cases.

To do this Bellingcat went through the incorporation documents of all 5,215 SLPs incorporated in 2016. Although it would have been preferable to study the general and limited partners of all SLPs, this information is not published as open data, so Bellingcat had to examine the incorporation documents manually to find out who they were. In addition, the incorporation documents prior to 2016 are not consistently published online, so Bellingcat could not easily access them for this research.

Based on our analysis of the documents from 2016, 4,918 (94 per cent) SLPs were controlled by corporate partners. The overwhelming majority of SLPs had no UK-based partner, with 71 per cent (3,677) of them controlled by companies based in secrecy jurisdictions.¹⁵ There were only 271 (5 per cent) who had corporate general partners registered in the UK during the same period.

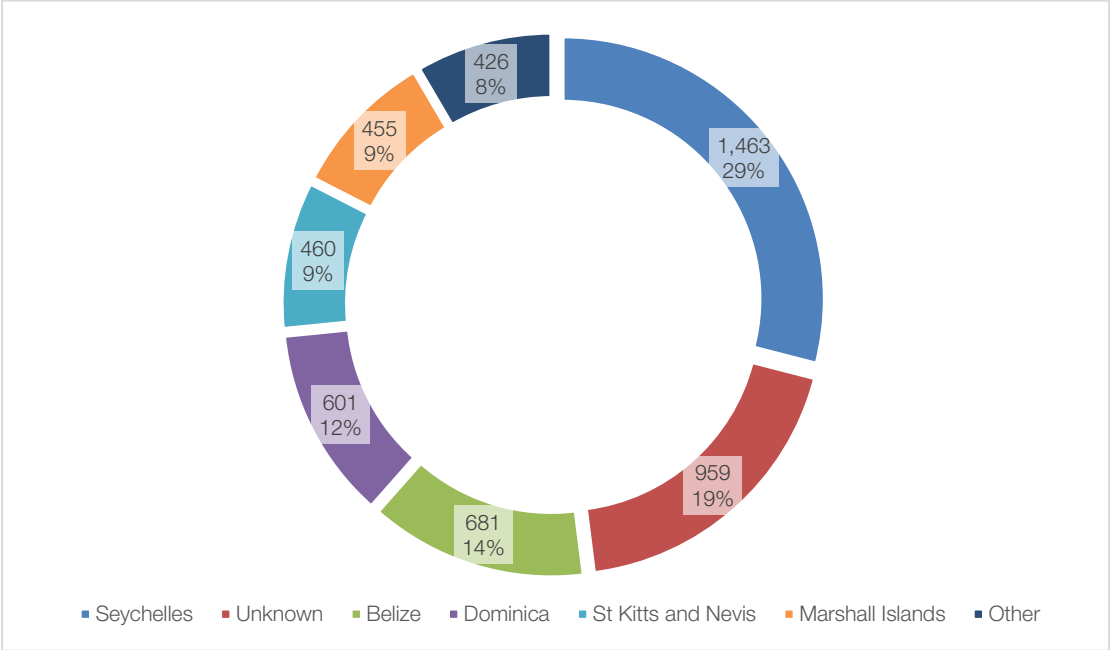
¹³ <http://www.legislation.gov.uk/ukpga/2006/46/section/155> [Accessed 27 January 2017]

¹⁴ BEIS, *Corporate directors: Scope of Exceptions to the Prohibition of Corporate Directors* (November 2014) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378197/bis-14-1017-scope-of-exceptions-to-prohibition-of-corporate-directors.pdf

¹⁵ Where the name of a corporate partner for an SLP matched the name of an identically-named corporate partner for an LLP, Bellingcat have assumed they are the same entity. In a large number of instances, the documentation for both types of entity includes the details of identically-named individuals, which gives us a high level of confidence that these are the same corporate entities.

Based on the information available, the most popular jurisdiction for corporate general partners was the Seychelles, followed by Belize and Dominica (see Chart 2). Although these jurisdictions are not large financial centres like the BVI and Cayman Islands, there are seen as crucial links in complex money laundering schemes that help hide the origin and beneficiaries of corrupt wealth.¹⁶

Chart 2: SLP General Partner by jurisdiction (2016)



¹⁶ <https://www.icij.org/offshore/sun-and-shadows-how-island-paradise-became-haven-dirty-money> [Accessed 10 February 2017]



Case study: The Great Moldovan Bank Robbery

In August 2012, the ownership of three leading Moldovan banks was transferred to a number of apparently unconnected individuals and entities with stakes small enough to evade scrutiny or require approval by the Moldovan Central Bank. In reality, a deliberately concealed group of related parties had actually secured ownership and control of Banca de Economii, Banca Sociala and Unibank, laying the foundations for what has since been dubbed ‘the Great Moldovan Bank Robbery’. By November 2014 all three banks had been drained of funds to the point of collapse, leaving a US\$1 billion hole in their balance sheets and plunging one of Europe’s poorest countries into crisis. The subsequent bailout cost the country one eighth of its annual GDP.

Amid public outcry and protests in Moldova, a confidential audit report into the scandal was leaked, providing insight into the money laundering apparatus used. Of the 50 UK legal entities named in connection with the scheme, 20 were SLPs.¹⁷

During the change of ownership of the banks, many shareholders funded their acquisitions with money borrowed from UK limited partnerships. SLPs also facilitated the flurry of transactions described in the audit report as having “*no sound economic rationale*” that allowed almost US\$1 billion to vanish. Around US\$750 million was lent by Banca Sociala to a handful of Moldovan firms on 25 and 26 November 2014 and immediately transferred to five firms based in the UK and Hong Kong. All five firms had been created in the months leading up to the transactions and had further offshore entities as partners – three were SLPs.¹⁸ In a final twist, the rights to the entire sum owed were transferred to another SLP – Fortuna United on 26 November 2014 in a shareholders meeting that has since been described by Governor of Moldova’s National Bank Dorin Dragutanu as “*completely fake*”.¹⁹

Fortuna United LP was created only months earlier in August 2014 and has its principle place of business at 18/2 Royston Mains Street, Edinburgh. Like many SLPs, Fortuna’s partners are corporate entities based offshore, in this instance in the Seychelles. Perhaps unsurprisingly, little else is known about Fortuna United, other than that its incorporation documents was presented to Companies House by Royston Business Consultancy Ltd. – also based at 18/2 Royston Mains Street, along with almost 250 other SLPs registered in the last 10 years.

Businessman Ilan Shor (who would later become Mayor of Orleu, Moldova) was identified as central to the scheme in the audit report and subsequently placed under house arrest. Vlad Filat, Moldova’s Prime Minister between 2009 and 2013, was last year sentenced to nine years in prison on related corruption charges. Despite these arrests the grand theft remains shrouded in mystery and rumour. The audit report concluded with a recommendation that a full forensic trace was needed to establish the ultimate beneficiaries of the scheme; for now these remain unknown. Potentially vital clues were lost when a truck carrying 12 sacks of bank documents was hijacked and burned.

Our initial analysis of the corporate partners for the SLPs involved suggest they could be linked to hundreds, if not thousands, of other UK legal entities.

¹⁷ http://candu.md/files/doc/Kroll_Project%20Tenor_Candu_02.04.15.pdf [Accessed 24 February 2017]

¹⁸ United Technologies LP, Danley Impex LP and Expovision Logistics LP

¹⁹ http://www.heraldscotland.com/business/13414235.The_Moldova_Connection/ [Accessed 13 February 2017]

Lack of information

The third layer of secrecy for SLPs is their minimal reporting requirements and interaction with bodies that might detect potentially illicit activity.

Registration requirements

Compared to LLPs and companies, SLPs have very light-touch registration requirements, needing only to file a short incorporation document asking for the following information:

- the name of the partnership
- the general nature of the business
- the name of each of the partners and the amount of their contribution
- the address of the proposed principal place of business
- the term of the partnership (if any)
- a statement that the partnership is limited and the description of every partner as such
- the sum contributed by each limited partner, and whether it is paid in cash or otherwise

For almost a fifth (19 per cent) of SLPs registered in 2016, Bellingcat were unable to ascertain where their corporate general partners were incorporated. These details are really important for identifying the corporate partners on other company registries (if they are made public), which helps financial investigators map out potentially illicit networks.

Where natural persons, rather than companies, were listed as partners, it became even more difficult to establish the underlying ownership. Unlike LLPs, whose partners' month and year of birth are provided, SLPs only include the name of the partner, which is not sufficient to help verify their identity with a high level of confidence.

Whether they were a natural person or company, our research found it was often difficult to ascertain and be certain as to the identity of partners for two main reasons. Firstly, unlike LLPs and private and limited companies, details about SLPs' partners are not currently published as open data. This could be one of the reasons it has taken so long to identify the potential scale of their abuse. Our investigation took weeks to complete, involving trawling through thousands of documents and associated paperwork to identify key known indicators for potential money laundering. Even then, Bellingcat were only able to do this for SLPs incorporated in 2016 because the relevant documentation before then is not consistently available.

Secondly, when Bellingcat were able to extract the details of SLPs' corporate partners, we could not easily identify their relationship with networks of other UK corporate entities because they did not have a unique identifier. Companies are usually provided with one when they are incorporated (all UK incorporated companies have a unique identifier), and now some jurisdictions have also started to introduce them for officers on company registers. This allows public users to easily identify how many companies a registered officer (or in this case, partner) is associated with.

The investigation by Global Witness and OpenCorporates into the multi-billion dollar jade industry in Myanmar demonstrates the value of introducing unique identifiers for natural persons – it proved essential in substantiating information on links between individuals and companies during their research.²⁰ However, in order to find potential networks in our research, we had to use third party software, such as the Investigative Dashboard, produced by the OCCRP,²¹ and seek the support of volunteer data scientists.

²⁰ <https://medium.com/opencorporates/how-open-company-data-was-used-to-uncover-the-powerful-elite-benefiting-from-myanmar-s-multi-1ef35f88d6bd#.fhjv9emj> [Accessed 1 February 2017]

²¹ <https://investigativedashboard.org/> [Accessed 14 March 2017]

Case study: Caviar Diplomacy

An investigation by the European Stability Initiative has identified two SLPs – Hilux Services LP and Polux Management LP – which are alleged to have been used as conduits for bribes totalling EUR 1.89 million to a senior European politician. According to documents from the Milan public prosecutor's office, the payments were made to Luca Volontè, former Italian politician and president of the European People's Party (EPP) in the Council of Europe (CoE).²² They are reported to have been made by an Azeri diplomat as a reward for Volontè's role in successfully lobbying other CoE members to reject a report that was highly critical of Azerbaijan's human rights record on 23 January 2013.²³ The allegations are currently being investigated by the Milan public prosecutor's office.

During this period, the European Commission was considering the multi-billion pound Trans Adriatic Pipeline oil pipeline running from Azerbaijan to Italy.

Our research has found that the SLPs used in this case are connected to a wide network of other UK legal entities. Hilux Services LP and Polux Management each have registered offices in 'suites' at the same address – 111 West George Street, Glasgow (below) – along with over 800 other SLPs registered since 2007. As well as sharing their place of business, Hilux Services LP and Polux Management LP also have the same general and limited partners – Solberg Business Ltd and Akron Resources Corp.



Image 1: Registered address of Hilux Services LP and Polux Management.

²² European Stability Initiative, *The European Swamp* (December 2016) p.12

²³ <http://assembly.coe.int/nw/xml/News/FeaturesManager-View-EN.asp?ID=1060> [Accessed 17 February 2017]

Apart from the names of the two offshore corporate partners, there is nothing in the registration documents to identify who established the SLP other than an obscure signature (Image 2). Both incorporation documents state the general nature of the SLPs' business is "Wholesale".

According to our analysis of Companies House records, there is a vast network of UK corporate entities connected to the partnerships involved in the Caviar Diplomacy scandal. Both Akron and

Solberg are partners in at least 20 other SLPs and 18 Limited Liability Partnerships (LLPs).

According to Companies House, both Akron and Solberg are registered companies in the BVI.²⁴

Our research has identified that corporate entities registered in this jurisdiction are often favoured by corrupt individuals laundering illicit wealth and individuals who present a high corruption risk.²⁵

Alongside the SLPs mentioned above, the ESI report alleges that two UK LLPs – LCM Alliance and Metastar Invest – were used to conceal an additional EUR 280,000 in payments to Volontè. Both LLPs had corporate partners based in the Seychelles and Belize respectively. According to *The Guardian*,²⁶ the Belize-based members of Metastar LLP – Advance Developments Limited and Corporate Solutions Limited – controlled a vast network of UK LLPs, including Amrut Services LLP, a firm used to help steal US\$230 million in the Hermitage Capital scandal that cost the whistle-blower, Sergei Magnitsky, his life.²⁷ Magnitsky uncovered the fraud while working as a lawyer for Hermitage Capital Management Fund, but soon found himself detained in 2008 on false charges. While in prison, Magnitsky was subjected to torture and denied medication, dying in custody in 2009. An organised criminal gang including corrupt officials is believed to be behind the heist and Magnitsky's murder.

Our research has found that Advance Developments Limited and Corporate Solutions Limited have been appointed as directors or partners of 351 UK companies and LLPs between December 2004 and April 2016. The Seychelles-based partners of LCM Alliance – Astrocom AG and Exponet GMBH – have been appointed as directors or partners of 379 UK companies and partnerships between October 2011 and September 2016. In total, the size of this immediate network is 729 UK registered entities, of which 559 have been dissolved and 170 remain active. However, our analysis has found that this could be part of a wider network of between 1,500 to 8,000 UK legal entities, and an unknown number of other offshore companies.

Image 2: Incorporation documents for Polux Management LP

²⁴ <https://data.occrp.org/entities?q=solberg%20business&offset=0> and <https://data.occrp.org/entities?q=akron%20resources&offset=0> [Accessed 17 February 2017]

²⁵ See Transparency International UK, *Closing Down the Safe Havens* (December 2013) <http://www.transparency.org.uk/publications/closing-down-the-safe-havens/>, *Corruption on Your Doorstep* (February 2015) <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/> and *Faulty Towers* (March 2017) <http://www.transparency.org.uk/faulty-towers/>

²⁶ <https://www.theguardian.com/world/2016/dec/31/bribery-claims-azerbaijan-pipeline> [Accessed 15 February 2017]

²⁷ <http://www.lawlesslatvia.com/wp-content/uploads/2012/09/Latvian-Complaint-signed-FULL-2.pdf> [Accessed 17 February 2017]

Reporting requirements

Aside from notifying Companies House when there is a change in the name of the partnership or in its partners, SLPs can have no other reporting requirements. Unless the general partners of an SLP are a UK limited company, they do not need to send accounts to Companies House.²⁸ Based on the data Bellingcat collected, only 2 per cent (105) of SLPs will have been required to submit accounts in 2016.²⁹ The International Monetary Fund has highlighted this opacity as an issue, which makes the SLPs a higher money laundering risk.³⁰

“[SLPs are] the perfect model for unaccountable business, unaccountable ownership of assets and income streams that may be criminal,”

Alex Cobham, Tax Justice Network³¹

Avoidance of tax authorities

SLPs are considered ‘tax transparent’, which means each partner (rather than the SLP itself) is liable for tax on any profits arising from trade in the UK. If the partners are non-UK resident, any profits will be taxed (or not) according to the regime of their home country. If the partners are non-UK resident and there are no trading profits in the UK then there is no UK tax to pay. What this means is that for SLPs with offshore partners, there is no need to file tax returns with HM Revenue and Customs (HMRC) and, crucially, no interaction with UK authorities who might identify illicit activity.

Bank accounts

There is currently no requirement for SLPs to open a UK bank account when they are formed. What this means is that although their name and country of incorporation may give them the veneer of a UK-regulated entity, their bank account and all of their financial transactions can be run through overseas bank accounts that have few, if any, money laundering checks on their account holders.

The Ukraine Connection

In 2016, Ukraine's National Anti-Corruption Bureau (NABU) launched an investigation into a corruption ring in the gas industry, which is thought to have cost the state £90 million.ⁱ Prosecutors believe that gas extracted by the state-owned company Ukrhazvydobuvannya was sold through fictitious commodity exchanges at a low price in order to be resold by the schemers through dummy firms.ⁱⁱ NABU seized the accounts of Rexlord Systems, a SLP connected to Ukrainian MP and former Olympian showjumper Oleksandr Onyschenko, who is alleged to have masterminded the scheme. Like the other Onyschenko affiliated accounts seized by NABU, Rexlord System's accounts were based in Latvian banks.ⁱⁱⁱ Both of the banks used by Rexlord Systems have been subject to large sanctions for money laundering failings.^{iv}

ⁱ <http://www.thetimes.co.uk/edition/news/ukrainian-showjumper-flees-to-uk-n59wxrh7f> [Accessed 16 February 2016]

ⁱⁱ http://en.lb.ua/news/2017/01/24/2929_former_deputy_ceos_held_resonant.html [Accessed 16 February 2016]

ⁱⁱⁱ <http://www.nrcu.gov.ua/en/news.html?newsID=31361> [Accessed 16 February 2016]

^{iv} <https://tinyurl.com/za6g4ru> and <https://tinyurl.com/hzv2jwo> [Accessed 15 March 2017]

²⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/395989/limited-partnership-act-gpo2.pdf [Accessed 1 February 2016]

²⁹ This is based on those who had a general partner registered in the UK with “limited” or “ltd” as a suffix.

³⁰ IMF, *United Kingdom: Financial Sector Assessment Program: Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) – Technical Note* (June 2016) p.22

³¹ <https://www.imf.org/external/pubs/ft/scr/2016/cr16165.pdf>

³¹ [https://hansard.parliament.uk/commons/2016-11-15/debates/78f72c79-a829-442b-86b3-012fd5796654/CriminalFinancesBill\(FirstSitting\)](https://hansard.parliament.uk/commons/2016-11-15/debates/78f72c79-a829-442b-86b3-012fd5796654/CriminalFinancesBill(FirstSitting)) at Column 31. [Accessed 1 February 2017]

4. What can be done to stop the abuse of SLPs?

There are number of key steps that must be taken by the UK Government in order to stop SLPs being used as a vehicle for high-end money laundering. Because of the inter-related nature of the issues identified in this report these recommendations should be adopted as a package, not piecemeal.

Bring SLPs within the scope of the Persons of Significant Control register

In June 2016, the UK Government introduced the world's first open register of company beneficial ownership. This contains information about individuals or entities that have significant control over a company or an LLP – known as 'people with significant control' (PSC). PSC's are defined as individuals who:

1. directly or indirectly hold more than 25% of shares,
2. directly or indirectly hold more than 25% of voting rights,
3. directly or indirectly hold the right to appoint or remove the majority of directors,
4. has the right to exercise, or actually exercises significant influence or control, or
5. hold the right to exercise, or actually exercise significant control over a trust or company that would meet any of conditions 1 -4 if it were an individual.

Greater transparency like this is good for business. 91 per cent of over 2,800 senior executives from 62 jurisdictions who took part in an EY study in 2016 believed it was important to know the ultimate beneficial ownership of the entities with which they do business.³² Equally, law enforcement, civil society organisations and investigative journalists rely on this kind of information to investigate potentially illicit activity.

The UK Government has recently consulted on widening the scope of its PSC register to include other legal entities beyond LLPs and limited companies – one of which is the SLP.³³ Bringing SLPs within the scope of the existing PSC regime would help increase transparency around the ultimate beneficiaries of the partnership. Initial evidence from the existing register shows how useful this information could be for identifying potentially suspicious activity. According to recent analysis by Global Witness and OpenCorporates, the new requirements have revealed 19 Politically Exposed Persons (PEPs) – deemed a high money laundering risk – and 76 people from the US sanctions list as beneficiaries of UK registered companies.³⁴

As well as providing more information about who is behind SLPs, public PSC data would make them less attractive for money launderers. Based on the data available, we have identified some corporate partners that appear to have moved from controlling LLPs – which are now within the scope of the PSC register – to being partners of SLPs. This suggests the new PSC requirements may be effective at making other UK-registered entities less attractive for money laundering.

³² <http://www.ey.com/gl/en/services/assurance/fraud-investigation---dispute-services/ey-global-fraud-survey-2016> [Accessed 27 January 2017]

³³ BEIS, *Discussion Paper on the Transposition of Article 30: Beneficial Ownership of Corporate and other Legal Entities* (November 2016) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/565095/beis-16-38-4th-money-laundering-directive-transposition-discussion-paper.pdf

³⁴ <https://www.globalwitness.org/en/blog/what-does-uk-beneficial-ownership-data-show-us/> [Accessed 31 January 2017] as at November 2016, 1.3 million firms had already filed their PSC statements.

Recommendation 1: Extend corporate beneficial ownership transparency to SLPs

To increase transparency about who controls Scottish Limited Partnerships (SLPs) and deter their use in money laundering schemes, the UK Government should legislate to bring SLPs within the scope of the Persons of Significant Control (PSC) register as part of its transposition of the EU's Fourth Money Laundering Directive (4MLD).

Ensure the PSC register is adequate, accurate and accessible

Article 30(4) of the EU's 4MLD requires that the UK's PSC register is "*adequate, accurate and current*".³⁵

In our response to the 2015 BIS consultation on the PSC register,³⁶ we highlighted that to prevent non-compliance with the new requirements, the UK Government should ensure there is an appropriate mechanism to investigate potential breaches of the new rules. We remain concerned that non-compliance with the new rules would undermine the integrity and effectiveness of the PSC register.

There is a credible apprehension that the ambition of the PSC register may be undermined by weaknesses in the current framework governing UK corporate registrations. Richard Murphy of the UK's Tax Justice Network has warned that "*the proposed register of beneficial ownership in the UK is simply a voluntary honesty box arrangement*" because there are so few people tasked with monitoring it.³⁷ Companies House has confirmed that responsibility currently rests with just six people who are not only responsible for the content of PSC register but for the integrity of the entire Companies House register.³⁸

Global Witness' dive into the PSC register found that almost 10 percent of companies claimed to have no beneficial owner and almost 3,000 companies listed their beneficial owner as a company with an address in a secrecy haven – something which is not permitted under the rules. Given the extent of corporate membership within SLPs and the tendency to be based in secrecy jurisdictions, these firms could create a blind spot in the PSC register.

If these firms are indeed deliberately opaque then there is likely to be broad non-compliance with the PSC register rules. The issue is how will users of this data know that those registering firms and submitting information to Companies House are telling the truth. If SLP transparency is enhanced by introducing filing requirements and entry onto the PSC register, this is a fundamental question in tackling their abuse.

The preparatory work³⁹ undertaken by Companies House ahead of the implementation of measures to abolish the use of bearer shares⁴⁰ is of note. In order to identify 1,300 companies as having bearer shares, Companies House inspected data relating to 75,000 companies and 5,000 director appointments. It then worked closely with these firms to ensure that bearer shares were removed. A similar integrity project should be employed for the SLP population when moving it into the PSC regime.

³⁵ http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2015_141_R_0003&from=ES [Accessed 14 February 2017]

³⁶ <http://www.transparency.org.uk/wp-content/plugins/download-attachments/includes/download.php?id=1523> [Accessed 30 January 2017]

³⁷ https://www.theyworkforyou.com/pbc/2016-17/Criminal_Finances_Bill/01-0_2016-11-15a.30.1 [Accessed 6 March 2017]

³⁸ <https://www.theyworkforyou.com/wrans/?id=2017-01-06.58846.h> [Accessed 13 March 2017]

³⁹ Companies House, *Annual Report and Accounts 2015/16* (July 2016) p.5

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540443/AnnualReport_201516.pdf

⁴⁰ Where the name of the holder of a share is not on a physical certificate, ownership is concealed and can be transferred without documentation.

Recommendation 2: Verify all initial filings for SLPs under the new rules

To ensure the integrity of the PSC register, Companies House should undertake a thorough verification exercise to ensure there is confidence that the information submitted during SLPs' transition to the new rules is accurate.

Prevent money launderers from hiding behind UK legal entities

As mentioned above, Section 155 of the Companies Act made it a requirement for private and public companies to have at least one registered director to be a natural person. This change reflected concerns that the use of corporate directors was ultimately facilitating illicit activity. Forthcoming changes awaiting commencement would prohibit the use of corporate directors in most, if not all, companies.⁴¹

Despite offering a separate legal personality like companies, SLPs are allowed to have corporate partners with no equivalent safeguards in place. Our analysis has shown that this loophole appears to have been aggressively abused by money launderers. We are of the view that there is now sufficient compelling evidence of abuse to warrant a review, and consider it appropriate that similar changes be introduced for members of SLPs as they bear the same risks arising from opacity of ownership and control as the limited company.

We recognise that the SLP structure can provide for a variety of legitimate functions and trust that these will be accommodated for through the use of exemptions, as has been the case with the comparable provisions for companies. Although we have primarily focussed on the abuse of SLPs in this report, we have identified evidence that LLPs have also been used in a similar way. Therefore, we think that any prohibition on corporate directors should be extended to other UK legal entities with a separate legal personality.

Recommendation 3: Prohibit the use of corporate partners in most circumstances

To reduce the risk of them being used to facilitate illicit activity, the UK Government should, in most circumstances, prohibit the use of corporate partners where a UK legal entity has a separate legal personality.

Make it easier to identify potentially suspicious corporate networks

In both our research into SLPs and the investigation undertaken by Global Witness and OpenCorporates into corruption in the Myanmar jade trade, there have been several networks of individuals and companies involved in money laundering. To identify these in the Myanmar case was much easier because officers on their company register have unique identifiers, allowing the investigators to tie together pieces of the puzzle quickly. However, for SLPs this has been more difficult because data about their partners is not published online as open data. Where Companies House does publish data on registered officers, for example for companies and LLPs, this does not include a unique identifier that could easily identify their relationship to other UK-registered corporate entities. Publishing details about SLP partners as open data, and introducing unique identifiers to all UK corporate entities would help increase the speed at which suspicious corporate networks can be identified.

⁴¹ <http://www.legislation.gov.uk/ukpga/2015/26/section/87/enacted> the forthcoming section 156A of the Companies Act 2006 [Accessed January 2017]

Recommendation 4: Introduce unique identifiers for directors and partners of UK legal entities, and publish this as open data

To help increase the speed at which financial investigators can identify potentially suspicious corporate networks, Companies House should introduce ‘unique identifiers’ into the register as soon as possible for directors and partners of registered entities, and start publishing details of partners for UK partnerships, including SLPs, as open data.

Deter the abuse of SLPs by increasing transparency about their partners

Our research has shown that, unless it is recorded elsewhere on another corporate register, it is very difficult to identify the geographical location of corporate general and limited partners for SLPs. For natural persons who are partners, this information is almost impossible to identify unless they have stated it voluntarily on the application form for incorporation. This is because it is not currently a legal requirement and very few partners report this information. Having an address for the partners is helpful for financial investigators seeking to confirm the identity of a particular individual or legal entity and could help provide another form of deterrent against potential abuse of SLPs. This should not be burdensome for those filling out the application form and would mirror the requirements already in place for LLPs.

Recommendation 5: Require more information about SLP partners

To help deter their use in money laundering schemes and increase their transparency, the UK Government should introduce a requirement for the general and limited partners of SLPs to provide a correspondence address, as is the case for the officers of companies and LLPs.

Prevent the use of UK corporate entities as fronts for financial crime

One of the key advertised benefits of SLPs is that they provide the veneer of respectability associated with a UK corporate entity, whilst allowing their financial activity to be based elsewhere. Allowing this kind of abuse, and on the potential scale outlined in this report, could severely damage the credibility of UK legal entities abroad. Although more research needs to be done into the potential consequences and effectiveness of this measure, there is merit in investigating whether all SLPs and other UK incorporated legal entities should be required to hold a UK regulated bank account subject to AML rules.

Recommendation 6: Consider requiring UK legal entities to have a UK bank account

To ensure that their financial activities are overseen by the UK’s anti-money laundering framework, the UK Government should consider making it a requirement for SLPs and other forms of UK legal entities to hold a UK bank account.

5. Where else should these issues be examined?

Although this report focusses solely on SLPs, they are just one of a suite of legal entities available in the UK, with each offering varying degrees of disclosure and reporting obligations. Any changes to the legal requirements for SLPs must take into consideration the potential that without making equivalent or precautionary changes to these other entities, the abuse of SLPs may be displaced to them instead of being reduced.

Limited Liability Partnership (LLP)

Like SLPs, LLPs also have a separate legal personality and are allowed to have to corporate partners as their directors, which appear to be key features that make SLPs attractive to money launderers. As illustrated in our case studies above, suspicious corporate networks often include both SLPs and LLPs who share the same corporate partners and/or directing minds.

When the prohibition of corporate directors was under consideration for private and limited companies, a decision was made that corporate members in LLPs would not be subject to these changes.⁴² Despite the parallels with company directors and despite the inherent risk in any structure with separate legal personality, there was not thought to be a strong case for prohibition of corporate members in LLPs. As part of its considerations, the UK Government did stress, however, that it was important not to allow the UK LLP to become an increasingly popular choice for those seeking opacity to facilitate illicit activity, proposing to review this position should compelling evidence of abuse emerge.

Since the UK Government's consultation on the use of corporate partners in 2014, LLPs have been moved within the scope of the PSC register, which has helped increase transparency about their persons of significant control and should make them less vulnerable to abuse by money launderers. However, we think more research needs to be done to understand whether the risk of abuse of these entities has indeed been reduced since the introduction of the new PSC requirements. As mentioned above, we think there is merit in prohibiting the use of corporate partners for these entities in most circumstances.

Private Fund Limited Partnerships (PFLP)

Private Fund Limited Partnerships (PFLP) – a new form of collective investment scheme being considered by the UK Parliament – could present another type of UK legal entity vulnerable to abuse by money launderers. PFLPs are intentionally designed to be 'light-touch' and provide flexibility for legitimate investors who have traditionally used other forms of partnerships, such as SLPs, to manage investment funds. All that is required for registration as a PFLP, or for conversion from a SLP to PFLP, is written confirmation from the general partner that it meets the conditions of a private fund.⁴³ PFLPs are not included within the proposals to extend the coverage of the PSC register.

⁴² Department for Business, Innovation and Skills (now BEIS), *Corporate Directors: Scope of exceptions to the prohibition of corporate directors* (November 2014) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378197/bis-14-1017-scope-of-exceptions-to-prohibition-of-corporate-directors.pdf

⁴³ HM Treasury, *Legislative Reform Order on the Limited Partnership Act: Explanatory document* (January 2017) p.4 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/583873/LRO_january_2016_presentati_on_line.pdf

Given the SLP's vulnerabilities we have identified in this report, there appears to be a risk that PFLPs could also be exploited by money launderers if adequate safeguards are not included in their design. HM Treasury had considered requiring solicitors to certify that PFLPs are a collective investment scheme, which could have acted as a safeguard against potential abuse, however this was dropped in response to concerns from stakeholders that this approach would be too burdensome.

Trusts

Another vehicle used by corrupt individuals to hide illicit funds are trusts. Like companies, the lack of transparency around who controls and benefits from trusts is abused to mask the identity of those who have criminal wealth to hide.⁴⁴ This is highlighted by the OECD⁴⁵ and FATF⁴⁶ who both identify trusts as a money laundering risk. Expedito Machado, the son of a former Brazilian politician implicated in the Petrobras corruption scandal⁴⁷ used trusts as well as companies to purchase two UK properties worth £8 million in total in 2015.⁴⁸ As more legislation is introduced to bring transparency to the beneficial owners of companies and partnerships, the use of trusts to own property could become more popular among those seeking anonymity.

⁴⁴ Global Witness, *Don't Take It On Trust* (February 2017)

https://www.globalwitness.org/documents/18781/Dont_take_it_on_trust.pdf

⁴⁵ OECD, *Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector* (2007)

⁴⁶ FATF, *Money Laundering & Terrorist Financing Through the Real Estate Sector* (2007)

⁴⁷ <https://www.theguardian.com/world/2016/mar/17/brazil-government-crisis-briefing-dilma-rousseff-lula-petrobras>
[Accessed 20 January 2017]

⁴⁸ <https://www.theguardian.com/world/2016/jul/28/corrupt-brazilian-businessman-expedito-machado-uk-property-splurge> [Accessed 20 January 2017]

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