

Treasury Committee

Oral evidence: Economic Crime, HC 940

Tuesday 19 June 2018

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[Watch the meeting](#)

Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Mr Alister Jack; Alison McGovern; Catherine McKinnell; John Mann; Wes Streeting.

Questions 73-172

Witnesses

I: Stephen Curtis, Chairman, Association of Company Registration Agents, Adam Harper, Director of Strategy and Professional Standards, AAT, and Mark Hayward, Chief Executive, NAEA Propertymark.

Written evidence from witnesses:

– [Stephen Curtis](#), [Adam Harper](#), [Mark Hayward](#)

Examination of witnesses

Witnesses: Stephen Curtis, Adam Harper and Mark Hayward.

Q73 **Chair:** Good morning. Thank you to our three witnesses for being here. Before the first questions, can I ask you all to introduce yourselves?

Mark Hayward: I am Mark Hayward. I am the chief executive of NAEA Propertymark.

Chair: Can you explain what that is?

Mark Hayward: The acronym? The National Association of Estate Agents.

Adam Harper: I am Adam Harper. I am the director of strategy and professional standards for the Association of Accounting Technicians.

Stephen Curtis: I am Stephen Curtis, the chief executive of the Association of Company Registration Agents, or ACRA.

Q74 **Chair:** Thank you. You are welcome to use acronyms hereafter; it is just good to explain them in the first couple of minutes. I want to start with a broad question to you all. Can you describe for us how anti-money laundering activities are carried out in your particular sectors? Perhaps we can start with the company registration sector.

Stephen Curtis: Certainly. We have a very detailed Treasury guidance note that dictates how we do it. We are supervised by HMRC, which inspect that we are doing it in the way that they say. It is part of a triage process. We look to see whether there are any factors that may cause something to need enhanced due diligence. Examples might be where all the people associated with the company are overseas, or where it is from a jurisdiction that we would not normally deal with or whatever. We also look at whether the client is a professional. In many cases, the client has already done the due diligence. We do things such as using the electoral roll. We use a commercial database to identify politically exposed persons and so on. Is that sufficient for now?

Q75 **Chair:** That is very helpful, thank you. We will come back to a lot of that. Mr Harper, perhaps you can talk about anti-money laundering activities in your sector.

Adam Harper: AAT is one of 22 professional supervisory bodies. Within the accountancy sector, there are 13. Each of those bodies has the responsibility of looking after its members' compliance in regard to AML regulations. We work collaboratively as members of the Accountancy Affinity Group and co-operate as part of the Anti Money Laundering Supervisors Forum.

In terms of the extent and the reach, approximately 33,000 firms are supervised by those 13 professional body supervisors. In addition to those

that are covered by the professional body supervisors, approximately a quarter, or 13,000 firms, are supervised by HMRC. There is that element of the accountancy sector, which is largely those that are unregulated—that is, not members of a professional membership body.

Mark Hayward: We are not a supervisor; we are regulated by HMRC. We work very closely—or as closely as you can—with HMRC to ensure that the guidance we are giving to our members is correct. Currently the guidance for estate agents, which was produced soon after the fourth money laundering directive came into force last June, has yet to be approved by the Treasury. We are just working on draft guidance. We provide a significant amount of training and support for all our members. Every event that any of them will attend will have an AML aspect to it. We offer pro formas that HMRC has approved, together with IT to ascertain identity and help to carry out CDD, KYC and enhanced due diligence.

- Q76 **Chair:** Following on from that, Mr Curtis touched on the types of warning signs you might expect with people using firms in your sectors, such as estate agents. For example, Mr Hayward, you just mentioned training sessions. Where are the areas that firms in your sectors can be most vulnerable to those who want to use businesses in your sectors to launder money? Perhaps you can start with estate agents.

Mark Hayward: It is not just prime central London. I know Tom Keatinge referred to the UK as being down the aisle in the supermarket for AML. I think the UK is still a sort of destination du jour for money laundering. Certainly we have seen evidence outside London, particularly where purchases are not uncommon from overseas—particularly in university towns, whether that be Cambridge, Exeter, Bristol or Manchester. There is a very high proportion of purchases from overseas, and we particularly ask our members to be careful when it is a company and to try and find the beneficial ownership of that, and that is starting to improve at the moment.

I think if anything does not smell quite right, our members should be on alert, because as we explain to them, organised crime is what it says on the tin: it is not somebody in a back bedroom with a laptop and a hoodie; it is somebody that is trying to launder money for whatever purpose, and they will look at the weakest link, the weakest agent, and try and purchase through that.

Unfortunately, as you are probably aware, lettings is not yet included, although the indications from the fifth money laundering directive are that it will be there; but lettings handles money. Estate agents do not handle money, but they are enablers. So there are a number of indicators that we would flag to them that they should look for, and then if they are suspicious they need to submit an SAR.

Adam Harper: Perhaps I can answer that from the perspective explicitly of AAT. We have approximately 4,500 licensed members to whom the AML legislation is particularly pertinent, and those that we supervise.



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I think that, potentially, we have identified three core areas within the services that our members provide where there perhaps is greater risk—so that would relate to limited assurance engagement, to company secretarial services, and to the broad array of tax. Within our licensed community there are only 4% of our licensed members that offer limited assurance engagements. Approximately 48% are engaged in offering company secretarial services and, in terms of the tax, that will range from 20% that offer inheritance tax through to about 96% or 97% that will offer VAT.

In order to support our members, we provide an array of support and services to help them ensure that they are engaging in appropriate activities. Then, above and beyond that, I would identify that the percentage of members that have identified that they have what they would consider to be high-risk clients is only 4% in the last reporting period; so it is a relatively confined area.

Q77 Chair: Mr Curtis, is there anything you want to add to your earlier points about overseas?

Stephen Curtis: Just a couple of things, if I may. One is that each agent has their own way of doing it, and we are encouraged by HMRC to make a risk assessment that is relevant to your business and not just a one-size-fits-all risk assessment. There is a range of company registration agents.

We also look at the standard industrial classification code, and if they are proposing to do money movement or something like that, we might take a closer view; but you will find as this morning progresses, I think, that one theme of this, of course, is that we do these checks, but potentially half the applications for company registration in this country are not checked at all, because people have gone direct to the Government for them.

Q78 Chair: Colleagues are obviously going to probe each area. My last question before I hand over to Charlie is that I think evidence so far—and obviously you have probably read the previous evidence the Committee has heard—has suggested that we have, as the UK, a pretty fragmented anti-money laundering supervisory regime, where financial institutions are certainly carrying quite a lot of the load, both in terms of cost, but also, as you mentioned, the suspicious activity reporting. The reason we have asked the three sectors to come to give evidence today is because of the suspicion, or the fingers being pointed to say, that you are some of the weaker links—Mr Hayward, you used the phrase “weakest link”—in the anti-money laundering regime in this country. Estate agents—what would you say to that accusation?

Mark Hayward: I would probably agree.

Chair: That would be good for our report. Thank you.

Mark Hayward: It is a weak link. As I said before, the estate agent is the enabler; they are the first touch for the seller or buyer. They should, by nature, be intuitive, and they should be able to pick up these signals. However, they are paid on results, and would it be in their interest to submit a report if there is a particularly large fee at the end of it? We all



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know that, at the moment, the prime central London market has collapsed—the transactions are very low—so for those on the ground, perhaps in a small, niche company for whom the fees will be significant, will they ask too many questions, which could put people off purchasing?

It is a weak link. We do all we can through our members, but not everybody has to be a member of our organisation. Our members choose to be regulated and to go through examinations, part of which covers how to address AML. However, as you know, the Government are now committed to licensing estate agents and to having a minimum standard. As I said before, we are not yet supervisors. We have met with OPBAS and the Treasury to look at that, and we have also looked to HMRC to assist, but that guidance and assistance is not necessarily always forthcoming—there is a lack of resource and, sometimes, a lack of an ability to just get the message out there.

Q79 Chair: Mr Harper, what would you say about members of the AAT being a weak link?

Adam Harper: The 2015 national risk assessment identified the accountancy service sector as an area where there was, shall we say, room for improvement. I point to the fact that all the professional supervisory bodies worked, subsequent to that assessment, to try to address that risk, both on a collaborative basis—in developing sector-wide guidance that will be applicable across the sector—and in the way in which each individual supervisory body dispenses its responsibility as a supervisor, from a point both of view of the standards we would expect an individual to have exceeded in order to be granted professional membership in the first place and of the ongoing measures that we put in place to ensure that individuals continually demonstrate their compliance and adherence to the relevant regulations that we have in place.

We also conduct risk-based monitoring activity among our membership community, which effectively allows those who conduct that exercise to go out on a face-to-face basis and go through a whole host of checks, from a point of view of practice assurance and also explicitly looking at the provisions put in place to comply with the money laundering regulations. I am not suggesting that we have cracked it yet, but there is an awful lot of evidence that we could point to that demonstrates the ways in which we are addressing some of those shortcomings.

My final point on this subject is that it is important to note that accountancy is not regulated—anybody can set themselves up as an accountant. Within the accountancy sector there are therefore those who are regulated and therefore supervised by one of the professional supervisory bodies, and there are those who are unregulated. There is potentially a risk around that unregulated cohort, in that they are not required to go through the same fit-and-proper assessments that members of an organisation such as AAT are required to go through on an annual basis.



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Stephen Curtis: You might expect me to say this, but my genuine belief is that members of ACRA are not a risk. We put a lot of effort into discussing best practice in anti-money laundering checks. The problem is that there are perhaps three segments of the industry. There are those who are registered for HMRC and are entirely legitimate in that sense. There are then a group of unregistered agents—although they are required to be registered to be a company registration agent, they actually save themselves 10% in turnover and can still continue in business without being registered. There are then the activities of Companies House itself, which we can talk about separately. The other two segments provide a bigger risk.

Chair: Thank you very much. I should say, gentlemen, that it is warm in here. Committee members have taken their jackets off, so if you want to do the same, please feel free to do so.

- Q80 **Charlie Elphicke:** Mr Hayward, I am going to ask you questions about the property market, to follow up on the questions you had from the Chair just now. You said that, when one thinks about money laundering and UK real estate, one thinks about central London prime, but you said that that was not the case, and that it happens in university towns. Is there also an issue with buy-to-let landlords in regional towns all over the United Kingdom?

Mark Hayward: I think there is, particularly with buy-to-let landlords who may buy at auction. They are possibly never in front of an agent. It is a way of buying property. We have had incidents, for instance, in the north-east, where property is being bought at auction in London; up in the north-east, they are then inserting, shall we say, unsavoury tenants into those areas to bring those areas down in quality and to turn them into areas that are not appealing. Those that are living there then move out, that drives value down and allows people to buy further property and launder money through that route, whether that is a cash-based business such as sex workers or whatever. There is certainly evidence that that is happening.

- Q81 **Charlie Elphicke:** So there is a link between rogue landlords and money laundering? I represent Dover. This is not just in the north-east. There are a whole load of rogue landlords who buy up properties, as you say, at auction and treat tenants really badly. My constituents would be concerned if they have not just a rogue landlord but also a money launderer to boot. What action should we take?

Mark Hayward: We have carried out some work with the Metropolitan police. We have spoken to agents with them. They need to be able to identify the property, and the Metropolitan police have a checklist of what you need to look at when you are an agent when you visit a property to understand what is going on and whether money is being laundered there. Again, we give guidance to our members on a very frequent basis as to what they should be alerted by. As I stated before, like some other sectors, we are not yet regulated. It is not a requirement to be a member of our organisation. Anybody in this room could be an estate agent

tomorrow. All they have to do is sign up to a redress scheme and sign up to HMRC for AML.

- Q82 Charlie Elphicke:** In earlier questions, you said that an estate agent has an incentive to just get transactions, particularly at the moment when the property market is quite quiet in places like prime central London. If you are just very pleased to have a transaction, you are not going to want to tell the authorities, are you?

Mark Hayward: If you are an accredited and regulated agent, you shouldn't do that. If you are not, there would be a temptation there, because as you said, there are low transactions, people have cash-flow issues and supply is at an all-time record low. We know that transactions last year, at 865,000, were half what they were at the height, and yet we have 15% more agents operating than before the recession.

- Q83 Charlie Elphicke:** So, structurally, the incentives are to sell a house, pocket the money and say nothing, if you are an agent. How could we reform the system to make the incentive to do the right thing and make a report? Or is it not for the estate agent to do at all? Should we be using—

Mark Hayward: We may touch on the extraordinary low level of SARs in our sector when you compare it with the number of transactions. When you look at that number of SARs, which is only 0.12%, it is actually less than that in terms of companies doing the reporting. There are some good people out there who know what to do, but there are others turning a blind eye. Possibly if there was feedback and sharing of information and greater transparency, in terms of all sectors—which, currently, we can't do, because there are issues about tipping off in terms of the money laundering regime—that would help.

- Q84 Charlie Elphicke:** Do you think that your AML supervisor at HMRC shares your concern on this?

Mark Hayward: I'm not sure whether they are concerned or not.

- Q85 Charlie Elphicke:** That's quite alarming, isn't it? It doesn't look like all arms of Government are dedicated to the war on crime.

Mark Hayward: As I said before, I am not sure of the resource that they have got to put to it. We know that their IT system is extraordinarily clunky, and in fact they have come to us for data on who is registered. Within the last 10 days, they have taken out of the registration process the questions they ask about how many properties you have sold to overseas buyers and where those people come from. It seems strange in the current climate to remove that piece of information gathering.

Charlie Elphicke: From what you are saying, it sounds like Britain is a money launderer's paradise in the property market. Would you agree?

Mark Hayward: I don't think I would use the word paradise, but it does seem to be an area where it is perceived to be easy to buy a property. The number of people who are caught laundering money is very low. We have just talked about the fact that the SARs reporting is quite low. We have a



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relatively stable economy, we don't have natural disasters and we have relatively good house price inflation, so if you're a money launderer why would you not want to come to the UK?

- Q86 **Charlie Elphicke:** Much has been made of the Russians—Russian oligarchs using the London property market, and maybe even the odd football club, for a bit of money laundering. To what extent do you think that, especially with high-end property, a blind eye is turned by estate agents and perhaps even the Government?

Mark Hayward: The programme "McMafia" might have increased people's perception of this happening every day, but I have no evidence from members that Russia is necessarily at the front of the queue of foreign buyers—there is a whole host of them out there. I am not seeing reports of huge Russian purchases, but of course if they are done through a shell company—when you have to go back and back to find beneficial ownership—that might be happening. From speaking to good compliance officers and directors of central London firms, I know that they are doing things correctly, but they are concerned that if they report an interested party or start asking questions, that interested party disappears quite quickly and yet is able to buy from someone else who may not be as rigid as they are in their procedures.

- Q87 **Charlie Elphicke:** So there are not many reports by estate agents, but to what extent do you think that agents think, "I'm not going to be caught or punished. No one is particularly interested in my money laundering reports. Nothing will happen, and the maximum penalty is two tuts and a sigh. I will just put it in a bottom drawer"?

Mark Hayward: There is that. The issue with HMRC of course is that it does not report the interventions, the level of interventions—which is the visit—or the level of fines to convince agents to comply. There would need to be significant amounts of blood on the carpet and for agents to see what the fines were. I know anecdotally, from members who have told me that they have been fined, that in some instances the amount is quite significant, but that is not publicly available so we cannot alert the sector, apart from saying, "I have heard that this might happen."

- Q88 **Charlie Elphicke:** But it is worse than that, because just a few moments ago you said that you weren't sure that HMRC was the least bit interested in the whole area.

Mark Hayward: Its little team is, but I am not sure how large that team is and, looking at the size of the sector, I don't think that they have the resource to police it in its entirety.

- Q89 **Charlie Elphicke:** Nine out of the 10 most expensive properties in London are listed on Zoopla, ranging from £35 million to an eye-watering £100 million. They are marketed by two so-called associations: one is ExpensiveProperties.com, which is what it says on the tin, I would think, and the other is called Panther International. Neither appears to be registered with your organisation. Have you heard of these firms? What do you make of this?



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Mark Hayward: I haven't heard of either of those firms, but some who operate at those stratospheric levels encourage opaqueness in the interests of protecting their clients, or it is an off-market deal, but there is very little regulation of those. I don't know them, but they operate at that level.

- Q90 **Charlie Elphicke:** Turning to "off-market" as you put it, a lot of prime London properties, or expensive properties up and down the land, are sold off market. What are the motivations for doing that, and does it increase money-laundering risks?

Mark Hayward: The supposed motivation is that the purchaser does not want the public to know that they have bought that property, or what they paid for it, so there is an element of confidentiality, of secrecy, there. At the moment, companies may well operate for buyers' finding agents, and they will try to do that off market, so that it does not have to go on the market and generate sufficient interest. There is really no valid reason for doing it, but it is part of business practice.

- Q91 **Charlie Elphicke:** Finally, should off-market sales be a red flag for solicitors? We haven't talked about solicitors transacting these things. To what extent do you get the impression that they take serious action or their responsibilities seriously in dealing with this problem?

Mark Hayward: To a great extent solicitors are attuned to it, particularly now with the heightened awareness of fraud in conveyancing. I refer to the NCA's report from two years ago, when they investigated 750 solicitors around property transactions who weren't solicitors. So it should be picked up because of the customer due diligence done by the agent, the lawyer and possibly the lender, and we should be sharing the information about those we have picked up.

- Q92 **Mr Jack:** Mr Curtis, can you describe the market for company registration? How big a problem is money laundering in that sector?

Stephen Curtis: The market for the company registration agents is twofold. One part is members of the public coming in one by one. The other market, which is quite large in the case of people who are members of ACRA, is professionals—accountants or solicitors—who think this is a task they do reasonably infrequently and would rather contract it out to us to do for them.

Money laundering is a risk. There is plenty of evidence, anecdotal and other, that people have used companies to hide wealth. The biggest sectors, as we see them, are the unregistered agents and the ability to form companies direct with Companies House. Forming a company is now a terribly straightforward and simple process—£12 for a member of the public to go online any time, day or night, and form a company with no checks on what that company is going to do. That seems to us at least to create a risk.

- Q93 **Mr Jack:** What does your organisation do to alert your members to the dangers?



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Stephen Curtis: We have an annual conference. We have regular get-togethers with HMRC, which is our supervisor; we keep in very close touch with the policy side with HMRC. As I was saying earlier, we certainly exchange notes on best practice. I think this is the area that is much more tied down. I do not say that we never get it wrong—of course, sometimes you find there is a rotten apple you didn't spot in there somewhere. Much more frequently, though, both the anecdotal and more analytical evidence has pointed to the problems being elsewhere.

Q94 **Mr Jack:** On the controls to prevent money laundering and company registration, how concerned do you think we as a Committee should be about that activity?

Stephen Curtis: It does worry us. There was nobody going through the Companies House web system at the beginning of 2011, because it was only introduced in April that year, I think. Now it has 46% of the market, so something like 300,000 companies a year potentially could be formed without checks.

Q95 **Mr Jack:** Would you like to see changes?

Stephen Curtis: Absolutely, partly because my members put 10% of their turnover into doing these checks. We are locking the back door very solidly and the front door is being left open. That seems to us galling, apart from anything else, uncompetitive and not right.

We are worried too about what it does to reputation. The Government say that they want the UK to be a good place to do business. From our point of view, a good place to do business is also a responsible place to do business, or a place to do responsible business. We would not want the UK tarred with the sort of brush that is occasionally used in offshore.

Q96 **Mr Jack:** You mentioned the Government. Companies House and anti-money laundering was discussed as part of the Sanctions and Anti-Money Laundering Bill (Lords) in March. Did you pay any attention to the Bill going through? What did you make of the Minister's defence of the current regime?

Stephen Curtis: This was John Glen's defence? Do you mind if I outline it before I respond to it?

Mr Jack: Or you can come back to us later.

Stephen Curtis: No, I can respond to it. He said that it is "not true" that "all bad companies are set up directly with Companies House". That must be right. He also said: "Only the simplest companies...can be set up" there, so there is little risk, which we find curious. It depends on the meaning of the word "simplest". The difference at Companies House is that you have a simpler constitution. You cannot have partly paid shares and various other things that are actually tremendously useful to the entrepreneur wanting to keep his business for a long time, but the precise wording for your constitution may not concern you if you are a criminal money launderer. These companies can still have cross shareholdings and various other

things. They are formed one by one, but they can easily form groups of companies between them.

On another point, it seemed curious to us that the Treasury Minister argued that when, a year earlier, he had changed the law to bring exactly these companies within the scope of the anti-money laundering rules. Some 12 months or more earlier he might have been able to argue that, because before that period money laundering checks were needed only if there was a business relationship between the two parties, but from June last year the simplest companies came into scope of anti-money laundering checks. The Government said, "This isn't good enough—we need everyone." Indeed, the consultation document suggested it, we said we were not sure it was necessary, but the Government was determined to do it. It was the Government itself that brought the simplest companies under the scope of the anti-money laundering regime, so it seemed to us a bit odd to have a Government Minister saying, "We don't need to do anti-money laundering because this only concerns the simplest companies." I do not think it does either.

It was very valuable to see the reasons set out in the full way the Minister set them out, but we did not find ourselves able to agree with them. He did put forward other things, but perhaps I ought to respond to them one by one. I think he put forward about four reasons for not doing it. I am happy to respond to all of them now, or to take them one by one—as you like.

- Q97 **Mr Jack:** I don't know whether we want to get into that. It would be handy if you wrote to us about which parts of the Minister's comments you feel are relevant and which are not, because we could get a little bogged down in the detail.

Stephen Curtis: We could.

- Q98 **Mr Jack:** I want to hear your opinions on the PSC—persons with significant control—register. Some 4,000 of the beneficial owners listed at present are under the age of two, and one has yet to be born. Does that sound right to you?

Stephen Curtis: The one that was yet to be born was a mistake by Companies House. I think they have now corrected it.

Mr Jack: I'm pleased to hear that.

Stephen Curtis: I don't claim to be a corporate lawyer, but as I understand it, the 4,000 under the age of two might well be right. There are various categories on the PSC register. You have to be on that register if you have more than 25% of your shares. If you wanted to give a third of the shares in your company to your son because you wanted to say, "One day this will all be yours, son," you would have to record that son, whatever age he was, on the PSC register. There is another category on the PSC register—category 4—under which you need to be listed if you exercise influence despite not having enough shares to qualify otherwise. You would have thought that the parent, guardian or whatever of the child



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ought to be on the register under that category, but they may be on under other categories in any case.

Q99 **Mr Jack:** But—this is my point—they don't have to be, do they? The person who is making the decisions for that minor does not have to be on the PSC register.

Stephen Curtis: Yes they do, if they themselves do not qualify under any of the preceding headings. If the father had 66% of the shares and gave 34% to the son, he would be on anyway as a 66% shareholder. I do not think—as I say, I am no corporate lawyer—he would then need to be on under the last category. This has been a challenging register to understand.

Q100 **Mr Jack:** One in 10 UK companies, which is about 350,000 companies, has not yet named a person with significant control. I know this is probably going out of your remit slightly, but how aware are you of the Scottish limited partnerships?

Stephen Curtis: There is a consultation out on limited partnerships out at the moment.

Q101 **Mr Jack:** Four in five of the Scottish limited partnerships have not listed a PSC at all, but of those that have, more than 40% have listed one of their beneficial owners as either a former Soviet country national or a company incorporated in a former Soviet country. That compares with the 0.01% of limited companies' PSC listings that fall into that category. Do you want to comment on that?

Stephen Curtis: The honest answer is not really. It is out to consultation. As I understand, they have found legitimate reasons. The first question was whether the Scottish limited partnership had outrun its course and whether any legitimate reasons to have a limited partnership or a Scottish limited partnership existed. I believe that the Department did find there were legitimate reasons to have these, but that does not mean that they are all legitimate. I entirely accept that point.

Q102 **Mr Jack:** But do those statistics not tell you that there is something in the AML area? Is there not something going on behind the scenes when the numbers are so different from limited companies and the clarity we have there?

Stephen Curtis: Yes. All sorts of organisations or types of entity are formed for different purposes, so the statistics are almost designed to be different aren't they, because they are for a different purpose. I will not carry the flag for Scottish limited partnerships—absolutely not—but that consultation is in train and I think I need to duck that particular one, if you will allow me. We will be responding to it, to say that we entirely agree that anti-money laundering checks should be applied to these organisations, as well as to companies.

Q103 **Mr Jack:** My final question is about this persons of significant control register. Should there be tougher measures for people who are not adhering to it?



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Stephen Curtis: Yes. I know Companies House wanted to take it a bit gently at the beginning. It understood that the register was difficult to understand and that it would not get it all right in the first year. But at some point, I entirely accept, it will need to take more action on that. It also, in our view, needs to be a bit more proactive in checking the information. Even when you have information there, it is not necessarily the right information. We would like to see Companies House putting more work into checking these things.

Q104 **Mr Clarke:** Mr Harper, I wanted to take up the issue of accountancy—a sector which is yet to have the full focus. The 2017 Home Office national risk assessment states that accountancy services are “at high risk of exploitation for money laundering.” Is that an assessment you agree with?

Adam Harper: It is something that we recognise and would want to address. I think it is consistent with what was identified in the 2015 national risk assessment as well. As has already been touched upon, if you look at the volume of SARs that is submitted from other areas of financial services, for example, it is much greater. From the accountancy sector, just over 1% of SARs were submitted. That does not in itself identify that there is less risk there. It is just a challenge around volume. None the less, as I have mentioned, there is a significant amount of activity that has been undertaken by the PSBs to drive up standards and address the risk around AML.

Q105 **Mr Clarke:** Which risks do you think are the greatest within your sector? Which are the greatest AML risks?

Adam Harper: I would, I guess, want to identify that there is a risk around the kind of two-tier dynamic to the way in which supervision is delivered within the accountancy sector. Inevitably, those that are governed by PSBs are required to adhere to a rigorous set of standards, both from the point of view of commitment to ongoing professionalism and adherence to all appropriate regulations, et cetera. As I mentioned, that extends to the work that we do around delivering assurance in terms of compliance with the AML regulations. For those that are non-regulated—those that are supervised by HMRC—obviously there are supervision arrangements in place, but I would point to the fact that within that there will be individuals who have not had to engage with the fit and proper assessments that are pertinent to those who were granted membership of the professional supervisory body. I think that is a risk area.

Q106 **Mr Clarke:** In revised evidence you provided to the Committee recently—it is worth quoting this—you stated, “it should be noted that of the numerous practice assurance reviews of AAT’s 4,250 licensed accountants, none has revealed any money laundering or terrorist financing activities and only one or two have revealed suspicions of such activity.” When you get that kind of clean bill of health to that degree, does it make you think, “Is our review process robust enough?”

Adam Harper: It is an interesting question. It’s something that we also reflect on in terms of the broader process we have around our disciplinary

framework. Is it good that we are seeing a very low number of our members being taken through this? Does that point to the fact that the guidance and the measures that we have put in place to help members to help themselves, in terms of delivering the relevant degree of compliance with the standards that we would expect, are working effectively?

I can talk explicitly from the point of view of our members. Our members predominantly deal with small and medium-sized enterprises. Therefore, the lion's share of the businesses that they provide their accountancy services to will typically be sole traders or small partnerships. That should not in itself mean that there would be any less reason for risk, but I would point to the fact, which I have already stated, that only 4% of our licensed population identified that they had what they would consider to be high-risk clients. That's largely down to the nature of the services that our members would provide in comparison, perhaps, to some of the services that members of other organisations would look to provide.

Q107 Mr Clarke: Turning to your earlier point about a two-tier dynamic in the nature of the work that you do, is it that AAT members themselves have not undertaken money laundering or terrorist financing checks, or is that the firms they work in or the clients they work for have not undertaken those activities?

Adam Harper: Where we are dealing with our supervised population, it is those that we are licensing to provide services on behalf of their client. Again, it is to do with the practice assurance reviews and the checks that we are able to deliver to establish that those firms that we supervise have appropriate measures in place to demonstrate that they are complying with their obligations under the ML guidance. Obviously, that would extend to the activities that they are conducting with regard to their own client base.

Q108 Mr Clarke: How often do you review or consider your own processes for checking AML compliance?

Adam Harper: It is largely on an ongoing basis. We have within our own organisation a governance framework whereby we are required to continually submit ongoing evidence to our regulation and compliance board, which meets four times a year. That would then be extended up to our governing council. On that basis, we are continually reviewing the evidence that we are capturing and gathering from our own membership, in terms of their activities, and sharing that information, so that we can be challenged as the executive or the secretariat, if you like, in terms of ensuring that we are doing what we should be doing.

Above and beyond that, as I have already mentioned, we engage extensively with the other professional supervisory bodies, through both the AAG and the AMLSF, which enables us to identify whether the best practice that we are delivering is consistent across the other bodies and the way in which they are looking to engage with it, and we would then look to collaboratively drive up the standards of supervision. As I have



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mentioned, work is already under way in terms of providing revised guidance around that very fact.

Q109 Mr Clarke: When you wrote in your revised evidence that there were “only one or two” suspicions of money laundering or terrorist financing activities, what prompted that late revision of your evidence?

Adam Harper: It is based on the fact that the levels have been so consistently low from within our membership. There will have been a 12-month period when there won’t have been any, but in terms of wanting to establish the veracity of that, we double-checked it and identified that we are still talking about a very low level, but it was, as I said, one or two, which would then—

Q110 Mr Clarke: Was it one, or two?

Adam Harper: I will err on the side of caution and say two.

Q111 Mr Clarke: That’s helpful.

The second part of my questions focuses on the wider issue of politically exposed persons. Mr Hayward, that gives me the chance to bring you in, because you, in your written evidence to the inquiry, called for a list of politically exposed persons to be published by the Treasury. Have you ever actually requested such a list, and if you have, did you get a fob-off response?

Mark Hayward: I think we have mentioned it in meetings with Treasury; I don’t think we have specifically asked for it, but it would certainly help our members if there were a finite list, because the length of relationships has extended now and those that qualify for it—it is quite confusing. There are various databases that they can go to, allegedly, to get information on PEPs or sanctions. Some of those are updated on a daily basis; other are not. But if there were a list approved by Treasury, that would be an enormous help.

Q112 Mr Clarke: When you mentioned it in those meetings, what was the response of the officials you were with?

Mark Hayward: I think the response was, “We’ll go away and look at it.”

Q113 Mr Clarke: When was that?

Mark Hayward: Probably last year.

Q114 Mr Clarke: The politically exposed persons regime generally is one of the ways in which, obviously, we attempt to secure the whole system. Do you think that, as a system, it does work well at the moment?

Mark Hayward: It does work to a certain extent. The question is whether our sector is fully aware of what a PEP is. They don’t understand; they think, “Oh, it’s political”, but it is not necessarily political. It could be the guy up there who has been a major-general in the Colombian army, or whose sister happens to be married to a major-general. It is that sort of thing. It is quite complicated. I do not think the number of PEPs is huge on



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a transactional basis, but that does not mean that attention should not be given to it.

Q115 **Mr Clarke:** That goes to the point doesn't it? It is quite hard for a high-street agent to make such assessments.

Mark Hayward: Yes, it is if you consider that 81% of our sector are owner-managers. They have one to three offices. They are small businesses and the owner is on the front desk. It is difficult for them to make that call if there was not a finite list to go to.

Q116 **Chair:** Mr Curtis, did you want to add something to that?

Stephen Curtis: You mentioned politically exposed persons in the corporate sector. I was talking to one of my ACRA members the other day. They use a register—you mentioned a commercial register of PEPs, but the one he uses, at the last count, has 72,855 names on it.

Q117 **Chair:** Are those just UK names?

Stephen Curtis: No, they are international. I had a go putting a name in, and it did indeed throw it up as a politically exposed person. It does work. I cannot say it works every time, but it is certainly a useful tool. Again, it costs us money to use it because it is a commercial database.

Q118 **Mr Clarke:** Your sector might be better placed to handle this than estate agencies. Would that be a fair comment?

Stephen Curtis: Better and worse. We have only got the information in front of us; we have not got that person and asked them for further and better particulars. When my ACRA member uses this register, he goes ahead in three ways. One is that he has a match and it is undoubtedly a politically exposed person. Secondly, he undoubtedly hasn't got a match and it isn't a politically exposed person. Thirdly, there is some doubt and he may have to go back and ask for further and better particulars. It could become quite an evolved process.

Q119 **Mr Clarke:** Finally, Mr Harper, how far do you think that enhanced due diligence practices are being observed by the AAT?

Adam Harper: Again, I would like to think that, by virtue of the way that we undertake assurance activities through the review visits we established, we would highlight any shortcomings among our practising members in that regard. Inevitably, those review visits identify areas for improvement, and we would then work with individual members to put measures in place to address that. Were they to fail to deliver those levels of improvement satisfactorily, we can obviously take sanctions against them, which would include us effectively withdrawing their membership. All that then does is put them under HMRC from the point of view of their supervisory requirements.

Q120 **Mr Clarke:** How often does that happen?

Adam Harper: Again, by virtue of the way that those who have opted to take up membership have gone through a variety of checks and balances



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to get there, levels of retention among the membership are pretty high. None the less, there are isolated incidences throughout the year—we are talking double figures, not huge numbers—where we would be withdrawing on that basis, and that will fluctuate and vary. Most of the time, rather than seeing the review visits as a punitive measure, we see them as a supportive measure that is there to help our members comply with what is expected of them. Inevitably, you will uncover some for whom that is either too hard for them to do, or they are not willing to engage with it. That is why we have those sanctions in place so that we can deliver.

Q121 Alison McGovern: I have just a couple of follow-up questions to some things that you have already covered. Mr Harper, you have already discussed supervision and compliance. What do you think are the advantages of having an anti-money laundering regime where a professional body such as yours is principally responsible for the supervision of that compliance?

Adam Harper: You mean specifically the advantages of having professional supervisory bodies within the sector?

Alison McGovern: Exactly.

Adam Harper: First and foremost, we already have a framework in place that demands a commitment to professionalism and maintenance of standards in accordance with our own regulations, and we had the infrastructure to extend that framework to incorporate the obligations that our members are required to demonstrate on AML. On that basis, we have been able to subsume that activity as part and parcel of our ongoing drive towards establishing ongoing compliance.

The other thing to point to is that, over the years, we have established a clear understanding of our membership population, in terms of who they are, the sorts of organisations they work for and the sorts of clients they provide their services to. That knowledge further helps us to ensure that the way in which we develop our support resources, engage with our membership and help them comply with what is required of them is particularly beneficial. You could argue that, given the breadth of services that those accountancy service deliverers provide and the range of clients they provide the services to, subsuming them all under one huge, overarching supervisor might bring with it an additional risk of enforcing a one-size-fits all approach.

Q122 Alison McGovern: On that point, do you think it is a problem that you might get different standards?

Adam Harper: To some extent, that is partially what was being drawn from the national risk assessment. There wasn't necessarily sufficient evidence to demonstrate consistency in the way things were being applied. To respond to that, the way in which the professional supervisory bodies have sought to collaborate in ensuring that we deliver a consistent standard to address that point ought to bear fruit in the longer term. Different organisations will have different resources that they can provide



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to support their own membership. Similarly, different organisations have different membership numbers, and that brings with it the need for additional resources.

Q123 Alison McGovern: Professional bodies also lobby on behalf of their members. Isn't there a conflict of interest here? You are there to act in the interest of your members, so that conflicts with the supervisory role.

Adam Harper: I would argue that, as well as lobbying on behalf of our members, we would also look to be lobbying on behalf of the public benefit. It is not exclusively about looking after our members' interests. There is a clear recognition of the impact of the development of legislation. We do lobby actively, but arguably we do so for what we consider to be most appropriate for the profession and in terms of the impact that will have not just on our membership but on the clients they represent or indeed the organisations for which they work.

Q124 Alison McGovern: Mr Hayward, I was intrigued by your comment that the UK is still the "destination du jour" for money laundering. As the Chair said earlier, that will be one for the report. The NAEA do not do supervision. You told us in written evidence—you repeated that evidence this morning—that you "play an important role in educating...the sector." Is there more that you could do? Do you think you could go further on this?

Mark Hayward: I think that if we were a supervisor, we could go even further.

Q125 Alison McGovern: Would you like to be a supervisor?

Mark Hayward: We probably would. We would then have the resource to conduct more on-site inspections. We already look at our members' client accounts, so we already have oversight of that. We could increase the training. We do a huge amount of training, but that is for our members. Not everyone in the sector is a member of our organisation, because there is no legal requirement to be.

Q126 Alison McGovern: Mr Hayward, are you suggesting that, because not everyone in the sector is a member of your organisation, if you had a supervisory role over your members, there would be an improvement in quality, such that those who chose not to be your members would be making an obvious statement about themselves?

Mark Hayward: I think that would be correct. If you look at a risk-based assessment, I would think that those who are being scrutinised very closely and have checks and balances and training put in place would highlight the need for others who are not in our membership to comply. Do not forget that we are not the only people who sell houses. House builders sell houses, and they are not even bound by the Estate Agents Act. They are seen as a private seller. They are also used to selling to foreign individuals or companies whom they may never see. That contract may be flipped or it may complete, or the name on the contract may change. So they are not the only ones. The easiest way to buy a property in this country is not through private treaty, because that currently takes



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103 days to get to exchange of contract. Any of us can go out today and buy a house at auction and we don't need an interface.

Q127 Alison McGovern: Essentially, there is more that we could do but we are going to end up in the usual regulatory whack-a-mole of having other problems pop up once we have shut down—

Mark Hayward: I think it is termed a waterbed.

Q128 Catherine McKinnell: I want to ask you about the relationship between the public and private sectors in combating some of these challenges. How well do think that relationship is working between your organisations and public sector bodies that you work with?

Mark Hayward: We engage continuously with the Government, whether through Treasury or MLAC, which I sit on along with others, so there is an interchange of views. I sit and meet with HMRC on anti-money laundering, stamp duty and other issues like that.

We engage with all the NGOs—Transparency International, Global Witness—and I also engage with foreign operators within our field, who perversely seem to see the AML regime in the UK as being somewhat superior to their own. I addressed a group of realtors a few weeks ago in Washington and they were horrified at the hoops that the UK has to go through in terms of AML for property. That is not to say that it is faultless, because it obviously is not.

Q129 Catherine McKinnell: You say that is not to say it is faultless. You say you meet regularly and have fairly regular communication. Rather than a quantitative analysis, do you have a qualitative analysis of that engagement? Is it working well? Are there things that could be improved in that relationship that would improve our ability to combat this level of financial crime and money laundering?

Mark Hayward: It would help, for instance, if HMRC could share the information that they have on those that they have pursued and fined. They will say that they have not actually closed anybody down but they have pointed out to agents that if they continue to trade, they will be trading illegally, therefore I would stop now. That would be good, if we could understand. We do not even know if they have taken action against one of our members, unless that member actually tells us, and then we would go through our own disciplinary procedure.

We work with the NCA; they speak at our events. We also meet with them very regularly. I meet with RUSI and I have addressed meetings there. We are doing all we can but that is not to say we could not do more if it was a two-way street.

Q130 Catherine McKinnell: Mr Curtis, Mr Harper, do you have anything to add?

Stephen Curtis: I would divide the question into two. One is money-laundering supervision. We are supervised directly by HMRC. At the policy level, that works extremely well. We have a very good relationship with



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the policy people who are responsible for policy for trust and corporate service providers within HMRC. I can phone them up if I need to and I always feel I am getting a good hearing. That does not mean at all that we get agreement but at least I feel I am being heard, so that is very good.

On the inspection side, it is slightly less good. That is partly because my members find they spend quite a lot of time explaining the arcane work of a company registration agent to the inspector who is coming in, who is a civil servant. They never seem to be the same people twice. There seems to be a through-flow of people. If they can, better training for them and better stability among their inspectors would be helpful. We have said that they are welcome to invite us to help them train their inspectors, if they would like us to. They haven't taken us up on that yet, but that might help a bit, I think.

We also feel that the work of HMRC should be counted a bit more. A lot of the work of HMRC, and probably of supervisors as a whole, is canted towards those whose instincts are to obey the law in any case. We would rather that the work moved a bit further towards those whose instincts go in the other direction. So we would like to see HMRC doing more to chase the unregistered registration agents, or we would like the law to be changed—it would be a very simple change to the law—to stop them operating. You simply wouldn't allow them to register companies and that would stop them at a stroke.

Then, on the other side—I said this would be in two parts—unlike my two colleagues here, the biggest player in company registration is actually the public sector, and that is Companies House, which has 46% of the market while the rest have 54%. There, of course, we don't think it is fair and even and right, for the reasons I have probably made clear this morning—because they do not do anti-money laundering checks, they do not look for politically exposed persons and they do not worry which jurisdiction somebody is coming in from. You could phone up from some blacklisted jurisdiction somewhere and get a UK company in overnight, if you wished. That works rather less well.

I might say, though, just for the avoidance of doubt, that Companies House, which is in this country, is actually one of the foremost registries in the world. It's not that we have anything against Companies House per se; it is just that we think its efforts should be slightly differently directed.

Q131 Catherine McKinnell: So you've pointed to slightly different focuses that would be helpful on both sides of the answer that you have given. To what extent do you think that is driven by resourcing? You know we have been in a period of significant public sector budget cuts. To what extent do you think that it is down to something else that we could look into as well?

Stephen Curtis: HMRC's problems probably are down to resourcing and budget cuts; Companies House's problems don't need to be. It seems to me much more about political will. Companies House is self-financing, and at the moment it only costs £12 to form a company, which is way less

than half of almost anywhere else. The EU encourages members to charge less than €100, which is about £80 to £90; we charge £12. So there's a lot of headroom there.

As I said, with the PSC register, we think that Companies House should be doing more checking; we think Companies House ought to be putting more resources into the things that matter—and we believe that this is something that matters.

Q132 Catherine McKinnell: We've covered quite a lot of ground there. Mr Harper, do you have something to add?

Adam Harper: Yes. To some extent, Mr Curtis has stolen my thunder by separating his response into two parts, because I would like to do precisely the same if that's okay.

The way that I would like to focus this is, initially, by looking at it from an operational level. So, on an operational level, I would argue that things typically work pretty well. We engage with a number of the bodies that have already been mentioned: the Treasury, HMRC, the FCA and so on. I think that that manifests itself in terms of the work that we do with regard to individual issues that come up on a case-by-case basis. That works pretty effectively.

There are potentially some risks with regard to those instances where individuals who perhaps previously have been supervised by us—whether or not they opted out of that arrangement, or we have taken steps against them—are sharing that information with HMRC to advise them that they are no longer supervised by us, and they fall underneath the default supervision. We don't get anything back by way of confirmation that that's been actioned, so there is an element of our relying on trust that that is happening.

The other element to this that I would like to pick up on is perhaps more to do with the over-arching view around supervision and the way in which we would look to engage, again with organisations similar to those I mentioned earlier—the Treasury, the FCA and so on.

Inevitably, by virtue of the ongoing consultative process around the establishment of OPBAS and the fees that will be applicable to the supervisory bodies, that has thrown up some challenges for us, both in terms of the evidence that has been presented as part of that consultation process and, moreover, the response to the submissions that have been made.

It seems to us very much that there was a clear intent to establish OPBAS irrespective of the information that was provided in response to the consultation activity. That is sometimes a source of frustration for us in terms of engaging on that broader level.

Q133 Catherine McKinnell: Mr Hayward, you mentioned in your earlier answer that you are a member of the Money Laundering Advisory Committee. Have you found it to be a useful body? What have been the benefits of



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your membership of it?

Mark Hayward: It is very useful. It is a very crowded room. Mr Harper has obviously been there. It is useful to share best practice. It is probably very much more reportage than discussion because of the number of individuals there, but I find it very useful.

Q134 **Catherine McKinnell:** Could it be improved?

Mark Hayward: It could be improved by breaking it down into smaller groups and having more interaction in slightly longer meetings. Ninety minutes with 40 people in a room does not necessarily get the best out of it.

Q135 **Catherine McKinnell:** I just wanted to ask quickly about law enforcement. Do you think enough is being done? Is there a legislative problem, or is it the enforcement of the legislation that we already have that could be improved? Do you have a view on that? I have taken an interest in this, and recently received responses from the Government that confirmed that they have not prosecuted any cases under sections 327 to 330 of the Proceeds of Crime Act in relation to money laundering, handling of goods that are known to be stolen and failure to report. Do you have any thoughts on enforcement, or is that not something that you have come prepared for?

Mark Hayward: We don't get the impression that there is enough resource there. I get anecdotal evidence from my members about who has been visited. It is not a huge number. When they first took over the supervisory role, HMRC started to visit every agency in one day in one town or city, but that seems to have dropped away. Unless the speed cameras are there, the temptation is to ignore it.

Q136 **Catherine McKinnell:** Do you think we have the balance right between deterrence and enforcement, and supervision and regulation? Where do you think the balance lies at the moment?

Adam Harper: Speaking from the accountancy sector and, again, reflecting on the volume of instances where we are required to engage with law enforcement agencies, operationally our experience is that that works as effectively as you would expect it to, although given the way in which you introduced that question, clearly there is potentially a challenge around that. Personally, and from an AAT point of view, I take the view that that balance is sufficient. There is room for improvement. As I mentioned, we are striving to do that from the point of view of our supervisory role.

Q137 **Catherine McKinnell:** Mr Curtis, you specifically referenced the focus being more on those who have a tendency to stay within the rules than on those who do not. Is that the kind of thing that greater enforcement of the legislation that we have in place could resolve?

Stephen Curtis: Enforcement tends to be a lot of people rushing around chasing people. It would be much easier, in our view, to change the law so that these people could not operate in the first place. Then you would not



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need the enforcement. Enforcement will always be a bit patchy and difficult for the resource reasons you mentioned, and various others. If the registrar was allowed to register a company only if he knew that anti-money laundering checks had already been applied or were going to be applied, these people could not operate in the first place, so the job would be done in large measure.

Q138 Rushanara Ali: I'm going to focus on SARs. I know you have already touched on this, but could each of you say a bit more about the sectors you represent and how confident you are that suspicious transactions are properly reported? You have touched on some of that. Anything you would like to add on that point would be great.

Mark Hayward: The percentage of SARs is 0.12%, and that has gone up. That probably represents only around 500 SARs. That consists of about 200-odd companies. It is not everybody doing it. Because of the number of transactions and the number of people on both sides of the transactions, it must be low, unless all the estimates about money being laundered through property in this country are completely erroneous. I do not think that is the case, because those figures come from the NCA, and it is very firm on that and has just revised it.

It is a question of educating the sector to do it. It is not an easy thing to do: you have to register with the NCA and go online—that takes time. You do not always get any feedback, so there is no encouragement. You are not told what is going to happen. Some people are afraid that if they make a SAR, three years later, at 9 o'clock on a Saturday night, there will be a knock on the door and someone will be there with a shotgun wanting to know why they submitted a SAR. Of course, it is all anonymised, but there is concern. Does it just impede the course of business?

Q139 Rushanara Ali: You mentioned that many of them are very small—there is a very small number of staff and so on. Is it to do with capacity and awareness, rather than something much more underground?

Mark Hayward: They will have to have a money laundering reporting officer—an MLRO—and a deputy.

Q140 Rushanara Ali: Do many of them know about that?

Mark Hayward: They do, because we check that all our members have an MLRO. They will get specific communications about what they should be doing, when they should raise a SAR, how they should raise it and the legislation that they need to adhere to. Even so, I can go into a meeting of our members and ask, "How many people have raised a SAR?" and I will be lucky if two hands go up. They are thinking more, "Shall I put this deal together? Have I done CDD on the person?"

Q141 Rushanara Ali: You mentioned earlier that there is an issue about those who report: they might take action, but somebody else will benefit from the business. How might that collective action failure be addressed?



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Mark Hayward: If that is reported to me, I will say to the member, “You need to do a SAR on the agent that has accepted this dubious form of identity or set-up of financing.”

Q142 **Rushanara Ali:** Do you think that is realistic? Do you think they would do it? That is making enemies. If you are running a business and you are worried about repercussions, is that something that people will be willing to do? Some people will want to keep their head down and get on with it.

Mark Hayward: It might be unsavoury, but the main frustration is that those who are doing it well are doing extraordinarily well. They see others who are not doing it, but they are not making HMRC or the NCA aware that that is going on.

Q143 **Rushanara Ali:** But you do not see any issue with people being reticent to do what you are suggesting they should do. If an agency is involved in shady business with shady people, that could be dangerous to somebody who you are asking to go and report. Should that responsibility be parked somewhere else? Is there a way for people to have assurance that that will not cause them problems?

Mark Hayward: I suppose it is where you park it that means it does not go anyway, where it goes and whether there is any evidence of action being taken afterwards. If they could see that action was being taken, that might encourage more of them to start pointing the finger.

Q144 **Rushanara Ali:** Then there is a whole issue about the lack of action.

Mark Hayward: What happens now the SARs just go into an abyss and are never seen again?

Q145 **Rushanara Ali:** Mr Hayward, between 2015 and 2017 only 766 SARs were reported. That is quite a small number. You mentioned that it had gone down further.

Mark Hayward: It is tiny. I referred to the number of transactions annually; those transactions have a buyer and a seller.

Q146 **Rushanara Ali:** Do you think there could be more done about action taken? People just think it is a bureaucratic exercise—is that what is going on?

Mark Hayward: I think there is no visibility—it just disappears.

Q147 **Rushanara Ali:** So it is not particularly effective, in your view.

Mark Hayward: No.

Q148 **Rushanara Ali:** What about the others? Did you want to come in, Mr Curtis?

Stephen Curtis: I think we are probably at the bottom of the pile, because we are 0.02%. That is largely on the basis that it is very rare that we would have the information about suspicious activity. It is much more commoditised—we would like a company with this name, these directors, these shareholders and so on. What is inherently suspicious in that? Some



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clients ask us to do the whole range of services for their company—minute books, registered office services and so on—and, occasionally, when you have that much deeper relationship with the client, you could see suspicious activity if it is occurring.

There is a question about the reason why people put in suspicious activity reports—whether it is in the public interest or to cover their back. You talked about the man with the shotgun; actually, my people have more fear about the NCA with a shotgun. They have more fear of being caught up in an action—if somebody has been doing money laundering, and they didn't say anything—than they have of the money launderers themselves coming round to their houses.

Q149 **Rushanara Ali:** I might have misunderstood. If they are so fearful, why, in your sector, have there been only 112 SARs?

Stephen Curtis: Because in only very limited circumstances is there the depth of relationship and the information needed to become suspicious.

Q150 **Rushanara Ali:** So what would be the sort of things that they would need to establish?

Stephen Curtis: You'd want to have something that suggested that they were not forming a company for lawful purposes or were not operating lawfully. I am not actually sure that I see how readily my members would normally do that, as shown by these numbers.

Q151 **Rushanara Ali:** Do they need help? Or more advice?

Stephen Curtis: I endorse the point made about the black hole. I know it is difficult for the NCA, but you don't quite get the feeling of encouragement—"I helped to stop that" or whatever. The NCA go in and say they can tell you nothing. It is like giving someone a present who doesn't say thank you. You don't feel inclined to do it again.

Q152 **Rushanara Ali:** But isn't it a responsibility, rather than their doing those agencies a favour?

Stephen Curtis: It is, but we have had people saying, "You didn't need to put in a SAR for that." Because we don't get that feedback, we don't actually understand well enough where the boundaries are and where we should put SARs in or whether they just add to the paper load.

Q153 **Rushanara Ali:** So they could do more to ensure that there is the right sort of information and feedback that gives people confidence about what they are doing and whether it is the right thing to do.

I just have a couple of other quick questions. The NCA and the Home Office established the joint SARs reform programme. What would you like the programme to achieve?

Stephen Curtis: I think, actually, what we have gone through: greater recognition. One other area we have had difficulty with is the idea that you have to hold up a transaction while the thing is examined.

Q154 **Rushanara Ali:** How long can that take, on average?

Stephen Curtis: It can take quite a long time. The difficulty is that the transaction that is being asked for takes a day; at the beginning of the day you get instructions from a company, and by the end of the day you have it. If you reported to the NCA and they told you to hold it up for a week or whatever, that would make the client suspicious. You mustn't tip them off, but you would be not delivering the service. There tends to be a bit of a cleft stick there—"Why haven't you phoned me?"—which is awkward.

Q155 **Rushanara Ali:** Is there much evidence on the frequency of that happening and on how many people get suspicious and manage to scuttle off?

Stephen Curtis: No, but it could, in some cases, inhibit someone from putting in a SAR if they think they might be told to stop doing business; they might find themselves caught in this cleft stick. It would be good if, as well as the law enforcement requirements, the reform programme acknowledged the commercial realities. We would be very happy to work with them. We have met the NCA and would be very happy to continue to meet them and to work with them on these sorts of things.

Q156 **Rushanara Ali:** Do you have anything to add to that, Mr Harper?

Mark Hayward: I support the points that have been made. In comparison, the accountancy sector has somewhere in the region of about 6,500 SARs that were reported, so it is a slightly higher number. None the less, that is only 1% of the overall submissions. I support the fact that there is still more that we can do, as a supervisory body, to drive up levels of awareness and to ensure that the resources we provide to our members assist them in conducting their responsibilities accordingly.

Q157 **Rushanara Ali:** Final question: in evidence to us, RUSI said, "Building on the work of the Joint Money Laundering Intelligence Taskforce and information sharing provisions of the Criminal Finances Act 2017, further mechanisms to promote information sharing with reporting entities should be developed to allow them to file more targeted SARs." Would you support a more targeted approach?

Witnesses: Yes.

Q158 **Wes Streeting:** Mr Harper, your evidence on the creation of OPBAS did not pull any punches. You said you do "not believe the newly created Office for Professional Body Anti-Money Laundering Supervisors (OPBAS) offers any help in" combatting money laundering. In fact, you said, "it is likely to achieve the opposite." Can you outline for the Committee why you are so opposed to this new body?

Adam Harper: Before doing so, I'd like to clarify that the AAT is absolutely committed to improving the standards around money laundering supervision and to driving up the framework that is in place. The issues we have are that, through the information that has been shared in the consultative process, and in terms of dealing with the responses that have been submitted to those consultations, there has



been limited if little evidence around the impact that OPBAS is going to have in the way it will drive up the supervisory landscape. In terms of some of the points that have been made, it has identified very loose objectives, and it would be essential to identify our role. If we are going to go to the trouble of having this body—it exists already—what are its measures for success? That has not been very clear. Where there has been reference to it, it is about trying to drive up perception around the supervisory landscape.

I would argue that one of the risks that that is going to throw up is how it would be possible to identify whether or not it is OPBAS or its creation that has driven those improvements, or whether the work already undertaken by the professional supervisory bodies to address the issues highlighted through the NRA has started to filter through, in terms of the impact that it is having. The key issue is around the two-tier dynamic, in as much as HMRC, the Gambling Commission and the FCA would not fall under OPBAS's supervisory ambit. Therefore, it further reinforces the distinction between those bodies that are covered by OPBAS and those that aren't. The risk that that generates—indeed, it is something identified by the FCA in one of its consultation documents—is that there could be an unintended consequence, in that it drives people out of the regulated environment. By that, I mean individuals that are currently licensed by the AAT would take a view on the fact that it might be preferable for them to be supervised by HMRC, which is not governed by OPBAS.

There are a couple of reasons why that might be the case. First and foremost, there is a financial element to this, in as much as the operating costs for OPBAS are to be covered by the supervisory bodies that it would have oversight of. We are talking in the region of £2 million per annum in operating costs. We are yet to see from an AAT perspective what the impact of that is likely to be on us, as indeed are the other bodies, which will be looking at that from their point of view. There were a raft of proposals that were circulated regarding how this might work, and we are still waiting to hear about the impact that that is going to have on us. The likelihood is that AAT, and indeed other supervisory bodies, may then look to transfer those additional costs to our members, who will look to transfer those costs to their clients. In doing so, they might lose out on business, whereby, if there is an unregulated accountant operating on the same high street as one of those that is covered, and the fees are having to increase to cover any additional cost by virtue of the supervisory arrangements, that may well mean that those clients take a view on cost and go to somebody else. There is that element there.

We are not averse to there being one body that provides the service. The issue we have is that we have not had clarity around the impact it is going to deliver and how it is going to improve the way in which supervision is delivered within the sector. Moreover, we are still waiting for clarity around the cost implications on us as one of the supervisory bodies.

Q159 Wes Streeting: In that comprehensive answer, you answered a number of my supplementary questions. In your written evidence, you said that



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every single one of the 22 supervisory bodies that fall under OPBAS opposed its creation. Since then—it is up and running—have you had any interactions with OPBAS and how have those interactions been?

Adam Harper: We have. We received an initial visit from OPBAS representatives and, again, we were keen to point out that our intention is to collaborate and co-operate effectively as best we can to assist them in the dispensing of their responsibilities. We surfaced some of the issues that we had surfaced through our responses to the various consultations and they were acknowledged. We have yet to have our full visit, which is scheduled for August.

I know that OPBAS is currently going through the process of meeting each supervisory body, to get a more detailed overview about the measures that they have in place to meet their responsibilities as supervisory bodies. Inevitably, if issues were to be identified on the back of those visits, and there was scope for AAT to improve the way that it dispenses with its supervisory responsibilities, clearly we would look to act on that.

It would be interesting for some form of review to be built in, although that is difficult when you have no measure of success to enable you to establish whether OPBAS has delivered in accordance with its expectations. Assuming that we eventually get clarity on that, it is important that a review period is built in, perhaps a couple of years down the line, to afford that opportunity. That would need to be an independent review to identify whether the organisation has added value to the supervisory landscape.

Q160 **Wes Streeting:** I certainly agree with that last point. What would you like to have seen instead?

Adam Harper: I would like to have seen clarity, fundamentally. As I said, we do not have an issue with oversight; we are aware that that model is applied in other jurisdictions. If the creation of OPBAS delivers that greater level of consistency in how supervisors dispense their responsibilities, that would be a fantastic outcome. The issue we have is that there has been no clarity on how it will do that, or on what its measures of success will be, and we are still awaiting clarity on the ramifications for us from a fee perspective. I believe that when the initial proposal was put forward only two options were tabled, one of which was the creation of OPBAS, and the other was to leave things as they were. Fundamentally, we are keen to support whatever measures are put in place to drive up standards in this area, but what we wanted, and what we haven't really seen, is clarity on how OPBAS will deliver that.

Q161 **Wes Streeting:** In your first answer you described the circumstance in which people might, through concern about levels of fee, be driven outside the highly regulated space and fall under the remit of HMRC instead. What particular problems do you envisage in that scenario of people ending up under HMRC?

Adam Harper: I have touched on this already in that we as a professional body have ongoing measures in place to ensure that the individuals who

we license continue to exceed the appropriate level of professionalism and commitment to delivering their responsibilities accordingly. Obviously, we engage in activities explicitly around AML through the review visits that we undertake. We are able to maintain that commitment to professionalism among our cohort of members in the same way as other supervisory bodies do, but that will not be applicable to those who are supervised by HMRC. That is the risk that we have highlighted in our previous responses.

Q162 Stephen Hammond: An enforcement regime is only important and only really works in terms of sanctions and sanctions implementation. You are probably aware of the Office of Financial Sanctions Implementation. Its blog from 1 March this year states that “we have spent the last two years working closely with the business community on guidance, ensuring more businesses understand what financial sanctions are”. Have you or any of your members had any interaction with that body?

Mark Hayward: As far as I am aware, I have not had any interaction with it, and I have not been made aware of whether some of our members have.

Adam Harper: It is the same position from an AAT perspective.

Stephen Curtis: It is the same from our perspective.

Q163 Stephen Hammond: It seems rather difficult to reconcile that with the statement on the blog. Leaving that body aside, in more general terms, how aware are your members not only of their obligations—we discussed that earlier—but of any potential breaches and the sanctions that might follow, and what that might involve in terms of asset freezes or restrictions on their ability to do business? Are your members aware of the sanctions that would follow from a breach?

Mark Hayward: I think we have made them aware. We now also have unexplained wealth orders that can be applied. They might be in a position to identify issues around that, because they physically visit the property and physically meet the people, and if the two do not actually equate as being able to support one, they could do that. In our training, we emphasise the sanctions and the need to check on the sanction list if you are suspicious. So yes, they are aware, but I do not know how many of them have actually contributed to a prosecution under that or taken it any further.

Adam Harper: It is a similar position from our perspective. I have seen some statistics that seem to suggest that there is quite a significant proportion of business—predominantly smaller businesses—where there is, shall we say, room for improvement in the level of awareness of this. While we would similarly draw our members’ attention to this and it would be referenced through a variety of different channels for communication that we would provide around it, there is potentially scope for us to enhance the way we establish more active engagement with that. There are things we can do through our annual declaration and annual returns that would enable us to capture that information; that is something we are looking at at this point in time.



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Stephen Curtis: In our area there is a jumpiness that we might get drawn in if a company we have formed has turned out to have done money laundering. If we have had a sufficiently close association with it, we might be a party to that money laundering. That is the ultimate sanction for my members: that they might suddenly find themselves in a court of law. It may be an unrealistic scenario, but nevertheless it has to be said that it may be a reason why we put in some of these SARs and a reason why we are so careful with our anti-money laundering checks. We do not want to find ourselves alongside a money launderer.

Q164 **Stephen Hammond:** I have one final question for you. On the website of the Office of Financial Sanctions Implementation, it says they opened 133 breach cases in 2017. Are you aware of any of those breach cases affecting members of your organisations?

Adam Harper: No.

Stephen Curtis: No.

Mark Hayward: No.

Q165 **Chair:** A couple of final questions about HMRC. I think this question applies to all of you. There has obviously been significant criticism; RUSI, when they came before the Committee to give evidence, said that there was significant room for improvement in HMRC's performance as an anti-money laundering supervisor. From your experiences, how well do you think they work? I am asking for anecdotal evidence of those that are not perhaps within your professional supervisory bodies, but that you know within your sectors, which are then regulated by HMRC as a regulator of last resort.

Adam Harper: In terms of the last part of your question, I am not sure we would necessarily get information from those that are regulated by HMRC, given that our focus is on those we regulate ourselves. Picking up on a point I made earlier about our interactions with HMRC, we have seen improvement in the way in which it is engaging with us on a day-to-day basis—

Q166 **Chair:** In this area particularly?

Adam Harper: Yes. To give credit where it is due, we have encountered improvement in that regard. I have highlighted that we still have some areas of risk and concern, and at the risk of sounding a bit like a stuck record, I have positioned in a number of instances the concern we have about the distinction between regulated and non-regulated. If all members of the accountancy profession were required to be regulated by some form of professional body, it would alleviate a significant amount of the burden on HMRC in that regard, because it would fall within the supervisory body framework to deliver that. Above and beyond that, its capacity to deliver its responsibilities is potentially a question of resources.

Q167 **Chair:** Just before I bring Mr Hayward and Mr Curtis in, do you or AAT members sometimes feel that other bad apples are letting the side down in terms of perceptions of the profession?



Adam Harper: Yes. This surfaced perhaps most pertinently around “Professional Conduct in Relation to Taxation”. AAT was one of seven co-signatory bodies that worked on the development of the PCRT guidelines. In doing so, obviously, we were effectively signing up our members to have to demonstrate their adherence to this additional level of obligations within their commitment to their professional ethical activities. At that point we sought some assurances about those who are not within that environment and what level of engagement would be driven through HMRC for the agents they dealt with on that. It created an uneven playing field in many ways. They have embedded that guidance as part and parcel of the information they share, but they cannot take quite the same level of sanction against individual tax agents.

That is an example where I think there are issues with the perceptions among those who are licensed by organisations such as ours, and their awareness that there will be other individuals or firms, practising effectively alongside them, who are not bound by the same obligations. There are clear advantages to being member of a professional association. None the less, if there is growth in the perceived gap—if you are imbued with an advantage if you are not part of a professionally regulated environment—the risk of people opting out of the environment will become greater.

Q168 **Chair:** Mr Curtis, what is your experience of the HMRC?

Stephen Curtis: I think RUSI may have been a bit harsh, personally. I would give HMRC about seven out of 10. We discussed extensively what your experience was when you were inspected. It can be very frustrating to deal with inspections. I have mentioned already that we have to spend time training new inspectors and telling them what it is about. We occasionally get what we perceive to be inconsistencies from inspectors, but what we don’t get is, “They came and—I’ll tell you what—they missed.” I suspect it is actually quite important that we don’t get that bit. It may have been a slightly harsh rating.

Mark Hayward: We do engage with them but, to echo Mr Curtis, it is frustrating because we don’t get anything back. You ask questions, and they say, “We haven’t got our guidance approved.” Little seems to develop. You have a meeting—nothing. You have another meeting and say, “What about that?”, “Well, we’re working on that.” It is frustrating. We know there is a lack of resource, because there are very few people on the ground. In terms of having whole sectors supervised for them, if they were given a choice about whether they would rather be supervised by their professional body or HMRC, they would probably say their professional body.

Q169 **Chair:** I was going to ask that question. All of you have talked about the resources at HMRC, the huge pressure and everything else. Do you think HMRC should no longer be an anti-money laundering supervisor? In our report, we are obviously going to draw conclusions. Would your three sectors want to see HMRC not being an anti-money laundering supervisor and professional bodies being asked to expand their roles to capture



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firms that are currently unregistered? Mr Hayward, you are nodding.

Mark Hayward: I would be very much in favour of that. We know our members extraordinarily well, and we know how they run their businesses. It took two years for HMRC to come to me and say, "We have discovered that your sector is quite creative." I could have told you that on day one. We know what to look for, and we will be there to assist our members as well as investigate them.

Q170 **Chair:** Do you think there are unregistered firms—firms that are not currently within your remit—that are slipping through the net?

Mark Hayward: I think there are. I know that National Trading Standards is prosecuting some of them on behalf of HMRC, but it is very difficult to identify.

Adam Harper: It is difficult to see how that would work without there being further legislation around the regulation of accountants in general. If we assume that that is not an option, my take on this would be more about ensuring there is a greater level of consistency in the way HMRC is monitored in the dispensing of its responsibilities. I have made the point before that OPBAS would not extend its coverage to HMRC. It would be interesting to gauge whether HMRC wants to continue to be a supervisor.

Q171 **Chair:** We will ask. On unregistered firms, you have probably touched on this, but do you think there are people who are not members of professional bodies and are slipping through the net because HMRC has not caught up with them?

Adam Harper: There is a risk that that is the case. If HMRC were no longer a supervisor for AML purposes, where would those firms go? Would it mean that individuals who fall out of that environment are effectively unable to trade in that profession?

Stephen Curtis: On balance, I prefer having HMRC to many of the other solutions I can think of. We have thought about doing it ourselves, but we are a small, close-knit industry, so we see a potential conflict. If we were both lobbyists and supervisors, members may say, "But I thought you were supporting me." There is some awkwardness in it. I am happy to think about it further, but my instinct is that at least HMRC has objectivity and distance from us. It has other faults, of course, but that is some prize, and we ought to be a bit careful before we throw it away.

Q172 **Chair:** Finally, do you think there are any company registration agents who are not as good as your members, in terms of following the rules, and are slipping through the net and are not being tracked down by HMRC?

Stephen Curtis: You mentioned RUSI. Interestingly, there are 105 company registration agents listed on Companies House's website. In a study last year, RUSI found that a quarter of them are not registered with HMRC. What are they doing all being allowed to form companies?

Chair: Which goes back to your earlier evidence on checking.



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Stephen Curtis: The law-abiding sector is being put to expense and difficulty, and the others are living the life of Riley.

Chair: Which is always a theme that we will pick up. Thank you all very much indeed for your evidence this morning, which has been extremely interesting and very useful. If there are points that occur to you after leaving here, or things you wish to expand on, please feel free to write to us. We may write to you if, on reviewing your evidence, there are further questions. For this morning, we are very grateful for your time. Thank you for being here.