

Treasury Committee

Oral evidence: Work of the Office of Financial Sanctions Implementation, HC 418

Tuesday 26 November 2024

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1 - 95

Witnesses

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

Examination of witnesses

Witnesses: Giles Thomson, Beth Davies and Chris Watts.

Q1 Chair: Welcome to the Treasury Select Committee on Tuesday 26 November 2024. Today we are talking to the Office of Financial Sanctions Implementation, often described as OFSI, which is responsible for, as it says, implementing financial sanctions. Obviously, it has become a particularly important issue since the Russian invasion of Ukraine in 2022, but it has been in existence for some years before that.

I am delighted to welcome today Giles Thomson, who is the director of economic crime and sanctions at the Treasury. He is joined by Beth Davies, who is the deputy director for OFSI at HM Treasury and based in Darlington. If you are a woman called Beth, you seem to need to be based in Darlington. That is an in-joke for the Committee, sorry, for anyone watching. Chris Watts also joins them, who is the deputy director for the Office of Financial Sanctions Implementation. We have a bit of a rule in this Committee to spell out acronyms. We may, on this occasion, slightly shift into OFSI, just to save our tongue twisting.

Before we go into the main session, Mr Thomson, I wanted to note that we were informed that the FCDO last week sanctioned three what the press release described as “notorious kleptocrats”, and that the Foreign



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Secretary is going to be working closely with his Cabinet counterparts to deliver a Government-wide agenda to tackle the impacts of corruption and illicit finance, both at home and overseas. This is very much in your bag. What is the impact? What was your role in this action against these three individuals?

Giles Thomson: In a scenario like that, we will work with the Foreign Office in the run-up to the announcement to understand the intention behind the sanctions and the targets they are envisaging. What will be particularly important for us is understanding their UK nexus, so their links to the UK and what assets the targets might possess in the UK that would need to be frozen in the event of the designation going ahead.

We will then get involved, subsequent to the announcement, from basics, such as ensuring that the consolidated list of designated persons that we maintain is updated rapidly and ensuring that all our relevant guidance and other products take account of these new designations, to also ensuring that assets that they possess in the UK are frozen and reported to OFSI by private sector actors. We are then, particularly with these designations, likely to receive licence applications under various grounds in relation to anyone resident in the UK or assets that they would possess in the UK that would need upkeep and enforcement action further down the line, should there be any breaches in relation to these particular designated persons.

Q2 Chair: You were set up in 2016. Lots has changed since then and you have had to take on new challenges. We are a new Committee. Could you outline what you were set up to do, what your purpose was, what your powers are and what has changed since the Russian invasion?

Giles Thomson: As you say, OFSI was set up in 2016 with the intention of ensuring that we provided a better service to the public and the private sector to help them implement and understand sanctions and to ensure that they were properly enforced in the UK. There was a desire to make the sanctions work more effectively as a foreign and security policy tool and to ensure that the financial system in the UK was protected as far as possible. We started off back in 2016 and grew up until around 40-odd people working in OFSI on the eve of the Russian invasion of Ukraine in 2022. That substantially increased as our workload changed exponentially in quantity and quality on the back of the Russia sanctions regime. We now have around 150 members of staff in OFSI.

Our primary powers and responsibilities relate to, as it says in the name, the implementation and enforcement of sanctions. That is conducting guidance, outreach and engagement with industry, NGOs, international partners and others to explain sanctions and ensure that they are well understood and implemented. It also extends to licensing, which is a major function of OFSI, ensuring that, where there are valid grounds within the legislation, people can access basic needs or there are humanitarian provisions in place. There is also the enforcement side for



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financial sanctions breaches and ensuring that, where we detect and see breaches, we are able to take proportionate action against those.

Our operation is now very much based around those functions, with the 150-odd people that we have. Within that, we also have responsibility within OFSI for domestic counterterrorism designations. They are the only bits of designations in the UK system where OFSI will actually be responsible for the designation decisions. Treasury Ministers will take those where the target has a significant nexus to the UK. We also have a newly established intelligence unit within OFSI, which we set up on the back of the Russian invasion to support all our work and ensure that we are piecing together the intelligence picture, threats and vulnerabilities and better using our data to fulfil all our functions.

Q3 Chair: We will touch a bit more later on the work you do with other Departments. You mentioned there about Treasury Ministers making this decision. When you are advising Ministers generally across Government, what is your interaction with Ministers, in terms of pushing advice up to Ministers to make decisions? Can you be clear to the Committee which Ministers and Departments make decisions on which issues?

Giles Thomson: With the exception of the domestic counterterrorism regime, which, using the acronyms, we call CT3, it is Foreign Office Ministers who will make the decisions on designations. Under whatever regime, the Foreign Office Minister will take the decision. Where there is a significant Treasury interest, so it is a significant financial sanction that is going to impact the financial sector or the economy, we—and this will be one of my other teams, not the Office of Financial Sanctions Implementation, but a separate policy team that is also within my bit of the Treasury—would work with the Foreign Office and put advice to Treasury Ministers where necessary on those measures, but responsibility sits with the Foreign Office.

On enforcement, implementation and licensing decisions, which is in OFSI's core remit, we have a delegation framework, which is public now. That sets out what decisions will routinely go to Treasury Ministers. It tends to be the most high-profile, contentious and difficult decisions on licensing requests that would go to a Treasury Minister. Otherwise, those are delegated to Chris primarily day to day, as well as members of his team. On enforcement actions we have done, I take the decision on monetary penalties and other enforcement actions.

Q4 Chair: When you say you make the decision on monetary penalties, you set the level of monetary penalty.

Giles Thomson: Yes, on advice from my team. They will put a recommendation to me on whether we should enforce a monetary penalty and, if so, what the proportionate right amount would be.

Q5 Chair: Beth Davies and Chris Watts are designated to work only for the Office of Financial Sanctions Implementation. Mr Thomson, you have a



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wider role in the Treasury and you mentioned then that you have another team working for you. Can you be clear on what your other responsibilities are, and how much of your time is spent dealing with the sanctions regime?

Giles Thomson: The other part of my group covers financial sanctions policy, working on the design of financial sanctions measures, working very closely with the Foreign Office. One thing it has also been working on is the Extraordinary Revenue Acceleration scheme, on which there was a Second Reading in Parliament last week. We also have responsibility for the Treasury's work on anti-money laundering and counter-terrorist financing policy, so ownership of the money laundering regulations, the supervisory system in the UK for AML/CTF and our international representation at the Financial Action Task Force.

I cannot put an exact percentage on time. Since the Russian invasion of Ukraine, the sanctions and the OFSI work has taken up a substantial proportion of my time and focus, as has been required.

Q6 **Chair:** You are at the hub of a lot of the policymaking.

Giles Thomson: Yes.

Q7 **Chair:** We will come on to that a bit more. One recent bit of advice you published was to companies, warning them about paying North Korean IT workers who could be diverting funds to the North Korean regime. That is not normally what we would be thinking about when we look at sanctions. What alerted you to that and what made you take that decision?

Giles Thomson: The origin of that was out of work that we do with a grouping called the G7-plus on DPRK, on North Korea, which gets together periodically to discuss ways to better enforce and implement sanctions on DPRK, as well as potentially new sanctions.

Q8 **Chair:** DPRK is Democratic People's Republic of Korea.

Giles Thomson: Yes, exactly.

Q9 **Chair:** Let us stick with North Korea.

Giles Thomson: That was part of a co-ordinated set of these advisories that various G7-plus countries put out. It was one where we detected in the UK that this was a typology being used to provide foreign currency to North Korea.

Q10 **Chair:** When you do that, what advice are you able to give a company to be able to winkle out that somebody is trying to do this? What is involved and what interaction do you have with those companies when you are trying to help them comply?

Chris Watts: In that scenario, we were looking at the concept of people working remotely but trying to identify as being from countries that were not North Korea. We were able to identify typical things that you might see in their interview process or in their working pattern that might give



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rise to suspicion. I do not have all of those to hand. Essentially, we gave tips on spotting this and alerted people to that methodology.

Q11 **Chair:** Do you think that other foreign powers could be doing the same thing? Is there a likelihood that it is not just North Korea?

Chris Watts: It is certainly a possibility. It is not one that has come up through the intelligence or working with partners as yet.

Q12 **Chair:** We were talking about how you are quite at the hub, Mr Thomson, of making policy here, but you have different Departments. We will go on to some of the other Departments, such as the Department for Business and Trade and Foreign Office, in more detail later. Are there areas where you think that it is challenging that you are having to work across Departments? Were there areas where perhaps things could fall through the cracks? You have been going now for eight years and you have had intense activity in the last two. In your professional opinion, are there areas that could be tightened or improved in the work that you do, particularly around the policy advice?

Giles Thomson: On the policy advice, I would like to think that that has worked pretty effectively over the last few years with the Foreign Office in relation to the Russia sanctions regime, which has been the primary cause for it. The relationship has been incredibly close. We work very effectively day to day with our Foreign Office counterparts.

Across Government, in particular over the last two or three years, we have been looking at the implementation-enforcement side of the Government picture. That led, for instance, to the creation of the Office of Trade Sanctions Implementation, because there was a feeling that there was a gap in the architecture there in relation to trade in services, in particular.

We have benefited in OFSI, as well as in different parts of Government, from the Economic Deterrence Initiative—EDI—funding, which was a pot of funding across Government to help improve implementation and enforcement. That has given us the capability to start some projects to help us join up a little bit better, such as exploring whether we could have a common sanctions website portal, rather than people having to go to all different places for different information. In the future, could we move to one system for submitting licence applications to OTSI, Office of Trade Sanctions Implementation, and OFSI, to make the customer experience better? There is further work going on now that Foreign Office Ministers have announced to make sure we continue to improve that cross-Government system.

Q13 **Chair:** In that cross-Government approach, who would you say is the lead Department or individual? Is that you or others?

Giles Thomson: I would very much see the Foreign Office—

Q14 **Chair:** It is an opportunity for the Treasury to say in public that it is



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taking care of everything.

Giles Thomson: Uncharacteristically, I will not. The Foreign Office is very much the central hub for sanctions. It is the primary Department. It sets the overall strategy. It takes the decisions on the designations, and we work within them.

On the implementation-enforcement side, I would like to think that OFSI is one of the primary partners there, but we work very closely with the Office of Trade Sanctions Implementation. A key relationship for us is with the National Crime Agency, which is responsible for criminal enforcement of financial sanctions breaches. We do a lot of work within the intelligence space, as well as with the Financial Conduct Authority, which you will be very familiar with.

Q15 **Chair:** That is quite a complex landscape. I mentioned at the top the recent action against three particular kleptocrats. Do you think that most of the sanctions work is people who are making mistakes inadvertently or actually criminal?

Giles Thomson: Do you mean in terms of the work that we all do day to day?

Chair: Yes.

Giles Thomson: Cases where we see real knowledge and wilful intent to circumvent, evade or breach our financial sanctions would typically, when we look at that through an enforcement lens, cross the threshold for potential criminal investigation and prosecution. We would refer those cases to the National Crime Agency. Primarily, the cases that we are looking at within OFSI from an enforcement perspective include cases that we are likely to take no further action against, because either they were not breaches but people have reported them to us out of an abundance of caution, or they were very minor breaches, where people had made genuine mistakes or had good systems in place but it was a very minor failing.

Where we will impose a penalty, people have shown gross negligence or ignorance when they should have known better, had systems that were not fit for purpose or not been aware of the risks that they were running. They will primarily be in that sort of space, as you would have seen from the monetary penalties that we have issued to date. Monetary penalties are very much the tip of the iceberg. They are the very small percentage of cases we see. The bulk of our efforts, day in, day out, go to helping major banks, major insurance firms and accountancy or legal providers that all want to comply more effectively and giving them the support in doing that, because that is actually going to be the most effective route to good implementation.

Q16 **Chair:** I see that Beth Davies is nodding along there. I wonder whether you could give us some specific examples of these lower-level sanctions, so the ones that do not reach the criminality level.



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Beth Davies: We have a number of outcomes that we can determine when we get to the end of an enforcement outcome. As Giles says, it may be that the breach is such that we decide that we will take no further action. We can also issue warning letters.

Q17 **Chair:** Can you give us an example, just to make it live for all of us round the table?

Beth Davies: We published our case factors. I do not speak to specific cases specifically. We have set out that we look at the severity, value and conduct. We look at all those factors in the round. That is one of the reasons why financial investigations are complex, because you take all those things into account. We are looking at the behaviours and whether there has been a pattern of activity. We are also looking at what the value of a breach has been.

We have also considered the conduct that has also gone into play by the firms in question, so whether they voluntarily disclosed information to us and voluntarily reported, or whether we found that out through another means. That also plays into the conduct that is surrounding the suspected breach or breach. Those are the things that we would be taking in and those would be called mitigating factors and things where we would judge it perhaps not in the public interest to proceed to a penalty.

Q18 **Chair:** Do you have an idea of the percentage that you refer to the National Crime Agency?

Giles Thomson: We have not given public figures for number of cases because the National Crime Agency is very keen to preserve the operational effectiveness of what it is doing and not prejudice any investigations that it has going on. They have asked us to be—

Q19 **Chair:** They want you to be circumspect on that. We might have a private discussion about that if we need to. In summary, do you think that your work implementing the sanctions is preventing further sanctions from other bodies? Do you think that it is having a preventative approach, or is it just about enforcing against the people who are making mistakes?

Beth Davies: We are very much looking to help firms comply with sanctions. We want to see sanctions implemented effectively. That is how they will be most effective. We work really closely with industry to understand what they need more from us. We published last week a further advisory on the oil price gap, which was identifying behaviours that we wanted industry to be alive to. We are in that space of wanting industry to be as able to comply as much as possible, because we recognise that it is at the front line of implementing. We know from the engagement we have with it that it takes account of the guidance that we put out. It takes account of the monetary penalties and updates that we publish and the frequently asked questions, FAQs, that we put out.



The feedback that we get is that industry wants to comply. It is keen to work with us to understand what its obligations are. It is cautious and very interested in penalties, and even disclosures, when we apply them. The reputation is really important to industry and we really hear that from it when we are working with it.

Chair: We are going to delve into all this in more detail.

Q20 John Glen: First of all, I would like to thank Mr Thomson and Mr Watts in particular for the support you gave me when I was Economic Secretary up until July 2022. Can I start by focusing on resources? We had many discussions back then about how small your team was. It seems that, from what you have said, it is gone up to 150; it has tripled in the last couple of years, understandably, given what has been happening. Could you tell us about your sense of whether that is enough? There is a great comparison always made with what the US have with OFAC, which is a much larger organisation. Could you tell us how you feel? This is your opportunity to get on the record how frustrated or not you are with the number of people you have working for you.

As a supplementary to that, in terms of the distribution between enforcement, licensing and engagement, you have rightly set out that you are trying to give a lot of advice. There is one frustration out there and you see it with people like Tom Keatinge and others, although I think in his evidence in February he was much more guarded in terms of the trajectory you were on. Are we being assertive enough in terms of going after people? I would like your sense of how well you are resourced and whether you are configured in the right way for what we need you to do.

Giles Thomson: I am not sure whether it is an opportunity or a career-limiting minefield.

Q21 John Glen: I think that you can influence things significantly.

Giles Thomson: I genuinely feel tremendously lucky, in many ways, to have the level of resourcing and commitment that we have. As you know, given the fiscal constraints, position and size of the Treasury, 150 people is a considerable number within the Treasury. To have resources tripled has been a huge investment. The Budget document two or three weeks ago noted that, as part of the spending review phase 1 settlement, the Treasury is going to continue to resource the work that OFSI does. Would I like more resource? Yes. I do not think that any Government agency or Department would say otherwise.

Q22 John Glen: Do you need it?

Giles Thomson: No, not to do the job that we think we can do and that we are set up to do. We can now do a lot to continue to improve the effectiveness of what those 150 people do. That is relatively new. It has taken us over the two years since the invasion to get up to that number. A lot of people are relatively new. We have invested in new tools and



capabilities that still need to properly reap benefit. My real focus now is trying to make the system as effective and efficient as possible.

Yes, if we had more people, we could take on more enforcement cases. That is the same for any police force, the National Crime Agency or any regulator. The challenge is to prioritise cases rigorously and do the most high-impact and effective work that we can.

The question of comparators is an interesting one in that I do not have a precise figure for OFAC in the US, which is very much the gold standard. If you compare size of sanctions regime and size of economy, I do not think that we actually now compare unfavourably with OFAC in size, although we are a much younger organisation still very much on a journey. If you compare us to other jurisdictions round the world, I always feel tremendously lucky when I go and sit with a number of counterparts across different countries who will have teams far smaller than we do doing equivalent roles in pretty much every other jurisdiction round the world.

In terms of the split, I am not able to give you precise numbers, but our casework teams, the licensing and enforcement functions, are the biggest units in OFSI. They are the ones that have grown most significantly in line with the huge increase in licence applications we got and our desire to do more enforcement cases, as well as the large increase in the number of reports given to us on enforcement. Also, we have about doubled our engagement team to try to get out there and engage more internationally and domestically, as well as setting up this new intelligence unit function, which was an entirely new unit that we set up.

Q23 John Glen: Can I ask you about the nature of the secondees that you have in from the FCA, and probably the NCA as well? How does that work? I think the sense that some people have is that the Foreign Office broadly, as we know, makes the fundamental designation decisions, with advice from the Treasury about how that should or should not work in implementation terms, but there is not enough heft to go out and actually apprehend pretty sophisticated, highly lawyered-up individuals, who are doing everything they can through subsidiaries and different jurisdictions to hide from the effect of these sanctions.

Do you recognise that anxiety? How would you say OFSI is meeting that? Despite the headline numbers you can give us about the number of banks and designated individuals, there is still this sense that there are lots seeping through the cracks. How can we see your enterprise enriched so that it has what it needs to really go after those that are seeping through the cracks?

Giles Thomson: On the question of secondees, we have two sets of secondees. Initially, during the first year or two after the invasion of Ukraine, we brought in a good number of people very quickly on secondment from the Financial Conduct Authority, the National Crime Agency and HM Revenue and Customs, because we needed to upskill and



upscale very quickly and they had more expertise and experience in these areas. We benefited from someone coming in from the Financial Conduct Authority's enforcement division, for instance, who spent some time with us and imparted a lot of very useful knowledge. We had people coming in from Revenue and Customs in the intelligence and other areas.

By and large, we have moved away from that reliance on shorter-term secondments from other bits of the Government system. We have people within the intelligence unit, for instance, who come from HMRC and have moved over to us, bringing a wealth of experience of intelligence work from there. We have tried to mainstream that into our resourcing model. We have had one, and we are about to get another, secondees from OFAC into OFSI, which is a new innovation. OFAC is the Office of Foreign Assets Control, which is broadly the US equivalent of OFSI. We work incredibly closely with them. We have just sent the first member of OFSI out to the Office of Foreign Assets Control in the US Treasury. That has been hugely valuable in enabling us to learn from OFAC, exchange information and improve information sharing.

In terms of the question about what more we can do to tackle the most sophisticated and difficult challenges, I think that everyone across the Government system, be it the National Crime Agency or the Financial Conduct Authority would recognise the inherent challenges of dealing with crime and wrongdoing that is global, piecing together the international picture, and highly sophisticated, where you are subject to high degrees of legal challenge. That is a problem that we see and are already experiencing on some of our licensing decisions in particular.

On the enforcement side, these cases take a long time and a lot of effort to investigate. We have done our first post-Russia 2022 civil monetary penalty case a few months ago. There are a number more that are at relatively mature levels and that we hope to be able to publish in the next few months. That will start to show the increasing ability of OFSI to tackle the more egregious and sophisticated end of what is going on within the financial sanctions implementation system. It is giving us the tools and equipment to continue to tackle that higher end of sanctions circumvention and evasion. That is partly being able to continue to invest in staff and having people who have the right experience.

Q24 John Glen: When you get the fines, it does not add to your organisation, does it?

Giles Thomson: No.

Q25 John Glen: That is unlikely to change. Do you think it should change? I understand that that happens in other jurisdictions.

Giles Thomson: I am not sure about the international comparators. I have always had this come from the other end when I have been working with the Home Office or other agencies that always, as you know, come to the Treasury and say, "Why can we not keep our fine?" The fines come



into the overall Government budget, into the consolidated fund, and are allocated out through spending review choices. Ultimately, it is the same pot of money that is being allocated out.

Q26 John Glen: Can I ask you one further question, building on what the Chair said? It is on this issue of who makes what decisions. You will recall that I, as the Economic Secretary, was involved in quite a complicated case, dealing with an appeal from a large bank. I felt that that was quite a responsibility. I remember seeing three massive lever arch files and I was sat there thinking, "Gosh, am I a judge? What am I trying to do?" After that, we reviewed it and looked at the whole issue of how you should delegate to officials and so on.

Would you like to explain to the Committee where those lines are drawn now and how there is ministerial accountability for decision-making but when decisions are delegated, because obviously that would be a concern? I felt that the legislation, when it was written, was unrealistic in giving Ministers such exposure to such complexity in that way. Perhaps you could, for the clarity and purposes of what we are trying to achieve here, tell us where we are now.

Giles Thomson: I will start with the enforcement framework and then Chris can explain where we are on licensing, because that is an important part, as you know, of the ministerial decision-making in the Treasury. On enforcement, the approach that we have was designed to protect, if you like, Ministers from the complexity of some of these cases, but also keep this as an independent regulatory function. Where you are potentially going to impose a fine on a major UK bank or other firm, there is always going to be lobbying and conversations wanting to happen. It felt right to us to distance Ministers from that and to have, as it is in Revenue and Customs, Financial Conduct Authority and elsewhere, an independent decision. We also wanted to create a framework for challenge and review that did not require people to go straight away to the court system, although that remains the ultimate recourse. This was where the ministerial review came from.

I forget the exact timings and whether you were still in post at the time, but we learnt a lot from those first few cases. We reflected on that and have now moved to a system whereby people who disagree with and want to challenge our decision to impose a penalty can request an administrative review by the Minister, but the Minister has the ability to delegate that to a senior official. That would be someone of my equivalent rank within the Treasury, but from a different part of the Treasury, who would independently review that. When we get a challenge or a request for a review, we will put that to the Minister with a recommendation as to whether they might want to delegate that case. They will decide whether they want to delegate it. It is something we are also keeping under review about whether we want to change that system further in the future.

Q27 Chair: Would it require any legislative change?



Giles Thomson: It would require legislative change.

Q28 **Chair:** Would that be to primary legislation?

Giles Thomson: I would need to confirm whether it is primary legislation.

Chair: If you could write to us, that would be helpful to know. It is quite a big difference if it is primary or secondary.

Q29 **Bobby Dean:** I want to dig a bit more into the cross-departmental co-operation piece, in particular with the FCDO. Could you explain in a bit more detail what that relationship is like? Specifically, is it top-down, where the instruction comes and you work out how to implement, or is it that you provide recommendations and they sign them off, or is it a more equal partnership? Can you describe what that relationship looks like?

Giles Thomson: I would describe it as very iterative and collaborative, in that we will get early sight from the Foreign Office of what its strategy is. A lot of this is formed multilaterally with G7 partners. I or Beth or Chris will be involved in conversations with the Foreign Office with senior US or EU counterparts. We will be involved because the Foreign Office will have views about the overall strategy but our role will be to work with it to say, "From a Treasury perspective, we think that could be most impactful on Russia, but be careful of this economic impact on the UK", or, when it comes to implementation-enforcement, "That would be easy. That would be challenging". That works.

During the initial stages of the crisis, things were happening at such a pace, with such ferocious volume and scale, that we were sometimes playing catch-up, as I think every jurisdiction was. As the pace has slowed down a little bit and we have embedded our new ways of working, we have got much better at acting in unison, both internationally and domestically.

Once the actual decision is made about who we are designating and how that fits with the overall strategy, there is a lot of OFSI input into that through the intelligence capabilities that we have and what we have seen on our casework: "If you are thinking of designating this person, have you thought about this?" Then we aim to be ready to go with licensing and other guidance products. Subsequently, particularly on the licensing function, there will be a lot of close engagement between what Chris's teams will be doing there and the Foreign Office. Quite often, a licensing decision will be about weighing up the intent of the regime to sanction and put restrictions in place versus other public policy objectives, be those humanitarian, human rights, commercial interests or other interests. Although that is our decision, we will be consulting the Foreign Office on that.

Q30 **Bobby Dean:** When you said that you were playing catch-up in the heat of the crisis, does that mean that sometimes decisions were being made and instructions were being given that you did not feel were



implementable? Was it perhaps political decisions being made where you think that, if we had had a more intuitive conversation, such as you are having now, those instructions would not have come?

Giles Thomson: I would not say it was the case that we were being given political decisions that were unimplementable or unenforceable. It was the sheer pace at which some of this was happening. Work was going on sometimes overnight and at the weekend. The Central Bank of Russia immobilisation of assets was done over a weekend because there was information suggesting that these assets would move if we did not act quickly.

In scenarios such as that, it is very difficult to pre-empt every possible consequence of that. There were a number of occasions where—Beth had not joined us at the time—Chris or I would get phoned up by UK Finance or a major bank saying, “Oh God, there is this new restriction and we have a transaction that has been caught by it”, or, “This is a major problem”. Due to the time pressure, we had not always been able to anticipate that ahead of the game. I like to think that we responded quickly and rapidly to put something in place, be it a general licence or some other mitigation, to address what we call unintended consequences.

We have now got a lot better. The gold standard is that, when we announce a designation, as far as possible we have anticipated potential knock-on impact on British business or other areas that we want to mitigate. We have put in place a licence, a general licence, or a frequently asked question or guidance that is very clear to industry, so it knows how to respond. It was just the pace at which things were happening. You could spend months researching the economic financial impact of some of the measures we did and we had hours to do it. We could not always anticipate everything pre-emptively.

Q31 **Bobby Dean:** On the sanctions list specifically, how much of that is driven by your intelligence versus what the Foreign Office wants to do?

Giles Thomson: It would depend on the regime. The particular value added we can add to designation targets is from what we see through our licensing, enforcement and compliance casework, which is based on UK companies and people operating in the UK. There will be some regimes around the world where there is very little UK nexus, as we call it. The sanctions targets do not reside in the UK. They do not really have assets in the UK, or significant assets. The sanctions are more being used in those scenarios for a demonstrative-type purpose, to demonstrate disapproval of what is going on. We can add very little to that, because there are not assets in the UK. We are not seeing licences or breach reports.

Where there are domestic assets or UK nationals, we are likely to have more intelligence and more input into that. The Russia regime is where the bulk of our efforts can be, but there are other regimes as well where we can add value.



Q32 **Chair:** Mr Watts, you are leading mostly on the Russian stuff.

Chris Watts: On the licensing particularly, one thing we have become a bit wiser to over the last two and a half years has been disruption of various kinds, as well as enforcement and the effect of that. One thing that we do occasionally, exactly as Giles describes, on the basis of what we are seeing in the information that is coming through OFSI and to OFSI, is to identify possible additional targets for designation. That process of designation and sanctioning becomes, if you like, a quasi-enforcement tool in itself. There are items of information we are seeing that can inform those future designations.

Q33 **Rachel Blake:** Good morning. Can you share with us what the impact of the launch of the Office of Trade Sanctions Implementation has been?

Giles Thomson: I will start and then I might pass to Beth, if that is okay, who works closely with it more regularly. I cannot speak directly to its work. From what we have seen, it has been a really useful additional part of the landscape, the architecture of sanctions implementation and enforcement. In the US, the remit of the Office of Foreign Assets Control extends to sanctions implementation and enforcement of the trade in services. This is things like auditing services, legal services, accountancy services and IT services. Within the US system, that is all done by OFAC.

OFSI does not have responsibility for those, so we were getting a lot of businesses saying to us, "How do we implement these new sanctions?", which are quite novel sanctions on the trade in services. That is where OTSI, the Office of Trade Sanctions Implementation, has come in and helped to fill that gap in the system. My impression, although they will be the best people to speak to about that, is that that has met quite a valuable need and demand from business and industry. We hope to be able to work increasingly closely with it to co-ordinate what we are doing, because financial sanctions and trade sanctions are often very linked.

Beth Davies: We have worked really closely with the Department for Business and Trade, which was establishing what we call OTSI. It was looking at the OFSI model in terms of how the organisation was first set up. It was looking at our powers and tools and borrowing from them in its establishment and the way that it has been set up. Now we work really closely with it. We recognise that we have some shared stakeholders, so I and my team do quite a lot of joint engagement. We look to work with stakeholders and make sure that we are giving both pieces of the puzzle for stakeholders, so that they understand what we are looking for and we are sharing guidance and working really closely with them. The reception, as Giles had said, has been really positive so far. It has only recently gone live, but it is exactly that. We have worked really closely to make sure that the messages that we are giving to stakeholders are aligned.

Q34 **Rachel Blake:** In terms of the response from companies that need to work with both yourselves and the Office of Trade Sanctions Implementation, has there been a response from them about having to



work with at least two different entities?

Beth Davies: Generally speaking, while there are shared stakeholders, it is looking for different things from us. We have been really clear about where our remits lie and what licences OFSI will issue versus what licences would be available for trade in services through OTSI. Because we have been working so closely and have made so much effort to make it clear who you need to go to, that has been noted. It is certainly not something that has been escalated to me as a concern at this point. We have worked really closely with it on the messages that are coming out.

We had a sanctions implementation group that we first started with businesses when the Russia crisis first established. That brings together representations from business, but also from other Government Departments. We have morphed that into a joint shared engagement forum now, so FCDO, OTSI and OFSI will lead that, with the FCA and stakeholders. That is a way of bringing everyone together.

Q35 **Rachel Blake:** On investigation capacity, is there a shared approach on investigation? Clearly, you are working with a lot of the same companies on one side around licensing, but also presumably interested in a lot of the same individuals around investigation and enforcement. What kind of shared capacity and information-sharing arrangements do you have?

Beth Davies: We have information-sharing arrangements with OTSI but, generally speaking, our investigations are separate. We share information and there are clearly established channels for doing that. The investigation-enforcement processes that OTSI has started are modelled on ours. Its powers and processes look very similar to ours. We have shared the way that we work and the processes that we put in place for our enforcement caseworkers. We share those so that the OTSI model looks very similar.

Q36 **Rachel Blake:** Are there any risks in terms of not being aware of actions of individuals between the two of you?

Beth Davies: That has not been something that we have felt is a risk at the moment. We work really closely. There are a number of forums at my level with my opposite numbers in OTSI, HMRC and others that meet really regularly. There are lots of forums. I genuinely speak to my opposite number in OTSI almost weekly. There is quite a lot of shared information.

Q37 **Rachel Blake:** On the company and licensing side, is there any value in there being one point of contact?

Chris Watts: It is a very similar situation, in that OTSI has modelled its licensing practice on OFSI's. We do not see a huge disadvantage at the moment in having two parallel streams. Giles talked earlier about the ideas around a portal. We are all interested in working on trying to bring as much of that common sanctions service together at the point of delivery, and we have an open mind as to how far that might go.



Q38 John Glen: Can I just turn to the issue of Russia and the implementation of sanctions on Russia? The annual review for 2022-23 says that there have been penalties of £45,000. That does not seem very much, when you think about the intent at a political level and what the public's expectations were. I just wondered how you characterise that. I totally understand, having worked closely with your advice, that there is a lot of advice given for companies to work on the right side of sanctions.

The public's view, I would think, is that this does not seem very significant in terms of penalties. Are we in the right place when it comes to that? Why is that? I recognise that this was in 2022-23, but the problem we are left with is that we have 150 professionals working in the Office of Financial Sanctions Implementation and these are all the fines that are actually generated. Why is that? We have all these civil society organisations saying, "We are the worst in the world. We have all these oligarchs living here with complete impunity". Can you unpack how you see that? It would be really helpful to understand how you see your role against that narrative.

Giles Thomson: I will start, if that is okay. The previous Committee heard a lot of evidence about overall impact and effectiveness of Russia sanctions. From our perspective, they are working and having a significant impact. In terms of more directly what we do on the enforcement front, I have a couple of points before directly going on to what we have done and what we hope to do in the future.

First, as Chris mentioned a few minutes ago, the totality of what we are doing on enforcement is not the penalties. As well as all the actions to help people comply, there is a lot that we do. We do not always think the best or the most likely way to achieve success is to pursue a monetary penalty case. We can use the information we have to feed into a designation, for instance, or potentially pass it to one of our operational partners to use some of their tools—

Q39 John Glen: Behaviours shift, even if fines are not levied. That is what you are saying.

Giles Thomson: Yes, exactly. If you end up designating an additional target, that can prevent assets fleeing the UK or protect them from accessing the UK financial system. We can also pass stuff on. The National Crime Agency has criminal prosecutions, but it has a number of other disruptive tools that it can use. We can pass information through the new information-sharing public/private cell we have with the major banks. We can pass information to them that will help them fine-tune their compliance systems to detect and prevent bad actors accessing the system.

In terms of what we have done on the enforcement side, in relation to the sanctions imposed post invasion, we issued a public disclosure in relation to Wise a year or so ago. Then we issued a monetary penalty on a company called ICSL, Integral Concierge Services Ltd, for a relatively



small amount. With that one, one of the reasons that was prioritised was that it came from what we call a proactive source. One of the criticisms the previous Committee heard is that OFSI spends its entire time going after the people who voluntarily disclose, rather than the real bad actors.

This case was actually one where they did not disclose to us. We identified it through our own information sources, went out to them, got information from them and pursued a penalty. It was a small amount, but we felt an important signal that we are now developing the capability within OFSI to target those people who are not voluntarily reporting to us, where you are more likely to have the real bad actors in the system.

If you look at both our international and domestic comparators—the Financial Conduct Authority, the Office of Foreign Assets Control and other comparators—the length of time from a case being recorded for a penalty and enforcement action to an actual public outcome is two and a half to three years on average. Our average within OFSI at the moment, from a case being recorded to the monetary penalties we have issued, is around 27 months. If you look at the timeframe since the sanctions came into place, it is always going to take a few weeks or months subsequent to that to have the case reported to you or uncover it and then investigate.

You should expect to see further numbers of cases of both wider range and higher value in the coming months. We hope to be able to demonstrate the increasing breadth and depth of what we are doing on that.

Q40 John Glen: That trajectory seems a large amount of time. The public want to see things happen. As a Minister, one was always facing that tension. Is there anything that could be done or any powers that you do not have that you think would help you, to speed that process up and get to fines on more individuals more quickly? Through what you observe, is there any way in which your hands are tied?

Giles Thomson: A lot of this is the time it takes to build the case, as well as the due process that is factored into it. We discussed the ministerial review element of due process earlier. Since the Russian invasion, the Economic Crime and Corporate Transparency Act gave us strict liability as a basis for sanctions breaches, which is certainly helpful.

We are looking at whether there is more we can do to speed these things up. We noted with interest the Financial Conduct Authority's recent fines on Starling Bank. It said very clearly in the press release it had been 14 months since the start of its efforts. We are looking very closely at that and what we can learn from that.

We are also looking very closely at models that HMRC has here, as well as in other countries, for settlement approaches, whereby you could potentially move to a world where there is more negotiation with the company to try to reach an upfront settlement that might short-circuit



the process. We are very interested in looking at that and whether our current level of penalties is sufficiently dissuasive and a full toolkit. That work is underway, based on our experience of the caseload we have had to date.

Q41 John Glen: You think there could be more.

Giles Thomson: I am sure there could be more improvements that we could make.

Q42 Chris Coghlan: On the fines and penalties point, have you looked at comparators—the US, for example, or EU countries—in terms of the level of fines they are doing versus what you are doing? Are you broadly in line, or is that even a valid comparison?

Giles Thomson: It is difficult to make comparisons, because sanctions implementation and enforcement to date, pre-Russia, has been a relatively niche field, to be frank. In the US, not just the Office of Foreign Assets Control but the US regulatory system as a whole plays a slightly different game in terms of size and level of fines, as you know.

Our monetary penalty powers are, from my experience, broadly comparable to what I hear from other G7 and EU countries. I have not seen particularly higher, larger or indeed many fines on the civil side from other countries.

Q43 Yuan Yang: John referred to this perception of a lack of action. There is a lot of action that goes on within the Office that the average viewer of this session might not know about. Mr Thomson, I was wondering if you could describe how you make the decision whether to publicise breaches when they occur.

Giles Thomson: When we are deciding what action to take, we will look at the range that we have. To give the broad categories, we might decide that we have been given notice of a potential breach but, when we have looked at the facts, there is not a breach, so we would close that case. We might send a formal warning letter to a company. That would be a private warning letter. In our published guidance, we talk about cases with moderate severity, lower severity and then the most serious cases.

If a case is lower severity, we would traditionally write a private warning letter to the company, engage with it and seek to improve its compliance processes, because we feel that public action would be disproportionate, both in terms of the impact on the company and in terms of there being huge, significant, wider learning and impact we can have on other companies.

Where a case moves into the moderate severity, under our new framework we would consider it for public disclosure. There, we are particularly looking at cases where there are some significant risks or factors in it. The behaviour could be quite negligent or quite ignorant of obligations. There could have been major failings in a compliance system



or failure to evaluate. We may feel it is sufficient and that a public disclosure is proportionate in relation to the company concerned, and that this can bring real value to the function we perform in terms of the lessons the industry as a whole will take from that.

People read the penalty notices most closely. They are the biggest reputational hit on the companies involved. Those would be what we classify as the serious cases, where we feel that the failings and the breach were the most aggravating circumstances.

- Q44 **Yuan Yang:** What are the annual numbers for moderate or severe breaches that you do investigate? What about the breaches that do not get to that investigation level?

Giles Thomson: Our caseload at the moment is approximately 400-odd cases that are currently open, under consideration. In our last annual review, we noted that we had issued 17 warning letters. We have not published the annual review for this year, but that figure is going to be broadly similar when that annual review comes out. The vast majority of cases will result in no further action. A smaller subset will result in private engagement with the firm concerned and a warning letter.

It is single-figure percentages that will result in either a disclosure or a monetary penalty. From what I have seen, that ratio is broadly comparable with foreign and domestic counterparts in terms of their caseload. You want to have a deterrent for the toughest actions, but it is going to be the minority of your cases.

- Q45 **Yuan Yang:** The majority of cases you are investigating do not then go on to enforcement. Does that come from cases being reported that are not severe enough or an over-reporting, if you like? What do you think would be ways to reduce that ratio, if possible?

Giles Thomson: First, although the bulk of our cases do not result in the one of the more stringent outcomes, the bulk of our resource within OFSI is focused on those higher-priority cases that are most likely to lead to a warning letter, a disclosure or a monetary penalty. We try to close cases as quickly and efficiently as possible, to allocate resource to the highest risks.

To some extent, we have encouraged self-disclosure, and we offer a discount against any fines we impose for voluntary self-disclosure, because we want to know. We want to see things. We try to reassure business that we are not going to go out and hit people unnecessarily hard for moderate failings. This really helps us build an intelligence picture of what is happening, where the vulnerabilities are, where the threats are, where compliance is strong and where compliance is weak.

We are at the point where more disclosure is good. It means that companies are aware of their obligations. We do not want to see completely spurious disclosures. We prefer companies to err on the side of caution, but if something is clearly not a breach then it should be



immediately obvious. That is not a good use of their time and it is not a good use of our time. Like other agencies, we tend to err on the side of saying, "If in doubt, disclose", because it is important that we have awareness. The company will be risk-averse, which, in the current climate, we would recognise as sensible.

- Q46 **Yuan Yang:** Would you say, then, that, for the majority of cases that do not go to further action, that is because of self-reporting or because you have arrived at a case that is not severe or important enough to warrant that, or is it because of a lack of tools to implement the further action?

Giles Thomson: Beth may want to add to this. In the majority of cases that are closed or no further action is taken, it is because there is either no identifiable breach or, if there is a breach, it seems so marginal or questionable and is of such low value that it is not worth the investigative time to pursue it. We have finite resource and more substantial cases we could be taking on.

- Q47 **Yuan Yang:** To get a sense of that term, what would count as low value?

Giles Thomson: It is difficult to put a figure on that, because it would depend on the regime. As Beth said earlier, we will look at a number of different factors.

Beth Davies: We look at the severity and we look at the value of the breach in question. We also look at the conduct around that. Those are the key things that we will be determining. As Giles was saying, we have invested in our analytical capability. Getting the amount of information that we do is really useful for us to identify whether there are patterns of behaviour. We are looking at the public interest that can be served and what compliance messages we can use.

When we do make a disclosure or a monetary penalty, there is public information we are putting out. We can also then track some patterns that we are seeing. Maybe the value is particularly low, but we want to use that in terms of our messaging in the industry engagement that we do. We also try to use the information for that purpose.

As Giles said, it is very much looking at where our resource is best targeted. If a company is reporting on something that is relatively low level, we will take into account under conduct that they have made that disclosure to us and we have seen what mitigation they have subsequently put in place as a result, and think about what action would be best served. As I said before, we are really focused on a proportionate approach to our enforcement and working with industry to support compliance. We have that in mind the whole time.

- Q48 **Yuan Yang:** I have one last question on data reporting. Mr Thomson, earlier this morning you said that there was no publication of the number of cases referred to crime enforcement, because the NCA was not willing for you to make that publication. I was wondering if you could go a bit more into what they see as the risks of publication, even if it is an



aggregate, annual figure.

Chris Watts: Traditionally, we and the NCA have been a bit worried about publishing details around our enforcement regimes on the criminal and the civil side that might, essentially, give an advantage to those who want to game the system. The concern would be that, if you indicated the number of cases you were looking at, or the number of personnel that you had working on your enforcement, that would essentially allow people to hedge their bets and maybe decide not to report a breach that they should be reporting.

Q49 **Yuan Yang:** Is the concern that, if the number is small, people might then think, “I can get away with this”, and therefore not report it?

Chris Watts: Yes. If we indicated what was considered a small number of people deployed or a small number of cases being considered at any one time, it is exactly that. They might decide it is worth sitting on that case, rather than reporting it as they should.

Q50 **Yuan Yang:** To clarify, is the NCA’s concern, in your understanding, that, if they were to report the number of annual cases passed to law enforcement, the number would be too small to serve as a deterrent?

Chris Watts: No. It is simply that they do not want to set a precedent of being transparent on that matter to the advantage of the adversary, if I can put it that way. We would feel exactly the same about our data.

Q51 **Yuan Yang:** I was wondering if different standards applied to that level of transparency in different cases. For example, the NCA does report the number of suspicious activity reports it receives relating to sanctions. You might consider that that might be seen as too big or too small. It is very difficult to understand how to judge this, it seems.

Giles Thomson: We cannot talk for the National Crime Agency. With that, there is a difference between what they are receiving in and what they are doing with that. From a OFSI perspective, I would worry, as Chris says, about getting into saying how many people you have doing the function. Then the next question is, “How many people do you have looking after the Russia regime, the Iranian regime, the North Korean regime?” Then people are like, “That is a regime that is relatively under-resourced and that might be one where we do not need to be so worried”.

It is a trade-off between the value of that information being openly available, transparent and public, versus the risks with it. For us, the trade-off between the potential risks and the benefit of that specific information being out there—as it relates to OFSI data; we cannot speak for National Crime Agency data—does not justify getting into the specific details of numbers of people we have doing what functions or any more specifics than we publish through the annual review process at the moment.



Q52 Chair: You are right that some of this is with the NCA, rather than with you. Probably more information could be revealed without it damaging their inquiries, but we will perhaps pursue that elsewhere.

I just wanted to go back to the points being raised about this £45,000 worth of fines that you put in your 2022-23 review. Since then, you have talked about the extra £15,000 of fines but, given the severity of the sanctions on Russia and the way they happened, would you have expected, when all this started, that you would have issued more fines?

Giles Thomson: It is difficult. The sanctions have evolved and, at the start, we never knew quite how extensive they were going to be. The judgment probably needs to be done in a few months or a year or so down the track, given the length of time to the enforcement cases. I will certainly be very disappointed if we come back before you or another Committee in a year's time and we only have this £15,000 fine, because we would hope more of the caseload would have emerged and become public by then.

It is difficult to put a quantity or a value on a lot of the other action that we have done, be it in the prevention and compliance space or be it in the disruption space that we have talked about as well. Again, we cannot consider it entirely in isolation. The figure at the moment is lower than we would want, and we hope to have more cases come out that will present a more rounded, fuller picture of our enforcement action.

Q53 Lola McEvoy: We are getting to the point where we understand that you would not say that the whole value of your organisation is based on this small number of fines. What other metrics of success do you use that you can share with us to demonstrate the value of the work that you are doing and the impact that your work with 150 people, some based in my lovely town of Darlington, is having on what is a vital strategy for both the previous Government and ours?

Giles Thomson: Of those 150 people we have in OFSI, we have over 30 now, including Beth, in Darlington. It is a really thriving community up there.

There are different sets of metrics I would look at. It is notoriously difficult to measure compliance effectively. I have yet to see the Financial Conduct Authority or anyone else in this space come up with really good metrics about how you measure compliance. Evidence that you would take from banks, from lawyers or from accountants about what they see day to day from OFSI, in terms of the support, guidance and engagement activities we do to help them comply, might be one example.

It is a qualitative measure, not a quantitative measure, but I would hope that that illustrates the work we are doing to improve compliance, which detects, prevents and helps stop bad actors getting into the system and breaching sanctions in the first place. We can give you more outputs in terms of the different products that we have done. The industry were very keen on frequently asked questions. We have now done that and



have got a really good reaction. We have produced guidance for many more sectors and there are all the different fora. We can talk a lot about all the products and the help that we give.

In terms of where that leads, a measure of that is going to be that you will see less need for enforcement action down the line. We are not there yet. It is difficult to point to specifics, but we can talk about, as we said, the disruptions that we can do through feeding into designations that prevent someone getting access to money. We can talk about the licensing framework that we have, which makes sure that we are only letting people access frozen money in tightly prescribed circumstances, for the right reasons and for the right causes, and that, where people are not using our licences in accordance with what they are set out for, we are able to take action on that. We can also point to that.

We have given you some figures and we published some figures for both the assets frozen in the UK, which is a demonstration of how many assets there are in the UK and how effectively they are being frozen by banks and others, as well as not just the civil monetary penalty cases but the other work we do with warning letters and so on. It is a range of factors, a lot more qualitative than quantitative, but we are certainly trying to do our best. If there are areas where you or others feel more transparency or different things would be helpful, we are very keen to take those on board for the future.

Chair: That is very helpful and we will certainly consider that.

Q54 **Dr Sandher:** Thank you for coming before the Committee. I spoke to an academic friend of mine a few days ago who was very glowing about your work. It is not easy to please academics, so well done on that front.

I want to talk about the oil price cap. I think this goes to you, Mr Watts. Can you say what the role of OFSI is in enforcing that price cap and also how well you think it is going at the moment?

Beth Davies: The enforcement team actually reports to me. As with all of our enforcement, we are taking a proactive approach. We are really looking to support industry with its compliance with the cap, and that is particularly where our focus is at the moment. We are also looking to disrupt the circumvention and evasion of the cap. Those are our priorities with enforcement at the moment.

Q55 **Dr Sandher:** I have seen these estimates of the revenue that Russia is getting from oil. It has been rising ever since 2023. Almost no oil at the moment is being sold at \$60 a barrel. Urals is trading at \$67 a barrel. How do you think Russia is avoiding the price cap at the moment? What is your determination of that?

Giles Thomson: I read with a lot of interest the previous evidence that the Committee had heard on this from academics and people in the oil and energy industry. There are a couple of points I would make. One is that the oil price cap was put in place with two objectives. One was to



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reduce the revenue available to Russia from selling oil, but also it was to ensure that we did not overly impact the global oil markets and have a disproportionate effect on energy prices.

It still is a very difficult time for UK consumers in terms of energy prices, but that was a really difficult period. Also, there were a lot of countries in the world who rely on energy and are very susceptible to energy prices. We had to try to balance those two factors.

We have not been entirely successful, but we were never going to be, particularly given the balancing of those two factors. We have seen an over 30% reduction in Russian tax revenue from oil sales since the introduction of the cap. That is a significant chunk of money that Russia cannot use to fund its military operation. We have seen what is called the discount between the Urals price for oil and the Brent price for oil, with Urals being basically the stuff that Russia produces, grow from an historic average of \$1 or \$2 a barrel to between \$15 and \$30 a barrel.

Q56 Chair: Just to be clear, as perhaps not everyone is following, Brent is the Brent crude price, the standard market price.

Giles Thomson: Yes, exactly. It shows how much less Russia is getting for its oil versus the market price. We definitely have had some impact and a noticeable, sizeable impact.

In terms of how Russia is then trying to circumvent that, it has imposed a lot of costs on them. We estimate they have spent over \$10 billion creating what is called the shadow fleet or the dark fleet, which are oil tankers that have been bought, repurposed and used to transport Russian oil, because western providers will no longer provide insurance for other tankers to provide that. They have had to step in and provide their own insurance. That has imposed a significant cost on them.

You might have seen yesterday the Foreign Office announced a major package of further designations against these shadow fleet tankers. We have gone after those tankers, the shadow fleet, by designating them. Where we have designated them, there are really good examples of those ships being put out of action, idling in ports or at sea, because they can no longer carry out their business.

We have actually instigated an insurance reporting mechanism that was in the press release yesterday, which is a Department for Transport measure, whereby any tanker going through the English Channel can be challenged by coastguard authorities and asked to provide details of their insurance. One of these did not respond to our request and we designated them yesterday. This is all part of the Prime Minister's call for action on the shadow fleet, which was announced at the European Political Community a few months ago. There is a lot of action going on.

My final point, if you will forgive me for rambling on, is particularly on what we do in OFSI. The point I would make is that where we tend to



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feature in the chain of the UK links for a lot of the people avoiding or circumventing sanctions and so on is through our large section of the global insurance market. This tends to be insurance or, to some extent, financing. These will be the people who have the least visibility on the detail of the transaction going on.

Generally, our impression is they are making incredible efforts to comply with that. There has been a large element of derisking from the market. The UK nexus has reduced quite considerably and our locus tends to be on those actors who are genuinely trying to comply. A lot of our Government focus now is on the shadow fleet and the people who do not want to comply.

Q57 Dr Sandher: I have one follow-up on that. I want to talk about the insurance side of it, because one way that Russia avoids the oil price cap is by basically overpricing ancillary services. Ports then do not have an incentive to check around the world, because they just go, "Yes, that costs X", and that pads out the oil price.

There is one proposal here to say that British insurance—more accurately, the City of London—could end up telling ports, "If you do not check this properly, if you do not check the attestation documents, we will not actually provide insurance to you". Half of insurance is writ through the City of London and 15% of reinsurance. Would you be willing to look at that as another way to help enforce the oil price cap?

Beth Davies: We have looked to get more granular information. At the moment, under the attestation model's requirements, you can already request itemised ancillary costs and per voyage attestations. That was already a measure that we put in place. We have already added that and tightened the attestation model to make those requirements. Somebody at that level can make that request and ask for that breakdown.

Q58 Dr Sandher: That would be a foreign port taking the attestation. They can ask for the itemised list, but they are giving it back to you in one sense. I suppose the problem is that the attestation document will, say, have a breakdown of costs, but would the breakdown of costs be correct? Ports elsewhere around the world would have no incentive to do so.

The question here is whether we can have British insurers say, "If we are not satisfied that you are providing the proper attestation, then we will ourselves deny you insurance". It is about market access on our side to help enforcement around the world.

Giles Thomson: We would certainly be very happy to take that away and have a look. It is an area where we want to engage with the insurance industry here in the UK about how feasible an ask that would be of them.

Chair: Thank you very much. I know Dr Sandher has other business in the House. He is not leaving for any other reason than being a proper parliamentarian. Thank you very much, Dr Sandher.



Q59 Dame Harriett Baldwin: Picking up on the point that we were just discussing with the shadow fleet, our predecessor Committee wrote to the Treasury Minister responsible for sanctions in May to say that we had had evidence that more should be done to tackle the shadow fleet of oil tankers. I wondered why it has taken six months. Can you talk us through what goes on behind the scenes before an announcement like the one we had yesterday? I hope I can speak for the Committee when I say that we welcomed that announcement.

Giles Thomson: I can do my best. I should say that the Foreign Office are the people you would really need to speak to, because these were designations developed and made by the Foreign Office. Our role very much comes in explaining what is going on to industry and trying to enforce the OPC as it is.

Q60 Dame Harriett Baldwin: Would you not be doing anything behind the scenes during this six-month period, then?

Giles Thomson: First, with the six-month period, there has been quite a lot that has gone on more broadly. I would not characterise it as just the announcement yesterday. In October, there were a further bunch of ship specifications. In July, I referred to the European Political Community, where there was the announcement of this call for action against the shadow fleet that the UK spearheaded. It now has 40 or 50 countries signed up and explores a range of mechanisms to try to put pressure on the shadow fleet.

This is where this idea I mentioned of the insurance reporting mechanism that the Department for Transport are now doing fits in. It is about the environmental risk from the shadow fleet. They are poorly insured and poorly maintained. Can we do more to be challenging them when they are passing through UK, Danish, European or whatever country's territorial waters?

I think last week we published an advisory on the oil price cap, particularly drawing people's attention to what we sometimes see happening related to certificates of origin. These certificates are produced generally by an accredited chamber of commerce in a country, which says, "This oil is from Russia", or, "It is from somewhere else". We have set out a lot of what we have seen, in terms of falsification or obfuscation of these certificates of origin, where people are trying to hide oil or show it is not Russian.

We set out a template for how companies and firms might identify that. That is very much what we have been doing and our role. We did another one pre-May this year. In February, we did another one alongside the G7-plus. My team is talking to our G7 counterparts weekly about where we go next as a community on this. We have had countless meetings internally with the Foreign Office, with the Department for Transport and others, trying to look holistically at the different tools we have.



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Q61 Dame Harriett Baldwin: There is a process under way, then, where you are always urgently looking for ways to close down some of these ways in which sanctions are circumvented. It feels as though you and other parts of the Government are potentially only discovering these things quite slowly and closing down those. Meanwhile, the world learns new ways to circumvent the sanctions. It sounds as though you are doing proactive work in trying to identify where the next lot of loopholes might arise.

Giles Thomson: That is definitely the case. The oil price cap is an incredibly novel measure. To some extent, everyone is in new territory and we cannot anticipate everything. The clear political priorities that the current and previous Administration set for us with the sanctions regime were to drive down Russian revenue and to tackle circumvention and evasion, particularly where it relates to export controls and preventing key equipment getting to the battlefield.

Those are very much the overwhelming cross-Government priorities. The oil price cap and oil revenues very much fit into that. In terms of what officials are spending the majority of their time within Government on, it is very much revenues, oil price cap and other energy measures, alongside the circumvention and evasion piece. This is definitely a top priority.

Q62 Dame Harriett Baldwin: I do not even like to think how many people, how many Ukrainians, will have been killed during the six-month period between when we wrote that letter and the announcement yesterday. I just wondered whether you would feel that there is sufficient urgency in terms of implementing sanctions in your office, but also across Government.

Giles Thomson: It certainly feels urgent and a priority. The impact and the value of what we do has been brought home to us through what we have seen and heard. That sense of urgency is definitely there. We are moving and acting as quickly as we can, but some things take time. It is a constant battle.

Q63 Chris Coghlan: Mr Thomson, the point you were making around the discount between the international Brent crude oil price and the Russia Urals crude oil price was very interesting. Is that real? How much is going on in the black market? Do we know whether that discount is real, in terms of what Russia is receiving?

Giles Thomson: I would have to defer to others within Government and provide you more detail on that. Our sense is that that discount is having a noticeable impact in terms of the actual revenues Russia is able to extract from that oil. I would have to revert with more evidence on quite how that is manifesting itself out.

Q64 Chris Coghlan: I ask because I thought it was particularly interesting. One of my concerns around sanctions is that they feel good and they make us look like we are doing something, but is there evidence that they are actually having a policy impact on the recipient, in line with UK



policy objectives? That maybe in itself is a good example of where potentially it is. Have you done analysis of any other instances you can think of, where our sanctions have had a policy impact in line with our diplomatic objectives?

Giles Thomson: Trying to better evidence the impact and the effectiveness of what we do is a growing field, both within academia and within Government. It would better help us target our efforts, but would also demonstrate the value of what we do, as you say. We would be very happy to provide more information and evidence on that, along with the Foreign Office.

Just to give you one other example where we have done some work, I will take the other side of those two priorities I mentioned around reducing Russian revenue and tackling circumvention of export controls. We have done various bits of analysis that show that the cost of components for the Russian military war machine have gone up over 100% as a direct result of the export controls we have put in place.

We could share some more precise figures around specific microchips and other components that are key to battlefield equipment, which have gone up over 300% or have had very large increases. We have not been able to stop these getting to the Russian military industrial complex completely, but we have imposed significant additional costs on doing so and made it much more expensive.

I will chuck in another one: the immobilisation of the Central Bank of Russia reserves. That was over \$300 billion immobilised overnight; that is \$300 billion of Russian revenue that Putin cannot access to spend on the military or to manage foreign exchange risks; the rouble is depreciating rapidly. That is a really tangible direct result as well.

Q65 Chris Coghlan: It would be great to share that analysis. That is really good to hear in terms of the impact of our sanctions. The former Treasury Committee heard evidence that the US is apparently doing a better job in going after the enablers of sanctions, such as lawyers and accountants, than the UK. Would you agree with that assessment?

Giles Thomson: I would not characterise it as such. That is a big focus for us as well, if you look at the actions that we have done. For instance, there is the case we have announced recently on ICSL. Quite how you define an enabler is a bit subjective, but that is a property management firm managing a designated person's property, enabling them to extract rent from it and so on, which they should not have been. I would characterise that and other cases as falling into the enablers bracket. We have also designated, through the Foreign Office, quite a large number of people involved in enabling activity, be it in the UK or in third-country jurisdictions. That is very much a shared priority and a shared objective.

Going back to what I said earlier, typically, where it comes to taking direct action against a designated person, that is, by and large, going to



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be in the criminal sphere. The National Crime Agency has charged one designated person with sanctions evasion. We are more often than not going to be targeting those bits of the UK system that are either knowingly or through negligence enabling sanctions evasion or breaches to occur.

Q66 Chris Coghlan: Bill Browder, the head of the Global Magnitsky Justice Campaign, suggested, again to the former Committee, that sanctions should require enablers—accountants, lawyers and trustees who work for sanctioned individuals—to come forward in line with existing anti-money laundering legislation. Is that a realistic proposal? I presume that is already covered by existing anti-money laundering legislation.

Giles Thomson: Yes. They would very much be required to report suspicious activity.

Q67 Chris Coghlan: Are you seeing that?

Giles Thomson: Yes. The National Crime Agency would have to speak to what it sees from suspicious activity reports, but we are certainly aware of SARs, as they are called, being made in relation to sanctions evasion. They are passed on to us through the National Crime Agency and coming from the accountancy and legal sector.

Chris Watts: Those people would also need a licence from us in order to provide paid services to those individuals.

Q68 Chris Coghlan: Sorry, do you mean an accountant?

Chris Watts: For any financial transaction, any economic benefit provided, they would need a licence from us.

Q69 Chris Coghlan: Once an individual is sanctioned, a lawyer or accountant can only provide professional services to them if they have a licence. I have got you; that makes sense. Similarly, we have heard that, according to Transparency International, limited partnerships are the tool of choice for Russian money launderers. There are also concerns around overseas trusts owning properties in the UK. Have you found that these legal entities have enabled sanctions evasion? What steps are you taking about that?

Giles Thomson: I would defer to the Department for Business and Trade overall on transparency around limited partnerships, because that is its area. From what we have seen, corporate transparency or lack thereof is undoubtedly a major feature in the work we do on sanctions evasion. It is a common typology that we have published advisories on. It relates to complex corporate ownership chains, using secrecy jurisdictions. I could not tell you now that we have seen significant evidence of limited partnerships in our casework, but I would need to check on that to be able to give you a definitive answer.

Q70 Lola McEvoy: Moving on to cryptocurrencies and cryptoassets, I have a question for Chris Watts specifically, with his cybersecurity background. I



wondered if you could tell us a little bit more about if you are detecting the use of cryptoassets and how it is affecting your work.

Chris Watts: First things first, the obligations in terms of cryptoassets are no different from any other asset. In terms of providing an economic benefit or dealing with, economically speaking, a designated person, a sanctioned person, there are exactly the same controls in relation to cryptoassets as to any other form of asset.

We have tried to improve our capability in terms of understanding transactions through purchase of proprietary systems to assist our intelligence and enforcement teams with tracking those kind of transactions. We have also worked with international partners to try to better understand the picture, but also to give guidance to industry on what they can do.

Beth, did you want to say anything more on the enforcement front in terms of crypto?

Beth Davies: You have covered the main points there. It is exactly as Chris said. The same obligations apply. The same prohibitions apply and, as Chris says, we have invested heavily in the tools at our disposal at the moment and our analytical capabilities. We have utilised some of that economic deterrence initiative funding towards supporting our capabilities to address that.

Q71 **Lola McEvoy:** You have invested in the tech needed, but what is the impact of that so far? Do you feel like, with these investments, you now have sufficient expertise to be able to try to assess some of the issues facing us with crypto? Are you still at the early stages after that investment?

Chris Watts: It is certainly true that we are looking at cases involving cryptoassets in our intelligence team, with a view to developing those for the enforcement team.

Q72 **Lola McEvoy:** Would you say that you are detecting greater evasion of sanctions through the usage of cryptoassets? Is it just the same as it always has been? What is your analysis of it?

Chris Watts: I could not say that, but we are certainly aware of reporting and of intelligence that suggests there may be a shift to the use of cryptoassets in order to try to evade sanctions.

Chair: In summary, it is a moving situation that you are watching. Thank you.

Q73 **Yuan Yang:** I would like to transport us to the overseas territories and Crown dependencies, figuratively speaking. I note the Joint Ministerial Council communique from a few days ago, which describes addressing the sanctions vulnerabilities across the overseas territories and improving sanctions co-operation between the UK and the overseas territories. I



was wondering, first, how you see your office's role in improving that cooperation. Secondly, what are the major vulnerabilities that you think need to be addressed?

Giles Thomson: I can speak to our work with the overseas territories in relation to sanctions implementation and enforcement, where we do a lot. The first thing I would say is that they, by and large, operate their own financial sanctions systems, with Foreign Office oversight to varying degrees, depending on the overseas territory. We do not have any responsibility or locus, if you like, with the overseas territories.

That said, because they are part of the UK family and because of the economic and financial links between us, we do spend a lot of time sharing experience and sharing expertise. We had a team recently out in one of the overseas territories helping do that. We have spent a lot of time with different overseas territories, trying to help them expand their sanctions enforcement and implementation capabilities.

We host an annual forum, where we get all the overseas territories' sanctions experts together with us and other bits of the UK Government and system to exchange information and share best practice. We do a lot of work in that area. We provide what advice we can, but they are autonomous and responsible for their own systems.

The obvious point I would make on your second question around impressions of overall effectiveness is that they are a very different set of territories. Some are incredibly small, where the threat and the risk is very low. Some are larger and some have business models where there is a much higher risk. It very much depends where you are talking about. There are very different risks and very different levels of sophistication in response to that.

Q74 **Yuan Yang:** Mr Thomson, what do you see as the highest-risk areas or regions, particularly in terms of circumventing UK sanctions?

Giles Thomson: Wherever you have a very big financial sector, you are going to have risks. The UK has substantial risk, because we are a global financial centre. If you look at the facts and figures, the Cayman Islands and British Virgin Islands, along with Bermuda on the insurance side, have sizeable, significant financial sectors, be it company registration in the British Virgin Islands or hedge funds and other industries in Cayman. Amongst the overseas territories, those are the ones that would leap out at you from the figures.

I am not going to be able to give you an assessment of the effectiveness of their controls, but they are all evaluated independently by the regional parts of the Financial Action Task Force, which has done recent assessments of the Cayman Islands, British Virgin Islands and Bermuda.

Q75 **Yuan Yang:** Ms Davies, I was wondering if you had anything to add on the challenges this might pose for enforcement.



Beth Davies: We are not responsible for the enforcement within that. We have been supporting, as Giles was saying, teams in each of the OTs with improving their own capabilities and capacity. We have information-sharing arrangements. Where there is a case that might touch on them, we have ways of sharing information through appropriate channels.

Q76 **Yuan Yang:** I am aware that there has been a timeline for the implementation of public registers of beneficial ownership in those territories. That was meant to be the end of last year. Does this lack of implementation pose any risk in terms of enforcement of the UK's sanctions?

Giles Thomson: On the overall question of the implementation of those registers, you would have to speak to Stephen Doughty or one of the Foreign Office Ministers. Where we would need information on beneficial ownership from the overseas territories, we would be able to request it through the National Crime Agency, which has access to those registers. It is on record as saying that its experience when asking for that information from overseas territories is generally good. Rapid information of good quality is provided. I would have to come back to you in terms of any specific instances where we have requested or got that, but I know that is the overall experience.

Q77 **Yuan Yang:** The information is definitely there. It is just not public.

Giles Thomson: Yes. The debate is around to what extent it should be publicly available, but it is available to British law enforcement.

Q78 **John Glen:** Could I just ask about the alignment with the EU and the US? How do you feel about that? Sanctions regimes are enhanced when they are aligned, but different jurisdictions will occasionally have a different take on it. Could you describe how your work is impeded or affected by misalignment and what you or what Governments have done to try to remove some of those disparities?

Giles Thomson: The biggest impact of misalignment would be on the private sector, rather than on us, because they are the ones who have to implement these. That is particularly for a lot of large of UK firms, which operate globally. As you know, they will traditionally want to do US sanctions as well as UK sanctions. There is always a particular problem for them if we are doing something different to the US or the EU.

That can be in different ways. It can be in the designation. If we all designate different people, for a start, that is not going to be as effective as it could be. It gives a loophole for the assets to go to or they get advanced warning that the UK might sanction in the future. We have got a lot better at that over the course of the last two or three years. That alignment is much greater.

It is never perfect, because there are always particular reasons. We have different evidentiary thresholds to meet for designations. There are



different balancing interests that sometimes mean you do not want to proceed with a certain designation. We have got a lot better at that.

From our side, when it comes to implementation and enforcement, the big issues that we hear from the banks are partly around designation but then, moving on, partly around the licences we put in place. I mentioned we have tried to get a lot better at being able to put in place the relevant licences alongside a designation.

A good example of this is what we call wind-down licences where, if you do a major financial sector designation, people need to have time to withdraw business and extract their money. We try to align those with OFAC, the Office of Foreign Assets Control. It is 30 days for the US; It is 30 days for the UK. We had instances at the start where we just did 28 days, because that was our standard, and just that missed timing makes it a bit of a nightmare if you are trying to extract yourself from these globally.

Information sharing is the other area. It is not seen so publicly, but we have come a long way in being able to share information with EU and US counterparts on intelligence and enforcement cases. There is still work we can do. I know the previous Committee heard evidence around aggregation and ownership and control, two technical areas that we look at. We are always pushing and challenging ourselves. Industry give us a really good challenge here to go further, better.

Q79 John Glen: There is an imminent change of presidency in the US. There is a lot of speculation over what that would mean, but how do you see the relationship you have with OFAC—your big brother, if you like—evolving? What assessment have you made, Mr Thomson, of how that might evolve under a new President?

Giles Thomson: There is not a lot I can say about what might potentially happen with a new Administration, other than that the relationship with OFAC is a longstanding one. It has improved and it has developed. I worked in a version of this role under the previous Trump Administration and had a very strong relationship with OFAC and with our US counterparts. I fully expect that to continue, with shared aims, ways of working and objectives.

A lot of the improvements we have made to that relationship in recent years we fully expect to continue. Our secondees will stay out there. They are sending a new secondee, who will stay there. Traditionally, you do not see the same turnover of political appointees in OFAC as you do in other areas of the US Administration. I largely expect quite a lot of continuity in that relationship.

Q80 John Glen: I must say that it is reassuring to see you in the same role after I left office two and a half years ago. That takes me back to one of my original questions, which I meant to ask and did not. Can you just say something about the retention of your staff and how long people stay



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there? Do you have enough people in the right specialist roles? Can you ringfence the specialist roles where you need that expertise?

You have taken the lead with some of our work with the Financial Action Task Force, representing us internationally and building up those relationships. It would be helpful for us to understand how your team works, given you have some secondees as well.

Giles Thomson: Yes, absolutely. It is a big priority for me across all my teams, to try to encourage people to stay longer in roles, to develop those relationships and that experience and expertise. Amongst the various jobs I have done in the Civil Service, this is an area where there is a particular premium on that expertise and skill, given the complexity and breadth of what we are doing.

Recruitment and retention is a challenge for us, being honest. Turnover in my bits in OFSI is not higher than elsewhere in the Treasury or Government, but it is generally higher than I would personally like in this area.

Q81 **John Glen:** Do you know what it is, roughly?

Giles Thomson: I do not have a precise figure.

Chair: If it is possible to write to us on that, that would be helpful.

Giles Thomson: I would have to check, yes. The Treasury is being as supportive as they can be, within the overall constraints of public sector pay rules and regulations, on how we can incentivise people to stay, be it through investing in training and qualifications that they can get.

Q82 **Chair:** Can I just ask about seniority? What is your pyramid structure in your team?

Giles Thomson: Beneath me and within—

Q83 **Chair:** I know there is a high turnover of various junior staff.

Giles Thomson: Yes. Sorry, I am with you. Within OFSI, Chris and Beth are deputy directors. That is SCS1 in Civil Service speak.

Chair: Yes. Let us forget that because none of us understands that.

Giles Thomson: They are deputy directors. They have each responsibility for a number of units, which will be led by a grade 6, which is in the upper echelon of what we call delegated grades.

Q84 **Chair:** Can you give us a rough pay scale so we can just get in our heads what scale it is?

Giles Thomson: What is the grade 6 pay scale?

Chris Watts: I think it is £60,000 to £70,000.

Chair: These are fairly senior people.



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Giles Thomson: Yes. They will then manage people. Our lowest grade is what we call an executive officer, where the pay scale will be much lower. It will be low £20,000s to high £20,000s.

I would not say there is a correlation between grade and turnover necessarily. People at more senior grades do tend to stay longer. We have had the benefit of Chris's experience for some time now. I am hoping that Beth will similarly stay a long time.

Chair: That has put you on the spot publicly, Ms Davies.

Giles Thomson: There is undoubtedly this churn and turnover, some of which is a good thing. It is good to have new skills, new blood and new experience. We are very keen and we work with the Treasury to try to retain people by creating professionalisms within Government that reward you for staying longer, offering further jobs that people can see themselves moving on to within the Treasury or going on one of our secondments or to the Foreign Office.

The big challenge for everyone working in the financial crime space is, once people go to the private sector, whether there is a way we can get them back again. If you have any ideas on that, let us know.

Q85 **Chris Coghlan:** Just on the private sector point, as someone who left the private sector for public service, appealing to their vocational instincts helps, in my experience.

I am interested in the unintended consequences of sanctions. In the years after the Russian invasion of Georgia in 2008—to disclose, I was working in investment management at the time and looking at this—the analysis that I was reading from investment banks was that in some ways the sanctions in fact helped Russian domestic industry because it made them more resilient and they had to develop their own internal supply chains because they could not rely on imports so much.

Is that something that you take into account when you are both assessing the impacts of sanctions and thinking about your strategies for where you might put them?

Giles Thomson: Yes, absolutely. It is a really good point. I will give you two answers, if I may. First, in terms of the current Russia sanctions, there was one bit that I particularly liked from the previous evidence that the previous Committee heard. Tom Keatinge made the point that, yes, Russia may have more domestically resilient in some areas and may have quite high growth, but it is not productive. It is producing 20 armoured vehicles that might get blown up next week. That is different to producing 20 valuable high-tech goods. We have had real impact in terms of actually having that economic impact.

We spend a lot of time looking at the sanctions in place on Russia, but, with a mind to the future, we also spend time talking to our US colleagues, for whom this issue is writ large given the scale of the US



dollar in the world economy, about how the use of sanctions might encourage things that make them less effective in the future. That might be through the growth of an alternative financial system, such as an alternative to SWIFT; through other global currencies becoming more familiar; or through the shadow fleet and other insurers. That is a big factor because there is always a risk that these tools are not as effective next time around. That is an incredibly difficult balance to strike.

Q86 Chris Coghlan: More specifically, have you looked at the cost to legitimate businesses from Russian sanctions? How do you ensure that small UK businesses that do not have compliance departments are complying with sanctions or that they do not find the burden too onerous?

Giles Thomson: I will have a go at that, but Chris may want to come in on the licensing side and Beth more on the enforcement side. We very much try to tailor the work we do from a compliance and enforcement perspective to where the biggest risks and therefore the biggest responsibilities lie. We have less expectation of smaller firms. We try to produce guidance and more accessible tools like webinars. These are shorter and more high-level products that a wider range of firms are able to engage in.

We also rely quite a lot on our relationships with other supervisors, such as the anti-money laundering supervisors who will be in more frequent contact with their firms. We work quite a lot with the Solicitors Regulation Authority, for instance, that will engage with smaller law firms and help them. In our enforcement cases, we would not generally be looking at the smallest firms unless there are other significant factors at play.

I will turn to Chris on the licensing side, but balancing the impact on legitimate British business is a major plank of the licensing work, day in, day out.

Chris Watts: In licensing, we are essentially trying to make sure that there are grounds set out in the legislation to allow us to grant a specific licence. We can only do that where the grounds exist. Common grounds might be the basic needs of an individual or company, to pay legal fees or for the holding and maintenance of a physical or corporate asset.

Where those exist, we then have a decision to take about whether to use our discretion to grant the licence. It is the discretion that particularly bears upon the point of the nature of the company or indeed the individual who has been caught up in sanctions. We tend to be able to take that into account in taking that discretionary decision.

To take one example related not to a specific licence but a general licence, a few weeks ago we issued a general licence that was aimed at individuals who had been caught up in making personal remittances, usually sending money from one country to another for their own personal use or for a dependant's use. Because those transactions had



passed through a sanctioned bank, the money had been frozen. We issued a general licence to allow those sums to be released in the knowledge that those were not people or small companies who would have access to massive legal departments to help them through these cases.

Q87 **Lola McEvoy:** Last week we heard from the Governor of the Bank of England. He was questioned about frozen Russian foreign reserves and the \$300 billion figure. His exact words were that we have “very little of it” in the UK. As lots of people have been advocating seizing some of these frozen reserves, I wondered whether you could shed some light on how much of that you think, given your privileged position, there is in the UK and whether it would be achievable to seize it?

Giles Thomson: Of the \$300 billion figure, I am not able to give you a precise figure for what is in the UK. We are talking with G7 partners about potentially collectively publishing that data. Until there has been some agreement between G7 partners on when and how we would do that, we have taken the decision not to release the information that we hold. What I can say is that it is a very small percentage, as the Governor suggested, of that \$300 billion. The vast majority is held in Euroclear in Belgium.

In terms of the second question around the seizure point, the Foreign Office would be able to give you much better evidence on the international legal situation regarding the seizure of sovereign assets. My team—not OFSI, but the policy team for which I have responsibility—has been very actively working on the G7 Extraordinary Revenue Acceleration scheme. As you may be aware, that money that is in Euroclear in Brussels, due to the specific nature of Euroclear and how it is held, has been accruing what is described as a windfall or extraordinary profit.

It is effectively taking that revenue stream and frontloading it so that Ukraine gets money now. The Bill going through the UK Parliament at present will give the Treasury the authority to loan Ukraine \$3 billion, £2.26 billion, over the next three years to spend on military equipment to fight the war and we will get repaid from these extraordinary profits that Euroclear is currently getting. The UK Government will get repaid over a longer time period. The G7 are all doing this collectively. That is very much the focus of the efforts.

We continue to look at all options for asset seizure, but there are a lot of difficulties and challenges. The previous Committee noted that this is something best done multilaterally. We would only want to consider doing that alongside other partners.

Q88 **Chair:** Earlier in your comments, you were talking about how you rely on others like the Solicitors Regulation Authority to help with small firms. Are you confident that those measures are sufficient? Do you do spot checks to make sure that they are making sure that the compliance is in place?



Giles Thomson: OFSI does not do spot checks at the moment. We have a different role, in the respect that we are there to take enforcement action against breaches and to try to prevent breaches occurring. The regulators for the anti-money laundering and counter-terrorist financing sectors have that broader role of looking at systems and controls, which will include sanctions screening and other controls that are very much part of the overall financial crime controls. They will be more likely to be going out and doing proactive spot checks or inspections and so on.

We will talk very closely with them. If we see a breach happen, we can report that to them. It may link with work that they are doing, if they have detected faulty systems and controls or vice versa. At the moment, that is not something that we proactively do.

Q89 **Chair:** Are you missing anything? Are you worried?

Giles Thomson: There would be a real risk of duplication if we started going out and doing that. There is more that we could do to set out our expectations on what appropriate and good due diligence looks like. That is something that we continue to look at.

The Office of Foreign Assets Control in the US publishes principles for effective compliance systems. Industry quite often tells us, "That is really useful. You could do something like that". We have done some of that through our guidance and we look at that, but at the moment there is a risk of there being duplication for not much benefit.

Q90 **Chair:** There are also only 150 of you.

Giles Thomson: Indeed, yes.

Q91 **Chair:** You mentioned that you have not yet published this year's annual review. When are we expecting that?

Giles Thomson: We hope to be able to publish that in the new year. I cannot give you a precise date.

Q92 **Chair:** In Civil Service terms, "new year" is any time up to the summer.

Giles Thomson: You have caught me out. It will not be this side of the Christmas break, but we want to publish it as early as we can in the new year because we are conscious that normally we publish it around this time. It was paused during the election period.

Q93 **Chair:** Yes, we appreciate that. It is our fault. We get that—point made. Will this include up-to-date comparative figures on the seizure of assets and the updated figure on fines that we were discussing earlier?

Giles Thomson: It will certainly include updated enforcement figures. It will also include updated frozen asset figures. It will not include any seizure figures because we are not currently seizing Russian assets.

Q94 **Dame Harriett Baldwin:** Just very quickly, I have one last question. We have focused so much on Russia today. Perhaps this is for Mr Watts. I



imagine you are still implementing the sanctions on Libya, Sudan and Syria. For the Committee's benefit, can you list all the different countries where we are currently sanctioning people or individuals?

Chris Watts: There are 35 different sanctions regimes that we are implementing. Most of those are geographic, but not entirely. Some of them are thematic, like the cyber sanctions regime or the global human rights regime.

Historically, a lot of OFSI's business has been in Libya. We have about £12 billion of Libyan frozen assets in the UK. We now have an amount of Russian frozen assets to rival that. Because of its new nature, Russia has tended to predominate our licensing and enforcement business over the last two years, as you will know, but we still do a lot of licensing of those other 34-odd regimes, certainly, within OFSI.

Q95 **Dame Harriett Baldwin:** The big ones are Libya and Russia.

Giles Thomson: Those are definitely the biggest, yes.

Chair: Thank you very much. We have had a really interesting session today. As Dame Harriett Baldwin said, we covered quite a lot about Russia, but there are obviously other areas. You have tripled in size over the past two years; it has been quite a growth period for you. The challenge now is to make sure you are using that resource as effectively as possible. We have delved into some of that today.

You have told us that we will see more evidence of OFSI enforcement activity in the coming months, and we look forward to that. While it may be too early to judge whether the amount of fines are right, you did tell us that you will be disappointed if the amount of enforcement is not higher than the £15,000 this financial year. We look forward again to seeing more in your annual report.

We are very clear that we are going to pursue the National Crime Agency about a number of cases that it is investigating, which are currently not disclosed. The Committee will take that up elsewhere. The comments and discussions about the designation of Russia's shadow fleet is going to be interesting for us to pursue and watch as well.

I also want to thank, first of all, our predecessor Committee, and Dame Harriett Baldwin in particular for leading that work, for its previous work on this. It is always a difficulty when an election happens and things stop halfway through. We are keen to keep an eye on what is going on with you. We also note that our sister Committee, the Foreign Affairs Select Committee, is questioning the Foreign Secretary tomorrow. Given that the Foreign Office is the lead policy Department in this area, we expect that a number of the points raised today may be raised with him tomorrow. Between our Committees and the Business and Trade Committee, we expect to keep a close eye on what you are doing and what other Departments are doing on sanctions.



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The transcript of this session will be available on the website uncorrected in the next couple of days. Thank you to our colleagues at Hansard for that. Thank you very much indeed to our witnesses, Giles Thompson, Beth Davies and Chris Watts for their time.