



House of Commons
Foreign Affairs Committee

Moscow's Gold: Russian Corruption in the UK

Eighth Report of Session 2017–19



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*Report, together with formal minutes
relating to the report*

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The Foreign Affairs Committee

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Summary

The Government responded robustly to the attack on Sergei Skripal and his daughter, Yulia, in Salisbury in March 2018. But despite the strong rhetoric, President Putin and his allies have been able to continue “business as usual” by hiding and laundering their corrupt assets in London. These assets, on which the Kremlin can call at any time, both directly and indirectly support President Putin’s campaign to subvert the international rules-based system, undermine our allies, and erode the mutually-reinforcing international networks that support UK foreign policy.

This has clear implications for our national security. Turning a blind eye to London’s role in hiding the proceeds of Kremlin-connected corruption risks signalling that the UK is not serious about confronting the full spectrum of President Putin’s offensive measures. We therefore call on the Government to sanction more Kremlin-connected individuals, including by using the powers outlined in the Sanctions and Anti-Money Laundering Bill, once available, to sanction individuals responsible for gross human rights violations. We also ask the Government to work with the EU, US and G7 to tighten loopholes in the sanctions regime that allow Russia to issue new sovereign debt with the assistance of sanctioned entities such as VTB Bank.

The Government must show stronger political leadership in ending the flow of dirty money into the UK. This should include allocating sufficient resources and capacity to the relevant law enforcement agencies, and improving mechanisms for information-sharing. The scale of the problem and its implications for the UK’s security also demand a greater response from the Overseas Territories and Crown Dependencies, through which some of this money enters the UK. We therefore welcome the Government’s commitment to assist the Overseas Territories in establishing publicly accessible registers of beneficial ownership. We urge the Government to do everything in its power to enable the Overseas Territories to put these registers in place voluntarily, before the end of 2020, and to set out clear plans for supporting the economies of the Overseas Territories as they do so.

The UK’s role as a financial centre and G7 member gives it significant leverage in seeking to counter the Kremlin’s aggressive behaviour. But reacting in an ad hoc way to the Kremlin’s behaviour has led to a disjointed approach. The UK must set out a coherent and pro-active strategy on Russia, led by the Foreign and Commonwealth Office and co-ordinated across the whole of Government, that clearly links together the diplomatic, military and financial tools that the UK can use to counter Russian state aggression.

1 London and the oligarchs

Government response to the Salisbury attack

1. On 4 March 2018, former Russian military intelligence officer Sergei Skripal and his daughter Yulia were poisoned in Salisbury by a Novichok nerve agent. The Prime Minister told the House of Commons on 14 March that

There is no alternative conclusion other than that the Russian state was culpable for the attempted murder of Mr Skripal and his daughter, and for threatening the lives of other British citizens in Salisbury, including Detective Sergeant Nick Bailey. This represents an unlawful use of force by the Russian state against the United Kingdom. As I set out on Monday, it has taken place against the backdrop of a well-established pattern of Russian state aggression across Europe and beyond.¹

In response to the attack, the Prime Minister told the House that the Government would expel 23 Russian diplomats identified as undeclared intelligence officers, and take a range of other actions.² In solidarity with the UK, 27 other countries and NATO also expelled a combined total of over 150 Russian diplomats.³

Financing Russia's foreign policy

2. In a letter to the Committee on 4 May 2018, the Foreign Secretary wrote:

In response to blatant aggression by the Russian state, the UK has consistently responded with strength and determination. As the Salisbury response highlighted, we are united with our partners in our determination to confront Russia's destabilising actions, which undermine international law and threaten our collective security and the international institutions that protect us.⁴

3. This robust rhetoric, however, is somewhat undermined by, as Transparency International argued in evidence to us, London remaining a "top destination" for Russian oligarchs with links to the Kremlin to launder proceeds of corruption and to hide their assets.⁵ Most Russians in the UK have no links to corruption or to the Putin regime.

1 HC Deb, 14 March 2018, [col 885](#) [Commons chamber]

2 These included: an amendment to the Sanctions and Anti-Money Laundering Bill to strengthen powers to impose sanctions in response to the violation of human rights (a so-called "Magnitsky" amendment); new legislative powers to counter hostile state activity, including the power to detain those suspected of hostile state activity at the UK border; increasing checks on private flights, customs and freight; freezing Russian state assets if they are used to threaten the life or property of UK nationals or residents; proposals for new counter-espionage powers; and the suspension of all planned high-level bilateral contacts between the UK and Russia, including revoking the invitation to Sergei Lavrov, Russia's Foreign Minister, to pay a reciprocal visit to the UK following the Foreign Secretary's visit to Moscow in April 2017. Ministers or members of the royal family will not attend the World Cup in Russia this summer.

3 Sky News, [Russian expulsions: The countries kicking out diplomats](#), 30 March 2018

4 Foreign and Commonwealth Office ([RSC0010](#)) para 3

5 Transparency International UK ([RSC0002](#)) Summary

However, as Tom Keatinge of the Royal United Services Institute told the Committee, “the fact of the matter is that there is an agglomeration of Russian money in the UK, and with that comes people and activity that I am not sure we want to have here.”⁶

4. Attempting to quantify the extent of the problem remains challenging, because it is difficult to establish for certain that individuals of concern obtained some or all their wealth through corrupt practices. According to the National Crime Agency, “many hundreds of billions of pounds of international criminal money is laundered through UK banks, including their subsidiaries, each year”.⁷ Vladimir Ashurkov of the Anti-Corruption Foundation told us that

there have been some estimates of money coming from Russia to Britain over the last 20 years—100 billion is probably a good number. Most of that money is legitimate; I think only a fraction of that is the proceeds of corruption and crime.⁸

5. Witnesses emphasised that oligarchs have sought to bring their money to London for many years, not least because the UK actively encouraged them to do so until recently. Tom Keatinge said that

we have had the welcome mat out to money—it has been financial investment as opposed to industrial investment over the past 20 years. We have had a regulatory stance that has welcomed that money—it is not something that we have been particularly concerned about, so why would we consider it a security risk?⁹

Later, he added:

I worked in investment banking for 20 years, and I do not mind saying that I look back on some of the deals that happened during that time and wonder whether we would have done those deals today. There are assets that have been listed on the London stock market over the past 20 years, where London wanted to win that business rather than seeing it go to New York or anywhere else, and London facilitated those transactions in London rather than somewhere else.¹⁰

6. Vladimir Ashurkov of the Anti-Corruption Foundation also stressed the general attractiveness of London for wealthy Russians, telling the Committee:

The UK is a natural magnet for Russians. If they learn any foreign language, it is likely to be English, which comes in handy here. London is a large metropolitan city, similar to Moscow. It has a lot to offer in many respects. London is the capital of finance and business. People trust the British education system and the British court system.¹¹

6 [Q10](#)

7 National Crime Agency, [Money laundering](#), last accessed 23 April 2018

8 [Q89](#)

9 [Q3](#)

10 [Q4](#)

11 [Q131](#)

7. Witnesses told the Committee that the UK financial system was seen as an easy target for Kremlin-connected oligarchs seeking to hide assets in London and to launder money obtained through corrupt means in Russia. Journalist Luke Harding said that

there is a view that basically we—the UK—are suckers, and that you can take advantage of all the freedoms and legal protections you have here while stealing at home. So you steal in a place of legal nihilism and you offshore in a place of legal solidity.¹²

The Kremlin's coffers

8. There is a direct relationship between the oligarchs' wealth and the ability of President Putin to execute his aggressive foreign policy and domestic agenda. The contemporary oligarchs owe their wealth to the President and act, in exchange, as a source of private finance for the Kremlin. Oliver Bullough told us:

Essentially, rather in the way that aristocrats in the middle ages held property at the pleasure of the king, oligarchs hold property at the pleasure of Mr Putin. They get to own it and enjoy it in return for the fact that he gets whatever he wants whenever he wants.¹³

Anti-corruption campaigner Roman Borisovich described the relationship in similar terms:

You have to look at the Russian oligarchs as a class. No matter how different they seem to you—one owns a football club, another donated money to Oxford for a school of government, another sat in a Russian jail for six years under communism, another was a civil servant—they all have very particular things in common. They can all be measured with the same yardstick ... They are not self-made businessmen in the American sense. Every one of them made money through a relationship with the Russian Government ... That bond forces them to do all sorts of chores for Putin, whether hidden, visible or invisible. It might be donating \$7 million to the GOP in the year of the presidential election in the States, or supporting an anti-EU think tank in Germany. They all do something; it is just that we don't see most of it.¹⁴

9. In a written submission to the Committee, Garry Kasparov, author and anti-Putin activist, said that the oligarchs were “gangsters”. He told us:

They are agents of a rogue Russian criminal regime, not businessmen. They are complicit in Putin's countless crimes. Their money is not truly theirs, it is Russia's. Their companies are not mere international corporations, but the means to launder money and spread corruption and influence.¹⁵

10. Dr Mark Galeotti of the Institute of International Relations in Prague expanded on the role of the oligarchs in advancing the Kremlin's foreign policy goals:

12 [Q14](#)

13 [Q47](#)

14 [Q98](#)

15 Garry Kasparov ([RSC0011](#)) paras 2.1–2.1.1

If you look, for example, at the western Balkans, it is clear there is a certain nudging towards “We would like you to buy lots of real estate in Serbia or invest in the pharmaceuticals industry in Bosnia” because this gives useful leverage. Going back to this point about the oligarchs having their money because the state allows them, there is clearly also a willingness to put requirements on them ... It is often in small-scale stuff, such as “Wouldn’t it be nice if you thought it was worthwhile donating some money to this particular alternative media website or to that particular populist politician?” What they are trying to do is create the illusion that this is individual activity rather than a part of a state campaign.¹⁶

11. Roman Borisovich said that the best way to stand up to Russian aggression would be to target the Kremlin’s illegal sources of finance. He said:

You have to understand that Russia is an absolute kleptocracy. That means that the political elite is plundering the country—robbing their fellow taxpayers blind—but the money doesn’t stay in Russia. As soon as it is stolen it comes out immediately, and after a quick spin in the laundromat of British offshore territories, it comes here. It doesn’t sit under a palm tree in the Cayman Islands; it is invested in stocks, shares, bonds, properties, yachts, planes and reputation laundering. It all comes here, so we must cut the link that allows the elite to export their loot. Killing the laundromat is how you fight the regime. There is no other way.¹⁷

12. Mr Borisovich also told us that the Government’s diplomatic response to the Skripal attack would not be seen as serious by the oligarchs, because their ability to hide money in London would remain unchanged. He said:

I think the lack of serious response to [money laundering], which has been evidenced over years, has completely emboldened the Russian kleptocratic elites, to the extent that they think that they own Britain. It is true that is anecdotal evidence, but when, instead of going after where it hurts the kleptocracy—by hitting it in its wallet—Britain sends out 23 diplomats, 123 Russian oligarchs have a party, because their assets have been preserved. Their influence and place in society has not changed. It’s the status quo: business as usual. That means that they have a legitimate claim to come here and do business. That has to change not only for the sake of the UK, but for the sake of Russia. Money laundering should be a foreign policy issue, rather than criminal.¹⁸

Asked to elaborate on the foreign policy dimension of the money-laundering and financial corruption issue, he added:

You have a system that is built on exporting illegal wealth. That system has become aggressive to its neighbours. It can become aggressive in going against multilateral—unilateralism. It is going against democracy. It is undermining democratic processes in the US, in the UK and in Europe. It is totally emboldened by the fact that, unlike in the time of the cold war—in

16 [Qq138–139](#)

17 [Q97](#)

18 [Q123](#)

the Soviet era—people who are perceived to be new enemies are allowed to access banks and all financial instruments of the west. Their money is hidden somewhere in plain sight, somewhere here, and nothing is being done to them.¹⁹

Mixed messages: En+ and the Russian sovereign debt auction

13. The flotation of En+ Group on the London Stock Exchange in November 2017, which raised around £1bn in share sales, provides an example of the contradictions inherent in UK Government policy towards Russia. En+ Group is an energy firm that, at the time of its initial public offering (IPO) on the London Stock Exchange, was controlled by billionaire and Kremlin associate Oleg Deripaska. En+, in turn, held a controlling stake in Rusal, a major Russian aluminium firm. VTB Capital and Gazprombank—both subject to sanctions since 2014—were among the banks involved in the listing, which was facilitated by UK legal firm Linklaters. Emile Simpson, Research Fellow at Harvard University, explained the key issues around the flotation of En+ as follows:

in terms of the controversies surrounding that IPO in November last year, one issue was that En+ is the holding company for Rusal ... Rusal's own website says that it supplied military material to the Russian military that was potentially used in Syria. That arguably should have attracted the attention of the regulators, given that the EU has sectoral sanctions on the Russian defence sector. The second reason it was controversial was because VTB Bank, which is a sanctioned Russian bank, has a stake in En+. The third reason it was controversial was that En+ had a loan of almost \$1 billion from VTB. Using the proceeds of the IPO, which raised £1.5 billion [in London], En+ repaid that loan to VTB in a way that did not breach sanctions.²⁰

14. Oleg Deripaska was placed on a new list of sanctioned individuals by the United States Treasury on 6 April 2018.²¹ Although Mr Deripaska was not subject to sanctions at the time of the En+ IPO, his proximity to the Kremlin was well known; Roman Borisovich, for example, noted that Deripaska had been asked to build the international airport in Sochi for the 2014 Winter Olympics.²² Asked whether the flotation should have been allowed, Emile Simpson told us that was “a good question for the regulator”, adding: “I think there needs to be an investigation into what processes failed in the regulator. There needs to be a look at the regulator's code.”²³

15. In February 2018, press reports emerged suggesting that both MI6 and US security officials had expressed serious concern about the IPO.²⁴ One unnamed US official reportedly told the Telegraph: “What is the point of the U.S. imposing sanctions on Russia

19 [Q124](#)

20 [Q162](#)

21 Deripaska stepped down as President of both EN+ and Rusal in February 2018, but at the time of the IPO retained controlling stakes in both companies (Financial Times, [Deripaska to give up direct control of EN+ and Rusal](#), 19 February 2018).

22 [Q96](#)

23 [Qq161–162](#)

24 The Evening Standard, [Jim Armitage: Questions to be asked about why Russia's energy firm EN+ floated on the London Stock Exchange](#), 7 February 2018; The Telegraph, [US official says Britain undermined American sanctions by letting Russian firm raise £1bn on stock exchange](#), 11 February 2018

if the Russians can then get round them in Britain?”²⁵ When the addition of Deripaska to the US sanctions list re-kindled interest in the En+ case, the Telegraph reported a spokesman for the Financial Conduct Authority as saying: “We consulted with the relevant authorities according to the usual protocols. Having done so, there were no grounds for the application to be refused”.²⁶

16. The sale of Russian sovereign debt in London is another example of the inconsistency in UK strategy towards the Russian regime. On 16 March 2018—two days after the Government announced the expulsion of 23 Russian diplomats from the UK—Russia raised \$4bn in eurobond issuances, nearly half of which were bought by investors from the UK.²⁷ VTB Bank acted as the book runner for the sale, taking advantage of a loophole in the EU sanctions regime that allows it to do so despite being a sanctioned entity unable to access EU capital markets in its own right.²⁸ Moreover, this came only a day after Gazprom PJSC made a €750m bond sale of which some bonds were bought by UK investors, according to the book-runner VTB Capital.²⁹ In response to that sale, the Russian Embassy in the UK tweeted:



Successful @GazpromEN bonds sales in London with demand three times higher than the placing (€750 mln). Business as usual?



2:49 PM - 15 Mar 2018

Source: [Russian Embassy, UK, 15 March 2018](#)

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- 25 [The Telegraph, US official says Britain undermined American sanctions by letting Russian firm raise £1bn on stock exchange, 11 February 2018](#)
- 26 [The Telegraph, Why was Putin's crony allowed to float his £1bn company on the London Stock Exchange?, 6 April 2018](#)
- 27 [Financial Times, Russia raises \\$4bn in eurobond issuances, 16 March 2018](#); [Bloomberg, Russia's \\$4 billion bond sale defines UK spat as bids roll in, 16 March 2018](#)
- 28 [Emile Simpson \(RSC0008\) para 39](#)
- 29 [Bloomberg, As UK condemns Russia, investors pile into Gazprom bond sale, 15 March 2018](#)

17. The ease with which the Russian government was able to raise funds in London despite the strong measures that the Government took in the wake of the Salisbury attack raises serious questions about the Government's commitment to combating Russian state aggression. As Dr Mark Galeotti told the Committee:

If I can put this in a political context ... I think it is clear from the conversations in Moscow that the presence of loopholes in the existing sanctions regime is one of the things that they point to to “prove” that the West is either not serious about sanctions, or just incompetent.³⁰

We address the question of whether Russian sovereign debt should be allowed to be sold in the UK later in this report.

18. Both the En+ IPO and the sale of Russian debt in London appear to have been carried out in accordance with the relevant rules and regulatory systems, and there is no obvious evidence of impropriety in a legal sense.³¹ However, the ease with which such large-scale transactions occur also sends political messages that undermine the Government's condemnation of what the Prime Minister has called the “well-established pattern of Russian state aggression”, encouraging President Putin and his associates to conclude that the money supporting that aggression is safe and welcome in London.³²

19. We asked Linklaters to appear before the Committee to explain their involvement in the flotation of En+ and to give their assessment of the regulatory framework that enabled the flotation to take place. They refused. We regret their unwillingness to engage with our inquiry and must leave others to judge whether their work at “the forefront of financial, corporate and commercial developments in Russia” has left them so entwined in the corruption of the Kremlin and its supporters that they are no longer able to meet the standards expected of a UK-regulated law firm.³³

20. The use of London as a base for the corrupt assets of Kremlin-connected individuals is now clearly linked to a wider Russian strategy and has implications for our national security. Combating it should be a major UK foreign policy priority. The assets stored and laundered in London both directly and indirectly support President Putin's campaign to subvert the international rules-based system, undermine our allies, and erode the mutually-reinforcing international networks that support UK foreign policy. The size of London's financial markets and their importance to Russian investors gives the UK considerable leverage over the Kremlin. But turning a blind eye to London's role in hiding the proceeds of Kremlin-connected corruption risks signalling that the UK is not serious about confronting the full spectrum of President Putin's offensive measures.

21. We call on the Government to investigate the gaps in the sanctions regime that allowed a company such as En+ to float on the London Stock Exchange, and to work with the G7, whose markets dominate the financial world, and other international partners, to close those gaps as soon as possible.

30 [Q152](#)

31 See oral evidence taken before the Treasury Select Committee, 25 April 2018, [HC \(2017–19\) 424](#), Qq122–123

32 HC Deb, 14 March 2018, [col 885](#) [Commons chamber]

33 [Linklaters in Russia](#), last accessed 8 May 2018. The standards expected of UK-regulated law firms are set out in the main in the Legal Services Act 2007, and the Solicitors' Regulatory Authority Principles, Code of Conduct and Overseas Rules.

2 Making sanctions more effective

22. The EU and US introduced the first set of sanctions against Russia in March 2014 in reaction to the annexation of Crimea, targeting

persons and entities responsible for action against Ukraine's territorial integrity, persons providing support to or benefitting Russian decision-makers and 13 entities in Crimea and Sevastopol that were confiscated or that have benefitted from a transfer of ownership contrary to Ukrainian law.³⁴

Wider sectoral sanctions were then introduced in July 2014, and reinforced in September 2014, in response to Russian activity in eastern Ukraine. The EU sectoral sanctions, to which the UK is bound until its exit from the EU, target five Russian banks, three energy companies, and three defence companies.³⁵

Devising a better sanctions regime

23. Sanctions are most effective when allies act together. The EU and US have been relatively united on the need to maintain sanctions against Russia since 2014. However, the US and EU take slightly different political and legal approaches to sanctions, particularly since the passage of the Countering America's Adversaries Through Sanctions Act (CAATSA) in August 2017. The EU ties both sectoral and individual sanctions to particular Russian state actions in Crimea and Ukraine, meaning that sanctions can be lifted if specific and named actions are taken (e.g. compliance with the Minsk Agreements). The US, meanwhile, has begun to issue sanctions more generally against any actors associated with the Russian regime, in response to Russia's aggressive foreign policy, disinformation campaigns and interference in Western democratic processes.³⁶

24. On 6 April 2018, the US Treasury announced the introduction of new sanctions targeting seven oligarchs thought to be close to the Kremlin and 12 of their businesses, as well as 17 Russian Government officials and two state-owned companies.³⁷ The impact was immediate. On 9 April, the first trading day after the sanctions were announced, Russian stocks suffered their worst session since the 2014 invasion of Crimea, and the rouble slid by 4.1% against the dollar.³⁸ As Dr Emile Simpson told the Committee:

There are two lists within the US sanctions regime. One is the ["Specially Designated and Blocked Persons" (SDN)] list ... which targets individuals, and individual entities and companies. That is very serious, because US persons cannot really engage in the vast majority of business transactions with that entity. Then there are the sectoral sanctions. Both the EU and the US sanctions prohibit buying or dealing in bonds and equity, with some exceptions, but otherwise one can engage in normal business with those entities.

34 European Union, [EU sanctions against Russia over Ukraine crisis](#)

35 Emile Simpson ([RSC0008](#)) para 5

36 Emile Simpson ([RSC0008](#)) paras 8–10

37 US Treasury, [Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity](#), 6 April 2018

38 Financial Times, [Russian markets hit by US sanctions and Syria](#), 9 April 2018

The really key element of the 6 April move by the US Treasury was to put not just people such as Oleg Deripaska but his companies, such as Rusal and En+, on the SDN list. That is what created a huge ripple in the markets—Rusal lost 50% of its value within almost a week.³⁹

At the time of their issue, the 6 April sanctions did not outline what the sanctioned entities would need to do in order to see the restrictions lifted. However, on 23 April—following a global spike in the price of aluminium—the US Treasury announced that it would cut or lift the sanctions against Rusal if Oleg Deripaska sold his stake in the company by 7 May.⁴⁰ On 27 April, reports suggested that Mr Deripaska had agreed to reduce his share in En+ to below 50% in an effort to have the sanctions lifted,⁴¹ and on 2 May the US Treasury extended until 6 June the deadline for Deripaska to divest from the company.⁴²

25. Witnesses suggested that the US approach, as signalled in its most recent sanctions, is useful insofar as it has had a clear and direct impact on the Russian economy and on the Kremlin. Dr Emile Simpson, for example, said:

When a major Russian aluminium company takes that much of a hit, it is hard to imagine that it doesn't have an effect, but we will see. What is objectively clear is that this move is far more materially significant than anything the EU has done thus far and perhaps alerts us to the need to toughen our own part and get the UK to toughen EU sanctions, if that is politically possible—if the UK does want to send a tougher message.⁴³

26. Similarly, Dr Mark Galeotti said:

May I make a plea for being more aggressive and carnivorous in our approach? ... Now, when I look at how the Russians perceive it, the Russians consider themselves to be in a political war with us—the number of times that Russians are absolutely open about saying that. In those circumstances, we should be thinking about asymmetric responses ourselves and not thinking purely that we have to be sort of slaves to a direct connection across. Okay, it would be vastly harder in the context of the European Union to broaden the sanctions regime under the current circumstances, but on the other hand the UK could. ... Russian interests do not have to be involved directly with attacking UK interests to be considered to be potential targets.⁴⁴

27. Dr Galeotti also warned, however, that the EU approach of linking sanctions relief to specific behavioural changes should be maintained. He said:

Well, it would be nice to think we can change the whole nature of the Putin regime and save Russians from Putin, but we are not going to do that. Instead, we have to define a set of realistic, specific goals and make it absolutely clear that we have specific requirements, because so much of this at the moment is not clear.⁴⁵

39 [Q154](#)

40 Financial Times, [Aluminium falls on US signals over Rusal sanctions](#), 23 April 2018

41 Financial Times, [Deripaska agrees to relinquish control of sanction-hit Rusal](#), 27 April 2018

42 Evening Standard, [London listed En+ given extra time over US led Oleg Deripaska sanctions](#), 2 May 2018

43 [Q157](#)

44 [Q163](#)

45 [Q158](#)

Asked what kinds of goals could be included, he said:

They will range from the negative ones, such as: stop the following series of behaviours that we are clearly seeing, such as state-sanctioned cyber-attacks, state-sanctioned disinformation of a certain level and so on. Those are the negative, “stop it” ones. Then there are the more positive ones, which are things such as what we expect to see in Syria and elsewhere. It needs to be very clear. There is no point in having a secret policy. It needs to be explicit.⁴⁶

28. The Sanctions and Anti-Money Laundering Bill, introduced in the House of Lords on 18 October 2017, is among the major items of legislation that the Government considers necessary to put in place before the UK leaves the EU. The vast majority of UK sanctions are currently implemented through EU legal acts, so the Bill is necessary to put in place a legal framework for the UK to impose, implement and amend its own sanctions regimes after leaving the EU. The Bill arrived in the House of Commons in January 2018, and completed its Report stage on 1 May 2018. At the time of publication of this report, the Bill has returned to the House of Lords, where it awaits consideration of the amendments made in the Commons.

29. At the time of publication of this report, the Sanctions and Anti-Money Laundering Bill (2018) is entering the final stages of its passage through Parliament. The passage of the Bill marks an important opportunity for Parliament and the Government to assess the strengths and weaknesses of our existing sanctions regime, and to ensure that sanctions remain an effective part of the UK’s foreign policy toolkit. We welcome the Bill’s broad definition of the purpose of sanctions regulations, which will give the Government the power to introduce sanctions for a range of reasons including to further UK foreign policy objectives, to promote national and international peace and security, and to promote respect for human rights, democracy, the rule of law and good governance.

30. The significant impact of the newest US sanctions on Russia demonstrates the potential value in targeting Kremlin-linked individuals as a way of putting pressure on the regime to change its aggressive and destabilising behaviour. At the same time, making sanctions relief conditional on specific actions enables the EU to send clearer signals than the US does about how that behaviour should change. Since sanctions are most effective when the US and EU act together, the UK should make it a priority to identify ways to encourage and adopt best practices from both types of sanctions regime. The Government should also use the G7 format to encourage unity of action among the world’s largest economies, in order to exert maximum financial and economic leverage over the Kremlin.

31. We call on the Government to broaden its approach to sanctions by including individuals closely connected to hostile regimes, where appropriate, while retaining the practice of linking sanctions relief to specific actions. The UK should work with EU partners, both before and after leaving the EU, to identify and sanction the individuals and entities on whom the Kremlin relies in carrying out its acts of aggression—including, but not limited to, destabilisation of its neighbours, disinformation campaigns, interference in democratic processes and assassination attempts on foreign soil. This

should be done in close consultation with the US Treasury and intelligence agencies. Such sanctions should be linked to specific desired changes in the Russian state's behaviour, and should be reviewed annually against progress towards those outcomes.

A UK Magnitsky list

32. Witnesses were united in their view that the inclusion of a Magnitsky-style amendment in the Sanctions and Anti-Money Laundering Bill would be a positive step in enabling the UK to hold human rights abusers accountable for their actions.⁴⁷ Journalist Luke Harding said:

It seriously annoys Vladimir Putin, and I therefore think it would be a very effective measure. I think it would have to be public. It could be a template not only for the Russian Federation but for human rights abusers everywhere. You have to have a named list, and you have to give a reason, as the US has done, for why you are including someone on the list, but I think it would be a deterrent and also a message to the Russian elite that, in a way, they have to choose. It is this old dilemma between wanting to live the lifestyle of members of the international super-elite, while being patriots and nationalists at home. You can't have it both ways if you are going to support a regime with an egregious human rights record.⁴⁸

33. On 1 May 2018, during the report stage of the Sanctions and Anti-Money Laundering Bill, the House of Commons unanimously agreed to a cross-party amendment to the Bill that would enable the Government to sanction individuals in order to

Provide accountability for or be a deterrent to gross violations of human rights, or otherwise promote—

- i) Compliance with international human rights law, or
- ii) Respect for human rights.⁴⁹

The FCO Minister of State, Sir Alan Duncan, told the Chamber that “any person sanctioned under this Bill will have their name published on an administrative list, which will be publicly available.”⁵⁰ It is not yet clear, however, where that list will be published, how it will be maintained, or how it will differ (if at all) from the existing consolidated list of financial sanctions targets in the UK, maintained by the Treasury.⁵¹

34. It is also not yet clear which Minister or Department will take the lead in identifying and designating individuals who have committed, or are likely to commit, gross violations of human rights. When we asked the Foreign Secretary on 23 March 2018 who would be responsible for such a designation, he said, “That will obviously be a matter for our law

47 In 2012, the US passed the world's first “Magnitsky Act”—the Russia and Moldova Jackson-Vanik Repeal and Sergei Magnitsky Rule of Law Accountability Act. Named for the Russian lawyer Sergei Magnitsky, who was arrested in 2008 and died in 2009 after alleging large-scale corruption on the part of the Russian state, a Magnitsky Act gives a government the power to freeze or seize the assets and impose visa bans on specific individuals involved in gross human rights abuses. The names of the individuals sanctioned for gross human rights abuse are published on a publicly-available list.

48 [Q58](#)

49 [Sanctions and Anti Money Laundering Bill](#), Clause 1

50 HC Deb, 1 May 2018, [col 144](#) [Commons Chamber]

51 HM Treasury, [Consolidated list of financial sanctions targets in the UK](#), last updated 15 May 2018

enforcement agencies to determine”.⁵² This may be true for the final designation, but the information required for the agencies to determine this will require assistance and the detailed knowledge of individuals’ activities abroad that can only come from the FCO and intelligence agencies.

35. The Bill also requires the Government to report regularly to Parliament on the use of the power to make sanctions regulations, identifying specifically regulations relating to gross human rights violations. Moreover, it makes provision for the sanctions to be reviewed by a Parliamentary committee, and requires the Government to respond to any recommendations made by that committee. This may be an existing committee of either or both Houses, a joint committee, or a new structure.⁵³

36. Human rights abusers and their money are not welcome in the UK. We applaud the inclusion of a Magnitsky clause in the Sanctions and Anti-Money Laundering Bill, allowing sanctions regulations to be made for the purpose of preventing, or in response to, a gross human rights abuse or violation. This long-overdue measure sends a powerful signal of support to victims of human rights abuse around the world.

37. We welcome the Government’s promise to publish a list of individuals sanctioned specifically because of gross human rights violations, comparable to the US Magnitsky list. This list should be published and maintained by the FCO and should be distinct from the general list of individuals under financial sanction that is maintained by HM Treasury.

38. In determining whether to sanction specific individuals to provide accountability for or be a deterrent to gross violations of human rights, the Government should co-ordinate as closely as possible with the US, EU, G7 and other allies. Individual sanctions are most effective when a united front can be presented.

39. We welcome the Government’s recognition of the need for parliamentary scrutiny of the use of sanctions powers, and to respond to recommendations made by any committee undertaking such scrutiny. Sanctions are primarily an instrument of foreign policy, and only the FCO has the network and intelligence necessary to identify individuals and entities who should be subject to sanctions for the purposes set out in the Bill. The Foreign Affairs Committee is therefore the most appropriate committee to conduct reviews of the Government’s use of sanctions and we stand ready to discuss how such reviews might most effectively be conducted.

Russian sovereign debt

40. Unlike the major Russian banks, Russian state debt is not subject to sanctions. Russia is therefore free to raise funds, including hard currency, by selling bonds on US and EU markets. As Dr Emile Simpson told the Committee, this creates a major weakness in the global sanctions regime, because the Kremlin has used the money raised from sovereign debt issuances to support its sanctioned banks with loans (via intermediary banks).⁵⁴ Closing that loophole by sanctioning Russian sovereign debt would, Dr Simpson said, “send a significant political message about the seriousness of the sanctions regime”.⁵⁵

52 Oral evidence taken on 21 March 2018, [HC \(2017–19\) 538](#), Q187

53 [Sanctions and Anti Money Laundering Bill](#), Clause 3

54 [Q152](#)

55 [Q152](#)

41. Sanctioning Russian sovereign debt will only be effective if the US and EU act together. It is unclear, however, whether there would be international support for such a measure. In February 2018, the US Treasury Secretary Steven Mnuchin said the US would not pursue sanctions against Russian sovereign debt, days after the publication of an internal memo warning that such a move would have “negative spillover effects” on both the Russian and US economies.⁵⁶

42. There are measures short of full sanctioning that could make it more difficult for Russia to issue new sovereign debt. Sanctioned Russian banks such as VTB, which are not allowed to access US and EU capital markets on their own behalf, are nevertheless permitted to act as book runners for the sale of Russian state bonds.⁵⁷ Russia depends on these banks, since western banks have been unwilling to act as book runners for the sale of Russian debt since 2014.⁵⁸ Dr Emile Simpson suggested to the Committee that prohibiting persons in the EU from buying Russian debt when the book runner is a sanctioned entity would make it much more difficult in practice for Russia to issue new bonds.⁵⁹ He also suggested banning the main clearing houses in Europe, Clearstream and Euroclear, from making Russian debt available on the secondary market.⁶⁰ This would be likely to require the support of the EU as a whole.

43. Russia’s ability to issue new sovereign debt on global markets with the assistance of sanctioned banks undermines the global sanctions regime and supports the aggressive behaviour of the Russian state. Any action taken to limit or prohibit the issuance of Russian debt on global markets, however, must be taken jointly by the EU, US and other international partners in order for it to be effective.

44. The Government should work with the EU, and with the US, to prohibit the purchase of bonds in which a sanctioned entity has acted as book runner. It should also seek EU agreement to bar the European clearing houses from making available Russian sovereign debt.

56 Bloomberg, [Mnuchin says US won't target Russian debt with sanctions](#), 6 February 2018

57 See para 16

58 Emile Simpson ([RSC0008](#)) para 38

59 [Q163](#)

60 [Q163](#)

3 Closing the “laundromat”

Exposing hidden wealth and property ownership

45. Money laundering is a foreign policy issue, as the 2018 National Security Capability Review made clear.⁶¹ It allows those who would do harm to the UK to obscure their sources of financial support, and enables human rights abusers and kleptocrats to hide money that they have stolen from their own people. Measures to combat money laundering should therefore form a central aspect of Government strategy towards hostile regimes, including that of President Putin.

46. In the light of the scale of the UK’s financial services industry and the characteristics of the London property market, there is no single measure that can eliminate all of the so-called dirty money being laundered through London. The Government has taken several steps in recent years to crack down on money laundering in the UK, including introducing Unexplained Wealth Orders and a register of beneficial ownership for UK companies, and establishing the Joint Money Laundering Intelligence Taskforce (JMLIT) and the FCA-based Office for Professional Body Anti-Money Laundering Supervision (OPBAS). The National Security Capability Review also included a commitment to reform the Suspicious Activity Reports system,⁶² which one witness to this inquiry described as a “major black hole”,⁶³ and the Department for Business, Energy and Industrial Strategy has launched a review into the possible exploitation of Scottish limited partnerships for money-laundering purposes.⁶⁴

47. Some witnesses to this inquiry said that the regulatory architecture for combating money laundering is fairly robust, and that the right laws and frameworks are by and large already in place.⁶⁵ However, witnesses also emphasised the need for the Government to dedicate sufficient resources to anti-money laundering (AML) measures, to co-ordinate more effectively, and to demonstrate greater political will in tackling the problem.⁶⁶

48. This report focuses on the elements of the AML regime with a foreign affairs element and where there is a locus for the involvement of the FCO. The AML regime as a whole will be covered more extensively by the inquiry into Economic Crime launched by the Treasury Select Committee on 29 March 2018.⁶⁷ Their inquiry will examine the detail of the regulatory landscape in the UK, and will also explore the implementation side of the sanctions regime. We encourage the Government and those with an interest in combating illegal money-laundering to engage closely with that inquiry, and we look forward to its conclusions and recommendations.

61 HM Government, [National Security Capability Review](#), p 23

62 HM Government, [National Security Capability Review](#), p 24

63 [Q40](#)

64 Department for Business, Energy and Industrial Strategy, [Review of limited partnership: call for evidence](#), 16 January 2018

65 [Q18](#), [Q98](#)

66 [Q97](#)

67 Treasury Select Committee, [Economic Crime inquiry terms of reference](#)

Beneficial ownership register for foreign-owned companies

49. Since 2016, UK companies and limited liability partnerships have been required to declare, in a public and searchable register, the names of any individuals controlling more than a 25% stake in them. However, this measure does not currently apply to owners of overseas companies operating or purchasing property in the UK. According to Transparency International:

TI-UK has identified 176 properties worth £4.4 billion in the UK that have been bought with suspicious wealth—over a fifth of which is wealth from Russian individuals. The owners of these properties were only brought to light due to open source material, such as data leaks and court documents, and so this is likely to be just the tip of the iceberg.⁶⁸

50. In 2016 the then-Prime Minister David Cameron announced plans to introduce a register for owners of overseas companies that own or purchase UK property, or are involved in Government contracts.⁶⁹ The Government initially committed to introducing legislation on this register by April 2018, although its timeline has now slipped.⁷⁰ Tom Keatinge of RUSI called the delay “regrettable” in evidence to this inquiry.⁷¹

51. During the March 2018 debate on the Sanctions and Anti Money Laundering Bill, Economic Secretary to the Treasury John Glen told the House that the Government 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”.⁷² Asked to explain why the register could not be put in place more quickly, he said:

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.⁷³

52. **We welcome the Government’s commitment to establishing a register of ownership for overseas companies that own or wish to own property in the UK, or are involved in Government contracts. Such a measure will be essential in exposing individuals who purchase UK property through offshore shell companies, disguising their identities and the potentially corrupt sources of their funding.**

53. ***The delay in introducing legislation to establish a register of ownership for overseas companies that own property in the UK is regrettable. The legislation should be put in place as early as possible, ideally enabling the register to be established before the Government’s target date of 2021. We call on the Government to review this timescale, with a view to expediting it or setting out in more detail why the process needs to take so long.***

68 Transparency International UK ([RSC0002](#)) para 1

69 Registers of beneficial ownership, [Briefing Paper no 8259](#), House of Commons Library, 15 March 2018

70 Transparency International UK ([RSC0002](#)) para 1

71 Royal United Services Institute for Defence and Security Studies ([RSC0001](#)) para 15

72 HC Deb, 6 March 2018, [col 147](#) [Commons chamber]

73 HC Deb, 6 March 2018, [col 146](#) [Commons chamber]

Resources, information and political will

54. Witnesses were clear that lack of resources was a major problem for law enforcement agencies involved in investigating and prosecuting money laundering.⁷⁴ In a written submission, journalist Oliver Bullough said:

Parliament must properly resource our law enforcement bodies to allow them to enforce the laws Britain already has. Both the National Crime Agency and the City of London Police have testified to the fact they struggle to retain staff in the face of private sector competition. (In evidence to the Home Affairs Committee on the Proceeds of Crime, printed June 29, 2016). If the NCA and City police were resourced properly, they would secure more prosecutions, which would raise morale, help them retain staff, and thus work more efficiently, and hence secure further prosecutions. This is the top priority, without this, all other efforts can be at best a partial success.⁷⁵

55. Tom Keatinge of RUSI made two additional points regarding the capabilities of law enforcement bodies. First, he noted the complexity of the issues with which they have to grapple:

Fundamentally ... we do not really understand the landscape here. We are quite good at what the NCA might call drugs and thugs and cash in the car park—that bit we are not bad at—but on what they call high-end money laundering, with the best will in the world, your average NCA officer is not going to understand the kinds of structures that we used to put together at J. P. Morgan. Simple as that. I have sat in rooms where lawyers and accountants have explained what they do. Law enforcement are very honest; they say, “Can you explain that again? We don’t understand.” So there is that capability point.⁷⁶

He then referred to the lack of intelligence that the UK has on financial crime, comparing it unfavourably to Australia:

In this country, the data we have to determine financial crime is based on the suspicious activity reports regime, and it is discussed extensively how behind the door that is. We do not have any other information. Take Australia as an example: they record every financial transaction that crosses their border; they record every financial transaction that is more than 10,000 Australian dollars, I think. They have a huge amount of data that they can use to understand where a cash flow is coming from, and so on. For me, that is something that we should be considering.⁷⁷

56. Some witnesses said that political will has been the main element missing from the Government’s attempts to stamp out money laundering. Journalist Juliette Garside said

I think it comes down to political will. It comes down to these agencies—the SFO, the NCA and HMRC—being given their head. They do not need

74 [Q94](#), Royal United Services Institute for Defence and Security Studies ([RSC0001](#)) para 5

75 Oliver Bullough ([RSC0009](#)) para 1

76 [Q37](#)

77 [Q37](#)

to take down a lot of big scalps, but they need to do a few very public prosecutions every once in a while. In that sense, it is a question not so much of resource but of permission.⁷⁸

In the same evidence session, Tom Keatinge noted that

The theme of a number of our comments is that we need the political will to engage with those ideas, to take them forward and to actually deliver on them and to invest in them.⁷⁹

57. Vladimir Ashurkov of the Anti-Corruption Foundation told the Committee that the Serious Fraud Office (SFO) remained under-staffed and under-resourced, and that he was not receiving responses after bringing cases to the SFO's attention.⁸⁰ He told us:

I think there are several reasons why the Serious Fraud Office and other regulators in Britain turn a blind eye towards Russian corrupt money flows. One is that they do not have enough resources: monetary, staffing etc. There is also a perceived need to get evidence from Russia if they are investigating a particular case of corruption, which may not be true. And there is no real political will to go after corrupt money flows. Maybe it will change in the current political situation. They can expect that the billionaires whom they will investigate will hire the best legal help available, and would the SFO want to compete with the best lawyers? So, on balance, I think they decide it is not very economical to pursue such cases.⁸¹

Asked whether new legislation or regulations were needed, he said:

Britain has existing legislation—the Bribery Act, the Proceeds of Crime Act and the recently introduced unexplained wealth orders—that, if there was the political will to apply it in a consistent manner, would go a long way to targeting and rooting out corruption.⁸²

58. Tom Keatinge also noted that individuals applying for investor visas should be subject to enhanced due diligence procedures, which would require the Government to share their names with banks. He said:

The government should help the financial sector in this regard by providing the names of such individuals. Concerns about privacy have previously restricted such cooperation from occurring, however the information sharing gateway provided to the Joint Money Laundering Intelligence Taskforce under Section 7 of the Crime and Courts Act offers an ideal mechanism for transferring this information to the banking community.⁸³

59. We repeatedly asked the Foreign Secretary what the FCO and the Government more broadly could do to help stop the flow of corrupt money into the UK. He appeared to suggest, however, that there was no real role for Government in this process. He told us:

78 [Q6](#)

79 [Q55](#)

80 [Q94](#)

81 [Q94](#)

82 [Q98](#)

83 Royal United Services Institute for Defence and Security Studies ([RSC0001](#)) para 15

There are powers, under the Criminal Finances Act of April last year, to make unexplained wealth orders against people who law enforcement agencies determine have corruptly or illicitly obtained their wealth. We have the National Crime Agency currently working very hard on various lists of names, as you can imagine, of persons of interest to them. I should stress that they are persons of interest to them. We have to be clear about how this country works. This is not a country where we in the Government can say, "Oi! We think this so-and-so deserves to have his or her collar felt." That is not how it works here.⁸⁴

Put to him that Government policy was an important element in ensuring that law enforcement agencies had the funding and support to carry out such investigations, he replied, "it is very important for the Committee to understand that it cannot be Government policy to single out individuals and to say that they are right for persecution, or prosecution."⁸⁵

60. This was echoed by the Chancellor of the Exchequer in evidence to the Treasury Select Committee. Asked about HMRC's role in preventing money laundering, he said:

we live in a country that is governed by the rule of law and HMRC does not operate on the basis of pounding down the door because it does not like the look of somebody. It operates on the basis of evidence and the rigorous interpretation of legal rules. That is why we have lawyers in HMRC. Any information that is provided to HMRC will be acted upon but only if there is a legal basis to do so.⁸⁶

61. The UK is governed by the rule of law, and Ministers are right to assert that they cannot order law enforcement agencies to investigate or prosecute individuals with no basis in evidence. But observing due process cannot be an excuse for inaction or lethargy. There is a clear need for stronger political leadership to show the Government's commitment to ending the flow of dirty money into the UK. This must be demonstrated by allocating sufficient resources and capacity to the relevant law enforcement agencies, and by ensuring that those running the agencies are able to draw on information from across Government departments. The Government also needs to consider more effective ways to share intelligence between Departments, including between the FCO and AML supervisors such as the FCA and HMRC, and with the banking sector.

The Overseas Territories and Crown Dependencies

62. The role of the Overseas Territories and Crown Dependencies in illegal money-laundering activity has come under increasing scrutiny in recent years, with the publication of the Panama papers data leak in 2015 and the Paradise papers in 2017. These investigations have demonstrated the key role that shell corporations, which can be used to disguise the real ownership of the assets that are transferred through them, play in

84 Oral evidence taken on 21 March 2018, [HC \(2017–19\) 538](#), Q181

85 Oral evidence taken on 21 March 2018, [HC \(2017–19\) 538](#), Q214

86 Oral evidence taken before the Treasury Select Committee, 25 April 2018, [HC \(2017–19\) 424](#), Q179

funneling dirty money into the UK. These are often registered in the OTs and Crown Dependencies. In a written submission to this inquiry, Transparency International stated that, in 2011,

over 75 per cent of corruption cases involving property investigated by the (then) Metropolitan Police's Proceeds of Corruption Unit (POCU) involved anonymous companies registered in 'secrecy jurisdictions'. Of these, 78 per cent of the companies involved were registered in either the UK's Overseas Territories or Crown Dependencies.⁸⁷

63. Journalist Juliette Garside, who investigated the Panama papers and Paradise papers for the Guardian, told the Committee that

In Russia, one of the names for a shell company—one of the words people use—is BVI. They just call them BVIs as shorthand, whether they are registered in Saint Kitts or the British Virgin Islands. We have also noticed slightly more sophisticated set-ups recently in the Isle of Man. We can see there that certain corporate service providers have a very large number of Russian clients. Corporate service providers do what Mossack Fonseca used to do: they incorporate a shell company and offer their staff to act as pretend directors and shareholders of those companies so that the real directors and shareholders can be hidden ... The truth is that even those intermediaries are often not aware of whose companies they are. Those entities can then open a company in the UK and become its shareholder, and that UK company, because it is registered here, can open a bank account. That is the key. That is how you get the money in.⁸⁸

64. Tom Keatinge of RUSI's Centre for Financial Crime and Security Studies outlined the extent of the problem in a written submission, stating:

The continued appearance of UK Overseas Territories at the centre of illicit finance revelations is a matter that the UK government can no longer ignore. The sense from ministerial rhetoric is that there is nothing much Westminster can do to bring the OTs into line with global expectations on transparency. This seems to stem from a combination of a lack of willingness to exert influence over the OTs and a recognition that a number of OTs thrive on the financial business they attract. The result is that the OTs seemingly have a free reign to benefit from their association with the UK without adhering to the expectation and standards increasingly required of those operating within the UK itself.⁸⁹

65. In 2016, several of the Overseas Territories and Crown Dependencies agreed with the UK Government to establish private registers of beneficial ownership that could be accessed by law enforcement agencies in their respective territories and in the UK.⁹⁰ The British Virgin Islands were the first to do so, introducing in 2017 a secure, non-public and technologically innovative search platform called BOSS (Beneficial Ownership Secure

87 Transparency International UK ([RSC0002](#)) para 4

88 [Qq26–27](#)

89 Royal United Services Institute for Defence and Security Studies ([RSC0001](#)) para 17

90 Foreign and Commonwealth Office, [Beneficial ownership: UK Overseas Territories and Crown Dependencies](#), 21 April 2016

Search System). BOSS is a central register of all persons who directly or indirectly own 25% or more of companies registered in the BVI or under BVI law, and is accessible by competent authorities in the BVI and the UK. However, companies registered elsewhere that own more than 25% of BVI-registered companies do not have to be included in the database.

66. The Government has been reluctant to consider introducing legislation to compel the OTs and Crown Dependencies to make beneficial ownership registers, such as BOSS, publicly accessible.⁹¹ During the Report stage of the Sanctions and Anti-Money Laundering Bill on 1 May, however, the Government accepted a cross-party amendment that requires it to “provide all reasonable assistance” to enable the governments of the OTs to establish a publicly accessible register of the beneficial ownership of companies registered in each government’s jurisdiction. The new clause also requires the UK Government to prepare a draft Order in Council by 31 December 2020, requiring any OTs that have not yet introduced such a register to do so.

67. In our March 2018 Report on the UK’s response to hurricanes in its Overseas Territories, we asked the FCO to be more active in assisting in their economic recovery, and to provide us, by 1 September 2018, with a strategy for widening their economic bases.⁹² The FCO committed to doing so in its response to that Report.⁹³

68. While the Government should continue to respect the autonomy and constitutional integrity of the Overseas Territories and Crown Dependencies on devolved matters, money laundering is now a matter of national security, and therefore constitutionally under the jurisdiction of the UK. The Overseas Territories and Crown Dependencies are important routes through which dirty money enters the UK. This cannot continue. While we recognise the important innovations that Overseas Territories such as the British Virgin Islands have made in making registers of beneficial ownership available to UK law enforcement, the scale of the problem and the implications for the UK’s security now demand a greater response. We welcome the Government’s commitment, now included in the Sanctions and Anti-Money Laundering Bill, to assist the Overseas Territories in establishing publicly accessible registers of beneficial ownership. The Government should do everything in its power to enable the Overseas Territories to put these registers in place voluntarily, before the end of 2020.

69. The Government should also recognise the potential impact that the creation of publicly accessible beneficial ownership registers could have on the economies of the Overseas Territories, particularly for those continuing to rebuild after the devastation of Hurricane Irma. The UK should share the burden of reconstruction, just as they are sharing the burden of keeping our financial systems clean. We look forward to receiving the Government’s detailed strategy for widening the economic bases of the Overseas Territories, as promised in its response to our March 2018 Report on the UK’s response to hurricanes, by 1 September 2018.

91 HC Deb, 6 March 2018, [col 140 \[Commons chamber\]](#)

92 Foreign Affairs Committee, Fifth Report of Session 2017–19, [The UK’s response to hurricanes in its Overseas Territories](#), HC 722, para 18

93 Foreign Affairs Committee, Ninth Special Report of Session 2017–19, [The UK’s response to hurricanes in its Overseas Territories: Government response to the Committee’s 5th Report of Session 2017–19](#), HC 1052, para 26 ([publication imminent](#))

70. In its response to this report, the Government should set out its plans for assisting the governments of the Overseas Territories to establish publicly accessible beneficial ownership registers before 31 December 2020. We also call on the Government to provide the same level of assistance to the Crown Dependencies, and to encourage them to take steps to meet the same standard of transparency.

Conclusion: towards a coherent strategy on the Kremlin's loot

71. The proportion of dirty money in London is estimated to be small, relative to the size of the entire financial sector.⁹⁴ The damage that this money can do to UK foreign policy interests, by corrupting our friends, weakening our alliances, and eroding trust in our institutions is, however, potentially enormous. The Government cannot afford to turn a blind eye as kleptocrats and human rights abusers use the City of London to launder their ill-gotten funds and to circumvent sanctions, putting that money directly into the hands of regimes that would harm the UK, its interests and its allies.

72. We asked the Foreign Secretary to outline the Government's strategic objectives for UK-Russia relations. He told us:

The UK wants Russia to play a role as a responsible international partner in upholding the rules based international system. Regrettably, a pattern of Russian aggression over the past decade, from the murder of Alexander Litvinenko to its actions in Crimea and Ukraine and the recent attack in Salisbury, suggests that this is not Russia's aim. The Kremlin has consistently flouted the values and norms that make the freedoms we enjoy possible. In December, I held out the hand of engagement, but we have been given every signal to beware.⁹⁵

73. **The Government is right to respond robustly to the aggressive actions of President Putin's regime. But reacting in an ad hoc way to the Kremlin's behaviour has led to a disjointed approach. Despite the Government's strong rhetoric, President Putin's allies have been able to exploit gaps in the sanctions and anti-money laundering regimes that allow them to hide and launder assets in London. This undermines the strength and unity of the global diplomatic response to Russian state actions, threatens UK national security, and helps to enable corrupt kleptocrats to steal from the Russian people.**

74. **As a nuclear-armed, permanent member of the United Nations Security Council, Russia remains a major player in global affairs with an important voice and a seat at the table. It has the potential to be a force for security and stability. But instead of participating in the international rules-based system, President Putin's regime uses asymmetric methods to achieve its goals, and others—so-called useful idiots—magnify that effect by supporting its propaganda. Russia's economy—which, it is worth recalling, is approximately the size of Spain's—is deeply interconnected to the Western financial system. This gives the US, EU and other G7 countries, acting together, significant leverage in seeking to counter the Kremlin's aggressive behaviour.**

75. *The UK must set out a coherent and pro-active strategy on Russia, led by the Foreign and Commonwealth Office and co-ordinated across the whole of Government, that clearly links together the diplomatic, military and financial tools that the UK can use to counter Russian state aggression.*

94 [Q98](#)

95 Foreign and Commonwealth Office ([RSC0010](#)) para 2

76. There are a number of concerns that we have not addressed in this report, including the role of Tier 1 investor visas and the purchasing of EU and UK citizenship. We may return to these issues in future inquiries, and may also investigate other aspects of the UK sanctions regime, and of UK-Russia relations.

Conclusions and recommendations

London and the oligarchs

1. The use of London as a base for the corrupt assets of Kremlin-connected individuals is now clearly linked to a wider Russian strategy and has implications for our national security. Combating it should be a major UK foreign policy priority. The assets stored and laundered in London both directly and indirectly support President Putin's campaign to subvert the international rules-based system, undermine our allies, and erode the mutually-reinforcing international networks that support UK foreign policy. The size of London's financial markets and their importance to Russian investors gives the UK considerable leverage over the Kremlin. But turning a blind eye to London's role in hiding the proceeds of Kremlin-connected corruption risks signalling that the UK is not serious about confronting the full spectrum of President Putin's offensive measures. (Paragraph 20)
2. *We call on the Government to investigate the gaps in the sanctions regime that allowed a company such as En+ to float on the London Stock Exchange, and to work with the G7, whose markets dominate the financial world, and other international partners, to close those gaps as soon as possible.* (Paragraph 21)

Making sanctions more effective

3. At the time of publication of this report, the Sanctions and Anti-Money Laundering Bill (2018) is entering the final stages of its passage through Parliament. The passage of the Bill marks an important opportunity for Parliament and the Government to assess the strengths and weaknesses of our existing sanctions regime, and to ensure that sanctions remain an effective part of the UK's foreign policy toolkit. We welcome the Bill's broad definition of the purpose of sanctions regulations, which will give the Government the power to introduce sanctions for a range of reasons including to further UK foreign policy objectives, to promote national and international peace and security, and to promote respect for human rights, democracy, the rule of law and good governance. (Paragraph 29)
4. The significant impact of the newest US sanctions on Russia demonstrates the potential value in targeting Kremlin-linked individuals as a way of putting pressure on the regime to change its aggressive and destabilising behaviour. At the same time, making sanctions relief conditional on specific actions enables the EU to send clearer signals than the US does about how that behaviour should change. Since sanctions are most effective when the US and EU act together, the UK should make it a priority to identify ways to encourage and adopt best practices from both types of sanctions regime. The Government should also use the G7 format to encourage unity of action among the world's largest economies, in order to exert maximum financial and economic leverage over the Kremlin. (Paragraph 30)
5. *We call on the Government to broaden its approach to sanctions by including individuals closely connected to hostile regimes, where appropriate, while retaining the practice of linking sanctions relief to specific actions. The UK should work with EU partners, both before and after leaving the EU, to identify and sanction the individuals and entities*

on whom the Kremlin relies in carrying out its acts of aggression—including, but not limited to, destabilisation of its neighbours, disinformation campaigns, interference in democratic processes and assassination attempts on foreign soil. This should be done in close consultation with the US Treasury and intelligence agencies. Such sanctions should be linked to specific desired changes in the Russian state's behaviour, and should be reviewed annually against progress towards those outcomes. (Paragraph 31)

6. Human rights abusers and their money are not welcome in the UK. We applaud the inclusion of a Magnitsky clause in the Sanctions and Anti-Money Laundering Bill, allowing sanctions regulations to be made for the purpose of preventing, or in response to, a gross human rights abuse or violation. This long-overdue measure sends a powerful signal of support to victims of human rights abuse around the world. (Paragraph 36)
7. *We welcome the Government's promise to publish a list of individuals sanctioned specifically because of gross human rights violations, comparable to the US Magnitsky list. This list should be published and maintained by the FCO and should be distinct from the general list of individuals under financial sanction that is maintained by HM Treasury. (Paragraph 37)*
8. *In determining whether to sanction specific individuals to provide accountability for or be a deterrent to gross violations of human rights, the Government should co-ordinate as closely as possible with the US, EU, G7 and other allies. Individual sanctions are most effective when a united front can be presented. (Paragraph 38)*
9. *We welcome the Government's recognition of the need for parliamentary scrutiny of the use of sanctions powers, and to respond to recommendations made by any committee undertaking such scrutiny. Sanctions are primarily an instrument of foreign policy, and only the FCO has the network and intelligence necessary to identify individuals and entities who should be subject to sanctions for the purposes set out in the Bill. The Foreign Affairs Committee is therefore the most appropriate committee to conduct reviews of the Government's use of sanctions and we stand ready to discuss how such reviews might most effectively be conducted. (Paragraph 39)*
10. Russia's ability to issue new sovereign debt on global markets with the assistance of sanctioned banks undermines the global sanctions regime and supports the aggressive behaviour of the Russian state. Any action taken to limit or prohibit the issuance of Russian debt on global markets, however, must be taken jointly by the EU, US and other international partners in order for it to be effective. (Paragraph 43)
11. *The Government should work with the EU, and with the US, to prohibit the purchase of bonds in which a sanctioned entity has acted as book runner. It should also seek EU agreement to bar the European clearing houses from making available Russian sovereign debt. (Paragraph 44)*

Closing the "laundromat"

12. We welcome the Government's commitment to establishing a register of ownership for overseas companies that own or wish to own property in the UK, or are involved

in Government contracts. Such a measure will be essential in exposing individuals who purchase UK property through offshore shell companies, disguising their identities and the potentially corrupt sources of their funding. (Paragraph 52)

13. *The delay in introducing legislation to establish a register of ownership for overseas companies that own property in the UK is regrettable. The legislation should be put in place as early as possible, ideally enabling the register to be established before the Government's target date of 2021. We call on the Government to review this timescale, with a view to expediting it or setting out in more detail why the process needs to take so long.* (Paragraph 53)
14. The UK is governed by the rule of law, and Ministers are right to assert that they cannot order law enforcement agencies to investigate or prosecute individuals with no basis in evidence. But observing due process cannot be an excuse for inaction or lethargy. There is a clear need for stronger political leadership to show the Government's commitment to ending the flow of dirty money into the UK. This must be demonstrated by allocating sufficient resources and capacity to the relevant law enforcement agencies, and by ensuring that those running the agencies are able to draw on information from across Government departments. The Government also needs to consider more effective ways to share intelligence between Departments, including between the FCO and AML supervisors such as the FCA and HMRC, and with the banking sector. (Paragraph 61)
15. While the Government should continue to respect the autonomy and constitutional integrity of the Overseas Territories and Crown Dependencies on devolved matters, money laundering is now a matter of national security, and therefore constitutionally under the jurisdiction of the UK. The Overseas Territories and Crown Dependencies are important routes through which dirty money enters the UK. This cannot continue. While we recognise the important innovations that Overseas Territories such as the British Virgin Islands have made in making registers of beneficial ownership available to UK law enforcement, the scale of the problem and the implications for the UK's security now demand a greater response. We welcome the Government's commitment, now included in the Sanctions and Anti-Money Laundering Bill, to assist the Overseas Territories in establishing publicly accessible registers of beneficial ownership. The Government should do everything in its power to enable the Overseas Territories to put these registers in place voluntarily, before the end of 2020. (Paragraph 68)
16. The Government should also recognise the potential impact that the creation of publicly accessible beneficial ownership registers could have on the economies of the Overseas Territories, particularly for those continuing to rebuild after the devastation of Hurricane Irma. The UK should share the burden of reconstruction, just as they are sharing the burden of keeping our financial systems clean. We look forward to receiving the Government's detailed strategy for widening the economic bases of the Overseas Territories, as promised in its response to our March 2018 Report on the UK's response to hurricanes, by 1 September 2018. (Paragraph 69)

17. *In its response to this report, the Government should set out its plans for assisting the governments of the Overseas Territories to establish publicly accessible beneficial ownership registers before 31 December 2020. We also call on the Government to provide the same level of assistance to the Crown Dependencies, and to encourage them to take steps to meet the same standard of transparency.* (Paragraph 70)

Conclusion: towards a coherent strategy on the Kremlin's loot

18. The Government is right to respond robustly to the aggressive actions of President Putin's regime. But reacting in an ad hoc way to the Kremlin's behaviour has led to a disjointed approach. Despite the Government's strong rhetoric, President Putin's allies have been able to exploit gaps in the sanctions and anti-money laundering regimes that allow them to hide and launder assets in London. This undermines the strength and unity of the global diplomatic response to Russian state actions, threatens UK national security, and helps to enable corrupt kleptocrats to steal from the Russian people. (Paragraph 73)
19. As a nuclear-armed, permanent member of the United Nations Security Council, Russia remains a major player in global affairs with an important voice and a seat at the table. It has the potential to be a force for security and stability. But instead of participating in the international rules-based system, President Putin's regime uses asymmetric methods to achieve its goals, and others—so-called useful idiots—magnify that effect by supporting its propaganda. Russia's economy—which, it is worth recalling, is approximately the size of Spain's—is deeply interconnected to the Western financial system. This gives the US, EU and other G7 countries, acting together, significant leverage in seeking to counter the Kremlin's aggressive behaviour. (Paragraph 74)
20. *The UK must set out a coherent and pro-active strategy on Russia, led by the Foreign and Commonwealth Office and co-ordinated across the whole of Government, that clearly links together the diplomatic, military and financial tools that the UK can use to counter Russian state aggression.* (Paragraph 75)

Formal minutes

Tuesday 15 May 2018

Members present:

Tom Tugendhat, in the Chair

Chris Bryant	Priti Patel
Mike Gapes	Andrew Rosindell
Stephen Gethins	Mr Bob Seely
Ian Murray	Royston Smith

Draft Report (*Moscow's gold: Russian corruption in the UK*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 22 May at 2.15pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Wednesday 28 March 2018

Question number

Oliver Bullough, Journalist and Author on Russia; **Juliette Garside**, Financial Correspondent; **Luke Harding**, Journalist and Author on Russia; and **Tom Keatinge**, Director, Centre for Financial Crime and Security Studies, RUSI

[Q1–91](#)

Vladimir Ashurkov, Executive Director, Anti-Corruption Foundation; and **Roman Borisovich**, Co-founder, ClampK

[Q92–132](#)

Tuesday 17 April 2018

Emile Simpson, Research Fellow, Harvard University, and **Dr Mark Galeotti**, Senior Research Fellow, Institute of International Relations, and author

[Q133–176](#)

Garry Kasparov, Author and political activist

[Q177–211](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

RSC numbers are generated by the evidence processing system and so may not be complete.

- 1 Deloitte LLP ([RSC0013](#))
- 2 Dr Andrew Foxall ([RSC0012](#))
- 3 Embassy of the Russian Federation ([RSC0014](#))
- 4 Emile Simpson ([RSC0008](#))
- 5 Ernst & Young ([RSC0004](#))
- 6 Foreign and Commonwealth Office ([RSC0010](#))
- 7 Garry Kasparov ([RSC0011](#))
- 8 GML ([RSC0006](#))
- 9 John Whittingdale MP ([RSC0005](#))
- 10 KPMG ([RSC0003](#))
- 11 Oliver Bullough ([RSC0009](#))
- 12 Price Waterhouse Coopers ([RSC0007](#))
- 13 Royal United Services Institute for Defence and Security Studies ([RSC0001](#))
- 14 Transparency International UK ([RSC0002](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Violence in Rakhine State and the UK's response	HC 435
Second Report	The future of UK diplomacy in Europe	HC 514
Third Report	Kurdish aspirations and the interests of the UK	HC 518
Fourth Report	2017 elections to the International Court of Justice	HC 860
Fifth Report	The UK's response to hurricanes in its Overseas Territories	HC 722
Sixth Report	Global Britain	HC 780
Seventh Report	Global Britain and the 2018 Commonwealth Summit	HC 831
First Special Report	The United Kingdom's relations with Russia: Government Response	HC 332
Second Special Report	The UK's relations with Turkey: Government Response	HC 333
Third Special Report	'Political Islam': Government Response	HC 334
Fourth Special Report	Violence in Rakhine State and the UK's response: Government Response	HC 868
Fifth Special Report	The future of UK diplomacy in Europe: Government Response	HC 918
Sixth Special Report	Kurdish aspirations and the interests of the UK: Government Response	HC 983
Seventh Special Report	2019 elections to the International Court of Justice	HC 1012