

Treasury Committee

Oral evidence: Economic Crime, HC 940

Wednesday 10 October 2018

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[Watch the meeting](#)

Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stewart Hosie; Alison McGovern; Catherine McKinnell; Wes Streeting.

Questions 340 - 426

Witnesses

I: Rena Lalgie, Director, Office of Financial Sanctions Implementation, HM Treasury; Simon York, Director, Fraud Investigation Service, HM Revenue and Customs; Alison Barker, Director of Specialist Supervision, Financial Conduct Authority.

Written evidence from witnesses:

– [Financial Conduct Authority](#)

Examination of witnesses

Witnesses: Rena Lalgie, Simon York and Alison Barker.

Q340 **Chair:** Thank you very much indeed to all our witnesses for being here today to give us evidence in the next part of our economic crime inquiry. We are going to cover some of the issues that we covered with UK Finance and HSBC yesterday, which will not be a surprise. We will try to direct questions to particular witnesses, but of course, if there are issues that come up where you have a view, please feel free to chip in. For the benefit of those who are watching who are not necessarily in the room, I am going to ask you to introduce yourselves.

Alison Barker: My name is Alison Barker. I am the director of specialist supervision at the Financial Conduct Authority, and one of my areas of remit is the supervision of financial crime and money laundering.

Rena Lalgie: My name is Rena Lalgie. I am the director of the Office of Financial Sanctions Implementation, which is part of the Treasury.

Simon York: I am Simon York. I am the director of HMRC's Fraud Investigation Service. That is the part of HMRC that deals with serious fraud against the tax system. That includes everything from organised crime and smuggling of excise goods through to wealthy individuals hiding assets offshore. I also cover our dedicated anti-money laundering supervision team and anti-money laundering investigation team.

Q341 **Chair:** Thank you. I wanted to start with the landscape of anti-money laundering. We have three representatives here today from public bodies: a regulator, a non-ministerial department and one office from a department. It is right to say that you are representing only a fraction of the different supervisors that work in this area of public policy. It would be helpful to know first of all whether the fragmented nature of supervision helps or hinders you in executing your responsibilities. I am going to start with Mr York.

Simon York: I am not sure it particularly helps or hinders. There has been a bit of a reorganisation since the review that the Treasury conducted a couple of years ago and the creation of OPBAS, which we very much welcome and hope will bring some more consistency to that overall landscape.

We work with all the other supervisors at a variety of levels. At the strategic level, we have a Minister responsible for economic crime, now Ben Wallace. We have the creation of the National Economic Crime Centre. We are part of the JMLIT process. Then we work together as supervisors. We have joint groups like the affinity group, where we get together to share best practice and help each other. At the operational level, we will support each other's agendas, if you like, when our teams are out and about. For example, my teams will be advising people in our



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supervised sectors around financial sanctions. There is a lot of co-operation at all those levels, and that is the way we have managed that.

Q342 **Chair:** There are quite a lot of levels, are there not? Do you think it could be simplified?

Simon York: Possibly not in terms of those levels, no, because I think there is a need perhaps for strategic direction around the whole landscape, which is what that top layer will give you. There will always be a need for us to work together as regulators. However you organise it, you will always have people actually visiting and dealing with businesses and individuals at the practitioner level. Those levels would probably be there regardless of how you organised it.

Q343 **Chair:** Ms Lalgie, how about from the OFSI point of view? How many different organisations do you have to work and co-ordinate with in order to execute your duties?

Rena Lalgie: When we were set up in 2016, it was partly a recognition that there was an opportunity for us to improve the extent to which we were implementing financial sanctions as part of a wider economic crime landscape, and helping to ensure and maintain the integrity of the financial services system. That gives us an opportunity to work really closely with many of our partners, and we do that through all aspects of our work.

On the point of raising awareness, we quite frequently appear with fellow regulators and others across the enforcement community, both in the UK and internationally, to help businesses that are trying to navigate their way around some of these issues so that they can hear from all of us together. We do that at the stage of raising awareness, making sure people understand what it means to comply with the various regulations. We are also increasingly joined up at the enforcement end of the spectrum as well. There is an opportunity and an imperative for us to make sure that we are co-ordinating and sharing information as we go through that process, so that the system is as impactful as possible.

Q344 **Chair:** From an FCA point of view, I have the same question about the landscape and the many different authorities. Also, how do you try to ensure as a supervisor that there is effective co-ordination among the people you are working with?

Alison Barker: From the FCA's point of view, obviously, we are focused on the financial sector. I will talk separately about OPBAS in a second. As a regulator of the financial sector, that means we are focused in a specialist sense on that sector, the businesses within that sector, and money laundering regulations as they apply to that sector.

I would very much agree that we co-ordinate closely with our colleagues. The economic crime agenda is one in which we all need to work together, in order to tackle it in the most effective and efficient way. Government



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initiative around the National Economic Crime Centre is an example of where we are working closely together to join forces and provide the information that gives a more complete picture as to what is going on. We will do that at the strategic level. We will also have affinity groups where we will work together to swap how we are approaching things, particularly on a supervisory level. On an operational level, we will be sharing information or perhaps dealing with particular cases where we are working together.

The FCA has very recently taken on responsibility for OPBAS, which is the Office for Professional Body Anti-Money Laundering Supervision. That is looking to bring together and oversee the supervision of professional bodies in the accountancy and legal professions to get greater consistency in that area, which was identified by the national risk assessment as an area we needed to work on. By bringing things together, that will allow greater consistency of supervision in that area.

Q345 **Chair:** That is very helpful. From an FCA point of view, perhaps you could expand a bit on this supervisory role. Do you think it is your role to prosecute criminals who have laundered the money, to focus on the enterprises that help them to launder the money, or both?

Alison Barker: In the first instance, we are primarily focused in a money laundering sense on ensuring that the financial sector has robust defences against people who want to launder money through the system and is able to spot those people.

Q346 **Chair:** You are supervising other supervisors.

Alison Barker: Yes, and making sure that firms have robust defences. We also have a responsibility for anti-market abuse and ensuring that we are prosecuting people for insider dealing, for example. Money laundering potentially comes on the back of that. We have that role, as well as supervising firms to make sure they have robust defences.

Q347 **Chair:** You mentioned the National Economic Crime Centre, which is obviously being set up. Just to summarise—and I am going to ask the others—your view is that this is a step forward and will help in terms of the co-ordination.

Alison Barker: Yes. We are very supportive of the National Economic Crime Centre and the co-ordination efforts. We are seconding staff to it to support those efforts. We are really behind what it is trying to do.

Q348 **Chair:** Ms Lalgie, what about from an OFSI point of view?

Rena Lalgie: We work very closely with the National Crime Agency at the moment. We stand ready to work with the NECC as is appropriate.

Q349 **Chair:** What about from an HMRC perspective? You mentioned the NECC in your opening answer.



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Simon York: Yes. We work with the NCA on a daily basis on a whole range of things. The National Economic Crime Centre is going to be hosted in the NCA. We have people seconded into the team that is developing that concept, and we are going to have people seconded into the operation when that goes live shortly. I am part of the governance board that oversees that, so we have been very involved in the development of the whole concept. We are very supportive of the whole thing.

Q350 **Chair:** I wanted to explore HMRC's role as an anti-money laundering supervisor. It is really the same question I asked the FCA. How do you see your role? Is it to prosecute those criminals who launder the money, or to oversee the enterprises that help them to do that?

Simon York: It is very much both of those. We absolutely have a role to support and protect those businesses in sectors that are vulnerable to being exploited by money launderers, but we also have a role to come down hard on those who are actually money laundering, are directly facilitating or are complicit in money laundering. We have a blend of approaches to address that spectrum of behaviour.

At one end, it is publishing guidance. We have put together a series of webinars; we have had about 20,000 people view those. We go out to visit businesses and we support them with our systems. If they are continually getting things wrong, there are financial fines from that, and we have had some prosecutions for breaches of those regulations. If we flip over into the actual money laundering side, we will use our criminal investigation expertise to investigate those offences. To give you an idea of scale, in 2016-17, we had 44 individuals convicted of money laundering offences. The actual criminal investigation of money laundering is a significant part of our operation.

Q351 **Chair:** Do you, as HMRC, take them to prosecution, or do you have the powers to prosecute?

Simon York: We criminally investigate. We have a full set of police powers. We do all that the police and the National Crime Agency would do. Similarly to the police or the National Crime Agency, it would go to the CPS or whichever prosecutor was relevant.

Q352 **Charlie Elphicke:** When it comes to money laundering, how many reports are made by people who make reports of these things every year?

Simon York: Do you mean suspicious activity reports?

Charlie Elphicke: Yes.

Simon York: I have some stats somewhere, I think, if you will give me a moment. It is several thousand. It is different per sector. Overall, across the whole system, it is something like 300,000 or 400,000 per year.

Q353 **Charlie Elphicke:** There are 300,000 or 400,000 reports per year. How



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many prosecutions were there last year?

Simon York: Do you mean for money laundering as a whole?

Charlie Elphicke: Yes.

Simon York: I do not know across the whole system. As I say, we are at the 40-odd mark. Suspicious activity reports are not necessarily all about prosecutions for money laundering. If it would be helpful, I can give you an idea of how we use SARs.

Charlie Elphicke: Yes.

Simon York: We use them in multiple ways. Sometimes, it can be a direct piece of intelligence that leads us to an investigation. That could lead to a significant criminal investigation, or it could add to an existing criminal investigation into something else. We also have the defence against money laundering SARs, which are consent SARs, where a financial institution wants to pay some money and comes for consent. We have new powers to investigate those under the Criminal Finances Act. A good example of that recently was a £200,000 transfer wanting to be made. We investigated that and identified that the businesses involved had actually underpaid VAT by about £7 million. As well as freezing the £200,000, we have raised the £7 million.

The third thing we do is to put every single SAR into our risking engine. We have a risking engine with 22 billion lines of data in it: everything we know about every taxpayer, but also significant third-party datasets, offshore accounts under the common reporting standards, credit and debit card transactions for every single business in the UK, intermediaries like Just Eat and Deliveroo. All of that is in there, and we wash the SARs against everything there. That goes into our programme of civil taxing interventions. We are identifying tax evasion, effectively, through that, and we have had about 10,000 intel packages come out of that with north of £100 million coming out of those cases.

Q354 **Charlie Elphicke:** Can I ask each of you whether you think there is a risk that, because every professional thinks the easiest thing to do is to report a suspicious activity, irrespective of whether they think it is valid, to cover their own backs, you end up with a massive haystack in which you are struggling to find the needles? Ought we perhaps to recalibrate the system so that it is less of a tick-box approach and one where people are encouraged to report when they think it is really serious?

Simon York: Certainly, quality is more important to us than quantity.

Q355 **Charlie Elphicke:** But you have created a system where you are incentivising quantity rather than quality.

Simon York: Indeed, and the Home Office is currently leading a programme that is looking at how to reform that. There have been enormous advances with data analytics and how we can handle data generally. Technically, we are able to handle bigger amounts of data now.



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The example I have just given you is an example where you might have 400,000 SARs, but you can make use of them because you are using them as part of a quite sophisticated data-matching system.

Q356 Charlie Elphicke: I do not know if you saw the evidence session we had yesterday. We had UK Finance here. They were saying that, as a solution to push payment fraud, everyone should have to pay some kind of new UK finance levy. What do the FCA and the Treasury think of that?

Alison Barker: We are very concerned about push payment fraud for the consumers who are involved in it. That is the first thing to say. We have been working with UK Finance in thinking about what to do, and the FCA has been consulting on extending the ombudsman regime so that people can complain about the receiving bank as well as the bank that sends the money. Further work is being done by the Payment Systems Regulator looking at guidance and codes as to how to manage the arrangements for compensation. That is a consultation at the moment. Obviously, we are supportive of the work being done by the Payment Systems Regulator.

Rena Lalgie: Push payment fraud does not get reported through to OFSI. We receive reports where there is a suspicion that there has been a breach of financial sanctions. We received 122 of those last financial year. We have recently been through a process of working with industry to give a clearer sense of the kind of information that is useful for us to have within that form. As part of reforming it, working with them, we have tried to reduce the burden of completing those forms and make them as effective as possible, as part of a wider reporting regime.

Q357 Charlie Elphicke: Can I put to you, on the FCA side of things, my concern that there is a moral hazard in allowing the banking system to put the risk either on to the victim, or indeed on to everyone, via some kind of socialised levy? They will then not have any incentive to get their own house in order and apply proper risk systems. Are you concerned about moral hazard?

Alison Barker: As I said, the Payment Systems Regulator is the one that is consulting on how the compensation arrangements can be worked through. It might be helpful if we could provide you with further information on that consultation or what work is happening in that space.

Q358 Charlie Elphicke: Do you feel, each of you, that we have managed to create a hostile environment for fraud and economic crime?

Alison Barker: From an FCA perspective, we have a number of activities. We are obviously supervising a range of firms within our scope. We have intensive supervision activity that we are working through. We assess the risks. We use the national risk assessment to identify where the risky sectors are. Then we will use data and analytics to identify which firms we think are the highest risk in that population.

Our most intensive supervisory programmes are for the highest-risk firms. What a supervisory programme would feel like is maybe four to six



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months' worth of intensive scrutiny from the regulator, potentially on site at the firm or in the overseas offices the firm is responsible for, interviewing staff, and looking at case files and things the firm has been doing. That is quite intensive work. We also then have different grades of supervisory programmes for different scales of risk. We use outbound calling; we have a contact centre and we use that contact centre to outbound call, in particular, very small firms to ask questions about what they are doing on money laundering. We feel that we are quite intensively working with firms to drive home messages and understand what is happening in the money laundering space.

On the enforcement aside, we have a range of powers and take enforcement action against firms. That action can be quite wide ranging. There are fines at one end, but we also impose business restrictions. We may stop firms doing business of certain types or taking on new clients while they are resolving questions that we have about their systems and controls of money laundering. We may impose remedial regimes where we are actually getting them to work through what it is that they are doing. We have quite a range of activities there.

Q359 Charlie Elphicke: I need to bring in some of the others as well. Rena, do you think we are doing enough to share information? Would there be benefits to allowing more information to be shared, and would that require primary legislation?

Rena Lalgie: A considerable amount of work goes on at the moment to share information, which I see as quite a critical part of improving awareness as to what it means to comply with the regulations, but also to making the enforcement regime more effective. We are doing more of that sharing of information with industry through some very targeted outreach, particularly focused on some of the sectors that have exposure. We are also raising more general awareness through the guidance and information that we publish about the individuals and organisations that are subject to financial sanctions.

If I take you to the enforcement end of the scale, we have the powers under the regulations that allow us, as OFSI, to share information with anybody as long as it is to further compliance with the regulation. That means that we do share information with other regulators: the FCA, the Solicitors Regulatory Authority and others. We can also share quite targeted information with banks.

To give an example of that, where we have come across information that suggests a breach of sanctions is about to occur, we have been able to share that information in quite a targeted way with institutions, to allow them to take the decisions they need to take around freezing funds or stopping transactions from happening. The powers are there to allow the information to be shared, and some of the work we have all been describing of making sure we are working as closely together as possible is about not just helping to move that information among ourselves, but also sharing it with industry so that they can act appropriately.



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Q360 **Charlie Elphicke:** Finally, Mr York, as you may be aware, Britain is leaving the European Union. If the UK loses access to Europol databases, will that have an impact particularly on money laundering detection and enforcement, or does it tend to be that the UK puts most of the information there anyway?

Simon York: There is a range of intelligence sharing and co-operation arrangements currently linked to the EU, which we would very much want to retain. The Government are currently working on that, as we are at official level, to make sure that things are in place. Lots of things, like the European Arrest Warrant and, from an HMRC perspective, Naples II, which is about the sharing of customs information, are currently tied up with EU-type processes. It is probably in everybody's interest—both our European partners' and ours—to continue to share information and intelligence on serious criminality.

Q361 **Chair:** Just to push you a little further on that, would you say it would make HMRC's job harder in terms of supervising, cracking down on and prosecuting financial crime, if you did not have access to that free sharing of information?

Simon York: A law enforcement agency will always want the maximum amount of information, data and intelligence. The more we have, the better. We would very much be looking to retain and build the capability on that.

Q362 **Wes Streeting:** Fingers crossed. I want to begin with Russia, if I may. You will understand the parliamentary focus and discussion, particularly around Russian dirty money. I will begin with the FCA, but I am happy to hear from other members of the panel, too. From your perspective, does Russian money present a particular or unique risk to the UK when compared with dirty money from other countries?

Alison Barker: The national risk assessment draws attention to the risks that money from Russia poses. We expect firms to understand the risks of the business that they have and the clients that they are doing business with, and put in place appropriate monitoring for those, particularly around, say, foreign PEPs. In that context, we would expect firms to be paying particular attention to the risk posed by Russia, as identified in the national risk assessment.

Chair: I am sorry to interrupt. Could you just speak up a bit? I think some people behind you are having difficulty hearing. Thank you.

Alison Barker: Sorry.

Q363 **Wes Streeting:** Just to probe further on that, are the means used for laundering Russian dirty money unique or different, or do Russians looking to launder their ill-gotten gains use and abuse the system, and exploit its weaknesses, in much the same way as people from other countries engaged in that kind of activity?



Alison Barker: From our perspective, we would see the typologies involved in money laundering as being not particularly different to others. We would expect firms, as I mentioned, to do a full assessment, understanding what their risks are, who their clients are, where money is going and what type of money it is, understanding the risks and the individuals, and putting monitoring in place to do that.

Q364 **Wes Streeting:** Turning to the Treasury, is it legitimate for the Government to warn of the AML risks that emanate from a particular country? Does the Treasury concern itself about the risk of using AML mechanisms for political ends rather than simply dealing with economic crime? Listening to Alison's answers there, particular concern about Russia was flagged but, unless Alison wants to correct me, I am not hearing concerns unique to Russia around what is happening in terms of AML and the methods being used. Is AML the right mechanism to deal with some of the wider political concerns around Russia, or should we be focusing more on the sanctions regime?

Rena Lalgie: I can speak about the regimes that are currently in place for sanctions. It is fair to say, as both Alison and Simon have explained, that money laundering is a priority. The Government have definitely focused on that, on the back of the national risk assessment. I am acutely aware, as a director of OFSI, that sanctions play a part in a wider set of economic crimes.

In that sense, I would echo the comments that Alison has made. We are very focused on ensuring that firms understand what they need to do to comply with the various regulations in place, but also supporting their efforts in making sure they are assessing their own risk and exposure, and doing the necessary due diligence in order to manage that. In a sanctions context, that is not unique to a particular country or regime; it is the due diligence that needs to be in place across the board.

Q365 **Wes Streeting:** It follows, I think, from what you have just said that, in terms of country or person-specific measures, the Treasury's focus would be far more on the sanctions regime.

Rena Lalgie: Anti-money laundering, as a policy, is shared between the Home Office and the Treasury and it is very much across the board. In a sanctions context, we have regimes that designate specific individuals and companies. In that sense, we promote and ensure there is as much information and as many identifiers out there as possible, to help firms identify whether the people or companies they are dealing with are subject to sanctions.

Q366 **Wes Streeting:** Given the emphasis that the Government have placed on unexplained wealth orders, particularly in relation to Russian individuals and assets, why have we seen so few used? Boris Johnson, when he was Foreign Secretary, was advocating the use of unexplained wealth orders, particularly around January. We are now approaching the tail end of the year and we have seen hardly any unexplained wealth



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orders put into practice. I saw an *FT* report suggesting that none of those had applied to Russians.

Simon York: Unexplained wealth orders are a very useful addition to a really quite wide range of powers that allow us to seize, freeze and investigate proceeds of crime or unexplained assets, but they are only one part of that. From a tax perspective, wealth, unexplained wealth, or partially explained wealth is a big factor in trying to identify tax evasion, and we have all sorts of tax powers to deal with that. If we have suspicion or we think we can prove criminality to a civil standard, on the balance of probabilities, we would use POCA, Part 5. We would not need to use unexplained wealth orders; we would go straight there, prove that to a civil standard, and seize the assets.

Unexplained wealth orders come in where it is genuinely unexplained, putting the onus back on to the individual, which is probably most relevant where there might be foreign corruption. That is mainly not at HMRC's end of the market. Where it might be useful is where we have some particular Mr Biggs behind alcohol fraud who has managed to distance himself so far from the criminality that it is difficult to pin it even to a civil standard. We might look to use unexplained wealth orders there, but for us it is a relatively niche market.

Q367 **Wes Streeting:** The level of fanfare that has been given to unexplained wealth orders, then, is slightly overstated. It sounds like they are not all they were made out to be.

Simon York: I am not saying that at all. I said they were a useful addition to a whole range. The UK has a really strong range of powers in this area. You heard Donald Toon talk about unexplained wealth orders, and the NCA and SFO may find them useful.

Q368 **Wes Streeting:** That is part of my concern, though. We have seen what Donald Toon said about unexplained wealth orders. You have talked about the breadth of powers available, but our concern is about whether they are being properly used. It is all very well saying, "Great, we have these powers on the statute book. Hasn't Parliament done well?" If they are not being used, they may as well not be there.

Simon York: We will use whatever power or combination of powers is best in the particular situation. We are using the freezing and seizing powers literally every day of the week. Those sorts of powers are a big part of what we do. Last year, we brought in about £200 million using proceeds of crime approaches. It is not like we are inactive in this area; we are doing an awful lot in this area. Unexplained wealth orders for HMRC are a useful addition, but I think it will be a relatively small number of cases where the wealth we are talking about is completely unexplained.

Q369 **Wes Streeting:** Let me now turn to another thing that we picked up on yesterday, particularly with the banks. I will come back to you at the FCA, Alison. This is the message we have been getting from the banks:



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we have this agenda on financial crime, the fines on banks around AML have changed banks' perceptions of financial crime risks, and they have done their bit. They feel that, as that has happened, AML activity has shifted to the periphery, to lots of parts of the financial system that are not banks, and there ought to be more focus there. Are banks doing as well as they say they are, and do you think we ought to now focus more on the periphery of the financial system?

Alison Barker: In the first instance, I talked about our supervisory programmes with the largest, most risky institutions. We have seen those institutions improve in terms of their systems and controls to tackle money laundering, their ability to monitor customers and do enhanced due diligence, and their transactions monitoring. On the whole, we have seen improvements in that space; that is true.

Where our supervisory work has perhaps seen fewer improvements has been around, say, the smaller foreign banks. We still have work ongoing with those to improve standards. We have had a number of enforcement cases against some of those institutions; the most recent was Canara, but we have also had Sonali Bank and the Bank of Beirut. We want to see systems and controls improved. There is a mixed picture.

In our supervisory work, we have also been looking at other areas of the national risk assessment. We have done thematic work in the wealth manager space, where, again, we want to see improvements. As a whole, the supervisory work is working through those areas where we want to see things change. Yes, in some instances we are seeing some changes and improvements in banks. It is also fair to say that, of course, it is an ongoing thing. In the landscape of money laundering, criminals do not rest; they think of new ways to do things. We need to be focused and on top of our game in terms of tackling what is coming up.

Q370 **Wes Streeting:** One of the things I am interested in is the extent to which banks' attitudes, and the priority and focus they have given to AML, have been driven largely by the regulator. You guys are coming in and setting this as a clear objective, breathing down necks where necessary, and prodding and poking in the right way. Is that how you would characterise the improvement, or do you think banks have taken this seriously out of genuine understanding of the scale of the problem and their responsibility to tackle it?

Alison Barker: We are seeing a shift away from treating it as a tick-box thing to working more in a public-private partnership approach. An example of that is the work of the JMLIT—the Joint Money Laundering Intelligence Taskforce—where there is considerable work by banks to tackle these issues and work jointly with agencies on that. We have definitely seen a sea change in attitude on that.

The senior managers regime has focused minds as well. It is early days; we are reasonably early into that regime. But, in terms of culture and behaviour generally, it has changed attitudes in terms of focusing people



on their accountability and what they are accountable for. We have definitely seen that, and that was previously a recommendation from the Parliamentary Committee on Banking Standards.

Q371 Stewart Hosie: In its written evidence, RUSI told us, “Our dialogue with stakeholders suggests that there is no evidence that OFSI acts as any sort of deterrent to UK-based sanctions violations”. How would you respond to that?

Rena Lalgie: I do not accept that that is the case, and perhaps I can say a bit about what we see and the work we are doing. I have already mentioned that we have new civil monetary penalty powers. That is where a lot of minds have been focused. That power is not retrospective; it is at our disposal for cases where we see the breach occurring after 1 April 2017. We have made clear in our guidance that we will use that power for the most serious breaches of financial sanctions. Those cases are starting to come through. Where we see them coming through, we will not hesitate to use that power.

When we do use that power, it will undoubtedly be the most visible form of enforcement action that we take, in part because we have committed to publishing the details of the action that we take: what happened, what occurred in that instance, but also the nature of the penalty. I can see that, at a glance, it is easy to infer that, because we have not issued one of those penalties yet, we are not enforcing the system. I do not think that is right. We are taking some form of action in every case of non-compliance that we see, but it has to be proportionate to the facts of the case.

If I could give an example of that, in many instances we have used more creatively some of the other powers we have, in particular our powers to request information. That has allowed us to intervene and make clear to firms, where we see them breaching financial sanctions, that we consider that they have broken the law, which then puts that on record. We are also going further and asking them to explain what steps they are going to take in order to improve their future compliance.

In one instance, which was at the more serious end but predates the penalty powers, that involved us, alongside the NCA, calling in some senior executives from that particular company to come in and talk us through the really detailed steps they were going to take to improve their future compliance, the extent to which they were going to hire new staff, introduce new training programmes and change the way in which they approach their due diligence.

That really helps in achieving our objective of improving future compliance and giving people a sense that the system is going to bite. Through our day-to-day dealings with companies, both on licensing but also on enforcement, we see a growing sense of what their obligations are. We also see, if I may describe it in this way, a growing awareness of the extent to which action can be taken, the new powers that are at our



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disposal, and a concern about making sure that they stay the right side of the line.

Q372 Stewart Hosie: You spoke there about being proportionate. You said you will not hesitate to use the powers. You said in an earlier answer that money laundering is a priority. I understand this is not retrospective before last April, but there were 133 suspected sanctions violations reported to you in 2017; I presume all of those were not before 1 April. They were valued, I understand, at around £1.4 billion. Calling in the chief exec to have a wee chat about process and new hires is pretty inadequate, is it not?

Rena Lalgie: There were 133 reports in 2017 of suspected breaches. That does not mean those breaches occurred within that particular year, and we have not assessed all of those as being actual breaches. Doing the thorough investigation that we need to do in order to meet the legal threshold can take months, and it would not be right for us to use that tool in instances where the facts of the case do not demand it.

There are definitely cases coming through that are at the more serious end of the spectrum, which warrant consideration of using that power. We will be able to consider that power in those instances. For companies to have to come in, put on record the steps they are going to take, and satisfy both the NCA and us of the work that they are going to do helps to build that case going forward, which helps us to meet that threshold that there is reasonable cause to suspect in those instances.

Q373 Stewart Hosie: I am at a bit of a loss here, because we heard from Mr York earlier that they have all this UK taxpayer information, debit and credit card data for all of these businesses, and third-party information. You named one or two particular companies where this activity can happen. You share data with each other, the banks and the lawyers. You have customs information. You have had these suspected violations reported to you.

Surely to goodness there must have been one person there who could have been subject to the penalties that you can impose. Do you have too much data? Are you not finding Charlie Elphicke's needle in the haystack? Something does not add up. You have a ton of data and information, the likes of which the average taxpayer probably does not know you have; you are cross-referencing it with goodness knows what; you have been given specific examples of suspected violations. What has happened?

Rena Lalgie: We need to assess those. As I said, there are cases that have now made their way through to my head of enforcement in OFSI, which would be in scope for the penalty, partly because of severity but also because of the timeframe in which the activity took place. We need to work that through the system properly and make sure we can assure ourselves that the legal thresholds have been met.

Q374 Stewart Hosie: Let me just ask two brief questions. What sort of businesses and firms are most in need of help in meeting the sanctions



requirements? Are there particular categories of businesses? Who is it?

Rena Lalgie: Building on the comments that have been made around the banks already, we have long worked with banks across the UK. Actually, the sanctions risk and exposure extends far beyond the financial services industry. We have identified and worked with sectors with particular exposure. We have issued some sector-specific guidance for exporters, but also for charities and NGOs, which will often have a high risk exposure because of the nature of the activity that is taking place.

We have also been able to identify where, for specific regimes, there are sectors that we can helpfully work with to help them understand what the regime requires of them, and to support them in their work to assess and manage their risk. For example, on the DPRK/North Korea sanctions that are in place, we have done some quite targeted work, not just with the financial institutions, but also with maritime insurers, to try to help and support them in managing and assessing the risk. We have then proactively worked with EU partners and the G7+ partners, to share the experience we have had of working with the sectors that have particular exposure.

Q375 **Stewart Hosie:** You gave an example there of marine insurance, which is a pretty high-financial operation. Are there any other sectors where there is specific risk and more work needs to be done? We hear a lot about estate agents in London. There are money transfer shops on every high street. Is there a sector like that that is glaringly obvious and hidden in clear sight, and that needs more help?

Rena Lalgie: The role that the law firms play in ensuring that financial sanctions are complied with is very significant. Therefore, we have done quite a lot of work with them, not just as they are the ones often advising as part of the licensing regime. Because of the information that we were able to share with the Solicitors Regulatory Authority, for example, in 2017 it did some very targeted outreach to all of its members to make sure that they ensured they were not holding funds on behalf of designated persons. That is an example of how we can proactively identify where some of the risks are, and the industries that we can help and support, and that we need to target in terms of raising awareness. We are also quite responsive to the industry bodies and individual firms that are interested in understanding and raising their own awareness. That is why we have done more outreach, both through events held in smaller forums bringing together public and private bodies, and by making sure we are more accessible through social media.

Q376 **Stewart Hosie:** The final question I have is actually about policy formulation, because OFSI is not responsible for sanctions policy, but clearly I would imagine you would work with those that are, like the FCO. Is it a lost opportunity that OFSI is not responsible for sanctions policy? Would that make a difference, or do you think overall that the regime, where someone else determines the sanction policy and you implement it, is the best balance? Could that be improved?



Rena Lalgie: Two things are particularly important. The first is that the effort that is put into developing and imposing sanctions follows through to implementing and enforcing them. That is where the journey we have started with the creation of OFSI and the work we have been doing is particularly important. It is also why we have lots of conversations with other countries that are interested in the journey we have been on to really focus on the implementation angle of sanctions. Making sure that they are actually implemented once they are imposed is the first thing I would say is important.

The second is to acknowledge that it is part of a single operation that needs to work together. To that end, you are absolutely correct: we work very closely with colleagues in the Foreign Office and with colleagues across the EU who are thinking about the sanctions regime. There is a richness to the information that we see through our implementation, which can really support and help to inform future policy. We have seen examples where the experience of the trickiness around implementing financial sanctions has therefore informed the way in which sanctions regimes have been revised and updated.

Chair: Before I move on, I just wanted to talk about one particular issue that we have raised with the Chancellor, the En+ listing. It was also raised in the Foreign Affairs Committee's report earlier on this year. In their report, they said, "We call on the Government to investigate the gaps in the sanctions regime that allowed a company such as En+ to float on the London Stock Exchange, and to work with the G7 [...] to close those gaps as soon as possible." I wanted to ask you, Ms Lalgie and Ms Barker, about the relationship between OFSI and the FCA in terms of specific cases, such as En+, where sanctions were in place, the conversations that were had and the powers you have to say, "There are sanctions in respect of Russia and particular individuals, and therefore this is not a company we think should be listed in London". I fully appreciate that the London Stock Exchange and the FCA are different bodies. Can you talk us through your involvement in that?

Rena Lalgie: OFSI fully implements the sanctions regimes that are in place at the time. As you say, the Committee spoke to the Chancellor about this, and subsequently Tom Scholar wrote to the Committee to say a bit more about the work that happened there. The FCA can consult with relevant Government Departments when going through the process, but the decisions around the listings and whether to grant applications, as you have rightly pointed out, is one for the FCA. I can assure the Committee that, in that particular instance, as part of the discussions that we had, there was very careful consideration of the interaction between sanctioned entities and their European subsidiaries.

Without going too much into that particular case, for obvious reasons, it may assist if I explain how those regulations work, which was particularly relevant in that instance. The relevant EU regulations, which were imposed back in 2014, target sectors that were involved in supporting the



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illegal annexation of eastern Ukraine. They are very narrow in scope, much narrower than most of the sanctions regimes are, and they were intentionally designed in that way. What this means is that European subsidiaries of sanctioned entities are not themselves subject to sanctions. It does not preclude the repayment of debt to sanctioned entities.

We do work together, and we both have gateways that allow us to share information. That is something we regularly do. To build on some of the messages, it is an area where we have all delivered more joined-up working. It is an area that we are continuing to work on. We are in the process of agreeing an MoU to ensure that information sharing is more effective going forward.

Q377 **Chair:** Is that between you and the FCA?

Rena Lalgie: Yes.

Q378 **Chair:** Ms Barker, what is your perspective on the En+ issues?

Alison Barker: It is very much as Rena has said, and Andrew Bailey has written with quite a lot of detail about the case. In terms of this particular one, there were no reasonable grounds for the FCA to reject the application. Disclosures were made clearly in the prospectus and all normal processes were followed from the FCA's perspective. We operated within the remit that we operate within, in the contacts that we make. I would agree with Rena that, at an operational level, ensuring that we are working on the MoU will help efficiency.

Q379 **Chair:** Ms Lalgie, the main point of that is that you have to work within the definition of the sanctions as agreed and as defined and, if the sanctions are narrowly drafted, it may well be that entities are able to slip round the drafting of the regulations, in this case agreed by the EU.

Rena Lalgie: We must implement the regulations as they are specified. If we act in circumstances that go beyond that, it would be unlawful from our perspective.

Q380 **Rushanara Ali:** Good afternoon. I wanted to pick up on a fact that the NCA is quoted on, which is that £90 billion of dirty money is flooding through London. I just wondered if any of you had had any conversations with the NCA to understand what the breakdown is between the banking sector, estate agents, which were referred to yesterday in our session, and other sectors. Which route is this money going through, and what are your thoughts on that figure?

Alison Barker: The NCA sets out that the figure is somewhere between £36 billion and £90 billion. I do not think we have any information that would challenge those assertions. In terms of which sectors that may be flowing through more than others, we do not have any information that would help us define that in any more detail. The banking sector is the place in which you would expect that. That is why we supervise it and



want strong defences, because that is seen as a high-risk sector, in terms of where the risks sit.

Q381 Rushanara Ali: Estate agency has been referred to as a very high-risk sector for money laundering. Do you have any reflections on the use of dirty money flowing through that? They mentioned estate agents. This came up in a previous hearing as well.

Chair: As did company formation.

Alison Barker: I do not have any particular reflections on that.

Simon York: We supervise estate agents; we have done since 2014. Actually, in the national risk assessment, estate agents are described as a low risk. That is not no risk. There are risks in that sector; property as a commodity is described as a medium risk. The reason is that estate agents themselves very rarely handle any money. They are also not the people who plan the transactions; that would typically be lawyers or other financial advisers. Estate agents are, though, very good eyes and ears for us in terms of what might be going on. We have put our effort into raising awareness as to how they can submit suspicious activity reports, for example. We have seen an 185% increase in the number of SARs submitted by estate agents since we started supervising this sector.

Q382 Rushanara Ali: What are the actual numbers?

Simon York: In the last year, it was 766. I still do not think that is enough. We are doing joint webinars with the NCA to persuade that sector to do more. We are also concentrating on making sure that all estate agents are registered with us, and we have increased the population from 8,000 to 10,000 using some of the tools we use from a tax perspective. We have something we call our web robot. We essentially describe what we are trying to find, set it off overnight, and it will go out over the internet and find every estate agent in the UK. We will match that against our records and make sure they are all in the club.

Q383 Rushanara Ali: Could I just pick up on one thing? Mark Hayward when he gave evidence said that estate agents were a weak link, they were an enabler, and they should be able to do some of the things you mentioned, but they are paid on results. Is there an inherent contradiction? You obviously have some agents who are working well with you but, given that they are going to profit from sales, are they being sufficiently regulated and monitored by you, to make sure that those who are bad actors are prevented from putting dirty money through the property sector?

Simon York: In all these sectors, there are good and there are bad. We go back to the national risk assessment for our core guiding principles. That draws on intelligence and insight from right across the supervisors and UK law enforcement, and it guides our activity. We would not say they were the weakest link. Yes, they are driven by results, but, as I say,



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they do not typically handle money. That is a distinction from some of the other sectors we supervise, which are higher risk.

Q384 **Rushanara Ali:** Can I just get on to accountancy then? How are you getting on with the accountancy profession and the supervision of what they do? Are they doing enough?

Simon York: Accountants are regarded as high risk in the national risk assessment, but particularly when they are linked with providing other services. It might be when they are linked with company formation, planning of financial transactions or that sort of thing. The first thing to say is that the vast majority of accountants are a really important force for good in preventing financial crime, spotting fraud and helping people get things right.

The accountants we deal with and supervise, as HMRC, are those who are not a member of a professional body, so they tend to be the smaller ones. Of the accountants we deal with, 50% are one-man or one-woman bands. They might not be as competent, although that does not necessarily follow, as bigger accountants, but we think they are probably less likely to get involved in the more complex financial planning that would sit around money laundering.

Q385 **Rushanara Ali:** A lot of my questions are focused on HMRC, so this is another one for Mr York. Anti-money laundering is not mentioned in the HMRC's single departmental plan, but is it still a major priority for you? Then I have a supplementary, which is related to the departmental plan talking about tax avoidance and evasion, and the objective of raising an additional £5 billion a year on 2015-16 by 2019-20 for tackling tax avoidance, aggressive tax planning and evasion. How are you getting on with that? What element, if any, comes from proceeds of crime money? I guess evasion sort of fits into that. Could you say a bit more about those numbers?

Simon York: There is an awful lot in that question. Thank you. Where shall I start?

Rushanara Ali: Sorry. Is it a priority? Then tell me about the numbers.

Simon York: We have heard and we all understand it is a Government priority. It is absolutely a priority for us. It is a priority for me. About a year ago, we moved our anti-money laundering supervision teams into my Fraud Investigation Service. That was a very deliberate act, to link it to our counter-fraud and counter-money laundering activity in the wider sense.

To give you some context, that Fraud Investigation Service has 4,500 people in it of all sorts of skills and backgrounds. We are seeking an increase in fees on the supervision side, which would enable us to fully implement the money laundering regulations from 2017. We had some additional investment from Government in the budget in 2017 to do more



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to tackle the enablers of criminality. That includes setting up new teams to tackle money laundering. It is very much a focus for us.

I am looking to drive up the number of criminal investigations and, consequently, the number of prosecutions for both regulatory failures and actual money laundering. It is increasingly a focus. I am devoting more of my 4,500 to this area.

In terms of how we are getting on, it is probably easiest to talk from my end, which is the evasion and fraud side of it. It is not all that HMRC does on evasion, but it is the serious end of it. Over 1,000 people every year are charged with criminal offences following our investigations. I think that is probably the highest number of any organisation in the UK, in terms of putting serious fraud through the UK criminal courts. Last year, we brought in or protected about £5.4 billion worth of tax. That is just my part of HMRC.

We have also been particularly focused on doing more to tackle complex and serious tax crime involving wealthy individuals and corporates. We currently have 300 wealthy individuals under criminal investigation. As a good example, in the Criminal Finances Act a new corporate criminal offence was brought in. That is a world first, I think, for tax evasion, so we are working hard on that too. We have created some teams to enforce that and we have live investigations focusing on the corporate criminal offence, so an awful lot of activity, resource and priority is put towards tackling the most serious fraud.

Q386 Rushanara Ali: Do you feel you have adequate resources now to focus on that, or could you do with some of the £5 billion that the banking sector is using but not necessarily getting the results we might want to see?

Simon York: If I look internationally, I am pretty well placed in terms of resources for tackling this sort of thing. HMRC probably does more in this area than many international partners. In terms of the banking side, the key there is working together. It is that private-public partnership. There is probably a lot more we could do over the coming years.

Q387 Rushanara Ali: You do not see yourself as a supervisor of last resort, where it is not a priority. It is an equal priority to the other priorities that you have in the Department.

Simon York: Yes, absolutely. That phrase is really quite unfortunate, "supervisor of last resort". There are some sectors that naturally sit with other organisations, banks with the FCA, casinos with the Gambling Commission, but in many ways we are the supervisor of first resort. For the sectors that do not fit with anyone else, we are the place the Government come to ask us to deal with them.

Q388 Rushanara Ali: Great. My last question is related to sectors that do not fit, which is the other group that you regulate, money transfer businesses, and the impact of outright derisking for large groups of



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businesses and individuals, charities included. There has been a lot of work in the last few years following the various campaigns, and I was involved with that as well. How is that progressing now in terms of ensuring that it is proportionate, and that HMRC provides the oversight required to make sure they do the right things, and the banks do not have an excuse to shut them all down and take out the lifeline that many of these businesses require into developing countries, as well as the charities?

Simon York: Like I said, for every sector there is good and bad. Money service businesses are our highest-risk sector by quite some distance. That is what the national risk assessment says and that is very much our experience. They are widely exploited by criminals or exploitation is attempted by criminals. Some of them are complicit with criminality and we see them featuring in a high proportion of our tax fraud investigations and our money laundering investigations. We actually put an awful lot of attention on to the MSB sector, as with everything else, in the main trying to help them, support them, get the systems right. We have also run surge activity. We have a task force tackling MSBs and we have a significant number of criminal investigations.

Q389 **Rushanara Ali:** Is there any evidence that, following the outright derisking attempts, some of the money transfer basically was driven underground? Some of the warnings came, from NCA in fact, about not being able to see what was happening and that that was likely to contribute to financing of illicit activity, potentially even terrorist financing. There is an inadvertent knock-on effect of this sledgehammer approach that banks took.

Simon York: Overall, we have not seen the number of businesses or the number of premises we supervise change all that much, but there has been a change in the make-up of that. Some of the smaller businesses have joined with the bigger businesses to give them that protection and systems to help them. Some of the smaller ones may have moved into more informal money transfer systems, which absolutely pose different problems for us.

Q390 **Rushanara Ali:** Is that something the NCA and you are looking at? You do not want this counterproductive outcome of money getting into the hands of criminals because there are not legitimate routes to transfer money, presumably.

Simon York: Yes. Our job is to spot wherever the money laundering is happening and counter it. It is not really a case of money getting into the hands of criminals because of this. The criminals will use whichever approach they think is most effective for them, and we have seen money service businesses, as I say, widely exploited. They are very different from banks. A money service business does not have an ongoing customer relationship often. Someone will walk in literally with a bag of cash and walk out with high denomination notes in another currency, or



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they will walk in with bags of cash and it will be transferred to another country.

- Q391 **Rushanara Ali:** That has all been addressed by various guidance the FCA and others issued. My question is about those that are now carrying cash because the companies do not have bank accounts and so on. Is that a problem, the fact that it is driving it into cash transfer?

Simon York: It can do, absolutely. Let me just tell you something we were doing a couple of weeks ago. I had my people alongside Border Force at one of the UK's major airports—I will not tell you which—looking at passengers going to certain destinations. We seized quite a lot of cash there and then we chased that back down to see whether it took us to either criminality or supervised businesses that are not doing the checks properly. We are very live to that. Yes, there has been some of that. Overall, we think the sector is broadly the same size as it was, though.

- Q392 **Chair:** Ms Barker, from an FCA point of view, did you have any comments on this issue of derisking, of banks deciding it is easier to shut accounts down than potentially to supervise or investigate properly?

Alison Barker: It is an area we have done a lot of work on, and with UK Finance. From the FCA perspective, we are concerned from a financial inclusion point of view if you have individuals or charities that do not have access to the banking services. We want the banks to think about people as individuals, have clear communication and deal with things on an individual basis, so not a sledgehammer type approach at all. We have done a lot of work in this space to make sure that is happening.

Under the Payment Services Regulations, notifications where people are not being given access to things will start to come through. I think we are going to be the nominated authority for that, so they will start to come through to us and we will start to be able to see what is happening. It is an area we are focused on.

Do you want me to answer the question about the accountants and OPBAS?

Chair: Yes, absolutely, if there is something. We have not asked about OPBAS. I was going to come back to that a bit later. Let us come back to that in a moment.

- Q393 **Mr Clarke:** Thank you all for coming in today. What emerges from today—I had not understood it prior to today—is the sheer variety of the work you have to undertake in order to crack down on this sort of activity. Mr York in particular, hearing about your work at the airports and stuff, it is incredible. Of course, that begs the question: are you funded adequately for the wide variety of challenges that you have to undertake? It is complex, fast moving, and potentially can net huge amounts for the Treasury in return. Ms Barker, does the FCA have the resource behind it that this merits?



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Alison Barker: We are funded through a levy, so we are not Government funded. That is the first thing to note. In terms of resourcing, when we think about money laundering, I have talked a bit about our supervisory work, but the assessment of money laundering is part of the DNA of the FCA, whether a firm is coming into authorisation or the ongoing supervisory work we do. That would be 1,200 staff who are looking at those types of things. We have a specialist unit that sits in my area, which has 65 specialist supervisors who will conduct the in-depth analysis on money laundering systems and controls that we have talked about. We also have an enforcement area, which has over 500 staff, and an intelligence department of over 60 staff.

Q394 **Mr Clarke:** How do those numbers compare to, say, 2008?

Alison Barker: We have significantly increased resources over that period. I can get you the exact numbers.

Q395 **Mr Clarke:** It would probably be helpful to get some sense of this for the inquiry.

Alison Barker: It has significantly increased. Financial crime has been an FCA priority and a priority on our business plan for three or four years. We have significantly increased resources. We have significantly increased our enforcement pipeline. Yes, we can get you the information for 2008.

Q396 **Mr Clarke:** It would be really helpful—actually, this would be true of all three of you, if that is all right—to get the figures on your staffing levels and budget resourcing. Ms Barker, in terms of what you would do if you had a magic wand, if money was not an issue, what would be the gaps, if you like, in your system at present that could be usefully addressed?

Alison Barker: There are two areas, ones that we have touched on a little already. It is really important that we all work together on the National Economic Crime Centre, which is going to bring together all the authorities, to support information sharing and targeting of things. Nobody has the whole picture, so agencies working together and having the infrastructure to work together, which the National Economic Crime Centre brings together, is really important in getting all of us targeting and focusing on financial crime.

The other area we have touched on a bit is the public-private partnership, going back to that theme that no one person has the whole picture. Agencies working with industry and using that to get the information together, being able to really use that information in a timely way to get ahead of criminals and what is happening, are the things that really will make the difference.

Q397 **Mr Clarke:** Ms Lalgie, it is the same question really. Are you properly resourced at the Treasury for the gravity of the work you are doing?



Rena Lalgie: In large part due to the creation of OFSI and the powers that followed, we are better resourced, in terms of both people and powers, than we have ever been. That is a journey we have continued on. It is also something, in many ways, on which we are in a good position to support other jurisdictions, many of which do not have that level of resourcing.

Q398 **Mr Clarke:** Is that something you actively do?

Rena Lalgie: Yes, absolutely. As I mentioned earlier, more and more, we are working with partners across the European Union and other countries, the Crown dependencies and overseas territories, to share some of the experience. There is a growing interest in setting up a body that allows the Governments to focus on the implementation angle and enforcement of it, and, quite frankly, to make the case for increasing the resources that are dedicated towards it. Continually building on the collaboration we can do internationally as well as domestically is one of the opportunities I see.

Ultimately, many of the businesses that need to comply with financial sanctions, as is the case for AML, are working across jurisdictions. The extent to which we can work with our counterparts in other countries, such as OFAC and others, to help people understand what they need to do to comply in different jurisdictions, is a real opportunity for us.

Q399 **Mr Clarke:** Presumably, that soft power earns good will as well, does it not, in terms of making it more likely they will co-operate with us?

Rena Lalgie: Yes, absolutely. The implementation of financial sanctions is a domestic competence and it is something that is done by each individual state anyway. It is an area where there are opportunities. We increasingly share information across those, in terms of the common challenges but also some of the information that allows us to implement and, particularly, to enforce in particular cases.

Q400 **Mr Clarke:** Mr York, in terms of HMRC, we could touch on your resourcing. According to the evidence that you submitted, you have funding of about £10 million a year based on the levies that HMRC applies for businesses. Is that sufficient for supervision of 27,000 businesses?

Simon York: For that bit, no.

Q401 **Mr Clarke:** Is there a cross-subsidy there somewhere?

Simon York: No, there is not at the moment. That is why we are consulting on increasing the fees. To fully implement the 2017 regulations, we feel we need more resource there.

Q402 **Mr Clarke:** How much more resource, approximately?

Simon York: We are looking for an increase of about 80% to 100% in terms of the fees, which would take us up towards the 300 people mark. That is supervision alone. As I explained earlier, we are trying to make



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the most of the fact that we are a tax authority, we supervise money laundering, we are a law enforcement agency, and bring all that together to tackle the problems in the sector. We have had increasing investment, as you know, on a number of those areas. That is how we are tackling the problem as a whole.

Q403 **Mr Clarke:** Would that increase all be passed on through the levy, do you anticipate, at this point? Is that what the consultation will suggest?

Simon York: That would all be to fund supervision for anti-money laundering purposes.

Q404 **Mr Clarke:** The 80% to 100% increase would be reflected in the levy. The levy itself will go up.

Simon York: Yes, we are looking for an increase in fees.

Q405 **Mr Clarke:** When will that consultation go live?

Simon York: I think it has actually concluded very recently, so we are now analysing the responses to that.

Q406 **Mr Clarke:** You have a new AML IT registration case management system, I understand. Is that something that is helping?

Simon York: That certainly will help. That is something we have invested in recently, for two purposes really. One, we think that will help us carry out risk assessment of those businesses, so it is like an automated system that fires risk rules as businesses' data comes through it. Also, we think it helps our customers because it is connected to the Government Gateway, so it links to the other things they would do with tax or whatever. Yes, we anticipate that will be a benefit.

Q407 **Mr Clarke:** Excellent. Obviously, there is an issue with businesses that do not register at all. I suppose that is a grey area. You have the problem of those businesses that are just not on your radar. How do you track that down?

Simon York: We have a team that we call our policing the perimeter team, and it is their job to make sure we have the right people in the population. I explained a bit earlier the estate agency side of things. Again, because we are the tax authority, we have an awful lot of information about businesses across the UK, so we can cross-check on that. Equally, some people do not register for tax either, but we use the same sort of techniques. The web robot example I gave you earlier is a really good example, where we identify people who are trading, then check against our records and do something about it if they are not there.

Q408 **Mr Clarke:** What sort of proportion of businesses would you say are not registered? Presumably it is very small.

Simon York: It is pretty small. As I said with the estate agents, that number has gone up from 8,000 to 10,000 over the four years we have



dealt with it. Some of that could be market conditions and change in the actual constitution of that, but we know some of that is us bringing in people who perhaps had not registered to start with. It is relatively small.

Q409 Mr Clarke: In your experience, relative to other jurisdictions, is HMRC appropriately resourced for this? I appreciate it is difficult to compare and contrast because every country will do this differently, but are we broadly at a benchmark where you are comfortable that we are achieving protection?

Simon York: Every country's tax and customs authorities do slightly different jobs, so they do not all do anti-money laundering, for example. In terms of us as a tax authority, and particularly the tax crime end of it, I am very involved internationally. We have just created a group that we call the J5. It is us and the Americans, the Australians, the Canadians and the Dutch.

Mr Clarke: It is basically the equivalent of the Five Eyes.

Simon York: It is not the New Zealanders, but it is the Dutch, who have a very capable financial investigation unit. We are focused on international enablers of tax crime and money laundering. That is a relatively recent but very encouraging development, which shows the UK very much in a leading role there. I work with those people a lot and, from my experience, we absolutely compare with the best tax authorities, in terms of both our capability and our resourcing.

Mr Clarke: That is really encouraging. Thank you very much.

Q410 Catherine McKinnell: I just wanted to follow up on a question there. Just out of interest, by what measure do you compare to other international tax authorities? How is that measured?

Simon York: We are part of the OECD group. The group we are specifically involved in is the OECD group on tax and crime. There are about 80 different countries involved in that. The UK hosted their big conference last year. It is perhaps not a specific metric where we are at 79% or whatever, but the OECD publishes a series of guides and guidelines. As you would expect, we are one of the more developed and mature tax authorities. We are one of a group that is very much leading the way in that sort of thing. I can look at things like how many criminal investigations people do, how many prosecutions they do in my area, and we compare well with that.

Q411 Catherine McKinnell: That leads very nicely into the very subject I wanted to ask you about. I was looking at the *Report on Tackling Financial Crime in the Supervised Sectors 2015-2017* that HMRC published. How many of the convictions that are mentioned in that anti-money laundering report are tax-related crimes that include money laundering?



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Simon York: There is a mixture in there. Some of the criminal prosecutions are for regulatory breaches of the money laundering regulations. Some of them are freestanding money laundering investigations. We see people who are professional money launderers, who might be abusing some of the sectors we work with, or they might be facilitating tax criminals, so there is a big tobacco job or whatever, and we have a professional money launderer here who is helping. There will be some there. There will be others where it might be a tax investigation that has that.

If I can very quickly give you an example, it might just give you a flavour of the sort of thing we are dealing with. There is an international organised crime group, money laundering across many jurisdictions. We think the losses are in the region of £400 million or more. They are collecting the cash that originates from the sale of illicit goods, bringing that together in counting houses. They then break that up into smaller parcels, "smurfing" as we call it, put it into bank accounts in relatively small amounts, bank accounts all controlled by the organised crime group. Very quickly, it moves overseas and is brought together to purchase assets.

They also own legitimate businesses where they can mix legitimate and illicit. They have ATMs that they are self-filling with criminally derived cash. It goes out to legitimate customers. They then get a credit from the bank that looks clean. They are bribing officials in financial institutions. In that case, we have now arrested 19 people and we have frozen assets in four or five jurisdictions across the world. That is the sort of scale of thing we are dealing with.

Q412 **Catherine McKinnell:** In what timeframe were those arrests?

Simon York: The arrests all happened in a very short timeframe.

Q413 **Catherine McKinnell:** Are you talking about a current ongoing investigation?

Simon York: This is actually current.

Q414 **Catherine McKinnell:** Right, okay. In terms of the statistics you have given in the 2015 to 2017 anti-money laundering report, do you have it listed so it is easy to see which of those are money laundering prosecutions, which are tax related, and which sectors they are in, in terms of your own supervisory remit?

Simon York: Yes, we do.

Catherine McKinnell: That is all broken down.

Simon York: We do not publish which sectors they are in, because we think that gives the criminals a bit of a heads up, in terms of where we are putting our focus. That is why we tend to give a global figure there, but, yes, I know which sectors they are in and I know which ones are



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pure money laundering and which are part of a wider investigation. Criminals use different techniques in different situations, so it is a bit of an artificial distinction in some way.

Q415 **Catherine McKinnell:** HMRC does not publish the names of people who are sanctioned for breaches of the money laundering regulations. Is that correct?

Simon York: Under the new regulations, we have just started to publish penalties, yes. We are now going to be doing that every other month.

Q416 **Catherine McKinnell:** You publish penalties and the individuals who have been penalised.

Simon York: Yes, unless there are specific reasons why they should be anonymised. There are some rules in the regulations there.

Q417 **Catherine McKinnell:** That is a concern that is sometimes raised, that there is not as much transparency about what HMRC is doing on this as there is with some of the other financial supervisors. That creates concern.

Simon York: I would agree that that has been the situation. We are really keen to improve the transparency, and I think we are. The report you are referring to covered a two-year period. We are now going to publish that report every year. We are publishing the penalties every two months. We have also published a thematic review on money service businesses. That is what we found by our supervision of the sector. We will continue to publish reviews like that when we have something useful to say about the individual sectors we have. That helps co-supervisors, but also helps the industry. We are very much committed to being as transparent as we can, but not helping the criminals.

Q418 **Catherine McKinnell:** I have one other point of clarity. Do those statistics in the 2015 to 2017 anti-money laundering report only refer to your own supervised sectors?

Simon York: Yes, absolutely.

Q419 **Catherine McKinnell:** Right, okay. It is interesting that you describe that ongoing live investigation and how that can work in practice. Would you say that HMRC is principally a tax offence authority and then money laundering may become a spin-off interest or a line of inquiry following that?

Simon York: Clearly, we are the UK's tax and customs authority. I think everyone would agree that is our primary function and our primary role. That is not in any way to say that the money laundering work we do is any less of a priority. I hope I have described that we increasingly take it seriously, first, because Government want us to take it seriously, we have been given the job, and we take every job we are given seriously, but, secondly, we think it is a great way to help us on the tax side as well. Almost all tax evasion, all organised crime, involves money laundering.



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Being able to deploy those supervisory teams, the full enforcement functions, the full tax powers and the proceeds of crime powers all together is quite a powerful mix. There are huge opportunities for us, which we have started to take over the last few years, to really make a difference to tax crime in this country.

Q420 Catherine McKinnell: Jon Thompson gave evidence to this Committee. He said, "If we are being frank about it, the executive committee has looked at all of its activities that are not primarily about raising revenue and proposes in the spending review of 2019 to have a conversation about the extent to which you actually want HMRC to do this". What are your thoughts on that? Do you think there is going to be a shift in prioritisation? Is HMRC guided by what is a revenue-raising activity?

Simon York: No, I do not think that is the conversation. I think what Mr Thompson was referring to there is that the spending review is a natural point to assess what we do, what we are funded for. As I say, we have a number of things, like benefits and credits, national minimum wage, et cetera, that would not necessarily sit with every tax authority, but Government have asked us to do it and we do it. We increasingly do it well. I do not think that is any indication that we are looking to get out of that work. It is just a natural conversation you would have around this time. I have been with HMRC many, many years and we have had these conversations many, many times about certain functions coming in or going out.

Q421 Catherine McKinnell: This is your opportunity now to put on the table whether you think that is adequately resourced and funded at present, whether there is more you could achieve if you had more funding, and whether that is something that should be prioritised.

Simon York: I have already said I have 4,500 in my area. We had 500 additional resources at the Budget 2017. We got 700 in the summer Budget 2015. I have what I need to make a real impact. My personal view is that this money laundering role sits really well with that tax role. Having that breadth of powers enables us to do a lot more than many other supervisors can. All the professional bodies cannot do the enforcement bit that we can do. We can bring all that together. That makes it easier to try to make an impact on the amount of money laundering and the amount of tax crime.

Q422 Catherine McKinnell: Do you have problems retaining staff to do the anti-money laundering work? Is it seen as a good move within HMRC? Is it something you have people lining up to do?

Simon York: My area is a very particular sort of area. Investigating financial crime is challenging. It is complex. It can be confrontational. It can actually be dangerous, so it is a certain sort of person who wants to do that work. We tend to have reasonably good retention, particularly given salary levels in the public sector are not at the private sector level.



If I can, I would like to take this opportunity to pay tribute to those people. Committees like this, naturally, are an environment where an organisation is challenged around its capability and its performance. That is absolutely right, but in my experience the people who do the work are passionate, capable, incredibly skilful, and are very much doing this for the good of the UK. I would like to pay public tribute to them.

Catherine McKinnell: Is that a bid to make sure they stay? I am not suggesting you have a problem. It is absolutely right that you put that on record.

Simon York: I see it every day of the week, so it is absolutely genuine.

Q423 **Catherine McKinnell:** We would absolutely support the work they do. It is, as well, a serious question as to whether you are adequately resourced and whether there is sufficient ability to retain good people to do what is, as you described, very difficult work.

Simon York: There is always churn of people as people leave the organisation and come into the organisation, naturally, for a whole host of reasons. In my area, I am not seeing any great brain drain. I am not seeing huge numbers leaving.

Q424 **Catherine McKinnell:** This is a final opportunity for you. You have spoken very encouragingly about the work that is being undertaken, but is there more that Government could do? Is there something within the legislative framework, something within Government's focus, or in terms of the way things are developing with the National Economic Crime Centre, that would support your work further?

Simon York: Government have been very responsive recently with the recent money laundering regulations, the corporate criminal offence, the National Economic Crime Centre. There is an awful lot happening and a lot of that is quite new. It is about us getting to grips with that and making the most of it.

If I was to have my wish, it would be finding a way to make it easier and take less time to bring home the most complex economic crime and criminal cases. We have cases that can take us literally 10 years to get to trial and spend 10 months in front of a jury. We are challenged, legally, at every step of the way by very well-resourced and very well-advised groups of people. That just feels really difficult and feels like an inordinate amount of time, sometimes, to get things to trial.

Q425 **Chair:** Finally, Ms Barker, you have referred a couple of times to OPBAS, so let us come back to that and to OPBAS's priorities, what improvements you have spotted, and what things you think OPBAS still needs to focus on.

Alison Barker: OPBAS has only been operational from early this year, from February. Its priorities during the course of this year have been to go out and visit each one of the professional bodies, and to do an



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assessment of those professional bodies, how they are meeting the requirements set out in the money laundering regulations, how effective they are as supervisors. So far, we have been to see 15 of the professional bodies and completed an assessment on each of those. Each one has a letter at the end and a face-to-face conversation about what we found and any actions we are asking them to take forward. In terms of our objective of improving and ensuring consistent standards are operating across professional bodies, we are a very large proportion through that first year's work of completing an initial assessment of where we think standards are and where we think the gaps are. Obviously, they are getting individual action plans, but next year there will be a wider question about any common gaps that we need to look through or the common areas that are working well.

The other key objective for OPBAS is around improving intelligence sharing among the professional bodies and the professional bodies' members. As we have heard here, the majority of the suspicious activity reports that are filed come from the banking sector, which of course is very large, so you would expect there to be a lot from the banking sector. We want to see increased intelligence sharing from the accountancy and legal sectors as well, so encouraging them to utilise the information-sharing platforms that exist. We have held roundtables where we are bringing parties together to start facilitating and convening that, so we have been doing that as well.

Our success measure on that will be from the NCA. The NCA will tell us whether it is seeing an improved level of intelligence flowing through the system, and we will make the assessment as to whether we are seeing the consistency of standards. As I say, we are getting a good way through the work and we are on track to deliver the work we said we would deliver.

Q426 Chair: We have also had evidence about the costs. A concern was put to us by the AAT that OPBAS fees might mean it has to raise its membership costs, its own membership levy. That means people might leave, which, ultimately, leads to a weakening of anti-money laundering supervision, if you have firms saying, "We cannot afford to be part of our professional bodies so we leave". Are you alive to those concerns? Is this something that has come up in your meetings with the professional bodies?

Alison Barker: We are very alive to those concerns. We consult on our fee arrangements, so we do a full consultation on that. Obviously, we review what our fees are. We have set them for this year, but we will take a review of that and consult further in the future to ensure they are in the right place. We have ensured our fees are proportionate across the different professional bodies, and our fee structure works to ensure proportionality and that there is fairness in terms of bearing cost. We are alive to the concerns that are raised, and we would hope that professional bodies will see the benefits of what OPBAS can bring. It is



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also about helping them, being able to benchmark against each other and improve their own standards.

Chair: That is very helpful. Thank you very much indeed for your evidence from all three of you this afternoon. It has been really helpful in terms of illuminating some of the issues that have already come up from the inquiry. If there are things you have said that you are going to write to us about, we will be in touch to follow up on those, but for this afternoon thank you very much indeed for your time. Thank you.