

Written evidence submitted by Transparency International

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption. Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at local, national, and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK. We are independent, non-political, and base our advocacy on robust research.

Summary

Sanctions are a key tool in inhibiting Russia's ability to wage war against Ukraine, however their effectiveness is being undermined by techniques used to evade and avoid these measures. Further to this, sanctions do not represent a silver-bullet in tackling illicit wealth from Russia here. The UK is yet to recover any property assets belonging to Putin's cronies, limiting the deterrent impact of these measures. The UK should first seek to tighten up how sanctions are applied and implemented in order to put greater pressure on Vladimir Putin and the Russian war machine.

Our submission focuses on three areas related to the UK's sanctions response which we have identified for improvement.

1. Ensure sanctions designations leave no room for Putin's cronies to circumvent them.
2. Increase corporate and property transparency in the UK and its offshore jurisdictions to prevent sanctions avoidance and evasion.
3. Improve the defences of the private sector to help detect and prevent sanctions evasion.

Ensure sanctions designations leave no room for Putin's cronies to circumvent them

Capturing family and close associate networks

When seeking to target individuals through sanctions, consideration should be given to also targeting family members and associates they have shared assets with. Failure to designate family members and close associates can lead to the risk of assets being registered in the names of sanctioned individuals' inner circles. Whilst many family members have been targeted through the UK's sanctions regime, this approach has been inconsistent, which has resulted in instances of avoidance.

This issue has been raised numerous times in relation to the Russian sanctions regime targeting Putin's cronies. In March 2023 a collaboration between Transparency International UK and The Times highlighted different examples of family members of sanctioned Russians holding assets, meaning they remained unfrozen.¹

Sanctioning enablers

The UK played a leading role in sanctioning the 'professional enablers' linked to sanctioned Oligarchs. This approach should be expanded to target the extensive networks of other oligarchs with a UK presence and applied to those who assist other wealthy individuals now subject to the UK's sanctions in managing their assets.

¹ <https://www.thetimes.co.uk/article/russian-sanctions-regime-uk-property-london-8n3ffq8jc>

As part of the Rotenberg Files collaborative investigation, TI-UK, the Organised Crime and Corruption Reporting Project and a consortium of investigative journalists exposed the role of a small number of critical enablers in relation to the sanctioned Rotenberg family.² These individuals and organisations have played a key role in avoiding and evading the sanctions placed on the family as far back as 2014, highlighting the importance of sanctioning enablers like this.

Recommendation:

Use intelligence from law enforcement agencies, the private sector, civil society and journalists to proactively identify and designate networks of close associates and enablers of primary sanctions targets.

Increase corporate and property transparency in the UK and its offshore jurisdictions to prevent sanctions avoidance and evasion

Transparency over ownership of assets – both companies and properties – is vital to ensure those subject to sanctions are frozen and remain so. Without this, assets may knowingly or inadvertently be transferred to unsanctioned individuals or sold, thus undermining the UK's sanctions regime. There are three key areas the UK needs to address to ensure assets can be effectively targeted and frozen.

Property

The UK has made positive steps in improving transparency over who owns property here, introducing the Register of Overseas Entities (ROE) which reveals owners of offshore companies which own UK property. This measure is already bearing fruit by revealing the owners of offshore companies that own UK property (including, for example, former Russian Deputy Prime Minister Igor Shuvalov).² However, the Economic Crime, Transparency and Enforcement Act (ECTE) which introduced the ROE also prevents Companies House from publishing information about the parties to trusts that are registered as owners of overseas entities, keeping these property owners from public view. This can lead to properties not being properly targeted with sanctions notices.

This activity continues to happen, with a recent investigation highlighting a Putin crony using a trust to mask his ownership of a £10 million London property, which had not been identified by the UK Treasury as a frozen asset.³ The true scale of sanctions avoidance through trusts remains unknown due to the lack of public data relating to trust ownership and control.

Recommendation

Address the loophole through which property can be held opaquely through trusts by:

- Enabling Companies House to publish the details of trusts controlling offshore companies holding land in the UK
- Capturing information about trusts that directly acquired land and property before October 2020
- Allowing greater public access to information on trusts that directly hold UK property

UK Shell Companies

² <https://www.occrp.org/en/rotenberg-files/>

³ <https://www.icij.org/investigations/pandora-papers/london-property-tied-to-putin-ally-remains-untouched-by-sanctions/>

For the most part UK companies have been at the frontline of ensuring Britain's sanctions on Russia are effective, however evidence suggests that loose controls on who can form and control companies here is undermining the effectiveness of the regime.

- An investigations by highlighted the role of UK Limited Partnerships (LPs) in supplying Russia with "high priority" battlefield components.⁴
- A joint investigation by BBC and Finance Uncovered also showcased the use of LPs by sanctioned individuals, with one partnership used to own an oil tanker used to evade sanctions.⁵

Currently LPs formed in England, Wales and Northern Ireland are not required to declare who owns them and can be controlled by opaque offshore companies, making them secrecy vehicles with a UK front. Recent legislative changes introduced in ECTE have brought in some reforms to LPs, they are now required to be formed by a professional regulated in the UK for money laundering purposes however this will not stop these firms being used as secrecy vehicles and attractive to sanctioned individuals.

Recommendation

To stop UK-registered partnerships from being opaquely owned and controlled, the government should:

- Close the transparency gap which allows for the opaque ownership of non-Scottish Limited Partnerships by bringing these entities under the UK's broader PSC regime; and
- Require corporate members and partners to be registered in the UK or comparable jurisdictions with strong beneficial ownership transparency rules.

Companies in the UK's Overseas Territories and Crown Dependencies

Unlike the UK, most financial centres in Britain's Crown Dependencies and Overseas Territories (CDOTs) don't publish information about who owns and controls companies registered there.⁶ This has afforded criminal networks the ability to hide nefarious activity, including money laundering, corruption and sanctions evasion, through opaque shell companies in these jurisdictions.

Although Parliament legislated in 2018⁷ to require the Overseas Territories, including the British Virgin Islands (BVI), to create public registers of the beneficial owners of companies registered there, the UK Government set an extended deadline for the introduction of these registers, which it has said it expected⁸ to be in place by the end of 2023. This deadline has again being missed, with new timetables announced in Parliament for each CDOT at the end of 2023.⁹ All of the CDOTs have now publicly committed to introducing these registers, which represents a major change and is to be welcomed. However, as Russia continues to wage war on Ukraine, the continued secrecy afforded by shell companies based in Britain's offshore jurisdictions risks undermining our sanctions regime, and our claim to be a global leader in the fight against corruption and money laundering.

⁴ <https://www.bellingcat.com/news/2023/11/03/frontline-facilitators-how-secretive-uk-partnerships-supply-wartime-russia/>

⁵ <https://www.bbc.co.uk/news/uk-67276289>

⁶ Apart from Gibraltar, which has published a company beneficial ownership register in line with the EU 5th Anti-Money Laundering Directive

⁷ Sanctions and Anti-Money Laundering Act 2018

⁸ <https://www.gov.uk/government/publications/overseas-territories-adopting-publicly-accessible-registers-of-beneficial-ownership/overseas-territories-progress-made-on-improving-transparency-and-addressing-illicit-finance-flows-explanatory-note> (December 2020)

⁹ <https://questions-statements.parliament.uk/written-statements/detail/2023-12-18/hcws150>

The international response to Russian aggression in Ukraine has put a spotlight on how different financial centres may be used to evade sanctions or hide illicit wealth. It is hard to ignore that so many individuals now subject to sanctions have substantial assets and company portfolios in jurisdictions like the BVI.

Previous (December 2018) research from Transparency International UK (TI-UK) identified 1,201 corporate vehicles from these jurisdictions alleged to have been used in 237 large scale corruption and money laundering cases.¹⁰ TI-UK identified companies from six of the UK's 14 Overseas Territories in its analysis. The British Virgin Islands featured most prominently – of the 1,201 entities identified 1,107 (92 per cent) were registered in this jurisdiction.

Sanctioned Russian individuals have been linked to corporate entities based in these jurisdictions, which appears to be making it difficult for their assets to be frozen. For example:

- An investigation by the Guardian¹¹ revealed Uzbek-Russian oligarch **Alisher Usmanov**'s assets may be out of reach of the sanctions regime due to companies and properties he previously controlled being placed into an irrevocable trust. Usmanov's spokesperson would not reveal exactly when the irrevocable trust had been established, or give its name or jurisdiction, and he would not say when Usmanov withdrew from the list of beneficiaries, or if those moves had been triggered by the threat of sanctions. One of the properties previously alleged to be linked to Usmanov¹² – London mansion Beechwood House, worth an estimated £48 million – is owned by Isle of Man-based Hanley Limited, according to Land Registry records.
- In October 2022, TI-UK identified £700m in UK property previously linked to sanctioned oligarchs that weren't flagged for asset freezes in the UK's Register of Overseas Entities.¹³ These include Witanhurst, a sprawling estate in Hampstead said to be London's second biggest home after Buckingham Palace and worth up to an estimated £300 million¹⁴, reported to be owned by chemicals magnate **Andrei Guryev** through Boradge Ltd in the BVI.¹⁵ The US Treasury also claim Guryev owns the property¹⁶, which his London-based lawyers deny.
- The Rotenberg Files investigative series¹⁷ has highlighted the extensive use of the BVI by Putin's closest allies, the **Rotenberg brothers**, who used at least 18 firms registered there to hold and manage their wealth. Some of these were registered in the names of close associates that masked the ownership of assets, such as a \$42 million jet which was moved from the Isle of Man's aircraft registry back to Russia in March 2022.

This raises serious questions about UK authorities' and businesses' ability to investigate the true ownership of high-value assets when they are hidden by layers of opaque offshore secrecy, despite the ownership of these assets being widely-reported.

Recommendation

The UK's offshore territories should introduce greater levels of transparency to their company registers by doing the following:

- To ensure anonymous companies registered in Britain's offshore financial centres are not being used to evade UK sanctions, and to ensure the comprehensiveness of the UK's sanctions list, the

¹⁰ <https://www.transparency.org.uk/publications/cost-of-secrecy>

¹¹ <https://www.theguardian.com/world/2022/mar/22/alisher-usmanov-ex-arsenal-shareholder-russian-billionaire-assets-sanctions>

¹² <https://www.forbes.com/sites/giacomotognini/2022/03/05/a-guide-to-all-the-outrageous-mansions-and-estates-owned-by-sanctioned-russian-billionaires/?sh=461d32152e0f>

¹³ <https://www.theguardian.com/business/2022/oct/03/campaign-government-oligarchs-assets-sanctioned-russians>

¹⁴ <https://news.sky.com/story/ministers-warned-off-plot-to-seize-oligarchs-300m-london-home-12563147>

¹⁵ <https://www.forbes.com/sites/giacomotognini/2022/03/05/a-guide-to-all-the-outrageous-mansions-and-estates-owned-by-sanctioned-russian-billionaires/?sh=461d32152e0f>

¹⁶ <https://home.treasury.gov/news/press-releases/jy0905>

¹⁷ <https://www.occrp.org/en/rotenberg-files/>

Government should request that the CDOTs enable UK authorities to have full access to their closed registers of beneficial ownership until public registers are in place.

- The Government should work with the CDOTs to deliver public registers of beneficial ownership in line with the updated timelines provided at the end of 2023, with full and free access to company data not limited to individual entries, as recommended by the Foreign Affairs Committee.

Improve the defences of the private sector to help detect and prevent sanctions evasion

Much like the UK's defences against dirty money, Britain's sanctions regime is largely reliant on the private sector implementing it. Whilst much of the private sector have complied with these new restrictions, investigations have found some firms' weak defences raising the risk of sanctions being skirted. In particular, research by Transparency International has identified weaknesses within the payments and cryptocurrency sectors.

In 2021, research by Transparency International UK found More than one in three (100) UK registered Electric Money institutions had money laundering red flags relating to their owners, directors or activities.¹⁸ Whilst these firms represent major money laundering risks, they also represents a sanctions evasion risk. Some firms in this sector already having received fines from the Office for Sanctions Implementation.¹⁹ Further risks in this sector have been highlighted including the former owner of one firm – Paystree – being designated by the US.²⁰ Paystree remains operational in the UK despite its owners still exhibiting red-flags due to their past proximity to major money laundering schemes.

In 2023 an investigation by Transparency International Russia identified a black market for of verified user accounts which are registered with the providers of crypto-to-fiat transfers and enable anonymous transfers of money from Russia to the UK and EU.²¹

Recommendation

Address the sanctions evasion risks posed by UK based payments and cryptocurrency firms by:

- Coordinated supervision between the Financial Conduct Authority (FCA) and OFSI to crack down on high-risk payment and cryptocurrency firms
- Larger penalties and business restrictions for those found to have weak defences against money laundering and sanctions evasion

March 2024

¹⁸ <https://www.transparency.org.uk/together-in-electric-schemes-UK-e-payment-EMI-money-laundering-risk>

¹⁹ See <https://www.allenoverly.com/en-gb/global/blogs/investigations-insight/payment-services-provider-fined-for-breach-of-russian-financial-sanctions> and https://assets.publishing.service.gov.uk/media/610bb068d3bf7f043d0bf274/050821_-_TransferGo_Penalty_Report.pdf

²⁰ <https://www.bloomberg.com/news/articles/2023-06-25/sanctioned-swiss-financier-adds-to-scrutiny-on-uk-payment-firms?embedded-checkout=true>

²¹ <https://ti-russia.org/en/2023/10/31/ti-russia-presents-its-study-of-the-market-of-crypto-to-fiat-money-mules/>