



Treasury Committee

Oral evidence: Russia: effective economic sanctions, HC 136

Wednesday 22 June 2022

Ordered by the House of Commons to be published on 22 June 2022.

[Watch the meeting](#)

Members present: Mel Stride (Chair); Rushanara Ali; Anthony Browne; Gareth Davies; Julie Marson; Alison Thewliss.

Questions 246 - 312

Witnesses

I: Giles Thomson, Director, Office of Financial Sanctions Implementation, and Economic Crime, HM Treasury; Christopher Watts, Deputy Director, Office of Financial Sanctions Implementation, HM Treasury.

Examination of witnesses

Witnesses: Giles Thomson and Christopher Watts.

Q246 **Chair:** Good afternoon and welcome to the Treasury Select Committee and our hearing as part of our inquiry into Russia—effective economic sanctions. In this session, we are going to be taking evidence from witnesses from the Office of Financial Sanctions Implementation. We are very pleased to be joined by two witnesses, both of them remotely, for this session. Could I start by asking you very briefly to introduce yourselves to the Committee please?

Giles Thomson: I am Giles Thomson. I am the director for the Office of Financial Sanctions Implementation in the Treasury. Thank you for facilitating the virtual access to the meeting.

Christopher Watts: I am Chris Watts. I am the deputy director of the Office of Financial Sanctions Implementation.

Q247 **Chair:** Welcome to you both. Your organisation has been around for a little bit, as part of the Treasury, and was there before the Russian invasion of Ukraine. You have suddenly had an awful lot more to do. I will perhaps start with you, Giles. Could I ask you to set out for us how it is going, what particular challenges you have faced, what kinds of challenges you see going forward and how you think you are generally performing? I hate to ask people to mark their own homework, but how



HOUSE OF COMMONS

do you think you are performing, compared, for example, to other similar organisations around the world doing similar work?

Giles Thomson: OFSI, the Office of Financial Sanctions Implementation, was created in 2016, with an objective of helping ensure that financial sanctions were better understood, implemented and enforced in the UK. We are a relatively young organisation in the greater scheme of things. We have grown and developed steadily over that time and are pleased with where we have got to.

It is fair to say that what has happened over the last few months with Russia is one of the most extraordinary packages, if not the most extraordinary package, of sanctions ever implemented in its scale, volume, speed and complexity. The biggest sanctions regimes to date tended to be on smaller economies, ones with fewer ties to the UK, if you think of Iran, DPRK or other countries such as those. Russia is a G20 country, is a major economy and has significant economic ties with the UK.

In terms of how it is going, it has undoubtedly been a huge challenge and change of pace for everyone in both public and private sectors involved in the response. I am sure we will go into this in a little more detail, but it is a combination of the volume, so the new designations that have been made, and the pace at which action has happened. There have been a series of measures being brought in, in co-ordination with allies.

Also, there is the complexity of some of the restrictions and measures that we are dealing with, measures that are sectoral, so not just designating an individual or a company but prohibiting a class of activity. There are significantly more UK links to a lot of the measures we have put in place than is true of other regimes. It has been a combination of all those challenges.

In terms of how we are responding, how we are doing and how we see the challenges evolve, it has been hard work. There is no denying that. We have had to resource up and scale up what we do, in terms of the volume and the complexity, pretty quickly. We surged staff into the team, increased the size of the team, almost doubled the team very quickly. We have a large recruitment exercise.

Q248 **Chair:** What size is the team now?

Giles Thomson: We are at approximately 70 people at the moment. When the Chancellor came before you a few weeks ago, he noted that we were around 45 people at the start of the Russia crisis and that he had agreed to more than double the people in OFSI. We are on that journey and we are about 70 people now.

I am incredibly proud of the efforts of all the team to respond. We have been able to implement and provide guidance to business. There is more we can do and more we need to do. We are conscious that there is



HOUSE OF COMMONS

always more guidance and always a better service that we can provide. That is very much in our plans for the future.

Some of the challenges we see ahead are legal challenge to some of the regime. There are a number of challenges to designations, which are the Foreign Office's area of responsibility, but would obviously have implications for us. They are starting to come through. We are then at the implementation tail where, as we start to take further action in relation to licences and enforcement cases, we are expecting to then come up against further litigation in the future.

Enforcement cases will increasingly become a priority for us. These things take time. Any regulator will tell you, as you know, that enforcement action takes a while to develop, so it is natural we have not seen anything directly related to Russia after two or three months. That is increasingly going to be a challenge and a focus for us.

There is more we need to do to provide a good service to industry and our stakeholders. We have had a huge volume of inquiries. We have not been able to answer them all to the standards that we would want to do. We need to get on top of that and develop our guidance. There is a huge swathe of new measures that everyone is trying to get their head round. We have provided guidance on them, but there is a lot more detail that we want to work through on that.

Q249 Chair: That is a helpful introduction. Let me pick up on a few of those points. You, understandably, have referred to the step change in the volume of the work. You have mentioned the pace at which you are having to move, which is totally understandable. You have also suggested greater complexity. Let us take pace as read. Can you elaborate a bit on the step change in the volume of activity that you are undertaking compared to before and give us some examples of this extra complexity that you are now coming across?

Giles Thomson: On the scale/volume point, the Russia sanctions regime had something in the order of 220-odd designated persons on it prior to the invasion of Ukraine. There are now over 1,200 new additions to that list, so there are now about 1,400-odd designated persons under the regime. We have an administrative role in updating what we call the consolidated list, which is what most of industry uses to become aware of people who are designated and screen against those within their own systems.

Also, each of those new designations can create work for OFSI in the form of licensing requests, where they have a link to the UK, people reporting frozen assets to us, or compliance and enforcement action that we may need to take in relation to those. There are a huge number of new designations coming on.

In terms of the complexity, there are two or three examples of that. In terms of new designations, there is a difference between designating an



HOUSE OF COMMONS

individual who has virtually no ties to the UK, or none at all, and designating a large, multinational bank, such as Sberbank or VTB Bank, or an oligarch with significant presence in the UK. For the reasons I set out, all that will drive more work for OFSI if they have a significant UK footprint and UK business has extensive ties with them.

A second area of increased complexity is what we call the sectoral measures. Rather than just adding a new entity or person to the designated persons list, there are measures that prohibit an activity, such as providing loans or credit to Russian companies. When we talk to businesses, they always tell us that those are the most complex measures for them to implement. Rather than—and I am being simplistic—sticking another name into their sanctions screening tool and running it through their systems to check that they are not dealing with them as a customer, they have to work out, “Are we dealing with anyone who may be undertaking this new prohibited activity? Are any of our customers potentially making loans available to any Russian company?”

That is a much more complex exercise. They need to do risk assessments of their different product lines, the countries they are operating in, and dig in to what the businesses and people they are dealing with are actually doing. There tend to be a lot more grey areas around the edges of that.

The third area that I would highlight links a little bit back to the type of entity and person that you are designating. As you know from other inquiries you have done on economic crime, beneficial ownership and corporate transparency are major challenges in getting to the bottom of who owns what.

When you are dealing with large multinational organisations, and/or very high net worth individuals, you are quite often up against quite a challenge in working out the exact ownership and control structures. What property do they own? What companies do they own? What other assets do they own? All of that, particularly when you are dealing with a jurisdiction such as Russia that is not co-operative, which is not going to just provide you whatever information you need, adds a particular challenge for the public sector and from a law enforcement perspective, from our side of the fence.

Q250 **Chair:** On a point of detail, designated persons refers to both individuals and businesses. Is that correct?

Giles Thomson: That is right, yes.

Q251 **Chair:** Are you significantly bothered about being bogged down with the legal challenges that you have highlighted here? Is this a major issue or is it just something that is part of what you do and you will get through it in a reasonable way?

Giles Thomson: Yes, we very much see it as part of what we do. We have had legal challenges based on what we have done to date already.



HOUSE OF COMMONS

We have a function within the team already to deal with that litigation and we are ably supported by legal advisers within the Treasury and Government.

It is just a comparable challenge to the broader implementation challenge around the Russia regime. We have the massive increase in the size and scope of the sanctions. We are likely to see more of this and probably relating to larger sums and higher-profile cases. I do not think that it is anything new. It is something that we very much expect and are planning for. It is just that the scale, size and volume of it will step up, I imagine.

Q252 **Chair:** You are confident that you have the capacity to handle that particular element of the challenge.

Giles Thomson: Yes. The Government have a pretty large amount of experience within the legal teams in dealing with this sort of thing. We are getting a lot of expert input already from colleagues, such as the Financial Conduct Authority and Her Majesty's Revenue and Customs, across a broad swathe of our work. They have more experience than we do in dealing with these larger scales and larger volumes of litigation and other areas of work. I am very confident that combining those will put us in a good place to deal with what may be coming down the track.

Q253 **Chair:** You mentioned earlier in your remarks a huge area being guidance, the importance of guidance around the sanctions and the increase in volume or the requirement for that. Can you give us your assessment of where you are with that? Are we in a position where there are many businesses out there that are really uncertain about how they should be approaching the sanctions issues and you are getting a lot of communication from them, saying, "Come on; we need to know where we stand"? How do you feel OFSI is at the moment on that point?

Giles Thomson: We have updated our Russia guidance, as well as our general guidance and our monetary penalty guidance, very recently, to try to keep it up to date. That is a really good start in giving businesses the broad guidance that they need. There is always a demand for more specific guidance.

Q254 **Chair:** How much of a problem is it that there is still this demand for more guidance and it is not there at the moment?

Giles Thomson: That is always there. There is always a demand for it. In terms of how much of a problem it is now, my sense is that, in the most material sectors, the financial sector in particular, we have had quite positive interactions and quite positive feedback on the level of guidance, support and collaboration that we are providing.

Q255 **Chair:** Where would you have had the less favourable feedback? Which kinds of individuals or businesses are pressing you and not getting what they feel they need in terms of that?



HOUSE OF COMMONS

Giles Thomson: We have heard of a desire for more guidance from sectors such as the education sector, the charities sector, the legal sector—all areas where we have had asks and requests for humanitarian assistance. I mentioned charities. They are all areas where there is a real thirst for guidance. We have engaged quite extensively with them, but it is inevitably a case of targeting and prioritising our resources as best we can.

The other area, as well as broad, general guidance, is on specific applications or specific cases. In general, we try to avoid commenting on specific cases, because it is ultimately for businesses to take their own legal advice and make their own decisions. The novelty and complexity of some of the stuff we are doing has led to, I think, a 10-fold increase in inquiries we are getting through on our emails and phonelines from specific businesses, asking specific questions. I suspect that there are a number of people who feel that the guidance does not give them as specific an answer as they might want for their individual case.

Q256 **Chair:** Giles, on that, where there is a deficiency in the amount of guidance out there, how many of the 70 people you have in OFSI would be engaged in that particular issue, putting the guidance together and satisfying that demand?

Giles Thomson: It is difficult to put a precise figure on that. At present, we have, I would say, in the region of six or seven people whose prime responsibility is to provide guidance and engagement. That is producing guidance. It is attending UK Finance and other trade body fora. Why I say that it is difficult to put a precise number on it is that we will bring in and deploy people from across the whole of OFSI for different events.

We have people go and speak at big seminars and webinars, for instance, from our compliance function, where there is a particular interest in hearing about how we approach enforcement. Where people want to talk about licensing, we will involve people from our licensing team. We bring in people from all parts of the team, so the actual figure will be larger than the six or seven dedicated people that I quoted.

Q257 **Chair:** It is a slightly leading question, because it assumes that this number is not adequate, given that there is excess demand, as it were. What number do you think that you would need in the organisation such that the people you are referring to as perhaps feeling that they are not getting sufficient guidance would be satisfied that they were?

Giles Thomson: In line with the broad intention to double size over the next year or so, I would broadly envisage doubling the size of the core team working on guidance and engagement, but then that will have a multiplying effect of the whole organisation increasing. That will draw in people from the enlarged compliance—

Q258 **Chair:** You have said “over the next year or so”. Is this not something that needs to be ramped up more quickly than the next year or so?



HOUSE OF COMMONS

Giles Thomson: The horizon we have is over the course of this financial year. I guess that we are already three months into that. We have already managed to, as I say, increase by about 50% since the start of the crisis. We have another swathe of recruitment coming in.

The challenge with this is that it is the same people who are dealing with all the work—the licensing requests, the requests for guidance, the compliance cases—who also need to train up and bring in new staff, upskill them, and give them a lot of attention at the start to ensure they settle in. It is quite difficult, organisationally, to suddenly absorb large numbers relative to what you currently have. That is why we are trying to sequence it and phase it in, albeit doing all of that as quickly as possible. I would very much hope that, by the end of the financial year, we are at our target of fighting size, so to speak.

Q259 **Chair:** That being April of next year.

Giles Thomson: Yes.

Q260 **Julie Marson:** I would like to go back to the period before Russia invaded Ukraine and look at some of the preparedness issues at OFSI. There were actually intelligence reports for some months, probably from as early as November, saying that it was a possibility. Was OFSI prepared for the potential sanctions that you had to implement, particularly as, acknowledging the size of the economy, it was going to be an unprecedented challenge? How prepared was OFSI for that, in particular in that period before the actual invasion took place?

Giles Thomson: You are right. There was preparatory work underway and going on in the weeks leading up to the invasion. Although this is more the Foreign Office's domain, that is borne out by the speed at which we were able to act and implement new restrictions in really rapid time in the first few weeks after the invasion. That is in part down to the planning we had in place.

The sheer speed and scale at which measures came in was difficult to judge in advance. That has probably been a factor that is perhaps larger than we were anticipating or planning, which in some ways is a lot of the success in the international co-ordination that was able to happen to put in place such a strong and robust response.

There is another area that is relevant to this. I know that your Committee, as well as other committees, has previously called on OFSI to have a review of its performance to date since its creation, in response to previous criticisms and suggestions that have come out preceding the Russia crisis. That was internal work that was underway and more or less drawing to a conclusion within the Treasury at the time of the invasion and the pre-invasion planning.

We were already starting to think ahead internally to where OFSI needs to go in the next three, four or five years, and discuss that with Ministers and other parts of Government. I can say a little bit more about that if



helpful, but that was actually giving us ideas and areas where we knew we wanted to develop, improve and take OFSI in the next few years that have enabled us to turbocharge and implement those on the back of the Russia crisis.

Q261 Julie Marson: These things happen. By their nature, they are often very unexpected. You have contingency planning in place in general. Was there sufficient contingency planning for something of this scale and complexity, specifically in regard to Russia?

Giles Thomson: I am afraid that I can only answer that from the perspective of OFSI. It is a much broader question for the national security community in the Government. I have been around, doing this job, for a while, in one form or another and been through Iran crises and EU exit, which was a different sort of challenge. The amount of contingency planning and thinking through of what was going to happen in advance was actually more than for many of those other comparable scenarios.

There is always a limit to how much you can do. There are only so many scenarios that you can plan for and contingency plan for. There were a whole range of permutations of whether it was going to be a hybrid warfare type invasion that might have necessitated a smaller response, whether there was going to be a full-on assault. There is always a limit to how far you can prepare, but I would like to think that, certainly relatively speaking, there was a good amount of preparation. That has borne us in good stead, in the fact that the response has been so comprehensive, and has generally been held up and recognised as an incredibly well co-ordinated international response to the aggression.

Christopher Watts: Necessarily, that work was fairly small-scale in terms of the resourcing of it, because of the need-to-know element of that work. I am sure you will understand that it was incredibly important to keep the proposals we were working up close. OFSI was involved from before Christmas in that cross-Government work and very much involved in thinking about the consequences for us, but also, with colleagues in Treasury, trying to consider what the impacts would be of particular sanctions targeting. We had to keep that close, so the burden fell disproportionately on a small number of people.

Q262 Julie Marson: That is very helpful. Thank you. What kinds of steps were you taking by way of this preparation? Was it anticipating the designated individuals and what you would be doing in quite specific detail? Can you give us a flavour for what preparation you were doing?

Giles Thomson: There is probably a limit to what I can say on that. It was a combination of thinking through potential measures that we might want to take in response to different scenarios, so, as you say, what individuals, companies or other restrictions we might want to target. Obviously this was not only sanctions that this was being done for.



HOUSE OF COMMONS

There was also work more administratively within the Treasury to think about how we might surge more staff in as and when we needed to do it, as well as how we can best co-ordinate and manage a crisis within the Treasury on a more practical basis. We were already doing work internally to review our guidance, so that we were ready to go. That meant that we were able, for instance, to publish updated guidance in response to the new sanctions within a week of the invasion, which we would not have been able to do if we had started from a standing start.

Also, we were thinking through what licences we may need to put in place to mitigate the impact, where we have actually been able to respond very quickly to some of the unintended consequences and other issues that have emerged through licensing. There were a few areas where we were able to get ahead of the curve, if you like.

Q263 Julie Marson: How would you respond to criticisms that the UK sanctions response was slow compared to some other countries?

Giles Thomson: Sorry to make this comment again, but the Foreign Office will be able to give you a much broader, better answer. I can answer only from the perspective of sanctions implementation. The inevitable challenge in all this is that it was virtually impossible to engage significantly with the private sector before the invasion and before the actual measures came in, for obvious reasons. There was a limit to what we could do in advance, in terms of talking and engaging with the private sector.

We have been able to move really quickly, in co-ordination with international allies. The feedback we have had from business is that our response compares favourably with international partners. We have been able to offer at least as good, if not even better, levels of guidance and support for them than other partners have been able to. The co-operation with organisations like OFAC in the US has been literally daily to communicate and co-ordinate implementation among us.

I will point to one final area, to go back to the original question around where we were able to prepare in advance. As you are aware, the economic crime Act ended up coming in on, I think, 15 March, which had some broader economic crime measures in. That contained four changes to OFSI's powers. We were able to take advantage of the opportunity to rush through important legislation very quickly, because these were areas that we had been doing some thinking about in advance.

Q264 Julie Marson: Were you limited by, potentially, the entire Russian sanctions regime not being in place? Parliament passed, I think, one piece of primary legislation. A slew of SIs had to be implemented as well. Did that limit your response?

Giles Thomson: In an ideal world, everything would be done at once in one piece of legislation, but that was not the way events unfolded. There was an understandable desire from the Foreign Office and international



HOUSE OF COMMONS

partners to have a series of escalating measures, with a need to co-ordinate internationally. We always try to implement sanctions multilaterally where we can. You are sometimes waiting for others to get to the same place as you, or you are trying to catch up with others.

Inevitably, it introduces more complexity both for us to implement and for the private sector to implement, where different restrictions are in different regulations. That is fairly inevitable, because I guess the alternative would have been delaying, quite significantly, the substantive response to the crisis, in order to try to do everything in a more holistic set of changes to the legislation.

Q265 **Julie Marson:** How effective do you say the new urgent procedure is? Are you content with that?

Giles Thomson: That is the Foreign Office's domain, I am afraid. It the Department responsible for negotiating sanctions and designations. All I would say is that it has been incredibly effective, in terms of our ability to rapidly respond to events and rapidly implement parallel designations to international partners. I believe that we have now made more Russia designations than any of our major international partners. From that perspective that has brought some real benefits, I can see, to our ability to respond flexibly and nimbly to events.

Q266 **Julie Marson:** I have a couple of questions to follow up on the Chair's questions on staffing. As you say, you have had an increase in staffing, with more to come. What is the workload for staff like at the moment and morale generally, as a result of events over the past few months?

Giles Thomson: Workload is very high. We have been dealing with significant increases in the volume of what we are doing. I mentioned the roughly 10-fold increase in inquiries we are getting through. We have had a surge of licence applications, and a surge of reports coming into OFSI of frozen assets and potential breaches. There is a lot of work and we have been able to surge more resource in, but there is no doubt that more resource will be welcome as it continues to arrive.

As happens when dealing with a crisis, in the early days people were working at weekends and overnight. Measures were being introduced literally overnight before the markets opened. That puts a toll on people in terms of resilience, tiredness and so on. The team has done a fantastic job, but under a lot of pressure, in terms of the pace and volume of the work.

Morale is strong overall. In general the scores that we get when we do staff surveys and this sort of thing are very positive, because people find a great satisfaction in the type of work we do. That has been the case with the Russia sanctions. A lot of people get a lot of satisfaction from feeling that they are making a real difference to national security and to the international response to one of the major foreign policy crises of our



time. That is inspiring and motivating for a lot of people and helps keep them going.

The challenge now, as we look ahead to the long term, is, as we have discussed, getting more resource in and sustaining the pace and volume of this work. While the pace may slightly subside, or has already begun to subside somewhat, we are in this for the long haul. The baseline for sanctions work for OFSI and for everyone involved in sanctions has been raised and will stay quite considerably higher in the future, I would anticipate.

Q267 **Julie Marson:** Lastly, with the staff profile you have, do you have the right expertise in the right areas, for example foreign languages or financial services backgrounds? Do you have the right mix of expertise? Are you confident that you can continue to recruit the expertise that you need?

Giles Thomson: We are lucky to have a really fantastic team of people now. As I said before, we have been able to rapidly bring in people from HMRC and FCA with relevant experience as well to supplement the resource we have. Having said that, we want to be able to bring in people with additional skillsets, but also develop the capabilities of the people we have, given the increased complexity of some of the things we are dealing with.

For instance, we are very much looking to develop our ability within OFSI to maximise a full range of information and intelligence sources, so training up more people in financial investigation skills, and in intelligence handling skills; we are working with the National Crime Agency on that. We want to get in more sector expertise, as you mentioned, of the financial markets and the financial sector, given the real deep complexity of some of the restrictions that are in place now. We are exploring a variety of ways of doing that: secondments, but private sector partners are very receptive and engaged in providing training and help with that as well.

Am I confident that we are going to be able to do it? To date, we have been able to attract quite a good, broad range of skills into OFSI—people coming from a law enforcement background, a regulator background, a policy background, a national security background. The concern that we discuss across Government with law enforcement and regulatory colleagues is that everyone is wanting to get more sanctions experts in at the moment. The private sector is massively staffing up. The NCA and FCA are staffing up. Competition will be fierce, which is why, in parallel, we need to develop the capabilities and the training we can offer to our existing staff as well.

Christopher Watts: In the meantime, we have also been able to rely on expertise from elsewhere in Government, so from colleagues in Treasury with excellent knowledge on financial services complexities, colleagues from BEIS who can advise us on the energy sector, colleagues from



HOUSE OF COMMONS

DCMS on the football industry. On those kinds of issues, where we really needed to understand context, we have been able to get access to real expertise, but it is clearly a fair question about the future.

Q268 Chair: Can I pick up on one thing, Giles, you said earlier? You referred to the internal review of performance that you have carried out. Can you share with the Committee what conclusions you have come to? What did that throw up?

Giles Thomson: The aim was to set a strategy for OFSI and its development over the next three to five-year horizon. To some extent, that has been overtaken by events. The conclusions we reached are very valid and are ones that we are implementing because of events in Russia as well.

Of the areas where we are keen to develop over the next few years, one we have talked about already is enhancing the support we provide to business, so that it understands and can better implement sanctions. That is getting more people to provide more guidance, but also being able to provide more bespoke guidance, with more guidance to different sectors, but also more targeted guidance on particularly thorny implementation issues, so taking it down a level of detail.

We really want to enhance the way we use intelligence and information to support our operation. We already bring in information from open source, from intelligence agencies, from law enforcement, but we want to be able to expand that, so that we can shift to a more proactive model of compliance and enforcement, so better understanding where the vulnerabilities and risks are in the UK sanctions system and proactively responding to them.

The third area is that we wanted to do more international engagement. OFSI has, I think, developed a very good reputation internationally. There are very few countries that are actually doing a comparable function to OFSI, and we want to continue to engage with international counterparts and encourage others to step up their game as well on sanctions implementation.

The fourth area is, as we were just discussing, enhancing the capabilities, the skillsets, the tools we have within OFSI to do our job, so looking at the IT we have, the external tools we can use to help us with our role and how we train and develop our staff to the highest possible level.

Chair: That is very helpful.

Q269 Anthony Browne: My questions are going to be about compliance. If you have sanctions, you need companies to comply with them; otherwise they will not be effective. What is your view of the overall level of compliance with financial sanctions at the moment? What are the areas of greatest concern?



Giles Thomson: The obvious point is that it varies quite considerably. Within the financial sector overall, we would see higher levels of awareness and compliance. That varies across sectors. We see that there is less awareness and lower levels of compliance in sectors beyond the financial sector.

There is also a distinction we generally see, and we are talking very much in generalisations here, between sizes of firms. Large accountancy and legal firms will have very sophisticated sanctions compliance systems, as will large banks, obviously. Once you get to much smaller operations in the financial and other sectors, levels of awareness and compliance tend to be much less.

There are exceptions to that. We come across some incredibly well-educated and well-aware small firms that, because they are operating in a high-risk jurisdiction, where there are big sanctions risks, have put a lot of effort into their awareness. It varies and it depends broadly on different sectors, their exposure to the risks and the size of the firm, which is probably what you would expect.

Q270 **Anthony Browne:** In 2018, your predecessor, Rena Lalgie, said that the highest-risk areas in terms of compliance were exporters, charities and marine insurance. Are those still the high-risk areas, or are there others? You said that it varies across sectors, but I do not think that you actually named which sectors were the areas of greatest concern.

Giles Thomson: I would put the financial sector as the highest risk. I think that Rena was probably taking that for granted when she said that, a few years ago. The sheer volume of transactions and customers that major UK banks, insurers and others are dealing with undoubtedly puts them in the highest risk category. Equally, they have some of the highest standards of controls and systems in place.

Import-export is a higher-risk area. Maritime, again, yes, I would agree with, certainly. The legal sector is another area. Sorry, I forget whether that was on that list. The legal sector ranks quite highly up there with us as well. That list is broadly still right, with the obvious addition of the financial sector.

Q271 **Anthony Browne:** What can you do, as OFSI, to improve compliance in those areas? Is the sanctions regime enough or do you need other powers? You may not be able to say what you would like. Do you just work with them collaboratively behind the scenes to educate them?

Giles Thomson: We try to prioritise our work on the sectors that we think are highest risk. Those are all sectors we have done bespoke guidance for. In addition to more general guidance for everyone, we have gone to a different level of detail for them. We will spend more of our time and effort participating in round tables and speaking at events. One of the benefits of virtual working over the last couple of years is webinars



HOUSE OF COMMONS

and that sort of thing that we get very high hit rates for when we have large numbers of people attending.

For higher-risk sectors, while I said that you generally get higher levels of compliance in them, equally, you get failings and people who do not get it right. Our enforcement action will quite often be focused on higher-risk areas as well. That can have an impact in improving compliance. Where you are taking enforcement action, not only the company involved but the whole sector sits up and takes notice of that, where it is publicised, and makes sure that it is putting improvements in place.

Those are all sectors where we are working very collaboratively with other regulators. The Financial Conduct Authority also regulates for AML, CTF and broader conduct all the financial sector firms that we are primarily dealing with. It has really stepped up its efforts since the Russia crisis as well. We are increasingly working hand in hand with it to make sure that it is helping us improve compliance as well.

Q272 Anthony Browne: When there a problem with compliance, how much is it intended and unintended? I assume that, with the smaller companies, as you mentioned earlier, it is the lack of knowledge and lack of specialist teams etc. The US Government have imposed quite hefty fines on UK banks for what the US Government claimed was intended sanctions busting, as it were. Is that the case here, or is it just ignorance?

Giles Thomson: I would tend to divide what you might see into three categories. You have people who just not aware of their obligations at all, do not have the right systems and controls in place, or have completely misinterpreted the regulations in place through lack of awareness.

At the other extreme, you have people who are wilfully flouting the regulations. To be honest, we do not see a lot of that. Those are the sorts of cases that we would be more likely to refer for criminal investigation to the National Crime Agency, where there is evidence that someone is wilfully setting out to either ignore or circumvent sanctions.

There is a sort of middle ground where people really should have known what they were doing and should have known better, but turned a blind eye to it, did not want to invest in the right systems and controls, or did not prioritise it sufficiently. The majority of the cases we see tend to fall into that category where it is just the ignorance or lack of awareness of their obligations. It is very much the minority that have a wilful desire to avoid or circumvent sanctions. Those are the cases that we would often want to refer to the National Crime Agency.

Q273 Anthony Browne: You mentioned earlier that one of the high-risk sectors was the legal sector. That has been quite a big focus for criticism, certainly in the public domain and media. The accusation there is that they can make a lot of money serving these Russian oligarchs that are sanctioned etc, so they are deliberately turning a blind eye to the sanctions. Is that a cause for concern in the legal sector—that they are



HOUSE OF COMMONS

wilfully turning a blind eye to sanctions because of the profits they can make?

Giles Thomson: Let me start and then I might hand to Chris, who deals day to day with our licensing work, where we deal quite extensively with the legal sector. Again, it varies across the sector. The legal sector is a high-risk one, partly because they are representing designated persons quite often and interacting with our licensing system in that respect, to get paid and to submit applications, challenges and so on for the designated person. Also, they are often advising on property transactions, corporate restructuring and all that sort of stuff that would engage UK sanctions.

I am not aware of people rushing to try to make huge amounts of money out of the Russia crisis. People have a right to have legal representation and it is our job to then control and manage that as much as possible. That is where you get into the licensing side of our work. I might pass to Chris, who can say a little more about how we control and monitor that.

Christopher Watts: We see quite a lot of legal fees applications and always have, but I think that we have 70 requests for legal fees licensing on our books at the moment, or have since the start of the Russia crisis. We look at these in a fairly forensic way. We are required under the law to license reasonable legal fees. There is a dialogue with legal firms over what is reasonable, in terms of the hourly rate and qualifications of those providing the services, and then the hours that it really takes to do this job. That is a fairly extended dialogue in many cases, so we feel that we are testing the legal firms pretty well there.

We are also conscious that professional fees is an area where there is a risk of sanction circumvention, so it is only right that we pore over these legal fees and other professional fees applications. As Giles says, I do not think that we are aware of a particular problem here. We are always mindful of the risk of potential issues with legal fees applications.

Q274 **Anthony Browne:** Are the companies proactive about reporting sanctions issues, or do there need to be stronger reporting requirements?

Giles Thomson: On reporting, all relevant firms, as we call them, which is broadly the regulated sector for money laundering and counter-terrorist financing purposes, are legally required to report to us where they have frozen assets or assets that need to be frozen. There are offences. We can levy monetary penalties. There can be criminal cases for failure to do that.

We run an exercise every year to ask for those reports and follow up on it with firms. We see a lot of reports coming in. We see, generally, pretty good levels of compliance with that requirement, and from the places we would expect—the legal sector and the financial sector, primarily. We have had a large number of new reports come in of frozen assets in relation to the new Russia sanctions.



HOUSE OF COMMONS

The other area where companies are obliged to report to us is breach reports. Where they fear or suspect that they may have breached financial sanctions, they are under an obligation to report it to us. It is one of those questions where it is very difficult to know what the right number should be.

Where we go out and do sustained engagement with a particular sector, we do guidance for them, we go and talk to them, we go and do a real push to help improve compliance in that sector, we see an uptick in the number of breach reports coming through to us to investigate and consider from companies looking at their business and wanting to assure themselves that they are fully complying. We see the vast majority of those breach reports, as with the frozen asset reports, come in from the finance and legal sector.

There is a valid question about whether we should be seeing more from some other sectors as well, where levels of awareness and compliance are, probably inevitably, lower. You would always expect more from those sectors, but whether we should be getting more from other sectors is something that we want to interrogate going forward.

Q275 Anthony Browne: The Policing and Crime Act 2017 empowered you to go after and prosecute senior managers who enabled sanctions breaches. Have you brought any public prosecutions against individuals directly, or just on firms? If you have not prosecuted individuals, why not?

Giles Thomson: We have civil enforcement powers, which are limited to monetary penalties, and they could apply to individuals or companies. National Crime Agency is the law enforcement agency that would do any criminal prosecution. There has not been a criminal prosecution to date for sanctions offences, but the NCA could provide further information on that.

We have done seven monetary penalties to date, since our powers were brought in under the Policing and Crime Act. As with any regulator, the monetary penalties is just the tip of the enforcement iceberg. OFAC, the US sanctions regulator, quite often publicly quotes a figure of 97%, I think, of their enforcement cases that do not end in a monetary penalty. It is warning letters, engagement with the firm or no further action.

The penalties we have done have been on companies. We certainly do not rule out taking them against individuals in the future. One of the things we always look at is the proportionality of what we are doing. That will be quite an important consideration in cases, whether we pursue them against individuals or the companies involved in those cases.

Anthony Browne: Can I follow up there? You mentioned the OFAC statistic. Was it 97% of enforcement cases that do not end up in financial penalties?

Giles Thomson: Yes.



Q276 **Anthony Browne:** Do you have the equivalent figures for yourself? What proportion of your enforcement actions end up in financial penalties?

Giles Thomson: I do not have a precise figure, but it would be virtually identical. We pursue a large number of cases every year. A small number, less than 5% of those, end up in monetary penalties. The most serious will be monetary penalties. Another thing we will do is to issue a warning letter to the firm involved, setting out where our concerns are and asking them to rectify and address those. We will meet with firms and explain concerns or issues we may have.

When we investigate, a reasonably large number of the reports we get turn out not to be breaches. Once we investigate, for a large number of the incoming reports we get, further investigation is not needed.

We now have a new power to add to our toolkit under the Economic Crime (Transparency and Enforcement) Act, which is to publicise cases where there was a breach but we did not choose to levy a monetary penalty. At the moment, we can only publicise cases where we have levied a penalty. It is the publicity of these cases that has the biggest impact in our experience, both on the firm involved and on the sector. People really sit up and take notice of that. That will be quite an important tool in raising awareness and compliance levels across industry as well.

Q277 **Gareth Davies:** I want to follow up on what Anthony was talking about in terms of reporting. What share of your enforcement investigations arise from firms voluntarily self-reporting to you?

Giles Thomson: I do not have a precise figure, but I could say that it is the majority of our cases that arise from self-reporting and voluntary disclosures. As I say, we get other reports come in through either open source or referrals from the NCA intelligence sources. They would be the minority. The majority and the bulk of our enforcement compliance time is spent on those cases reported to us.

To go back to what I said a few minutes ago about the OFSI review and where we want to take OFSI in the future, an area we want to develop is to test whether we are getting the right sort of and level of reporting from everyone we should. Are there businesses or sectors that are not disclosing voluntarily, reporting and enhancing the sources of information and our capability to go after those cases as well.

Q278 **Gareth Davies:** Were the six public enforcement outcomes that have occurred as a result of voluntary disclosure?

Giles Thomson: Yes, that is correct.

Q279 **Gareth Davies:** All of them were.

Giles Thomson: Yes. To clarify, that was not always, necessarily, by the firm that we levied the penalty against. For instance, going back to the first two penalties we did, back in 2019, which related to the same



HOUSE OF COMMONS

incident, that was reported to us by Raphaels bank, not by Travelex, which were both involved in the transaction. It was the same case but it was reported by one entity involved in the transaction, not by all the parties. We took that into account in the level of penalty that we set for those cases.

Q280 Gareth Davies: How do you proactively seek out potential breaches, then?

Giles Thomson: We have a small—but we plan to increase it—intelligence function in OFSI. Its job is to look at open source material that is out there. That can range from newspaper headlines to more sophisticated research.

Q281 Gareth Davies: Is there a whistleblowing facility?

Giles Thomson: That is important. Whistleblowers are a potential source, not one that we have had extensive experience of to date. National Crime Agency obviously has intelligence sources and it refers cases to us. We have cases under investigation currently that have come to us through referral from law enforcement partners. There are regulators. There are cases that have been referred to us recently by the Financial Conduct Authority.

Q282 Gareth Davies: Giles, sorry, just to stop you, I am asking about proactivity from your organisation and you are talking about referrals to your organisation. Do you have a whistleblowing facility that you have set up that enables employees or various people in businesses to tip you off?

Giles Thomson: We would anticipate people going through our normal communication channels to do that. We want to develop in that area, put more of a process around that and create more of a structured, formal whistleblower facility, potentially.

The other area of, as you are describing it, proactive enforcement and compliance would be, where we know or suspect that someone has a UK footprint, we will actively write out to that person, or their representatives, asking them to disclose all their assets in the UK potentially caught by our sanctions. That is so we can be assured that those have been reported to us as frozen; any necessary licences have been put in place in relation to their use; and they are not being spent or used, breaching sanctions.

We will go out where we know there are designations for people who have a UK footprint. We will go out and proactively ask questions and gather information to make sure that they are complying, rather than waiting for them, their bank, their lawyer or someone to tell us what they are doing.

Q283 Gareth Davies: If I worked for a company and I happened to find out that my company was breaching sanctions, who would I tell?



Giles Thomson: You could submit a report to OFSI. You could phone up our helpline, email us, submit a report through the form that we have online to do that. There is an ability to do that and we would obviously treat it with the necessary confidence and investigate it appropriately. I am also saying that, as we size up and scale up our organisation, we want to develop a more sophisticated way of doing that, learning from other organisations that do this on a larger scale, to make sure that people are encouraged to do it and that we are protecting them to the fullest of our ability when they do so.

Q284 **Gareth Davies:** You talked about the scale of your operations and about the intelligence gathering section that you have. How does that compare internationally? You have talked a lot about partners in the UK. What view do you have of its comparability to European peers, for example?

Giles Thomson: You can probably divide up what people are doing on sanctions enforcement into the US and the rest of the world, in some ways. The Office of Foreign Assets Control—OFAC—in the US is on a different scale and has a much longer established history than pretty much any other authority. It is very well resourced. They tell me that they need more resource and are underresourced, but, relatively, they have a lot of intelligence capability. They have levied some large enforcement actions. They are relatively well resourced.

If you look around Europe, this is an area where a lot of countries are very rapidly trying to size up and scale up what they do. It is a member state responsibility.

Q285 **Gareth Davies:** What about compared to Switzerland, for example, a major financial services centre in Europe?

Giles Thomson: Switzerland does not have a dedicated authority like OFSI for ensuring financial sanctions are implemented. It is a function that sits with its more general regulators. I do not have a figure of precisely how many people it has doing this, but I would be pretty confident that you would not find a larger figure of people working in a comparable role to OFSI in any other European jurisdiction.

Q286 **Gareth Davies:** Can I switch and ask you about crypto now? We have taken lots of evidence from various bodies and organisations. One thing that keeps coming up is the fact that a number of people see crypto assets as a problem when it comes to fraud. To what extent do you see it as a problem for sanctions evasion?

Giles Thomson: This is something that we are very alive to and looking at very closely with partners. It is a problem and it is a growing problem. We are starting to see it more in our casework, but we do not see it, at least at the present, as a significant risk for sanctions evasion. This has been in a lot of the public commentary from people like RUSI and others that the sheer scale of what you would need to do to try to circumvent some of the Russia sanctions is not possible through crypto. It is not a



HOUSE OF COMMONS

realistically viable route for large-scale evasion and avoidance of the Russia regime.

We know that countries like Iran and DPRK, for instance, have a history of using crypto assets, cyber ransomware and other areas to try to get round sanctions restrictions. It is a growing risk and one we are seeing more and more of. All our obligations apply to crypto assets. In our eyes, crypto assets are the same as fiat currency. As we see it at the moment, it is not a large-scale avoidance risk.

Q287 Gareth Davies: To what extent do you liaise with your counterparts in other countries, particularly as relates to international state avoidance of sanctions? You mentioned the DPRK, for example, which is well known to be using crypto. Do you liaise with your colleagues in the United States and across Europe, for example?

Giles Thomson: Yes, absolutely. While we are on the subject, I found the page in my notes where we have numbers for what other countries have told us. Switzerland has told us that it has 10 people working on comparable sanctions functions to OFSI's, for instance. That is a more specific answer to your previous question that I have dug out, based on what it told us.

We talk most closely, almost daily I would say, with the US, OFAC, US Treasury, as well as with EU counterparts, in the Commission, the External Action Service and member states. That co-operation has been intensified hugely since the Russia crisis has started. That has enabled us to try to co-ordinate what we do on enforcement cases, but also on guidance and licensing, where there are multinational transactions. It is all very well and good us issuing a general licence to permit, but, if you are a multinational bank with a US operation, and do not have a comparable US licence, a UK licence will not do you any good. We have been working in tandem with OFAC and the EU on some of our big cases to facilitate that as well.

Q288 Gareth Davies: There have been only six monetary penalties since 2017, as I understand it. Do you feel that that is a sufficient deterrent?

Giles Thomson: A question that comes up a lot is what the right level of monetary penalties is. There is never a straight answer to that. We have had real impact and force in the different sectors that we have been involved in. The US has levied, I think, a figure for the last three years of over \$1 billion in fines. It is way beyond what I think other European jurisdictions, for instance, have levied, in terms of monetary penalties for sanctions breaches.

Our first aim is to increase compliance through education, awareness raising, guidance etc. Even if we improve compliance dramatically through those routes, monetary penalties are always going to have a role. We would like and expect to see more cases in the future. We have only had the power since 2017. These cases can take a number of years



to come through. There is a pipeline of further cases that you will see emerge over the next few months. I would anticipate that number increasing in the future.

Q289 Alison Thewliss: I have some questions around illicit finance and how your work overlaps with that area. You mentioned in some of your answers earlier that some things fall under the Foreign Office and some things fall under the Home Office. In terms of your view of who is responsible in Government for tackling illicit finance, who would the ministerial line of responsibility be for that?

Giles Thomson: As you heard when John Glen and Damian Hinds, who I came along with, appeared before you a few weeks ago, that is a shared Home Office and Treasury lead for economic crime and illicit finance across Government. The Treasury obviously deals with regulation, the money laundering regulations and the supervision, and the Home Office is responsible for POCA—Proceeds of Crime Act—and law enforcement. We collectively drive the overall Government response. As with any area, there are a number of other Departments, agencies and regulators with specific roles within that.

Q290 Alison Thewliss: Does it make it difficult to have all those responsibilities so widely spread across different Government Departments when you are trying to get things done?

Giles Thomson: Co-ordination across large numbers of agencies and Departments is always a challenge, but I cannot think of any other areas that I have worked in over my civil service career where you do not have a similar number of agencies and Departments involved. It is always for good reasons.

We have really stepped up and improved our co-ordination of what we do on illicit finance quite significantly over the last few years. The economic crime plan, for instance, has brought together all the Government sides involved in this, but we have the private sector involved as well. It is an inevitable function of the very broad-ranging scope of illicit finance and the need to have a comprehensive strategy to tackle it.

Q291 Alison Thewliss: A lot of attention has been paid to UK and other countries sanctioning Russian kleptocrats. Do you think that is a helpful discussion in the context of financial sanctions? Do the sanctions and the illicit finance overlap enough, or do you think that they are two separate areas?

Giles Thomson: They overlap a lot. One thing that I have been keen to do since coming into my current job is to make sure we are joining up these two. In most major private sector institutions, the sanctions compliance team will sit in the broader financial crime team. A big bank will perceive it very much as part and parcel of the same sort of work. We are increasingly trying to do that within Government.



HOUSE OF COMMONS

Sanctions evasion is a predicate offence for money laundering. Quite often, if you see a professional enabler facilitating sanctions evasions, it is quite possible that they might be involved in money laundering fraud as well. Looking at these things holistically is the right way to do it.

A lot of the solutions, or the responses to illicit finance and sanctions, overlap. Things like greater corporate transparency, with the implementation of the overseas entities register and reforms to Companies House, are hugely important for tackling kleptocracy and illicit finance. It will also help massively with sanctions implementation. If we have better information on who owns companies, it will help us understand who is avoiding sanctions and what companies designated persons own.

Similarly, if we improve systems and controls, customer due diligence checks and know your customer checks in private sector firms, that will help them detect sanctions and designated persons. There is a huge amount of overlap. One of the benefits—the silver lining, if you like—of the Russia crisis is that it has really accelerated that process of bringing, at least on the public sector side, what have been sometimes two distinct communities together and joining us up much more effectively.

Q292 Alison Thewliss: Are you getting enough information to go after the enablers who are the key, in many ways, to unlock this? What kinds of consequences will there be for those enablers?

Giles Thomson: We would like to get more information. You can always have more information. I think I said before that we get reporting primarily from the financial sector, with some from the legal sector and other sectors. We would like to encourage and get more proactive reporting in from other sectors: accountancy, more from the legal sector, estate agency and so on. That is partly on us to step up our efforts as we plan to do in providing guidance and engagement.

It is partly also us developing our relationships further and getting more information from intelligence sources, law enforcement agencies, regulators and others, which may be able to help us get that information, as well as us going out proactively. We have a decent level of information coming into us but it is an area we certainly want to improve in the future.

Q293 Alison Thewliss: That is useful. You mentioned reforms to Companies House. Would it be useful if Companies House had responsibility for anti-money laundering in its own right?

Giles Thomson: This is straying a little bit beyond my core remit here. The view we have always taken on that is that we have a lot of obligations on trust and company service providers, which might be creating companies and providing other company services, as well as on lots of other touchpoints for a company, such as a bank, which might



HOUSE OF COMMONS

have a bank account for them, a lawyer, who might be involved, and so on.

What is important for Companies House, dealing with 3.5 million companies, is improving what it does around verification and investigation of the information it is getting in. That is the better focus for it, rather than necessarily bringing it under the full remit of the money laundering regulations, much of which would not be directly relevant for its role and function. If you look across other countries that have an equivalent to Companies House, as far as I am aware at least, in general they are not part of the regulated sector.

Q294 Alison Thewliss: How much interaction have you had with National Crime Agency's newly formed kleptocracy unit? Can you tell me a bit more about that?

Giles Thomson: The National Crime Agency would have to give you more information on precisely what it is doing. Working closely with it has been a massive focus for us. OFSI is in regular daily contact with the NCA and the kleptocracy cell. With my Home Office and NCA counterparts, I co-chair a cross-Government group that is bringing together OFSI's work, the kleptocracy cell's work and other relevant agencies' work to co-ordinate what we are doing at a strategic level and a working level.

At an international level, the NCA klepto cell and OFSI are involved in the REPO initiative—Russian elites, proxies and oligarchs—launched by the G7. That is at an international level. There is a huge amount of co-ordination going on day to day and that is providing us with useful access to the NCA's intelligence and resources, and is also providing the NCA, I would like to think, with useful information from what we see. OFSI's civil monetary penalty powers and our other enforcement tools are another toolkit, for where the NCA may be investigating an individual or an entity of interest, to refer cases to us as well. There is a lot of day-to-day co-operation going on.

Q295 Alison Thewliss: How many referrals of suspected sanctions breaches have been made so far by OFSI to the NCA?

Chair: Giles, sorry, you have frozen on our screen and we cannot currently hear you. It sounds like we have lost Giles. We will endeavour to get Giles back with us. Chris, you might want to pick up where Giles left off, if that is okay.

Christopher Watts: I think that Giles was about to say that we cannot give a precise number for referrals to the NCA. Given the interest that companies or individuals looking to circumvent sanctions would have, we would not want to disclose that particular number. It is fair to say, as Giles just did, that the dialogue is rich, and richer since the Russian invasion.

Q296 Alison Thewliss: Would it not seem to be a deterrent if you are making lots of referrals: "If you do this, you're going to get caught"?



HOUSE OF COMMONS

Christopher Watts: There is the question of proportionality. As Giles said before, the cases that we would look to refer to the NCA would be those where we felt that there was a wilful attempt to evade sanctions. Certainly, where we see those kinds of egregious cases come along, we do so. We have to bear in mind the proportionality of our decisions around enforcement. We are thinking about making sure that, within our own monetary penalties response, we have a proportionate response to the kinds of behaviours that we are seeing, picking up in cases of sanctions breaches, and that there is indeed a public interest in pursuing those.

Q297 **Alison Thewliss:** I do not know if you picked up the question, Giles, before your line dropped there. I was asking about the number of referrals of suspected sanctions breaches to the NCA. Chris has said that you are not in a position to provide that information, so I am happy to leave that as it is for just now. Could you tell me a bit more about the impact that the overseas entities register would have in both reducing sanctions evasion and combatting illicit finance?

Giles Thomson: Both Companies House reform and the overseas entities register will be helpful for OFSI in working out what assets may be in the UK that are under the scope of our sanctions in enabling us to ensure that those have been reported to us, people are not dealing in them or breaching sanctions, and any licences they need to apply for have been applied for.

As I think I said earlier, we often come up against, particularly in a regime like the Russia regime, quite complicated corporate ownership structures that involve foreign jurisdictions and trusts sometimes as well. As you know from your other work on economic crime, that can be very difficult to pierce through. We see that as being a really useful source for us of being able to then get information on who the ultimate owner of assets is and use that for our compliance and enforcement purposes. Also, there is probably a broader use for Foreign Office alongside us when thinking about possible designations as well.

Q298 **Alison Thewliss:** What is the current status of the register, in terms of implementation of the regulations?

Giles Thomson: That would be a question for BEIS, which is implementing those regulations.

Q299 **Alison Thewliss:** What communication have you had with Registers of Scotland about its registers of persons holding a control interest in land? That has been in operation since April.

Giles Thomson: I do not know the answer to that, I am afraid. I can follow up separately, but I am not aware of what level of interaction we have had with the Scottish register. I would have to follow up on that, I am afraid.

Q300 **Rushanara Ali:** I have some questions on licensing and then a few on



HOUSE OF COMMONS

international co-operation, as well as interdepartmental co-operation. Giles, can you talk us through how involved OFSI has been in approving the sale of Chelsea Football Club?

Giles Thomson: I am going to ask Chris to field that, if that is okay, because that is something he has been dealing with day to day as well.

Christopher Watts: There were three phases of our interaction with Chelsea historically and there is one now ongoing. We issued a general licence on the day that the designation of Mr Abramovich was made, which, essentially, allowed the business to continue, pending a sale. At that point, Mr Abramovich had made it known that he wanted to sell and wanted the proceeds to go to charities for those affected by the war in Ukraine. That general licence essentially allowed Chelsea to continue with its business in what seemed a proportionate way, allowed it to complete the season and avoided the impact on the business, the employees and the wider football community.

We then had a period where we were adjusting that, because clearly we could not anticipate every facet of that business. We were making amendments to that, but we were also issuing specific licences in respect of their other needs, things like legal fees relating to the sale.

Then we worked with colleagues in Government in preparation for the sale, to try to understand it, to understand the implications, and then to issue a licence for that sale. We had to understand who the buyers were, understand where the money was going, make absolutely sure that none of it was able to get near a designated person, understand what the net proceeds would be that were going to charity and then make sure that those were frozen in a UK account awaiting the move to charitable causes.

Q301 **Rushanara Ali:** How much work overall was involved in the sale, in terms of time and personnel? How much are the net proceeds, in the proportions you are looking at, in terms of going to charity?

Christopher Watts: In terms of the OFSI effort, which is only part of the picture—clearly, colleagues elsewhere in Government, and particularly in DCMS, were involved in the sale—there was a team of four that worked incredibly intensively over about six weeks, preparing for the sale and—

Rushanara Ali: Could you speak up, because you are drifting off a bit?

Christopher Watts: I will try to do better. There was a team of about four in OFSI, working over eight weeks or so leading up to the sale, preparing the licence and interacting with Chelsea over the details of that. The net proceeds, which are frozen in an account, awaiting the next step, which is to try to establish the charitable vehicle to let those funds go to Ukraine, are £2.35 billion, I recollect.

Q302 **Rushanara Ali:** Moving on, we know financial transactions can be long term and cross-border, involve multiple parties and so on. When



sanctions are imposed, how much consideration has been given to the time it will take firms to comply with the new prohibitions and requirements? Has that been built into the process for sanctions, or was it done as an afterthought, given the rapid response that you had to be a part of?

Giles Thomson: Yes, we try to take into consideration the amount of time it will take firms to comply. In anti-money laundering, which is the other part of what I do, you will often be able to consult extensively, including on legislation, for a measure, because it is not targeted at a specific individual or entity. It is a bit more challenging in the sanctions space, because you cannot tip off someone that you are about to designate them, because you risk asset flight. There is always an inherent tension there.

Where we have done sectoral measures, there have been examples where we have consulted with industry and the private sector to try to get the design of that right, where we have been able to, as well as have more general discussions about more general issues to help. We will expect financial sanctions to be implemented very quickly and assets frozen without delay.

When we would be looking at things through the enforcement end of the spectrum, we would also be considering the pace and scale of the changes that have been brought in and the time people have been given to react to them when we take a view as to whether to pursue an enforcement action. Technically, sanctions have to take effect immediately, but we would be proportionate in how we consider action.

Another area that is perhaps relevant to this, just to bring it in as well, is that, where we have brought in fairly wide ranging new measures, for instance major new asset freezes of Russian banks, we have also brought in what we call winddown general licences, which enable companies that are in the middle of executing contracts, trades and so forth with those institutions to wind down their exposure in an orderly fashion. We do not give them forever to do it, but we give them a certain amount of time. You cannot just extract yourself from a contract or a trade instantly. We would also try to manage impacts that way.

Q303 **Rushanara Ali:** Giles, I wanted to come in on that particular point. Some witnesses have said that some of the Russian sanctions have been imposed without any corresponding licence or that licences for unwinding financial positions were not long enough for firms to practically comply. Are these reports accurate or fair?

Giles Thomson: It is difficult to know. I guess that it depends what they are referring to. There are always two views on this. We have to weigh up the two sides of the coin and put to the Ministers, ultimately, for a decision. One is the robustness or the impact of the sanction. The general presumption is that we do not want to water that down or reduce it in any way. We have to balance that against the potential unintended



HOUSE OF COMMONS

consequences and impact on UK business. We have to weigh up two sides of the coin and try to take a judgment or put advice to Ministers on where to reach that judgment.

I would generally like to think that we have got that right and made the right calls. Where businesses have been caught up in legitimate transactions that are suddenly caught by sanctions and where we can mitigate that and enable them to draw down from those, in a way that is not going to benefit substantially the designated party and undermine the sanction, we have moved to do that.

People always want longer to do it. On some occasions we have extended the duration of general licences. We have listened to stakeholder feedback and done that. At other points, we have taken the view that we have given them a certain period of time, that is enough and we are not going to endlessly extend it. Where we have had these issues, we have tended to try to do it in alignment with the US, which can also issue general licences. The EU cannot. We have done it very often to co-ordinate with the US's licence.

Q304 Rushanara Ali: Until recently, has issuing general licences been fairly uncommon outside of counterterrorism sanctions?

Giles Thomson: Yes. The Russia crisis has seen a significant shift in how OFSI, the UK, uses general licences. Under the EU sanctions framework we had until EU exit, we could not issue general licences. We took the power through our new Sanctions and Anti-Money Laundering Act to issue general licences. I think that we had only issued two—Chris will correct me if I am wrong—prior to the invasion of Ukraine in quite niche scenarios. We have now issued, I think, 24 since the invasion and they are much wider ranging. It is a real new departure for us, one that is very much closer to the OFAC US model of operating and has a really positive reception from business and industry.

Q305 Rushanara Ali: I know you have touched on some of this, but can you talk through how you ensure general licences do not undermine the very objectives the original sanctions are trying to achieve? For example, could licensing firms to continue using a sanctioned bank for energy payments allow unlicensed payments to slip through the net? Do you have measures to prevent that? Are you satisfied that the measures in place prevent that from happening?

Giles Thomson: I will start off and then bring in Chris, who oversees these licences day-to-day. Before advising a Minister to issue a licence, we weigh up what impact it would have on the regime. Would it undermine the purpose of the regime? What is the collateral damage we are seeking to mitigate? We would not put in place a general licence if there was a concern that it was going to substantially undermine the regime. It does give us the ability to weigh up the objectives of the sanctions against other public policy objectives.



HOUSE OF COMMONS

You highlighted energy-related payments. We have had general licences in place that carve energy-related payments out of asset freezes or prohibitions on clearing in major banks. There is still one in place in relation to payments to Gazprombank. The view that the Government took was due not only to our own energy security and the impact on consumers but actually quite often to the potential impact on allies. A number of European banks wanted to see the Gazprom licence in place because they need to continue making payments to Gazprombank and there is a UK link somewhere. That is as much about working with international allies to help manage the impact of our sanctions on them.

In terms of making sure they are not abused, we have a range of ways of doing that. For some, licences will put in place a reporting requirement. If someone uses the licence, they have to notify OFSI so we can scrutinise that. In others, we will just have a record-keeping provision. They do not necessarily have to proactively report to us, but they have to keep records of how they have used it, which we can then ask for and inspect when we want to as well. We will keep a close eye on how it is being used by talking to industry.

Q306 Rushanara Ali: Do you do any spot checks of licence holders and their transactions?

Giles Thomson: I might bring in Chris at this point in terms of what we will be doing in more detail to monitor the licences, if that is alright.

Christopher Watts: We can ask for information on the use of any licence and, as Giles said, we require reporting routinely on the use of licences, both specific licences and general licences.

Q307 Rushanara Ali: Are there exemptions on general licences under the UK's Russia sanctions regime in relation to the provision of humanitarian aid to Ukraine?

Christopher Watts: There is not an exemption. We are currently considering the best means of providing the right kind of carve-out, if I can put it that way, for humanitarian efforts in Ukraine, whether that is a further general licence or an exception.

Q308 Rushanara Ali: Have you done any risk assessments of what the consequences of not having an exemption on the provision of humanitarian aid to Ukraine has meant?

Giles Thomson: We have not done a formal risk assessment as we would see it, but we are talking very closely with the Foreign, Commonwealth and Development Office about what it is seeing and hearing. We are engaged very closely with NGOs.

As Chris said, there is no exemption in the Russia regulations that says, "You can provide humanitarian assistance without worrying about sanctions", per se, but there is what we call a humanitarian derogation, which means that an NGO could apply to OFSI for a specific licence for



doing something with a humanitarian purpose. There is the route and the ability for charities or banks involved in facilitating those transactions to apply for a licence. We have done a lot of outreach and discussion. As Chris referred to, there is an ongoing debate about whether that is the easiest way for NGOs and other humanitarian actors to comply or whether we could facilitate it even further. That is under very active consideration.

Q309 Rushanara Ali: It would be good if you could update us on what you have done in terms of facilitation, what that means and whether there have been any issues raised by humanitarian agencies where they have come into difficulty. It sounds like you are doing a lot to try to facilitate it, but it would be good to understand this better, given the humanitarian dimension to this crisis.

Moving on to international and inter-departmental co-operation, the context is that the US seems to be much better at this. I know that in the past it has been said that they have invested a lot more, as you mentioned. What is the difference in the scale? They seem to be more co-ordinated within. I know this discussion has come up in the past with Sir Alan Duncan when he gave evidence to the Foreign Affairs Committee a few years ago. Is there a case for better co-ordination within our system? What is the level of investment that the Americans have put into this agenda compared to what the UK has done? Do you know the difference in the numbers?

Giles Thomson: I do not have the precise figures to hand. We tend not to publicly disclose the precise number of people we have working in OFSI. It is the same for OFAC.

Q310 Rushanara Ali: You had said it was 70 earlier.

Giles Thomson: Yes, we are at the moment moving up to 70 or are at 70-odd. OFAC is about 300 people, from what I have seen in the public domain and conversations with OFAC. They are also increasing. They have money approved by Congress recently and are expanding their work. OFAC has been in operation in one form or another since the 1940s, so has a much longer history and is therefore much more greatly developed.

If you look at absolute numbers, where we are now and where we are looking to head to, approximately 100 people, that compares relatively well with OFAC figures of somewhere in the region of 300, or perhaps a little more if you look at the comparable size of our economies, populations, financial sectors and so on. In terms of absolute numbers since OFSI's creation in 2016, we are needing to catch up quickly but are getting there.

There are a vast number of other differences, though. There are different legal frameworks, systems and powers in place that mean that OFAC has a different set of sanctions powers and regulations that it can work with. Through what I have talked about before, in the next stages of OFSI's



HOUSE OF COMMONS

development, we are trying to acquire some of the capabilities that OFAC has acquired over the 30, 40 or more years of its existence—a greater ability to use intelligence, greater ties with law enforcement, bringing in people from a different range of backgrounds to support that and greater penalty powers.

For instance, in the Economic Crime (Transparency and Enforcement) Act that was brought in during March, we changed the test for levying a monetary penalty to make it a strict liability one, which is what OFAC has. That is an area where we have actually brought out a legal test in line with what OFAC has done, having looked at it. Yes, in terms of international comparisons, there is a range of ways we are trying to develop OFSI, looking at what we can learn from different countries.

Q311 Rushanara Ali: Earlier, Alison asked you about NCA. I have a slightly different question, which is about the budget cuts of the National Crime Agency. How does it impact on what you are doing and the interrelationship and expectation of what you may need in terms of assistance from the NCA, given its budget cuts? Does it have the capacity to work with you in a co-ordinated way in the middle of this crisis, when the amount of work that NCA, you and others have to do has grown exponentially?

Giles Thomson: Apologies, I can only tell you what I see based on my experience. There is a broader question there for NCA, the Home Office and ultimately the Treasury.

Since the start of the crisis, we have seen the NCA surge resource and priorities into this area, standing up the kleptocracy cell and moving experienced leadership in to focus on this, with a really huge uptick in what it is doing in this area. Undoubtedly, like for any organisation, I am sure it would say it would like to do more and that there are prioritisation decisions that it is going to need to take in the future, like everyone is. All I can say is that, from my experience, the organisation has prioritised this area within the resource that it has and has stepped it up.

Rushanara Ali: It means that it has had to take resources away from other areas in order to respond to this particular crisis, which is not really a satisfactory position. I appreciate that is not one you can answer.

Giles Thomson: I do not know.

Q312 Rushanara Ali: There is an issue, because it undermines the efforts that you are making. That is something the Government need to consider in terms of resourcing.

We have heard evidence from several witnesses that sanctions work most effectively when they are both targeted and implemented consistently across jurisdictions. Do you think there is enough uniformity between countries with sanctions against Russia? You have talked about some of that, but are there any other points you want to make about what else is needed in terms of effectiveness, targeting sanctions and consistency



HOUSE OF COMMONS

between jurisdictions?

Giles Thomson: We have come a huge way over the last few weeks and months in co-ordinating. A lot of the measures are now aligned. I also know from talking regularly with business that there are still a number of areas where they are not necessarily aligned. There is more we can do. We are having a very live dialogue with the EU and the US to make sure that, wherever we can align, we will do so.

That is, again, a real positive that has come out of this crisis. It has brought together the main sanctions actors in the EU, us and the US. We have been able to act in a really concerted fashion and increasingly so as the crisis has evolved. I know it is an ongoing area where business would like increased alignment, so there is more to do, but overall that has been a relative success story of the response.

Chair: That brings us to the end. Thank you very much indeed, both Giles and Chris. Giles, I am sorry we lost you momentarily during the session but, Chris, you have demonstrated why there are deputy directors, by stepping in. We thank you for that.

You carry out some very important work. It was quite interesting, Giles, the points you made earlier about the internal assessment of the areas you need to focus on. We have noted those in terms of guidance, support to businesses, intelligence and information gathering, international engagement and the sharpening of the tools that OFSI has to carry out its work. It may be that we will write to you on those matters and perhaps some others as well, just to get some further input.

You are doing extraordinarily important work. We wish you well. I hope you are as effective as you can be in us collectively keeping the pressure on Mr Putin and Russia. That concludes this session.