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GENERAL COMMITTEES

Public Bill Committee

SANCTIONS AND ANTI-MONEY LAUNDERING BILL [*LORDS*]

Sixth Sitting

Tuesday 6 March 2018

(Afternoon)

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Saturday 10 March 2018

The Committee consisted of the following Members:

Chairs: † Dame Cheryl Gillan, † Steve McCabe

† Badenoch, Mrs Kemi *(Saffron Walden)* (Con)
† Bardell, Hannah *(Livingston)* (SNP)
† Benyon, Richard *(Newbury)* (Con)
† Chalk, Alex *(Cheltenham)* (Con)
† Courts, Robert *(Witney)* (Con)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Duffield, Rosie *(Canterbury)* (Lab)
† Duncan, Sir Alan *(Minister for Europe and the Americas)*
† Freer, Mike *(Finchley and Golders Green)* (Con)
† Glen, John *(Economic Secretary to the Treasury)*
† Goodman, Helen *(Bishop Auckland)* (Lab)
† Graham, Luke *(Ochil and South Perthshire)* (Con)
† Maclean, Rachel *(Redditch)* (Con)
† Norris, Alex *(Nottingham North)* (Lab/Co-op)
† Prentis, Victoria *(Banbury)* (Con)
† Rowley, Danielle *(Midlothian)* (Lab)
† Smith, Nick *(Blaenau Gwent)* (Lab)
† Stevens, Jo *(Cardiff Central)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)

Mike Everett, *Committee Clerk*

† attended the Committee

Public Bill Committee

Tuesday 6 March 2018

(Afternoon)

[Steve McCabe *in the Chair*]

Sanctions and Anti-Money Laundering Bill [*Lords*]

2pm

The Chair: Before we resume line-by-line consideration of the Bill, will everyone check that they have their electronic devices turned off or to silent mode? I remind Members of Mr Speaker's rule that teas and coffees are not allowed during sittings.

New Clause 1

Public registers of beneficial ownership of companies in the British overseas territories

"(1) For the purpose of preventing money laundering, the Secretary of State must provide all reasonable assistance to the governments of—

(a) Anguilla;

(b) Bermuda;

(c) the British Virgin Islands;

(d) the Cayman Islands;

(e) Montserrat; and

(f) the Turks and Caicos Islands,

to enable each of those governments to establish a publicly accessible register of the beneficial ownership of companies registered in that government's jurisdiction.

(2) No later than 1 January 2019 the Secretary of State must prepare an Order in Council in respect of any British overseas territories listed in subsection (1) that have not by that date introduced a publicly accessible register of the beneficial ownership of companies within their jurisdiction, requiring them to adopt such a register by 1 January 2020.

(3) In this section a 'publicly accessible register of beneficial ownership of companies' means a register which, in the opinion of the Secretary of State, provides information broadly equivalent to that available in accordance with the provisions of Part 21A of the Companies Act 2006 (information about people with significant control)."—*(Helen Goodman.)*

This new clause would require the Secretary of State to take steps to ensure the governments of specified British overseas territories introduce public registers of beneficial ownership of companies.

Brought up, read the First time, and motion made (this day), That the clause be read a Second time.

The Chair: I remind the Committee that with this we are considering new clause 8—*Public registers of beneficial ownership of companies in the British Crown Dependencies*—

"(1) For the purpose of preventing money laundering, the Secretary of State must consult with the authorities of governments in each Crown Dependency on establishing a publicly accessible register of the beneficial ownership of companies registered in their jurisdictions.

(2) Within 6 months of this Act being passed, and every 12 months thereafter, the Secretary of State must report to Parliament on progress within the Crown Dependencies on establishing registers as referred to in subsection (1).

(3) In this section a 'publicly accessible register of beneficial ownership of companies' means a register which, in the opinion of the Secretary of State, provides information broadly equivalent to that available in accordance with the provisions of Part 21A of the Companies Act 2006 (information about people with significant control)."

This new clause would require the Secretary of State to consult with the governments in each Crown Dependency about introducing public registers of beneficial ownership of companies in the Crown Dependencies, and to report to Parliament on the progress of establishing such registers.

Helen Goodman (Bishop Auckland) (Lab): Before we broke for Justice questions, I was speculating about why David Cameron's Administration were quite enthusiastic to make progress on this issue but the current Administration seem less enthusiastic. I had basically made my arguments and I was about to bring my speech to an end.

Luke Graham (Ochil and South Perthshire) (Con): I say to the hon. Member for Bishop Auckland that there are Government Members who are in favour of public registers of beneficial ownership in British overseas territories. I studied international financial reporting standards extensively in my former life as an accountant—I draw Members' attention to my entry in the Register of Members' Financial Interests—and I am a member of the Public Accounts Committee. Having more transparency through country-by-country reporting and ensuring public oversight and increased transparency of a lot of our transactions will mean that we actually raise standards, not only in the UK mainland, where we have done so by introducing a public register, but in our overseas territories. Given the opportunity that Brexit provides us, in terms of having to reinvigorate our economy and our brand, it is important that we lead. Certainly, what is good enough for the mainland should be good enough for overseas territories.

I know from conversations with my right hon. Friend the Minister for Europe and the Americas that the Foreign and Commonwealth Office has concerns about whether it is right to impose measures on overseas territories. There is precedent for that, as the hon. Member for Bishop Auckland said, but there are concerns about whether it would be right to do so in this case. I do not believe in "devolve and forget", although overseas territories have different constitutional arrangements. As MPs, we are responsible for taking a leading role. Westminster is here to lead, not to follow, and the United Kingdom should be a leading light when it comes to financial transactions and financial transparency, as it has been on so many global reporting standards.

Helen Goodman: The distinction that the hon. Gentleman makes suggests to me that, although he may hesitate to vote for new clause 1, he will agree to new clause 8, which merely calls for a consultation.

Luke Graham: I will come to exactly what I am looking for in just a minute.

Mike Freer (Finchley and Golders Green) (Con): Don't let her tempt you.

Luke Graham: Yes, exactly. I am conscious that we have discussed new clause 1 at length and that my right hon. Friend the Minister has listened to private petitions from me and other Members. I reiterate that I am sensitive to the different constitutional arrangements for each overseas territory, the way that local legislatures pass their laws and the reasons why they have interests in different areas of financial services, as the hon. Lady highlighted. However, the United Kingdom Parliament should be clear that, if we find a wrong, we should try

to right it. I have received correspondence from overseas territories about the cost of implementing a public register and how that might negatively impact their economies. The United Kingdom Government should try to help them with any transition or implementation costs. In the longer term, if it means a shift in their economies and if implementing a public register creates a large gap, we should commit to helping their economies to transition. We must not just take away one aspect of their economies and leave them to fend for themselves.

I ask my right hon. Friend the Minister to commit to engaging with the overseas territories. We have already made a lot of progress. The United Kingdom mainland is the leading light on financial transparency, and we have led the way with the public register. We must engage with the overseas territories, take them on the journey with us and help them to overcome some of the challenges they will inevitably face in a positive and constructive way.

Alex Norris (Nottingham North) (Lab/Co-op): It is a pleasure to follow the hon. Member for Ochil and South Perthshire. My hon. Friend the Member for Bishop Auckland probably shares quite a few of these views. She made a comprehensive and weighty case; I just want to build on a couple of elements of it. We have recognised on Second Reading and during this discussion that Britain and the British Parliament have a really good record in this area. We should be proud that we are world-leading, and we should continue to be so. As we debate this transition Bill, which is a Brexit Bill at its heart, we should ensure that we remain at the forefront.

We can have the best fence in the world, but there are limits to what we can do if this goes on to our neighbours' properties. If we have a special relationship with our neighbour, perhaps there are better ways of doing it—I will not torture that metaphor further. At its root, this is clearly a problem that needs solving. The hon. Member for Ochil and South Perthshire characterised it as a wrong that needs righting. The Panama papers listed the British Virgin Islands as the No. 1 location for those issues. Similarly, as my hon. Friend the Member for Bishop Auckland said, Oxfam listed Bermuda as No. 1, and we have seen the briefing materials from Christian Aid. Just so this cannot be portrayed as an activist campaign—as though that could be a bad thing—HSBC and even BHP Billiton say that this is the sort of thing we need. BHP Billiton is the world's biggest mining company, so it is not often that it and I are bedfellows, but it understands that unclear audit trails for money are bad for its business. They are bad for the communities from which the money comes, but also bad for BHP Billiton's global finance enterprises, so it is urging us to take action.

This proposal is proportionate. We heard on Second Reading that, given that the overseas territories have had a difficult few months, time has been built into the proposal. There is recognition of how the Crown dependencies ought to be supported. Ministers have said throughout this Bill Committee that, when it comes to the overseas territories, we are responsible for foreign affairs and security. Absolutely—I could not agree more—and anti-money laundering and dirty money passing over borders in massive quantities are at the root of security and foreign affairs. Money laundering underpins global terror, and we ought to be squeezing it wherever we can, because that is one way of cutting off those networks. The combatants we engage with may seem like they are hidden in hills and hard to find, and are perhaps not like us, but from all we have been through over the past 20 years, we know that they have some very sophisticated cells, behind which is big money. This is a chance to clamp down on that.

This will say a lot about us as we go into the brave new post-Brexit world. We have heard the phrase "brand Britain"—the hon. Member for Ochil and South Perthshire talked about our brand—and who we are and where we place ourselves in the world will be very important to it. On the one hand, our Ministers are going round the world saying that we have a great approach to money laundering, but on the other, these are British overseas territories—the Minister referred to them as overseas territories, but they are British overseas territories, and our name is attached to them.

Jo Stevens (Cardiff Central) (Lab): Does my hon. Friend agree that, although there are some very good things in the Bill, not dealing with secrecy in relation to the overseas territories will damage the credibility of the rest of the Bill and will put it in danger?

Alex Norris: I thank my hon. Friend for that useful intervention. I absolutely agree. We should not see the Paradise papers and the Panama papers as the past, and assume that we will not see anything about this issue again. We are likely to see such things periodically on different programmes and in different newspapers. Every time that happens, people will ask, "What did you do about it? When you heard about it last time, how did you act?" If we say, "Well, we have this brilliant law, which we consider world-leading, but we stopped short of doing this," people will wonder why we did that, and that will damage our brand.

This is not just about the British overseas territories—people will say, "Hang on a minute. They are British. What are you doing in your engagement with them?"—but about the Crown dependencies. The Crown will, dare I say, be a very important part of brand Britain, and people will draw a very straight line. Even if we feel that we should not be able to act in this area, people will expect that we can, so we ought to have a pretty clear picture on it. What is being asked for in the two new clauses is proportionate and sensible, and hopefully something that we can all support.

Anneliese Dodds (Oxford East) (Lab/Co-op): I do not want to speak for very long, or repeat what colleagues have said. I very much agree with the comments made by my hon. Friends the Members for Nottingham North and for Bishop Auckland. However, there are a couple of aspects that I would like to emphasise, and provide the Committee with a bit more information on.

First, it is the friends of the overseas territories and Crown dependencies who are deeply concerned about the lack of action in this area. I have had many meetings with representatives from both groups of jurisdictions over the years, both as an MP and as a Member of the European Parliament before that, when I sat on tax committees and the Panama papers committees in the European Parliament. I have had many discussions on these topics. I acknowledge that there is currently some resistance, but there is also an awareness of the reputational damage that is being done to their jurisdictions, as my hon. Friend the Member for Nottingham North mentioned.

[Anneliese Dodds]

There is also concern about having the resource necessary to implement more transparency. I strongly agree with what the hon. Member for Ochil and South Perthshire said in that regard. That is why our new clause calls for support for the overseas territories to implement the changes. We do not want to end up in a situation similar to what happened in the Turks and Caicos Islands, where there were repeated warnings that there were problems but nothing was done until it got to such a height that there had to be what some would say was a very draconian response. We do not want to get to that situation; we want to see change. I will go on to explain what happened in the Turks and Caicos Islands in a moment, because colleagues need to know about that. We have not yet talked about the instances where Britain has exercised its relationships and the levers it possesses.

It is also important that we acknowledge that for many of the overseas territories and Crown dependencies there has been positive legislative change, particularly around 2013 and 2014. However, that has died off a bit recently. One thing that worried me was the fact that the British Virgin Islands have passed new laws against whistleblowers. That has caused a lot of concern, and appears to suggest a shift in the wrong direction. The US State Department, for example, has commented on the fact that low numbers of prosecutions are coming from some of the jurisdictions. Frankly, it is a bit of an embarrassment that the US State Department has commented on that, and we have not seen the necessary action.

It is also a major concern for our country. Others have commented on this, but we have not yet quoted from the National Crime Agency's "National Strategic Assessment of Serious and Organised Crime 2016". That report spelled out the problem with having our open register of beneficial ownership without having commensurate obligations in our associated jurisdictions—not to mention the register's own problems, which we will come on to. The report said:

> "When legislation to report beneficial ownership begins to be fully enforced…the UK will be less vulnerable to shell companies formed by professional enablers and others within the UK for the purposes of enabling bribery, corruption and money laundering. The UK will remain at risk from company formation in overseas jurisdictions where similar legislation is not in place."

It is a direct concern for Britain that we have this leaky fence, to stretch again the metaphor of my hon. Friend the Member for Nottingham North.

It is particularly worrying that the British Government's position seems to have shifted backwards. Other colleagues have mentioned that, and I wanted to draw attention to the precise language that is now being used by the Government. David Cameron gave us a commitment to beneficial ownership registers—not to public ones. We wanted him to go further, but he committed to getting registers that could at least be used by law enforcement agencies.

As of the debate on the Bill in the other place, we have a new formulation of words, talking instead about either registers, or similarly effective mechanisms to beneficial ownership registers. It would be helpful to hear from the Minister exactly how they are similarly effective. I asked a parliamentary question about this issue and I was told that, for example, electronic search platforms are a technical solution designed to achieve precisely the same result. Well, they do not achieve the same result if it takes longer for law enforcement agencies to get the information they need to root out crooks and prosecute them.

2.15 pm

Let me turn to where the UK has used its available levers to achieve change in a consensual, and sometimes respectful, manner. Colleagues have mentioned that there are different governance arrangements, which is correct. In some areas, Governors are directly responsible for the oversight of the financial sector, so surely in Anguilla, Montserrat and the Turks and Caicos Islands there should be a quick move in that direction. As I understand, Montserrat has committed to implementing this public register, but in other territories that is the role of financial services commissions, which in turn are in contact with the UK Government. It would be helpful for the Committee to understand exactly how the Government are using their influence over those commissions to try to seek this necessary change.

The British Government have already worked towards a different approach to budgeting in some jurisdictions, and there is now much more oversight over budgeting processes in the overseas territories. I want to inform the Committee of three specific cases that I think are relevant and indicate how pressure from the British side—appropriate, not disrespectful, pressure—can been applied, where necessary, for a positive outcome in those jurisdictions.

The first case is directly relevant and concerns the EU savings directive. Back in the early 2000s, that directive was introduced to cover all EU countries. As we have discussed, EU legislation is not directly applicable in the overseas territories, and although a number of them said that they were willing to implement the directive, the Cayman Islands were not initially willing to do so. The then Chancellor, Gordon Brown, said that if necessary he would use an Order in Council to ensure that the directive was implemented in the Cayman Islands. I do not claim that there was then a consensual process to which everyone immediately agreed—they did not. However, after the UK offered the Cayman Islands compensatory measures to offset any possible negative effects, they implemented the requirements in that directive. It is possible to achieve change, including on taxation.

Secondly, as my hon. Friend the Member for Bishop Auckland said, although Montserrat does not currently have a large financial sector, it did attempt to develop one in the early to mid-1980s, before the horrendous natural disaster took place. When such development was occurring with those financial firms, a number of concerns were expressed about the potential for corruption and money laundering. The then Governor was so disturbed that he ordered police officers to raid one of the banks that had been accused of breaching banking regulations, and eventually it was necessary for a completely new regulatory system to be put in place, following widespread evidence that those institutions had been used inappropriately.

My final case relates to the broad concerns that were raised about governance on the Turks and Caicos Islands. There had been rumours about those concerns for a long time, and the problems meant that the individuals

living on those islands were having their due stolen from them because public resources were being dealt with corruptly. Unfortunately, it took a very long process, until eventually the Foreign Affairs Committee investigated the territories—including the TCI—and the FCO Minister at the time was forced to bring about change.

The Minister for Europe and the Americas (Sir Alan Duncan): Unfortunately for the hon. Lady, she seems unaware that I was the Minister responsible for Turks and Caicos, as a Minister in the Department for International Development at the time. The reasons she cited for our intervention are completely inaccurate. There was a growing financial deficit of £30 million, forecast to be £60 million and then £90 million—it would have been half a billion pounds within a very short time. On that basis, we stepped in and parachuted in a chief financial officer to get the public finances back into shape. It was a great success and is a good example of us intervening in a perfectly proper way in co-operation with the Governor and the Government there.

Anneliese Dodds: I am grateful to the Minister for those comments; I might agree with the second half of them. I wonder whether his remembering of the time is the same as that of the relevant FCO Minister. I am terribly sorry; I do not know who the individuals were, but I was not in the House at the time. He or she commented:

"These are some of the worst allegations that I have ever seen about sitting politicians"

and

"when things go badly wrong…we need to act".

I suspect that they were not talking simply about a budget deficit at that stage; they may have been talking about other matters.

Sir Alan Duncan: The hon. Lady is conflating two separate issues. There was a parallel legal issue over the plight and fleeing of Mr Misick, but that was not the basis on which we intervened.

Anneliese Dodds: Whether the intervention was due to alleged corruption in the activities of the former leader or budgetary matters, the arguments point in the same direction. When the British Government saw there was a problem, they decided it was appropriate to take action. We are lucky to have the Minister here. We are grateful to hear of his experience, and I hope he will inform us of how, in that regard, we can use that experience, in a consensual, respectful manner, to deal with our associated territories in relation to ownership registers.

Sir Alan Duncan: This has been a lively and interesting debate on an issue that we all agree is of importance. It boils down to how we think it appropriate for the Government to act. I am grateful to hon. Members for tabling new clauses, and I appreciate the desire for the overseas territories and Crown dependencies to adopt public registers. However, we should acknowledge the significant steps already taken by those jurisdictions in this area and continue to build on that progress.

While we continue to push for public registers to become the global standard, we should recognise that the arrangements that the territories and dependencies have concluded with the UK exceed the international standards set by the Financial Action Task Force, which do not require private registers, let alone public registers. Nevertheless, should public registers become the global standard, we would expect the overseas territories and Crown dependencies to meet that standard.

As the Committee knows, the overseas territories and Crown dependencies are separate jurisdictions with their own democratically elected Governments. We have therefore legislated for them without their consent only in exceptional circumstances—for example, to decriminalise homosexuality in certain territories, to ensure they were compliant with international human rights obligations. By contrast, financial services are an area of domestic responsibility for territory and dependency Governments.

Legislating for those jurisdictions without their consent effectively disenfranchises their elected representatives and risks harming our overall relationship with them. It also risks leading to a flight of business to other, less regulated jurisdictions, with the undesirable consequence that our law enforcement authorities would not have the same level of access to beneficial ownership information as under the existing bilateral arrangements. Imposing public registers of company beneficial ownership on the overseas territories would carry with it the risk that the territories would be less willing to work with us on this important issue.

[Dame Cheryl Gillan *in the Chair*]

I would like to draw parallels with the devolved Administrations and the Sewel convention. The hon. Member for Glasgow Central addressed the point on Second Reading:

"Much as I do not wish the House to legislate on Scottish matters, I do not want us to legislate for overseas territories or Crown dependencies without consent."—[*Official Report*, 20 February 2018; Vol. 636, c. 92.]

I agree with her that that is the right approach.

The overseas territories and Crown dependencies have already made significant progress on beneficial ownership. Since we concluded our exchanges of notes with them in 2016, they have passed new primary legislation and delivered technological improvements to comply with the terms of the arrangements. They have committed to provide UK law enforcement authorities with automatic access to beneficial ownership information within 24 hours of a request being made, or within one hour in urgent cases. Those arrangements strengthen our law enforcement authorities' ability to investigate serious organised crime, including money laundering and tax evasion.

The hon. Member for Oxford East asked about what are termed similarly effective systems. Some jurisdictions have opted under the bilateral arrangements concluded with the UK to establish an electronic search platform, allowing them to gain access to beneficial ownership information held by their authorities or by corporate service providers.

The exchanges of notes permit such similarly effective arrangements, provided that the following criteria are met. Law enforcement authorities can obtain beneficial ownership information without restrictions, and that information is available for use in both civil and criminal proceedings. Law enforcement authorities can also quickly identify all corporate and legal entities connected to a beneficial owner, without needing to submit multiple and repeated requests. Corporate and legal entities, or

[Sir Alan Duncan]

those to whom the beneficial ownership information relates, are not to be alerted to the fact that a request has been made or that an investigation is under way. We will monitor that arrangement to ensure that it does indeed provide the same results.

I hope that hon. Members agree that the overseas territories, in some cases in the most challenging circumstances, and the Crown dependencies have made significant efforts to move forward on this agenda. The effective implementation of the exchanges of notes will put them ahead of many G20 countries and many individual states of the USA, and demonstrates what can be achieved through working co-operatively.

Alex Chalk (Cheltenham) (Con): Does my right hon. Friend agree that, as a result of the steps that have been taken in the Crown dependencies, there is a far greater degree of transparency in Jersey and Guernsey than in Delaware in the United States, for example?

Sir Alan Duncan: My hon. Friend is absolutely right. It is exactly that comparison that we need to see in the round, in order to understand that there could be unforeseen detrimental consequences of any kind of imposition proposed for the overseas territories.

Luke Graham: I understand the Minister's point about overseas territories and the challenges faced by other jurisdictions such as the United States. Britain leads in a number of global reporting initiatives. Without compelling overseas territories to change their ways, we could still lead the conversation with the United States and the overseas territories in the round, to ensure that we progress this reporting and show the benefits that we have already recognised on the mainland. I urge my right hon. Friend not to draw parallels between the devolved settlement in the UK because we have Scottish MPs in this House, and they are there making laws in Scotland, whereas the overseas territories do not have MPs in this House.

The Chair: May I remind the hon. Gentleman that interventions should be shorter than that?

Sir Alan Duncan: You have been transformed, Dame Cheryl. The second point is within the constitutional settlement with the devolved Assemblies that has been reached in the United Kingdom. On the first point, I would have no objection to any hon. or right hon. Member urging the Government to take a lead in such areas. I hope that, at least by example and in international forums such as the UN, we do just that. I hope the UK's leadership role will continue.

2.30 pm

Hannah Bardell (Livingston) (SNP): I am a little perplexed by what the Minister said. It seems that he conflated the comments of my hon. Friend the Member for Glasgow Central with the intent of the amendment, which is to encourage—not to compel—Governments in overseas territories to do that. Perhaps I am mistaken and he can clarify that, but it seems that there is a misrepresentation.

Sir Alan Duncan: The hon. Lady is not being unreasonable; there are some arguments where some people say compel, and others say urge and consult. My argument would be that we are consulting—we do it all the time. We have a regular dialogue, and in that, we are urging them in the right direction. Anything that smacks of us in any way telling them what to do is counterproductive, because rather than imposing new requirements on these jurisdictions, it is better that to continue to focus our efforts on the consolidation of the existing arrangements.

The exchange of notes provide for the operation of these arrangements to be reviewed six months after they come into force. We are working very closely with the territories and dependencies on this review, and plan to conclude it by the end of March. That is a very good example of the sort of consultation we are engaging in on a regular basis.

Anneliese Dodds: When the Minister those letters are exchanged, will it include the logistics of this operation? I am trying to get my head round how we can genuinely say that contacting potentially myriad trust and company service providers and getting information from them is equivalent to having access to a register. How are the Government truly going to assess that in this exchange of letters? Will it be a question of time? We could be talking about hundreds of TCSPs.

Sir Alan Duncan: I am not directly involved in this, but as I have said frequently, I am very happy to offer the expertise of officials to the hon. Lady so that she can fully get to grips with the intricate detail of the question she has asked.

Hon. Members will recall that the Criminal Finances Act 2017 provides for a review of the effectiveness of the bilateral arrangements. That report must be prepared before 1 July 2019, and it will then be published and laid before Parliament. The reviews will provide a clear understanding of how the jurisdictions are meeting their commitments. At that point, we will be in a better position to consider what more might need to be done. I stress once again that we will engage with the overseas territories and dependencies; we do so already and we will continue to do so on a regular basis, with the clear objectives in mind of wanting consistent and constant improvements in the way in which their finances are organised.

A key feature of the Government's approach has been to maintain a level playing field between all the overseas territories with financial centres and the Crown dependencies. As I have described, we have robust review processes regarding the implementation of these arrangements. If these reviews demonstrate that the full implementation of the exchanges of notes is not taking place in any individual jurisdiction, it would be right for hon. Members to consider this issue further. For the time being, however, we should continue to focus on the full implementation of the existing bilateral arrangements. We are on a good and solid track; therefore, I urge hon. Members to withdraw the new clause.

Helen Goodman: It is nice to see you in the Chair, Dame Cheryl. I wish to remind members of the Committee of two things: first, the Government's own statement in 2012 that, as a matter of constitutional law, the British

Parliament can legislate for Crown dependencies and overseas territories. Secondly, the current approach, where the authorities in London have to ask individual questions, is not as effective in tracking down and deterring illegality as having a transparent approach. That was demonstrated by the fact that, when the Panama and Paradise papers were leaked, they were able to initiate more inquiries and take more action against people because, as I was trying to explain this morning, they were able to see the overall pattern.

I am disappointed in the Minister's response—not surprised, but disappointed—because he has not shown any flexibility at all. However, I do not wish to put the hon. Member for Ochil and South Perthshire on the spot. I think we will come back to this on Report, so I do not wish to put the motion to a vote. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 2

PUBLIC REGISTER OF BENEFICIAL OWNERSHIP OF UK PROPERTY BY COMPANIES AND OTHER LEGAL ENTITIES REGISTERED OUTSIDE THE UK

"(1) In addition to the provisions made under paragraph 6 of Schedule 2, for the purpose of preventing money laundering in the UK property market and public procurement, the Secretary of State must create a public register of beneficial ownership information for companies and other legal entities registered outside of the UK that own or buy UK property, or bid for UK government contracts.

(2) The register must be implemented within 12 months of the day on which this Act is passed.".—*(Helen Goodman.)*

This new clause would require the Secretary of State to create a public register of beneficial ownership information for companies and other legal entities registered outside of the UK that own or buy UK property, or bid for UK government contracts, within 12 months.

Brought up, and read the First time.

Helen Goodman: I beg to move, That the clause be read a Second time.

In 2015, David Cameron said:

"London is not a place to stash your dodgy cash."

That is why he wanted to set up a register of the real owners of UK property owned by companies registered overseas. Unfortunately, the timetable for that has slipped. Following his announcement in 2015, the Government made an announcement shortly before Christmas saying that they now expected to set up the register in 2021. That is six years. In the other place, it was Tory peers who pressed for this to be speeded up. Our new clause does precisely the same thing.

Last week, the right hon. Member for Newbury mentioned unexplained wealth orders. Indeed, the Security Minister got an excellent splash on the implantation of this part of David Cameron's package on 3 February. It was headed:

"Russians in Britain told to reveal their riches. McMafia-style crackdown on 'corrupt' oligarchs."

It said:

"The government estimates that about £90 billion of illegal cash is laundered in Britain every year."

The Minister said:

"McMafia is one of those things where you realise that fact is ahead of fiction…It's a really good portrayal of sharp-suited wealthy individuals, but follow the money and it ends up with a young girl getting trafficked for sex.

What we know from the Laundromat exposé is that certainly there have been links to the [Russian] state. The government's view is that we know what they are up to and we are not going to let it happen any more."

He then explained that unexplained wealth orders were coming into effect.

I cannot understand why, given that those orders are coming into effect, a start has not been made on one with the purchase from the Ministry of Defence of Brompton Road tube station by a Ukrainian gas magnate. For colleagues who have not been following this long-running issue, Dmytro Firtash is a friend of ex-President Yanukovych and an associate of both President Putin and Paul Manafort. He was arrested in Vienna on corruption charges at the request of the FBI. Latterly, attempts have been made to extradite him to the United States, first on Magnitsky charges and later in relation to his alleged role in masterminding an international racket that aimed to sell titanium to Boeing.

Like all rich people, he operates indirectly. For example, his foundation, New Century Media, paid for the £800 ticket to a summer ball for the Minister here today—the right hon. Member for Rutland and Melton—according to the Minister's entry in the Register of Members' Financial Interests from 2010. He also gave £85,000 to the Conservative party centrally. I would have thought that he was a prime candidate to receive an unexplained wealth order, and I hope that Ministers will see if that can be pursued.

Sir Alan Duncan: Is the hon. Lady saying that New Century Media is owned by Mr Firtash?

Helen Goodman: Yes.

Sir Alan Duncan: It is owned by David Burnside—a former Member.

Helen Goodman: I think Mr Burnside is employed by Mr Firtash. That is the issue. These things are not exactly transparent.

Let us return to the question of whether the current state of the law is adequate. *The Times* also had a leading article which said:

"Three difficulties may blunt the effectiveness of the wealth orders. First, all the agencies involved in investigating and prosecuting those suspected of laundering dirty money in Britain are already over-stretched. They need experienced staff used to digging through multiple layers of shell companies and intricate business transactions, and they do not have enough of them.

Second, the orders frieze assets for an interim period and are only one early step in the process of bringing oligarchs to heel. The government has to be braced for legal marathons contested by the rich and corrupt. That requires political will.

Above all, the red carpet for crooks has to be rolled up. Too many people in the City of London, in the divorce and libel courts, in the art world and in high-end estate agencies have failed to look closely at the cash coming their way. An overdue step would be a public register revealing the true owners of overseas companies that own property in Britain."

Until we have the public register, it is not going to be possible to identify who owns the properties and whether or not the wealth invested in them has been gained legitimately or illegitimately. In other words, are the wealth orders explained or unexplained? I am not quoting the *Morning Star* or the *Daily Mirror*—I am quoting *The Times*.

[Helen Goodman]

We think that this is all taking too long; it is a problem that it is taking too long. It is a problem because of its size, which I will describe. It is also a problem because Ministers are giving time to people to rearrange their affairs and to reorganise them in order to avoid the measures which are in train. A concrete example of that would be the use of trusts. That is why further we have tabled a new clause on trusts.

Global Witness and Transparency International believe that 86,397 properties in England and Wales are owned by companies registered in offshore secrecy jurisdictions; 87% of companies owned by foreign company owners in secret jurisdictions. Half of them are in London and half are in other parts of the country. The 10 most expensive properties owned by companies in tax havens are worth £1.5 billion. Furthermore, Transparency International believes that there are suspicions about £4.4 billion-worth of UK properties, over half of which—£2.36 billion—belongs to companies registered in the British Virgin Islands. They also say that these properties in secret jurisdictions account for 75% of all UK properties under investigation for corruption. If hon. Members or members of the public are interested in seeing what is going on, I recommend going to the Global Witness website where they can type in their postcode and see how many of those secretly owned properties with overseas owners are located on a map.

2.45 pm

The Home Affairs Committee held an inquiry on the proceeds of crime in the 2016-17 Session. It thought that £100 billion was being laundered through London every year and that property was the easiest way of cleaning money because you can buy the property, then have a stream of clean income in perpetuity. The other thing that is alarming, and which tells us that there is something seriously wrong, concerns the enforcement and confiscation rates for the proceeds of crime. If we are talking about a crime that is worth less than £5,000, 95% of the orders are enforced. If we are talking about a crime where the proceeds are worth over £1 million, only 20% is being enforced. It is absolutely typical that the bigger the fish, the easier it is for them to swim away. One thing that was rather strange about the Minister's response when this was debated in the other place was that he said he wanted to look at the impact of introducing this register on foreign direct investment. That does not make sense. I asked the Library for the proper definition of "foreign direct investment". Obviously, we all want foreign direct investment when it means Nissan building a car factory in Sunderland. However, when it means some shifty, corrupt, former public official buying an expensive house in Mayfair, there is no great benefit to the British economy. The Library told me:

> "Inward FDI is concerned with foreign company investments in UK companies",

and that the standard measure for giving an FDI

> "an 'effective voice' is measured as 10% of the share capital of a company".

I therefore hope we are not going to have a rather foolhardy exploration of foreign direct investments as an excuse for putting back and delaying the introduction of this very important register.

Another problem with this £90 billion or £100 billion washing into the London property market is what it is doing to London property prices. Again, we discussed this on Second Reading. The fact is that people are now buying property not to live in but to stash their cash—and we have a lot of empty properties. That makes property unaffordable: we are at an all-time low for people in their 20s and 30s owning property. Rents are shooting up, and the number of children in temporary accommodation has gone up to 120,000. One cannot help noticing that these 86,000 properties would comfortably house the families of these 120,000 children. I really think that Ministers need to get their skates on. We need to see this on the timetable promised by David Cameron.

The Economic Secretary to the Treasury (John Glen): May I say what a pleasure it is to serve under your chairmanship once again, Dame Cheryl? I acknowledge that the amendment seeks to set in legislation an obligation on the Government to implement, within 12 months of Royal Assent, our commitment to establish a public register of company beneficial ownership information for foreign companies that already own or buy property in the UK or who bid on UK central Government contracts. It puts an accelerated timetable on something that the Government are doing anyway. In the next few minutes, I will remind the Committee of the timetable to which the Government are committed for delivery of this policy. I will set out the challenges and complexities of the policy and demonstrate why setting an early and artificial deadline for implementation would inadvertently undermine its aims. I know that these are supported across the House, so it is important to ensure that we get the detail of the policy right.

In listening to the remarks made by the hon. Member for Bishop Auckland, I acknowledge the frustration around this; but this Government are committed to continue to lead by example and improve corporate transparency. Over the past five years, the reforms delivered by the Department for Business, Energy and Industrial Strategy have made the UK a global leader on corporate transparency issues. We were the first country in the G20 to establish a fully and publicly accessible company beneficial ownership register and, across the world, non-governmental organisations lobby their Governments to follow the UK example. There is a reason we have that world-leading reputation: it is because of the quality of the measures we have passed and it is a reputation we would lose if this measure were accepted. A 12-month timetable to draft and pass primary and secondary legislation, empower the responsible agencies and commence the obligations is not realistic. The rush to meet such an unrealistic deadline would inevitably lead to loopholes that would be readily exploited by those seeking to evade the new requirements.

Alex Norris: We are not just talking about a 12-month timetable; this was first announced by a Conservative Prime Minister in 2015. What have Ministers been doing since then?

John Glen: I will come on to explain the history of this and why we are where we are. I am happy for the hon. Gentleman to intervene if he does not feel satisfied at the end of that.

Mindful that the eyes of the world are on us, hon. Members should recognise that this legislation would be a world first. Successful delivery raises significant

challenges and it is right that the Government achieve the right balance in an effective regime with robust enforcement that does not have a negative impact on land registration processes across the UK. I acknowledge that some have accused the Government—and we have also been accused this afternoon—of not acting swiftly enough to implement this policy. Let me address those concerns.

We have committed to publishing a draft Bill before the summer to introduce the Bill early in the second Session and for the register to be operational in 2021. Publishing a Bill in draft is the right approach. As I said before, this register will be the first of its kind in the world, it will affect people's property rights, including not just new purchasers but existing owners. This is a sensitive and delicate area. Getting it wrong would have significant adverse consequences.

Anneliese Dodds: The Minister is being generous. He has kindly set out for us a three-year timetable, adding on a couple of years before that when Government committed to this. Is he aware of the *Private Eye* map, which has been in existence for some time? Through civil society and journalistic activity, Land Registry and Companies House data were put together and a map produced. That appears to have been done quite quickly.

John Glen: I am not familiar with that particular map but I would be very happy to examine it. For clarity, and addressing the hon. Lady's previous point, the register will capture the details of beneficial owners of all non-UK companies—including those in the overseas territories—that own UK property. This will be a world first, so we are moving as fast as possible, ensuring that the register is as comprehensive as possible.

As the Government set out in last year's call for evidence, for the register to be effective the sanctions to be applied for non-compliance must be a meaningful deterrent. Enforcement must be energetic. Simple criminal sanctions may not be sufficient in isolation. The draft Bill will include enforcement through land registration law. Where an overseas entity buys property, it will never be able to obtain legal title to that property without having complied with the register's requirements. Similarly, a restriction on the title register for property owned by an overseas entity will signal to third parties that the overseas entity must comply with the regime before selling the property, creating a long lease or legal charge. Those are significant steps on which it is right to consult.

Hon. Members will recognise that there are separate Land Registries in Scotland and Northern Ireland, as well as the Land Registry for England and Wales. The approaches taken to land registration and overseas entities by each of those Land Registries have been different until now. That too will need be streamlined. Delivery of an holistic outcome that complements all three land registration regimes is an exercise touching multiple teams across Government and the Land Registries. Put simply, it is an exercise that will take time to get right and a further demonstration of why publishing the legislation in draft is the appropriate next step if we are to get it right. Although I appreciate that the motive underlying the new clause supports the policy as a whole and demonstrates a desire for early delivery and implementation, it does not take account of the complexities that I have set out or the challenges of delivery and implementation.

The register will further demonstrate the Government's commitment to combating money laundering through the property market. Hon. Members will have seen recent press reports—the hon. Member for Bishop Auckland drew our attention to the splash on 3 February—that two unexplained wealth orders have been obtained by the National Crime Agency in connection with two properties worth £22 million.

Those are the first orders obtained under the relevant powers conferred by the Criminal Finances Act 2017, which commenced at the end of January. They were obtained only a few days after it came into effect. As the Minister for Security and Economic Crime has said, the orders are an important addition to the UK's ability to tackle illicit finance, and it is great to see them already in use.

The Government will continue to take action. BEIS's response to last year's call for evidence will be published shortly, and it will set out the Government's approach to areas of particular complexity. BEIS has already made significant progress in preparing draft legislation; the work with the office of the parliamentary counsel to draft the Bill is under way.

Separately, BEIS is working to quantify the impact of the legislation on the UK. The impact assessment will quantify the register's potential impact on the property market and investment flows, around which foreign direct investment is very specific, to pick up on the point made by the hon. Member for Bishop Auckland. The register will rightly make the UK more hostile to illicit flows of money, but we must understand the potential impact of legitimate inward investment.

All those issues were considered in last year's call for evidence. Scrutiny of the draft Bill will further stress-test whether it will be effective. I hope that that process demonstrates the Government's continued commitment to enact the policy, and our commitment to get it right. For those reasons, I hope that the hon. Lady will withdraw the new clause.

Alex Norris *rose—*

Sir Alan Duncan: On a point of order, the hon. Member for Bishop Auckland earlier asserted that New Century Media is owned by a disreputable Ukrainian oligarch called Dmytro Firtash. That is completely untrue. New Century Media is owned by a former Member of this House, Mr David Burnside, whose reputation she has inadvertently maligned. I ask her to withdraw her comment immediately, or to say the same thing outside the House and take the full legal consequences of doing so.

The Chair: That is not really a point of order for the Chair, but the Minister has made his point of order and put it on record.

Sir Alan Duncan: I am offering her the opportunity.

The Chair: Unless any other Member wants to rise on a point of order, we will move on. If the hon. Lady wishes to respond, she may.

Helen Goodman: My understanding is—and this has been in the public domain and stated outside this House—that Mr Burnside was the executive chair, but that New Century Media represented the personal foundation of Dmytro Firtash.

The Chair: The hon. Lady has made a response, but it is really not a point of order for the Chair. Members have managed to put it on record, and we will move on. I apologise to Mr Norris, who did not catch my eye before I called the Minister. I call him now.

Alex Norris: You are very kind, Dame Cheryl. I am not a very good bobber—I find myself inadvertently bobbing in the wrong place or staying in my seat. My wife is currently doing the 100 squat challenge, and I wonder whether an afternoon of questions on a particularly good statement is a good way to make a down-payment on that. That is not the point I rise to make, however—proud of her though I am.

The new clause comes back to our place in the world after Brexit. There are very legitimate anxieties across the House, which are often played out in the Chamber, that post-Brexit, Britain will become the low standards capital of Europe: people will have all the benefits of being in Europe, but will not have to put up with those pesky regulations. We have what we consider to be very legitimate concerns about workers' rights, product regulations and environmental standards that we raise frequently, and we hear back from Ministers—to their credit, we always hear back—"No, that is not our plan post-Brexit. That is not the Britain we want to live in." We say that we will hold them to that, as we will.

The Ministers are exceptionally lucky that this is a good opportunity to raise that flag and demonstrate that. The Bill will send a strong signal about what Britain will be like and about our role in the world. The Ministers have said that it will be the first of its kind, which is a good thing. We should seek to lead on such important issues. We have a chance to lead and show that Britain is a high-standards, high-quality economy to occupy and if people come to Britain, they should expect to have the relevant level of scrutiny if there are questions over the assets that they bring or purchase. So it is time: that is what campaigners tell us and what we feel too. We are not asking for this to be done overnight. This is something that Ministers have had since 2015 and that will still have another year after this legislation passes, which is some way away. It is time.

3 pm

Richard Benyon (Newbury) (Con): I think it is worth saying for the record that there is a chill wind blowing through the financial lives of some of the people who have used our economy, particularly our property sector, for nefarious purposes and money laundering. From my conversations with a current Security Minister, and from what I know the Government are doing to implement the asset freeze legislation, I have no doubt that that is being taken forward aggressively and in a determined way. That is being recognised abroad; it is certainly being recognised by some of those people who have used the ability of our economy, through good title deeds, to make property a means by which to bury nefarious funds.

We are talking about legislation to hold future Governments to account. I entirely accept my hon. Friend the Economic Secretary's assertion that this a complex situation to get right. I would like a little more clarification, and I am prepared to cut him some slack on this because if this is not done properly, it will be exploited and people will be able to move wealth in a globalised economy in a much freer way. It should be tied down in a way that encourages people still to invest in this country. I welcome the fact that people want to invest in our property, whether commercial or residential, but not, as the hon. Member Bishop Auckland says, just to leave homes empty. I recognise that that is a real issue, but there is the sheer importance of making sure that all of the provisions are correct. I know it has been complicated: in the asset freeze legislation, there was institutional resistance to what are called Magnitsky-lite measures that were introduced. In a classic piece of good ministerial play, the Government faced down those institutional problems that existed in parts of the civil service and elsewhere and took that forward. To their credit, they are now implementing the measures. I would just like some more assurance from my hon. Friend that this complexity will be tackled with urgency.

John Glen: I am grateful to my right hon. Friend the Member for Newbury and to the Member for Nottingham North for their further observations. I understand the sentiments of frustration and impatience with the Government on this matter. I hope I have spelled out in some detail—in the areas of land registration; alignment around the different parts of the United Kingdom; and making sure that the penalties are appropriate and that the enforcement measures are set to meet the challenge—that the Government have bold ambitions to get this right and to be a world leader in this area. I acknowledge that this has taken rather longer than it would have done in ideal circumstances, but I can confirm and reiterate to my right hon. Friend that the Government are fully committed to delivering this as soon as possible, and that there is a commitment across multiple Departments and the ministerial team to ensure that this reflects the bold aspirations that we have as a nation. I hope that that would be sufficient for us to move on.

Helen Goodman: Ministers have heard that this is an issue of significant concern, and interest in making speedy progress has been expressed on both sides. We will return to this on Report and, that being the case, I do not intend to press it to a vote. I beg to move that the clause be withdrawn.

Clause, by leave, withdrawn.

New Clause 6

ALIGNMENT OF SANCTIONS

(1) It shall be a negotiating objective of Her Majesty's Government in negotiations on the matters specified in subsection (2) to continue the United Kingdom's participation in the Political and Security Committee of the European Union in order to align sanctions policy with the European Union.

(2) Those matters are—

(a) the United Kingdom's withdrawal from the European Union, and

(b) a permanent agreement with the European Union for a period subsequent to the transitional period after the United Kingdom's withdrawal from the European Union.

(3) It shall be the duty of the Secretary of State to lay a report before both Houses of Parliament in accordance with either subsection (4) or subsection (5).

(4) A report under this subsection shall be to the effect that the negotiating objective specified in subsection (1) has been achieved.

(5) A report under this subsection shall be to the effect that the negotiating objective specified in subsection (1) has not been achieved.

(6) This Act shall not come into force until a report under either subsection (4) or (5) has been approved via resolution of the House of Commons and considered by the House of Lords.—*(Helen Goodman.)*

This new clause would require the UK Government to seek continued participation in the Political and Security Committee so as to allow alignment on international sanctions.

Helen Goodman: I beg to move, That the clause be read a Second time.

We now move to a slightly different aspect of the Bill—how decisions will be taken once we leave the European Union. The new clause would require that in negotiations with our European partners, we seek to maintain participation in the Political and Security Committee of the European Union, to align sanctions policy with the European Union, and would require the Government to report on those negotiations and on how they are going. As with the commencement plan, which I felt the Minister was vague and unclear about, so with this. How are we going to co-ordinate in the new world? How is this going to operate?

Sanctions will work if we co-operate and collaborate with other countries. We are all agreed that that is when they are most effective. They are effective in terms of putting pressure on those that are sanctioned, upholding the rule of international law and protecting national security. It is necessary for us to work with our European partners to make our international sanctions regime as effective as possible. One of the issues previously discussed —which Ministers bump up against all the time—is the difficulty of getting agreements in the UN Security Council. Obviously the sanctions that we had on Russia over the annexation of Crimea could not be agreed in the UN Security Council, and that stands to reason. We have been able to get effective sanctions at European level, however, and our security interests are obviously aligned with those of the European Union, objectively speaking, and therefore we are going to take a similar view. We propose that we need to carry on working through the Political and Security Committee. The withdrawal agreement produced by the Commission said some interesting things about decision making. On the subject of administrative co-operation in article 30, it says that,

"as of the date of entry into force of this Agreement, the United Kingdom shall have the status of observer in the Administrative Commission. It may, where the items on the agenda concern the United Kingdom, send a representative, to be present in an advisory capacity, to the meetings of the Administrative Commission and to the meetings of the Technical Commission".

The section on institutions includes proposals on representatives of member states and the United Kingdom taking part in the work of the Union's institutions. Chapter 4, article 104 states:

"Article 10…shall apply in the United Kingdom in respect of representatives of Member States and of the United Kingdom taking part in the work of the institutions, agencies, offices and bodies of the Union"

in so far as their participation in that work took place before the end of the transition period.

There is then a section on how the transition period should work, and that is in part 4 of the document produced by the European Commission.

Paragraph 2 of article 122 states:

"Should an agreement between the Union and the United Kingdom governing their future relationship in the area of the Common Foreign and Security Policy and the Common Security and Defence Policy become applicable during the transition period, Chapter 2 of Title V of the" treaty on European Union

"and the acts adopted on the basis of those provisions shall cease to apply".

We then have the UK's obligations with respect to financing defence and security operations, and finally, in article 157 under "Institutional provisions," it is proposed that, on the date that the withdrawal agreement comes into force:

"A joint committee is hereby established".

I am not saying that what the Commission proposes is the right way to go, but we are concerned that we have no sense of what the Government think we should do. That is why we tabled the new clause, which suggests that, with respect to sanctions policy, we should retain our membership of the Political and Security Committee of the European Union.

Sir Alan Duncan: The new clause would require the Government to commit to negotiating the UK's continued participation in the EU's Political and Security Committee after Brexit and delay the commencement of the Bill until a report had been laid before Parliament setting out whether that had been achieved.

The first point I make is that the Bill is about powers, not policy. The UK's legal powers to implement sanctions flow largely from the European Communities Act 1972. The Bill will replace those powers and, as is recognised on both sides of the House, is necessary to enable the UK to impose sanctions. We are, of course, looking at our sanctions policy and have described our desired future relationship with the EU in a range of places, but it is not appropriate to place that in the Bill.

Secondly, as we have set out, the Government have an unconditional commitment to European security, and we continue to share common threats, interests and values with our European partners. That makes close co-operation, including on sanctions, in both our interests. The exact nature of the UK's future relationship with the EU on sanctions still needs to be determined, but the UK will remain a critical player in both the European context and the global context.

The UK's influence on sanctions derives in part from our membership of the EU, but it is not dependent on continued participation in EU bodies. A lot of it derives from the pre-eminence of the City of London in controlling so many flows of money. Our influence also comes from our status as a permanent member of the UN Security Council and our membership of bodies such as the G7. That influence is underpinned by our strong economy and financial sector, and both public and private sanctions expertise. That makes the UK a key sanctions partner.

As the Prime Minister made clear at the Munich security conference a couple of weeks ago, our partnership with the EU should offer us the means and the choice to combine our efforts to the greatest effect where that is in our shared interest. That includes working closely with the EU on sanctions. My right hon. Friend the Foreign Secretary was clear on Second Reading that he hopes

"we can act in tandem"

with the EU on sanctions because we

"will always confront the same threats and defend the same values."—[*Official Report*, 20 February 2018; Vol. 636, c. 78.]

That demonstrates our commitment to close co-operation with the EU and other international partners regardless of the institutional framework.

[Sir Alan Duncan]

Finally, we do not seek to attend EU meetings on the same basis as EU members. It is worth noting that the PSC is not the primary body that deals with sanctions. Sanctions pass through a range of EU institutions before adoption, from working groups to Council meetings. Committing the Government to seek to join the PSC for sanctions would not make sense from a sanctions policy perspective, and does not make sense in relation to our broader approach to negotiations with the EU. Although the details are a matter for negotiation, in the area of foreign policy as a whole we envisage both formal and informal mechanisms to allow regular dialogue, co-operation and close co-ordination.

To tie our objectives to one model would be counterproductive and would remove the freedom to explore new and better ways of working together with the EU on sanctions once we have left the European Union. However, we do not need text in the Bill to underline our commitment to working closely with international partners on sanctions, because that is what we will do. Given that, I respectfully ask the hon. Lady to withdraw the motion.

3.15 pm

Helen Goodman: The question of how we will co-operate with our European partners on sanctions was debated last July in a general debate on sanctions. I am glad that the Minister now acknowledges that we need to do this, and I am glad that he said that we need formal and informal contacts. Given that he says that this is not the only piece of institutional architecture used at the moment, I will not press the motion to a vote. However, a slightly clearer view from Ministers on how they propose to handle this would be extremely helpful to the House at some point in the future. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

The Chair: Does the hon. Member for Bishop Auckland wish to put new clause 7 to a vote?

Helen Goodman: I would like to put new clause 5 and new clause 7 to a vote. Have I missed the opportunity to vote on new clause 5?

The Chair: Yes. You may press new clause 7 to a vote. Do you wish to?

Helen Goodman: Yes, I do.

New Clause 7

PARLIAMENTARY COMMITTEE TO SCRUTINISE REGULATIONS

(1) A Minister may not lay before Parliament a statutory instrument under section 48(5) unless a committee of the House of Commons charged with scrutinising statutory instruments made under this Act has recommended that the instrument be laid.

(2) The committee of the House of Commons so charged under subsection (1) may scrutinise any reviews carried out under section 27 of this Act.—*(Helen Goodman.)*

This new clause would require a specialised House of Commons Committee to approve all statutory instruments laid under the affirmative procedure under this Act. The Committee would also scrutinise the Government's reviews of sanctions regulations.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 13]

AYES

Bardell, Hannah	Rowley, Danielle
Dodds, Anneliese	Smith, Nick
Duffield, Rosie	Stevens, Jo
Goodman, Helen	Thewliss, Alison
Norris, Alex	

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	Prentis, Victoria

Question accordingly negatived.

New Clause 9

FAILURE TO PREVENT MONEY LAUNDERING

(1) A relevant body (B) is guilty of an offence if a person commits a money laundering facilitation offence when acting in the capacity of a person associated with B.

(2) For the purposes of this section "money laundering facilitation offence" means—

(a) concealing, disguising, converting, transferring or removing criminal property under section 327 of the Proceeds of Crime Act 2002 (concealing etc);

(b) entering into an arrangement which the person knows, or suspects, facilitates (by whatever means) the acquisition, retention, use, or control of criminal property under section 328 of the Proceeds of Crime Act 2002 (arrangements); or

(c) the acquisition, use or possession of criminal property, under section 329 of the Proceeds of Crime Act 2002 (acquisition, use and possession).

(3) It is a defence for B to prove that, when the money laundering facilitation offence was committed, B had in place adequate procedures designed to prevent persons acting in the capacity of a person associated with B from committing such an offence.

(4) A relevant body guilty of an offence under this section is liable—

(a) on conviction on indictment, to a fine;

(b) on summary conviction in England and Wales, to a fine; or

(c) on summary conviction in Scotland or Northern Ireland, to a fine not exceeding the statutory maximum.

(5) It is immaterial for the purposes of this section whether—

(a) any relevant conduct of a relevant body, or

(b) any conduct which constitutes part of a relevant criminal offence,

takes place in the United Kingdom or elsewhere.

(6) In this section, "relevant body" and "acting in the capacity of a person associated with B" have the same meaning as in section 44 of the Criminal Finances Act 2017 (meaning of relevant body and acting in the capacity of an associated person).—*(Anneliese Dodds.)*

This new clause would make it an offence if a relevant body failed to put in place adequate procedures to prevent a person associated with it from carrying out a money laundering facilitation offence. A money laundering facilitation offence would include concealing, disguising, converting, transferring or removing criminal property under section 327 of the Proceeds of Crime Act 2002.

Brought up, and read the First time.

The Chair: With this it will be convenient to discuss new clause 15—*Disqualification*—

In the event that adequate procedures under subsection (3) of section [Failure to prevent money laundering] are found not to be in place, the Secretary of State must refer to the court a disqualification order under section 8 of the Company Directors Disqualification Act 1986 (disqualification of director on finding of unfitness).".

This new clause would require the Minister to ask the courts to investigate whether directors of a company are fit and proper, if it was found that proper procedures against money laundering were not in place.

Anneliese Dodds: I beg to move, That the clause be read a Second time.

It is a pleasure to serve under your chairmanship, Dame Cheryl, and in rather warmer circumstances than the last time. New clause 9 seeks to create an offence if a relevant body failed to put in place adequate procedures to prevent a person associated with it from carrying out a money laundering facilitation offence. New clause 15 creates a process for disqualification for those at the top level who have failed to prevent money laundering.

I will deal with each new clause in turn and then speak briefly about the overall regulatory context, which creates a necessity for these new approaches. First, on new clause 9 and the failure to prevent the facilitation of money laundering, there are many problems with the existing system. The FCA has found weaknesses in governance and long-standing and significant under-investment in resourcing for control systems, even in the sector that is actually regulated for money laundering. I will talk about some of the problems there later on.

Many of those who investigate in this area find that rules are intermittently enforced, penalties are low and senior executives face few personal, financial or reputational consequences. It is constructive to compare some of the penalties that have been levied in the UK with those levied in the US. As I understand, the largest fine levied in the UK for anti-money laundering or sanctions offences—the Minister may contradict me if I am wrong—was levied against Coutts & Co for £8.75 million. That is six hundred times less than the penalty that was levied by the United States on BNP Paribas for sanctions-related offences.

John Glen: I am very happy to confirm that in fact Deutsche Bank was fined £163 million in January 2017, and Barclays had a fine of £72 million in November 2015. I do not think that comparison is correct.

Anneliese Dodds: It would be helpful to know under which pieces of legislation those fines were levied, because I am uncertain whether they were directly under money laundering legislation. I will come back to that, particularly in relation to some of the outcomes of some parliamentary questions that I have asked to try to dig into this and find out what prosecutions have been enabled by existing legislation.

I am grateful for the information that the Economic Secretary has provided; however, there is still a lot of concern about banks' and others' ability to root out money laundering and the facilitating of money laundering. The FCA found—admittedly, in 2014—that there was

"significant and widespread weaknesses in most banks' anti-money laundering systems and controls".

That is revealed in the case of HSBC. Many members of the Committee will know that it was involved in a money laundering scandal that led to the US fining it £1.2 billion. There was a large investigation into that matter in the United States Senate, where it was said that our UK-based bank had been a conduit for

"drug kingpins and rogue nations",

including Mexican drug cartels and North Korea. In fact, that case has been referred to already in this Committee.

Particularly worryingly, a congressional report found that George Osborne and the Financial Services Authority—now the FCA—corresponded on numerous occasions with their US counterparts about the case; in fact, they urged a less aggressive judicial approach on the US side. Apparently, the congressional report said that the UK interventions played a significant role in ultimately persuading the US Department of Justice not to prosecute HSBC. I find it quite concerning that the UK actually argued against measures being taken by other countries to try to deal with this problem.

We were hoping to have some change; the Serious Fraud Office has called for the broadening of existing economic offences to cover a kind of umbrella approach, also to cover failure to prevent. It thinks that that would be helpful to hold large companies to account criminally across the board. At the moment, we have the ability to prosecute the failure to prevent bribery and corruption, but those activities are rarely committed in isolation from instances of money laundering by corporate entities. Therefore, it seems to make sense to try to extend corporate liability to money laundering. That would push in the same direction as existing pieces of legislation. Of course, the Bribery Act 2010 created a new offence of corporate failure to prevent. I believe that Act was put in place because of the same kind of repeated criticism of the UK regime that we have seen in relation to money laundering. We also now have the offence of failure to prevent criminal tax evasion in the Criminal Finances Act 2017. Surely there is now a strong case for an explicit reference to failure to prevent money laundering.

Many of us thought that we were not going to have to push for a separate offence of money laundering because we were to have an umbrella approach. In May 2016, the Government committed to consult on a broad offence of failure to prevent economic crime, which would cover fraud, false accounting and money laundering. In January 2017, the Government downgraded that commitment and instead published a call for evidence on whether there was a case for economic crime corporate liability law reform.

As I understand it, the call for evidence closed in March 2017. I have not yet seen the results of that call for evidence. It would be helpful for the Minister to let us know the outcome of that call for evidence, the main findings and how the Government have decided to act on them. Will they introduce the umbrella offence or create a discrete offence, as we are asking for? Because we think we need action now. That is new clause 19.

The Chair: New clause 9.

Anneliese Dodds: I beg your pardon. I am getting over-excited and trying to hurtle towards the end of the programme. I am sorry, Dame Cheryl.

Sir Alan Duncan: Go ahead.

Anneliese Dodds: No; we are very keen to have a thorough discussion on every one of our new clauses.

New clause 15 focuses on disqualification. The purpose is to ensure that directors specifically take responsibility for their organisation's mistakes, and to ensure that the Secretary of State may hold them to account for a failure to prevent money laundering, in the instance where procedures have not been put correctly in place.

Many colleagues might have served as directors and will know the rules on being a director—that directors can already be disqualified if they display unfit conduct. Unfit conduct is defined as including allowing a company to continue trading when it cannot pay its debts, not keeping proper company accounts and so on.

With the new clause, we wish to extend that to include a commitment for every director to ensure that they are not ignoring money laundering concerns. We want to mirror what happens under competition law in Britain, where a director's role is looked at in the event of a breach of the law. That is necessary because of the situation we find ourselves in today.

I am sure many colleagues will have talked to professionals on the frontline of anti-money laundering. I have talked to quite a lot of people who work in banks and other organisations who have anti-money laundering responsibilities. I am sure there are people who work in accounting and other walks of life for whom this is a concern. Very often the clear message I get, as I am sure colleagues do, is that those individuals are working very hard to prevent money laundering but they are not supported by the leadership team within their firm. Global Witness has stated that,

"responsibility for compliance with anti-money laundering and other regulations is usually allocated to compliance teams, rather than to senior executives, who actually wield power within banks over what customers they take. This is a serious problem because it gives compliance staff none of the authority but all of the responsibility, breaking the important link between decision making and accountability."

That is certainly what I find when I talk to individuals who are in that responsible position. They find they are often not supported by senior managements. That has also been discovered in some of the big corporate scandals—I referred to the HSBC case a moment ago. In his written evidence to the UK Parliament, David Bagley, who led on compliance at HSBC during the period of the failings we were just talking about, stated:

> "as the Head of Group Compliance, my mandate was … limited to advising, recommending and reporting. My job was not—and I did not have the authority, resources, support or infrastructure—to ensure that all of these global affiliates followed the Group's compliance standards".

3.30 pm

This is an enormous concern, and it is not being dealt with in the new regulatory developments we have seen recently. I may anticipate some of the comments the Minister is about to make, but we have a very complex regulatory system. If we try to get at this matter through professional regulation, rather than by having the criminal sanction obligation we are talking about, we face a very complex landscape. There are 25 anti-money laundering supervisors in the UK. They include the FCA, Her Majesty's Revenue and Customs and the Gambling Commission. However, we then have 22 accountancy and legal professional bodies involved in AML supervision.

I am well aware, and I am sure the Minister will tell us, that the Government are attempting a more co-ordinated approach with the new Office for Professional Body Anti-Money Laundering Supervision. It would be helpful if he could elucidate whether this is an office, an organisation or a team, because we have it described in different ways in responses to different parliamentary questions. This body—OPBAS—also does not include HMRC as a member. I have heard a number of professionals saying that they are still confused about where the responsibility lies. If this is an attempt to deal with this problem by a professional route, we need to have the criminal sanction, ultimately, at the level of firms' leadership. Proper procedures have to be in place, and responsibility and authority must come from the top.

We have been shown time and time again a whole range of areas of corporate failure, whether that is health and safety, sexual harassment or other areas where there have been problems in a minority of corporations. We have found out frequently that when the incentives and the authority lines point in a direction that contradicts those other values, we can have all the compliance and safeguarding officers in the world, but we will not get the change we need in culture and action unless responsibility and authority are at the top. That is why we are pushing new clauses 15 and 9.

Alison Thewliss (Glasgow Central) (SNP): I do not want to add a huge amount, but I very much welcome the new clause. As the hon. Member for Oxford East said, there is a big issue of incentive and authority for organisations, particularly for those that facilitate the formation and operation of Scottish limited partnerships in the private fund sector.

There has to be an effort to ensure that compliance with the rules is extended as far as possible. For example, a legal firm may be asked to register an SLP to get it up and going, and operating, but if no buck stops with it, there is no punishment for not ensuring that the SLPs are operating as we would want them to. For example, if a firm asks its client to register a person of significant control, and the client does not do so, where is the incentive for that firm to remove that client altogether? The firm has to decide for itself whether the cost of reputational damage from being named in the press is enough. That is the balance that it has at the moment. It is not obliged not to have that SLP within its client base. There is no comeback and no consequence.

There needs to be some means by which the firm is forced to do something to put that right. If the SLPs under its umbrella do not register a person of significant control, and continue not to register them, there is no fine to that legal firm, as I understand it. The SLP may face a fine—I am trying to get to the bottom of how many fines have been issued to those who have not registered a person of significant control—but there is no comeback to the legal firm, other than potential reputational damage.

The Government need to think about where the buck really stops in these arrangements , and this type of new clause would put some emphasis on the firm to do

something about failing to prevent money laundering, rather than allowing things to continue as they are. As I understand it, there is no comeback at the moment to the legal firm that is protecting the SLPs underneath its umbrella.

John Glen: I undertake to address the points raised by the hon. Member for Oxford East. I will come to the point about the directors' responsibility in my scripted remarks and also to the issue of what provision the fines were imposed under.

On the specific question the hon. Lady asked, the Ministry of Justice's call for evidence considered a wide range of reforms to the law relating to corporate liability for economic crime. That is against a backdrop of already significant reform in this area in recent years, including the Bribery Act 2010, the Criminal Finances Act 2017 and the introduction of deferred prosecution agreements, which the Government would contend have strengthened the UK's defences against corporate criminality. The Ministry of Justice is carefully considering the responses received to the call for evidence and is analysing the impacts of the Government's range of recent reforms in this area. It will respond to its call for evidence in due course. I do not have a specific timetable, but that is the best information I can give the hon. Lady.

New clauses 9 and 15 seek to create a corporate criminal offence of failure to prevent money laundering, with an obligation on the Secretary of State to submit a disqualification order to the court against directors of a company found guilty of such an offence without having adequate anti-money laundering procedures in place. New clause 9 provides that a company or partnership is guilty of a criminal offence where the company's employee, agent or other service provider commits one of the substantive money laundering offences in part 7 of the Proceeds of Crime Act 2002. The relevant company would have a defence if it could prove that it had adequate procedures in place to prevent its employees or agents from committing such an offence.

The offence is not necessary in view of the extensive reforms to the UK's anti-money laundering regime that the Government have put in place. The proposed offence is substantively applied to firms that are regulated for anti-money laundering purposes by part 2 of the Money Laundering Regulations 2017. Those require that regulated firms have policies, controls and procedures to mitigate and manage risks of money laundering and terrorist financing. The Government have legislated to require that these policies, controls and procedures are proportionate with regard to the size and nature of the firm's business and proved by the firm's senior management. Failure to comply with these requirements is a criminal offence in itself.

The Financial Conduct Authority and other supervisors are additionally able to take action against firms if their measures to counter money laundering are deficient. As was touched on in our exchange earlier, recent regulatory penalties related to firms' anti-money laundering weaknesses include fines of £163 million for Deutsche Bank in January 2017 and £72 million for Barclays Bank in November 2015. They were a consequence of failures in anti-money laundering measures under the Financial Services and Markets Act 2000.

The new clause also seeks to address challenges that have arisen in apportioning responsibility for corporate failings. Within the financial services sector, that has been addressed through the senior managers regime, which was introduced after the financial crisis. Banks are now required to ensure that a named senior manager has unequivocal responsibility for overseeing the firm's efforts to counter financial crime. That ensures that firms and individuals can be held to account for failing to put proper systems in place to prevent financial crime. If a relevant firm breaches its anti-money laundering obligations, the FCA can take action against a senior manager if it can prove that they did not take such steps as a person in their position can reasonably have been expected to take to avoid the breach occurring. The enforcement action includes fines and disbarment from undertaking regulated activities. The Government have legislated to extend the senior managers regime to apply across all financial services firms. That will be implemented in due course, and will further the Government's reform programme. All those requirements are additional to the substantive money laundering offences in the Proceeds of Crime Act, such as entering into arrangements that facilitate the use of criminal property, which apply to any individual or company.

As hon. Members know, the Government have previously introduced two similar offences: the failure to prevent bribery, in 2010, and the failure to prevent the facilitation of UK and foreign tax evasion, in 2017. They are structured in a similar way to the proposed new clause, but they were introduced following clear evidence of gaps in the relevant legal frameworks that were limiting the bringing of effective and dissuasive enforcement proceedings. It is right that the offences that we have already established apply to legal entities, regardless of whether they operate in the regulated sector.

The situation in relation to money laundering is very different. The international standard is set by the Financial Action Task Force, which has been referred to numerous times in the Committee's discussions. The UK's money laundering regulations apply to banks, financial institutions, certain professional services firms and other types of entity, and act as gatekeepers to the financial system. As I have said, such firms are already required to have policies and procedures in place to prevent their services from being misused for money laundering.

Subsection (6) of new clause 9 would require all companies, regardless of whether they are incorporated, to have procedures in place to prevent persons connected to them from laundering money. The Government do not believe that that would be appropriate. It would risk making non-regulated firms liable for the actions of their regulated professional advisers. Instead, responsibility for anti-money laundering compliance should rest in the regulated sector, as is currently the case. The new clause would not go beyond the existing regulatory framework in that area, and it would blur where responsibility should lie for anti-money laundering compliance. Therefore, I respectfully ask the hon. Member for Oxford East to withdraw the new clause.

Anneliese Dodds: I am grateful to the Economic Secretary for those helpful explanations and clarifications. Despite his useful response, however, there are a number of areas where I am unclear. First, I appreciate that he has probably anticipated this question, but the Committee may ask why it has taken Government a whole year to assess the responses from their consultation on economic crime. Government frequently work at a far faster pace than that. He said that we will have the analysis of those

[Anneliese Dodds]

consultation responses in due course. It would be helpful to know more about why it is taking so long for Government to analyse them.

Secondly, the Economic Secretary spoke about the requirement for all regulated firms to ensure that their policies, controls and procedures are appropriate to prevent money laundering, but there is a question about who assesses that and whose responsibility that is. That takes us back to the issue about there being myriad professional bodies, which all operate subtly different approaches towards regulation in this area. As I said, I appreciate that OPBAS has been created to try to draw them together, but I do not think we heard exactly what the status of that office is—I was trying to concentrate on what the Economic Secretary was saying. I have seen different descriptions of it as a team, an office and an organisation. It would be helpful to have a clearer indication, particularly because those professional bodies are, as I understand it, required to contribute financially to OPBAS, so a number of them are keen to understand what is happening with it. Furthermore, HMRC is not a member of it, as I said before, so the concern about a lack of regulatory co-ordination persists.

Finally, the Economic Secretary referred approvingly to the senior managers regime that has been brought in since the financial crisis, which looks like a positive step initially—of course, the HSBC problems occurred following that. In any case, as I understand it, the actual operation of this new regime and its extension are quite different from, for example, what was recommended by the Parliamentary Commission on Banking Standards. Under this approach, the burden to show that senior managers failed to take appropriate steps will be on the regulator, rather than the senior managers themselves.

That is different from the approach taken in many other areas, including road traffic, health and safety at work, the Bribery Act 2010—which the Minister referred to—terrorist legislation, the Misuse of Drugs Act 1971 and so on. It would be helpful to understand why, with the extension of this regime, the burden of proof has essentially now been placed on the shoulders of the regulator, rather than the shoulders of the managers.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 9, Noes 10.

Division No. 14]

AYES

Bardell, Hannah	Rowley, Danielle
Dodds, Anneliese	Smith, Nick
Duffield, Rosie	Stevens, Jo
Goodman, Helen	Thewliss, Alison
Norris, Alex	

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	Prentis, Victoria

Question accordingly negatived.

New Clause 10

REGISTRATION OF COMPANIES: ANTI-MONEY LAUNDERING CHECKS

"(1) The Registrar of Companies must not register a company unless he or she is satisfied that appropriate anti-money laundering checks have taken place.

(2) The Companies Act 2006 is amended as follows—

(a) in section 9, after subsection (5), insert—

'(5ZA) The application must provide satisfactory evidence that anti-money laundering checks have taken place.'

(b) after section 13 insert—

'13A Satisfactory evidence of anti-money laundering checks

(1) The Registrar is entitled to accept the anti-money laundering registration number of the United Kingdom body that has submitted the application as satisfactory evidence under section 9(5ZA), provided he or she believes that number to be valid.

(2) The Secretary of State may by regulations made by statutory instrument specify any other evidence that the Registrar may accept under section 9(5ZA).

(3) A statutory instrument containing regulations under this section is subject to annulment in pursuance of a resolution of either House of Parliament.'"—*(Anneliese Dodds.)*

This new clause would amend the Companies Act 2006 to ensure that the Registrar of Companies does not register a company under that Act unless the required anti-money laundering checks have taken place.

Brought up, and read the First time.

3.45 pm

Anneliese Dodds: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss the following:

New clause 11—*Due diligence*—

"(1) For the purposes of preventing money laundering, when a company is formed, any company formation agent providing formation services must ensure that the identity and business risk profile of all beneficial owners of the company are established in accordance with—

(a) the customer due diligence measures under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 2017/692),

(b) regulations made under section 41 of this Act, or

(c) the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on anti-money laundering measures.

(2) For the purposes of subsection (1), Companies House is to be treated as a 'company formation agent'."

This new clause would ensure that when a company is formed in the UK, the relevant formation services must identify the beneficial owners of the company. It will also treat Companies House as a "company formation agent", ensuring that the data on the public register of beneficial ownership for companies is accurate.

New clause 12—*Companies House: due diligence and resources*—

"(1) For the purposes of preventing money laundering, the Companies Act 2006 is amended as follows.

(2) In section 1061 (the registrar's functions) after subsection (1) insert—

'(1A) Functions directed by the Secretary of State under subsection (1)(b) must include due diligence on a person wishing to register a company.

(1B) In this section "due diligence" has the same meaning as "customer due diligence measures" in regulation 3 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 692/2017).'

(3) In section 1063 (Fees payable to the registrar), in subsection (2)(a) after 'Secretary of State' insert 'including the duty of due diligence under section 1061(1A).'"

This new clause would amend the duties of Companies House to ensure that any person wishing to register a company must be checked for due diligence by Companies House, in line with the measures included in the Money Laundering Regulations 2017. It also ensures that the Secretary of State can charge fees for due diligence checks to cover costs incurred by Companies House.

New clause 13—*UK bank accounts*—

"(1) For the purposes of tackling money laundering, the Companies Act 2006 is amended as follows.

(2) In section 853A (duty to deliver confirmation statements), after subsection (1) insert—

'(1A) In subsection (1) "information" includes such information as is able to demonstrate that the company has a UK bank account.

(1B) Any company that is unable to provide the information required in subsection (1A) is liable to a fee which may be prescribed by regulations.'"

This new clause would ensure that all companies wishing to be created in the UK must provide evidence of a UK bank account to ensure it has gone through proper money laundering checks by a UK supervising body. If a company is unable to provide proof then they are liable to a fee which will cover the cost of such checks.

Anneliese Dodds: It is a pleasure to present the new clauses to the Committee. As colleagues will know, they all essentially call for an increase in the due diligence and anti-money laundering checks for those who register a company through Companies House.

There is a clear rationale for the new clauses. Around 40% of incorporations in the UK every year are done directly through Companies House, which in many ways offers an easy and helpful service. It is very quick; it is one of the fastest and easiest ways to form a company—it costs only £12 and takes a matter of minutes to complete the necessary paperwork online. That is all very positive, but the negative side comes from the risks that result from an approach where there is insufficient due diligence on the data submitted through that route.

The problem, as I am sure Ministers are well aware—I have asked a number of parliamentary question to probe this—is that Companies House is exempt from the Money Laundering Regulations 2017 because of its not-for-profit status and the fact that it is not a company service provider. That means that a huge number of companies are created without any checks being made on the person setting up the company or the source of their wealth. We are talking about 251,628 companies last year.

As I said, there are very positive aspects to being able to create companies quickly, but the quality of data that results from that is potentially very poor; my hon. Friend the Member for Bishop Auckland talked of , potentially, 10% of company reports not including the appropriate information. There are some cases that might almost be humorous, but given the the circumstances they are deeply disturbing and indicate how little due diligence is taking place. An investigative journalist, Oliver Bullough, created a company called "Crooked Crook Crook Ltd." With that name, many of us might think that this would be a company we would want to look into, but no, the confirmation documents were delivered within 36 hours. He details in an article, which colleagues can look up, should they wish, how easy it was to create that company. If he had not reported his activities in an article for a media outlet, his company could have gone on to partake in a myriad of activities, showing just how cheap, easy and disposable company formation through Companies House can be.

There are many concerns about that. We have a new regime in place now through the money laundering regulations, which covers trust and company service providers—TCSPs—as we have already mentioned. We have some amendments further down the agenda looking at some of those, because there is a particular issue around the operations of non-UK TCSPs. It is surely the case that when a company can be created through a TCSP, that TCSP has to follow all money laundering legislation, but when it does not go through a TCSP, and there is no money laundering legislation applying to it, we should be very concerned. Potentially, that money laundering regulation is undermined by having this massive loophole in place.

There are many disturbing findings from the data from Companies House that has been crunched by different investigative journalists and NGOs. We find that 4,000 beneficial owners named in the Companies House register are under the age of two. My daughter is two. She is really good at lots of things, such as climbing on to chairs. I am not sure that she or any of her playmates would be very good at being a person exercising significant control within a company. There are five beneficial owners registered who control more than 6,000 companies. Perhaps each one of those five are exercising all of their responsibilities perfectly in line with legislation and probity, but it must be very difficult for them to do that. We also have the fact that companies from secrecy jurisdictions can then be registered by Companies House through a UK company, or another formation agent, without there being any background or due diligence check.

I realise that some of these cases might sound a little bit silly, but potentially we are talking about some very worrying examples where there has not been that due diligence and there should have been. There was recently a BBC investigation—we have already referred to it within this Committee—into the case where a UK company registered at a Potters Bar address appeared to facilitate very complex financial arrangements involving the former President of Ukraine. At least £1.2 billion has been funnelled through companies registered at the same Potters Bar address, some of them potentially linked to the very complex situation where huge funds from the Eurovision song contest and lots of other activities seem to have somehow ended up in this company through very unclear routes.

It is concerning that we are in this kind of situation. Because of that, we find a number of professionals highlighting this as an area where we need to have reform. Frances Coulson, the head of insolvency and litigation at Moon Beever Solicitors, has been quoted as saying that this money is passing through Britain, through companies created with insufficient due diligence. She said:

"This is going on now and all the time…All the indicators are that it's getting worse."

And she said that,

"better due diligence—such as checking identification documents—by company formation agents and the UK corporate register, Companies House, would help combat fraud."

Even if we do not manage to pass these new clauses at this stage, I hope that we will at least get some clarification on some of the rather unclear aspects of

[Anneliese Dodds]

the regulatory regime. First, there is the role of Companies House. We are getting only a bit of an inkling of the role of Companies House through parliamentary questions. One response, given on 12 October 2017, said that the Government's view is that Companies House

"does not have a front-line role in combatting money laundering".

In the same month we were told:

"Companies House does not have powers to verify the authenticity of company directors, secretaries and registered office addresses. However, it does carry out a number of checks on all information received; ensuring it is valid, complete, correctly formatted and in compliance with company filing requirements."

However, when we try to find out what this verification process involves, the picture gets rather complicated. Is any automated verification of beneficial ownership information occurring? I tried to find out in February, and no, there are "no current plans" to undertake that; however, Companies House is, it seems, undertaking activities, including,

"contacting companies where they believe the company has misunderstood the requirements…pursuing companies that have not provided PSC information"—

it seems that there is a huge number they will have to pursue, given the statistics discussed by my hon. Friend the Member for Bishop Auckland,

"following up with companies and PSCs where they have issued notices to their PSC (asking the PSCs to provide them with information)"—

PSCs being "people with significant control"—and

"seeking compliance from companies where there has been a complaint about missing or incorrect PSC information."

This was where the picture got more confused. *[Interruption.]*

I may have heard the Minister suggesting that I was rabbiting on. I am terribly sorry, but some of us are concerned about these matters and a number of professionals have contacted us about their concerns, so it is absolutely right that we deal with them in this Committee.

I tried to find out how many reports have been made about money laundering through the "report it" facility that Companies House has set up. The Minister of State, Department for Digital, Culture, Media and Sport, the hon. Member for Stourbridge (Margot James), responded to me on 19 December, stating:

"Eight reports about money laundering have been made through the Companies House report it facility."

However, I was then told on 20 December that the new "Report It Now" feature had led to Companies House

"receiving between 180-200 contacts a day through this service."

That seems like quite a big gap. Will the Economic Secretary please indicate how many of those reports are about money laundering? Is it eight, or is it 180 to 200 a day?

I have been very concerned by the Government's claim, in the same written answer:

"Higher risk company formation activities in the UK will generally be done via Trust or Company Service Providers, who are subject to the Money Laundering Regulations."

I want to illustrate that with one last example, which I was told about yesterday and is quite concerning. It is the case of an individual who has previously described himself as "The Chicken Thief". That is his name as a person of significant control within the Companies House database. His real name is thought to be Antonio Righi—a mafia kingpin in Italy. If someone searches for his name on the Companies House website, as an academic did yesterday before informing me about this, they get a link to Business Bank Italy Ltd.

All banks should be regulated through the FCA nowadays. We are supposed to have that proper approach in place. The use of the word "bank" in a company name is restricted. Any would-be bank has needed to obtain a letter or email of non-objection from the FCA before being allowed to operate as a bank. Yet we see this company still apparently registered with Companies House.

That is deeply worrying because the individual concerned has been named as an active member of the Camorra—a very problematic criminal network that operates in Italy, with links in many other countries. The revelations about "The Chicken Thief" are not new, so one would have thought that Business Bank Italy would have been looked into carefully by the Government, but apparently not, and it still appears to be registered on the Companies House website. I hope the Minister can indicate why that is and whether he will look into this matter, if he has not done so already.

4 pm

Alison Thewliss: I support the new clauses proposed by the hon. Member for Oxford East. They flag up a huge loophole in the anti-money laundering regime, which is the inability of Companies House to do anything about what comes through its door. By not acting on information, and expecting company formation agents to behave in a different way from the way the Government's own agency behaves, the Government become complicit in the money laundering that is clearly going on through companies that are registered for only £12.

The situation is curious. Last week I sat on a delegated legislation Committee that discussed passport fees and the need for full cost recovery of those fees by the Government because the Passport Agency wants to ensure that it is not making a loss. There is an argument about whether passports are too expensive, which I think they are, but it costs £12 for the registration of a company. If Companies House is not getting full-cost recovery for that, and that is the reason for not carrying out the due diligence that ought to be done on anti-money laundering, that is an argument to find a reasonable cost of registration that would allow Companies House to operate, make money and have sufficient funds to carry out the due diligence it ought to. If there is an incentive not to play by the rules, and the Government are incentivising that through the operation of its own agency, that is nonsense. That is highlighted in Global Witness's "The Idiot's Guide to Money Laundering":

"Step 4: open your company direct with the corporate registry—they don't do any checks on you!"

It seems ludicrous that the Government are going to encourage agents who want to set up companies for people to do that and go through the anti-money laundering things that they have to do, but the Government are not enforcing that. That seems absolutely ludicrous. I cannot for the life of me think how the Government will defend that unjustifiable loophole.

Transparency International reported that in the UK last year, 251,628 companies were created with no checks being made on the person setting up the company or their source of wealth. It is a scandal that these companies can be set up, facilitated by the Government, because Companies House has to accept their documents in good faith without doing due diligence checks that we would expect of other agents. If they are not going to support the new clauses, I urge the Government to propose a measure themselves, because this simply cannot continue.

John Glen: The new clauses are broadly similar in purpose and intention. Each would expand the role that Companies House plays in relation to anti-money laundering checks, whether by conducting due diligence directly, confirming that due diligence has been carried out, or confirming that a company seeking to be incorporated has a UK bank account.

I will turn to the practical difficulties of these proposals in a moment, but the first point to make in connection with each is that the UK's anti-money laundering regime is undergoing an assessment by the Financial Action Task Force. The FATF is the international standard setter in this area and will report publicly later this year on its findings. The report will consider matters, including the effectiveness of how the UK prevents the misuse of legal persons, such as companies, for money laundering purposes. Hon. Members will appreciate that this report will greatly inform the future of the UK's anti-money laundering regime, including in relation to how we can best prevent the misuse of legal entities, some of which have been described in the course of this debate.

Once the FATF has reported, the Government will actively consider its conclusions, including those in relation to any areas in which the UK's anti-money laundering framework can be improved. These new clauses pre-empt the review process already under way. It would be more sensible to allow the review to identify specific areas where action is necessary before making further changes to our AML regime.

New clause 10 would require anti-money laundering checks to be undertaken before any UK company can be incorporated by preventing the registrar of companies from registering a company unless she is satisfied that such checks have been carried out. It then says that the registrar is entitled to accept the anti-money laundering registration number of the UK body that has submitted the application as evidence that such checks have taken place. The effect would be to require all incorporations to be made through a UK body regulated for anti-money laundering purposes. This would prevent people from applying directly to Companies House to register and set up their own business; any person seeking to set up a business would be required to use the services of a professional agent that is also regulated for anti-money laundering purposes, and pay for those services, which will in turn increase the cost of setting up businesses.

The proposed new clause assumes that all bad companies are set up directly with Companies House, and that only companies set up through the agency of a regulated professional can be trusted. That is simply not true. Only the simplest companies—those using standard-form constitutions—can be set up directly with Companies House online in the way described by the hon. Member for Glasgow Central. Typically they are self-standing, family-run and family-operated businesses. More complex corporate structures will, in contrast, frequently be established through trust or company service providers. The UK's national risk assessment of money laundering and terrorist financing noted last year that

> "While companies can be registered directly with Companies House, criminals continue to make use of third party TCSPs, to establish the structures within which illegitimate activity subsequently takes place."

The fact that TCSPs are legally required to conduct customer due diligence does not in and of itself solve the problem. The new clause would therefore impose an across-the-board administrative burden on individuals seeking to establish companies, without adding any significant new obstacles to money laundering. Companies incorporated directly through Companies House are overwhelmingly likely to interact with the UK regulated sector, and so face anti-money laundering checks either by having a UK bank account or through having a UK accountant.

We discussed in the previous debate the 22 different regimes, and this speaks to the necessity for some degree of complexity to minimise the risks as far as possible. New clauses 11 and 12 are similar in outcome to new clause 10: they would require company formation agents—defined for these purposes as including the UK registrar of companies at Companies House—to conduct customer due diligence to establish the identity and risk profile of all beneficial owners of such companies registered at Companies House. The key difference is the reclassification of Companies House, which would now be required to deliver its statutory duties as if it were a private sector business. The accompanying explanatory statement suggests that these clauses will identify the beneficial owners of a company and make information held at Companies House more accurate. Although similar to the proposed new clause 10, these new clauses would go further in imposing expansive new obligations upon Companies House, requiring significant changes to the UK company law system.

Given the overlap with the lead new clause group, I will focus on the most novel element: the proposal that Companies House be treated as a company formation agent. Since the registrar of companies was first created, it has been required to accept any application that is validly and correctly submitted, and to duly incorporate the company as requested. Companies House does not help customers through this process, and is responsible solely for conducting the process of company incorporation. Company formation agents, known as TCSPs, are entirely distinct from Companies House. They are already subject to due diligence obligations through the Money Laundering Regulations 2017, and these extend to being required to terminate any existing business relationship when they are unable to meet their due diligence obligations. In contrast, Companies House has no legal right to refuse or decline a request to incorporate a company if the application is valid, and therefore it does not have the ability to decline a business relationship in the way that TCSPs must when they cannot discharge their due diligence obligations. If accepted, these amendments would essentially require fundamental reform of the Companies Act 2006.

To emphasise the scale of that proposed reform, 3.9 million companies are currently registered at Companies House and approximately 600,000 new companies register each year. The impact on resource to carry out due

[John Glen]

diligence on that number of companies would be considerable. The burdens and cost would fall on those 3.9 million companies, and specifically on the vast majority of legitimate companies, many of which are very small businesses. They would be forced to pay to duplicate the cost of due diligence checks that are already conducted by banks and other regulated professionals. The overall cost to the UK economy could run into hundreds of millions of pounds each year.

New clause 13 would amend part 24 of the Companies Act so as to require UK companies to establish a UK bank account and evidence that to Companies House on an annual basis or pay a fee or financial penalty. As with other new clauses in this group, new clause 13 will not achieve its stated intention. The wider purpose behind that part of the Act is to provide a simple mechanism for companies to confirm that corporate information registered with Companies House, as required under other obligations, is accurate and up to date in relation to company share capital, business activities and the address of a company's registered office.

That is not to say that the new clause's underlying principle does not merit further consideration. Evidence of a UK bank account is intended to demonstrate that a company has been through proper money laundering checks by a UK supervising body related to the financial activities of that company. However, the practical implications need careful consideration. To make the proposal operational, Companies House would require new systems with access to UK and international banking information. The costs associated with the development and operation of such systems would inevitably be large and would need to be recovered from UK businesses. Once again, that would necessarily establish a new reporting burden that would essentially target the overwhelming majority of law-abiding UK businesses.

The new clause suggests that companies that cannot provide evidence that they have a UK bank account would be liable to a fee, although that could better be characterised as a penalty—its purpose is not specified. If it is intended to incentivise companies that are established to launder money to open a UK bank account, it would need to be set sufficiently high to achieve that objective, which would be disproportionate to the notional offence of not providing evidence of a UK bank account.

The Government are already active in that sphere. Under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, regulated bodies such as banks are obliged to carry out CDD checks on their customers on an ongoing basis. That is a rich field of data, and the regulated sector is already closely engaged with UK law enforcement to identify and report suspicious behaviour. In parallel, Companies House has an extensive outreach programme to the regulated sector to promote use of its data and encourage bodies to report possible errors back to it.

To sum up, a simple demonstration of a bank account is a blunt instrument. As drafted, the new clause simply adds a burden to UK companies to report more information. We should not proceed down that path without being much clearer that the information we require them to disclose is valuable, that it is necessary and that it cannot be achieved by other less burdensome means. On that basis, I ask the hon. Member for Oxford East to withdraw the amendment.

Anneliese Dodds: I am grateful to the Economic Secretary for those clarifications. He made several helpful points, but some concerns remain. He mentioned the FATF process, which the Committee has discussed previously, and seemed to suggest that we should not make alterations in this area of anti-money laundering activity because of the ongoing FATF assessment. Of course, that argument could stop action in any other area, because the FATF is looking at anti-money laundering and anti-corruption provisions across the board, so it is not clear that it is completely convincing. Furthermore, I understand that representations have been made to the FATF as part of its review that change is needed in this area, which suggests that the argument is the other way round. The Economic Secretary also suggested that there would be a much higher cost for those that want to incorporate through a TCSP. In practice, as I understand it, the cost may not be substantial—only a couple of pounds more in many cases.

4.15 pm

I return to the point about who assesses and how they conclude that those companies formed only through Companies House are necessarily lower risk. The Minister threw it back at me and said and I was assuming that all those companies formed through routes other than Companies House were perfect. I do not say that, and that is why we have other amendments about TCSPs coming up soon. As I understand it, there have been many concerns about fraudulent companies set up through Companies House—for example, offering to do work on people's houses: there by day, off by night, do a bad job, run off with the money. It is easy to do if no one is checking that you are who you say you are.

Some of the checking that has been talked about is not necessarily as onerous as the Minister suggests. I am sure many of us will be familiar, if we try to buy tickets—something like that—with having to put in basic identification information. We have to put our name in; the system will check that our postcode matches our address. Currently, you do not have to go to those lengths with Companies House.

Hannah Bardell: Does the hon. Lady agree that we are letting our citizens down if we do not legislate properly and close these loopholes? I am sure we have all had constituency cases where people have lost money to unscrupulous companies and company owners. We have an opportunity to take action, and we must take it. The Government are letting citizens down if they do not accept the new clauses.

Anneliese Dodds: I am grateful to the hon. Lady for making the point clearly that our proposal has been portrayed as only a burden, when it could help to prevent our constituents from being ripped off by unscrupulous individuals who are able to set themselves up as a company with only minimum requirements for due diligence. As I said, they can be there by day, fly off by night, and leave the unfortunate person who dealt with that company in a very difficult position.

To end my remarks specifically on the Minister's comments on new clause 13, many of us are worried that, in practice, there are TCSPs that offer UK company formation with a range of optional services, including setting up bank accounts in other jurisdictions such as Latvia, Belize, Switzerland and Cyprus. That would not

necessarily be a problem, were it not for the fact that, time and again, we have seen in the cases we have discussed in this Committee that reliance on the third parties—the banks in those other countries—does not lead to a real assurance that money laundering provisions are being followed. The reality is quite the opposite.

In the Russian laundromat scandal, which we have already talked about, of the 440 UK shell companies used in the scheme—in itself, a staggering statistic—392 of them had Baltic bank accounts, with 270 UK firms using Latvian banks and 122 using banks in Estonia. It may be that we are fully confident in every case that anti-money laundering regulations were followed in those countries, but given some of what came out of the Russian laundromat scandal, it could be suggested that that is not the case.

We do need to get at this problem through another route. We need reform of the Companies House system, but we also need the use of another prong which is requiring a UK bank account.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 15]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 11

DUE DILIGENCE

"(1) For the purposes of preventing money laundering, when a company is formed, any company formation agent providing formation services must ensure that the identity and business risk profile of all beneficial owners of the company are established in accordance with—

(a) the customer due diligence measures under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 2017/692),

(b) regulations made under section 41 of this Act, or

(c) the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on anti-money laundering measures.

(2) For the purposes of subsection (1), Companies House is to be treated as a 'company formation agent'."—*(Anneliese Dodds.)*

This new clause would ensure that when a company is formed in the UK, the relevant formation services must identify the beneficial owners of the company. It will also treat Companies House as a "company formation agent", ensuring that the data on the public register of beneficial ownership for companies is accurate.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 16]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 13

UK BANK ACCOUNTS

"(1) For the purposes of tackling money laundering, the Companies Act 2006 is amended as follows.

(2) In section 853A (duty to deliver confirmation statements), after subsection (1) insert—

'(1A) In subsection (1) "information" includes such information as is able to demonstrate that the company has a UK bank account.

(1B) Any company that is unable to provide the information required in subsection (1A) is liable to a fee which may be prescribed by regulations.'"—*(Anneliese Dodds.)*

This new clause would ensure that all companies wishing to be created in the UK must provide evidence of a UK bank account to ensure it has gone through proper money laundering checks by a UK supervising body. If a company is unable to provide proof then they are liable to a fee which will cover the cost of such checks.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 17]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 14

TRUST OR COMPANY SERVICE PROVIDERS

"(1) For the purposes of preventing money laundering, a trust or company service provider that does not carry on business in the UK may not incorporate UK companies without oversight from an anti-money laundering supervisor.

(2) In this section—

'anti-money laundering supervisor' has the same meaning as 'supervisory authority' in Schedule 2;

'trust or company service provider' has the same meaning as in regulation 3 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 692/2017);

'carry on business in the UK' has the same meaning as in regulation 9 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 692/2017)." —*(Anneliese Dodds.)*

This new clause would ensure that Trust or company service providers that do not conduct business in the UK may not incorporate UK companies without oversight from a UK supervisor.

Brought up, and read the First time.

Anneliese Dodds: I beg to move, That the clause be read a Second time.

It feels a little like going out of the freezer and into the fire, because it is rather warm on this side of the Committee Room, but I am sure that we will be rewarded somewhere else for our endurance.

The Chair: May I ask the hon. Lady not to tempt fate?

Anneliese Dodds: We tabled the new clause because ineffective anti-money laundering supervision has a clear and obvious link with inadequate compliance and with low and poor-quality reporting of suspicious activity to the National Crime Agency. Research by a number of non-governmental organisations, particularly Transparency International, has indicated serious failings in the current framework for supervising money laundering compliance in the UK, especially with respect to trust and company service providers.

Under the Money Laundering Regulations 2017, only TCSPs carrying on business in the UK—that is their formulation in the legislation—have to register with an anti-money laundering supervisor and comply with MLR 2017. That means of course that TCSPs with no UK presence can incorporate UK companies without any oversight from an AML supervisor. They do not have to comply with UK standards for money laundering checks. We have seen a number of clear examples—I will talk about some in a moment—where that has allowed non-UK TCSPs to incorporate UK companies that have subsequently been used in large-scale money laundering schemes. I think many of the concerns raised a moment ago around undercutting existing legislation and the lack of a fair playing field for UK TCSPs come up again in this regard.

In 2012 the International Consortium of Investigative Journalists showed how a number of UK individuals offering company services had moved their base of operations outside our country but continued to form, and act as nominee directors for, UK companies. There are two examples that are particularly important. The first was Jesse Grant Hester, who was originally from the UK and who moved to Cyprus to form Atlas Corporate Services Ltd before moving to Dubai and, finally, Mauritius—he is somebody who has been lucky enough to travel much in life. Those jurisdictions have all been identified as presenting high money laundering risks. Mauritius in particular is very concerning: it scored 5.92 out of 10 on the Basel Institute on Governance money laundering risk index. Ten is the highest level of money laundering risk and zero is the least, so it is well up there. Jesse Grant Hester appeared on numerous occasions as a nominee director for companies embroiled in corruption scandals. In the Moldovan bank theft that we talked about earlier, he signed fake promissory notes using an alias on behalf of a UK firm, Goldbridge Trading Ltd, allowing £444 million to be stolen. Atlas Corporate Services is associated with eight people who, between them, have held directorships of 3,613 UK companies. Again, that is a staggering number of companies to be held by just eight people. As we discussed, that scandal caused enormous problems for the country of Moldova.

Another UK resident who became internationally renowned, although not in a positive way, for his company formation activities, is Ian Taylor. That is not the famous social policy academic, who I had the pleasure of working with, but another Ian Taylor. He also moved around a lot: he moved to Vanuatu.

John Glen: There was also a Tory MP of that name.

Anneliese Dodds: Oh, there was a Tory MP as well. Goodness—the name is frequently used. He moved to Vanuatu after he was banned from being a corporate director, first in New Zealand in 2011 and then in the UK in 2015, as a result of his companies' involvement in numerous scandals, including a land banking scam in Somerset. Vanuatu's self-assessment on money laundering risk found that its TCSP sector was among the most vulnerable to such activity. In 2015 the Asia/Pacific Group on Money Laundering found serious deficiencies in Vanuatu's AML system. Despite being banned in the UK, Taylor seems to have retained a UK presence. Various investigations have identified the circle of nominee directors that he works with. One of them is a Vanuatu resident who is a director of more than 61 companies. He took over from Taylor as a director of 20 of them on the same date.

Those examples show that physically moving out of the UK does not result in a lack of activity in the UK. Networks of associates make it difficult to stop the formation of UK companies by individuals who have already been disqualified here. Such individuals, who have been shown to have engaged in money laundering activities or have otherwise been disqualified or viewed as not competent in this arena, can function in other countries and create companies. The checking that should go on does not happen, and there is inadequate anti-money laundering supervision. We do not have a means of dealing with that, because we do not have a regulatory system for TCSPs that are not based in countries with appropriate anti-money laundering provisions. That is not currently illegal, which is why we want to change the legal situation.

4.30 pm

The deputy director of the National Crime Agency's economic crime command says that he is investigating several agents involved in such activity. He spells out the legal situation in the UK but, of course, that situation does not apply to these individuals. It would be helpful for us to have an indication from the Minister—even if he is not prepared to support our new clause—of his understanding of the current situation when it comes to TCSPs registered in different jurisdictions. Have the Treasury, the FCO and others assessed the likelihood of

having proper anti-money laundering provisions in place? If not, will they undertake to do so? As I have said, our new clause is designed to close what appears to be a huge loophole.

John Glen: I am grateful to the hon. Lady for setting out her new clause, which would prohibit TCSPs that do not conduct business in the UK from incorporating UK companies, unless they are overseen by a UK anti-money laundering supervisor. As hon. Members will know, the Money Laundering Regulations 2017 specifically provide for TCSPs conducting business in the UK to be subject to a fitness and propriety test and to register with either Her Majesty's Revenue and Customs or the Financial Conduct Authority. In borderline cases where it is unclear whether a TCSP is conducting business in the UK—in which case it would be supervised by a UK anti-money laundering supervisor—HMRC would consider on a case-by-case basis whether registration for supervision is necessary. This acts as an anti-evasion mechanism preventing TCSPs from artificially claiming that they are outside the scope of the UK's anti-money laundering regime.

The hon. Member for Oxford East asked earlier where this was based. The Government recently established the Office for Professional Body Anti-Money Laundering Supervision, known as OPBAS, within the Financial Conduct Authority. It works to secure consistently high standards of AML supervision of professional bodies, including TCSPs. These reforms follow the identification of risks associated with TCSPs in the Government's 2016 action plan for anti-money laundering and counter-terrorist financing. This found that service sectors such as TCSPs were a significant money-laundering threat.

Although it is for anti-money laundering supervisors to determine their areas of focus, they are required to have regard for the UK's national risk assessment of money laundering and terrorist financing when assessing risks in their own sector. The risk assessment that the Government published in October last year concludes:

"The highest risk TCSPs are assessed to be UK TCSPs which offer a wide range of services (including nominee directors, registered office services, and banking facilities)".

Additionally, individual anti-money laundering supervisors are under a duty to identify and assess the international and domestic risks of money laundering and terrorist financing to which their sectors are subject.

Helen Goodman: I am surprised by what the Minister is saying. He obviously did not listen to the BBC "Analysis" programme that was broadcast about three weeks ago on the role of overseas TCSPs. We think it is great when people build real-life factories as a jumping-off point into the single market, but it is evident that TCSPs and banks located in the Baltic states, which do not have such good anti-money laundering regulatory regimes, attract money and are used as a jumping-off point to move that money into the European system. Does the Minister really think that the anti-money laundering regimes throughout the European Union are as effective the one in the UK?

John Glen: I cannot comment on the specific cases that the hon. Lady mentions, because I have not seen or studied them. I imagine that there is a degree of variability in the effectiveness of regimes, but I am trying to set out the Government's rationale for what we have in place. I do not suggest that it is perfect, but some of the developments have occurred in response to shortcomings that have been identified.

The individual anti-money laundering supervisors are under a duty to identify and assess international and domestic risks, including the money laundering and terrorism risk, which ensures that the most intensive supervision is applied where the highest risks of money laundering exist. The establishment of OPBAS will assist with the consistent identification of such risks across the TCSP sector. Our national risk assessment makes it clear that the Government are aware of the money laundering risks connected with TCSPs, and further reform in the area should take account of the conclusions of the ongoing FATF review. I assure Opposition Members that the regime is a searching and exacting one. I know from ministerial meetings concerning preparations for it that the evaluation will be exacting. We expect the observations to be meaningful, and we will need to respond carefully to them. However, until we receive the outcome of that review of the UK's anti-money laundering regime and of the experience of OPBAS as its role develops, it would not be appropriate to adopt the amendment.

Hon. Members should be mindful of the fact that anti-money laundering supervision around the world follows a territorial model. Simply requiring non-UK TCSPs to have a UK supervisor when they set up UK companies will not address the challenges of extra-territorial supervision. Effective anti-money laundering supervision depends on measures that include supervisory on-site visits and close engagement with higher-risk firms. Requiring a UK supervisor to do that in relation to a non-UK firm will not, in and of itself, address the issue that hon. Members have identified.

As was noted in the other place, the most effective means of combating international money laundering is cross-border co-operation to drive up the standards of overseas supervision and enforcement. For those reasons, we have imposed a duty on each UK anti-money laundering supervisor to take such steps as they consider appropriate to co-operate with overseas authorities. That is the agenda we pursue through the global FATF process. I therefore respectfully ask the hon. Lady to withdraw the new clause.

Anneliese Dodds: I am grateful to the Minister for those remarks and clarifications. They have been genuinely helpful, but I regret that some areas are still rather unclear to me; perhaps they are not to other Committee members. He stated that the highest-risk TCSPs are assessed to be UK ones, but it has not been spelled out why. Perhaps he could write to me about that.

John Glen: I would be happy to write to the hon. Lady to spell that out. My understanding is that UK-based TCSPs typically offer a wider range of services and there are vulnerabilities in the additional services, but I will investigate and write to her as quickly as I can.

Anneliese Dodds: I am grateful to the Minister for offering to look into that. We must always be wary of talking about a general pattern of activity as necessarily reflecting the risk profile of that overall activity. Among those TCPS, there could be overseas ones that are not appropriately regulated and that also offer a wide range of services, in the same way as some UK TCSPs do.

[Anneliese Dodds]

I am also a bit confused about the professional regulators. As the Minister said, there are about 22 of them, and then on top of that we stick Her Majesty's Revenue and Customs, the Financial Conduct Authority and so on. As I understand it, the professional regulators do not have members based in other countries; they cover only UK residents. We are talking about, for example, the Law Society of Scotland and the Law Society of England and Wales—professional bodies dealing with UK individuals. We are not talking about professional associations covering professionals in other countries.

The Minister seemed to talk about a process of liaison between these organisations and their counterparts in other countries. I am sure we all want to encourage that, because it sounds like a very good idea. Information sharing is wonderful, but information sharing is not the same as having an appropriate process of regulation to ensure that there is compliance with anti-money laundering requirements.

The Minister said that the approach was an extraterritorial one, because it affects bodies in other countries. That is absolutely right, but those bodies then interact with our company formation procedure. That is the reason why we, as a country, have a stake in this process—a rather large one, given the reputational damage that seems to be being caused by the activities of some unregulated or inappropriately regulated TCSPs. I will be pressing the new clause to a vote.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 18]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 15

DISQUALIFICATION

"In the event that adequate procedures under subsection (3) of section *[Failure to prevent money laundering]* are found not to be in place, the Secretary of State must refer to the court a disqualification order under section 8 of the Company Directors Disqualification Act 1986 (disqualification of director on finding of unfitness)."—*(Anneliese Dodds.)*

This new clause would require the Minister to ask the courts to investigate whether directors of a company are fit and proper, if it was found that proper procedures against money laundering were not in place.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 19]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 16

MONEY LAUNDERING: STANDARDS AND DESIGNATIONS

"(1) An appropriate Minister may by regulations made by statutory instrument amend the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 2017/692) in order to—

(a) implement standards published by the Financial Action Task Force from time to time relating to combating money laundering, terrorist financing and threats to the integrity of the international financial system; and

(b) identify or revoke a designation of a high risk country taking account of best international practice including EU sanctions regimes.

(2) Regulations under this section may not create new types of criminal offences, or reduce defences or evidence.

(3) A statutory instrument containing regulations under this section may not be made unless a draft of the instrument has been laid before, and approved by a resolution of, each House of Parliament."—*(Anneliese Dodds.)*

Brought up, and read the First time.

Anneliese Dodds: I beg to move, That the clause be read a Second time.

The new clause looks to ensure that standards published by the Financial Action Task Force in relation to combating money laundering, terrorist financing and other threats to the integrity of the financial system can be easily implemented in this country. We are also seeking to identify or revoke a designation of a high-risk country, taking account of best international practice, including EU sanctions regimes.

We have talked a bit about the FATF in the Committee. As colleagues will know, its objectives are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. It is a policy-making body that works to generate political will to bring about national legislative and regulatory reforms. We have talked about its reporting cycle already and the fact that the UK is currently being investigated in order for the FATF to report on us later in the year.

4.45 pm

The FATF continues to work on a series of recommendations. Those are recognised as the international standard for combating money laundering and the financing

of terrorism and the proliferation of weapons of mass destruction. This is part of an attempt to mount a co-ordinated response to threats to the integrity of the financial system and to ensure a level playing field.

As part of its peer review process, which we are heavily engaged in at the moment, the FATF identifies jurisdictions that have weak measures to combat money laundering or terrorist financing and puts them on yet another blacklist. We have already talked about the OECD and EU blacklists; this one is about the integrity of the financial system, not about tax avoidance and evasion. The FAFT puts jurisdictions on a blacklist where a call to action is imperative and on a greylist where deficiencies have been highlighted, but where each jurisdiction has provided a high-level political commitment in written form to address the identified deficiencies. The process is similar to the EU blacklist/greylist approach that we talked about today.

The Minister has already mentioned Pakistan's worries about being greylisted, which is obviously concerning for the country. The Minister knows a great deal about this matter, which could also have a potential impact on Pakistan's economy. That is worrying for those of us who support the country and have constituents from Pakistan, because it could lead to global banking institutions ultimately cutting their links with the country. They because they could start to view it as too risky, or the cost of doing business with Pakistan could rise. We have already talked about what happened to Moldova when money-laundering activities were uncovered there.

John Glen: I just want to clarify that, while I would not profess to be an expert on Pakistan's compliance with the FATF, the concerns raised about its recent greylisting were around the specific handling of various banned terrorist organisations. I would not wish to cast any wider doubt over its intentions to improve the provision of services.

Anneliese Dodds: I thank the Minister for that helpful clarification. It is helpful to know the exact locus of FATF activity or the concerns about Pakistan that were focused on terrorist financing. That is not the area we are focused on now, but such financing and money laundering often go hand in hand.

Given the potential effects of such a ruling—we have talked about that in relation to Pakistan—we think it necessary that Ministers should have the flexibility to ensure that FATF standards can be implemented as soon as possible in our country in order to be on top of new international standards. That is particularly important because the UK was a founding member of the FATF, so we need to show that we are at the cutting edge of implementing its requirements.

As I mentioned, we also need to be able to identify or revoke high-risk countries quickly, taking account of the FATF's standards and given the effect that it can have on the countries themselves and also on our reputation. If we are viewed as not following FATF recommendations, that prevents the co-ordinated approach that the FATF was set up to promote in the first place.

Finally on this amendment, we hope that Ministers will take account of aligning the designations with our EU partners. We have talked consistently in our deliberations about the need for co-ordination, which of course makes all the mechanisms much more effective. When they are not co-ordinated, there can be loopholes. In that regard, it is important to mention the case of Russia. In 2014, the Arms Export Controls Committees—we talked about their composition when we talked about scrutiny arrangements—reported that more than 200 licences to sell British weapons to Russia, including missile-launching equipment, were still in place, despite David Cameron's claim that the Government had imposed an absolute arms embargo against Russia in alignment with the rest of the EU. We really need to make sure that that alignment is genuine in practice, not just on the surface and rhetorical.

John Glen: New clause 16 would limit amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 to those that would implement standards published by the Financial Action Task Force, or those whose purpose was identifying or revoking a designation of a high-risk third country. The 2017 regulations transpose the fourth EU anti-money laundering directive, which was in turn derived from the most recent major updates to the FATF standards, which were made in 2012. As the hon. Lady acknowledged, the UK is a founder member of the FATF and is committed to playing a leading role in its continuing work. It is right for the Government to have the power to update the UK regime when such standards change.

There are, however, several areas where the UK's anti-money laundering regime already goes beyond those standards. Our recently established register of trusts generating tax consequences, for example, goes beyond the standards set by the FATF. Similarly, the UK announced at the time of the 2015 Budget that we intended to regulate virtual currency exchanges for AML purposes—an objective that was accomplished through negotiation of the fifth EU anti-money laundering directive—but that was not required by the FATF. So although we will remain aligned with the FATF standards after the UK ceases to be a member of the EU, our anti-money laundering regime exceeds those standards in certain areas.

The Government are determined to ensure that our defences against misuse of a financial system remain ahead of global standards rather than solely reflecting them. That is reflected in our commitment to the establishment of a public register of the beneficial ownership of non-UK companies that own UK property, which the Committee debated earlier, even if we did not agree on the timeline for it. The new clause would reduce our ability to do so. Under the power in question, the UK's anti-money laundering regime could not go further in areas where we would otherwise want to.

As I said previously, in debating amendment 7, and as my right hon. Friend the Minister said about new clause 3, we do not believe that a bar on new offences is the right way to address the concerns raised by Lord Judge and others. We have instead tabled amendments to ensure that the power is used only where it is needed, and that Ministers are properly accountable to Parliament for it.

Ensuring that we can make regulations to prevent, or to enable or facilitate the detection or investigation of, money laundering or terrorist financing, as well as to implement the standards of the FATF, is the most certain method of placing future changes to our anti-money laundering system on a sound legal basis. The new

[John Glen]

clause would limit our ability to do so in the future, and I am sure that is not the intention behind it. I respectfully suggest that the hon. Lady might withdraw it.

Anneliese Dodds: I am grateful to the Minister for his explanation. It may be the fact that we have been in this room for a few hours, but I am struggling a little with, in particular, the suggestion that new clause 16 would somehow tie the UK's hands in implementing additional requirements beyond the FATF standards.

The Minister referred to the public register of property owned by non-UK entities. We had a discussion about that, but he is right: it would arguably be an innovation in the UK. Of course it is one that we need more than other countries, because of the use of our property market in many such cases, and the exponential rise in house prices. He could have talked—although he did not—about the register of beneficial ownership of companies being an innovation as well, but countries such as the Netherlands and Norway are putting those into practice anyway, so perhaps we are not quite as far-reaching in what we are doing as we might suggest. Particularly in relation to the charges and fines levied against those found guilty of money laundering offences, we seem to be in a different position from that of our North American counterparts, for example, as we have discussed. None the less, it is not clear how the new clause would stop us going further than those other jurisdictions where we wished to do so. It says that we would take account of the

"best international practice including EU sanctions regimes",

not that we would be led by it.

Helen Goodman: On a point of order, Dame Cheryl, in the light of what the Minister said earlier, I would like to read precisely what was published by *The Independent.* I misinterpreted it and, consequently, I misled the Committee. I wish to apologise to him and to the Committee for that. This is what *The Independent* published in 2014:

"According to Electoral Commission records, New Century Media gave the Conservatives £85,000 in the months leading up to the 2010 general election…New Century represents the personal foundation of the Ukrainian billionaire Dmitry Firtash, who has been indicted on bribery and corruption charges, which he denies, in the United States…David Burnside, New Century's executive chairman, has made…claims about his connections with senior Tories…The company has paid for a table at the last four Conservative summer balls and paid for…the International Development minister"—

who is now the Minister for Europe and the Americas—to be its guest

"at Conservative events at a cost of…£800".

I am sorry. I misread it and misunderstood it, and consequently I misled the Committee.

The Chair: The hon. Lady has had the opportunity to put that on the record. If the Minister wants to add something, he may.

Sir Alan Duncan: May I thank the hon. Lady for her most gracious withdrawal, which sets the record straight? I appreciate the manner in which she did it.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 20]

AYES

Bardell, Hannah	Norris, Alex
Dodds, Anneliese	Rowley, Danielle
Duffield, Rosie	Smith, Nick
Goodman, Helen	Thewliss, Alison

NOES

Badenoch, Mrs Kemi	Freer, Mike
Benyon, rh Richard	Glen, John
Chalk, Alex	Graham, Luke
Courts, Robert	Maclean, Rachel
Duncan, rh Sir Alan	

Question accordingly negatived.

New Clause 17

CONSULTATION ON REFORM OF THE LAW ON CORPORATE LIABILITY FOR MONEY LAUNDERING AND TERRORIST FINANCING ETC

"No later than six months from the date on which this Act is passed, the Secretary of State must arrange for the undertaking of a public consultation on the merits of reforming the law on corporate liability for money laundering, terrorist financing offences and those offences which pose a threat to the integrity of the international financial system."—*(Anneliese Dodds.)*

This new clause calls for a public consultation on corporate liability for money laundering within six months.

Brought up, and read the First time.

Anneliese Dodds: I beg to move, That the clause be read a Second time.

It is good that we can continue proceedings, because there are many matters that we still need to consider, not least this new clause and the others on the selection list. I am grateful for the opportunity to do so.

New clause 17 requires a public consultation on corporate liability for money laundering within six months. We have already discussed what occurred with the Government's evidence-gathering exercise—as I think they described it—in relation to a broader economic crime offence, and how the results of that exercise have been with the Government since last March. We still have no indication of how that will be dealt with, aside from the Economic Secretary's helpful remark that it will be dealt with in due course. I know he always tries to be helpful, but I am afraid that that is not good enough for those of us who want to see change in this area.

We are specifically requesting a public consultation to get the process moving and to promote it, not least because of what the Government have committed to—or at least, what past Conservative leaders have committed to. In 2016, at the time of the anti-corruption summit, David Cameron wrote an article for *The Guardian* in which he claimed:

"In the UK, in addition to prosecuting companies that fail to prevent bribery and tax evasion"—

5 pm

Debate interrupted (Programme Order, 27 February).

The Chair put forthwith the Question already proposed from the Chair (Standing Order No. 83D), That the clause be read a Second time.

The Committee divided: Ayes 8, Noes 9.

Division No. 21]

AYES

Bardell, Hannah
Dodds, Anneliese
Duffield, Rosie
Goodman, Helen
Norris, Alex
Rowley, Danielle
Smith, Nick
Thewliss, Alison

NOES

Badenoch, Mrs Kemi
Benyon, rh Richard
Chalk, Alex
Courts, Robert
Duncan, rh Sir Alan
Freer, Mike
Glen, John
Graham, Luke
Maclean, Rachel

Question accordingly negatived.

Bill, as amended, reported (Standing Order No. 83D(6)).

5.1 pm

Committee rose.

Written evidence reported to the House

SAMLB 05 The Law Society

SAMLB 06 Government of the British Virgin Islands

SAMLB 07 Professor Prem Sikka, Professor of Accounting and Finance, University of Sheffield

SAMLB 08 UK Finance

SAMLB 09 Solicitors Regulation Authority

SAMLB 10 International Financial Centres Forum