HOUSE OF COMMONS

Treasury Committee

Oral evidence: Economic Crime, HC 940

Wednesday 4 July 2018

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Watch the meeting

Members present: John Mann (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Alison McGovern; Catherine McKinnell; Nicky Morgan; Wes Streeting.

Questions 173 - 262

Witnesses

I: Donald Toon, Prosperity Command, National Crime Agency; Mark Thompson, Interim Director, Serious Fraud Office.

Examination of witnesses

Witnesses: Donald Toon and Mark Thompson.

Q173 **Chair:** Gentlemen, good afternoon. Thank you for coming to the Treasury Select Committee. For the record, could I ask you both to introduce yourselves, please?

Mark Thompson: I am Mark Thompson, director of the Serious Fraud Office.

Donald Toon: I am Donald Toon. I am the director of prosperity, which means cybercrime and economic crime, for the National Crime Agency.

Q174 **Chair:** Thank you very much. I would like to start. Mr Thompson, you might like to have the first go at this. How big is the problem of economic crime, and can you quantify it?

Mark Thompson: The short answers would be "big" and "no". My view after 20-odd years in this field is that I am pretty sceptical of most attempts to quantify economic crime. The threat has undoubtedly evolved and it has new facets, cybercrime being the most obvious version of it as fraud has mutated in that way. There is a particular problem with quantifying money laundering, because in effect you have to distinguish with proven crimes like fraud. Unless you do quite a lot of work, you cannot establish that a money laundering offence has taken place, because otherwise it is indistinguishable from the normal transactions.

My view is that it is extremely difficult to quantify in practical terms. That said, the UK is a major financial centre. Therefore, plainly, whatever percentage of transactions might be tainted in some way, it is a large number. I would not really want to say much more than that.

Q175 **Chair:** If we cannot even vaguely quantify it, how do we know we have systems in place for dealing with it and tackling it? That would seem to be a contradiction.

Mark Thompson: I do not think so. The fact it is difficult to quantify does not mean you cannot attempt to tackle it. We deal with fraud.

Q176 **Chair:** My question was not about attempting to. It is the success and the systems we are using to tackle it. If you cannot even vaguely quantify a problem, how can we be sure we have the right systems in place for tackling it?

Mark Thompson: We have to use the available resources we have in the best possible way we can to tackle it. That covers a number of things. With prosecution by agencies like mine, regulation by people like the Financial Conduct Authority and the supervisor of the professions and so on, it is a multifaceted thing. Ideally, there are prevention methods like educating consumers, which can help people prevent themselves from being victims in the first place.

Q177 **Chair:** I understand that, but how can we as Parliament determine what extra resource or what extra laws or powers are required by you or any other agency if you have no idea how big the problem is.

Mark Thompson: I did not say we had no idea; I said it was very difficult to be precise and to know exactly what it is. On the number of reported frauds, fraud is the crime the individual member of the public is most likely to be a victim of. Therefore, it is a very big problem. If you are asking me whether fraud in the UK is worth £90 billion, £150 billion or £200 billion, I would not be able to say any of those with any particular confidence.

Q178 **Chair:** Is the number of actual frauds going up or coming down?

Mark Thompson: You probably need to ask Action Fraud and the City of London Police, who actually log the number of frauds, but my feeling is that it is probably going up.

Q179 **Chair:** So you think it is going up.

Mark Thompson: The number of frauds, yes, probably.

Q180 **Chair:** Is the scale of the frauds getting bigger?

Mark Thompson: I do not have the information to say that. We see a very small proportion of the biggest and most complex cases. They remain very big, but there is no particular trend I could identify on that.

Q181 **Chair:** Do you have problems with your expertise and resource in dealing with the problem?

Mark Thompson: No, not particularly. We have funding arrangements with the Treasury. That relationship has evolved over time. We have recently secured an increase to our core budget, so we are grateful to the Treasury for backing us in that sense. There remains a challenge of getting in the right expertise. Recruitment and retention remains a challenge for us. Whenever we run job adverts we still get a lot of applicants. People want to work in this field.

Q182 **Chair:** Is economic crime a lower priority than tackling organised crime or counterterrorism, in your view?

Mark Thompson: There is more focus on it now than there has been, in my experience. In the end, the priority between organised crime and counterterrorism is a matter for the Government.

Donald Toon: Chair, from the multiagency perspective, money laundering in particular is a strategic particular within serious and organised crime. There is absolutely not an either/or here. Money laundering is a facilitator of almost all serious, organised and major crime. Tackling it is absolutely a strategic priority for law enforcement for the UK, and that is agreed across policing, the National Crime Agency and all of the law enforcement agencies.

Q183 **Chair:** So it is a bigger problem than it was, then, for us.

Donald Toon: I do not know that you could necessarily say it is a bigger problem. What you can certainly say is that we have increased the priority that law enforcement gives to tackling money laundering and we have specifically set that out as a strategic priority. That does not necessarily say that the money laundering problem is bigger. In terms of the scale of the money laundering problem, we have been reasonably clear that it is really, really difficult to put a figure on this. We are essentially in a situation where people are trying to move money through a series of transactions that of course look very, very similar to millions upon millions of other transactions. We have said that it would be realistic to say that hundreds of billions are laundered through the UK annually.

That sounds like a huge figure, but, to put that in context, if you simply look at foreign-exchange trading, the daily value of foreign-exchange trading in the UK is around £1.8 trillion. You are talking about a lot of money moving and a significant amount of illicit money moving. But that pales into insignificance if you look at the overall scale of money that is moving through the financial sector.

Q184 **Chair:** Why on earth is that a relevant factor? If money is moving all over the place—that is the economy we live in—the fact that some people are doing so illegally, and calculatedly illegally, while there are lots of other transactions going on would appear to be a convenient excuse for not knowing how big the problem is. Frankly, if the amount of transactions across the world and money movements doubles but the amount of money laundering goes up by 1%, is that not a bigger problem for us?

Donald Toon: I accept that last point, Chair. It is a relevant factor to say that the UK is at the very top of the world league in terms of the scale, openness and complexity of its financial and financial services sector. For that reason, of course, the UK attracts risk around money laundering because it is significantly more difficult to detect money laundering transactions when there are very, very high volumes of legitimate transactions that look very similar.

It legitimately does become harder, Chair. From a law enforcement and regulatory perspective, it means the pressure is on to ensure that we work effectively in partnership to make sure that, where we investigate and where we identify significant problems or significant casework, we do not simply investigate and seek to prosecute and have convicted the individuals and organisations involved, but that we absolutely use that information to inform the regulators and the private sector themselves so they can identify and seek to remove risk from within their systems. The pressure is on us to do that effectively, whether or not we can actually quantify the total value.

Q185 **Chair:** Your organisation has been around for some time now. The American prosecutors seem to be able to identify money laundering using British financial institutions very regularly and they issue a lot of huge fines because of that. Is their system a lot better than ours for identifying the problem? Do we have structural weaknesses in our system?

Mark Thompson: They have significant advantages, particularly in respect of dealing with companies and corporate entities because their system relies on vicarious liability. If an employee of a bank is involved in money laundering, the bank is pretty much liable. We do not have that here, which makes it more difficult for British regulators and prosecutors to take the same action that our American colleagues take.

Q186 **Chair:** So we are not doing our job as well as we could in Parliament.

Mark Thompson: I did not say that. What I said was the Americans have a different—

Chair: We need to hear that, if it is the case.

Mark Thompson: The Americans have different tools available to them to deal with corporates.

Q187 **Chair:** If we strengthened our law towards the American model, it would assist.

Mark Thompson: That would help in dealing with companies and holding them to account, which is where you came at this from. Your previous witnesses have talked about corporate criminal liability. We have maintained that that is something where we are in favour of reform. Tackling companies is difficult. There are a number of proposals that have been looked at but have not yet borne fruit.

Q188 **Chair:** That is interesting. Thank you. Some evidence that we have received as a Committee is suggesting that the AML supervisory regime in this country is fragmented. Is that a problem to you?

Mark Thompson: It is not really one for us because we prosecute. Donald might have a better view on that one.

Donald Toon: We have been engaged with Treasury, and others across Government and in the regulatory sector on precisely that point. The UK's own national risk assessment of the risk on money laundering and terrorist financing identified an issue here. In the 2015 version, it identified an issue with fragmentation and inconsistency. That is why we very much welcome the development of the not snappily titled Office for Professional Body Anti-Money Laundering Supervision, which has been created within the Financial Conduct Authority, as absolutely the mechanism to strengthen both consistency and impact of anti-money laundering supervision, particularly across the professional sectors, including accountancy and legal.

Q189 **Chair:** In your view, are there some firms that should be registered for

AML purposes that are currently not?

Donald Toon: I would not term it in terms of registration. Firms operate as part of the regulated sector. They are subject to money laundering regulations. There are absolutely good, highly impressive and highly impactive firms in terms of their reporting of money laundering risk, but that is not a consistent position across the firms and across all of the sectors.

Q190 **Chair:** This is my final question before moving on to some of my colleagues. Which sectors are particularly weak?

Donald Toon: Where we would see inconsistency within the sector would be very much in those areas where the new OPBAS structure is designed to focus, which is around legal, accountancy, company-formation services, estate agency. There is no consistency in those sorts of areas. If you look at the structure of SAR—suspicious activity report—reporting, the numbers in there are lower than we think we should expect. In the last year we received around 470,000 suspicious activity reports. Approximately 80% to 82% of those came from banking, so we get very, very strong reporting out of banking; it is much more fragmented in relation to the other sectors.

Q191 **Chair:** In our deliberations, we should ensure we keep a keen eye and ask appropriate questions of those sectors. Is that your advice to us?

Donald Toon: That seems entirely sensible in terms of probing questions. It is important that the new structure gets a chance to set itself up, establish its position and deliver against its responsibilities to improve quality and consistency of AML supervision.

Q192 **Rushanara Ali:** Good afternoon. Thank you very much. I just wanted to pick up a couple of points from the Chair's questions. Mr Thompson, you said you could not place a number on how many billions were involved. But there are some estimates that it could be around £90 billion a year. In the 2017 *National Strategic Assessment of Serious and Organised Crime*, the NCA said it was likely that the previous estimates of £36 billion to £90 billion are a significant underestimate.

I just want to probe you a bit more on this. Although it is hard to predict precise numbers, there are some numbers about. What are your thoughts on that statement? The NCA said it, but perhaps you could both comment on it.

Mark Thompson: We contribute to the assessment that you are talking about. Actually, it is the NCA's assessment. Donald and I have in effect already agreed that it is pretty difficult to put a number on it. They are enormous figures.

Donald Toon: They are enormous figures. We see the hundreds of billions figure as a realistic possibility. It is very, very difficult to be clear about the scale of the problem. Some of the previous estimates were quite restrictive in terms of the way they were identifying profits, for example, from traditional organised crime as opposed to identifying some of the risk that comes from attempts to launder money into or through the UK as the proceeds of large-scale international corruption.

Q193 **Rushanara Ali:** You mentioned that you work together on trying to do these assessments. Do you have experts in your respective organisations who are dedicated to trying to understand the scale? I am sure you are being asked that question often by Ministers as well as by Committee Members and so on. It is quite hard to assess progress, but there is also a question around whether you should have more resources, whether there should be more of a shoring up of the agencies in order to keep up with the rapid pace of change here, especially in the light of cyber and the role of cyber in money laundering as well and so on, given the way technology is moving so fast.

Mark Thompson: The agencies involved in this area have intelligence functions and analysts involved in this type of activity. We work together to try to co-ordinate activity, and the way forward is more of that. I am sure Donald would say the same.

Donald Toon: That is absolutely right. From our perspective, we have a very strong intelligence and analysis capability. I would say that rather than focusing simply on the value, the initial focus is very much on the "how?". What is happening? As you start to unpick how money laundering is being carried out, that enables you to start to understand the scale of the problem better.

Q194 **Rushanara Ali:** In your response to the Chair's question, you mentioned the daily flow of money through the UK being £1.8 trillion and the proportions involved versus the money laundering. Given what you do, you will appreciate that the business of money laundering, how dirty money is moved around and the origin of that can involve trafficking, organised crime and the rest it.

You described your approach to this in terms of the proportion of money laundering relative to legitimate transactions. I hope you do not take this the wrong way—I do not mean any disrespect to your approach—but it sounds more like an excuse, with respect, rather than an answer to, "What are we doing?" That is why the scale is really important. How serious is this? How bad is it going to get? What should we expect going forward? I know these are difficult questions to answer, but putting it down across scale versus the proportions does not seem like the urgency of the matter is being appreciated.

Donald Toon: I do not accept that. We would not accept that. From our perspective as an agency and looking across the wider law enforcement perspective, as I said, we have been very clear that money laundering is a strategic priority. It is a strategic priority because we recognise it is a major risk from the UK's perspective. Can we put an absolute number on that? No, we cannot, but we can certainly set out that we see it as a major risk. We also see that money laundering and illicit finances more generally are often the driver or the reason for the vast majority of serious and organised criminality. It is absolutely at the heart of everything we are doing operationally, whether that is focused on people trafficking, modern slavery or drugs. In all of these areas, the crimes are being carried out for money. Money laundering is by definition a result and a process that is directly linked to that. Therefore, we are very heavily focused on targeting the money laundering.

I would just say that, from our perspective, what is really important there is to understand how criminals go about money laundering, and learning from that.

Q195 **Rushanara Ali:** I just want to come on to that in terms of law enforcement. Given the pressures on law enforcement agencies—on the police and others—do they have the capacity to be able to keep up with the scale of the problem, however you want to define it, and its complexity, which you mentioned? Can you comment on that? Take policing, for instance. If you look at how many police officers have been taken out of the system, how does that work?

Mark Thompson: Obviously, you need to ask the police about policing directly. In terms of what I can say, I would imagine the Chief Constable would say the difficulty is that they have multiple priorities. They do not just deal with economic crime. My agency does: we have a very limited and narrow focus. Obviously, all of our people are involved in it and focused on it. It is more difficult if you are another agency. These crimes are difficult to investigate; they are long-winded and data-heavy. You can see why, in some cases, a police force would find it difficult to prioritise that against other things.

Q196 **Rushanara Ali:** Would you say the fact that the police are under much more pressure with fewer resources and fewer police officers is undermining what you are trying to do?

Mark Thompson: You need to ask the police that.

Q197 **Rushanara Ali:** Okay. Perhaps, Mr Toon, you could comment on that. When one aspect of this cross-agency partnership is under so much pressure, I do not see how you can possibly keep up with the sort of numbers you are dealing with or the kinds of crimes you are dealing with.

Donald Toon: There is a very simple answer here: you can always do more with more. There is a starting-point question, which is this: are we as effective as we can be with the resources that are currently available? That is not just about law enforcement. It is about law enforcement, the regulators and the private sector. That is an entirely legitimate question. The Government have been very clear. We have announced that the National Economic Crime Centre will be established. That is absolutely about drawing together the capabilities of all of the agencies in this space, ensuring that we harness capability, prioritise activity and that we get effective support from the different skills and capabilities of the different agencies to deliver overall for the UK on the threat from economic crime.

Q198 **Chair:** Has that already been established?

Donald Toon: It has been announced and the National Economic Crime Centre will go live in October of this year. It will then be a stepped build from October onwards. Essentially, that is the focus. It is about drawing together all of the capabilities and ensuring we have a single coherent picture, a single approach to prioritising activity effectively to hit economic crime, and a single authoritative voice about the threat of economic crime and how the UK is responding to it. It is also about leveraging very heavily that private sector relationship.

Over the last few years, we have done quite a lot of work in this area by bringing together law enforcement and the banks under the NCA lead, under the Joint Money Laundering Intelligence Taskforce. That has brought together a number of the banks. It has given us a much clearer avenue to understand money laundering risk, and to be able to get material and additional information out of the banking sector. It has also enabled the banking sector to come forward to law enforcement and set out areas where they have identified potential major money laundering, which have been adopted by major investigations by the NCA and our partners.

Q199 **Chair:** Where will that be based? When will it be fully functional? If it is commencing in October, will it be fully functional from October? Is it based in one location?

Donald Toon: The National Economic Crime Centre is due to be hosted in the National Crime Agency in London. That is the intention. It will be a stepped build. The details of that are still under development, but the first tranche of capability is from October this year, and then there will be a sort of multi-year stepped build to make sure we harness the capabilities of all the involved agencies. Therefore, no, it is not a full build in October. It is a launch and initial capability, and we will build on from there.

Q200 **Chair:** Will there be a single-centre location?

Donald Toon: It will have a single-centre location. It is very much designed to understand the overall problem, draw together the capabilities and to prioritise the use of those capabilities across all of the different agencies. What it is not doing is taking lots of investigators from different agencies and bringing them together into one place. By and large, that sort of activity tends to distract from operational performance rather than enhance it for a period of time. This is very much about having a single centre and a clear role in terms of understanding, prioritising and driving forward operational results across all of the economic crime agencies.

Q201 **Wes Streeting:** I want to pick up on a similar theme, actually. First to you, Mr Toon, in terms of economic crime, where are you focusing your investigative resources?

Donald Toon: At the moment, our investigative resource around economic crime is focused most heavily on money laundering, because it is the identified strategic priority in this space and because it also has that impact on wider serious and organised crime. That includes the other strategic priorities we have, which are in cyber, firearms supply, child sexual abuse and exploitation, modern slavery and human trafficking. That is the principal focus of our investigative capability at the moment in relation to economic crime.

That is supported by some of the work we are doing using civil investigation and civil litigation on the recovery of assets from those who may have been involved in serious crime and our use of unexplained wealth orders as part of that process.

Q202 **Wes Streeting:** Mr Thompson, in the case of the Serious Fraud Office, what are the cases that you would like to be seen to be prosecuting at the moment?

Mark Thompson: We would never view it as us being seen to be doing anything. We follow the evidence in respect of the cases we take on. Principally, those are the major international corruption cases and the major fraud cases. We would want to be seen to be prosecuting effectively those who should be prosecuted.

Q203 **Wes Streeting:** Yes, I understand that. What I am trying to get at with the tone of question is that, obviously, the Serious Fraud Office wants to prosecute all cases, as you say, but there is an importance, is there not, to high-profile, very public and effective prosecution of cases, both to reassure the public and send a deterrent message? That is more what I am alluding to, really.

Mark Thompson: I see the purpose of the question, but we would say we would prosecute where the evidence and the public interest merits it. Roughly 50% to 55% of our work is on international corruption cases. They tend to be high-profile and involve large companies. From the point of view of ensuring a level playing-field and fulfilling our international commitments in terms of the UK being a safe place to do business, those are important public-interest factors that we would take into account.

On the fraud side, again, we would be looking at the most impactive frauds. We would be looking at the particularly large-value and pernicious investment frauds, which harm lots of pensioners and thousands of investors. Those are the ones that are notoriously difficult to investigate, and those are the ones we should be doing.

Q204 **Wes Streeting:** Indeed. Can I ask a question to both of you? The national risk assessment noted that there was significant emerging risk of money being laundered through capital markets. We heard evidence from RUSI to this Committee, which I am quoting now, that said, "When you start talking"—to law enforcement—"about special purpose vehicles set up in this country or that country, you see the gulf in knowledge opening up very rapidly". Is there room for improvement in terms of the knowledge base and understanding of capital markets among people in enforcement agencies responsible for tackling this kind of crime?

Mark Thompson: From our point of view, I would be disappointed if the RUSI witness was referring to our staff. I would expect our staff to be considerably above average in terms of their knowledge of this. We have some real experts in house, such as forensic accountants and so on. With that said, from time to time we encounter some fairly esoteric financial instruments and so on, and you always need additional skills and expertise.

Q205 **Wes Streeting:** We will come back to that in just a moment. Was RUSI pointing the finger at the National Crime Agency, Mr Toon? Is that a fair criticism, or an occasionally fair criticism?

Donald Toon: No. If RUSI is commenting about law enforcement, law enforcement in the round does not necessarily need to understand an awful lot of that. If you look at the SFO or the people in the specialist money laundering intelligence and investigation side of our agency, the use of special purpose vehicles to launder money through capital markets, for example, is an area you would expect us to understand. It is an area we do understand. It is also an area—I mentioned the work we are doing with the private sector—where we have an agreement with the banking sector. We have brought together a specific set of people who are working through exactly how the threat manifests itself using private sector and law enforcement skills to understand that.

We are focused in the right space, but it would be unreasonable, as well as inefficient, to expect there to be, across law enforcement, a high knowledge of the way in which money laundering might be carried out through the capital markets.

Q206 **Wes Streeting:** I am not just thinking about special purpose vehicles here. We are now in the context of crime becoming far more complex, alongside a technological revolution. There are new platforms and new currencies. Not just in relation to this inquiry, but our other inquiry on cryptocurrencies, there are lots of people out there whose agenda is to keep their activity and their transactions far away from the prying eyes of regulators, central banks and, indeed, enforcement agencies. Are you both satisfied that you are resourced sufficiently and tasked efficiently to keep up to date with both the pace and scale of this challenge, particularly in terms of technology but not simply limited to it?

Mark Thompson: Technology is something we have to invest in. We are investing in a new document-review system; we are looking at artificial intelligence and so on, to help the efficiency of this. One feature that makes this work difficult is the explosion in data. For a long time until recently, the biggest case held on our records had 30 million documents.

That has now been superseded and it grows all the time. I am sure Donald would say the same about some of his cases. Managing that volume of documentation in any meaningful fashion is becoming very, very difficult. We are looking at how we can use technology to get on top of that.

Moving to capability, in terms of the original point to your question around the sophistication of some of this crime, that has been an issue since the start of the SFO. It was put there to deal with more difficult cases. We have always had a mixture of skills coming into the office. There are some ex-law enforcement officers, some from the City, some from accountancy firms and lots of other places. Equally, we invest in training our own people from scratch, relatively new graduate-type people. That has been very successful as well. It is a mixture. But attracting and keeping high-calibre staff is an issue for most public-sector organisations.

Wes Streeting: Yes, indeed.

Donald Toon: That is a very fair statement. In some of these areas, it is also quite clear that the private sector's ability to reward is always going to far outstrip that of the public sector.

Wes Streeting: Yes, I was going to come on to that.

Donald Toon: From our perspective, an important aspect of this is the use of our specials programme. We have access to a number of people with strong private-sector expertise—we do target for particular areas of expertise—who work as volunteers, as specials, for the National Crime Agency. That is an important source. Therefore, they have a responsibility and an obligation as specials to the National Crime Agency. From our perspective, that is incredibly useful in making sure we get access to skills. There are lots of people out there who have very, very deep specialist skills. They are in the private sector; they are making good money. But there are people in those circumstances who also have a very clear sense of public responsibility and want to be able to support. That programme helps us.

Q207 **Wes Streeting:** I was going to ask you about your ability to recruit and retain staff. What you have just reported about the use of specials is particularly encouraging in that context. I have a final few questions. To what extent can you call on the FCA to offer expertise? Is this something you do or are able to do?

Donald Toon: Yes.

Mark Thompson: Yes, like Donald, we have a good relationship with the FCA. There is regular contact and meetings; there is exchange of information. They refer things to us; we have referred things too them. We have joint training and so forth. Is there anything else, Donald?

Donald Toon: We have a very strong relationship with the FCA, particularly with the FCA's enforcement side but also with its specialist supervision side for money laundering. To the extent that we act, we provide direct operational support in some areas to the FCA. Equally, they provide case referrals and appropriate levels of expertise to us. One of our largest money laundering and fraud cases at the moment is a direct referral from the FCA.

Q208 **Wes Streeting:** Fantastic. Finally, to what extent do you feel you have political support for your work on economic crime? Mr Toon, this is probably a question more for you, because it refers to your *National Strategic Assessment of Serious and Organised Crime*. In there, the National Crime Agency says, "As the UK moves towards exiting the EU in March 2019, UK-based businesses may look to increase the amount of trade they have with non-EU countries. We judge this will increase the likelihood that UK businesses will come into contact with corrupt markets, particularly in the developing world, raising the risk they will be drawn into corrupt practices".

In that context, how are you preparing for that? Is that a risk you have flagged with the Home Office and the Foreign Office? What is the nature and status of your discussions with the Department for International Trade about this area of risk that you have identified?

Donald Toon: That assessment is fed into by other parts of Government as well. A key thing to point out there is the words "may" and "risk". From our perspective, one aspect of this is that we work in very close partnership with the SFO around international corruption. Between us, we operate a bribery and corruption clearing house. We have an international corruption unit. We focus very heavily on major casework in countries that have significant corruption problems. Part of that is then about ensuring the information that flows from that casework is made available to regulators and the private sector so they understand what risks they may face. In terms of political support, the commitment to the National Economic Crime Centre makes the Government's commitment on economic crime very clear. We have had no issues with political support for the work on tackling economic crime whatsoever.

Mark Thompson: Going after the top end of economic crime does not necessarily make you popular in all quarters. In fact, if we were entirely popular, we would probably not be doing our job properly. With that said, there have been several developments over the last few months. First, in the economic crime review, the Home Secretary said the SFO would remain independent. We had our core budget increased by the Treasury in March. My successor takes over in August. She has been appointed on a five-year term. Taken together, that shows a degree of political support for the work of the SFO.

Wes Streeting: Indeed, that is probably a nice note for me to hand back to the Chair on.

Q209 **Catherine McKinnell:** Yes, and it leads me nicely on to ask about economic crime. You paint a fairly positive picture in terms of the future, but, as you have answered to my colleague Wes, everything you would like to prosecute is not necessarily always possible. What are the main challenges in terms of economic crime, prosecution, the speed of justice and the ability to pursue these cases? What are the main challenges?

Mark Thompson: The SFO only deals with the top tier. The challenges include the ones I have already mentioned. In terms of digital data, the explosion in volume makes it increasingly difficult and time consuming to deal with. Last year, for example, the quarterly throughput of data in our digital review centre quadrupled in the course of a year. That is in one year. It is unlikely to slow down. Another aspect of the SFO's work that is particularly complicated is the need for international collaboration. Mutual legal assistance, while good with some countries, is not so good with others. That can be difficult. We deal with people who are sophisticated, top-end criminals. They do not want their activity to be uncovered. They can also employ the best lawyers to obstruct us throughout the whole process. These things can take years, to our great frustration as well. That can be difficult. I come back to it again: corporate criminal liability remains a real issue.

Donald Toon: From our perspective, we share some of that. Certainly, the scale of data that we are uplifting in casework is massive. The SFO is working on its systems; we are on a major multi-year investment to improve our capability in that space. But that brings real challenges in terms of being able to identify investigative leads and opportunities quickly. It also brings its own challenges in terms of being able to be confident that we have delivered on all our disclosure responsibilities, as we take cases to court.

We also need to be more inventive in looking for mechanisms to be more proactive rather than reactive to casework and using more live intelligence-led activity in order to impact on ongoing crime. There is something here about drawing together the different skills of different agencies. We work well with the SFO at the moment; we work well with HMRC and others. Our particular strength is around real-time intelligence-supported investigation. Others are very much more in the reactive and document-based investigation. Drawing those two things together is where we are trying to be effective. We have a major case at the moment that is very heavily supported by HMRC's forensic accounting capability. But the challenge is being able to do that joint activity on a greater scale.

From a broader point of view, one of the fundamental issues for law enforcement, and one of the fundamental problems around a lot of economic crime, is cyber-enabled criminality—the fact that you have this straightforward break in the traditional geographical link between the crime, the offender and the victim. We have a challenge of frauds carried out online where the perpetrators may be thousands of miles away in very, very difficult to reach jurisdictions. That is a real challenge for law enforcement, particularly around mass-market or volume fraud. Even on major casework, there are difficult jurisdictions where, frankly, to be impactive we need co-operation, and we are not going to get co-operation in a manner that would enable us to put evidence in front of a UK court.

Q210 **Catherine McKinnell:** That leads me back to you, Mr Thompson. I particularly wanted to ask about prosecution and our ability to prosecute economic crime. We have heard about a lot of the challenges around investigating, but in your last response you referenced the issue of establishing criminal liability. In the written evidence, I know you have put forward legislative proposals for the creation of a new offence of failing to prevent economic crime, analogous to the failure to prevent an offence under section 7 of the Bribery Act 2010. Presumably this is something you would support.

Mark Thompson: Yes.

Q211 **Catherine McKinnell:** What has been the response from Government?

Mark Thompson: We contributed to a call for evidence and made these points.

Q212 **Catherine McKinnell:** We are talking two years ago. Was it something more recent?

Mark Thompson: It was slightly more recent than that. It was 2017. The original thing came out of the Anti-Corruption Summit in 2016, but we had been making the case for it. There are two aspects to it. The current attribution of corporate criminal liability is through the identification principle. Broadly speaking, that is the requirement to identify the controlling mind of the company.

Q213 **Catherine McKinnell:** My question, though, is why the Government are resistant to these changes.

Mark Thompson: The Government continue to consider whether it is necessary. My understanding of the Foreign Office's position, for example, is that it was not necessary because the regulatory regime around senior persons in the City was sufficient to address a lot of this.

Q214 **Catherine McKinnell:** How many successful prosecutions have there been for economic crime in the last 12 months?

Mark Thompson: Do you mean nationally or just for the SFO?

Q215 **Catherine McKinnell:** I mean for the SFO.

Mark Thompson: I would have to get the exact number. We roughly have about 20 a year.

Q216 **Catherine McKinnell:** What difference would it make if we had these legislative changes that have been proposed?

Mark Thompson: It would certainly enable us to take faster action against corporates. It would potentially assist with other resolutions such as deferred-prosecution agreements, because this issue of attributing responsibility would not arise. It would assist our efforts with some of the bigger companies.

Catherine McKinnell: I tabled a parliamentary written question asking about the number of prosecutions under the changes within the Proceeds of Crime Act 2017, sections 327 to 329 and section 330. There have not been any prosecutions under those as yet. Are there any in process? I appreciate you cannot comment on specific cases.

Mark Thompson: I would be surprised if there were no money laundering prosecutions in prospect.

Q217 **Catherine McKinnell:** That is the response I got. Perhaps it is a timeline issue.

Mark Thompson: I am sorry. Was that in respect of us, the SFO, or everybody?

Q218 **Catherine McKinnell:** That was the SFO, yes. There have been no prosecutions yet.

Mark Thompson: We tend to prosecute offences of bribery and fraud. We consider and often will investigate money laundering offences as well, but, broadly speaking, if we prove the fraud or the corruption offences, that is generally enough for the purposes of establishing justice. We do not necessarily pursue money laundering prosecutions in every case. In the particular circumstances of the SFO, it just would not be appropriate for us to pursue money laundering charges in all cases.

Q219 **Catherine McKinnell:** I guess this is what I am trying to get at. Is the number of prosecutions a fair reflection of the scale of the problem? Are we adequately equipped, legislatively, to prosecute these crimes?

Mark Thompson: It is potentially misleading if you just look at the SFO, because we will only ever prosecute a relatively small number. The issue with the SFO's cases is that they should be, by definition, the most difficult, challenging and perhaps impactive ones. Looking at the pure numbers is not necessarily going to give you a terribly clear picture, because they are relatively small.

Q220 **Catherine McKinnell:** Do you have an answer to my question, then? Do we have the legislative tools to adequately prosecute this crime?

Mark Thompson: In terms of corporate criminal liability, which you originally asked me about, no, we do not, because the current regime does not make it possible to pursue corporate crime in the way we would like to.

Q221 **Catherine McKinnell:** So there are people who are committing economic crime who are not being prosecuted for it, due to gaps in the legislation.

Mark Thompson: There are some corporate criminal fraud offences that could be prosecuted with a different regime, yes.

Q222 **Chair:** It would be helpful if you could outline a useful note to the Committee on that, so we can contemplate whether we want to take a view.

Mark Thompson: I would be happy to do that.

Chair: The more we are informed by either of you on what we can do, or choose not to do, the better. That would be very, very helpful.

Q223 **Mr Clarke:** Today has brought Russia back into the frontline of focus with the incident in Amesbury. This raises the question of Russian dirty money and how we can use that to leverage pressure on the regime in Russia and its acolytes. Does Russian money present a particular or unique risk to the UK compared with the risks of capital flows from other countries that have regimes we might not like? That is to either of you.

Donald Toon: If I take the first line on that, we need to be quite careful on this. From our perspective, we always have to bear in mind that the issue for us is the criminality, not the nationality. But we certainly have casework focused on assets and behaviours that are Russian or Russian speaking. But that is part of wider casework. We see issues with PEPs and with illicit assets linked to PEPs, not just from Russia but from a wide range of different countries.

Q224 **Mr Clarke:** Would you say they were disproportionately from Russia?

Donald Toon: There is a significant value of assets held in the UK that we believe, ultimately, to be held by either Russian corporates or Russian individuals. The Government are doing a lot of work in terms of supporting our ability to better identify that. One of the issues here is that the Government have been very clear that they intend to legislate in order to get beneficial ownership information on UK property that is held in a corporate name.

Q225 **Mr Clarke:** Does that go far enough?

Donald Toon: We do not know yet. The reason we do not know is because we need that legislation in place. We need to be able to make an assessment of how effective it is in terms of uncovering the position. It will certainly make life significantly easier from an investigative perspective, but we are unable to say at this point whether more needs to be done thereafter. That is a really important issue for us. There is a significant proportion of high-end property held in corporate names. It is very difficult to get behind. It is particularly difficult to get behind when you then find the corporate is registered in a secrecy jurisdiction. That corporate may itself then have behind it a trust, another corporate structure in a different jurisdiction. That drive to understand who ultimately owns property in the UK is critical in terms of our ability to be more impactive on assets held here in the UK.

Q226 **Mr Clarke:** Would you describe the UK as currently the destination of choice for Russian dirty money as compared to France, Germany or other western European states? If so, why do you believe that is?

Donald Toon: From a law enforcement perspective, certainly from our perspective, we would not be in a position to say whether that is an accurate description.

Q227 **Mr Clarke:** I mean that relative to the volume of casework your French counterparts, say, are facing. We hear a great deal of commentary about the sheer volume and net worth of this dirty money, or potentially dirty money, from Russia in the United Kingdom. I do not know. You must have discussions with fellow European states about this. It is fair to say the prevailing image is that we have a particular problem in this country with these flows of dirty money. Is that something you have discussed?

Donald Toon: From our perspective, can we say we have a problem? Yes. Is it a significant problem? Yes. Can we say it is disproportionate? Can we say it is the No. 1 destination? From our perspective, we are not in a position to say that

Q228 **Mr Clarke:** Mr Thompson, is Russian dirty money a symptom of the fact that our AML regime and its supervision are currently inadequate?

Mark Thompson: It is difficult for me to really comment on that, based on our casework. From our current caseload and my own experience at the SFO, of which I have quite a lot, we have not been at the forefront of tackling these types of crimes at the SFO. We have a number of cases on our books related to, shall we say, ex-Soviet countries. They are asset-recovery cases and criminal cases. They are problematic to investigate for the same sorts of reasons Donald has mentioned. To what extent is that due to the lack of an anti-money laundering supervision regime? My view would be a bit jaundiced, because I only see it when it has gone wrong.

Q229 **Mr Clarke:** When you do see it has gone wrong, what would you highlight as particular deficiencies in the system? That is obviously what we as a Committee need to know. What is not being done that could be done better?

Mark Thompson: It is important to understand how these things work in a large bank, say. You see the mechanics of it. We often get the email trails as they go through the banks. It starts with junior compliance officers; it goes up a bit to some sort of compliance committee, which looks at it. Usually, there will be almost nobody senior on that compliance committee, which then decides, "Yes, we will take that on" or, "No, we will not". We might say those people are not the key decision-makers. The bank, therefore, does not have corporate liability.

There are difficulties in prosecuting the money laundering offences. They are not ones that leap out as being SFO-type things. There are modest penalties and they are not particularly easy for us to use. There have not been a huge number of prosecutions. We have perhaps tended to refer those kinds of cases back to the FCA. Those are the sorts of things we have come across.

Q230 **Mr Clarke:** Are you suggesting, therefore, that more senior figures in, say, a financial institution need to be directly involved in the process of assessing whether someone over a certain threshold should in fact be taken on as a client?

Mark Thompson: I will leave you to fill in the blanks, but it is possible that senior figures in the banks avoid being involved in some of these decisions.

Q231 **Mr Clarke:** Should we change that?

Mark Thompson: I go back to corporate criminal liability. I am sorry to return to that theme again, but, yes, that is at the heart of the issue. If you want to prevent or make people take notice of money laundering, they need to be responsible for what is going on in their organisations.

Q232 **Mr Clarke:** That blank is filled in. Thank you. To what extent has the Skripal incident altered your threat assessment related to Russian dirty money? Has that had an impact on your ability to police other sources of such dubious revenue?

Mark Thompson: That has not directly impacted on us. Donald, what would you say about that?

Donald Toon: We have certainly increased the overall effort we are putting into the corrupt elites agenda. A significant chunk of that is Russia. The Prime Minister made that position clear in Parliament shortly after the incident. That is quite true. We are putting a significant effort into understanding and tackling that problem. Across economic crime, we would not say that is distracting or reducing our capability to deliver ongoing casework at this point.

Q233 **Chair:** Are you saying that is a political decision as opposed to an operational decision in terms of what you see as the key issues?

Donald Toon: No, the Prime Minister made this clear. She commented that we were doing more work and we were strengthening our work and our focus as law enforcement. The specific issue or the specific point was that law enforcement under the leadership of the NCA will focus effort on tackling the assets of corrupt elites and their enablers.

Q234 **Chair:** You can only have increased it if you had not noted it before. If you increased it based on an incident, as you just said, you can only have increased it if you had not noticed some of it previously.

Donald Toon: We have been doing quite a lot of work in this space. I would say it increased the focus on that particular problem but, as I said before, we target our efforts. The Prime Minister's commitment was very clear. It was about corrupt elites and the enablers around corrupt elites. It was not specifically about Russia.

Q235 **Mr Clarke:** In terms of political exposed persons, which is something I have touched on in previous evidence sessions, how easy is it currently for firms, whether large or, indeed, small, to assess whether someone is a PEP? Should more guidance be provided by the authorities on this? Do you get feedback, for example, that it is quite difficult for your average business to assess?

Donald Toon: It is a very difficult one for us to answer. The guidance you are talking about in that space is very much an issue for the anti-money laundering supervision and regulatory authorities rather than for us. We certainly see a significant number of suspicious activity reports, which are based on assessment of individuals not just as PEPs but as PEPs where institutions have a specific concern about doing business with that individual or that entity. We could not make any sensible comment on how easy or difficult it is for the businesses themselves to make that assessment.

Q236 **Mr Clarke:** There is no feedback procedure that you are aware of or that you are involved with.

Donald Toon: Not around the issue of identifying a PEP, no.

Q237 **Mr Clarke:** In terms of the Putin family itself, have any cases involving relations of the President or, indeed, the President himself, in terms of assets, come to the attention of the NCA?

Donald Toon: I could not comment on that sort of issue in terms of the detail of whether any such operational casework might exist.

Q238 **Mr Clarke:** A few weeks ago, we had the delayed renewal of Mr Abramovich's investor visa in the UK. Were either the NCA or the SFO involved in that assessment?

Donald Toon: I would not make any specific comment around the position of Mr Abramovich. I would say that all decisions in that space are for the Home Office, not the National Crime Agency. However, in investigations of criminality, when we identify people who are not UK citizens and may have visa issues, it is absolutely normal and routine for us—do not take this as a specific comment around Mr Abramovich—to identify that point to the Home Office and identify the concern.

Q239 **Stewart Hosie:** Mr Thompson, in your written evidence you told us the SFO uses SARs primarily where the SFO already has an existing interest in the case. As such, they may corroborate what the SFO already knows or suspects. SARs are also a useful source to fill intelligence gaps on entities or industry sectors of interest. That is what you told us. Could the suspicious activity report regime work better for you?

Mark Thompson: As I am sure you know, there is a programme to look at the SARs regime. It is underway; Donald is closely involved in it. From our point of view, we use SARs at various points. They are a useful source of information at a whole range of stages, right from the very earliest stage. If a member of the public reports something to us, it is one of the sources we would look at. We would continue to look at it throughout the course of the case. From our point of view, the system gets quite a lot of criticism that it is not terribly effective and so on, but, as an investigator myself, I know that delving into the database at all sorts of stages can give you additional information you did not know, whether it is a phone number, a bank account or just some peripheral nugget of useful information.

Q240 **Stewart Hosie:** The peripheral nuggets are helpful; the corroboration is useful. I suppose the real question I have is whether the SARs system could be changed to allow you better to use them as a lead for further investigative work, rather than simply corroborating or filling in gaps?

Mark Thompson: One of the things we have always wanted is fewer SARs that are effectively just the bank or institution saying, "I am covering my back here". That would be helpful, because some of them are not terribly useful. I would rather have a much smaller number of really useful SARs than 400,000 where 390,000 of them were not much use.

Q241 **Stewart Hosie:** That is very interesting. I was going to ask that very question. If those ballpark numbers are approximately right, 10,000 to 20,000 are of some use and the other half a million are not.

Mark Thompson: Do not quote me on that.

Q242 **Stewart Hosie:** These were your numbers.

Donald Toon: The UK Financial Intelligence Unit, which receives all suspicious activity reports, sits within the National Crime Agency. It sits under my direct line management, so we are intimately involved with the suspicious activity reporting regime. The figures we are talking about here are approaching 470,000 SARs in 2017-18. For comparison, about five years ago that figure would have been just over 300,000, so there is a significant ongoing increase in SARs. It is worth saying that there is a direct SARs reform programme led by the Home Office. We are closely involved with that programme.

That is very much about how we ensure that SAR reporting is as effectively focused on risk and the priorities of risk as it can be. We understand that it is for reporting entities to decide whether they want to submit a SAR or whether it is necessary to submit a SAR. It is essentially a regulatory and a commercial decision for them. To give you a feel for this, some SARs lead directly to specific law enforcement investigations, but a very large number of SARs support investigations that have been started for other reasons. Almost the first port of call in a major investigation when you start to look at the financial side is the SARs database, so you have six years' worth of SARs in there.

It may well be that you start an investigation today and SARs that were submitted two, three, four or five years ago then become relevant. There is a series of issues here around the fact that the SARs database includes a very wide range of information. Some of it is absolutely critical now; some of it very firmly supports other investigations; some of it we think would be better not reported at all. Part of the SARs reform programme is to try to work through how we lose that which has no value without throwing the baby out with the bathwater.

Q243 **Stewart Hosie:** That explanation is helpful about what you hope the reforms will achieve. When do you expect that work to be completed by?

Donald Toon: There are specific chunks of work in there. In terms of the efficiency and effectiveness of the SARs regime, one of the key issues is replacing the technology that currently supports the regime. Again, that is part of the programme led by the Home Office. At the moment, the aim is to make sure that is done. You will appreciate that complex technology issues and complex technology programmes can take a bit of time, but the aim is to have that done by 2021.

One of the complexities here is that there are around 56,000 entities spread across the regulated sector. They all have to be able to support reports, so we need technology that is able to do that. We then have all the law enforcement and regulatory agencies in the UK, which need to be able to access the database and use it at the other end.

We are designing, and there will be built, a system that has to be capable of being used by a very wide range of organisations for a range of different purposes. The aim is to have that completed by early 2021. We expect to be able to make chunks of improvement over a period of years, but the detailed focus of that is ultimately for the Home Office to set out.

Q244 **Stewart Hosie:** You said the objective was to get the really useful stuff and not to throw the baby out with the bathwater, but to avoid getting a huge amount of information that is not helpful in any regard. However, as was mentioned in some of the questions and evidence earlier, there are some sectors with very low submission rates. The estate agency sector in particular seems to be sporadic and low. It is not like finance, where there is an expectation that if they suspect they will submit. Is there an education issue here? What is happening?

Donald Toon: A couple of things are happening there. Most of us will have bought houses at some point. SARs fundamentally are about the money. There is a limited involvement of estate agents with the financial transaction. Some do, but some have very little involvement whatsoever; they simply act as an agent of the seller. When you go through the process of a property transaction, for most people it is the solicitor and the conveyancing solicitor who will do the know-your-customer checks, seek to be absolutely certain of your identity and assess what the source of the funds is.

Is there a need for improvements around estate agents? Yes. I am a little nervous about saying that estate agents are wholly the root of a problem in this space. There is an issue here about making sure we get good, solid reporting across the legal sector as well as estate agency around property.

Q245 **Stewart Hosie:** I am glad you have raised that, because you spoke about the know-your-customer regime these days, but, if my understanding is right, the proportion of very expensive properties, particularly in central London, that are bought without a mortgage is now huge. This is a spectacular amount of cash money. There is not really a need to know your customer. Mr Smith comes in and basically transfers the cash, gives you a cheque or—goodness knows—has it in an attaché case. You are not lending him or her any money. The cash is there. How does that filter to you? How do you get that information?

Donald Toon: There is a responsibility to know your customer. Almost certainly, someone, whether or not that is someone in the legal profession, will have a responsibility around conveyancing to make that transaction work. It is not just about lending the money. As part of that know-your-customer approach, there is a responsibility to understand and be satisfied about risks around the source of the money. There is a direct responsibility if you are involved in the process of the transaction and you are within the regulated sector. Most commonly, that would be a conveyancing lawyer.

Q246 **Stewart Hosie:** I do not know if you will have access to the information, but it would be useful for us to have it. Of all the properties bought in central London without a mortgage over £2 million, how many SARs reports do you think would have been submitted? I only ask because, yes, there are lots of wealthy people there who have earned their cash legitimately, but there is a lot of cash money sloshing about that is not. How many of those will have generated a SARs report as a proportion?

Donald Toon: I do not know the answer to that question and it would not be easy for us to get to the root of that, given the way in which SARs are submitted. We would not necessarily know, for example, whether it was partly loaned money. In terms of the detail there, it would be really difficult for us to interrogate the system and reach a conclusion on that.

Stewart Hosie: That would be a useful piece of information for us all to have. If only 5% of those transactions have a SARs report—

Q247 **Chair:** It depends how it is kept. For example, we could take a particular borough and give the number in a particular borough. It would probably need to be either Westminster or Kensington and Chelsea to be of relevance. That may be a useful way of getting some indicator.

Donald Toon: We will look into this. We will be happy to let you have a note. In terms of geography, we could certainly do something. It would be quite hard to sift out the purchase price and separate out whether a mortgage is in place, but the number of SARs on property transactions in, for example, Kensington and Chelsea should be doable.

Chair: The Clerks will be in touch on that. That is helpful. Thank you.

Q248 **Stewart Hosie:** I have one final question. I know you are saying the big issue here is not necessarily estate agents. I simply chose that as a sector. But, in general terms, are people in that sector or elsewhere deterred from submitting SARs because of the potential consequences and, indeed, the fear that the people they are submitting them against may find out, particularly if that were to be evidence in a court case later?

Donald Toon: From our perspective, we have no evidence to support that. It is important to note that the confidentiality of SARs is an important tenet of the regime.

Q249 **Stewart Hosie:** Indeed it is. I know they are anonymised, but I wonder whether those who might be expected to submit them are aware that they are anonymised in that way.

Donald Toon: That information is absolutely available within the various educational programmes that the different supervisors run. What I cannot say, which would very much be an issue for the supervisors and regulators, is the extent to which they believe those programme are attended and impactive. That information is absolutely and clearly available. It is covered very, very firmly in pretty much all the training and educational stuff around the way the SARs regime operates.

Q250 **Charlie Elphicke:** Mr Toon, I have been looking at a National Crime Agency publication called the *National Strategic Assessment of Serious and Organised Crime 2018*. Have you read this?

Donald Toon: Yes.

Q251 **Charlie Elphicke:** Did you write the "prosperity" section as the director of prosperity command? Are you responsible for it?

Donald Toon: I am responsible and accountable for it. I did not write it all myself.

Q252 **Charlie Elphicke:** I want to return briefly to a point the Chair raised earlier about how much money laundering is going on. While it says there is no reliable estimate, it says there is a realistic possibility that the scale of money laundering impacting the UK annually is in the hundreds of billions of pounds.

Donald Toon: Yes, I agree, and I made that point earlier to the Committee.

Q253 **Charlie Elphicke:** You think there could be hundreds of billions of pounds of money laundering happening every year in Britain.

Donald Toon: We think, and this is in the assessment, that it is a realistic possibility. Earlier, I sought to draw out very clearly for the Committee that it sounds like a very large amount of money, but, if you put it in the context of the amount of money that is traded through the UK in the financial sector, it is a very, very small proportion of that. I cannot remember if you were present at the earlier point, but one simple example would be that foreign exchange trading in the UK has a daily value of about £1.8 trillion.

Q254 **Charlie Elphicke:** Still, we are talking about two or three times the entire budget for the National Health Service.

Donald Toon: We are talking about a very large amount of money, but we need to be really cautious about impacting on the UK. That is into the UK, through the UK and facilitated by UK structures. We have certainly seen cases where UK company structures have been used to facilitate large-scale money laundering. The money itself has never touched the UK.

Q255 **Charlie Elphicke:** Let me move on. In this chapter, you then have a forward look. In the forward look on cryptocurrencies, you say, "We assess that criminals will increasingly use cryptocurrencies to move illicit funds across borders. The value of cryptocurrencies is significantly volatile, but their relatively high price (of bitcoin, BTC, in particular) makes it easier to transfer large amounts of fiat currencies in smaller volumes of cryptocurrencies". Would it be fair to say that bitcoin has become the crook's currency of choice?

Donald Toon: No, it would not be fair to say that.

Q256 **Charlie Elphicke:** Do you think it will?

Donald Toon: No, I do not think it will, in terms of the breadth of criminality. I cannot remember the exact figure but, if you look at the total value of bitcoin in circulation, it is a significant amount of money. However, it pales into insignificance in terms of the scale of international money laundering. There are a range of issues here. At the moment, if you look at the use of virtual currencies by criminality, the biggest issues are around cybercrime and purchases on the dark web. There is a particular niche area. There is a significant issue there about criminality in those spaces using virtual currencies. That is absolutely clear.

Bitcoin is one of those. It is the best known. It may be the most significant of them, but there are a number of others in that space. We are still seeing a very significant issue with cash: straightforward, old-fashioned cash. We see a very significant issue with money laundering through a whole range of different structures, where we are talking about money laundering through businesses and banking, for example through property transactions. At the moment, we would say that is much more likely to be at the heart of major criminality. One of the reasons for that is the volatility of virtual currencies. Most criminals are like most of us: we like to be certain that the value we get out at the end of a transaction is at least as much as the transaction we put in. At the moment, there is a real issue about volatility in virtual currencies.

In terms of the forward look, do we think this is likely to be a growing area? Yes, we absolutely do, but we do not at this stage in any way see it becoming, in the short to medium term, greater than money laundering through standard financial transactions or through cash.

Q257 **Charlie Elphicke:** Let us move on from money laundering through these currencies to the wider question of traceability. Are cryptocurrency transactions currently traceable?

Donald Toon: This is the horror of a complicated answer. "Partially" is the sensible answer. It depends on the currency; it depends on the way in which the movement structures have been done. It can also depend on the jurisdictions where some of the movements have been carried out. It would not be fair to say there is a blanket problem of traceability, but tracing virtual currency transactions is difficult, complicated and can be blocked.

Q258 **Charlie Elphicke:** Is this a currency that could by hijacked by terrorists?

Donald Toon: I am just thinking about the use of the term "hijacked".

Q259 **Charlie Elphicke:** I mean for financing purposes, for the financing of crime like terrorism or for hiding the proceeds of crime.

Donald Toon: Virtual currencies can be used for a range of activities around criminality. One of the issues where we would see a problem is the use of virtual currencies for the purchasing of a whole range of capabilities or goods on the dark web. That could easily involve firearms. Those firearms may be intended for use in crime and they might be intended for use in terrorism. We have a limited engagement with counterterrorism. We have a very close relationship with counterterrorist policing. We have a very close relationship in particular with the National Terrorist Financial Investigation Unit. We have not, although we have a limited capability to comment on this, identified a significant issue specifically with virtual currencies and terrorist financing.

Q260 **Charlie Elphicke:** Could virtual currencies be used as bribes to pay corrupt officials in untraceable ways around the world?

Donald Toon: Absolutely, they could. At the moment, if we are looking at large-scale corruption around the world, we are not seeing that in virtual currencies. We are seeing it, for example, built into complex commercial contracts where a proportion of that contract conceals a payment directly to an official, an elected representative or a major private-sector player.

Q261 **Charlie Elphicke:** Finally, in your forward look you note that cryptocurrencies are a concern, but I have to say you sound awfully relaxed about the threat of cryptocurrencies being made use of by criminals.

Donald Toon: No.

Q262 **Charlie Elphicke:** What work is the NCA doing to make sure that cryptocurrencies, which are growing, cannot in due course be used by criminals, money launderers, bribers and terrorists for their nefarious purposes?

Donald Toon: I would absolutely reject any suggestion that we are relaxed; we are not relaxed about this. We see it as a problem. All I am trying to say from what I have just said is that it is important that we place virtual currencies in the context of the whole money laundering problem. There is a massive issue around money laundering, which we are collectively seeking to deal with. Ultimately, the approach to regulation and control of virtual currencies is a matter for the Treasury. We certainly are providing to the Treasury and the Government the material we have on the use of virtual currencies and the risks they pose. But please do not take away from this in any way that we are relaxed or complacent. There is a problem here. It is definitely a growing risk.

Our concern would be to say that this now must be our top priority and to lose focus on other large-scale areas of the problem. What matters for us is that we understand the problem and we focus our activity on where we are finding the biggest risk, while looking to identify the growing areas and doing everything we can to tackle them. A lot of that around tackling it is a matter for the Treasury, and then, through the Treasury, through regulators and supervisors, we must, and we do, keep them sighted and informed of what we are learning from all the work we are doing from an investigation perspective.

Chair: That is a very good time to bring this half of our proceedings to an end. We have not overrun; we have extended appropriately to cover areas. Indeed, we had a few questions on sanctions of a factual nature. If we may, we will put them in writing to you, because they are factual rather than matters of opinion. There will be some follow-up in terms of things you have offered to provide.

Can I thank both of you for coming and sharing your information, intelligence, wisdom and views with us? It has been very helpful to our inquiry. Thank you.