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Background on the FinCEN Files project

1. This submission contains no information from confidential documents beyond that which has already featured in reporting by ICIJ, BuzzFeed News or other media organizations collaborating on the FinCEN Files.
2. The FinCEN Files project involved more than 400 journalists from 109 media organizations in 88 countries. In the UK, collaborators joined from BuzzFeed News, ICIJ, BBC Panorama and Private Eye.
3. At the centre of the investigation were more than 2,100 suspicious activity reports (hereafter “the FinCEN Files SARs”), the vast majority of which were prepared by U.S. banks, or the U.S. branches of non-U.S. banks, and were submitted to America’s Finance Crimes Enforcement Network, or FinCEN, a unit of the U.S. Treasury Department. The SARs were sent to FinCEN between 1999 and 2017, and together reported suspicious transactions amounting to more than \$2 trillion. Though the value of suspicious transactions reported in the FinCEN Files is large, the 2,100 SARs reviewed by journalists is only a small fraction of the total number of reports submitted to FinCEN. In 2019 alone, banks submitted 1,116,400 SARs to FinCEN.
4. The FinCEN Files SARs were obtained by reporters at BuzzFeed News, who shared them with ICIJ and ICIJ’s partner media around the world as part of a 16-month investigative collaboration. The resulting journalism began to be published from 20 September, with reports and broadcasts appearing over several days.

Introduction

5. The FinCEN Files SARs show U.S. banks, or the U.S. branches of non-U.S. banks, sharing suspicions held about U.S.-dollar bank transactions, in accordance with requirements under the U.S. Bank Secrecy Act.
6. While the FinCEN Files SARs were generated and collected in the United States, however, the vast majority of documents concerned money flows between originators and beneficiaries that a) were not clients of the SAR-writing bank, b) did not give an address in the United States.
7. In the vast majority of cases, the SAR-writing bank played the role of a facilitating intermediary, positioned in the middle of a chain of banks required to complete a complex, cross-border transaction. As such, the SAR-writing bank provided U.S. dollar “correspondent bank services” to other banks (sometimes known as “respondent banks”), mostly outside the United States.

8. As a result, the transaction counterparties were typically not well-known to the SAR-writing bank. The SAR-writing bank did not hold know-your-customer information on either of the counterparties, as it would have done had one of the counterparties been its customer.
9. The primary information available to the SAR-writing bank was typically the SWIFT message which accompanied the transaction. This message included dates, amounts, remittance information (usually limited to 140 characters in length), the name and address of the originator and beneficiary, as well as the names and addresses of the banks through which the money was cleared.
10. In many instances, the FinCEN Files SARs described suspicions concerning money wired between bank accounts held in the name of corporate entities, often anonymous shell companies.
11. While the involvement of an anonymous shell company in a transaction was rarely, if ever, the sole reason for suspicion, journalists found this to be an extremely common contributory factor cited in the FinCEN Files SARs. As many SARs stated, the anonymous shell companies often left little or no trace of actual business activity on the internet or in public records.
12. The FinCEN Files SARs linked suspicious transactions to thousands of anonymous shell companies, some of them in well-known secrecy havens such as Panama, the Seychelles or the Marshall Islands. However, anonymous shell companies with a UK address stood out as being far more numerous in the FinCEN Files SARs than companies registered in jurisdiction more widely associated with corporate secrecy.
13. The most common forms of U.K. shell companies found in the FinCEN Files SARs were Limited Liability Partnerships (LLPs) and Limited Partnerships (LPs).

UK anonymous shell companies in the FinCEN Files

14. Matching the names of U.K. LLPs and LPs against information from the U.K. corporate register at Companies House, we identified 3,267 LLPs and LPs that were linked to suspicious bank transactions in the FinCEN Files SAR documents.
15. In some instances the FinCEN Files SARs showed U.K. LLPs and LPs engaged in transactions strongly linked to clear criminal activity. This included U.K. entities that transacted with companies controlled by Russian mafia groups, Mexican cartel launderers, a corrupt Italian politician and sophisticated international fraudsters.
16. The FinCEN Files SARs also gave the name of scores of U.K. LLPs and LPs associated with the largest and most complex laundering schemes created in Europe, including schemes commonly known as the Russian Laundromat, the Russian mirror trading scandal, The Azerbaijani Laundromat, the Danske Estonia

scandal, the Moldovan bank fraud, Ukrainian kleptocracy scandals and the Swedbank Baltic division scandal.

17. These schemes have been the subject of multiple enforcement actions, some by the U.K.'s Financial Conduct Authority, and there are more actions outstanding. They are estimated to have facilitated the laundering of tens of billions of dollars in likely dirty money, largely from former Soviet republics and satellite states. In each case, the U.K. LLP or LP has been the launderer's vehicle of choice.

The characteristics and usage of UK LLPs and LPs in the FinCEN Files SARs

18. **Common structure:** An analysis of FinCEN Files LLPs and LPs found the vast majority of them were constructed in a similar manner. They were typically formed by two partners, both nominee companies, based overseas, in a secrecy havens such as the Seychelles, Nevis, the Marshall Islands, Panama, Belize or Dominica. Often, the same two nominee companies would form a large number of LLPs or LPs. At first sight, the nominee companies might be mistaken for parent entities, controlling hundreds of LLPs and LPs. In truth, however, our research found they played no role in management or ownership. Instead, those who operated the nominee companies transferred ownership and control of each LLP/LP to a hidden end client by means of a Power of Attorney agreement.
19. **Uncorroborated business activities:** According to Companies House filings, many of those LLPs and LPs identified in the FinCEN Files purported to be active trading companies, operating, for example, in gas, electrical goods, management consultancy, leather goods, financial consultancy and many other industries. However, our research suggested there was scant evidence these LLPs and LPs had real business operations, though a small number had set up sham websites to give the appearance of a genuine trading activity.
20. **Use of "straw men" signatories:** Our research found that almost all paperwork signed and filed at Companies House by LLPs and LPs bore the name of a "straw man", representing one of the nominee companies. The straw man had little or no knowledge of the true affairs of the LLP or LP.
21. **Common "maildrop" addresses:** Many LLPs and LPs featured in the FinCEN files were registered to the same "maildrop" address as many other similarly-structured anonymous companies. The most common registered address was a small office, above a bank, in a parade of shops in Potters Bar, Hertfordshire.
22. **Common organising agency:** Further analysis showed that many of the LLPs and LPs we had identified could be neatly clustered according to a) their nominee partners, b) their U.K. maildrop address and c) the names of "straw man" representatives. Each of these clusters, we found represented clients of a single company formation agency (CFA). These CFAs were typically made up of loosely affiliated businesses collaborating to create, market and maintain U.K. LLPs and LPs configured in such a way as to function as anonymous shell companies. Our research identified that the largest four CFAs were associated with 1,656 UK companies featured in the FinCEN Files, or about half of the total

number. The largest nine CFAs were associated with three-quarters of LLPs and LPs featured in the FinCEN Files. Our research found that these CFAs were doing much more for clients than setting up U.K. entities. They had an ongoing role in maintaining the entity's structure, through the provision of nominee companies as partners, maildrop addresses, and "straw man" representatives.

23. **Common associations with Baltic banks:** Our reporting identified that several CFAs had close ties to the banks in the Baltic region, where many clients would eventually open bank accounts. In the case of Danske Bank's Estonian branch, we found the bankers themselves were secretly running a side business arranging U.K. LLPs and LPs for customers.

Regulation and enforcement

24. U.K.-based CFAs are supposed to be regulated by HMRC, in accordance with international standards set for Trust & Company Services Providers (TCSP). This is problematic for three reasons:
- a) The loose confederation-style structure of CFAs means that one component part of the CFA might be regulated by HMRC, while other more substantive parts of the CFA, based outside the U.K., might fall outside U.K. regulation.
 - b) Some CFAs we identified are entirely outside HMRC regulation because they are based overseas. For example, we found one 24-year-old setting up multiple LLPs and LPs from his flat in North London on the instructions of a lawyer in Latvia. Many of the shell entities he created went on to open bank accounts at the notorious Estonian branch of Danske Bank and to appear in the FinCEN Files.
 - c) HMRC's regulation of CFAs — in particular its enforcement action — has not kept pace with demand. For example, we found nine LLPs that had together failed to report \$4.1 billion of income in annual accounts submitted to Companies House. When we spoke to the Belgian-based dentist whose name and signature was on these accounts, he insisted he knew nothing of them and his signature had been forged. When we approached HMRC with this information, officials said the evidence we had gathered pointed to a case of false accounting, which was not a matter for HMRC.
25. We note that a 2020 government report into anti-money laundering supervision showed that, of 672 TCSPs that HMRC looked at (including CFAs), just 95, or 14 percent, were "compliant", while 350 were "not compliant". Nevertheless, only 131 firms were fined (receiving an average penalty of £8,000). The remaining 219 non-compliant operators were not penalised at all.
26. We also note that in 2015 the U.K. Insolvency Service pursued a high court order forcing two opaquely structured LLPs — Feelgood Production and BSMAX — into liquidation, after they were found to have filed false accounts. <https://www.gov.uk/government/news/high-court-orders-two-opaque-limited-liability-partnerships-into-liquidation>. We are not aware of any similar actions against non-transparent companies, despite the explosion in popularity of U.K. anonymous shell companies.

27. Official figures show the number of U.K. LLPs and LPs rose from fewer than 20,000 in 2004 to more than 100,000 in 2017, and has remain at this high number. Based on patterns identified in the FinCEN Files data analysis, it seems likely that many tens of thousands of U.K. LLPs and LPs have been set up in order to launder money or otherwise mask illicit money flows.

Companies House reform proposals

28. In 2016, the then government brought in reforms to Companies House requiring companies, including LLPs and LPs, to declare a person of significant control (PSC) — effectively, anyone able to exert an ownership authority over a company. However, these reforms were widely criticised because of poor levels of compliance and the absence of verification checks.

29. Prior to publishing the results of their FinCEN Files investigations, journalists contacted a number of departments within the U.K. government seeking comment. In response, knowing the substances of upcoming reports, Lord Callanan, the minister for corporate responsibility, announced proposals for new reforms to Companies House. He said these reforms would tackle instances in which U.K. entities were set up to launder money.

30. At the heart of Lord Callanan's promised reforms was a proposal to verify ownership information for all registered entities, including LLPs and LPs. However, it appears the government wants much of the verification work to be carried out by CPAs, many of which — as detailed above — have put the provision of corporate secrecy at the centre of their business model. It is perhaps surprising that CPAs, many of which have played such an active role in creating the problems identified at Companies House, should be given such a central role in the proposed solution.

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