

Treasury Committee

Oral evidence: Economic Crime, HC 940

Tuesday 30 October 2018

Ordered by the House of Commons to be published on 30 October 2018

Watch the meeting

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

Questions 427 - 513

Witnesses

I: John Glen MP, Economic Secretary to the Treasury; Rt Hon. Mr Ben Wallace MP, Minister of State for Security at the Home Office; Robert Buckland QC MP, Solicitor-General.

Examination of witnesses

Witnesses: John Glen, Mr Ben Wallace and Robert Buckland.

Q427 Chair: Good morning. Thank you very much to our Ministers for being here this morning to give evidence in this last session of our economic crime inquiry. The public might be expecting you to answer questions on the Budget, but our Budget inquiry, you will be pleased to know, begins tomorrow with evidence from the OBR. Questions today will be limited, apart from one or two that might be added, to your responsibilities regarding economic crime.

I wanted to start by looking at the overall regime. I should say that we will try to direct questions to relevant Ministers, so do not feel everybody has to answer every question. Equally, if there are things you would like to contribute, please do so. There are three statutory anti-money laundering supervisors, two of which are Treasury-related bodies, one overseen by DCMS. There are 22 professional body supervisors overseen by OPBAS, itself part of the FCA. Sanctions policy is undertaken by the Foreign Office, but implementation responsibility is through the Treasury through OFSI and BEIS is responsible for Companies House. John, let me start with you. This is surely far too complicated a regime to be effective.

John Glen: That is what I thought when I started engaging with this when I joined the Treasury in January, but I have come to see that it is necessarily complex. You are right to set out the multiple levels of activity across Government and I will not repeat them back to you, but we have seen significant innovation with the creation of OPBAS, which supervises the supervisors. If you think about it, what you need to be effective is a strong understanding and relationship with the supervisors in those different institutions in order to make sure they are effective. You need to make sure you do not create one overarching body where there is no serious accountability.

If there is a problem with a solicitor's firm, OPBAS would be able to interrogate the solicitors' regulatory body or one of the 22 it is responsible for to address that. Similarly with the Financial Conduct Authority, 14 banks deal with 78% of retail and 79% of wholesale transactions. It is important they are all resourced effectively, and you may want to ask about that, but we need to create a fit-for-purpose regime that deals with the level of risks as assessed by the risk assessment that is done on a biannual basis.

Q428 Chair: That is an interesting phrase you just used there: "we need to create". It is your assessment that there is still room for improvement in the overall way the regime works and information is shared.

John Glen: At Cabinet level, the Chancellor and Home Secretary have an annual meeting and we meet as Ministers to oversee these regimes. Ben Wallace and I have met recently, for example, with OPBAS and



representatives of those 22 supervisory bodies, so there is work going on all the time to look at where refinements need to take place and we need to co-ordinate better. Colleagues will speak to different aspects, but there is a high degree of co-operation. There are networks across those different supervisory bodies, where there is co-operation to maximise the effectiveness of action taken.

Q429 Chair: One of the issues we will come on to this morning—I think Stephen is going to ask questions about it—is about company formation. Let us take the anti-money laundering supervision of company formation. HMRC is the supervisor of those undertaking company formation, unless they are supervised by another professional body or statutory regulator. There are 16 potential supervisors of company formation and people can register new companies with Companies House, which is the BEIS body, without using an anti-money laundering supervised company formation body at all. That is a fragmented regime, isn't it?

John Glen: If you think about it, when we are talking about companies being created, in an economy that prizes entrepreneurial activity, there is a need for ease in setting up a company. That is important. We cannot have unrealistic levels of bureaucracy, but you are right; there needs to be suitable oversight. Companies House, under BEIS, is responsible for that process and a review is being undertaken at the moment. There is a call for evidence out on what needs to be reformed, but there is a software program that analyses those that are registered, then 300 people employed to manually check those registrations.

I do not deny that there are challenges, and we are aware of the challenges with Scottish limited partnerships, but BEIS is actively engaged in reviewing both those elements, and it needs to, and will, come forward with a response. We cannot create something that has a disproportionate level of bureaucracy, given the actual levels of risk that are deemed to exist.

Q430 Chair: Ben, let me turn to you. Your list of ministerial responsibilities is long, but one of them is that you are the Economic Crime Minister. What does that mean in practice? Take us through what you do as the Economic Crime Minister.

Mr Wallace: It is partly an answer to your last question. This is from the other side of the fence, so not the regulatory side where all these bodies and organisations are looking down on their members, but the law enforcement side, in terms of where economic crime takes place and what we are doing to detect it, counter it, prevent it and prosecute it. I have the benefit of having very few bodies to work with. I have the NCA, some of the intelligence services when they are involved in this, regional organised crime units and specialist policing. Part of my role is to say, "This is what I see in the cases and investigations every day", and to say to Treasury and other Government Departments, "This is where people are taking the mickey and exploiting our vulnerabilities". Scottish limited partnerships would be a really good example.



HOUSE OF COMMONS

My job as Economic Crime Minister is to go into Government and into the Departments, and to say, "I understand the challenges you have about prosperity versus security, but let me tell you that you can do both". I would say this, as I am a Security Minister as well, but security to me goes hand in hand with prosperity, and I think we should do more about Scottish limited partnerships, company formation and the facilitators that allow money laundering to happen.

My job is, from what I see in the cases and investigations, alongside the police and National Crime Agency, trying to up their detection and conviction rates. I effectively own the risk and intelligence, and try to drive reform within Government to deliver it, from that point of view. Do you know what I mean? I am more proactive in that area, because I see the problems whereas, I suspect with the regulator and the Treasury, they are up above looking down on lots of members. That is why it works quite well, trying to drive that change within Government all the time.

Q431 Chair: Let us take money laundering, for example. You are saying that you or perhaps people within Home Office agencies you are working with might spot money laundering activities going on, but neither the Home Office nor associated bodies are anti-money laundering supervisors. You will collate that intelligence, but then you have to hand it on to colleagues in Government or other agencies in order for supervision to take place.

Mr Wallace: I have one stick, which is to prosecute them. It is absolutely the case that estate agents have been one of the weak links in the suspicious activity and money laundering schemes. They have not done nearly enough at all and, given that London has become a popular destination for people to harbour their cleaned money, so not launder it—it has all been laundered somewhere else, but to harbour it in, for example, the London property market—it is remarkable how few SARs are reported by estate agents, given they are the facilitators. I have a stick, which is to say to the estate agents, "Where are your SARs? Out of 621,000 SARs each year, 83% are from banks and 0.17% or 0.017% are from estate agents. Why is that?"

I will take that and point that out to the Treasury. John and I met together with them, pointed it out and said, "You need to up your game". The "Flag It Up!" campaign is about reminding people that suspicious activity reports do not just apply to banks; they apply anywhere, to anybody, where people are taking cash transactions they are suspicious of. That applies to sporting venues and sports companies, to luxury purveyors of goods, to public schools, to solicitors and accountants. The stick is that, if you do not use the SAR reform, you can be prosecuted and we do prosecute people who facilitate money laundering. I have a stick. I encourage and get funding from the Treasury for the NCA and the NECC to make sure they can do that. Then we learn from that, so I meet with John and we sit jointly on the criminal finance board, looking at how to rectify that.

Q432 Chair: If you spot a supervisor of estate agents or other bodies—and you



HOUSE OF COMMONS

are right to talk about estate agents, but company formation has been another weak link pointed out to us in evidence that we have seen—you will have to pass on that information about the failings of a supervisor to another part of Government to get them to give that supervisor a kick or ask them why sufficient SARs are not being filed.

Mr Wallace: Yes, and I can do that directly. I do not have to do it through the Treasury. At the criminal finance board or asset recovery meetings, I have the FCA sitting on those boards. I have HMRC in our serious and organised crime restricted confidential meetings, where we talk about live investigations, so I am always in touch with the bodies doing the regulating and asking them questions about stock market listings and things like that. I will do that on a weekly basis but, when it comes to major policy issues, we will work together, and with the BEIS Minister and the Solicitor-General, on how we can change things to get more done. Both John and I will be dealing with BEIS over the consultation on limited partnerships and the overseas register of ownerships.

Q433 Charlie Elphicke: To John Glen, are the Government confident that the United Kingdom is a hostile place for economic crime?

John Glen: We have a comprehensive regime that seeks to be optimised in the different sectors of risky activity. Overall, that creates a regime that means that people will not be able to get away with illicit behaviours. There is an ongoing challenge to keep ahead of the curve and to make sure that we respond to what is obviously an evolving set of behaviours and risks associated with them. As we discussed in the opening exchange, we have a range of bodies that are fit for purpose. There are challenges to individual elements of that, at times, as we have discussed with Companies House, about how we need to reform it to make it more effective. How do we reform the suspicious activity reporting regime to get at the core of the actual risk? But I am confident that we have the right joined-up approach across Government to deliver the most effective regime.

Q434 Charlie Elphicke: We also need others to do their bit, which includes the banks. In my constituency of Dover and Deal, I have many constituents who come to me and complain that they have bought a car on eBay, but the car does not exist, or they have been seeking to transfer funds in return for services or goods they thought they were going to get, but it is all just a massive fraud. They feel that the bank should bear responsibility for that yet, the other week, we had UK Finance giving evidence to this Committee, saying it was not their fault and it would be moral hazard for them to take responsibility. Do you think the banks are right on that?

John Glen: You are referring to the issue of the payment regulator's review of where responsibility should lie, between banks and individuals, when transfers are made that prove to be criminal activity. You need a regime, and that report is now being consulted on, with respect to where



the responsibility lies. When somebody has been challenged three or four times about whether it is appropriate for them to make a payment, and they choose to go ahead with it, there comes a point when a bank cannot reasonably be expected to stop something, when an individual has been challenged on multiple occasions. The challenge comes when there is no wrongdoing on the part of the consumer or the bank. The PSR is taking forward a working group to look at that. The scope of that needs to be defined and it will need a different solution.

Q435 Charlie Elphicke: On that very point, UK Finance said that, if it was not the bank's fault and it was not the consumer's fault, it should be everyone's fault. The whole thing should be socialised and we should all pay for the fact that the banks have not got their house in order. Does the Treasury support this socialisation point?

John Glen: It would be a matter for the Payment Systems Regulator to resolve. They are working on that, and they have a working group on that specific point. The question for me is about the scope of that and what the additional costs, in terms of levy, would mean to consumers in particular. I would not want a system that was so broad that consumers would be paying more for the behaviour of a very small number of people.

Q436 Charlie Elphicke: Can I welcome that? I also saw a proposal that UK Finance is suggesting that this socialisation should come from dormant bank accounts. This is money that goes to charities, and they want to take money away from charities in order to pay for their failure to get their house in order. Will the Treasury make sure that does not happen and that dormant bank account money goes to charities to do good across our communities?

John Glen: One of the other areas of responsibility I have is on financial inclusion. We lean heavily on dormant asset accounts, the £55 million there from dormant banks, insurance companies and other financial services providers, to provide some of the money and investment we want to see in CDFIs and credit unions. We are working to make that independent entity effective to make those payments and I am looking at expanding that sum of money. That seems a more appropriate use of dormant assets, which is consistent with public expectations for them.

Q437 Charlie Elphicke: Can the Committee be sure that, in you, there will be a valiant defender of dormant bank account money going where it ought to be going and not plugging holes elsewhere?

John Glen: Dormant assets will be very effective to expand affordable credit to people across this country and that is where my priority would be.

Q438 Charlie Elphicke: Can I move on to the question about the Financial Action Task Force? To what extent has FATF's evaluation of the UK's performance in combating money laundering, terrorist financing and other related threats caused there to be a greater focus on economic



HOUSE OF COMMONS

crime by the Departments represented here today?

John Glen: In the FATF evaluation, we are coming to the end of a comprehensive review of our position. That has not happened for 10 years. My officials have been working very closely with those who have been doing those investigations. We have had a number of visits from them looking at different dimensions across all the issues that we will be discussing today. We are anticipating a favourable outcome; quite how favourable will be a matter for the final report. We expect that report to come out imminently, in a matter of weeks, but I have been very encouraged by the feedback I have heard during that process. It is exacting; it sets the global standards. Getting a clean bill of health from FATF is not an inconsiderable challenge.

Q439 **Charlie Elphicke:** Apart from the FATF report, what do you have that regularly provides an overarching picture that sets out the UK's anti-money laundering priorities, and how well are we delivering them across all the UK supervisors?

John Glen: There are a number of ways we can look at that, in terms of the number of fines, the number of actions that have been taken, the number of companies that have been challenged and criminal proceedings that have been launched. We discussed earlier the co-ordination facility that exists across Government for us to ensure that, where there is suspicious activity, those that are tasked with oversight in those particular sectors can be challenged. Then it is for us as Ministers to determine where there needs to be a change in the law to make that tighter.

It is difficult. I understand the instinct. When I took on this responsibility, I wanted to have a single button or single view of what to control and how to evaluate this. It is not possible to do that. Think about the fact that we have 325 casinos. Now, it is right that the Gambling Commission deals with those. We do not want to overwhelm and set aside 22 regulatory regimes in different professional services areas that are longstanding, have very strong relationships, and act as a meaningful check on errant behaviour. That is why we put OPBAS in above them. HMRC has a vast set of responsibilities and oversights. We have 48,000 accountants, for example. It would be impossible to develop a comprehensive new single entity, but what we have in place is optimised co-operation across Government to identify where risks need to be acted on and where changes in the law are necessary.

Q440 **Charlie Elphicke:** Finally, to Mr Wallace, the National Crime Agency has said that there is no reliable estimate of the total value of laundered funds that impacts on the UK, but there is "a realistic possibility the scale of money laundering impacting the UK annually is in the hundreds of billions of pounds". Does that match the scale of the problem you think we face and, Mr Buckland, can you tell us about the role of the Solicitor-General in all these matters?



HOUSE OF COMMONS

Mr Wallace: London is one of the biggest financial centres in the world. I cannot remember the figure of every minute or every day that trillions of pounds are traded or actioned. If you put it into that perspective, it is a very large haystack, which is why money launderers are attracted to centres such as this. They can hide in the noise, as they say. The estimates we have heard, when there have been estimates—about £90 billion or hundreds of billions—are correct. It is partly because of the scale of the City. It is also because dirty money is attracted to clean places. It wants to be clean and hide among the traffic. It will come here. Some of it will transit here and one of the areas I am keen to target is where it harbours here. In other words, once it has been cleaned, those people who are busy out enjoying it in London, because they like to live in Britain, are of concern.

Yes, it is an awful lot of money, but the scale of global dirty money is staggering. That is what I would say. It is no longer the gangster fencing his goods from a bank robbery. It is cybercrime, sometimes by hostile states, that is producing hundreds of millions of pounds. I saw a cybercrime in Asia recently, where the proceeds of a cryptocurrency worth £348 million were stolen. That is the scale of illicit finance in the world, plus theft from countries whose own citizens have been ripped off by oligarchs or whatever. That is how much is moving around the system.

Robert Buckland: By the nature of money laundering, Mr Elphicke, it is impossible to give you a precise figure. As Mr Wallace has said, its very nature means that it would largely be concealed. The risks are very clear: we have an international risk, a domestic risk and what I call high-end money laundering, which in effect is criminally acquired funds from elsewhere in the world being channelled through our sophisticated financial systems.

There are several responses that the CPS and SFO have. The NCA is the lead agency for money laundering generally, but money laundering is being dealt with at all levels of the CPS, so it would be investigated at the local level. The figure last year was in the region of 4,000 commenced prosecutions. Money laundering is not always charged on its own, of course. It is often another offence accompanying criminality, whether drugs, for example, or other types of domestic criminality, so it is a mixed picture.

But I am pleased to note that, in recent months, the CPS has redoubled its efforts to refocus its serious fraud unit. That is not just at a national level, but at a regional level, where they have set up three regional hubs to deal with the higher-volume work. Although individually it might not be of great value, it is important to the victims concerned. I am noticing a redoubling and a refocusing of efforts, not just in the prosecution of offences, but in the recovery of criminal assets. As you know, Mr Elphicke, there are several means of doing that. It is not just about criminal prosecution; there is civil recovery as well. To answer your first



HOUSE OF COMMONS

question, is the UK a hostile environment? I would say it is and we can do more to make it even more hostile.

Q441 **Rushanara Ali:** Minister Wallace, the NCA estimated that £90 billion of dirty money flows through London. Colin Bell, when he gave evidence to this Committee, said the NCA's numbers are the NCA's numbers, which seemed to suggest some scepticism. Some people would argue, and you have alluded to it, that it could be higher and others might say it is a bit lower. Can you say whether you accept that estimate? What is the breakdown of how much of that money is going through the banking sector and how much is going through estate agents and other sectors?

Mr Wallace: I cannot give you a breakdown. The £90 billion figure is derived from what Donald Toon and his officers see, and working with some of the global NGOs, which do a lot of work on that. It is safe to say that we are talking billions, not hundreds of millions. It is safe to say that, if you add together the estimates of drug cartel income around the world, international corruption, diverted foreign aid, theft from citizens where corrupt PEPs are taking money out of contracts, corruption and illicit finance flows, you can quite easily get to an estimate in those tens of billions. Simply by working out how much cocaine—

Q442 **Rushanara Ali:** You are not sceptical about the £90 billion, are you?

Mr Wallace: I think it is a conservative estimate.

Q443 **Rushanara Ali:** What would a less conservative estimate be?

Mr Wallace: Over £100 billion.

Q444 **Rushanara Ali:** It is helpful that you think it is conservative, because I was concerned by Colin Bell's scepticism about those numbers, so I wanted confirmation that you support the NCA's estimates. Secondly, those numbers coming through London are conservative estimates, as you say. You said earlier this year that the Government are not doing more to tackle dirty Russian money due to our membership of the EU and, once we have taken back control, the UK will be able to impose sanctions unilaterally on Russians, rather than having to persuade other European countries to act. What kinds of sanctions could we expect the UK to introduce unilaterally after March 2019?

Mr Wallace: The Sanctions Act that was recently taken through Parliament lays out clear conditions for when we can lay sanctions. It is a matter of fact that, while we are members of the European Union, we cannot unilaterally lay international or European sanctions without doing it at an EU level. That is the way it is. We can do certain things with the Proceeds of Crime Act. In the Criminal Finances Act, we took through a measure that, if we suspect someone is guilty of human rights abuse, we can confiscate their funds or move to seize their funds if they are in the UK.



HOUSE OF COMMONS

As far as sanctions go, at the moment, we can do it under United Nations auspices or through the EU. After that, the Act sets out a number of reasons, one of which is human rights abuse, Magnitsky, and one is United Nations designations, basically putting into law what the UN says. In the next round, we are seeking to put in a simple condition about serious and organised crime, war crimes and others. It is a Foreign Office lead.

Q445 Rushanara Ali: What is the trade-off between being able to act unilaterally versus internationally with our partners, both the EU and others? Do you expect, on balance, for us to better in tackling money laundering and economic crime when we are outside the EU or do you see us trying to do both? Given what you have said and set out as the potential opportunities, how much do we expect the £90 billion of money laundering to go down by when we take back control, in order to do more on this agenda?

Mr Wallace: I am not going to speculate on sums of money. The plus side of being able to unilaterally impose sanctions is that we could do similar to what the United States does, which is to individually focus sanctions on groups of individuals. In the United States, after the recent Russian events or cyberattacks, they have listed actual people they believe work in the intelligence services. They really go to the individuals, as opposed to sanctioning the overall country. At that tactical level, you can make a difference. We know that Mr Deripaska is sanctioned by the United States and by the European Union, or certainly a number of individuals have been designated by the European Union after Crimea. You can make a difference at that level very quickly.

One thing we have to our advantage as the United Kingdom is that the City of London is one of the main global centres of finance, not just European but global. Therefore, being frozen out of the British banking system is a bit like being frozen out of the dollar by the United States. You will tend not to be a very effective financier, bank or whatever you are as a result. We can have a stronger stick, not necessarily a bigger stick, if I can put it that way, when it comes to dealing with people involved in crime, illicit finance and human rights abuse. We can do it without having to collect together a whole group of people who have different interests.

Q446 Rushanara Ali: Are there any other areas where you feel that being a part of the EU and working multilaterally has held us back? The alternative argument has been a genuine concern that, when we leave the EU, because we are concerned about our economic future, the Government might deal with these issues with kid gloves, because they want to attract investment, and these sorts of issues might be overlooked. Do you understand that there are those concerns?

Mr Wallace: Let me be very clear about the Government's position post-Brexit on security. Post-Brexit, it is my strong belief that the City of London has to have a reputation for cleanliness and security, as a way to



HOUSE OF COMMONS

survive outside the European Union. It is not in the Government's interest to do the opposite, as you suggest, because the growth we see in both financial regulation and things like bribery and corruption legislation is extra-territorial reach. We see institutions of the City of London fined by US regulators. We see, under the Foreign Corrupt Practices Act of the United States, if bribery takes place in another country by a British company that has an entity in the United States, it will be prosecuted. The direction of travel is a global standard of either regulations or sanctions law, and it is in Britain's interest to be pitching itself as the City of London that is clean and secure with your money.

Q447 **Rushanara Ali:** Is that a view held by the entire Government and the Conservative Party? There are people within the Conservative Party who have a different view.

Mr Wallace: If you could present that view I would be delighted to hear it, because I am the Security Minister, he is the Treasury Minister and we would agree that that is the position of the Government.

Q448 **Rushanara Ali:** We are becoming the Singapore of the future post-Brexit. There have been references to it.

John Glen: You are referring to the speech of the Chancellor last year, when he said that if there was, as we did not want, an outcome of no deal, we would have to look at all options. From a regulatory point of view, there is absolutely no appetite for us to gain competitive advantage by loosening our regulatory environment in the UK.

Robert Buckland: In fact, we would gain competitive advantage by being clean, reputable and legal.

Q449 **Rushanara Ali:** Just to wrap up on this issue, could we expect to see this £90 billion estimate going down dramatically post-Brexit, with the freedoms that you will hopefully exploit in order to bear down on this, given what you have said?

Mr Wallace: Irrespective of Brexit, with the raft of new measures and laws, which go right back to Labour's introduction of the Bribery Act, the anti-corruption summit headed by David Cameron, the list of measures we have started to put in place, the FATF regime and the new focus we are trying to put on countering fraud in our police forces, you will hopefully see a decline, a reduction, in money laundering. That is not necessarily to do with Brexit at all. It is simply that, as successive Governments have been, the Government are absolutely serious about trying to tackle this. It is not in our interest, and we now have the tools to do that. The Criminal Finances Act is a major piece of legislation. If any colleagues had to sit through the Proceeds of Crime Act, they will know how complex that was. We have already asked the Law Commission to review POCA, and we are driving that forward.

Q450 **Rushanara Ali:** I have a few others to go, so I need quick answers. Do you agree the EN+ flotation in London was an example of the Foreign



HOUSE OF COMMONS

Office not ensuring that sanctions were well specified, rather than a failure of the sanctions implementation regime or the FCA?

Mr Wallace: I am not responsible for the listing authority or the FCA, so ask the Treasury Minister.

John Glen: The FCA is responsible. They seek views but, at the time when it was listed, there were no reasons not to list it. The challenge we have in a global environment is, if in another jurisdiction another country puts in a sanction, how we respond to that. There is a piece of work to be done. This is a legitimate concern about how, when we have a national security concern, an individual's role within a firm is reflected in the listing process.

Q451 **Chair:** Would you like a power to block a listing on national security grounds?

John Glen: It is perverse to have a situation where the FCA gives, to all intents and purposes, a clean bill of health for a listing when, a few months later, another jurisdiction can issue sanctions and we have no meaningful way of reflecting that.

Chair: I will take that as a yes.

John Glen: I have just explained the context. Yes, I would.

Rushanara Ali: I have a couple more questions. To Minister Glen, last week I asked some questions of the Permanent Secretary and other officials about mortgage prisoners.

Chair: Shall we come back to that, because I know Alison has to go? We are going to come back to that.

Q452 **Alison McGovern:** This is hopefully straightforward, Chair, so should not take too long. I want to ask about HMRC and its role, so it is probably one for you, John. They told us that, as part of spending review conversations, they wanted to discuss whether they should continue their anti-money laundering supervisory role. They say they have a number of roles that are not primarily about raising revenue and that these roles could be described as bolt-on to their responsibilities. Would you tend to agree, and do you have any thoughts on where else HMRC's responsibilities could lie?

John Glen: They are also consulting on increasing their fees, to increase the resources they have to do this sort of work. Between June 2016 and February 2018, they have engaged with and made interventions on 92% of money services businesses and 90% of trust and company service providers. They are very hands-on in the work they are doing. The challenge that Jon Thompson reflected on was the obvious one of how to deploy sufficient resources and secure the funds. They have a mechanism to increase the money that they secure to do this work and I am pleased that they have that discretion. They deal a lot with high-value dealers



HOUSE OF COMMONS

and estate agents. We have seen an increase in the number of SARs from estate agents, so they are effective.

Q453 **Alison McGovern:** They are saying they are not entirely sure that this is central to their role.

John Glen: I am saying they have a clear responsibility. They have a mechanism to allocate more resources to do it and they are doing an effective job now.

Q454 **Alison McGovern:** I have one other question. RUSI in its evidence called HMRC the "supervisor of last resort". Would you accept that characterisation?

John Glen: No, I would say that we have supervisors appropriate to the different actors in the economic crime areas where activity exists.

Q455 **Alison McGovern:** It is not obvious that the tax authority is an appropriate supervisor of estate agents.

John Glen: Lots of Government Departments have a big range of responsibilities. The question is whether the Department that is doing the activity is discrete, ring-fenced, responsible and effective in what it is doing, and I would say that it is effective in what it is doing.

Q456 **Catherine McKinnell:** That was quicker than I anticipated. Good morning. I was going to question you, Solicitor-General, first because you made some comments to the *Independent* newspaper back in March. You were quoted there as saying that there is a strong case for the creation of a new corporate criminal offence of failing to prevent economic crime. "This Government has already brought offences of failing to prevent bribery and tax evasion into force, and I believe that we should now go further". I think you know that I agree, but when are we going to see that offence?

Robert Buckland: As you know, Ms McKinnell, the Ministry of Justice, which is leading on this policy area, had a call for evidence that completed last year. That work is ongoing. I am glad to say that my Department now has a lead on this issue. We have already made really good progress with this concept. First, section 7 of the Bribery Act of 2010 introduced the concept of failing to prevent to English criminal law. It is already being used in a number of circumstances to good effect. The Government, in their manifestos of 2015 and 2017, said that they wish to extend that and the Criminal Finances Act has resulted in a new offence of failing to prevent tax evasion. Of course, that offence has only just come into force, so it is still quite early to assess its effectiveness, but we have already set a clear course here that we want the criminal law to evolve for two reasons.

First, we want to prosecute wrongdoers and corporates that are responsible for this but, secondly, we also want to help lead a culture change. It is my firm belief that corporates and companies respond well



HOUSE OF COMMONS

to a robust environment. Take the United States, for example; nobody can deny that it is not anything other than a very vigorous free market economy, and yet its criminal rules on corporate liability are very tight indeed. They have a system of vicarious criminal liability, which means that the corporate is responsible for the acts of the individual, even if the corporate has taken steps to stop or prevent the individual from wrongdoing. That is a model we need to look at that very carefully.

It would be wrong of me to glibly say I have an answer today. I am looking carefully at international comparators and working out what the best route might be. My personal view remains as expressed to the *Independent*, because I believe that, if our country is to enhance its reputation as being a safe and legal haven for economic activity, we should adopt measures such as the one that you and I are discussing now. What does economic crime mean? It means fraud, money laundering and a range of criminality that is already on the statute book.

Q457 Catherine McKinnell: Can I ask specifically about the consultation? As you said, it ended in March 2017 and we have not seen the findings of that consultation.

Robert Buckland: I accept that; nothing has been published yet. It was not a consultation; it was a call for evidence. It was a collation of examples, which might be domestic or international, that need to be looked at to form the basis of a consultation.

Q458 Catherine McKinnell: Are you suggesting that the evidence that resulted from the consultation is not conclusive?

Robert Buckland: That is probably right at this stage. We have not formed a final view at all but, as I have identified, a lot of thinking is going on about what the precise model might be. I will give you an example. In the failing to prevent offences that we have already introduced, there are slight differences in the test between failing to prevent bribery and failing to prevent tax evasion. For example on tax evasion, an intent to benefit financially is not part of the test to be applied, but it is for bribery. I am sorry to be boring about detail, but we need to get the detail right before we go out there and consult.

Q459 Chair: It is one of those things that have been delayed because Government bandwidth is constrained at the moment by negotiations with the European Union.

Robert Buckland: As you know, Chair, I have been rather busy on Brexit, as have my colleagues. Although some people think I have unbounded energy, I have to prioritise. This is a very important priority for me.

Q460 Catherine McKinnell: Indeed, it is well understood that a lot of bandwidth within Government is taken up by Brexit, but there is concern being expressed that Brexit itself will make us more susceptible to economic crime. Rushanara referred to it earlier. Is there any way to



HOUSE OF COMMONS

move this up the priority list and make sure that it is getting the attention it requires?

Chair: It could be a recommendation from the Treasury Select Committee, perhaps.

Robert Buckland: It is a matter for your Committee but, frankly, debating it publicly like this and listening to not just your contributions, but the other witnesses who have given evidence oral and written, helps the process and highlights the point that, both in our manifesto and in the actions we have already taken, the Government are moving in a direction to help improve the culture in the UK.

Q461 **Catherine McKinnell:** Another reason that it is not getting the traction we would like to see is, it has been suggested, that there is significant pushback from businesses. This opens them up to additional scrutiny and risk, and that is one of the reasons that it is not being given a faster track.

Robert Buckland: In any development of policy you are going to have debate, but in response to that I would say this. Companies and corporates have already brought in measures to deal with failing to prevent bribery and tax evasion and, if they have not, they ought to get on with it, because this is the law of the land. Frankly, if they brought in mechanisms and systems to deal with those particular aspects of criminality, it would not be a leap in the dark to extend them to economic crime more generally.

Q462 **Catherine McKinnell:** I tabled a Written Question recently and I was given figures for the number of prosecutions under the Proceeds of Crime Act 2002, for sections 330, 327 and 329, over the last five years. You recently said, in reply to a Written Question, as has been mentioned again today, I think by Minister Wallace, that it would be disproportionate to identify which of those prosecutions are in relation to corporates rather than individuals. I want to explore that issue because, if one issue holding up bringing in these new offences, as has been quoted in the past, is that there is no evidence that there is risk, but we are not keeping data on who exactly is committing these crimes, whether individuals or corporates, are we not at risk of going round in circles, by not collecting the data that would provide the evidence that would enable us to bring in the legislation that is required?

Robert Buckland: That is a very fair question, Ms McKinnell. In response to your Question, I gave an answer about the number of offences for which a prosecution has been commenced. That was a fairer figure because it involved money laundering offences that were also part of other charges. There are figures out there about completed and successful prosecutions, but they do not necessarily reflect the full ambit of prosecutions for this offence. I accept that the data is not disaggregated in this way, but perhaps it is not a problem that should vex those gathering evidence in support of the new offence too much.



HOUSE OF COMMONS

The reason is this: the real problem is in commencing prosecutions in the first place. At the moment in English law, we need to establish the controlling mind principle, which means that corporates that have a more exotic structure of management, Byzantine some would say, can get round that problem. There is plenty of direct evidence from prosecuting authorities, the SFO and CPS, which supports the contention that the bringing of prosecutions in the first place is difficult.

There is a second point, which is this. In going down the path of enhanced corporate criminal liability, we must not take away from the fact that there will be cases of rogue individuals who behave in a way that a well-intentioned company did not intend or wish. It would be a false choice for us to make, when it comes to prosecution, between corporates and individuals. This is one area where we need to have our cake and eat it, and I will give you an example. Rolls-Royce, which was the subject of a deferred prosecution agreement worth £500 million to my colleague in the Treasury—and I know he was relieved to hear that—has not prevented a continuing investigation into individual alleged criminality. That is important, because we need to reflect the full level of criminality. What draws me away from the American vicarious liability model is that it tends to focus very much on the corporate and not on the individual, in a way that the public would be concerned about.

John Mann: Good morning, Mr Wallace.

Chair: I think Mr Wallace is going to enjoy these questions.

Q463 **John Mann:** The questions are very simple and easy. When it comes to money laundering, how many professional football clubs have been deemed to require investigation currently?

Mr Wallace: I know of professional football clubs under investigation. I could not reveal how many and which they are, because that is an operational matter.

Q464 **John Mann:** In terms of the scale, are we talking one or two, or are we talking tens?

Mr Wallace: You are not going to tempt me, Mr Mann. There are live investigations that go on all the time. To expand any more could threaten investigations.

Q465 **John Mann:** Are they concentrated particularly in the Premier League?

Mr Wallace: I am not going to expand any more on an individual club or clubs. What I would say is that the sports industry is as susceptible as anything else to dirty money being invested or its organisations being used as a way to launder money. A few years ago, there was a football club that was used entirely for VAT carousel fraud. That club then went bust. That does not narrow it down either, but it went bust and is back up and running. I am afraid sporting institutions attract dirty money.



HOUSE OF COMMONS

Q466 **John Mann:** If we take the example of top-level football, one of the problems you must face is that assets can be capitalised on very quickly. What sort of timescale does it generally take for an investigation to be concluded? Are we talking a matter of a few months or a year or two for any investigation of that nature normally to be concluded?

Mr Wallace: It can be years. The number of documents in an SFO case, for example, can stretch into the millions; there are terabytes of data. This is one of the biggest challenges that all law enforcement has. That is why one of the most important policy initiatives of this Government is the reform of the SAR regime, because suspicious activity reports should be made by anyone, not just banks, who feels they are taking part in or handling a suspicious transaction.

Q467 **John Mann:** Have the football authorities, as an example, made any SARs to you?

Mr Wallace: I can find the number and write to you, but there have not been enough.

Q468 **John Mann:** That would be useful. It may not just be civil society or industry that has a direct responsibility. That information would be useful to the Committee. I have one other question for you, Mr Wallace. You outlined your job description and remit in this area. What is the biggest weakness, from the Home Office perspective, in relation to what the Treasury is currently doing?

Mr Wallace: The biggest weakness we have is that, first, the success of the City of London means there is a lot of noise in which to hide dirty money. At the same time, we have not done enough in the past around the facilitators of dirty money, the people who allow these people to invest, wash or enjoy their money. In my view, it is easier to prosecute them and to change their behaviour, because you are not dealing with a huge, often global or international structure. You are dealing with one estate agent or one crooked accountant, who allows these people to enjoy their wealth. I will see them out and about. They will be people who, for some reason, put on a nice suit and pretend they are not really engaged in the dirty money themselves, but they are as bad as the people who traffic drugs and children.

Q469 **John Mann:** It sounds like the Committee ought to spend a little time looking at the accountancy world.

Mr Wallace: In this half of the year, my message to the facilitators is this: we have had a lot of focus on banks; my investigators are going to be focusing on you.

Q470 **John Mann:** Mr Buckland, given your role, you are a man of great precision in your words. When you said the serious fraud units across the CPS have just redoubled their efforts, it means that, not too long ago, they were a quarter of what they are now. Considering how small that would be compared to now, there must be a skills deficit within the CPS.



Is there one? Is that a problem?

Robert Buckland: Thank you, Mr Mann, for being so precise. I think it was a figure of speech and I hope you accept my clarification. I would not want it to be thought that the CPS has moved from an era when it was doing little to an era when it is doing more. It is all about refocusing the specialism. There is a strong capability within the CPS to deal not just with high-level fraud—that is, where it is not dealt with by the SFO, which has a particularly high threshold to deal with complex and multinational fraud—but with the volume fraud that individually might not be worth a lot, but is worth a lot to the victim.

The concept of setting up regional hubs, where the work of local offices can be channelled more effectively, will result in that greater expertise being used on a wider range of cases. Prosecutions are to be forgiven. Prosecutors who might get a large diet of violence or drugs cases will build up expertise. If they are only dealing with one or two fraud cases a year, it puts them at a disadvantage. I would much rather see a system whereby fraud cases are being dealt with by prosecutors whose bread and butter they are, and who can spot the weaknesses in a case from their own considerable experience and improve the quality of an investigation by working more closely with the police themselves. It is certainly my experience that, where prosecutors work earlier with investigators, you get better results.

Q471 **John Mann:** The independence of the CPS is a vital principle. Do you have concerns about the NCA being able to directly task the SFO? Does that not impinge on their independence? Is a principle at stake here for you?

Robert Buckland: We looked very carefully at that, before the policy was adopted. There is an important safeguard, in that the consent of the Attorney-General and the Home Secretary is needed before that power to direct can be used. My personal belief is that the power to direct is, to use a well-worn word, a backstop, because I believe the culture of co-operation between the NCA and the other agencies is such that that power will scarcely be needed. However, it is there because we want to emphasise that co-operation and working together, while not compromising independence, is the right way forward.

Q472 **John Mann:** Is Government policy categorical across Departments that there will continue to be an independent, distinct, separate SFO, not something absorbed into something else?

Robert Buckland: That is a very clear policy now. You are right to allude to a debate that was live in recent years, but the result of the Cabinet Office work and the policies that have emanated from it, such as the power to direct, have clearly settled the future of the SFO as an independent agency working to prosecute wrongdoing. The appointment of the new director, Lisa Osofsky, will help charter a further era of progress for the SFO, building on the excellent work of Sir David Green



HOUSE OF COMMONS

and his colleagues, who took over, let us face it, at a very difficult time for that office some five or six years ago.

Q473 **John Mann:** What is your attitude to deferred prosecution agreements?

Robert Buckland: While welcoming them, they should never be some sort of quick win or easy substitute to proper prosecution. That is why the particular structure of DPAs in England and Wales, with its heavy emphasis on judicial approval and involvement, is the right way to go. Importantly, a deferred prosecution agreement cannot be some cosy stitch-up in private. It has to be determined by an independent judge publicly, at the end of the process. There have been four that have been approved already. Sir Brian Leveson, the President of the Queen's Bench Division, has personally presided in each case and has helped develop the jurisprudence that is necessary to guide prosecutors and corporates as to future developments.

DPAs send a clear message out to the corporate world that, if they co-operate fully, openly and properly with the authorities, that option might be open to the prosecution. It is not a luxury of choice for them. It is a warning to those corporates that fold their arms and casually ask prosecutors to prove their case that there could be another way, a better way, not just to achieve a satisfactory outcome from a public point of view, but for that corporate itself to acknowledge wrongdoing and thereby enhance its reputation in the long term, by being frank and open, not just with the prosecutors but with the public.

Q474 **John Mann:** As a final question, it would be useful for the Committee to get a clearer feel of how often they should be used. I am not asking for a prediction, but what is the balance? Are we talking about them being occasional or used in a quarter of cases? What is your feel for that, because you are probably the best person to answer that?

Robert Buckland: It is a proper question to ask, Mr Mann. The answer has to be this. There should never be a target. There should never be an attempt to lump cases into a DPA category. Each case has to fall on its merits. Really, the ball is in the corporates' court, as to how they behave. If we have full and frank disclosure, if corporates are prepared to waive privilege over documents that might be covered by a lawyer privilege, for example, if they are prepared to be open and transparent, the option of a DPA is there. If corporates wish to be difficult, truculent and defensive, they will not give the prosecuting authorities many choices.

The message is not about proportions or quotas; it is that we now have another important tool in our armoury to expose wrongdoing. Yes, we will get agreement and possibly revenue as well, and not insignificant revenue, I am sure you would agree, of over £500,000 million in the last year, which is welcome for taxpayers. Secondly, this will help to drive an improvement in culture, so that the UK can enhance its reputation as a legal safe haven for legitimate investment.



HOUSE OF COMMONS

Q475 **John Mann:** I am not trying to get targets, but I agree with you and endorse the direction of travel that you appear to be taking, which is, in essence, that you are encouraging this. Therefore, if things go well, there will be quite a lot more.

Robert Buckland: There will be more, but also more prosecutions. Through the developments in the law that we have already made, we will see more success from the SFO, as well as the CPS, which has the bulk of responsibility here, so that the public can feel more confident that the authorities are up to snuff when it comes to tackling these problems.

Q476 **Mr Clarke:** John, we have heard from Ben very robustly about the issue of the so-called enablers, the facilitators, who are not necessarily at the core of the financial system but who, nonetheless, may have a significant role to play in the fight against money laundering. To what extent does the Treasury share that concern?

John Glen: We work together on it and I agree with Ben's assessment. This is a challenge that we need to continue focusing on, to encourage more sharing of information about where the money is flowing. That is entirely necessary and we are joined up in that.

Q477 **Mr Clarke:** In terms of the role that banks end up playing in the regulatory system, UK Finance has told us, "Less stringent supervision by other regulators has seen banks increasingly expected to act as a de facto regulator". Is that something that you recognise?

John Glen: Banks have a responsibility.

Q478 **Mr Clarke:** Is it a disproportionate responsibility, though?

John Glen: No, I do not think so. Banks have a responsibility to work with the FCA and others to deal with the risks that exist among their customers. That is responsible capitalism and they need to be participating in that.

Q479 **Mr Clarke:** Is that a view you share, Ben?

Mr Wallace: Banks, certainly big banks, are truly aware that they are vulnerable to everybody's regulation, not just the City of London's. They are under lots of regimes, whether of the United Kingdom or the United States. If you are trading in dollars, you suddenly have to think about other regulators, so it is very important that they take their responsibility seriously, which they do. Actually, I think regulation works for them. They respond to regulation.

Look at some of the big frauds. In card-not-present fraud, where organised crime is taking money from transactions, we estimate there is £500,000 million a year in Britain alone. Could banks do more in protecting their customers' data and online transactions? Well, the discussions around regulations and with them directly have meant they are now doing more, so they respond to regulation and it is not disproportionate.



We are working together on SAR reform, because we both want quality not quantity of SARs to be made. Of course, that inevitably opens up the debate to who carries the risk. At the moment, the problem with the SAR regime is 620,000 of them are made, of which roughly 83% are from banks. That is your de facto defence; you make the SAR and effectively walk away. Banks quite rightly say that is an awful lot of making. I say, "Yes, let us help you to have quality referrals, not quantity". They say, "What about the risk of us not doing a referral? Who carries that consequence?" That is why we are working together, financially and on policy, to come up with SAR reform that helps my NCA do its job, but also helps to lift some of the cost of that regulation from banks, because they are going to be doing fewer SARs but of better quality.

Q480 Mr Clarke: In a *Private Eye* article memorably entitled "Looting with Putin" last month, Tom Keatinge from RUSI suggested that the reason that banks have got their heads around AML is that they have had a series of heavy very fines levied on them, notably the \$1.9 billion penalty extracted on HSBC for its global money laundering failures. To what extent have those fines focused minds in the banking sector?

Mr Wallace: They illustrate my earlier point that it often does not matter where a bank is. Successful global banks are global. On that point I made earlier about extra-territorial legislation, if you have an entity in one of these countries, even if it is a tiny bank in New York when 90% of your bank is here, the United States authorities have the power to levy huge sums of money on you, so you had better comply, literally, at both ends of your transaction. That is the direction of travel. Those types of huge fines have focused the minds of many of our international financial institutions and it is of benefit to both of us. I remember when I did the Iran committee in Parliament; huge fines were being levied on British banks by American regulators about transactions with Iran, so they work.

Q481 Mr Clarke: The flip side of the article is, as Mr Keatinge notes, that lawyers and accountants have not suffered equivalent fines. Therefore, his suggestion is that they have not had what he calls a "come to Jesus" conversation about the seriousness of AML. Is that something you recognise, that they have not had that shock?

Mr Wallace: I am not an expert on what punitive measures are available, insofar as the regulator goes, but I am sure John is. I absolutely agree with the point that the facilitators have not had the same focus on them as they should have done. They have a responsibility that they need to live up to and I would like to see them being put under more pressure to comply.

John Glen: OPBAS is set up within the FCA to work with the FCA supervisors to ensure there is sufficient alignment. It is very difficult. I have read the article; there are some points of fact in there, but a lot of commentary around it. This is a live issue on which ongoing work is being done to look at where there is a failure of supervision in different sectors. We are open to examine that and, as Minister Wallace has said, we are



HOUSE OF COMMONS

keen to encourage more reporting, with the specialist support of the FCA supervisors. They have seen an increase of 20% over the last six years. That specialist support will make them more effective in the reports that are lodged.

Mr Wallace: Can I add one point about the money laundering policy challenge? It is always going to be a dynamic process, because the adversaries move to the vulnerabilities as they appear. It will never be that we can put our arms round and say, "There we are; this is now sorted", because they are deliberate, and they have the resources to work out and exploit our systems as they change and develop. Any Government, if they are honest, will always sit here and say, "We could do more" or "We are doing this now, but maybe we should have done more two years ago", because it is a dynamic process and they move to where the weaknesses are in the system and will continue to do so.

Q482 **Mr Clarke:** One obvious weakness is estate agency. That is something that Donald Toon has alluded to, as has Mark Hayward from NAEA Propertymark, in the course of our inquiry. If you look at the number of SARs between October 2015 and March 2017, estate agents accounted for 0.12% of all SARs. You mentioned in your earlier comments to the Chair that they were high on your list of priorities, in terms of upping the ante. What metric will you use as a yardstick of success? Do you have a figure in mind or how will you know that estate agents are indeed upping their game?

Mr Wallace: We will know when we see more SARs. It is quite easy to go on the NCA website and download a guide to a SAR, whether it is a digital or an online paper copy. You do not have to be a brain surgeon to do it. When we see an uptake of that, when we see a decline in dirty money or individual crooks owning property and when we see an increase in us seizing property, those three events will give a clue to it. Hopefully, we will also see a prosecution of an estate agent for doing it.

On the plus side, with a lot of these facilitators, it will be easier to change their behaviour than change a very large bank's behaviour. If you take out a county solicitor for failing to do a SAR, or prosecute a regional estate agent, there is a ripple effect, both regionally and to other individuals. Where it is literally a one-man band, or two or three people, it would inevitably either collapse the firm or change its behaviour. For a vast company with 55,000 employees, it is a harder process.

Q483 **Mr Clarke:** Does the Land Registry have any role in that regard?

Mr Wallace: It has a real role in transparency work. The more transparency we can get, the better. The draft Bill was published in July on overseas ownership of property. That is a BEIS lead and that will have a role. If you look at the unexplained wealth order we have used on an individual that has been widely reported, most of the £22 million-plus of frozen assets are, guess what, properties. I asked the question why it is



HOUSE OF COMMONS

that an MP's wife buys an £8 million property or whatever it was, and they do not say, "That's a bit odd".

John Glen: It was not a British MP.

Mr Wallace: I do not know any MPs who are paid that much money. No one asks. The sniff test was not there.

Q484 **Chair:** There is a whole line of questioning there. Let us not go down that one. Ben, you talked about the US levying fines as well as the UK, potentially in a scenario where a bank has some interest in the US. I just wanted to check that you are not saying we should be outsourcing anti-money laundering sanctions or prosecution enforcement to the US. Even if other jurisdictions decide to take action, the UK would be taking action at the same time.

Mr Wallace: No, there is no intention of outsourcing. My point is that it is an example of extra-territorial legislation affecting corporations around the world, because they cannot hide in their single jurisdictions. Post-Brexit, if you think you can market yourself as being less fussy than another financial centre, do not, because you are interconnected. That means you will always be subject to more than one regulator, in this day and age. I suspect there are very few successful banks that exist entirely in a single jurisdiction.

Q485 **Stephen Hammond:** Gentlemen, good morning. As the Chair indicated in her opening remarks, we have some concerns or the evidence we have taken about Companies House shows some interesting concerns. In a response to the question, "Does Companies House undertake any anti-money laundering checks on applications to the register?", the Minister in charge wrote, "Companies House is not subject to requirements to carry out anti-money laundering checks". Solicitor, I accept that Companies House is a BEIS responsibility, but are you not concerned about that? Has your Department spoken to BEIS about what work it might need to undertake to strengthen Companies House?

Robert Buckland: I have not spoken directly to BEIS colleagues about this, but there is a general point here. Where we have agencies such as Companies House that are already in possession of significant information that might ultimately, as it often does, form the basis of a prosecution or an investigation of another nature, I would hate to think we are missing opportunities. While I do not want to overburden Government agencies with too many flags or questions, it is a pretty important question to be asked. Therefore, I would be happy to have that conversation.

Q486 **Stephen Hammond:** That is helpful. Mr Wallace, in the solicitor's answer he talked about the information being generated by Companies House. In your first response to the Chair earlier this morning, you talked about how agencies should look at prosperity alongside detecting economic crime. I am looking at the persons with significant control register. You spoke about Scottish limited partnerships. One in 10 UK companies still



HOUSE OF COMMONS

has not named the person with significant control; 9,000 companies have the person listed with significant control as controlling at least 99 other companies; and five beneficial owners on that register control more than 6,000 businesses. Is there not a real issue about the quality of information and the checks that Companies House is doing? Are you not concerned that, although you may have that data put into your algorithm, the data is not of very good quality?

Mr Wallace: I have concerns and the Government have concerns about how Companies House has been used in the past and the lack of diligence. We have said that, after the FATF report, we are going to review the results of that FATF inquiry and we will look specifically at what information they have garnered and their view of Companies House. It is absolutely true that I see in the investigations the open nature of the British economy in that place being exploited, and we need to do something about it. We have responded to the Scottish limited partnership issue. In fact, since we started talking about and reviewing legislation, it has dropped by 80%. The Ukrainian passion for Scottish limited partnerships has dropped out of the system for some unexplained reason.

You are right, and we need to improve the data and its quality. One thing I would say about quality, and I am a great believer in transparency and a campaigner for it, is that it is only half of the problem. You are absolutely right. It is all very well forcing people to publish the company or the owner but the owner might turn out to be No. 64, the High Street.

Stephen Hammond: Some were under the age of two, for instance, or an unborn child in certain cases in 2016.

Mr Wallace: Then you have not fixed the problem, so we have to do quality as well as transparency. We have all identified that Companies House needs to do more in that space.

Q487 **Stephen Hammond:** Everyone in the Committee will be pleased to hear that you are going to look at the FATF report. However, at the moment there are 20 people at Companies House who police 4 million firms compliant with corporate registrations and corporate law. In response to the questions from the Committee, the Minister in charge said, "Companies House does not have the powers to verify the information". Are you not concerned that there is a huge gap in the ability of the Government to assess this?

Mr Wallace: You are asking a Security Minister, who is the bad cop on the scene. My answer is that, absolutely, we need to do more.

Q488 **Stephen Hammond:** Could I ask the bad cop to speak to the cop who has written us this response?

Mr Wallace: The good thing about FATF is that it is a peer group independent review of our overall system. It reports in the next two to three weeks. We have said we will take it as a start point for those



HOUSE OF COMMONS

observations. I think it is a really good start point. I am confident that, in many parts of our policy, we will have a positive report. The areas in which I would guess we may not are those that you have correctly pointed out, and any Government should definitely take those things seriously and act on them.

Q489 Stephen Hammond: Mr Glen, in your response to the Chair you said there is a balance between assessing the risk to economic activity and economic crime, in how you sometimes look at matters. Could you tell me how the Treasury assesses that balance?

John Glen: We look at the effectiveness of the different supervisory regimes, through the impact they are having on the behaviours of the different elements they are supervising. We have tried to convey throughout this session that it is necessarily a complex operation. There is not a single metric where we say we need X number of prosecutions or X amount of money recovered or restrained for it to be a success, but we respond to changing behaviours. Minister Wallace has talked about the dynamic environment and the sorts of behaviours that criminals undertake, and we have a range of measures that look at their behaviours and risks. We have discussed the estate agent issue and encouraged greater reporting of that, and we have discussed another vulnerability that you have rightly put your finger on around Companies House and the statutory obligation we have to review persons with control next year.

Q490 Stephen Hammond: Company formation agents are supervised for anti-money laundering by HMRC unless supervised by another supervisor. All those other supervisors, other than HMRC, are in the Treasury's remit. Would it not be sensible to bring Companies House into the Treasury's remit?

John Glen: We need to reflect on the outcome of the FATF review. BEIS is leading on the Companies House review. We do not need to draw any conclusions until we have got to the end of that process. It is a question of what is most effective. Where there are vulnerabilities being exploited, we need to make sure that we can tighten it.

Stephen Hammond: I certainly agree with that. I suspect many of you will be concerned that the BEIS Minister's response to our inquiry was surprisingly complacent.

Q491 Chair: Have the three of you seen Lord Henley's response to this Committee?

Mr Wallace: I have had a meeting with officials from BEIS in the last year or two about issues such as Companies House.

Q492 Stephen Hammond: I hope that your Departments will have the opportunity to speak to BEIS.



HOUSE OF COMMONS

Mr Wallace: Mr Hammond, you will know that the machinery-of-government decision about which Departments have oversight responsibility for different policies is a matter for the Prime Minister and the Cabinet Office.

Stephen Hammond: That is, but operational co-ordination, as I seem to remember from my very short time in Government, is something that the Department is entitled to.

Mr Wallace: Is it a vulnerability in our system at the moment? Yes, it is. Are the Government taking steps to address it? Yes, they are. They are gathering evidence, both through what they see from people like the NCA, but also through the FATF inspection, which will lay good foundations to make sure we do what is right to fix it, but also to recognise that, in this enterprise economy that we want to encourage, establishing a company is not too bureaucratic.

Stephen Hammond: No one is suggesting that. There are some basic checks there that you are asking estate agents to do when they represent the other side of the transaction, yet you do not have your own Government agencies doing it.

Mr Wallace: I agree.

Q493 **Stephen Hammond:** Can I just move on? I think we have covered that point. Mr Glen, RUSI told us in written evidence, and I quote, At the current time, our dialogue with stakeholders suggests that there is no evidence that OFSI", the Office of Financial Sanctions Implementation, "acts as any sort of deterrent to UK-based sanctions violations". What would your response be to that?

John Glen: It has only been operational since April 2017. As Rena Lalgie told you, there are the first cases of breaches in the pipeline and a considerable amount of work is ongoing. I would concur that the evidence of the effectiveness of the organisation is not yet publicly available, but that is to do with the amount of time that it has been operational.

Q494 **Stephen Hammond:** On that basis, are you suggesting that we should not really judge it until it has been operational for two years or five years?

John Glen: I am saying that the nature of the work is necessarily complex. The entity has only been operational for 18 months, which is not a reasonable amount of time to evaluate the effectiveness of its activities.

Q495 **Stephen Hammond:** It is responsible for financial sanctions implementation. The FCO is responsible for sanctions policy. Are you happy with the co-ordination between yourselves and the FCO?

John Glen: Both Departments have different, complementary views on this and it is necessary to work with the FCO. In some situations, as in



HOUSE OF COMMONS

the case of the listing of EN+, there has been frustration that there is not a single lever to pull. There are challenges and different perspectives across Government on how to calibrate an appropriate response. I do not think it is right in this area, where there are such complementary and nuanced views, that we should have a single decision point in Government. Through collaboration and through dialogue, dialogue that we have as Ministers and including the FCO, we probably get to a better outcome.

Q496 Stephen Hammond: I take it from your answer that the close co-operation that you and Mr Wallace have shown today is true with you and your counterpart at the FCO.

John Glen: Yes, Sir Alan Duncan.

Q497 Stephen Hammond: I am sure the Minister of State enjoys those conversations. Can I guide you to something? We took some evidence from UK Finance. They spoke about a couple of things. First of all, they talked about "the escalating transatlantic divergence in sanctions policy", which means that "global banks have increasingly committed to complying with sanctions laws and regulations of the UN, EU and US plus jurisdictions in which they operate". It goes on to say that global banks have set up sanctions policies that "define minimum standards for compliance". Are you concerned that there is an escalating divergence or do you see that sanctions policy inside banks has been set up merely for minimum standards of compliance?

John Glen: Necessarily, different jurisdictions will have different priorities in how their sanctions regimes function, and banks will need to respond to that. In an ideal world, an individual bank would comply with one regime that would make their lives a lot easier, particularly given the interconnected nature of banking. That is not realistic and different jurisdictions will have different national priorities. I have seen some of the evidence, but my attention has not been drawn to the issue of adherence to minimum standards. It depends what those standards are. If they are exacting in themselves, that would be sufficient. What we need to know is that they are effective.

Q498 Stephen Hammond: Mr Wallace, can I ask you the same question? From your point of view as Economic Crime Minister, have you seen the escalating divergence and would you also say that the sanctions landscape has seen, as UK Finance says, a rapid change in a short period of time, which is making it more difficult to ensure compliance?

Mr Wallace: We have to recognise that the United States is the largest economy on earth. Its different political system, where Congress can unilaterally make sanctions even when the President might not agree, means you get a very different sanctions regime than you do in the European Union. It is natural. They already have in place laws that trigger sanctions, irrespective of the decision of the State Department or the President. We saw that recently with cybercriminals in Russia, where



HOUSE OF COMMONS

there is a law in place that says, "If this happens and it has been attributed, that is it". The United States recognises that the dollar is one of the global currencies, and if you trade and clear through dollars you are covered by some of those sanctions.

The EU's approach to sanction is collaborative and unanimous, if my memory serves me rightly, in how it makes its decision on a sanction. It has to be a unanimous decision. It is why you can make a sanction, but it is quite hard to take it off, so that inevitably leads to a sanction. It puts us in an interesting place post-Brexit, but it gives us an opportunity.

My personal impression is that, in US law enforcement, they sometimes use sanctions as a last resort when dealing with individuals they do not think will ever come to their jurisdiction. Looking at the cybercriminals they sanctioned in Russia, the proper route, we would think, is to try to indict them, extradite them or, if they travel, arrest and prosecute them. I often get the sense that, if the United States feels a jurisdiction is out of its reach, one of its disruptions is just to impose sanctions. We do not have any expectations that the North Korean hacker they pinpointed the other day is going to come to Illinois any time soon, so they will sanction them. We do not tend to have that, at the moment, but it is an interesting policy discussion to have, post-Brexit.

Q499 Chair: When UK Finance came to give evidence, it told us that banks spend £5 billion a year on financial crime compliance. Stephen has already talked about the significant resources that banks are now devoting to this issue. It seems the public resources devoted to this are of a magnitude less. Does the public sector, overall, have the right level of resources devoted to this problem, even if just to ensure that the private sector resources are being properly allocated?

John Glen: We have to ask how we can have the most effective overall regime. Private sector actors will need to make a significant contribution, as has been outlined. We have discussed how HMRC is probably going to increase its fees by 80% to 100%. There are mechanisms by which the different regulatory bodies can increase the amount of money they bring to this. I do not think we have done a cross-governmental assessment of how much money, collectively, because it is pretty difficult to do that, given that there are so many regulatory bodies, sometimes almost hybrid organisations, that work so closely with the public sector.

We need to have a dynamic approach to this. We need to intervene and make additional resources available, should the risk profile change. Across a complex supervisory environment, and across different elements, we have lots of opportunities to move the dial in different domains quite quickly and effectively.

Q500 Chair: What if, in your role as City Minister, in your meetings with UK financial institutions, they said to you, "We think we are doing an awful lot of the work here; we are spending an awful lot of money"? We have taken evidence from financial institutions about the significant work that



HOUSE OF COMMONS

goes on to train everybody, obviously some more successfully than others. How would you respond, if they said, "We are taking this seriously; what are you doing"?

John Glen: I would say that the FCA has 700 sector supervisors. It has 50 financial crime specialists. It has increased its resources by 20% in the last six years. HMRC has 197 full-time-equivalent staff, and that will be increased by 80% to 100%. This is not a static environment. We are open to do whatever it takes to make the commensurate increase in resources available, or to encourage the regulators to do so, should that be necessary. In conversations with Andrew Bailey and Sam Woods, they have never raised a particular concern about their resourcing in this area.

Q501 **Chair:** If they are watching today, we will see whether they raise it next time you meet them. What is the National Economic Crime Centre being designed to do?

Mr Wallace: It slightly follows from the point about whether we are putting the resources in. The National Economic Crime Centre is trying to put in one place HMRC, NCA, intelligence capabilities and the police, plus potentially elements of the private sector, to develop leads and analysis of what is going on at the moment, and to effectively exploit those leads, to see if they go into further investigations. Partnership and sharing are really key in intelligence-led investigations. The NECC, as we are going to call it, will be about trying to build that intelligence picture and focus leads on it.

It will involve investigators. It will sit alongside Donald Toon at the National Crime Agency. It will have someone of DG, director-general, rank in charge of it. It will be about improving the quality and focus of future investigation. Alongside it, we are going to develop an analysis centre to analyse financial intelligence and, indeed, trends of financial crime, in the same way, funnily enough, as we do with counterterrorism. The Joint Terrorism Analysis Centre looks at all the intelligence that comes in and produces reports for parts of Government, intelligence agencies and the police about the latest trends in criminal or terrorist activity. We are going to try to do the same there, because we really have to stay one step ahead. The NECC will do that. I am launching the serious and organised crime strategy on Thursday, so some money will go into the NECC. On Thursday, if you have not printed your report by then, you will be able to say how much we will put into it.

Chair: The team works very quickly, but we are not usually that fast.

Robert Buckland: It also has CPS and SFO involvement. We are bringing prosecutors in, and that is very important, because the information we have about trends will then feed in. Ben Wallace and I meet together, and we meet with the relevant heads of the NECC, to emphasise the ministerial oversight of this.

Q502 **Chair:** Does the fact it is being set up not go to answer where we started this session? Is there not a fragmented regime? Is the NECC a response,



even before FATF has formally reported, to the need to bring people together more?

Robert Buckland: The truth is that lots of good work is going on, but the NECC is a way to de-compartmentalise that, so people can share best practice, knowledge and the sense of the threat and the evolving threat, as Ben Wallace has outlined. When it comes to resources, there is one very important development. The SFO now has a larger core Treasury budget. There will still be an element of blockbuster funding to allow for flexibility, but the larger budget is really going to be of help to them.

Secondly, it is important to remember that we have hundreds of professionals out there. The CPS has about 250 people in the serious fraud division, working across the country on this issue. Resources will never be a bar to prosecution.

Q503 **Chair:** Finally, in terms of the NECC, we have talked a lot about supervision this morning. What role does the NECC play in supervising the supervisors, as opposed to enforcement actions?

Mr Wallace: It will have an oversight of most of the investigations. It will be able to see into most of the investigations into illicit finance and economic crime. Because it will have, in that same room, HMRC, City of London Police, CPS, it will be able to dragoon the range of powers that, at the moment, are often in different bodies. What is the best use of powers to tackle this particular investigation? It may simply be that HMRC is in the room, so we are going to use some of its supervisory role to deal with this in a regulatory space. It may well be that the SFO is in the room, so we look at a deferred prosecution arrangement as the best way to deal with it. It may be that we prosecute.

It is about bringing together—"oversight" may be the wrong word—a senior level of investigatory knowledge, so as to make sure you put the right troops to task, to match how they are going to combat the threat. Like anything at scale, where you are not going to wrest your way out of it, you also have to resort to things like disruptions and the private sector. At the JMLIT, the Joint Money Laundering Intelligence Taskforce, private and the police are effectively side by side. It may be that you simply upload the knowledge of the bank accounts that are being used, to make sure they are either frozen or tagged as being fraudulent accounts with organisations like Cifas. It is about exploring the full horizon of tools that you have. That is really what it is going to be, and it goes live tomorrow. When it is up and running, if members of the Committee want me to arrange a visit, give it a bit of time, then come to see how they do it and get some examples.

Q504 **Chair:** As a final point, one thing the FCA said to us, John, was about the need for improved information flows to combat economic crime. They told us they would "welcome further reform to allow firms to share data about suspected criminals and their behaviour" beyond that provided by the Criminal Finances Act 2017. Has that request been made to you? Would



HOUSE OF COMMONS

you be prepared to consider it?

John Glen: They have not made the request to me. I saw the evidence; it would have come to Minister Wallace. In the passage of the Bill last year, there was considerable discussion. The key issue there is what “suspicious” is. We cannot have a situation where people’s data defaults to being shared without a sense that there are any risks around it. I understand the instinct; obviously they want to be able to minimise their exposure to illicit finance and making the wrong judgments, but we have to think about what rights individuals have and keep their financial affairs secure and private when there is no risk. I acknowledge what they have said, but there is a judgment to be made, and the Government have those matters under review on an ongoing basis.

Q505 **Chair:** There is scope for there to be a discussion about it.

John Glen: There is always scope for a discussion, Chair.

Q506 **Rushanara Ali:** I have two questions on mortgages. I know this is off the subject here, but it is a follow-up from last week’s session with officials. This has gone on for some time now. About 150,000 people are affected.

John Glen: This is about mortgage prisoners.

Rushanara Ali: Yes, the mortgage prisoners issue. These people took out mortgages pre-crisis, but affordability checks were then brought in, and they do not pass the checks, even though many would be able to pay what they originally agreed to pay. The inability to meet the affordability checks means that they do not have access to competitive rates. Some mortgages have been stopped; some providers no longer provide mortgages. The Government sold off to a US equity company £13 billion worth of Northern Rock mortgages in 2016. According to a *Panorama* programme, they argue that the US firm misled the UK Government on mortgages, because there was an undertaking that these people would have access to mortgages, and that has still not been the case, while those who do would not have access to competitive rates.

This has put a lot of people in a trap. The FCA has so far only managed to say that it can help about 10,000 people, so the outstanding number of people are stuck between different stools. It was a decision that the Treasury made. Do you not think the Treasury has a duty of care to those people who are stuck in this position? Should there not be some sort of special provision to support them, rather than what is happening at the moment, where bailiffs are sent into their homes? A Government-owned bank sold off those assets. That company is now treating people appallingly, which was the subject of the report. So far, I have had different institutions passing the buck and not enough of a sense of urgency. Is this something that you can commit to resolving, working closely with the FCA, given that the responsibility lies between the two?

John Glen: You have clearly set out a very real problem, which is appalling in its consequences for those individuals. I am aware of the



HOUSE OF COMMONS

Panorama programme. I am aware of their investigation and their conclusions from the number of cases they looked at. I have spoken to the Second Permanent Secretary about this in the Treasury just in the last week. I am aware that the FCA is looking into it, and we are looking into it in the Treasury as well. The challenge is how to secure an outcome. I can commit, answering your question, to a determined effort to resolve this. There is no reason why these individuals should be left in this very difficult position. We put in place, as you know, a regime that creates quite exacting standards to secure mortgages, but these people are locked into a difficult situation. You make a very fair point and it needs to be resolved.

Q507 **Rushanara Ali:** Okay, but when can we expect it to be resolved?

John Glen: I cannot give you that time at this moment. I can say that I am very determined to resolve it, and I am doing it as quickly as I can.

Q508 **Rushanara Ali:** Okay, great. In a situation like this, where there is not an appropriate response within the current legal frameworks, given the new checks that are imposed, would you be willing to consider some sort of fund, available from the Government, given the Government made this decision, so people do not end up losing their homes and spending tens of thousands of pounds more than they should have done? They took those mortgages out in good faith, in the pre-crisis period, and it was not their fault that the rules have changed.

John Glen: Of course, I will do everything I can to resolve this for those individuals. When some of those people took out those mortgages, they took out mortgages that were 125% or 135% mortgages, which they would not have been able to do now.

Q509 **Rushanara Ali:** That was a failure of regulation. It was a failure of the banking system.

John Glen: It was a failure of regulation before 2010. Yes, it was.

Q510 **Rushanara Ali:** It was not their fault, though, was it?

John Glen: No, it was a failure of the regulation before 2010. We will have to try to fix that.

Rushanara Ali: Great, thank you.

Q511 **Chair:** Can you write to us about that?

John Glen: I will write to you about that, Chair, yes.

Q512 **Chair:** You can pass on the message to your fellow Ministers that they will expect to be asked about this when they appear before us. Can you write at some point? I appreciate the timing is difficult for resolution, but if you can keep us updated that would be appreciated.

John Glen: Yes. I am very aware of this issue and it is very near the top of my to-do list.



Q513 Rushanara Ali: I expect some of your constituents will be affected, like ours are, so I would appreciate some action.

I have a final question on derisking. In 2016, the World Bank said, "Keeping individuals and businesses in regulated financial systems is a precondition for effective systems to mitigate risks and combat financial crimes. Turning away customers could actually reduce transparency in the system by forcing transactions through unregulated channels". You will be aware of the impact that the initial response to derisking had on charities and money transfer businesses. The concern here is how to ensure that companies and institutions are helped, so that the process of transferring money is done through legitimate means. How concerned are you that the unintended consequence still remains of derisking that some of the money flows are potentially going underground, and therefore working against the grain of what you are trying to do in reducing economic crime?

John Glen: I certainly recognise the trend in derisking, with the withdrawal of banking facilities. The UK chaired the remittance task force that was designed to look at this issue in the remittances sector. The task force has reported back to the G20 this year with 19 recommendations. Quite often, what you see is an individual who apparently has done nothing wrong and has been barred from banking services. There needs to be an examination of this matter, because it just is not just, in some of the cases I have seen. The question is how you do this in an environment where there are legitimate risks that need to be countered at a macro level by banks. We have a senior Treasury director who has led some of that work, and we are taking the conclusions of that task force forward.

Chair: Thank you all very much indeed for your evidence this morning. It has been very helpful and we are very grateful.