

# Home Affairs Committee

Oral evidence: [Proceeds of crime](#), HC 771

Tuesday 3 May 2016

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Written evidence from witnesses:

- [Serious Fraud Office](#)
- [Transparency International UK](#)

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Members present: Keith Vaz (Chair); Victoria Atkins; Mr David Burrowes; Nusrat Ghani; Mr Ranil Jayawardena; Tim Loughton; Stuart C. McDonald; Mr Chuka Umunna; Mr David Winnick

## Questions 89–279

Witness[es]: **Robert Barrington**, Executive Director, Transparency International UK, and **Mark Thompson**, Head of Proceeds of Crime Unit, Serious Fraud Office, gave evidence.

**Q89 Victoria Atkins:** This is a continuation of the Home Affairs Select Committee’s report into money laundering and the proceeds of crime. Before we start, I should declare an interest: I am on the prosecution list for the Serious Fraud Office and for various other prosecuting agencies that have proceeds of crime responsibilities. Does anyone else have any interests they wish to declare? Thank you. I will ask the witnesses then, please, if you could introduce yourselves, Mr Thompson first.

**Mark Thompson:** My name is Mark Thompson. I am the Head of the Proceeds of Crime Division at the Serious Fraud Office.

**Robert Barrington:** I am Robert Barrington. I am the Executive Director of Transparency International in the UK. We are a global anti-corruption organisation with chapters in 100 countries.

**Q90 Victoria Atkins:** Thank you very much. To get us warmed up, Mr Thompson, could you help the Committee with where you think the current legislation works and where it does not work?

**Mark Thompson:** Certainly, Chair. I listened to some of the evidence from the previous hearing, and my view is that the legislation itself is not broken, but there are elements of it that make it very challenging to implement, particularly around the enforcement of orders. If I had one point and plea to you, it would be that the discussion around this whole

subject is completely skewed by talk of the £1.6 billion of so-called debt. I prefer to talk of uncollected orders rather than debt. Almost everybody of your previous witnesses agreed that those uncollected orders are uncollectable and I think if we do not deal with that and deal with that straightforwardly, we will be back—or my successor will be back—before you in two or three years' time talking about a debt of £2 billion or so. I think that is a fundamental thing that skews all discussion of this subject.

**Q91 Victoria Atkins:** How would we clear that up?

**Mark Thompson:** At the moment we have a situation where the debt is reported on the books of the Court Service, HMCTS, but only around £200 million of it is considered collectable by all the agencies involved, including us. I would suggest some mechanism needs to be found to write it off, in effect. Any commercial organisation would not keep debts that it knew it could not collect on its books, their accountants would not let them. That doesn't mean that the criminals would not owe the money, you just would not waste time trying to collect that which is not collectable. I would suggest that is one of the things that needs doing.

**Q92 Victoria Atkins:** That is quite a big decision for the Government to make, to wipe off £1.6 billion worth of criminal proceeds.

**Mark Thompson:** Indeed.

**Q93 Victoria Atkins:** If we were to follow your suggestion, what would happen if—to use a frivolous example—Mr Big wins the EuroMillions and comes into enough money so that he can pay off the debts he has not yet paid? How do you see that working out?

**Mark Thompson:** There would still be a facility to collect the debt from somebody in such a position.

**Victoria Atkins:** Should the funds be discovered, yes.

**Mark Thompson:** Yes, and there are also provisions within the Act to revisit orders after they have been made. For instance, if somebody, for the sake of argument, makes £10 million from fraud and is only ordered to pay £1 million in confiscation because that is all that is left at the time, if they then came into money afterwards, you can go back and revisit the order so that the original benefit from crime could be confiscated.

**Q94 Victoria Atkins:** Mr Barrington, you obviously approach this from a different perspective from law enforcement. Your recent report states that, “Weaknesses in the UK’s anti-money laundering system make it vulnerable to corrupt money flowing into the economy”. Where is this money going?

**Robert Barrington:** To some extent we do not know, because one of the things you immediately find out when you are studying corruption is it is difficult to measure and so on. Lots of people will try to talk down the problem because facts and figures are very hard to come by, but there are some reasonably good estimates. We look across the field at all the estimates that out there and it seems likely that in terms of money laundering going through the UK system every year, it is at least £100 billion, of which a proportion is corrupt money. In terms of where it goes, some of it uses the UK as a destination and some flows through to other destinations.

Clearly one of the things that makes the UK attractive as a centre for money laundering is its historic links with the Overseas Territories and Crown Dependencies, because you can move money very quickly to jurisdictions that are very well-linked and for whom your bank of lawyers and accountants will have very close connections and can easily set up shell companies and so on. So there is a question about how much sticks here and how much flows through, but we do know something about the money that sticks here, and that is from analysis of the Metropolitan Police's database and also a correlation of that with the Land Registry. It is clear that some money goes into UK property, potentially quite a large amount of money.

In London alone, there are 36,000 properties owned by overseas shell companies. Nobody knows who owns those shell companies because of the lack of transparency about them and some of that inevitably will be corrupt money, possibly quite a large amount. But beyond the investment in property, there is investment in legitimate UK businesses as part of money laundering, so there is a sort of gradual infiltration in the UK economy of corrupt money, partly to clean it, partly because it is a safer place to keep it than it is from most of the origin countries. There are also other areas in which it is spent, private education, for example, luxury cars, yachts, art. Of course art in particular, the value is very fungible and it is often easily portable. The UK is a prime destination for this. We are not experts in the Proceeds of Crime Act, we are experts in corruption, and what we see is that the UK is a prime destination and the laws as they exist at the moment are clearly not working, whether that is the law or the enforcement or both.

**Q95 Victoria Atkins:** But isn't that in part because the standard of living in this country is much higher than many parts of the world? We have a thriving private education system that you have just mentioned, a thriving property market. These are features that are going to attract criminals, and in a way we are a victim of our own success in that sense, would you say?

**Robert Barrington:** Yes. Clearly if you are a highly-corrupt public official from a country where the standards of living are low, you are going to want to come to a place like London. We are not the only destination by any means. There are other destinations around the world—France, Paris, Dubai, Hong Kong and so on—where money typically goes. The UK has some particular attributes that makes it attractive. Partly it is a very large market and so it is easier to hide the dirty money among the clean money; partly there are these historic links with the Crown Dependencies and Overseas Territories, which means that the flow-through is very quick and easy; and partly it is a very attractive place to live for the reasons you were identifying.

**Q96 Stuart C. McDonald:** Mr Barrington, you have previously called for a single supervisory body to oversee work in this area. What would be the advantages of that in tackling proceeds of crime?

**Robert Barrington:** The prime advantage is that it is not the system we have at the moment. About 10, 12 years ago was the time the world started to take seriously putting into place mechanisms in all the major jurisdictions for tackling money laundering. That was in part linked to 9/11 and pushed by the authorities to track money much more tightly than it had before. When the system was put into place in the UK, it was unique in that there were 27 different supervisors for the anti-money laundering regime and it was largely contracted out to the private sector. Some of those supervisors are also trade

bodies, so there is a huge conflict of interest between trying to regulate your members at the same time as promoting your members, the accountants and the legal profession, for example, although the legal profession then went a step further and separated off the trade body from the regulatory body; the accountants have not done that. So the system we have at the moment is just shot full of holes, it is very patchy. One of the other big supervisors that has quite a lot of different bodies it is meant to be supervising is HMRC, and as far as we can see, is not doing a very good job of it. For example, they supervise the estate agents, and if you take the thought that a lot of corrupt money goes into London property, there is the question why aren't the estate agents reporting this to anybody?

**Q97 Stuart C. McDonald:** Essentially you are saying there is a pretty fragmented architecture of enforcement here, but in response, the Serious Fraud Office has said your proposal would go against the established policy of embedding financial investigation skills in criminal investigations. What would you think about that response? What would your comments on that be?

**Robert Barrington:** I do not have a thought on that, honestly. I think what we have done is point out that the current system is fragmented, it is not working, it is not fit for purpose. We have proposed an alternative that we think would be fit for purpose and would not be fragmented.

**Q98 Stuart C. McDonald:** Mr Thompson, do you want to expand on why that is a wrong way to go?

**Mark Thompson:** Can I clarify the point I made in the written evidence? The point I am trying to make there is in relation to having an over-arching single entity in law enforcement responsible for confiscation. I was not talking about anti-money laundering regulation, which is the thing that I think you were asking about, which is the fragmented landscape of 28 supervisory bodies looking at accountants and so on. I think there are 14 bodies—I am a chartered accountant, so I should know—that supervise the accountancy profession as a whole. I was not talking about a single body in that area.

**Q99 Stuart C. McDonald:** What would be your view on a single supervisory body?

**Mark Thompson:** I think that is worth looking at. I think the regulatory landscape is fragmented. It would be valuable to the reach of law enforcement if the professions were able to be regulated more robustly. We cannot prosecute every accountant who may have missed a money laundering suspicion but their own professions can take action against them, such as sanctioning them, ultimately debarring them from the profession. I think that is what Mr Barrington was perhaps talking about.

**Stuart C. McDonald:** That is helpful, thank you.

**Q100 Victoria Atkins:** Mr Thompson, just to clarify, you are saying a single supervisory body for regulating money laundering provisions, but you are saying that when it comes to law enforcement in criminal investigations that you would still wish for those law enforcement agencies to have their own powers to seek proceeds of crime at the end of the prosecution?

**Mark Thompson:** To the second part of your question, absolutely. My expertise is obviously in the enforcement side of it rather than the supervisory side. I think a unified

supervisor is worth looking at and my understanding is that the Treasury are doing that at the moment.

**Victoria Atkins:** Very helpful, thank you.

**Q101 Tim Loughton:** Mr Thompson, the Proceeds of Crime Act is now 14 years old. How successful or not has it been over that time and is it any longer fit for purpose?

**Mark Thompson:** I think it has been successful to a degree in the sort of rule of law. What I mean is that the SFO has a niche role in that we prosecute a relatively small number of high-value, high-profile cases. Those cases are significant in that they concern some of the most sophisticated criminals that UK law enforcement deals with and they are, by their nature, difficult. What is important is that those who are convicted in those cases are seen to have as much of their proceeds of that activity confiscated as possible, in the same way that we deal with burglars and other types of criminal. As I mentioned earlier, I think the discussion around this entire topic is skewed by the unenforceable orders. The Public Accounts Committee is obviously concerned with the NAO reports and we have contributed to those discussions.

**Q102 Tim Loughton:** Are you saying that because of the failures to see through some of these cases it is not acting as much of a deterrent, so it has not really disrupted the activities of money launderers that much?

**Mark Thompson:** I think it is difficult, and acknowledged to be difficult, to measure disruption. I am not aware of any robust measures that have yet been put forward to how you measure the disruptive effect of confiscation, other than taking the money off people. All I do know is that anecdotally—and we see it from the way people fight the confiscation process—is that often fraudsters are prepared to serve four or five, six, seven years in prison for the crime, but as soon as my colleagues and I start restraining assets and trying to take houses off them, they fight very hard indeed, which is one of the reasons that enforcement takes a long time and is very difficult.

**Q103 Tim Loughton:** So you have no way really of knowing whether pre the Proceeds of Crime Act your predecessors were effective in disrupting, detecting, preventing half of this sort of crime, but now you are only doing so with a quarter of it, but all you have to show for it is the X billions that you are able to bring in or fail to bring in. Do you think there has been sea change in your abilities and the powers you have in order to disrupt and prevent and then detect and seize and prosecute?

**Mark Thompson:** There was legislation before the Proceeds of Crime Act that enabled confiscation, but perhaps it was not as strong and it was not used as aggressively as it is now. But a lot of the legacy cases, if you like, that dated back to the early years of the Proceeds of Crime Act and before are the ones that make up this unenforceable backlog. If one accepts the estimate of the recoverable amount in the debt is £200 million and we obtained roughly £200 million worth of orders—do not quote me on that, but that is the order on an annual basis—and we recovered roughly £200 million, on a sort of flow basis, then you could argue that law enforcement are not doing that badly right now.

**Q104 Tim Loughton:** Mr Barrington, is there any way of detecting how effective POCA has been on the disruption front? You made the case just now that because of our historic links

with Crown Dependencies and other British Overseas Territories, we are something of a magnet for money coming through the UK or through London in particular. Do you think that the Proceeds of Crime Act or subsequent action has disrupted that magnetic attraction or quite the reverse?

**Robert Barrington:** To answer your question very simply, there is no way of telling to what extent it has had a deterrent effect, but on the other hand, if it is having a deterrent effect, the situation would be absolutely critically awful without it. With it, it is very, very bad. We have tens of millions of corrupt monies sloshing through London every year and much of it is staying here. Just to remind everybody, it is very easy to think of these things in very dry terms: this is some of the world's vilest and most corrupt dictators and their public officials stealing money from health budgets and using it to buy an education, to buy houses, to buy cars here, a mile away from this building.

**Q105 Tim Loughton:** Finally, proportionately, do you think that there is a greater share of dirty money coming through the UK now than there was pre the Proceeds of Crime Act in 2002? That is purely a judgment, because you have no way of measuring it, but you must have a feel for the scale of it.

**Robert Barrington:** Purely as a judgment, I would say yes. That is because partly one of the things one sees in terms of where you get these magnets for corrupt money is that you get a slight snowball effect, that you get a build-up of people seeing it as a favourable destination, people building up expertise in professional services who can service those sort of communities. You get oligarch diasporas, as it were, building up and so on, so you do get a bit of a snowball effect and I would imagine that has been happening.

**Q106 Tim Loughton:** So its deterrent and disruptive effective has been insignificant?

**Robert Barrington:** It is very difficult to know how it would have been without it, but I think we can say that the UK's deterrent and disruptive effect, whether it is POCA or anything else, is just not good enough. It is not deterring and disrupting to the extent it needs to.

**Q107 Victoria Atkins:** Just following on from ways of measuring the success or otherwise of POCA, is it right that pretty much every serious financial crime, certainly those prosecuted by the SFO, but also by the fraud section of the CPS, if there is a financial crime there, there will inevitably be confiscation proceedings?

**Mark Thompson:** Not quite inevitably. There are reasons why you would not proceed with confiscation proceedings, for instance, if somebody was made bankrupt before the case got to the court and it was being dealt with entirely through the civil courts, or there are some cases where people, oddly enough, do not benefit in the sense of the Proceeds of Crime Act. We have a number of cases like that. But roughly speaking, for the SFO in the last three years there were 38 convictions and we proceeded to confiscation in 26 of them, so in most of them we would proceed to confiscation proceedings, unless there was a good reason not to. That is basically our approach and I am sure the CPS would say the same thing.

**Q108 Victoria Atkins:** Just to get a sense of how different the attitude is now than it was say 10 years ago in terms of going after the money, would there be more enforcement orders?

**Mark Thompson:** That is certainly true. Historically—and I joined the Serious Fraud Office in 2004—the kudos was all with getting the conviction, because an SFO case often takes quite a number of years, as you will appreciate. It was the only with the Proceeds of Crime Act that you had the opportunity for early restraint, so by the time you got to the end of a trial, the prosecutors felt they had done their job and confiscation was probably something of an afterthought, generally speaking. That started to change in 2006, 2007 and the proceeds of crime team, as we are now currently constituted, was established in 2009. I now have a team of about 40 dealing with this fulltime, so we would say there has been a major step change in the way we have approached it, but I think for historical reasons, the approach was not the same 10 years ago.

**Q109 Mr Ranil Jayawardena:** May I just pick up on one thing? Mr Thompson, you have already referred to the amount of money that has remained unpaid, but you have also stated that £3 million of that money has been transferred as a gift to associates. Why can't you seize that money if you know about it and what additional powers to you require to go after that specifically?

**Mark Thompson:** The gift provisions are essentially there to stop people giving money to their friends, family and associates and saying, "It is not mine". In effect, the Act treats anything that is deemed to be a gift as, "You still have it". Now, I suppose in the end it depends on the relationship between the criminal and the person who is the recipient of the gift. If they are prepared to hold on to it and see the criminal sent back to prison by not returning the gift, then that is a problem for the criminal.

**Q110 Mr Ranil Jayawardena:** But why can't you seize it if you know where it is?

**Mark Thompson:** Our role in a gift case is to establish that it was a gift. What we can do is use enforcement receivers, typically private sector accountant firms, to help us realise those assets, but in the end the defendant, the criminal himself, has to assist with that process. They do not always do that and the relationships may have changed since the gift was made. But yes, we still obviously pursue those.

**Q111 Mr Ranil Jayawardena:** You have neatly moved on to some of the more substantive questions I was going to ask. Do you think there is an argument for greater involvement of the private sector to help give the Government flexibility in the use of resources and also reduce some of the risk?

**Mark Thompson:** We do engage with the private sector through receivers, both management receivers and enforcement receivers. Management receivers are appointed before a conviction, enforcement receivers after conviction. They are a valuable tool to help realise certain assets. They also have some advantages over us where they have an international network, because they can then operate using their office in the local area, where we would be stuck with mutual legal assistance only.

**Q112 Mr Ranil Jayawardena:** So the answer is yes, there is an argument to do so?

**Mark Thompson:** There is, but they are not a panacea. Since 2012, the SFO has appointed enforcement receivers in four cases. They helped us bring in £3.4 million, but they have cost £2.6 million, and in a case with victims, all money that goes in receivers' fees is obviously money that the victims do not get.

**Q113 Mr Ranil Jayawardena:** Is the moratorium period—I am no expert, unlike Ms Atkins—of 31 days given for law enforcement agencies to respond to suspicious activity reports adequate?

**Mark Thompson:** It can be too short in practice in some cases, particularly complex bribery or international cases. In practice what it means is that we are unable to act, so it is too short in some instances.

**Q114 Mr Ranil Jayawardena:** Mr Barrington, TI's reports have often pointed to the UK and you have referred to the attractions of the UK today. Are there particular foreign anti-corruption regimes that you would point to as being an example?

**Robert Barrington:** Yes. There is no one regime that you would point to and say, "That is great" but there are lots of bits of other legislation and other approaches that we have picked out. Just as an example, in Ireland and Australia there is an instrument called unexplained wealth orders and we have looked at those in some detail. We have put together a committee of very eminent legal minds who went through a discussion about whether they would work in the UK. The conclusion they came to was they would be a very sensible thing to have in the UK, as long as there were certain civil liberties safeguards built into them.

**Q115 Mr Ranil Jayawardena:** Just picking up on that then, do those apply retrospectively? Would they deal with any of the illicit funds already in the country or would they only work from the moment that they were introduced?

**Robert Barrington:** They could apply retrospectively, they could be used on assets that are already in the UK. The Government, in the anti-money laundering action plan that was launched very recently, said it would put that out for consultation as to whether that would be considered a good idea and presumably if the consequent—

**Q116 Mr Ranil Jayawardena:** But in Ireland when they were introduced, did they apply retrospectively or was it only from that moment?

**Robert Barrington:** I would need to check that. I could come back to you with some information.

**Mr Ranil Jayawardena:** Perhaps if you could provide a written answer to the Committee on some of the examples.

**Robert Barrington:** Absolutely, yes, but in principle, they could be.<sup>1</sup>

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<sup>1</sup> Note by witness: From some initial research it appears Australia and Ireland have two different approaches. From Australia's explanatory notes to the legislation which brought in UWOs, it specifically states that UWOs can be applied retrospectively; both because the assets it would look to target will be derived from crimes taking place in the past and because UWOs are a civil tool, addressing the debate on whether retrospective action would be disproportionate.

The Irish case is slightly different, the acquisition of assets derived from criminal activity was not an illegal activity until they brought in legislation in 1996 which led to what we would recognise as UWOs, therefore retrospective action could not be taken on these assets gained pre-1996 because of this.

**Q117 Victoria Atkins:** Mr Barrington, talking about what is happening internationally, presumably you welcome the anti-corruption seminar that is being held this month, I think, now that we are in May, by the Prime Minister, bringing together heads of state to discuss the sorts of plans that you are talking about?

**Robert Barrington:** In principle we welcome it, but the truth is that until it has happened, it is difficult to know whether it will be successful. TI, in our 20-year history, we have seen lots and lots of these things fail, though the augurs for this one to be successful are pretty good, but it depends on enough people turning up and signing up to pretty stretching, ambitious things. As far as we understand the agenda, it is pretty stretching and ambitious and I guess we are hoping the Government is not going to allow that to be watered down in the next week or so.

**Q118 Nusrat Ghani:** Mr Barrington, in your report, “Paradise Lost” it is quoted as saying, “Major changes are needed if the UK is detect, freeze, seize and accountably repatriate corruptly-obtained assets that are invested in the UK. Only a handful of suspicious transactions and assets relating to grand corruption have been frozen in the UK and the return of these assets is at an even lower level”. What evidence is that based on and what changes are you calling for or what would you like to see on the agenda for the anti-corruption seminar?

**Robert Barrington:** In terms of the evidence, we have done pretty thorough research into all the available evidence in the public domain, but also we have had some data-sharing agreements with the Metropolitan Police and the Land Registry. It is a pretty solid base of evidence behind it, but I would caveat that with saying we research corruption all over the world. It is very hard to get hard facts and figures, because of course by its nature this is a hidden crime. One of the best ways in which you can do this is look at what are the holes in the system. If you look at an anti-money laundering system, the one in the UK is, I have to say, a little bit like a sieve, you can see there are so many holes it is not surprising corrupt money gets through, so even if you cannot identify the precise amount of corrupt money, you can say the likelihood of it coming in, given the size of the financial market, is very, very high.

**Q119 Nusrat Ghani:** There is a lot of guesswork involved then, isn’t there? Is there an agreement among your sector on this or not, because everyone has their own perception?

**Robert Barrington:** There are agreements of ranges, but not specific amounts.

**Q120 Nusrat Ghani:** How big is that range?

**Robert Barrington:** The range of money laundered through the UK every year, the bottom range estimates tend to be the high tens of billions, say £50 billion, £60 billion; the top ends are the high hundreds of billions. The NCA’s estimate, which is the one that is most commonly cited at the moment, is around £100 billion. That is money laundered through the UK every year.

**Q121 Nusrat Ghani:** Is that mostly focused on the properties or the Land Registry, you were saying?

**Robert Barrington:** No. Of that, the laundering could be money that sticks here in the UK and money that uses the UK as a transit point. In terms of how much sticks in the UK, that

isn't known. I have to say again there are ranges and a fairly common estimate is between £5 billion and £10 billion.

**Q122 Nusrat Ghani:** What do you want to see on this anti-corruption seminar this month? What would you like to see on the agenda? I know you are worried about it being watered down, but what should be on there?

**Robert Barrington:** First of all, I think it is worthwhile saying there is no one big fix that the world community could come up with. Something I think that is a sensible approach that this summit seems to be taking is there are lots of loopholes in the international system, so you could have things like unexplained wealth orders in a number of countries; you could have transparency over beneficial ownership, not just in the Crown dependencies and Overseas Territories, where you need it, but in a number of countries. You could have a particular focus on sectors like health, which are known to be magnets for corruption, because of the size of the budgets. So there are a series of perhaps a couple of dozen, perhaps three dozen things that you could do, that if you get those things sorted out, then you make really big progress across the world.

But unlike most summits, this summit is not trying to get consensus among 150-odd countries, it is trying to get countries that want to sign up to things to sign up to things. That is quite a different approach. In some ways that can work quite well, because the truth is that for registers of beneficial ownership, you do not need every country in the world to sign up, you need a number of countries. If it is the countries through which money mainly flows at the moment and you have transparency about those, then you make a big gain quite quickly.

**Q123 Nusrat Ghani:** But if it is not the country where the original conviction needs to take place and there is a problem with that, you mentioned there is millions of pounds sloshing through London, the vilest of corrupt dictators are involved and then your report also states, "The current framework for asset recovery is overly-reliant on a conviction in the origin country. UK authorities rely on a conviction in the origin state before they are willing and able to seize assets". It does not matter: if those hundreds of signatories are not one of countries where the original corruption is taking place, who probably will not be signing up to it, then there is nothing we can do.

**Robert Barrington:** This is the benefit of putting something in place like the unexplained wealth order—or as it is posited in the United Nations Convention against Corruption, an illicit enrichment law—that you would effectively reverse the burden of proof. If the said vile dictator had a house in London that it was pretty clearly known to be owned by a public official from that country and the cost of the property, the value of the property was far greater than could have been legitimately obtained by that public official, then there would be a power to freeze that until the individual proved that it was legitimately obtained.

**Q124 Mr David Winnick:** Mr Barrington, listening to your evidence so far, I cannot speak for my colleagues, but I certainly get the impression that you feel there is a sort of lack of will in dealing with this problem, which after all is hardly new, it has been going on for some considerable time, on the basis that the Government of the day, whichever Government, are concerned—I wouldn't expect you to say otherwise; I would be rather surprised if you did—

lack the will to deal effectively with this problem, where even Mr Thompson admits more could be done?

**Robert Barrington:** I think the conditions for success are probably threefold. You need the right laws, you need good enforcement and you need political will. The right law is questionable, and I do not think anybody deliberately put in place the wrong laws, but I think it is also true that 10, 12 years on from putting into place the UK's anti-money laundering system, we see that it is not working, but we also see other bits of the world where some things have worked and we can see where the holes are in the UK system. I think something unexplained wealth orders would help plug the gap and put in the right legal framework.

Once you have that, you need the enforcement, and a lot of the enforcement is about resources, and the truth is that—as one of the questions earlier was on—the turnaround of consent SARs, and the resources just have not been there to turn them around, so typically they get approved and the system does not work.

The third one is political will and I think it is true to say that the UK has been ambivalent about keeping corrupt money out, because there has been a sense, particularly at a time of economic downturn, that all foreign investment is a good thing. If you look at the UK's investment visa regime, the tier 1 investment visas, otherwise known as golden visas, during the period Q3 2008 to Q1 2015, over 3,000 of these visas were issued to individuals who came to the UK with £1 million with no checks being done. It was a no due diligence period. During that period, I think I am right in saying 65% of those were issued to Russian citizens or Chinese citizens, areas in which corruption is highly prevalent. So you would have to question, I think, whether the political will has really existed or whether it has been seen as, "Perhaps it is not a bad thing for our economy if billions of pounds flow in, irrespective of the origin and the harm it does".

**Q125 Mr David Winnick:** What you are saying in effect is that to some extent, whichever Government happen to be in, they close at least one eye about this, because it is considered beneficial to the UK economy?

**Robert Barrington:** I think that has been the case in the past. Yes, I do not think we can escape from that and certainly those figures about the investment visas seem to back it up. Just to give you the figures, 37% to Chinese nationals, 23% to Russian nationals during that period and there were 3,002 tier 1 investment visas issued.

**Q126 Mr David Winnick:** That would be known in Russia, wouldn't it?

**Robert Barrington:** Absolutely it would.

**Q127 Mr David Winnick:** I don't suppose, whether Putin or anti-Putin, that sort of information is unknown.

Mr Thompson, insofar as you can voice an opinion, bearing in mind your position, do you accept there is a lack of political will, that Governments, regardless of the political nature, welcome it to some extent as being beneficial to the UK economy?

**Mark Thompson:** You might be unsurprised to know that I wouldn't necessarily want to comment too directly on that. I do not have experience myself of dealing with the tier 1

regime that Mr Barrington has talked about. That is not something I have specifically encountered, so I cannot really comment on that. All I can say is that in my experience of being involved in this field for nearly 20 years, the focus on this area of work is unprecedented. I was involved in the early consultations around the central register of beneficial ownership for UK companies, which kicked off in 2012, in the run-up to the Lough Erne summit, and I would say it was at that time a slightly anorak topic for academics and people like me who worked in the field, but now we have the Panama Papers and “Sky News” covering it all evening when that burst. So you could say we have come quite a long distance in a few years.

**Q128 Mr David Winnick:** What about one of the notorious mafia that I have mentioned, namely the Russian one? Do you think the Russian characters involved understand that their money would be welcome in many ways in the UK?

**Mark Thompson:** I would be straying into anecdotal territory there. I do not have any specific case evidence of that, but I think the sort of figures that Mr Barrington is quoting, it is certainly possible that money is coming into the UK whose origin is questionable.

**Robert Barrington:** If I may say two things, the first is I think the political will has changed in the last 18 months, for whatever reason. There are much stronger signals and this anti-corruption summit I think is a sign of that. It will be interesting to see whether it is just words or whether there is delivery, but as I said, it augurs well. The second is: do people in Russia think of the UK as a prime destination? Absolutely they do. Speak to the head of TI Russia about it and she is very clear, the UK is a top destination.

**Q129 Victoria Atkins:** To both witnesses, as you are discussing this, I am just wondering, compliance officers in banks and compliance officers in legal offices, what duty and role do they play in this? Surely they are on the frontline, they should be the ones spotting these dodgy transactions and then reporting them.

**Robert Barrington:** I think they have an extraordinarily hard job, because yes, they are in the frontline, but yes, just as we might question political will in the political sphere, I think corporate culture in banks isn’t necessarily in favour of turning down large clients. That is effectively what compliance officers are being asked to do. Moreover, there was a recent fine by the Financial Conduct Authority of Barclays for a deal called the elephant deal, because it was so large, reportedly involving Qatar, in which senior people in the bank had deliberately bypassed their own systems because they knew the compliance officers wouldn’t want to take that kind of deal on. So I think the system at the moment has set up the banks and various others to be the frontline defences, but the poor anti-money laundering officers in these institutions have a lot of pressures on them, partly to report, but also to not be the people who turn away business for the bank, and it is possible to evade those systems from time to time. By the way, we have been firm advocates of individual accountability in the banking sector right up to the top, so that if that kind of thing happens, then it is not simply the money laundering officer who gets made to carry the can.

**Victoria Atkins:** Mr Thompson, do you want to add anything?

**Mark Thompson:** I would agree with Mr Barrington’s remarks. In some respects I only see things that have gone seriously wrong, so you could say I was even more jaundiced,

but I think the thing that strikes me in these types of cases is that there may have been some basic compliance going on, but the thing that usually is at the heart of a money laundering case or a corruption type case is that somebody did not ask, “What is the substance of what is going on here? Why are they structuring things this way?” They may have jumped through various hoops in the standard compliance way, but what is the commercial rationale, and where that question has not been asked properly, you are asking for trouble.

**Q130 Mr Chuka Umunna:** Picking up the last point that the Acting Chair of our Committee just asked in respect of the role of compliance officers, I have worked in the compliance department of a bank, CSFB, a long time ago. I think the point that, Mr Barrington, you make about individual responsibility is an important one and how compliance officers can deal with the commercial pressure to take a particular point of view. I am a non-practising qualified solicitor. Ultimately, if I was in-house at one of these institutions, my ultimate responsibility would be to the court, because as a solicitor, you are an officer of the court. Do you think that perhaps provides a way, a solution in terms of individual responsibility for the compliance officers involved?

**Robert Barrington:** Yes and no. I think it could do. I have to say, I think we see a disturbing trend in the legal community in London, in which it is seen by some that the prime responsibility is to the client and not the court. Whether it is in-house or not in-house, I think there is that trend and that is very worrying. When we talk about whether the professions should be able to regulate themselves with regard to things like money laundering, that is the kind of trend that I think is very disturbing.

**Q131 Mr Chuka Umunna:** That is quite a serious allegation you have just made. You are saying that the moment you are seeing a trend among in-house legal counsel at financial institutions in the Square Mile towards neglecting their duties to the court because of commercial pressure from the organisations that they work for?

**Robert Barrington:** That is somewhat more definitive about the allegation than I was intending to be, I must say.

**Mr Chuka Umunna:** Hence my question.

**Robert Barrington:** No, I think we are seeing a general trend among the legal profession in which the duty to the client is seen as perhaps overriding the duty to the court and that is very concerning.

**Q132 Mr Chuka Umunna:** Who should do something about that? Who do you look to address that? Is it a Solicitors Regulation Authority issue or who do you think should be addressing that, given you raise it as an issue?

**Robert Barrington:** Primarily one would hope that the profession would take a hard look at itself, and before it goes too far, try to address that. So, yes, the SRA, but also other regulatory bodies or other trade bodies for the legal profession, but also I think the large firms as well, one would hope they would.

**Q133 Mr Chuka Umunna:** Mr Thompson, do you agree broadly with what Mr Barrington has just said, and in particular do you see in the caseload before you increasing instances of in-house legal counsel acting in a questionable way when it comes to their duties to the court?

Would you agree, if I am more specific, that sometimes they put their duty to the client beyond their duty to the court? Is that coming through in the work that you are dealing with at the moment?

**Mark Thompson:** I would not say I could cite exact specifics.

**Q134 Mr Chuka Umunna:** You probably should not do that, but what I am saying is do you agree and are you seeing that happen?

**Mark Thompson:** Not specifically with solicitors. There is talk generally among law enforcement about professional enablers, so that includes solicitors. You will be well aware and better than qualified than me to talk about privilege, which is a fundamental issue in dealing with solicitors. I know, because my legal colleagues tell me, that privilege is a fundamental right and so on and so forth, but nonetheless, it makes it very difficult to investigate solicitors who may be sailing close to the wind.

**Q135 Mr Chuka Umunna:** Can I ask a second kind of connected issue to another issue that was raised by Ms Atkins? Just in terms of the countries that are the principal sources of dirty money in 2016, what are the four or five countries that you would say are the principal sources of dirty money in 2016? You go first, Mr Thompson.

**Mark Thompson:** We have two aspects to it, given the subject of this inquiry. It is almost in some respects the destination of money is more problematic, it is where money goes out of the UK and I cannot get my hands on it. One of those countries we are specifically struggling with at the moment is Pakistan. I have a case that was reported in the NAO report on confiscation where £26 million went to Pakistan in 2006 and we do not know what happened to it after that and we have had no co-operation and no further information. That is problematic for us, so that will be on my list, but there are a number of other jurisdictions where we have the same sort of problems.

**Q136 Mr Chuka Umunna:** Mr Barrington, what would you say are the main jurisdictions though?

**Victoria Atkins:** We are running very short of time, if it is possible to—

**Mr Chuka Umunna:** I have one final question after that.

**Robert Barrington:** We do not have that research, but I would go back to those investment visas, which I think is a pretty reliable indicator of China and Russia.

**Q137 Mr Chuka Umunna:** My final question is this: in another inquiry that we are conducting into counter-terror, I have asked the question of the Cabinet Office whether they believe that the City of London, in terms of the dirty money that is going through it, is being used for purposes connected to the activities of Daesh. Do you believe that any of the money that is flowing through the Square Mile is in any way connected directly or indirectly to the activities of Daesh?

**Robert Barrington:** I have no idea. It is not the kind of research that TI has done.

**Mr Chuka Umunna:** Mr Thompson?

**Mark Thompson:** Not my field. I have nothing on that.

**Q138 Mr David Burrowes:** Do you have any evidence in terms of the portable property you spoke about, which is art or indeed antiquities, whether it is related to Daesh funding or others, whether there is growing evidence of that being used in relation to proceeds of crime and money laundering?

**Robert Barrington:** Anecdotally we hear there is, but we have not done hard and fast research on that. A lot of what leads us to do further research is a build-up of anecdotal evidence and it is building up to that kind of level, but we have not done the research yet.

**Mark Thompson:** There is nothing crossed my radar.

**Q139 Mr David Burrowes:** Just finally, in terms of the political will, the Government is talking a very good game in announcing the biggest reforms to the money laundering regime in over a decade. Are there any highlights from the action plan that the Home Secretary announced that you think are going to particularly have a significant impact on proceeds of crime inquiries?

**Robert Barrington:** To some extent, they are the biggest reforms for a decade because there have not been any others, but our feeling about it was that a lot of it is pretty bold and imaginative, but the bold and imaginative stuff has been put out for consultation and is going to be explored rather than as a firm commitment. I think we will know better in six to 12 months' time whether it is going to happen. Two of the things that are in there are this reform to the supervisory regime, the idea of examining a single supervisor and introducing unexplained wealth orders. If those kind of things happen, that would be pretty transformative.

**Q140 Mr David Burrowes:** Is there anything else you would highlight?

**Mark Thompson:** I think one of the most fundamental things for us in law enforcement is improving the capability and capacity to deal with the top end of money laundering. I have a theoretical headcount of 40; I only have 30 people in post. I cannot recruit and keep the right people, it is very difficult, and if we were able to deal with that I would have the capacity to be slightly more proactive rather than reactive in the way we operate.

**Q141 Victoria Atkins:** On that point, at the moment when money is seized, it is split between the various law enforcement agencies and the Home Office, is that correct?

**Mark Thompson:** It is, but the SFO itself sits outside. We agreed with the Treasury in 2014 that we would not retain any of the money to which we became entitled in exchange for a fixed increase in our budget. In a good year we return more than we cost to the Treasury and in a tough year we at least have security of funding, so we are not within that scheme.

**Q142 Victoria Atkins:** If that were to be looked at again and perhaps more money given to law enforcement agencies out of the pot of money they seize, would that help incentivise the agencies to retain more of the money or seize more of the money?

**Mark Thompson:** I know the Home Office are looking at the scheme and the operation of it. We are uncomfortable with incentivisation. The SFO feels it is something we should be doing anyway and not dependent on case results, which raises questions with the courts.

**Victoria Atkins:** Thank you very much, Mr Barrington and Mr Thompson. We will move to the next session.

Keith Vaz returned to the Chair.

### **Examination of Witness**

*Witness:* **Bill Browder**, Founder and Chief Executive, Hermitage Capital Management, gave evidence.

**Q143 Chair:** We resume the hearing with our second witness for today, Mr Bill Browder. Thank you very much for coming in to give evidence to the Committee today. Mr Browder, during our evidence, which we have received from various different sources, agencies and others, we have been told that illicit funds, criminal funds, are at the moment still being put into and taken out of the City of London. Do you think that that is the case?

**Bill Browder:** Yes, it is very much the case, and thank you for inviting me here to share my thoughts and my testimony. I have a personal story that touches on the heart of the matters that you are looking at today. It is a story of a terrible crime, the proceeds of that terrible crime, the proceeds of that terrible crime coming to London and a total lack of enforcement once it has come to London. If you will allow me, I would like to tell you the story of that crime and how it evolved and came here.

**Chair:** Only very briefly, because I think we are familiar with it, so in a potted version.

**Bill Browder:** Sure. The crime comes back to the murder of my lawyer, Sergei Magnitsky, in Russia. He discovered the theft of \$230 million of taxes, that we paid, by Russian Government officials and organised criminals. He was arrested after he exposed it, put in jail, tortured for 358 days and killed by a group of people in this criminal organisation. We have been fighting to get justice for Sergei. There was no justice possible in Russia so we looked for where the money went around the world. We have spent six years investigating and we found that the money went to many countries and every time we find it going to a country we file a criminal complaint with the law enforcement authorities of those countries. 11 countries have opened criminal cases, more than \$40 million has been seized by the United States, Switzerland, France, Monaco, Luxemburg, Lithuania, and we have recently discovered \$30 million from this crime coming here to the UK.

**Q144 Chair:** What has happened once you discovered the money had come into the United Kingdom, presumably through the banking system?

**Bill Browder:** Let me tell you who the money belongs to. It belongs to a man named Dmitry Klyuev who is head of the Klyuev organised crime group, which is the mastermind of this organisation and he is the money launderer. He has two companies, Altem and Zibar, and both those companies wired money into the UK, and let me give you some examples of things that he—

**Q145 Chair:** But this is through the banking system? You say wired to the UK.

**Bill Browder:** The money flowed into 12 UK banks. It flowed to Barclays, HSBC, NatWest, Bank of Scotland, JP Morgan Chase, Handelsbanken, RBS, Citibank, Bank of America, Lloyds TSB, Bank of Tokyo and one other one.

**Q146 Chair:** Have you brought these matters to the attention of the British authorities, to the Serious Fraud Office, through the Home Office to the Government? Do they know about what you have just told this Committee?

**Bill Browder:** Over the course of five years we have filed six complaints. We filed a complaint with the Metropolitan Police in 2010 to investigate the Klyuev organised crime group. Their response to us was that the responsibility to investigate the fraud does not lie within the Metropolitan Police Service. We filed a complaint in 2012 with SOCA. They wrote back to us saying that they are not the appropriate body for the job. We filed a complaint with the Serious Fraud Office in 2012 to investigate this crime. They say matters do not fall within the offences that the Serious Fraud Office is permitted to investigate.

**Q147 Chair:** Basically what you are saying is that when you went to a Government agency about this very serious crime that you say has been committed, each one of them said it was not in their remit. Some may have referred you to other organisations but nobody picked up the baton and tried to do something about it. Is that what you are saying?

**Bill Browder:** I am saying that every single time we have filed a complaint nobody has responded. They have always found excuses not to investigate.

**Q148 Chair:** Do you think this is deliberate? Do you think someone is telling them not to do so or is it just the fact that they do not believe they have jurisdiction?

**Bill Browder:** It is very odd, because we have taken this information and shared it. It is not like the information is not good or, I should say, not reliable, because 11 other countries have chosen to investigate. Then the question is what is wrong here.

**Q149 Chair:** What is your view as to why the authorities of the United Kingdom have not pursued this?

**Bill Browder:** I think that this country is levitating off the flow of dirty money. If that money was stopped certain people would find themselves without businesses and I think those people have some political weight in this country.

**Chair:** It is a very serious charge that you make today.

**Bill Browder:** I can't explain it any other way. I have been to France and I am working very intimately with the French police and the Department of Justice; I am working with the Luxemburg police. Why is it so hard that the British authorities—and I am not talking about one agency and I am not talking about one complaint, I am talking about every different agency in this country.

**Q150 Chair:** You have never received an adequate response from any of them as to why matters have not progressed?

**Bill Browder:** Let me read you the response I had last year from the National Crime Agency. They say, “A domestic criminal investigation relating to money laundering in the UK in our case is not the most effective way forward”. What is the implication, that not investigating is the most effective way forward?

**Q151 Chair:** What you would like to see is not just an investigation into this particular case. The Committee is also interested in the process in other cases. Would you like to see one body that deals with just money laundering? You have been to quite a few agencies there.

**Bill Browder:** It is not a question of the bodies that do it. It is a question of the motivation to do it and I think there are couple of problems here. One is that there is a general political feeling that you don’t want to rock the boat. There is also a technical problem.

**Q152 Chair:** Do you think there is a political feeling that you don’t want to rock the boat?

**Bill Browder:** Yes, I think there is a political feeling.

**Q153 Chair:** Given what the Prime Minister and the Government have said in relation to Russia that sounds very odd, because they seem to be quite hard on the Russian Government and the Russian authorities, do they not?

**Bill Browder:** No, they are not at all. Again where the rubber meets the road, I have personal experience. In the case of Sergei Magnitsky we have gone to America and had a law passed in his name, called the Magnitsky Act, that imposes visa sanctions and asset freezes on the people who killed him. I am a British citizen and I have lived here for 26 years. I have asked the British Government, the British Parliament has called on the Backbench Committee of the Government to impose a UK Magnitsky Act, and they refuse to do it, no sanctions, allowing the Russian torturers and murderers to come here freely. Up until now the Prime Minister has refused to do that. I do not call that being tough on Russia.

**Q154 Chair:** One of the reasons why we are holding this inquiry is to look at the problems that are in existence. How many people do you think are involved in this activity in Russia and what is the total figure of illicit money that we are talking about entering the United Kingdom, and London in particular? It is an estimate; obviously you don’t have absolute evidence.

**Bill Browder:** This is not what I study, but I would argue that we are talking about hundreds of billions of dollars, not from this crime specifically. For this crime we have traced \$30 million but this crime that—

**Q155 Chair:** Hundreds of billions of dollars of illicit money are entering the United Kingdom, presumably specifically through the City of London?

**Bill Browder:** Absolutely.

**Q156 Chair:** What do they spend their money on? Is it property, as we have heard earlier?

**Bill Browder:** I have very specific examples. Let me give you a few, because I think it is quite telling.

**Chair:** Yes, please.

**Bill Browder:** This Dmitry Klyuev character who is head of the Klyuev organised crime group, his company has sent 176,000 to Oxygen Aviation for private jet chartering and 192,000 to HB Interiors for yacht and home interior design in Chelsea. Here is 20,000 for the tuition at Queen Ethelburga College. Another 41,000 for a couture wedding dress from Phillipa Lepley in Fulham or 295,000 to pay for the bills of the SBS Glamour Card, which is “a card introduced to offer women the most privileged and luxurious service, the likes of which have never existed before”.

**Q157 Chair:** Basically it is being spent on luxury goods.

**Bill Browder:** There has been an orgy of spending on luxury goods, and this is just one guy in one situation: luxury goods, properties, yacht charter, couture dresses, everything to do with luxury.

**Q158 Chair:** You would like to see us in the United Kingdom introduce a Magnitsky law to follow the United States and do this?

**Bill Browder:** It is very simple: should we or should we not allow Russian torturers and murderers to come here and spend their money here?

**Q159 Chair:** You have told us the amount of money, hundreds of billions. How many people are we talking about, roughly?

**Bill Browder:** In my estimation there is probably 1,000 to 2,000 people right around the Putin entourage that are the big beneficiaries, but then below them you have 40,000 or 50,000 people.

**Q160 Chair:** At the moment they are able to travel freely throughout the United Kingdom, enter the United Kingdom, and the Schengen area without any problems?

**Bill Browder:** Without any problems and we have evidence—

**Q161 Chair:** You said the French had opened an investigation. Are they not blocking Schengen visas?

**Bill Browder:** At the moment the French have frozen assets, on which we have not even opened an investigation.

**Q162 Mr David Winnick:** Your grandfather, Mr Browder, would no doubt say you should not have been surprised by how capitalism works but be that as it may, that is long gone history. Do you think that in Russia there is an understanding among the mafia—and you were here when I asked questions of the previous witnesses—that to a large extent the United Kingdom is a soft target for bringing their money and assets to this country?

**Bill Browder:** Yes. This country has the benefit of two things. One is that nobody will be prosecuted and the second is that it appears legitimate. If they open a UK company, for example, and then use it for money laundering at a UK bank, the next destination will say that is money that has come from Britain, which is a legitimate, normal country. This is a perfect cover for laundering money because we don't investigate it in this country, we don't prosecute and it appears legitimate.

**Q163 Mr David Winnick:** Since very little goes on in Russia without Putin's knowledge and approval, he and his gang are aware of all this?

**Bill Browder:** Yes. They are experts at this. They look around the world and say, "Where are we at risk? Where is our money at risk?" Let me just take one step back. The purpose of the Putin regime is to steal money; that is what they do; that is their main objective. Afterwards they then try to stay in power and afterwards they do the minor things of governing the country, but it is mainly to steal money. Then they say to themselves, "How do we keep that money safe?" and they look around the world and they say, "In which regimes do property rights exist where no one is going to take their money and which regimes exist where the law enforcement agencies are not going to investigate that money?" This is one of their primary regimes.

**Q164 Mr David Winnick:** Do you feel any physical danger arising from what the Russian mafia tends to do?

**Bill Browder:** Let's not mix up terms. The Russian mafia is the Russian Government and the answer is I feel at great personal risk. I have been threatened. Dmitry Medvedev, who is the Prime Minister of Russia, said to a number of journalists in Davos, "It's a shame that Sergei Magnitsky is dead and Bill Browder is still alive".

**Q165 Stuart C. McDonald:** The last time I recall hearing this issue raised in the House of Commons, the Home Secretary was asked a few times about why this country does not have a Magnitsky Act as well and her defence was that we already have equivalent measures in place. Do you see that the United Kingdom has something similar in place or what are the major differences and deficiencies in the UK system?

**Bill Browder:** The Magnitsky Act is a very specific piece of legislation that publicly names human rights violators, freezes their assets and bans their visas. The British system has the ability to ban visas if they want, but they refuse to name names and, as far as I am aware, there is no legislation that would freeze assets of human rights violators. What I am suggesting does not have to be just for Russia, it can be for everywhere. In America there is now a global Magnitsky Act going through Congress. What that would do is freeze the assets and ban the visas for human rights violators anywhere. I can't even imagine why this would be controversial, why we should be welcoming these types of people coming into the country.

**Q166 Stuart C. McDonald:** Have countries other than the United States implemented similar steps?

**Bill Browder:** The United States is the first country. I would say the closest second country is Canada where we are working actively on this thing, but this should be the first country. This is my home country, this is where Sergei Magnitsky was working for me as a British citizen. This should be the first country where it has happened and we are a long way away from it right now.

**Q167 Chair:** You are telling this Committee that the United Kingdom is the country of choice for money laundering? If there was a brochure of where they should launder their money, Britain would be on the front page?

**Bill Browder:** It is not the only country of choice.

**Q168 Chair:** Which are the others?

**Bill Browder:** Cyprus is one of their favourite countries, and Latvia. We are on par with Cyprus and Latvia in terms of money laundering but better because the property rights here are better than Cyprus and Latvia.

**Q169 Chair:** Is it certain parts of London that are affected or is it the whole of London?

**Bill Browder:** In terms of the spending orgy on luxury goods, that is concentrated around Belgravia, Knightsbridge, South Kensington. In terms of the actual flow of funds, that goes into the banks in the City and, of course, we all know about the major property purchases by these people in the fanciest parts of London.

**Q170 Chair:** Which are the fanciest?

**Bill Browder:** St John's Wood, Hampstead, Belgravia, Knightsbridge, Chelsea.

**Chair:** Well, at the moment, Leicester City supporters are quite grateful to Chelsea, but we will let that pass.

**Q171 Mr David Burrowes:** As far as you are aware, at this stage there is no investigation taking place by any of the authorities at all into the \$30 million money laundering allegations?

**Bill Browder:** We wrote to the National Crime Agency on 21 March about the specific crime that I have just mentioned to you, the Klyuev organised crime group crime, the \$30 million from his network. The only response we have had so far is that they are busy with the Panama papers and have not had time to look at it. This is a real crime with a murder that was connected to this crime, blood money, and they have not had time to look at it.

**Q172 Mr David Burrowes:** Do you have that in writing? At the moment we have this reply in December 2015, "At this stage a domestic criminal investigation relating to money laundering in the UK is not the most effective way forward". You pulled out the piece. Did they say what is the most effective way forward?

**Bill Browder:** Nothing. They don't make a suggestion of what the most effective way forward is. I can't even describe to you the difference in response that I had in France and the United States.

**Q173 Mr David Burrowes:** That is what I was wanting to ask you. What are the ongoing investigations elsewhere?

**Bill Browder:** When we brought a similar complaint to the United States Department of Justice, it immediately seized the assets and filed a federal forfeiture order against the culprits. There is now a case open in New York and they are prosecuting that case and hopefully it will lead to a full conviction and a seizure of the assets. The French investigative judge Renaud van Ruymbeke, who is one of the top anti-corruption judges in France, has taken over this case. He has frozen \$10 million in France, Luxemburg and Monaco and there is a major criminal investigation going on with a large number of resources devoted to it. The Swiss attorney-general has frozen close to \$20 million of assets at UBS and Credit Suisse in Switzerland and there is a major criminal case going on

there, and on and on and on. It is just a completely different situation here and it perplexes me. Britain is known to have such a well-developed legal system but yet the criminal prosecution system or money laundering prosecution system seems to be at a—

**Q174 Mr David Burrowes:** Where did you get the impression that there is an issue of priorities, that they are focusing on the Panama papers?

**Bill Browder:** They told us. They wrote that to us in an e-mail.

**Q175 Mr David Burrowes:** That said that it is a priority issue at the moment?

**Bill Browder:** Yes, more priority than this.

**Q176 Mr David Burrowes:** In terms of the implementation of the Magnitsky Act, I appreciate that a number of names have been banned in other countries, not least in the US, but have assets been frozen as well?

**Bill Browder:** There have not been any assets frozen under the Magnitsky Act. The assets frozen have been under criminal investigations like the one we are hoping to get opened here.

**Q177 Mr David Burrowes:** Has it also led to asset freezes in any other countries yet?

**Bill Browder:** At the moment there is just one Magnitsky Act, which is in America. They have not frozen any assets because none of the individuals on the list have any assets in America. However, there is one very important thing to point out. It is not just assets freezing. You get put on what is called the US Treasury OFAC sanctions list, which means that any bank in America that is caught doing business with a person on the sanctions list has to pay a fine. That means that any bank in America, and pretty much any international bank, stops doing business with anybody on the US federal sanctions list, and so that is a very powerful tool.

**Q178 Mr David Burrowes:** The essential difference with us is that we do not publicise the list of banned people, do we?

**Bill Browder:** I think that is an extremely bad policy decision because the whole point of this exercise is to name and shame people who do terrible things. It also has a highly deterrent effect on other people. Nobody wants to be put on a public naming and shaming list, not just for the effect that it has on their current life. Every bad guy working in every oppressive regime knows that that regime will eventually come to an end and they all know that they have socked away a whole bunch of money and then they will go and live quietly in luxury somewhere else. If their names are put on a public list, when they flee, when the Putin regime falls and they flee at the end the Putin regime, and they come here to London and say, “We want to apply for asylum here because of the new regime not liking us” and someone types in their name and says, “Wait a second, you are on the Magnitsky list for being a human rights violator. We are not going to give you asylum. In fact, we are going to return you to the new provisional Russian Government for trial”, that is the most terrifying, existentially scary thing for these people.

**Q179 Tim Loughton:** Mr Browder, did you say that there are no laws in the UK that enable us to seize or freeze the assets of human rights violators or regimes that violate human rights?

**Bill Browder:** As far as I am aware, yes.

**Q180 Tim Loughton:** How do we do that against members of the Mugabe government or President Assad's government or the Iranian regime formerly?

**Bill Browder:** I think we do that under sanctions not by saying, "They are human violators. We are going to freeze their money". If they are part of a sanctions regime then their assets can be frozen.

**Q181 Tim Loughton:** What is different?

**Bill Browder:** At the moment, Russia is not under any sanctions regime that allows us to freeze their money for violating human rights. We have not said they are human rights violators.

**Q182 Tim Loughton:** Are we not part of an EU-wide action, because of what has happened in the Ukraine, against certain members of the Russian Government that will enable us to freeze or seize their assets?

**Bill Browder:** We are, but we are not doing that for human rights violation. We are doing that for geopolitical condemnation that is good and strong but we are not doing that for human rights violations.

**Q183 Tim Loughton:** In the case of Zimbabwe, Iran and Syria it amounts to the same thing, doesn't it?

**Bill Browder:** Yes.

**Q184 Tim Loughton:** So we do have legislation that enables us to achieve what you want to achieve.

**Bill Browder:** Perhaps. I would argue—

**Q185 Tim Loughton:** That is the point I wanted to clarify. Why is the UK so lax in not clamping down on money that is highly suspicious of being dirty money as opposed to other European countries or America or whatever? What is it that makes us especially disregard dirty money?

**Bill Browder:** I think there are so many people benefiting from that dirty money here that it is a politically toxic issue to address. If there are lots of businesses that are levitating, that are effectively surviving off the back of this money that would not survive otherwise, and they have friends in high places—and these people are geographically close to this House right here—they are going to say, "Don't do that".

**Q186 Tim Loughton:** Geographically being down the road from the Houses of Parliament is irrelevant. Are you saying that there are politicians in positions of responsibility who are directly benefiting from dirty money?

**Bill Browder:** No, I am not saying that. What I am saying is that there are people who are benefiting from dirty money who have political influence.

**Q187 Tim Loughton:** What is the difference?

**Bill Browder:** Well, nobody is paying anybody here to vote one way or another.

**Q188 Tim Loughton:** Why would politicians turn a blind eye to dirty money if they are not benefiting from it, which is your implication?

**Bill Browder:** If their constituents are and they are getting support from their constituents and so on, that is a good reason to do that.

**Q189 Tim Loughton:** What do you mean “if they are getting support from their constituents”?

**Bill Browder:** If somebody is helping out a politician with their campaign or rallying support or generally being behind them, that is support.

**Q190 Tim Loughton:** What does that mean in practice? It means giving money, doesn't it?

**Bill Browder:** It could be.

**Q191 Tim Loughton:** So politicians are directly benefiting from people who are handling, as you call it, dirty money?

**Bill Browder:** I would say in theory. I don't have any specific examples I want to share today.

**Q192 Tim Loughton:** Do you have specific examples that you can share with the Committee?

**Bill Browder:** I am aware of specific examples. I don't have them at the tip of my tongue.

**Tim Loughton:** Could you write to the Committee? It is quite an important charge you are making here, Mr Browder. You are saying that people in the Government or people in Parliament who are close to influencing the Government, be it in the same party or not, are deliberately, actively turning a blind eye at best or effectively encouraging people close to them who are benefiting from laundered money, dirty money or whatever, which is a criminal offence. We potentially are accessories under the fact. That is specifically the charge that you have made for which we need to see some specific evidence as to whether that charge stacks up. The fact that we do not have a law that mirrors the Magnitsky law in the States is irrelevant because the Government have the powers to achieve, on the face of it, the very same ends that you think that law was brought in to achieve. What I am trying to find out is why would we want to turn a blind eye if this sort of criminal activity is happening in London. So far you have not given me the evidence as to why we would want to do that, just some speculation and the phrase that you use that the UK is levitating off a flow of dirty money, which is a pretty significant damning charge, but we clearly need to see the evidence for that.

**Bill Browder:** Okay.

**Q193 Chair:** Thank you. If you could write to us if you have any information. It is covered by privilege because it will be part of the evidence. If it is confidential we will not publish it, but the Committee actually publishes most of what it receives. It is only very rarely when there are security issues that we not do so.

**Bill Browder:** I would be delighted to.

**Q194 Chair:** Please write to us on this. What you are saying to this Committee is quite shocking, Mr Browder, as Tim Loughton has just said, not only in respect of your last answer to him but in respect of the generality of your testimony before this Committee. What you are saying is there seems to be complicity to some extent, maybe not actively helping those who come in but government agencies are silent when matters are brought to their attention. This is obviously a concern to us because we are worried about the fact that confiscation orders are made but the full amount is not realised, but this goes beyond that. It is people who are not even caught in the system. That is what you are saying to us.

**Bill Browder:** I am saying that I am a real live example of somebody who has been victimised by a crime of which we have evidence. It is pretty shocking because the information that I am providing has been tested. I am not making wide speculation about a crime. If there are 11 other criminal cases open in other countries, that is like a scientific test to say that this information is viable and should lead to a criminal investigation being opened.

**Q195 Chair:** You would want it opened here because Britain is the biggest market. It is the number one destination of choice, is what you are saying to this Committee.

**Bill Browder:** What I am saying also is that this is our power to do good in the world, not encouraging these people to come here and spend their dirty money.

**Q196 Chair:** We have received a lot of testimony about house prices going up because of this money coming in. Are there any other services apart from house prices? You have given us examples of luxury goods, wedding dresses and tuition fees and other issues of that kind. Apart from something that we can actually notice, because we do not know about every individual wedding that people go to but we do know when house prices go up, is there anything else that the Committee could look at? We are hearing testimony shortly from those who have experience of the housing market.

**Bill Browder:** Houses are the asset that people like to keep. It is better than a bank account to put your money into a house in London as far as these people are concerned. We have two examples of houses or payments to real estate in this particular case. This is just a rent payment but they were paying £115,000 to Harrods estates in September 2009. I don't know what they were paying £115,000 for; it looks like a rental payment. Then there is another one to Lane Fox, which is much less. It looks like a monthly rent demand for £19,500 to Lane Fox Residential. Rent, houses, restaurants, all this stuff, these people are spreading their money, and it is concentrated. They are not spreading their money in your constituency. They are just a mile away from here in Chelsea, Belgravia.

**Chair:** So they are not going to make the trip up to Leicester even to see a football match.

**Bill Browder:** Maybe now they will but—

**Q197 Chair:** Mr Browder, thank you very much for coming here today. What you have said has been very important and very powerful. We have your report before us.

**Bill Browder:** I would like to submit this to your Committee for evidence.

**Q198 Chair:** We will be publishing it in part or maybe in full. We have not made a decision on it but we normally publish everything that we receive.

**Bill Browder:** Great.

**Chair:** Of course, it is covered by privilege but we will let you know. We are very grateful and if there are any other matters you want to raise with us, please don't hesitate to write in while the inquiry is ongoing.

### **Examination of Witnesses**

*Witnesses:* **Henry Pryor**, Buying Agent and Market Commentator, and **Laurence Sacker**, Partner, Corporate Finance and Money Laundering Reporting Officer, UHY Hacker Young LLP, gave evidence.

**Q199 Chair:** Mr Sacker and Mr Pryor, thank you very much for coming. I am deeply concerned by what I have just heard in the evidence given by Mr Browder, and indeed other witnesses, that the United Kingdom, and London in particular, is now the destination of choice for those who want to launder dirty money into our country. Do you agree with that assessment, Mr Sacker?

**Laurence Sacker:** I don't have any direct information on that from my own experience. Obviously I have read that in newspaper stories and so on, but I don't think I could add any evidential matters to that.

**Q200 Chair:** No, but you must have heard it. I couldn't be the first person ever to have said to you that London is a magnet for this kind of money.

**Laurence Sacker:** I think any major world financial centre would be a magnet for that, yes.

**Q201 Chair:** London being a major financial centre, not number one, number two or number three, then it would attract it?

**Laurence Sacker:** Yes.

**Q202 Chair:** Do you think the measures that we have at the moment are adequate to deal with money laundering and fraud?

**Laurence Sacker:** I think there could be some significant improvements made to them.

**Q203 Chair:** What kind of things would you like to see happen? That is what the Committee is interested in.

**Laurence Sacker:** I know a previous witness talked about unexplained wealth orders. One of the things that we always try to do, when we have a new client, is to identify the source of the money that they tell us they have, whether it is a family business or inherited or whatever the reason would be, to try to get some logical explanation for that. I suspect that unexplained wealth orders would be quite a useful mechanism. Also with the veil of secrecy over Overseas Territories and the Crown Dependencies, it is difficult to find out ownership details.

**Q204 Chair:** I have had a number of constituents who have come and said they have had a letter from the bank saying, “We are going to close your account because we don’t know where your money is going” or “you bought a premium bond and we need to know the source of the premium bonds that you bought”. Those who are not the Mr Bigs and Mrs Bigs of this world seem to be getting an awful lot of letters from the authorities asking them to explain things to them. One of our parliamentary colleagues has raised politically exposed individuals in the House with the Chancellor, who is now amending the law. These seem to be relatively small in proportion to the kinds of people we have heard about from Mr Browder and others. Do you think that there seems to be a concentration on the small fry rather than those who really do have the resources to bring in funds in this way?

*Laurence Sacker:* I think the more money you have the easier it probably is to find ways to get around the system, so it is the smaller people who would be more likely to get caught by that, yes.

**Q205 Chair:** Is it the fact that the more money you have the more you can afford the very best accountants and lawyers in the country, the Hacker Youngs, the Clifford Chances and the Slaughter and Mays? They would know how to help you because you have all that money and, therefore, you can pay for the very best.

*Laurence Sacker:* In my experience, it is not something that accountants get involved in.

**Q206 Chair:** You are the reporting officer, aren’t you?

*Laurence Sacker:* I am the money laundering reporting officer.

**Q207 Chair:** So you must get involved in it somewhere along the line. You can’t not get involved in it.

*Laurence Sacker:* Just to give you some information, a bit of background on the sort of level of reporting that goes on within my firm, we have a turnover of about £20 million per year. In the last 12 months I had 24 internal reports made to me by partners about frauds or tax issues or whatever that they were concerned about that their clients had been involved in.

**Q208 Chair:** What do you do about that? Help us with the process.

*Laurence Sacker:* I get an internal report that describes a worrying situation. I would then find out a bit more about it by speaking to the partners or the staff concerned and then I have to make a decision whether or not to file an SAR.

**Q209 Chair:** We will come to that in a minute. We are very interested in the process because you can help us enormously with this. It comes to you as the reporting officer. You have a turnover of £20 million and 24 reports have come to you. What is the total value of those 24 reports? Give me a rough estimate; I don’t need specific figures.

*Laurence Sacker:* I don’t have a figure for that.

**Q210 Chair:** Would you write to us?

*Laurence Sacker:* I could have a look back and see. I don’t think every item would have a monetary value.<sup>2</sup>

**Chair:** Tell us about the last year. In the last year how many reports have you received?

**Laurence Sacker:** 24.

**Q211 Chair:** If you could write to us and tell us the estimated value of that 24, that would help us understand. Is there a level beyond which your partners would automatically say to you that they need you to look into this? You are not interested in £1,000, are you, or are you?

**Laurence Sacker:** There is no de minimis actually.

**Q212 Chair:** What is your minimis, roughly speaking, where you think, “I think this needs looking into”? Would someone normally come to you as the reporting officer of Hacker Young and says, “I think one of our clients has produced £500 and we don’t really know where it comes from”?

**Laurence Sacker:** It would be quite unusual for me to get that sort of report.

**Chair:** £500?

**Laurence Sacker:** Yes.

**Q213 Chair:** So what sort of figure are we talking about?

**Laurence Sacker:** It varies more in the circumstances than the amounts.

**Chair:** Sure, but roughly?

**Laurence Sacker:** A few thousand, probably.

**Q214 Chair:** A few thousand, so £3,000 or £4,000. Somebody could come to you and say, “One of our clients has £3,000 to £4,000. We are concerned about it. We want you to look into it or report it”?

**Laurence Sacker:** Yes, but it could be a smaller sum. If it was, for example, bank interest from an overseas account that had not appeared before, it could be a smaller sum and we are suddenly wondering what the money is and where it has come from. So there is really no—

**Q215 Chair:** There is no minimis. We have had evidence in the first session that you report this money laundering to ELMER, a computer system that the National Crime Agency has had for a while. It is supposed to deal with about 22,000 reports a year but I think that the figure we were given was it runs into six figures, 300,000 reports.

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<sup>2</sup> Note by witness: I was asked to give an indication of the value of Internal Reports (some of which resulted in SARs being made). This is actually a very difficult number to estimate, since the reports generally relate to disclosures in the process of being made to HMRC about funds that have been held outside the UK tax regime, or fraud investigations. In both cases the amounts are often difficult to ascertain in the early stages of our work, which is when the Reports would generally be made.

I have reviewed the 24 Internal Reports made in the year ended 31 December 2015 and estimated the combined headline value of these to be approximately £4.75 million.

**Laurence Sacker:** 350,000 or something, yes.

**Chair:** How can a system that is supposed to deal with 22,000 cope with 350,000 reports?

**Laurence Sacker:** I think that they probably only look in detail at the consent SARs that go to them, which is about 15,000 in a year. The others are just recorded somewhere and may get passed on eventually, but I am not sure.

**Q216 Chair:** What is the point then of reporting the other 315,000 if they are never going to get looked into?

**Laurence Sacker:** I don't know if they are ever looked into. We obviously don't get feedback on that, but from the reporting officer's point of view it puts you in the clear, effectively.

**Chair:** Sure. So long as you report it you are done.

**Laurence Sacker:** Pretty much, yes.

**Q217 Chair:** The final question before I ask Mr Pryor some questions: do you think the reporting system at the moment is fit for purpose?

**Laurence Sacker:** I think it is struggling. The online reporting system is antiquated, very cumbersome to use, and I think that needs some serious modification. The consent regime, if you actually have to do a consent request, takes a lot of time and can cause problems in the relationship with the client because it is not quick enough. We had a tax case recently where there was an investigation going on and we were instructed quite late on to assist with this. We looked at it and it showed up a few red flags. We put a consent request in but there was a meeting with counsel two days after that and to get a response out in less than the seven days that they are allowed is very difficult. We still don't have that response, so we have to take a view on what we do.

**Q218 Chair:** Mr Pryor, you have heard the evidence given by Laurence Sacker, in your line of work do you do much reporting and who do you write to?

**Henry Pryor:** In the eyes of the law I am an estate agent, although my day-to-day business is buying properties rather than selling properties, which I have done in the past. I am a one-man band, sole trader, so I am my own money reporting officer and I would report to HMRC and the National Crime Agency by submitting a suspicious activity report.

**Q219 Chair:** How many did you do last year?

**Henry Pryor:** None.

**Q220 Chair:** Roughly what is the turnover of your business?

**Henry Pryor:** My modest business.

**Chair:** Your modest business, compared to Hacker Young.

**Henry Pryor:** My modest business turns over about £250,000 a year in fee income. That is purely in fee income as opposed to the amount of money. I buy roughly £100 million worth of property per annum.

**Chair:** £100 million per annum?

**Henry Pryor:** Correct.

**Q221 Chair:** You have heard the evidence that was given by Bill Browder and others, the concern that the London property market is being used and you have had nobody coming in who you think, “My goodness, where has this money come from?”

**Henry Pryor:** I have not.

**Q222 Chair:** Is that surprising?

**Henry Pryor:** It is not surprising but it does highlight, if I might, expand a little—

**Chair:** Yes, expand, burst forward.

**Henry Pryor:** In the UK property market, bear in mind that there are 3.75 million registered titles that the Land Registry holds. 100,000 of them are owned by offshore companies, information that has been put into the public domain, interestingly, in March, which has been much remarked and reported upon. Last year in the UK 1.2 million transactions, generated a grand total of 355 suspicious activity reports according to the National Crime Agency. That is 1.2 million sellers who have come into contact with estate agents, that is 1.2 million buyers that have come into contact with estate agents—forgive me, I will leave members of the Committee to do the maths as we go—so that is 2.4 million. Then there are all the sellers that did not successfully sell their homes, let’s just say 1 million, and another 2 million potential buyers who were unsuccessful in purchasing a property who could have given rise to a suspicious activity report. Then you start to add on all the allied businesses, some of which are not yet incorporated under the anti-money laundering legislation, like letting agents for example. You can see there is a huge number of potential transactions that are at the present time generating, as I say, according to the NCA, just 355 suspicious activity reports.

My personal opinion, for what little it is worth, is that the regulations and the rules and the penalties for breaking those rules are quite sufficient but it is woefully inadequately policed. Although my industry is at last waking up to it, very much on the back of a Channel 4 exposé last summer, we are still massively behind. I am afraid I would—

**Q223 Chair:** What would you like to see happen, your top three asks?

**Henry Pryor:** When we see people dropping litter in the street, we tend to turn a blind eye, unfortunately. If we see people emptying the contents of the back of their skip or truck into a gateway in the countryside, we tend just to drive on past. We have this view that it is not our business and the state somehow will pick up these things but unfortunately, without the eyes of the population to point the state in the right direction, the agencies are unable to know where to go and look, what stones to turn over. We need a sea change in the approach to this. We need some examples to be made. The Channel 4 documentary last July clearly identified five incredibly questionable, very embarrassing individuals, five

companies. The companies themselves were either regulated or were part of the two recognised industry bodies. Both those industry bodies have failed so far, despite announcing independent inquiries, to have reported.

**Q224 Chair:** The British Bankers' Association said that the current system is dysfunctional and confusing and that many people involved in the process, as well as external commentators, view the system negatively. Do you agree with that?

**Henry Pryor:** I do agree with that, if I understand your question correctly.

**Q225 Chair:** Why do you agree with that, bearing in mind you did not make a single report last year?

**Henry Pryor:** The system is not based on submitting reports of every transaction you are involved in. The clue is in the title, suspicious activity report; if the man in the street, the reasonable man on the Clapham omnibus, has a reason to be suspicious. I would say that if, for example, the buyer of a property was the second son of a world leader in a country in the middle of South America—how does he have £8 million to buy a flat in Mayfair—personally I would be suspicious. But it does not seem that my professional colleagues are as sceptical as I am, which is unfortunate.

**Q226 Chair:** If this money disappeared from London because the system was better regulated, better policed, less dysfunctional—

**Henry Pryor:** Hooray. It would be wonderful.

**Chair:** —it would mean your business might go down in value.

**Henry Pryor:** I am not sure that anybody is making their decisions based on the robust health of the property market or otherwise. What they are trying to do is—

**Q227 Chair:** Do you think the money is in the property market?

**Henry Pryor:** Without question it is there because you only have to look at the reaction we have seen to the Panama papers, for example. There has not been one even second division law firm who has come out on the record and commented in the press about the implications of this.

**Q228 Chair:** Why do you think that is?

**Henry Pryor:** I suspect that nobody really wants to draw attention to themselves because everybody has some question mark in their mind, rightly or wrongly, that if they were to forensically look at their business they might find things that they did not find particularly comfortable.

**Q229 Chair:** What Mr Browder is saying is correct, that if the money was coming out of London then London would suffer?

**Henry Pryor:** I don't think that London property would suffer. I don't think London's reputation would suffer if we cleaned up our act. At the moment we do have the equivalent of a welcome mat out for anybody to come if you want to launder your money. I am afraid that school leavers would know how to do it.

**Chair:** Really?

**Henry Pryor:** It is not a complicated process. It is not something that requires an Open University degree to be able to do.

**Q230 Chair:** Don't tell us how to get round it here because people may be watching, but basically what you are saying is that it is very easy to do it if you want to do it?

**Henry Pryor:** It is all too easy. We see evidence of the individuals or the professions that are involved. This is not something that an estate agency could clear up even if it were able to and minded to. It requires the participation of conveyancing lawyers, accountants and bankers who are also party to this. Estate agents never touch the money so it is somewhat ironic to expect them to be anything other than a gatekeeper for this.

**Q231 Chair:** On the Russian theme, since Mr Browder talked about all this money coming in from Russia to buy property, do you find it is the case that a lot of Russians are buying property in London? Can you look at a particular—

**Henry Pryor:** A lot foreign nationals, Russians and others, have bought UK property. UK property happens to be a currency that is in bricks and mortar but it is sterling, that once you have bought and then disposed of it you end up with clean money. It is not a difficult concept for even estate agents to grasp.

**Q232 Chair:** Sure. Mr Sacker, the welcome mat needs to be taken away. Do you agree with that?

**Laurence Sacker:** Yes, I expect it does. I don't think the City of London would suffer too greatly. There is enough honest money floating around that the reputation would probably improve considerably.

**Q233 Mr David Burrowes:** The Government have announced their biggest reforms to the money laundering regime in over a decade in the action plan announced by the Home Secretary. How do you think that will affect your business?

**Laurence Sacker:** From what I have seen of it, I don't think it would change what we do very much. We don't handle large sums of client money, first of all, let me say that. In terms of our procedures for taking on new clients, for example, we go through quite a rigorous process of understanding and knowing their business, knowing where their money came from, what they are seeking to do. We look at the commercial logic of what they are doing and if it does not stack up we ask more questions. We make sure we have ID'd them properly. We carry out some extensive searches on external databases to see if there is any adverse publicity or if they are on any sanctions list or PEPs or whatever. We go through quite a rigorous process already.<sup>3</sup>

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<sup>3</sup> Note by witness: During the year ended 31 December 2015 we took on 900 new clients. There were two potential clients that we decided not to act for; in one case our AML checks brought up a close relationship with individuals from an Eastern European country who were included on the sanctions lists and my view, supported by our managing partner, was that we should decline to act. No SAR was made as there was nothing to report.

The other potential client was reluctant to provide adequate ID to facilitate more detailed verification or adequate replies to our "know your client" processes and we declined to act. No SAR was made as there was nothing to report.

**Q234 Mr David Burrowes:** For six weeks after it kicked off on 21 April, they are going to big businesses, which I would imagine would be yourselves and other professional service firms and others, to ask your views on fundamental reform of the suspicious activity reports regime, creating new powers in relation to unexplained wealth orders, linked forfeiture powers for use where the answers provided are unsatisfactory, the creation of an illicit enrichment offence and new administrative powers. Surely that may have an impact on your business?

**Laurence Sacker:** I don't think it would have an impact on our business. It may have an impact on—

**Q235 Mr David Burrowes:** In terms of your role with compliance, due diligence and the like, will it have any effect at all or will it be business as usual?

**Laurence Sacker:** As I said, I think we are already fairly rigorous in what we do. Things like unexplained wealth orders would be useful and the lifting of the veil of secrecy, as I have already mentioned, so that we understand beneficial ownership. One of the things we always try to do when we are looking at taking on new clients is we want to understand who the ultimate beneficial owner is of any businesses that they have to make sure that we are dealing with the right people.

**Q236 Mr David Burrowes:** Will you be responding in any way to the Home Secretary in looking to see how these new measures can be effective? You are suggesting that you have good practice in what you are doing and you can ensure that good practice is spread through these new measures.

**Laurence Sacker:** I don't think we are the only firm with good practice. I speak regularly, as the money laundering reporting officer, to colleagues in other top 20 accounting firms in the UK and we discuss, under Chatham House rules, the sort of situations that we come across in our work. That is quite a free and open discussion. From that I can see that we are all doing pretty much the same things and some of the things that they do that we were not doing we have now added into our structure, so we all benefit from that. I think that there is a quite rigorous approach to it already. To some extent we go above and beyond what the law requires us to do because we have our own good name to consider as well and we don't want to get caught by these things. For example, we have been looking at UK PEPs and non-UK PEPs for years now already and we keep a log of all that. There are certain areas where we already do more than is required.

**Q237 Mr David Burrowes:** Is there anything you want to add, Mr Pryor?

**Henry Pryor:** It seems to me that what the Home Secretary is proposing in the consultation exercise, which I am not, embarrassingly, forensically appraised of, is

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Continued...

I estimate that out of the 900 new clients approximately 15% would have been flagged up by our more detailed verification processes, although almost all of these would have been "false positives" where the database identifies a close, but not exact, match. Those new clients that the verification process resulted in a "real" hit would have been reviewed in detail by me as MLRO before any decision to act. The verification process may indicate a past criminal record, a director disqualification, some adverse publicity, a potential PEP or many other reasons, but whilst this may increase our risk assessment it would not necessarily prevent us acting.

mucking out the proverbial stable as a result of the door being left wide open. We are cleaning up the mess afterwards. The facts speak for themselves as far as I am concerned: 355 suspicious activity reports—an average estate agent thought that, “It looked a bit dodgy, guvnor”—from potentially 5 million parties who could have been up to no good. We are simply not suspicious enough.

**Q238 Tim Loughton:** Mr Sacker, in my pre-POCA days in the City I think you were called a compliance officer, effectively; you now call yourself a money laundering reporting officer. It is the same though, isn't it?

*Laurence Sacker:* Probably yes.

**Q239 Tim Loughton:** In my day the compliance officer was a pain in the backside because he was there to prevent you from doing business, effectively. Things have probably come on since then but everything you described was about your colleagues who are responsible for handling the clients and giving them business plans, investing money and so on. It down to them to come to you to report something, but in my day it was always the compliance officer looking over your shoulder, making sure you, the fund manager or whoever, was going through a rigorous testing exercise. Has that dynamic changed now or where does the responsibility lay?

*Laurence Sacker:* I think the role is different. I am a working partner within the practice. I have clients and things as well, so the money laundering reporting officer is a subsidiary role. It is not a dedicated function.

**Q240 Tim Loughton:** So you regulate yourself, for your clients?

*Laurence Sacker:* I have a deputy who I discuss things with if I need to, so there is more than one of us. That works quite well.

**Q241 Tim Loughton:** How many potential clients have you rejected?

*Laurence Sacker:* Less than a handful in the last 12 months.

**Q242 Tim Loughton:** Out of how many clients that you have taken on in that time, roughly?

*Laurence Sacker:* I would have to check that number, maybe 400 or 500.

**Q243 Tim Loughton:** What would happen to you if you took on a client, invested their money, and it later turned out that they were the subject of a criminal investigation and that they were guilty of money laundering? The implications for you would be what?

*Laurence Sacker:* At the end of the day, as the money laundering reporting officer, you can go to jail if you don't deal with matters correctly, so that would be the ultimate sanction. The firm's reputation would suffer greatly as well, I believe.

**Q244 Tim Loughton:** How many money laundering reporting officers have gone to jail or been prosecuted or penalised in some way?

*Laurence Sacker:* I think there might have been one but I don't think it is more than that.

**Q245 Tim Loughton:** Over what period?

**Laurence Sacker:** Since the legislation came in in 2002.

**Q246 Tim Loughton:** Do you think over that 14-year period there are probably more cases that should have been prosecuted because the diligence undertaken by the firm was not sufficiently robust?

**Laurence Sacker:** Some firms do it better than others; some people slip through the net. I am sure there are instances but whether or not this is an area to focus on, because about 80% of SARs are filed by banks. I think accountants last year filed only just under 5,000 SARs, and by and large accountancy firms do not handle the money. Of all the SARs that I have seen over a number of years, the vast majority of them are to do with tax issues.

**Q247 Tim Loughton:** That one compliance officer who has been done in the last 14 years included from banks, accountants, investment firms and everybody else, so across the piece. Effectively, the odds of getting caught, and therefore the onus on you to make sure you are doing a really rigorous and robust job, and the deterrent factor are pretty minimal. Would you agree?

**Laurence Sacker:** That is the ultimate deterrent, I think, but we get regularly reviewed by our professional bodies to make sure that we are doing the right sort of things and doing them properly. We had a review of our procedures by the Institute of Chartered Accountants in the last 12 months and they came up with a few questions about some of the clients, which we resolved, and that is an ongoing process. They can come back any time they want to and look at that.

**Q248 Tim Loughton:** Who is your regulator, the FCA or—

**Laurence Sacker:** The Institute of Chartered Accountants for the money laundering.

**Q249 Tim Loughton:** That is your regulator. Do they have the power to fine you?

**Laurence Sacker:** Yes.

**Q250 Tim Loughton:** Has your firm ever been fined?

**Laurence Sacker:** For that, no.

**Q251 Tim Loughton:** Mr Pryor, can I ask you, roughly what is the value of the property transactions in London in the last 12 months?

**Henry Pryor:** I am sorry, I don't have it off the top of my head. There are roughly 9,000 transactions a month in the capital and the average value of a property in the capital is now estimated at around £500,000.

**Q252 Tim Loughton:** To put that in perspective, since the Proceeds of Crime Act some £180 million worth of UK property in the entire country has been subject to criminal investigation. That could be a couple of large properties in Kensington alone over a 12-year period. This is a tiny drop in the ocean of all the property transactions that are happening in London that actually get investigated let alone end up with a criminal prosecution.

**Henry Pryor:** I am not aware of any criminal prosecutions of estate agents.

**Q253 Tim Loughton:** Yet you think it is a fair judgment that quite an amount of dirty money is going into property and particularly in London?

*Henry Pryor:* Correct.

**Q254 Tim Loughton:** Clearly the situation at the moment is not working.

*Henry Pryor:* I would merely wish to repeat that I don't think there is any problem with the rules and regulations. It is just that nobody appears to be interested in enforcing them. If you go to most estate agents in London—certainly 12 months ago, still probably today—the majority think that their responsibilities extend only as far as their client, the seller. The money laundering, as I am sure you have already connected, is going to be done by the purchaser who most estate agents do not believe they have a duty of care to or for.

**Q255 Tim Loughton:** To bring it into your industry as an estate agent, if a property was later found to have been purchased through you, or through Savills, Strutt and Parker or whatever, and was purchased with dirty money by somebody against whom criminal action could be taken, what would be the implications for you as the person who has sold that property to them?

*Henry Pryor:* Far less than my colleague here, far less.

**Q256 Tim Loughton:** How far less?

*Henry Pryor:* The vast majority of estate agents are selling agents. They would put their hands up and say, "It is nothing to do with us, guv. We are not responsible. We are responsible for ensuring that our client, the seller, was a fine upstanding member of society and was not engaged in money laundering". It is highly unlikely that the seller at the time was laundering the money. He may have been the owner of the dodgy cash in the first place and had bought a property on that basis, but provided he has jumped through the hoops, as the industry would see it—there is a phenomenal tick-box mentality going on out there. The majority of agents and their money laundering reporting officers are there completing forms so that if for some extraordinary reason they were inspected they would be able to say, "Fine, here is how we go about it, got the manual".

**Q257 Tim Loughton:** It is a record-keeping exercise?

*Henry Pryor:* It is a record-keeping exercise, understandably.

**Q258 Tim Loughton:** I am trying to work out what the deterrent factor is for you and your colleagues in the industry.

*Henry Pryor:* Tiny.

**Q259 Tim Loughton:** I want to define how tiny it is. If you were acting as a selling agent for a Russian oligarch who has turned around a property in six months, because this is money laundering so, therefore, de facto those properties are likely to change hands faster than somebody who is buying it as a family home—

**Henry Pryor:** I don't mean to contradict you but over the last few years it has been quite a shrewd investment with your dirty money. You might not have wanted to sell it and liquidate it that quickly.

**Q260 Tim Loughton:** Absolutely, but somebody who is laundering money is likely to be turning over and liquidating that money so they can then use it in whatever capacity they want to use it. If a Russian oligarch who raised suspicions to any reasonable person—however you define that—had sold a property through you and you had raised no questions or had not raised a suspicious activity report, what would the comeback be to you if it later turned out that they were a crook?

**Henry Pryor:** The inevitable article in *The Financial Times* would be embarrassing but not fundamentally distressing. There would be no evidence in the public domain as to whether you did or did not submit a suspicious activity report. I would suggest that probably the only evidence that you had fallen over or been asleep on the job would be if you, as the money laundering reporting officer, were hauled up and publicly prosecuted for being asleep at the wheel.

**Q261 Tim Loughton:** Again, that has not really happened? Can you think of anybody that has happened to in your profession as well?

**Henry Pryor:** No.

**Q262 Stuart C. McDonald:** Mr Sacker, are the staff that you employ who flag up potential problems to you simply applying the reasonable man on a Clapham omnibus test or have they undergone training and do they have guides that they refer to when they are making their decisions? How do they know that something should be flagged up to you?

**Laurence Sacker:** All professional staff and admin staff have training in anti-money laundering procedures and Bribery Act regulations as well. They do that annually and that is monitored. We do regular reviews of existing clients as well, but for new clients, which is where the majority of anti-money laundering checks would be taking place, these would all be taken on by partners who are obviously senior people in the firm. They would have to fill out the new client take-on forms, which includes all the anti-money laundering procedures, some of which I have described.

**Q263 Stuart C. McDonald:** Do you do any auditing of files on new clients that are not flagged up to you? Do you ever go back and say, "I am going to take a sample of clients or transactions that have not been flagged up" just to make sure that people are doing their job properly?

**Laurence Sacker:** Yes. We have a database that gives us exception reports of things that are not up to scratch, and we also do compliance reviews during the year to make sure on a sample of files, a sample of new clients and a sample of existing clients, that the procedures have been followed.

**Q264 Stuart C. McDonald:** On top of that, does the Institute of Chartered Accountants also comment or audit some of your files and the decisions you have made?

**Laurence Sacker:** They can come in when they choose to. They do not choose to do that every year and they do not choose to look at AML stuff every year, but they have the right to.

**Q265 Stuart C. McDonald:** Mr Pryor described the equivalent with the estate agents as a tick-box exercise. Is it something similar with accountants? How rigorous are these tests?

**Laurence Sacker:** I can only speak for my firm. We sell time; that is what we sell. If you do not record the time you cannot charge for it. You cannot get a client number to start recording the time without having completed the client take-on procedures, including the money laundering procedures, and issued an engagement letter. That is the theory. Obviously there are always some blips in the system and things may slip through, but it will get caught up later on. So they cannot start selling the time without having gone through the procedures.

**Q266 Stuart C. McDonald:** How often are you inspected by the Institute of Chartered Accountants? How many of these cases and transactions will they have a look at? A tiny fraction?

**Laurence Sacker:** I think last time they looked at a sample of about 20 or 30 transactions.

**Q267 Mr David Burrowes:** You said that there were a handful of clients that you had rejected. Did any of those lead to suspicious activity reports?

**Laurence Sacker:** Yes.

**Q268 Mr David Burrowes:** How many?

**Laurence Sacker:** One or two.

**Q269 Mr David Burrowes:** One or two, and that is out of several hundred clients?

**Laurence Sacker:** No. We have something like 6,000 active clients at the moment. In any year we may have 200, 300, 400 or 500 new clients within that 6,000. I am not sure. I do not have those numbers.

**Q270 Mr David Burrowes:** For the numbers that have had the SARs, what has been the difference between those that have initiated those reports and the others that have just been rejected? Where is the threshold?

**Laurence Sacker:** The SARs can crop up after you have taken them on as a client. I think the ones that we rejected we did not take on as clients because of other things we discovered at the outset going through the know your client business procedures that we took a dislike to, I suppose.

**Q271 Mr David Burrowes:** The SARs came from existing clients, rather than rejected ones; is that right?

**Laurence Sacker:** I think we did one or two SARs on people we did not take on as clients.

**Q272 Mr David Burrowes:** Does this have any impact on competitors taking on those rejected—

**Laurence Sacker:** They would never know about the SARs that we had filed, obviously, and there would be no question.

**Q273 Mr David Burrowes:** There is no conversation or no relationship with competitors in relation to those people?

**Laurence Sacker:** No.

**Q274 Tim Loughton:** Is there no database of that? There used to be something called the Mutual Reference Society at the Stock Exchange whereby if one had any qualms about a client, or a client had left the firm under a cloud of not paying a bill or something like that, there was a central database, so before anybody took on a new client they could check that they were not effectively blacklisted. Is there nothing like that anymore?

**Laurence Sacker:** If you are taking on a client from another firm of accountants you do a letter, a professional courtesy letter, often to ask if there is any reason why you should not take on that client. If somebody wrote to us in that regard and we had done an SAR we would not be disclosing about the SAR in our response to that, because that would be tipping off, which we cannot do.

**Q275 Chair:** You mentioned overseas territories. We are told by Transparency International that almost one in 10 of properties in the London Borough of Kensington and Chelsea, 10%, is owned through a secrecy jurisdiction such as the British Virgin Islands, Jersey or the Isle of Man. When one of your clients comes to you, or one of your partners, or in Mr Pryor's case himself, since he is a lone trader, and they say, "The money is coming from an overseas jurisdiction" does that immediately ring alarm bells or do you just accept it and have a look at the bank statement and carry on regardless? Do we need to tighten up these jurisdictions, basically? The Prime Minister is trying very hard to do this.

**Laurence Sacker:** It is obviously very difficult to find out who owns a BVI company, for example. Just because it is a BVI company does not mean it is dirty money. We look at the commercial logic for why it is being done in that way, and understand that as part of our know your business, know the client processes. So we would try to establish if there was a sensible commercial reason for that process.

**Q276 Chair:** You have not been to any of these places?

**Henry Pryor:** I have not been to any of these places.

**Chair:** Jersey, the British Virgin Islands?

**Henry Pryor:** I have been to the Channel Islands, that is quite right. I apologise. I withdraw the answer and start again. I have indeed been to the Channel Islands. The average estate agency business in the UK, and it is a very fragmented industry, is two men and his dog. There are big brands. The largest, Countrywide, has a 10% market share, so it is a strange upside down industry. There is no big, dominating player. The big firms, the big brands, do have very robust operations in place, but one of the peculiarities is we are unlicensed, we are unregulated, by and large. It is the last bastion of capitalism, commercialism. You can go out, anyone can set themselves up and call themselves an estate agent tomorrow morning, and those estate agents that do trip over and are found wanting can then go the next day and set up as a letting agent.

**Q277 Chair:** Are you calling for regulation of estate agents?

**Henry Pryor:** I have in the past.

**Q278 Chair:** So maybe we will think about that as a future inquiry.

**Henry Pryor:** I would urge everybody to consider it, but it is not in answer to what I believe you are looking into today. If I may just very briefly, I promise, the implications for UK property is huge. It is enormous. If you look at the big mansion blocks in London, for example, if you spend £2 million on a flat in a block and your next door neighbour is Al Capone, first of all he is unlikely to fulfil and meet his obligations as far as chipping in for the sinking fund to mend the roof, but he is also highly likely to send his friends round to get you to pay up his share. In Britain we sit very much with this mentality that we are okay in our little box that we paid £5 million for, and everything else will look after itself, but the repercussions from this are enormous. I think we are playing with that reputation far too recklessly and I applaud everybody's efforts, including your Committee's.

**Q279 Chair:** Thank you. If you have anything further to add, in particular practical suggestions that would help this Committee—we are not interested in just repeating what has been said already; we want some practical help given to the agencies—it would be very helpful, if you could write to us, and the same applies to you, Mr Sacker. First of all if you could tell us the approximate value of the 24, but also, more importantly, if you have any practical suggestions, changes in the law that we can put to the Government. This is what the Committee wants to do. We want to put some practical suggestions forward that will benefit the aims of what we are trying to achieve.

**Henry Pryor:** Please include letting agents. It is not just estate agents who are currently caught up with it. Going back to one of the points that you made very forcefully, I felt, if you wanted to launder money, which of course none of us do, you could buy a property with your ill-gotten gains and then rent it out in a very buoyant, very robust letting market, and take in clean money in perpetuity. Sorry.

**Chair:** Don't be sorry. It has been very helpful. You have said some very helpful things. Mr Sacker, thank you very much for coming in. Mr Pryor, thank you very much for coming in, and do write to us if there is more that you need to talk to us about. Thank you very much. This closes the session.