

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

*Fourth Sitting*

*Thursday 27 October 2022*

*(Afternoon)*

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Examination of witnesses.

Adjourned till Tuesday 1 November at twenty-five past Nine o'clock.

Written evidence reported to the House.

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**Monday 31 October 2022**

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**The Committee consisted of the following Members:**

*Chairs:* MR LAURENCE ROBERTSON, † HANNAH BARDELL, JULIE ELLIOTT, SIR CHRISTOPHER CHOPE

† Anderson, Lee ( <i>Ashfield</i> ) (Con)	† Malhotra, Seema ( <i>Feltham and Heston</i> ) (Lab/Co-op)
† Ansell, Caroline ( <i>Eastbourne</i> ) (Con)	† Morden, Jessica ( <i>Newport East</i> ) (Lab)
† Byrne, Liam ( <i>Birmingham, Hodge Hill</i> ) (Lab)	Newlands, Gavin ( <i>Paisley and Renfrewshire North</i> ) (SNP)
† Crosbie, Virginia ( <i>Ynys Môn</i> ) (Con)	Stevenson, Jane ( <i>Wolverhampton North East</i> ) (Con)
† Daly, James ( <i>Bury North</i> ) (Con)	† Thewliss, Alison ( <i>Glasgow Central</i> ) (SNP)
Doyle-Price, Jackie ( <i>Thurrock</i> ) (Con)	† Tugendhat, Tom ( <i>Minister for Security</i> )
† Hodge, Dame Margaret ( <i>Barking</i> ) (Lab)	Kevin Maddison, Anne-Marie Griffiths, <i>Committee Clerks</i>
† Huddleston, Nigel ( <i>Lord Commissioner of His Majesty's Treasury</i> )	
† Hughes, Eddie ( <i>Walsall North</i> ) (Con)	
† Hunt, Jane ( <i>Loughborough</i> ) (Con)	
Kinnock, Stephen ( <i>Aberavon</i> ) (Lab)	† <b>attended the Committee</b>

**Witnesses**

Angela Foyle, Chair of ICAEW's Anti Money-Laundering Committee, Institute for Chartered Accountants England and Wales (ICAEW)

Mike Miller, Economic Crime Manager, Institute for Chartered Accountants England and Wales (ICAEW)

Peter Swabey, Director, Policy & Research, Chartered Governance Institute UK & Ireland

Catherine Belton, Journalist and author

Professor Jason Sharman, Professor of Politics, University of Cambridge

## Public Bill Committee

Thursday 27 October 2022

(Afternoon)

[HANNAH BARDELL *in the Chair*]

### Economic Crime and Corporate Transparency Bill

#### Examination of Witnesses

*Angela Foyle and Mike Miller gave evidence.*

2 pm

**The Chair:** We will now hear oral evidence from Angela Foyle and Mike Miller from the Institute of Chartered Accountants in England and Wales. We have until 2.20 pm. Could the witnesses please introduce themselves for the record?

**Angela Foyle:** I am Angela Foyle. I am the head of risk management and economic crime at BDO Global, but I chair the economic crime sub-committee of the Institute of Chartered Accountants in England and Wales.

**Mike Miller:** My name is Mike Miller. I am the economic crime manager working within the Institute for Chartered Accountants in England and Wales.

**The Chair:** Thank you very much. I will first call Liam Byrne.

**Q213 Liam Byrne** (Birmingham, Hodge Hill) (Lab): Thank you, Ms Bardell. Starting with you, Angela—thank you so much for coming to give evidence. First, what are the perceptions around the world of London, in particular, as a centre for money laundering? How serious a problem do people abroad think that we have here?

**Angela Foyle:** Publicly, it is stated that London is one of the key capitals of money, but that is partly because it is the largest financial centre in the world, so you will inevitably have dirty money flowing through. There is that view. It is something that the US, in particular, has made comment on at times. On the other hand, when talking to Europeans, we are also recognised as being at the forefront of introducing legislation in relation to money laundering regulations and enforcing them, to some extent, compared with other jurisdictions. It is a bit of a mixed bag, depending on who you are talking to and in what context.

**Q214 Liam Byrne:** You used the word inevitable in your answer. Is it inevitable that there will be lots of dirty money on the scale we have flying through London today?

**Angela Foyle:** I think what I meant by that is that it is inevitable that you will have some illicit finance where there are significant movements of finance. I am not saying it is good—I think it is wrong. I think we should stop it to the greatest extent that we can, but where do you hide a tree? It would be in a wood. So, where are you going to hide dirty money? It is going to be somewhere where an awful lot of money is flowing through.

It is not that I think it is a positive thing at all; I think it is very negative. I actually spend most of my working life trying to see how we can prevent accountants and others—I have forgotten the word I mean—unknowingly getting involved with it. It is a problem for London that we have to be acutely conscious of, and therefore we have a greater responsibility, in many ways.

**Liam Byrne:** Thank you—that is well put. Mike, what is your view on that?

**Mike Miller:** I agree with Angela. London is such a large financial centre and there is such a volume of money moving through it that there inevitably will be, as Angela said, some money that is not well sourced and not well processed. That being said, we work very hard, particularly at ICAEW, to try to clamp down on it. Illicit finance and illicit transfer of funds affect the profession particularly badly. They put people in a very difficult position, both reputationally and legally. You will find the vast majority of chartered accountants and other professionals do not want to engage in unprofessional and malicious practice when it comes to that finance. We work very proactively with Committees, Parliament and across Government to make our representations about how this can be more effectively countered.

**Q215 Liam Byrne:** Angela, we heard evidence on Tuesday from UK Finance that it was concerned that the verification regime proposed in the Bill is much weaker than the regime used across the AML regulated sector. What is your view on that? Are you worried that a two-tier verification regime is emerging here?

**Angela Foyle:** It is interesting, because we would probably put it the other way around. The standard—sorry, I beg your pardon, I was thinking about the earlier Bill. Yes, this Bill has two forms of verification, by either Companies House or authorised corporate service providers. It does not appear to have the wording that would be in the money laundering regulations, which requires there to be reasonable verification measures using a risk-based approach. I think those kinds of words always assist, so that you actually have to assess and understand the risk surrounding the people you are trying to verify first, and therefore, if necessary, enhance your level of verification.

**Q216 Liam Byrne:** Do you think that is a weakness in the Bill that we should think about strengthening?

**Angela Foyle:** Around verification, yes. There is a spectrum, however. Requiring that someone has to verify, that is, prove, that that is true goes beyond what is possible for an accountant. I can look at documents. I can take careful measures to ensure that those documents are, or appear to be, valid, but I cannot actually ever say with 100% certainty that x is x; I can simply say that I have done the following work and, based on that, these are reasonable measures on the risk basis. I certainly think that is an area that could be, at the very least, clarified as to the standards expected to ensure that they are consistent.

**Q217 Liam Byrne:** That is very useful. Finally, the folks from Lloyds bank, and others, described how easy it is to move money through a network of banks and then consolidate it into a final bank, from which bad people may take their money out. We were worried

about the way in which proxies in particular could be used by bad people to help with this kind of mechanism. In the Bill, we have a definition of “person with significant control”, which is someone with about 25%. Is that too high?

**Angela Foyle:** It is based on the Financial Action Task Force standards on beneficial ownership, which looks to people who own 25% or more, in some cases, or more than 25% in others. It is one of those challenging issues because, in relation to things such as proxies, often it is not the about the levels that a person owns, it is the fact that x purports to be the person who holds it, when actually they actually do so on behalf on y, which can be very difficult to track through.

Many people look below 25% in any event just to make sure. Particularly with sanctions, they will have a look there. But 25% is a global norm and changing it might cause other challenges. This is the question: are you satisfied that you understand who the people that you are dealing with are, and who is behind them, at all times? It is not necessarily a question of whether it should be 20%, 5% or 25%. It is a hard one for me to answer because I work with 25%, but I will generally have a good look around to see what else there is.

**Q218 Alison Thewliss (Glasgow Central) (SNP):** In your evidence to the Committee, you said that you wanted Ministers to amend the legislation to ensure that accountancy firms are in the scope for indirect information-sharing provisions. Will you tell us a bit more about why that is important?

**Mike Miller:** Indirect information provision essentially relates to a third-party database which would allow the easier sharing of information between financial firms. The ones that are already mentioned include banks, crypto exchanges and various different entities that could be privy to malicious financial movements, essentially. The accountancy sector has not been included in that, so for the purposes of a lot of the work that we are doing about the open sharing of information with law enforcement, between bodies, between other firms, it would be helpful for the streamlined moving of information. It would certainly help accountancy firms to identify more quickly, and thus reduce the likelihood of, any bad transactions taking place. An accountancy firm could avoid getting embroiled in things it does not wish to get embroiled in if it had pre-emptive access to any intelligence—that may have been discovered by a bank, for example, looking in more detail at specific financial transactions than accountancy firms tend to—that indicated that it should not be doing business with particular entities.

**Q219 Alison Thewliss:** Thank you, that is useful. As one of the organisations under the OPBAS umbrella, how do you feel that is going with anti-money laundering supervision because there has been some criticism of that regime and its efficacy? Looking at the 2019-20 figures, I understand that you cancelled 10 memberships and issued 39 fines totalling £117,000 to members. What does that stand at now, and is it an effective deterrent?

**Mike Miller:** I do not have the up-to-date figure with me today, but I can come back to the Committee with that in writing. Generally, in OPBAS, we are obviously

very supportive on the need to have professional bodies for oversight of regulation for anti-money laundering. There is obviously a Treasury consultation going on into the potential restructuring of OPBAS. We have been working closely with it to ensure that our members are represented, but also so that it will be the most effective oversight that it can be.

ICAEW is the largest supervisory body in that space. We are very proactive in taking a risk-based approach. We cover a lot of firms, and it is necessary that a lot of those inspections are carried out based on where we assume there is a higher level of risk of illicit financial transactions. Whether that should be changed is obviously something that we will come back to in the consultation.

We have been speaking regularly to Treasury and other groups. They are collecting intelligence to try to determine, I think, some concrete proposals before they put it out to consultation, but we are very supportive of OPBAS. We continue to work closely with it and have a strong supervisory body in place for the PBSs.

**Q220 James Daly (Bury North) (Con):** Under the Bill exemptions from the main money-laundering offences would apply in two sets of circumstances. One is when a regulated business ends a business relationship with a client or customer and hands over property worth less than £1,000 for that purpose. The second is where a regulated business is dealing with property for a client or customer and prevents access to property of equivalent worth. Do you have any view on those exemptions and how they would potentially affect your profession?

**Angela Foyle:** I am not so sure the first one will affect us, at £1,000. The second one may facilitate certain activities for our insolvency practitioners, particularly where they are appointed in circumstances where they know that there has been some form of fraud—be that tax fraud or what is often called “fresh air invoicing” or invoice discounting fraud, where there is a set amount of money that is known to be tainted—because, currently, all of the assets of the insolvent entity can often be tainted, and defence against money laundering applications have to be made for each and every transaction done. By having that, they will be able to ringfence certain amounts that they know to be tainted—they would obviously do investigations to ensure that they have got that amount correct—and then deal more quickly with creditors and others with the remainder of the funds. In that sense, we certainly welcome that amendment. It is one that we raised with the Home Office, alongside the banks and, I believe, the Prison Service may have wanted it as well.

**Q221 James Daly:** Time might mean that you will be not be able to answer this question as fully as you might wish. However, on where we are now, and where the Bill will take us, the general view that we have heard from witnesses is that it is good—maybe as a starting point to go forward from. In a few sentences, will you explain how you think the Bill will affect your profession, for good or for bad?

**Angela Foyle:** There are a number of areas in which it will affect us. We are very much in favour of the changes to Companies House, I must say, and of giving additional powers to it. We are incredibly supportive of that.

One example that we can give relates particularly to the misuse of registered offices. All the firms have found instances of people effectively putting their address as offices of accounting firms, presumably to give them credibility. In some cases, that is linked to using names similar to either regulated or existing lawful businesses. Again, that is clearly intended to facilitate fraud. Currently, it can take months to get people off that address, but with the additional powers, we are hoping that that can be done much quicker.

Similarly, with other misuses, such as the inability to contact businesses, there is also the identification of directors to ensure that you are dealing with the people that you think you are. Even if those perhaps could be strengthened in some ways, I think there is a lot that is positive in the Bill. It is a staging post, but it is a really important one.

**Mike Miller:** I agree with Angela, particularly on the point about Companies House. We are definitely behind the reasons for and the principles of the Bill; we are very supportive of all that it seeks to do. We have been saying for quite a while that some of these measures are overdue, particularly those on Companies House, as Angela mentioned. We have proposed some tweaks for a few areas, particularly around verification, as we have touched on before. There is going to be a two-tier verification in the sense that Companies House will be responsible in some way or another for the verification of those that are registered in the UK. For overseas entities, that is a bit more of a challenge, because they require legal verification and we currently think that the legislation is such that it does not really allow a reputable business to take on the level of risk of a new client unless they have a particularly established relationship.

We have made some recommendations to our members that they need to exercise extreme caution taking on new clients solely for the purpose of verification. That is so the system works; it is not so that they avoid it. It is so that it does not, first, stop people being able to do business in the UK when they rightly should be able to, and secondly, so that if the larger, more reputable firms do not offer that service, then it becomes something that is picked up by those that we may not necessarily want to offer that service.

We have also recommended a couple of areas where we think it could be strengthened, particularly around notifying Companies House of a change of auditors, so there is a two-pronged approach. That is so that companies themselves, for example Angela's firm, knows that they have been assigned as an auditor, to make sure that is correct and they audit the company, and for Companies House to make sure that a company is audited as it should be. We think that would reduce the likelihood of discrepancies coming in, going forward. However, overall, we are generally supportive.

**James Daly:** That is very helpful. Thank you.

**Q222 Dame Margaret Hodge (Barking) (Lab):** ICAEW represents what proportion of the accountancy profession, do you reckon?

**Angela Foyle:** I do not know the proportion, but there are about a hundred and something thousand members.

**Mike Miller:** Yes, about 110,000 members. I am not sure of the proportion.

**Q223 Dame Margaret Hodge:** You do not know the proportion, but the truth is that there will be people who are financial advisers and accountants who are not members. You have a policing role, but if they are not your members, they are not policed.

**Angela Foyle:** Not by the ICAEW, but there are other institutes out there.

**Q224 Dame Margaret Hodge:** Yes, but you are the big one.

**Angela Foyle:** We are the bigger one, but they may be by someone else. There are also people who are not regulated by any professional body who can call themselves accountants as well.

**Q225 Dame Margaret Hodge:** Quite. We know that most accountants are brilliant people who make sure we do not make mistakes when we fill in our tax return and all that sort of stuff. However, we know from all the leaks that there are a lot of bad apples in the accountancy world.

There are two things I wanted to ask. One is about the current system of regulation. You as professionals play a role in the system. What changes would you make to ensure the current regulation encompasses all those who call themselves financial advisers or accountants? Secondly, how good are you at your policing role? You obviously have a lobbying role and looking at both your CVs, you are on the lobbying side to make sure regulation fits what your profession wants. I am much more concerned about the policing role. Can you tell me how many people in the last year have been suspended, or whatever it is you do to them, if they have been found guilty of engaging in, facilitating or colluding with economic crime or money laundering or anything like that?

**Angela Foyle:** I do not think we have the numbers for the people this year.

**Mike Miller:** We do not have the numbers up to date for this year.

**Q226 Dame Margaret Hodge:** I had them, but unfortunately I have lost them. I think it is about 10 or 15.

**The Chair:** I am going to have to curb this and move on very briefly to Tom because we have to finish.

**Q227 The Minister for Security (Tom Tugendhat):** This is a very brief question. What difference will this make to the solicitors' profession as well? You will have noticed that there is not only a control of accountancy but an increase in penalty to solicitors' regulations.

**Angela Foyle:** Neither of us is part of the Law Society so we cannot speak for them, but clearly, that was something that was thought to be necessary as a deterrent. Although I expect most of them are likely to be regulated by the Solicitors Regulation Authority for money laundering, rather than the Law Society. However, it must have been a gap that was thought to be necessary to fill. I really do not know, otherwise; I am speculating.

**The Chair:** Thank you very much. That brings us to the end of the time allotted for the Committee to ask questions. I thank our witnesses on behalf of the Committee for their evidence.

**James Daly:** On a point of order, Ms Bardell. As a result of Mr Tugendhat's question, I had better declare an interest: I am a practising solicitor.

**The Chair:** Thank you very much. That will be put on the record.

**Dame Margaret Hodge:** Can I ask something wicked? Can the witnesses provide written answers to my questions?

**The Chair:** They can indeed.

**Mike Miller:** I am very happy to.

**Angela Foyle:** Could we possibly have your question in writing, just to remind us?

**The Chair:** We will arrange for the questions to be delivered to you in a written format and additionally distributed.

### Examination of Witness

*Peter Swabey gave evidence.*

2.21 pm

**The Chair:** We will now hear oral evidence from Peter Swabey of the Chartered Governance Institute UK & Ireland. I hope I have pronounced your name correctly.

**Peter Swabey:** It is pronounced "sway-bee", but that is fine. I am used to all sorts of things.

**Q228 The Chair:** Thank you very much. We have until 2.50 pm for Members to ask questions. Could the witness please introduce themselves for the record?

**Peter Swabey:** I am Peter Swabey, and I am the policy and research director at the Chartered Governance Institute UK & Ireland. The institute is the professional body for people who work in governance, which includes company secretaries and governance professionals in all sectors.

**Q229 Seema Malhotra (Feltham and Heston) (Lab/Co-op):** Thank you very much, Mr Swabey, for coming to give evidence. Could you say a little about what you do in relation to issues around economic crime? What is the view of your members about what more needs to be done and whether there is enough going on in the Bill? Do you have two or three things that you think need to be improved?

**Peter Swabey:** The institute and its members look at governance. Effectively, they are the people who are responsible for filing documents at Companies House and for advising boards on good governance. In that sense, they are perhaps less directly involved in economic crime than some of the other bodies you are hearing from.

From our perspective, the Bill is a really good effort. While I was sitting at the back, somebody said that it was regarded as a starter for 10. I think the Bill is a really good start on a lot of things that a lot of people have been thinking that Companies House should have been doing all this time—indeed, many people thought Companies House was doing it all this time, but it has not had the powers to do so. From that perspective, giving Companies House some of those powers is a really big step forward. There are a few things that I would perhaps have done differently, but that is in the realm of detail.

**Q230 Seema Malhotra:** What about gaps?

**Peter Swabey:** The big gap, from my perspective, is around the role of the company secretary or governance professional in the Bill. We were just hearing a bit about the arrangements for who is allowed to deliver documents for the authorised corporate services professionals. In most companies, it would be the company secretary who takes responsibility and ownership for doing that. That is something that we would like to see more specifically included in the Bill. The Government's intention may be to include that in the regulations that the Secretary of State has the power to make. That is fine—that is regulations—but I would much rather see it in the Bill and, ultimately, the Act.

**Q231 Seema Malhotra:** To be a bit more specific, what more do you suggest should be in the Bill?

**Peter Swabey:** For me, it should reference the role of the company secretary. I have a slightly wider issue than that. The Companies Act 2006 got rid of the requirement for a company secretary in all companies. That was deregulatory—that was fine—but we now rely much more on the reporting that companies do and the filings that companies make, so I believe there should be a requirement for a company secretary, not just in public companies, as there is now, but in larger private companies that also have to meet some of these requirements.

**Q232 Alison Thewliss:** We heard earlier about some of the deficiencies in the way that documents are delivered and uploaded to the Companies House website, and how they can be used thereafter. Are there practical improvements that could be made to improve that situation, both at your end of the process, in the filing, and for the use of those documents at the other end of the process?

**Peter Swabey:** Yes, I think there are. We have regular engagement with Companies House and that is one of the things that it is seeking to tackle already, but will also seek to tackle through the powers and resources that it will hopefully get as a result of the Bill. It would be great if everything that has to be filed at Companies House can be filed electronically. There are still a number of things that cannot be. Again, that may be changed as a result of the changes that Companies House are making to their system but, as we stand at the moment, there are things that cannot be filed electronically.

In terms of use, there is a question that companies sometimes get feedback on from shareholders, which is on the availability of information, particularly about retail shareholders, and particularly for those companies that have large registers of members. Individuals on this Committee, or me, or whoever—their name and address might be at Companies House in respect of a holding of 100 shares in a company. If it is a big public company with millions and millions of shares, that is probably not that helpful. There are people who buy copies of the register for commercial purposes. It would be quite useful to tighten that up.

**Q233 Alison Thewliss:** We have heard an awful lot about deficiencies in the register in terms of the information that is on there and the practical difficulties that that causes for companies who wish to interrogate the information for their own due diligence. Is that an issue you have come across?

**Peter Swabey:** Yes, I think it is. It is an issue in a couple of ways. We just heard about the challenges in correcting deficient information. There are a number of plcs that have reported that their registered office address has been used for companies of whom they have never heard. If you are a plc with a large number of subsidiary companies, that could quite easily be overlooked by people. As somebody said in the last session, that is then used to give credibility to the potentially fraudulent company that is being set up. Being able to fix that more quickly is certainly an advantage.

**Q234 James Daly:** One of the things we have talked about with every witness—you will probably give a similar answer, Mr Swabey—is that we all want to see Companies House resourced to be able to carry out the requirements in the Bill. One witness this morning made reference to the sheer volume of companies and legal entities that are registered at Companies House on a daily basis. If one of the consequences of the Bill is that registration at Companies House takes longer because people have to go through the regulations and comply with other duties, is there any consequence to that?

**Peter Swabey:** I think it makes it a little more difficult for some people. I am a company secretary, so I would argue that you simply have to plan it all a bit better, and perhaps think about some of that a little more in advance. It will mean that some corporate transactions that you can currently deal with very quickly by simply having a meeting in a room and agreeing that so-and-so and so-and-so are the new directors will now have to go through a process. We are all hoping that, as promised, Companies House will manage the verification process for new directors expeditiously so that that will not hold things up unduly, but it is an additional factor to bear in mind.

**Q235 James Daly:** In layman's terms, and very briefly, if I want to register a legal entity and I employ you or somebody else to do that, what information is submitted to Companies House?

**Peter Swabey:** You have to name the directors. You have to give some sort of evidence that the directors are real people who you know, so some piece of personal information about them. That might be their eye colour or their national insurance number. Nobody actually checks that, by the way. You just have to fill the box in. You have to have a registered address for the company and a few other details, but it is a relatively simple process.

**Q236 James Daly:** So such a process—light-touch regulation at its finest—is certainly open to fraudulent activities.

**Peter Swabey:** I think it is fair to say that at the moment it is nothing like as secure as any of us would like it to be, and the Bill is a big step forward in tightening that up. I would still like to see it go further in some ways.

**Q237 Dame Margaret Hodge:** It is the beneficial ownership that is revealed to Companies House, not necessarily even all the directors, as I understand it. The way you are talking, you obviously deal with big companies. The whole purpose, which I think we all share across

the room, is that we want SMEs and the growth of new companies. The idea that every SME will have a company secretary is not really a viable alternative. That means it is really important that we can have faith in the company service providers, who are the people who check the data. Given the way the Bill is constructed, do you think you would have such faith, in particular given all we know from the Panama leaks onwards?

**Peter Swabey:** It is really important to make sure that the hoops through which those authorised company service providers go before they become authorised are significant, to make sure that we can have confidence in that.

**Q238 Dame Margaret Hodge:** What would that entail?

**Peter Swabey:** That would entail detailed verification of who people were, of who the ownership was and how that was structured and, effectively, Companies House having a bar to doing that. Where I would take issue slightly with the premise of your question is when you talked about SMEs not needing or not having space for a company secretary; most of them have an accountant and all sorts of other things. It does not have to be a full-time role; someone can be doing it part time, but what is important is that someone who knows what they are doing is looking after those issues.

**Q239 Dame Margaret Hodge:** Do you know how company service providers are regulated and supervised?

**Peter Swabey:** No, it is not something that our members—

**Q240 Dame Margaret Hodge:** They are supposedly regulated and supervised by HMRC. Previous witnesses talked about OPBAS, which in its most recent report said that 81% of those supervisory bodies did not have a proper risk-based approach to ensure that those people were lawyers, accountants, bankers or whatever, that they were legitimate people not colluding in or facilitating economic crime. What do you have to say about all that? Basically, supervision is in a mess. HMRC does nothing to supervise company service providers. What is your view on that?

**Peter Swabey:** I cannot help you much with that, because we are not a supervisory body in that sense.

**Q241 Dame Margaret Hodge:** You give advice on what makes good supervision.

**Peter Swabey:** We give advice on what is good governance for organisations, not on the supervisory role.

**Q242 Liam Byrne:** I want to pursue that point for a moment. In the interests of good governance, would it not make sense to strengthen some of the obligations on directors to include, for example, a duty to take steps to prevent corruption in their organisations? We have similar measures on corruption; we do not have similar measures on economic crime and fraud.

**Peter Swabey:** You have the directors' duties under section 171 of the Companies Act and so on. Those are there, but it is difficult to identify exactly how those directors' duties can be pursued against any defaulting director. For me, that is one of the challenges. Were you



to introduce something extra on that, that would be a solution, but again you would need to look at how that could actually be enforced.

**Q243 Tom Tugendhat:** It is nice to see you, Mr Swabey. May I ask specifically about the governance aspect, which is your area? Accountability is fundamental to governance. You cannot hold people to account for things that they are not responsible for, or likewise the reverse. Will you touch a little on how you see that improving—not just the accountability in financial transparency, and all the anti-money laundering and various other aspects we have spoken about, but the ability to hold companies to account for other governance areas, whether those are corporate social responsibility, clean-up, environmental or many others?

**Peter Swabey:** The Bill deals with some very specific issues, which are not necessarily those. I think that the Bill would need to be broadened significantly were it going to get into things like sustainability, corporate social responsibility and so on.

**Q244 Tom Tugendhat:** You do not think that cleaning up Companies House, making people accountable, and understanding who they are and who knows what are important for governance?

**Peter Swabey:** No, I think that is very important for governance. What I was saying was that you were then talking about some of the other issues, such as corporate social responsibility, which are probably outwith the scope of the Bill as it stands.

**Q245 Tom Tugendhat:** I do not agree; let me push back on that. One of the things we have a problem with in the community that I am lucky enough to represent is dumping waste—fly-tipping—and it so happens that occasionally, it is done by companies that then disappear. I think the Bill helps to address that. Do you not?

**Peter Swabey:** Absolutely, yes.

**Q246 Tom Tugendhat:** So it does have some environmental effect.

**Peter Swabey:** Yes, you are right. I had not thought of that aspect of it—I was thinking in terms of the reporting that companies do—but yes, in terms of tracking down defaulting companies, I think it will help you.

**Q247 Tom Tugendhat:** Would you agree, then, that it may also support other areas of governance: the ability to oversee, for example, different areas of employment, human trafficking or whatever it might be, and to go through companies that set up and disappear far too quickly?

**Peter Swabey:** Yes, absolutely. Removing the ability for companies to go bust one day and reappear the next with a very similar name and very similar directors, but without all those tedious debts that they used to have, is one of the really important issues.

**Tom Tugendhat:** Exactly—phoenixing.

**Peter Swabey:** I think that is really important.

**Q248 Tom Tugendhat:** I am very glad you are supportive of that. I think this makes a huge difference; as you rightly say, it is one step on the journey, but it is still a huge difference from where we are.

I also wondered if you could talk a little bit about whether you think it is going to help with economic crime. Clearly, although I am not a BEIS Minister, one of my responsibilities is fraud. The presence and disappearance of corporate entities is, I am afraid, something that has caused more than its fair share of fraud. How do you think the Bill might be able to help with that?

**Peter Swabey:** I think the Bill will help with that by making it possible to have greater confidence in the directors who are responsible for those companies actually being real people. We were talking a little while ago about the ease with which you can set up a company, and the limited verification of directors that goes on. We have a verification process in the Bill that will help to ensure that those people are actually the people you believe them to be, and that there is an address where you can get hold of them and, particularly, where the forces of law enforcement can get hold of them should they need to. That is a real strength.

**Tom Tugendhat:** I am very grateful, not only for your evidence today, but for the work you do and the oversight you bring. It does make a huge difference, and I am very grateful indeed for it. Thank you.

**The Chair:** Thank you very much. If there are no further questions from Members, we will thank the witness for his evidence and move on to the next panel. Peter, thank you very much for your time; we greatly appreciate it.

I am going to suspend the sitting, because we have a little bit of time before the next evidence session, and the witness is not in the waiting room yet because she is giving evidence via Zoom.

2.38 pm

*Sitting suspended.*

### Examination of Witness

*Catherine Belton gave evidence.*

2.41 pm

**The Chair:** I restart the sitting with our sixth panel. We will now hear oral evidence from Catherine Belton, journalist and author. Catherine is appearing via Zoom. We have until 3.10 pm. Catherine, could you please introduce yourself for the record?

**Catherine Belton:** Hi, I am Catherine Belton, author of “Putin’s People”. I am a reporter with *The Washington Post*.

**Q249 Seema Malhotra:** Thank you very much, Ms Belton, for joining us to give evidence today, and thank you for all you do as well. In terms of the scale of economic crime and how much needs to happen nationally and internationally, what gaps do you see in the legislation as it currently stands that stop the UK from being able to tackle economic crime on the scale that we need to?

**Catherine Belton:** There is a very simple answer to this, though I should basically preface all my answers by saying that I am not an expert on the Bill like some of my colleagues, such as Oliver Bullough. I have not studied it deeply, but what I can speak to is the urgency

of these reforms, because of the threat posed to our national security. There is also a dire need to push through the anti-SLAPP legislation.

All these deep-pocketed oligarchs are essentially taking advantage of our system and are able to outspend not just journalists but financial watchdogs acting in the public interest. They are outspent and intimidated out of pursuing any real investigation into financial misconduct. They know from the outset that they may lose.

You only have to look at the example of the Serious Fraud Office and its battle against ENRC, which was once listed on the London stock exchange, then delisted and owned by a trio of Kazakh fraudsters essentially. The amount they spent annually on legal cases in the UK was £89 million, which is over the annual budget of the Serious Fraud Office. Though the Bill is of dire importance, without greater spending and funding for our public watchdogs—the National Crime Agency, Serious Fraud Office and other entities—we are going to be stymied from the get-go.

**Q250 Alison Thewliss:** Thank you very much, Catherine. Could you tell us a bit more about why the UK has become the destination of choice for people wishing to use corporate structures for money laundering and other purposes? Could you tell us about the impact that has internationally?

**Catherine Belton:** The UK, like many other countries, has welcomed capital from places such as Russia with open arms for the past 20 years. It is certainly a place that Russian oligarchs have flocked to, not only because they want to be part of the UK establishment but because they have clearly taken advantage of our lax legislation and regulation compared with the US, for instance. If you are listing a company in the US you face the Sarbanes-Oxley regulations, and you have committed a crime if you are found to have lied on your financial disclosures. Here, there seem to be so many loopholes; people can get away with everything.

We only have to look at our Companies House institution to see that there is very little scrutiny of filings that people are making. We have all heard the obvious examples of people not disclosing anything. I think you are a great expert in the use of limited liability partnerships by Russian money launderers. UK LLPs have seen tens of billions of dollars' worth of illicit Russian cash move through them over the last decade or so.

Most of those money laundering schemes have been overseen by the Federal Security Service of the Russian Federation. It has a money laundering department called Department K, which has overseen all those schemes and has had an involvement in each and every one of them. I am told by security officials in Moldova—where one scheme used LLPs to move tens of billions of dollars of cash into the UK—that essentially the schemes are used not just by Russians seeking to move money to evade customs and tax, but by the Russian Federal Security Service itself, because it sees the greater flows of cash as cover for it to move its strategic cash into our jurisdiction.

I must again point to the need for SLAPP legislation and ask whether that could, or should, be attached to the economic crime Bill as it stands. If we do not enable journalists and financial watchdogs to look at those entities without fear of getting crushed by enormous

lawsuits that will cost more than anyone's budget allows, then we are going to be open to this type of abuse of our system forever. It was only July when Dominic Raab, the Justice Secretary, finally and wonderfully—it seemed like a miracle at the time—forwarded that anti-SLAPP legislation. It was going to allow for an early dismissal mechanism for cases that were clearly an abuse of the law, and aimed at intimidating journalists and financial watchdogs out of reporting matters of public interest—whether financial misconduct or something else. There has been a great deal of turmoil in Government since then, but we are seeing that SLAPP cases have very much not gone away.

The esteemed Chatham House think-tank recently had to remove the mere mention of a Tory donor, who had previously been convicted of money laundering, from a report on the abuses of the UK system by kleptocrats. The past of our Tory donors is something that we should know about, yet Chatham House had to erase its mention of that donor from its report. Staff looked into how much it was going to cost to defend, even though it was clearly public interest reporting. There was not really much to dispute about it, but they found it was going to cost them £500,000 before the case even got to trial, which means there is something so deeply wrong with our system, and we cannot even begin to combat any of these issues without having these anti-SLAPP measures in place. That is not just for journalists but for the Serious Fraud Office and for other public interest watchdogs.

**Q251 Alison Thewliss:** Thank you; that is very helpful. I just wanted to ask about something else. Bill Browder had suggested a sort of “adverse costs” amendment, to prevent law enforcement companies from not being able to afford to take a case against these people. Would you support that?

**Catherine Belton:** Yes, for sure. Obviously, the companies pursuing these abusive cases should face having to carry the full cost of the case. I have a colleague at the Foreign Policy Centre, Susan Coughtrie, and she and Charlie Holt of English PEN have been working on a new Bill for this SLAPP reform, and I very much recommend that you speak to them as well. That Bill would provide even tougher requirements for cases to really show a likelihood of success.

What the Ministry of Justice proposed was like a three-step set of criteria for judges deciding whether a SLAPP case is a SLAPP case, and whether it should be dismissed before the costs racked up too highly. One of those criteria was whether the case being pursued had a realistic chance of success and it is very clear that this type of criterion needs to be toughened up. I certainly recommend that you speak to Susan Coughtrie at the Foreign Policy Centre about ways in which to do that.

However, I guess that my question to you would be: “Do you think there is a significant possibility that the anti-SLAPP Bill could be attached to the Economic Crime Bill? Is that something that will this speed up?” It is so vitally needed—more than ever. I mean, it is completely—

**The Chair:** Catherine, I am really sorry to interrupt you—

**Alison Thewliss:** I think my colleagues and I are interested in hearing this.

**The Chair:** It is a very important question, but unfortunately we have to stick to Members asking witnesses questions. However, I am sure that you can put those questions to our esteemed Members in other forums.

I will move on to James Daly now, because there are a couple of other Members who are keen to ask questions.

**Q252 James Daly:** Catherine, thank you very much for giving evidence; what you have said is very helpful. You have investigated these matters and looked into them. You have talked about Companies House, which is a central part of this legislation, and we have talked with other witnesses about what needs to be done there.

However, I just wanted to ask about money laundering. To make a very straightforward point, you obviously need a bank. If you have got a fake financial institution, or a legal entity set up for criminal purposes, you need a means of transferring money, either out of that body or into it. Could you talk about any thoughts or experience that you have, including regarding anything that you have investigated, that touches on that point and on what we can perhaps do to address it?

**Catherine Belton:** I think it goes back to this issue of LLPs and how these limited liability partnerships have really become, over the last two decades, the vehicle of choice for Russian money laundering schemes in particular—at least the ones that I have studied.

There was the “Moldovan laundromat”, which used LLPs based in the UK, including in Scotland, to move \$14 billion out of Russia in illicit cash in the space of four years. That was part of a much bigger process through Danske Bank; I think the total volume of illicit Russian cash coming through Danske Bank was in the realm of \$200 billion in just over a decade. That is obviously enormous amounts of cash.

However, it just goes down to the weakness of LLPs and the system that we have created, in which you can have companies established that do not even need to have any real business in the UK; they do not pay taxes here and therefore they did not have to file any accounts. They were not really having to file any beneficial ownership, either. That really means that there has been a huge gap in our legislation. Obviously, the Companies House reform will hopefully provide for more disclosure of beneficial ownership, but there are still so many ways for people to get around it, because Companies House really does not have proper funding to check whether beneficial ownership is being reported properly.

Obviously, the banking system is now under much greater pressure to investigate the source of funds, but while the banking system has become a much more complicated place for people to move illicit money through, the same demands are not placed on hedge funds or private equity funds. There are much less stringent requirements on those types of entities to disclose who their clients are and where the money is coming from. We only have to look at who the major backers of Brexit were. Hedge funds and private equity funds were major donors during the Brexit referendum, and we really had no clue where they were getting the money from.

**The Chair:** Catherine, we really want to hear from you and make sure that all our other members get to ask questions. We have two other members after James

who want to ask questions, so please keep your responses as brief as possible, with all the information that is possible to get across.

**Q253 James Daly:** On top of all the very important points that you have made, I think one of the things that I am left with from your evidence, Catherine, is that we have to ensure that the information-sharing links between Companies House and financial institutions are strengthened. Companies House was described as being a passive organisation at the moment, but what you are saying is that that has to change and there has to be a close link with financial institutions, so that these relationships are attacked throughout the criminal justice system. Am I right?

**Catherine Belton:** Yes, that is exactly right.

**The Chair:** Thank you very much.

**Q254 Liam Byrne:** Catherine, I think I speak for all of us in saluting you for the courage you have shown in revealing what you have revealed. How important was it to President Putin that people around him—his friends and allies—were able to move money so easily out of Russia through UK corporate structures?

**Catherine Belton:** I think this has become a key way in which the Putin regime is able to extend its soft power and influence and undermine our democracies. That is very clear, because you can have vast flows of pretty much untraceable money, especially in the case of LLPs. Once it goes through a UK LLP, no one has any clue where any of that cash has gone. Vladimir Putin believes that the weakness of the west lies in our incessant drive for profits and the belief that the more Russian cash there is in the UK, the more Russia will have to follow our corporate governance standards.

Unfortunately, there has been a great lack of corporate governance standards, which has allowed our system to be corrupted. It has really laid bare how powerless some of our oversight bodies and enforcement agencies are. You only have to look at the National Crime Agency’s investigation into the source of the donation that Arron Banks gave to the Brexit campaign to see just how feeble our institutions are, at a time when we really need to be empowering them. When the NCA had to look for the source of the £8 million, it could not go any further than the Isle of Man company co-owned by Arron Banks. We do not know where the money came from.

**Q255 Liam Byrne:** Let me just crystallise this. Are you saying that allies of President Putin used UK corporate structures to move money out of Russia?

**Catherine Belton:** Yes, I am, of course. Obviously, that has an agenda, especially when the UK Parliament’s own Intelligence and Security Committee has pointed out the very close links between Russian business, the Russian state and Russian intelligence. Basically, Russian businesses very often have to act as arms of the Kremlin or follow Kremlin orders. Russian businessmen have to follow Kremlin orders in order to hold on to their wealth. It is not just money that is coming into our system and making everyone rich; it is money with an agenda, and that agenda can be to undermine our democracy.

**Q256 Liam Byrne:** I do not know whether you can see it, but the Bill is called the Economic Crime and Corporate Transparency Bill. How credible do you think corporate transparency in this country will be if we do not amend the Bill to include the protection of journalists like you, who have worked so hard and bravely to reveal the truth only to face legal action in English courts that sought to silence you?

**Catherine Belton:** I think it will be half-baked if it does not include that amendment. Obviously, it is great to have better laws, but when financial watchdogs, public oversight bodies and journalists are still unable to cast a light on some of the financial transactions of the super-rich, from fear of these crushing lawsuits, it means that you have a system that is only half working. Law enforcement relies, and has relied in the past, to a great degree on journalistic investigations, including for instance by the OCCRP; its reporting has led to some very important cases.

**Q257 Dame Margaret Hodge:** I will ask one question, Catherine, because many have been asked. I join with others who have met you, or read your book, and are full of admiration for your courage. For those who have not, and do not know your story, will you quickly tell us what happened to you in relation to the SLAPPs, and why it is important that we try to tackle those in the Bill? You can do it very briefly; I am conscious of time.

**Catherine Belton:** I wrote a book called “Putin’s People”, which was about Putin’s rise to power, the continued role of the KGB and how Russia was using oligarchs—Russian businessmen—to further Russian influence in the world. I was writing precisely about how many of the oligarchs, such as Roman Abramovich, were essentially forced to act as arms of the Kremlin, because otherwise their wealth could be jeopardised. Putin’s hold on power was such that anybody who did not obey his orders could face jail or the seizure of their companies.

Abramovich was very upset when I suggested in the book, quoting three former associates, that he had acquired Chelsea football club on Putin’s orders, in order to acquire soft power and influence in the UK. That, I believe, was public interest reporting. The allegation had been put to his spokesperson, and the response was in the book. He announced that he was suing me personally and HarperCollins—a statement that was swiftly followed by lawsuits from three other Russian billionaires, and then one from the Kremlin oil company Rosneft. The cases were very difficult to grapple with, because there were so many of them all at the same time.

**Q258 Dame Margaret Hodge:** How many were there altogether?

**Catherine Belton:** Five cases. It cost my publisher £1.5 million to deal with the cases, and they got only to the preliminary hearing stage before they were either settled or withdrawn. Rosneft’s case had to be withdrawn completely because there was no basis for any of its claims. The judge found that one of Abramovich’s claims was completely exaggerated, which allowed us to make minor amendments and avoid the enormous cost of having to continue to fight. Even though we believed that we had a very strong public interest case, our lawyers told us that it would have cost, at a minimum, £2.5 million to continue to defend the great deal of

reporting that had gone into my book. It would have taken over a year. Abramovich had twice filed the exact same claim simultaneously in Australia as well, even though he had no business there, and therefore no reputation to protect.

Nineteen media rights organisations said that the cases against “Putin’s People” and my publisher, HarperCollins, bore all the hallmarks of a SLAPP case—that is, they were designed to intimidate the publisher, and they were abuse of process, particularly in the case of Abramovich.

Yes, the judge found that one of his claims was exaggerated, which, according to the Ministry of Justice’s proposal for the anti-SLAPP law, is one of the criteria under which SLAPP cases should be thrown out of court at an early stage. It introduced three criteria. One was that meanings were being inflated or exaggerated by a claimant; that was clearly the case for most of the oligarchs pursuing me. In Rosneft’s case, the judge found that what I had written about Rosneft, the Kremlin oil company, was not defamatory at all, yet my publisher had to spend hundreds of thousands of pounds just to get to the stage of a preliminary hearing, to get it thrown out of court. The proceedings demonstrated how many other UK media organisations had been censoring themselves because they did not want to deal with those enormously costly lawsuits—

**The Chair:** Catherine, I am really sorry, but I have two more people waiting to ask questions and there is only five minutes. I am so sorry to curtail you.

**Q259 Seema Malhotra:** I want to come back on how we can take practical steps to tackle this. I think you mentioned the Foreign Policy Centre. Are there more specific measures we could take in the Bill?

**Catherine Belton:** In July, the MOJ forwarded anti-SLAPP legislation. Unfortunately, because of the chaos of the last couple of months, that has not really gone anywhere. That legislation could be attached, as is, to the Economic Crime and Corporate Transparency Bill. The Bill as drafted slightly toughens the criteria for claimants; they have to prove that there is a significant likelihood that they have a real claim. You should speak to the FPC to weigh whether it is worth pursuing their draft laws as a better model, or whether it is enough to use the one already drafted by the MOJ. They had extensive consultations on that, but now it looks like all the momentum has gone. It is astonishing to me that this is not being pursued as a priority, given the situation we are in. It is absolutely vital that we shine light on individuals who may be operating on behalf of Putin to undermine western support for Ukraine, and to undermine our resolve this winter as we face enormous cost of living hikes. It is really important.

**Q260 Tom Tugendhat:** Catherine, thank you very much for giving evidence to what must be your 20th or 30th Committee in the last 12 months. I am very grateful for the work you do. Could you tell us how you think the reforms to Companies House will improve oversight of listed finance? As you say, it is a building block.

**Catherine Belton:** You say that this is my 20th or 30th time giving evidence, but unfortunately, it is not. I have only spoken on SLAPPs before. I will leave the realm of Companies House reforms to people who are more expert on it than me.

**Tom Tugendhat:** Okay, thank you.

**The Chair:** If there are no further questions from Members, thank you very much, Catherine, for taking the time to speak to us.

### Examination of Witness

*Professor Jason Sharman gave evidence.*

3.9 pm

**The Chair:** Last but not least, we will hear oral evidence from Professor Jason Sharman, professor of politics at the University of Cambridge. We have until 3.30 pm. Professor Sharman, could you introduce yourself and give us your background for the record?

**Professor Jason Sharman:** My name is Jason Sharman and I am a professor of international relations at Cambridge University. I study international money laundering and corruption, often by impersonating would-be corrupt officials, money launderers and terrorist financiers.

**Q261 Seema Malhotra:** Thank you for coming to give evidence. Does the Bill go far enough in reducing the attractiveness of the UK as a destination for economic crime? You obviously have an international perspective, and I am keen to know whether you are seeing new behaviours that it would be useful for us to understand. Are the measures sufficient for tackling the challenge we face?

**Professor Jason Sharman:** I would not want to make the perfect the enemy of the good. The legislation is a positive step, but I watched the earlier testimony, and I agree with people who say that the proof of the pudding is in the enforcement. I study politics and international relations; I am less interested in the rules on the books and more interested in what difference they make, if any. If you are a criminal—a money launderer—you do not have to be very original. You do not have to try new things. Things that worked 10, 20 or 30 years ago still work today, so there is no need to change too much.

**Q262 Seema Malhotra:** On the attractiveness of the UK, you have mentioned enforcement, but from your research in this area, what would you highlight as being the weakest points in enforcement?

**Professor Jason Sharman:** The UK has a combination of a good reputation and lax enforcement. From the point of view of a launderer, that is a bonus: you get double. You get the appearance of probity—other people have mentioned the use of UK companies to open foreign bank accounts—with not much scrutiny and even less enforcement. Transparency is all good and well, but more information by itself does not lead to stronger action against money launderers or corrupt officials.

**Q263 Alison Thewliss:** There has been a lot of discussion about anti-money laundering supervision, and the effectiveness of the agencies that the Government expect to carry out those duties. Are they the weakest link in the chain, and could more be done to tighten up that anti-money laundering supervision, to shut the door, and to stop these companies from beginning their business here?

**Professor Jason Sharman:** There is certainly more that could be done. Some of it has been mentioned by other people; more money is the obvious one, but that may be necessary but not sufficient. In some ways, the career structure and career incentives for people who work in these agencies needs reviewing: if they start an investigation and it goes well, they get a small bonus to their career. If they start an investigation and it goes badly, they get a very big, indelible black mark, so in terms of career progression, it is safer for them not to investigate things.

One of the main sources of support has not been fully used: there are a lot of people outside the formal enforcement agencies who are very keen to help in this cause, including journalists and those in non-governmental organisations, as well as in the for-profit sector. That potential has not been tapped, so there are certainly things that the Government and the state could and should do, particularly in terms of regulatory agencies; but the area where I think it is possible to make most progress is probably beyond that.

**Q264 Alison Thewliss:** That makes sense. Certainly, there have been lots of times when I have been in rooms with a group of people who have solutions to tackle this, and Government should be doing more to make sure that they are listened to. Could I ask about the abuse of limited partnerships, secrecy jurisdictions and things like that? Could more be done to tighten up those rules? It feels as though there is an awful lot of abuse of those corporate structures, and very little scrutiny.

**Professor Jason Sharman:** It depends what you mean by “secrecy jurisdiction”. A person who has studied this for a long time said this: “People are not surprised when I tell them that the most important tax haven in the world is an island. People are surprised when they hear that the name of that island is Manhattan. People are not surprised to hear that the second largest tax haven is a city on an island. The city is London, and the island is Great Britain.”

We recently formed a shell company with co-authors Michael Findley and Dan Nielson in the United States. It took 137 seconds to incorporate that company. Here, it would probably take you a little longer—it might take you as long as 10 minutes—but you do not really have to show ID in any case, so the barriers are pretty low. If you do not want to use anything as fancy as a limited liability partnership, you can just use a plain old company, and that works pretty well for holding a bank account overseas.

**Q265 Alison Thewliss:** The Government have talked up the benefits of being able to incorporate companies fast. Do you think there needs to be a bit more grit in the system to allow for scrutiny, rather than speed?

**Professor Jason Sharman:** I think so. For me, it is telling that in jurisdictions for which incorporations are their lifeblood, such as the British Virgin Islands, it is much slower to incorporate. It takes close to two weeks to incorporate in the British Virgin Islands, and it takes about \$1,000. The British Virgin Islands get half of their Government revenue from incorporation fees. They have a real interest in making sure their company registry works well. No one likes red tape and filling out forms,

but the idea that you might have to spend a couple of hours instead of 15 minutes, or £50 instead of £12 is, to me, not unreasonable.

**Q266 James Daly:** Thank you for that, Jason. You have given an example already, but I was wondering about the international context. We have Companies House. Can you give me an example of the equivalent in European countries or America and the difference you perceive between our Companies House and theirs?

**Professor Jason Sharman:** I feel sorry for British Companies House, because it has been given a lot of work without the resources to carry it out. The mismatch between what is expected of an institution and the resources it has to achieve those ends is greater. Company registries are passive, archival organisations.

**Q267 James Daly:** That was my point, really. We have accepted the point about resources, but Companies House was described by one of the directors we heard from as a passive organisation in respect of these issues. I just wondered whether in other jurisdictions, say France or Germany—and I don't know the answer to this question—they have that view of their equivalents, or do they view theirs as a proactive organisation that has to investigate the things we are talking about?

**Professor Jason Sharman:** No. The UK is typical.

**Q268 James Daly:** Forgive my naivety, but it usually takes a company or a legal entity about 15 minutes to register with Companies House. The intention behind that is for money laundering purposes. I am assuming—forgive me if I am wrong—that when Fred Bloggs and Co. was set up, the people who did so had to then open a bank account in the name of Fred Bloggs and Co. in order to transfer the money to this jurisdiction. Is that correct?

**Professor Jason Sharman:** Yes and no. Generally, yes, but if you want to own property, you never have to touch the banking system. If you want to own a yacht, you can set up the shell company and earn, just like that. You can break sanctions and own property with a shell company, even without a bank account.

**Q269 James Daly:** Just in general, using the banks as an example, should we be looking to put in the Bill requirements for them to play their part in the partnership to tackle money laundering?

**Professor Jason Sharman:** Again, banks have had these requirements to establish the beneficial owners for a while. I think this is good, but it is the enforcement that is key there.

**Q270 Dame Margaret Hodge:** Following on from that, I completely take the point about enforcement, but would a failure to prevent power make any difference, assuming it was enforced?

**Professor Jason Sharman:** I probably differ from many of the other people who have spoken in that I am not a fan of failure to prevent. I think that the goal of these laws is to make life hard for bad people without making life hard for good people at the same time. To the extent that you have really onerous regulation or weaken the presumption of innocence, that is something of an own goal or collateral damage. Before you put people in jail, you should be pretty serious about it. There should be a mental intention there—a mens rea.

I am not really comfortable with the strict liability. There is strict liability in anti-bribery, which means I have to do pointless anti-bribery training every year for the University of Cambridge. It does not do me any good and it does not stop corruption, but it is one of the things that Cambridge feels it has to do because of the strict liability. Again, it is a cost to society that is not included in legislation or in regulatory impact assessments.

**Q271 Dame Margaret Hodge:** Because time is limited, I will not engage with that, but it is a really interesting view. I want to quote something to you that I think you said—apologies if I have got it wrong. You said:

“These host states now have a duty to block, trace, freeze, and seize these illicit funds and hand them back to the countries from which they were stolen.”

I do not know who you were referring to there, but, in our case, with the illicit Russian assets frozen in the UK, how do you suggest we seize those funds and how can we repurpose them?

**Professor Jason Sharman:** It depends. With the Russian assets that are criminal assets, eventually you need to go to a court of law to do that—

**Q272 Dame Margaret Hodge:** That is very hard—you know that.

**Professor Jason Sharman:** Indeed. That is hopefully something that the Bill will do something to correct. It may be different if you are talking about sanctions and the money that is currently frozen. It would depend. If we are talking about criminal money, there is an anti-money laundering process of confiscation—civil and criminal.

**Q273 Dame Margaret Hodge:** Sanctions.

**Professor Jason Sharman:** Sanctions. I think you cannot. There is proper process. As I understand it, unless there is a formal state of war that obtains between two states, on what basis are you going to take away—

**Q274 Dame Margaret Hodge:** That is the point. Did I quote you incorrectly, then?

**Professor Jason Sharman:** No, you quoted me correctly, but that is money that was stolen in one place and moved to another place, and you have to prove that it was stolen. That is different from saying, “You are a Russian oligarch and we are going to freeze your funds.” It is very different.

**Q275 Dame Margaret Hodge:** I accept it is different from a Russian oligarch, but according to Bill Browder we have something like £30 billion of Russian state assets sitting frozen at the moment. Of course, it needs to change. I totally accept that we are not at war with Russia, so those powers do not exist. Do you think it is appropriate to introduce any new powers that would enable us to seize as well as freeze those assets and then repurpose them for the reconstruction in Ukraine? There is certainly a desire across the political divide here in the UK to try to achieve something along those lines. Do you think that is possible?

**Professor Jason Sharman:** I would not shed a tear if Russian oligarchs lost their assets.

**Q276 Dame Margaret Hodge:** This is the state I am talking about.

**Professor Jason Sharman:** Okay, for the Russian state. In that case, I think that would be wonderful. I know Browder mentioned earlier central bank assets. But, again, there is a precedent here. To what extent would foreign Governments put money overseas? There is a lot of concentration on Russia as a corrupt regime, which I think it is, but it has plenty of company, many of which have assets in the UK.

**Q277 Dame Margaret Hodge:** The Italians appear to have conquered this—I do not know if you know about that—through the stuff they have done on the mafia. The Canadians appear to have introduced a new power that might take them there. The Americans are trying to think about it. The Europeans are. There is quite a lot of thinking. I am just picking your brain. Is there anything you have done in this field that could add value as we try to think about it?

**Professor Jason Sharman:** I think not, and I think that the British Government, at least when it comes to sanctioning oligarch assets, which I realise are different from state assets, are in a bind. I think they will have to return those assets to the oligarchs and that they may have to pay damages to the oligarchs. That would be a terrible injustice, but I really worry about what the end game for sanctions is.

**Q278 Liam Byrne:** Jason, you are a political scientist. Why are we in this position where we have such weakness? Why has our political system failed to address these weaknesses for so long?

**Professor Jason Sharman:** This is probably a typical social science answer, but there are quite a few reasons that make it difficult, because no one corrective, in and of itself, is going to fix the situation. There have been solutions, such as the persons of significant control registry, the unexplained wealth orders and so on, where it has been like, “This is the thing that will unlock the problem”. But instead it is a combination. First off, it is appropriately difficult to take away people’s property. Secondly, the bureaucratic incentives do not favour it. You have this very risk-averse culture within law enforcement agencies. Thirdly, as I said, there is a failure to harness the incredible investigative resources that lie outside the state, in the not-for-profit sector but also in the for-profit sector.

**The Chair:** Before the right hon. Member for Birmingham, Hodge Hill asks his next question, I remind him that our line of questioning has to relate to the legislation in front of us. With his extensive parliamentary experience, I know that he will be able to do that.

**Q279 Liam Byrne:** I am grateful for those guard rails, Ms Bardell. At the moment, the Bill has a lacuna, which is any protections around safeguarding politicians from dirty money. We are not covered by suspicious activity reporting, for example. Some would argue that the £1.2 billion that has flown into British politics over the past 10 years from people with all kinds of motivations and ambitions may be one of the reasons that our political system has not acted hitherto to stop this corruption, and that should be something we fix in the Bill. What do you think about that?

**Professor Jason Sharman:** I think that, as Catherine Belton said earlier, certainly volumes of money into politics have something to do with it, but even if you could come up with a perfect solution to that problem, it may not actually make too much difference in terms of interdicting money laundering and corruption funds into this country. That is not to say it is not worth while doing, but there is this constant phase of saying, “If only we do x, we’ll really be able to fix the problem.” I think it is something where modest progress, incremental progress, is what we should expect, and we have to do lots of different things right in order to achieve that progress.

**Q280 Liam Byrne:** So it could be part of the solution.

**Professor Jason Sharman:** Yes.

**The Chair:** Thank you. I move finally to Tom Tugendhat.

**Q281 Tom Tugendhat:** Professor, thank you very much indeed. I am grateful to you for reminding us that Magna Carta guarantees private property in various ways. Various legal jurisdictions, including the United States, Italy, the European convention on human rights, European property law and, indeed, many other jurisdictions around the world have all maintained and guaranteed it, which makes this so difficult. That said, do you agree that it is important to try to find out who owns what, so that we can at least take action where we have a legal ability to do so, and does this Bill help with that?

**Professor Jason Sharman:** Yes and yes. I think this is a modest positive step, but, given the track record of legislation, I would say that it has to be implemented. That is where the problem has been heretofore, and I can possibly anticipate that it may be the problem here, too. If you say, “You have to identify yourself as the owner of a company,” and you have entries in Companies House saying, “My name is XXX XXX,” and that does not get challenged, then more information is not necessarily better if that information is junk.

**Q282 Tom Tugendhat:** No, that is true, and that is why the work being done between Companies House and the agencies is so important—to ensure that Companies House goes from being a pinboard to being a regulator and a check. That is a very important move. It is not the same as the FCA or a regulator of that kind, but at least it is beginning to verify in terms of ID and so on. How much of a difference do you think the overseas territories and Crown dependencies verifications have already made?

**Professor Jason Sharman:** I mentioned briefly that some of my research, together with Mike Findley and Dan Nielson, has been to impersonate would-be money launderers and look to set up companies in various jurisdictions. It is much harder to set up companies, and the standards are much more rigorous, in the Cayman Islands, the British Virgin Islands and the Crown dependencies than in the UK. Of the UK jurisdictions, the UK is the easiest place to set one up, so I think the UK could learn a lot from its overseas territories and Crown dependencies. I noticed with interest that a couple of the other witnesses here said the same.

**Q283 Tom Tugendhat:** It is clear that there is a huge number of changes. You will know about the work that we have done in the past on the Foreign Affairs Committee

[Tom Tugendhat]

and now in Government on trying to clean this up. This is something that, sadly, has lasted for the best part of 100 years, with no Government really making any effort to do anything about it until now. It is interesting that we are here again with a number of registrations, many of which were warned about in the 1970s, '80s, '90s, noughties and, now, the '10s and '20s. I am glad that we are doing something about it. Do you think that Companies House is going to be able to do that if it has the proper resources, or is it going to require other agencies as well?

**Professor Jason Sharman:** No, I do not think Companies House will be able to do it. Its main function is passive and archival; it is a library mainly. I think it is just not in its DNA to be otherwise. I think most of the solution for this is in the private sector. I am talking about properly regulated, supervised and audited corporate service providers. I co-authored a report 10 years ago with the World Bank called “The Puppet Masters”, and that was overwhelmingly the conclusion that we came to.

**Q284 Tom Tugendhat:** Would you say that the extra powers given to organisations such as the Solicitors Regulation Authority and its equivalent in Scotland are

important to ensure that such regulators actually do have teeth? At the moment, as you will know, the fines from both of them are very low. This would, one hopes, connect to the work that we did in 2017 or 2018—I cannot remember exactly when—for the report “Moscow’s Gold”, where the Foreign Affairs Committee highlighted the role of enablers, not just regulators.

**Professor Jason Sharman:** I completely agree. I think, even more, that HMRC, as the regulator for corporate service providers, those enablers, has been completely missing in action. If there were one bit of the public sector that I would change, repurpose or fund, it would be to get HMRC to take its duty to regulate and penalise corporate service providers seriously. It has just been completely missing in action so far.

**Tom Tugendhat:** Thank you very much.

**The Chair:** If there are no further questions from Members, I want to thank the witness for his evidence. Professor Sharman, thank you very much for taking the time to come and speak to us.

*Ordered,* That further consideration be now adjourned.  
—(Nigel Huddleston.)

3.29 pm

*Adjourned till Tuesday 1 November at twenty-five past Nine o'clock.*



**Written evidence reported to the House**

ECCTB04 Letter from Tom Tugendhat MP, Security Minister,  
Home Office, and Jackie Doyle-Price MP, Minister of State

at the Department for Business, Energy and Industrial Strategy,  
dated 24 October 2022, re: Government Amendments

ECCTB05 British Property Federation (BPF)

