

GETTING THE UK'S HOUSE IN ORDER

MAY 2019 - This briefing follows on from our previous analysis of the beneficial owners behind UK companies – known as Persons with Significant Control (PSCs) – which we conducted last year. Three years since the PSC Register was set up, we explore what the data tells us in terms of loopholes for avoiding disclosure, likely non-compliance and suspicious activity and how this undermines the fight against money laundering and other crime.

The UK company register is a paradox. On the one hand, it leads the world in its approach to publishing company data and making it accessible to the wider public. In the last decade it has undergone a radical digital transformation, setting the bar for the way company data can be published - including critical information on the real owners behind companies. Companies House data is now widely used by journalists, companies and people from all over the world who want to know more about the UK businesses they interact with.

On the other hand, UK companies have increasingly become a conduit for scandal. In among the millions of companies and partnerships created in the last few decades, there are thousands that seemingly exist for no other purpose than to launder money, on a mind-boggling scale. Once incorporated through Companies House, these companies are able to control bank accounts, own property and move money around the world in much the same way as a private person.

There is no shortage of money laundering scandals involving UK companies and partnerships. Most recently, The Guardian

reported that UK Limited Liability Partnerships handled an estimated £9.9 billion as part of the Troika Laundromat, moving funds from Russia to the West via a prestigious private investment bank.¹ UK company structures also played a prominent role in the Danske Bank scandal, in which more than €200 billion flowed into the Estonian branch of the Bank from abroad, much of it suspicious.²



Photo by John Mcconnico/Bloomberg via Getty Images

In its defence, Companies House is currently afforded very limited powers by Government to identify and pursue companies that may be breaking the law, despite being the body responsible for incorporating them and recording their activities. It is also strangely

passive when it comes to verifying the data it receives. As we show here, this means that there are serious problems with the quality of information it holds. Currently, Companies House is seen more as a library of information, assuming groups such as the Insolvency Service and National Crime Agency will step in to identify potential criminal activity.

But, if the UK government is serious about stemming illicit financial flows via UK companies, it must expand the role of Companies House. Ahead of the planned statutory review of the register due in June 2019 and expected proposals on reforming Companies House, the UK Government has a unique opportunity to make this a reality.

WHAT NEEDS TO CHANGE

Verification: The most serious weakness of the UK register is that the information is largely accepted at face value and there are no meaningful checks on its accuracy. It remains all too easy for someone to lie about their true ownership, by simply saying the company has no ultimate owner, listing a secretive offshore company as their ultimate owner, or by putting forward a fake person or nominee. By asking no questions - not even requiring a basic ID check - the UK is turning a blind eye to the problem of UK companies being used for crime.

➤ The Government must give Companies House the powers and resources to carry out comprehensive verification of all the information it receives and holds on companies, amending UK legislation accordingly.

Enforcement: Since the register was set up, far too little action has been taken to prosecute and sanction companies and

individuals for failing to provide information to the register or lying about their true ownership³ - despite the many thousands of suspicious and known money laundering cases. Unless the Government acts now, there is a real risk that the UK register ultimately becomes a blunt tool for tackling money laundering and other crimes.

➤ The Government must start enforcing its rules and apply sanctions for those that maliciously break the rules - including fines and prison sentences.

Suspicious activity: Our analysis identifies hundreds of thousands of companies that are able to avoid disclosure of their PSCs via loopholes or have red flags for money laundering and other crimes associated with them. These companies merit further scrutiny and these types of red flags should be a starting point for further investigation.

➤ Companies House should take a proactive approach to tackling money laundering and other crimes by analysing the company information it holds, identifying suspicious companies and ensuring they are investigated.

Fig 1. SUMMARY FINDINGS

| | 2018 | 2019 |
|--|-----------|-----------|
| Number of companies to which the PSC regime applies* | 4,096,049 | 4,252,811 |
| Number of companies that have filed a Person of Significant Control or statement since the register began** | 4,187,505 | 4,886,432 |
| Average number of PSCs per company | 1.13 | 1.16 |
| Number of live companies that declare they have a Person of Significant Control | 3,269,624 | 3,481,101 |

* This is an estimate based on broad categories of companies to which the PSC regime applies. This also includes Partnerships to which the regime applies e.g. LLPs and SLPs.

** This includes dissolved companies and ceased PSC records and statements.

FIRST THE GOOD NEWS...

As a starting point, it is important to recognise that the level of transparency of the UK company register means it is actually one of the few that can be scrutinised closely for the quality of its data. Other registers which are closed are likely to have similar failings, if not worse, but we can't see them. Ultimately, the best way to ensure public trust in the data is to open it up.

The positive impacts of the company register include:

- **Huge levels of access:** The UK company register was accessed more than two billion times in 2017,⁴ a huge increase from when paywalls were still in place (over 6 million access requests for paid information during 2014-2015)⁵. PSC data is also in demand, with an average of 0.5 million searches a month for PSC information in April 2018,⁶ and accessed more than 5 million times in 2017.⁷
- **Collaboration with law enforcement:** In recent years, there has been a huge spike in Suspicious Activity Reports filed by Companies House, with 2,264 reports being filed between April 2017 and April

2018, as compared with 426 reports the preceding year.⁸ Similarly, enquiries from law enforcement to Companies House for help in investigations increased from an average of 11 requests per month to 125 per month in the last three years. While the increase has slowed, it continues to grow by more than 50% (2017/18).⁹

- **Improving data quality through 'many eyes':** There were 58,352 reports from the public regarding likely mistakes and discrepancies in the UK company register between July 2017 and March 2018, via the 'report it now function'.¹⁰
- **Major drop in UK vehicles previously associated with crime:** After becoming part of the new transparency rules, incorporation levels of Scottish Limited Partnerships – a vehicle previously implicated in countless money laundering scandals – plummeted by 80% in the last quarter of 2017 from their peak at the end of 2015.¹¹ Our analysis this year confirms it remains at historically low levels.
- **Public interest journalism:** The format of PSC data has helped facilitate investigations by journalists, including to highlight the large number of British

nationals who control UK companies from low-tax jurisdictions, in a recent piece by the Times.¹²

- **Cross-checking with other data sets:** PSC data has already been cross-checked with other public datasets, including in Ukraine where it has helped reveal discrepancies between asset declarations of Ukrainian politicians and officials and the beneficial owners listed in the PSC register. (See also box on p.5).

NOW THE BAD NEWS...

Our new analysis shows that serious loopholes and weaknesses remain in the way the current regime is enforced. No substantial changes have been observed in the rates of non-compliance since we first measured them a year ago.

One of the most obvious ways to avoid disclosing a company’s PSC is by simply filing a statement saying the company has no PSC. The rate at which such statements are filed has remained fairly stable. While many

companies – such as those with more than four shareholders – do not have to disclose their PSCs, the lack of verification by Companies House means there is nothing to stop a company that seeks anonymity from filing this type of statement.

There has been a small reduction in the number of companies controlled by people who are the PSCs for more than 100 companies. In 2018, 31 PSCs controlled more than 100 companies each; in 2019 this had dropped to 23. While this suggests a small improvement in compliance, there are still a number of individuals who are likely to be nominee PSCs – in other words, fronts shielding the identity of the companies’ true owners – based on the fact that they control an inordinately large number of companies.

There was also a small reduction in the proportion of companies that say they have a PSC registered in a country that does not have a recognised stock exchange. In most cases, this kind of filing is non-compliant, as these PSCs will not be considered “Relevant Legal Entities” (RLE). This is one of the few areas where Companies House has started proactively reviewing PSC filings. One

Fig 2. POTENTIAL LOOPHOLES FOR AVOIDING PSC DISCLOSURE

| | 2018 | 2019 |
|--|---------------------|-------------------|
| Number of companies that declare they have no PSC | 8.1% * (335,010) | 7.9% (336,224) |
| Number of companies that name as a PSC a foreign company that is based in a country without a recognised stock exchange | 0.3% (10,150) | 0.2% (8,872) |
| Number of companies that are controlled by a PSC that controls over 100 companies | 0.22% (9,199) | 0.16% (6,711) |
| Number of companies that are part of circular ownership structures | 0.01% (328) | 0.01% (487) |

*Expressed as the proportion of companies to which the PSC regime applies

thousand fewer companies now declare they have PSCs based in countries without a recognised stock exchange. While the reduction is modest, it indicates that proactive reviews of company filings are effective when they are applied.

Circular ownership structures remain an issue; rates have stayed fairly stable, though this affects only a small number of companies. By law, UK companies cannot have shares in their parent company, yet, according to the PSC register, 487 companies still exhibit some kind of circular control – including 171 companies that somehow control themselves. It should be relatively straightforward for Companies House to identify such companies and take appropriate action.

HIGH TRADING FOOD STALLS & FLOWER SHOPS

Under UK rules, a company can receive an exemption from filing a PSC if it has its shares listed on a recognised stock exchange,¹³ based on the assumption that it will already have had to reveal significant information on its shareholders. Currently there are only 78 UK companies who receive an exemption on this basis – a relatively small increase on last year (58 in 2018). Though the number is small, it is concerning that a cursory look reveals numerous exempted companies which are highly unlikely to be listed on a stock exchange. Examples include a Scottish B&B, an Italian street food stall at Greenwich market, a flower shop in Chelsea, a Thai restaurant in East London and a yacht rental company in Portugal.

Yet again, we are left wondering why no meaningful checks are made into companies that enjoy this exemption. It would be relatively straightforward to require all companies to submit their ticker symbols (an identification code for a stock) to ensure they are listed on a relevant stock exchange, thereby also avoiding honest misunderstandings from the outset.

THE UKRAINIAN TV CELEB & HER US SANCTIONED HUSBAND

Thanks to the work of the Ukrainian civil society organisation, Anti-Corruption Action Centre (ANTAC), we have been able to link and compare the data in the PSC register with a list of Politically Exposed Persons¹⁴ in Ukraine – individuals and their associates who present greater risk of corruption and money laundering as a result of their prominent public functions and influence.

The cross-matching between these two data sets revealed that Oksana Marchenko, the wife of the Ukrainian oligarch Viktor Medvedchuk, is the listed beneficial owner of a chain of companies in Cyprus, UK, Ukraine and Russia.



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Viktor Medvedchuk is a close associate of Vladimir Putin, with the Russian President even acting as godfather to Medvedchuk's daughter.¹⁵ Medvedchuk has been the subject of US sanctions since 2014 for his role in supporting Yanukovich in his destabilisation of democracy in Ukraine, following the annexation of Crimea by Russia.¹⁶ His wife, Oksana Marchenko, is a well known TV presenter in Ukraine, on shows including Ukraine's Got Talent and X-Factor.

CREDIT: Facebook Oksana Marchenko.tv



The two UK companies concerned are Laridge Investments Ltd¹⁷ and InterMay Management Ltd,¹⁸ with Marchenko appearing as the sole PSC via all forms of control since 2016. ANTAC has uncovered that these UK companies form part of a wider corporate ownership structure involving numerous legal entities, and appear to be involved in the ownership of luxury real estate in Ukraine, including a mansion in Crimea.

This is not the first time Marchenko's ownership of companies has come under scrutiny. An investigation by Radio Liberty and TV channel UA:First in 2018 raised questions regarding Marchenko's control of a Ukrainian company that won the tender to develop one of the largest oil deposits in Russia, given her likely lack of experience in the oil sector and background as a TV presenter.¹⁹

While the UK has not sanctioned Medvedchuk, a risk-based approach to the register should have flagged up the UK companies Marchenko controls for further scrutiny, including assessing any risk that Marchenko may be acting as nominee for her US-sanctioned husband.

A RISK-BASED APPROACH

While UK companies and partnerships are still routinely used to launder billions of pounds, the PSC regime is an opportunity to end this. Given the breadth of data it collects, Companies House is in a unique position to identify suspicious companies that may be involved in crime, corruption or money laundering.

In order to do this effectively, Companies House needs to adopt a risk-based approach to the data it collects. This means prioritising the review of filings associated with companies and partnerships at higher risk of being involved in nefarious activity.

Our analysis also shows that thousands of UK companies and partnerships exhibit red flags for potential money laundering and corruption. While the majority of these will be benign entities, Companies House should further scrutinise the activities and filings of these companies and, where appropriate, refer them on to law enforcement for further investigation. These red flags include indicators such as whether a company is likely to be controlled by a known domestic or foreign politician.

For example, we identified 1,526 companies linked to politicians, including two Limited Liability Partnerships controlled by a Georgian MP convicted of a \$17 million fraud in the United Arab Emirates.²⁰

The analysis performed by Global Witness is low-cost, technically straightforward and utilises only publicly available data. Companies House has access to much more data and as such can create better targeted red-flagging systems to focus resources on the highest-risk companies.

Fig 3. COMPANIES ASSOCIATED WITH RED FLAGS FOR POTENTIAL FINANCIAL CRIME, CORRUPTION & MONEY LAUNDERING

| RED FLAG | NUMBER OF COMPANIES |
|--|---------------------|
| Company registered at a company factory or mailbox address | 228,295 |
| PSC of company is a disqualified directors | 2,083 |
| Officers or PSCs are based in secrecy jurisdictions e.g. British Virgin Islands* | 136,682 |
| Company officers or PSCs are likely politicians** | 1,519 |
| Company frequently changes its name | 417 |
| Company's PSCs function as PSCs for a large number of other companies | 6,711 |
| Company is controlled via a trust | 130,448 |

*Also known as tax havens. Analysis limited to jurisdictions with secrecy scores over 60 in [Financial Secrecy Index 2018](#)
 **Data from [everypolitician.org](#) covering data on politicians from 233 countries.

THE PRICE OF EASY INCORPORATION

Corporate service providers (CSPs) brag about the speed of their services and how simple they can make it to establish UK companies. Yet such ease of incorporation comes at a price. In some cases, it appears verification and validation checks are performed poorly if at all.

During our analysis, we identified one address in London – home to at least two company service providers – that appears to host to a number of companies apparently controlled by children under the age of two. These “children” not only had access to profits of the company but also the “right to appoint directors” and voting rights. On closer inspection, it appears the company service

provider was probably filing dates of birth for the PSCs at the time they were appointed. Given the legal requirement for CSPs to verify information submitted by their clients, this raises serious questions as to how such mistakes can be left unchallenged. Indeed, as the PSCs listed appear to have the same names as directors, Companies House should also improve its procedures for identifying when corporate officers and Persons of Significant Control are the same person. This would enable the cross-validation of information such as addresses and dates of birth, and the immediate rejection of invalid information submitted by corporate service providers.

WHAT SHOULD VERIFICATION BY COMPANIES HOUSE LOOK LIKE?

➤ **ID checks:** There should be a requirement to submit proof of identity, to ensure that all named PSCs are existing people. Denmark already requires beneficial owners to submit a scanned copy of their passport or other national ID, limiting the possibilities for false registrations. This is a reasonable request, given that proof of identity is similarly needed when opening a bank account.

➤ **Proof of control:** In order to help substantiate someone's claim that they control a company, they should submit documents that can prove this – for example, proof of shareholding through a company's confirmation statement or voting rights set out in its articles of association. While this wouldn't rule out all false disclosures, it would give Companies House a starting point for compliance work – and raise the stakes for those submitting false filings, forcing them to produce some form of fraudulent document.

➤ **Cross-checking:** Information on individuals and companies should be compared across other government datasets, in particular shareholder data, which would help to weed out inconsistencies. Making shareholder data for UK companies available as open data would really help to achieve this.

➤ **Unique identifiers:** Individuals listed on the register should be allocated unique identifiers, in the form of a number sequence that is specific to the database. This would help with cross-checking across the register and with other data sets.

➤ **Corporate PSCs:** Companies House should verify the status of UK and foreign companies listed as corporate PSCs by checking the company numbers supplied. To simplify this process, users could select valid entities from a pre-populated multiple-choice list of company numbers. They should also require a foreign company to disclose its ticker symbol (an identification code for a stock) if it is listed on a recognised stock exchange.

➤ **Public reporting:** Companies House needs to develop an effective system for members of the public and professionals – e.g. banks, lawyers, real estate agents and others – to report inaccuracies in the register, and publish statistics on the frequency and outcome of these reports. This is particularly important as there is likely to be a huge increase in reporting after January 2020, when professionals will be required to submit these reports as a result of the 5th EU Anti-Money Laundering Directive.

www.globalwitness.org

¹ Osbourne, H. & C. Barr, *UK partnerships moved billions through Baltic to Europe, data shows*, The Guardian, 5/03/2019. Available at: <https://www.theguardian.com/business/2019/mar/05/uk-partnerships-moved-billions-through-baltic-to-europe-data-shows>

² Jensen, T., *Explainer: Danske Bank's 200 billion euro money laundering scandal*, Reuters, 19/11/2018. Available at: <https://uk.reuters.com/article/us-danske-bank-moneylaundering-explainer/explainer-danske-banks-200-billion-euro-money-laundering-scandal-idUKKCN1NO10D>

³ As of September 2019, only five individuals and six companies have been convicted for PSC related offences, with fines amounting to only £7,000. See: Response to Parliamentary Question, *Companies: Ownership: Written question – 171645*, 13 September 2019. Available at: <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-09-07/171645/>

⁴ Companies House, 'Annual Report and Accounts 2016/17', July 2017. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/633763/Companies_House_AnnualReport_2017_web_version.pdf

⁵ Companies House, 'Annual Report and Accounts 2014/15', July 2015. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446159/Annual_Report_201415.pdf

⁶ Global Witness email correspondence with Companies House July 2018.

⁷ Companies House, 'News story: 6 things you need to know about our performance', 1 August 2018. Available at: <https://www.gov.uk/government/news/6-things-you-need-to-know-about-our-performance>

⁸ FOI request, Roger Martin to Companies House, *SAR Filings to NCA*, 7 November 2018. Available at: https://www.whatdotheyknow.com/request/sar_filings_to_nca?nocache=incoming-1270391#incoming-1270391

⁹ UK Government, *UK Anti-Corruption Strategy 2017-2022 – 1 year Update*, 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/769403/6.5128_Anti-Corruption_Strategy_Year1_Update_v7_WEB.PDF

¹⁰ Companies House, *News story: 6 things you need to know about our performance*, 1 August 2018. Available at: <https://www.gov.uk/government/news/6-things-you-need-to-know-about-our-performance>

¹¹ For more detail, see Global Witness report: *The Companies We Keep* July 2018. Available at: <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/companies-we-keep/>

¹² P. Morgan-Bentley, B. Kenber & L. Goddard, *A third of British billionaires have moved to a tax haven*, 7 March 2019. Available at: <https://www.thetimes.co.uk/article/a-third-of-british-billionaires-have-moved-to-a-tax-haven-zk6q53rtd>

¹³ Under the PSC Regulations 2016, a company or legal entity is exempt from filing a PSC if they have their voting shares admitted to trading on a relevant regulated stock exchange in the European Economic Area, Japan, Israel, Switzerland or the USA.

UK Government, *The Register of People with Significant Control Regulations 2016*, 2016, p. 25. Available at: http://www.legislation.gov.uk/ukdsi/2016/9780111143018/pdfs/ukdsi_9780111143018_en.pdf

¹⁴ Politically exposed persons – including Heads of State, senior politicians, senior government, judicial or military officials, and their family members and associates – are considered high risk customers and require enhanced due diligence. See: FATF, *Guidance Politically Exposed Persons*, June 2013. Available at: <http://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-PEP-Rec12-22.pdf>

¹⁵ Holt, B., *Meet Oksana Marchenko, Ukrainian TV star, friend of Putin and Dolce and Gabbana superfan*, The Telegraph, 13 October 2018. Available at: <https://www.telegraph.co.uk/fashion/people/meet-oksana-marchenko-ukrainian-tv-star-friend-putin-dolce-gabbana/>

¹⁶ US Department of Treasury, Press Release: *Treasury Designates Four Individuals Involved in Violating Ukrainian Sovereignty*, 17 March 2014. Available at: <https://www.treasury.gov/press-center/press-releases/Pages/jl2326.aspx>

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<https://beta.companieshouse.gov.uk/company/04596644>

¹⁸ <https://beta.companieshouse.gov.uk/company/04445610>

¹⁹ Radio Free Europe/Radio Liberty, ANTAC, *Oil for Putin's crony Oksana Marchenko (journalistic investigation)*, 19 September 2019. Available at: <https://antac.org.ua/en/publications/oil-for-putin-s-godmother-oksana-marchenko-journalistic-investigation/>

²⁰ Cornwell, A& S. Aboudi, *Former Gulf emirate officials sentenced in embezzlement case*, Reuters, 23 May 2017. Available at:

<https://uk.reuters.com/article/uk-emirates-fraud-sentence/former-gulf-emirate-officials-sentenced-in-embezzlement-case-idUKKBN18J2DS>