

Stories of Secrecy

On the trail of Scottish Limited Partnerships

Richard Smith, Naked Capitalism

The Moldova scam

- ~\$1Bn bank fraud, Nov 2014, “complex”
 - three banks, ~12-15% of Moldovan GDP,
 - Civil unrest, government destabilised
- Report by Kroll Investigations leaked May 2015
- Revealed inter alia 48 abused UK entities
 - Scottish LPs
 - NI LPs
 - LLPs from England, Scotland & NI
 - UK Limited Companies

BBC R4 on the Moldova scam

- Scottish Limited Partnership: Fortuna United LP
- Onshore TCSP: Royston Business Consultancy
- Shady jurisdiction: the Seychelles
- Latvian bank: Privatbank
- But there's plenty more...

Moldova scam: more

- 5 more registered onshore TCSPs
- 3 apparently unregistered onshore TCSPs
- 6 offshore TCSPs, not all identifiable
- 8 more address providers, some registered, some unidentifiable
- 2 more Latvian banks: Latvijas Pasta Banka, ABLV (aka Aizkraukles Bank)

The Opaque Partnership problem

- Similar abuse of Limited Liability Partnerships shells well documented, 2012-2016
- Opacity: partnerships that have corporate members registered in secrecy jurisdictions.
 - Anguilla, Belize, BVI, Dominica, Marshall Islands, Panama, St Kitts & Nevis, Seychelles, Vanuatu...
- LPs & LLPs as wrappers for low disclosure
"International Business Corporations"
- A way to import offshore secrecy to the UK.

Word got out and other dodgy TCSPs joined in

- By Sept 2015,
 - a total of ~13,000 opaque SLPs
 - concentrated at ~25 nominal “places of business”
 - a couple of them host thousands of SLPs
 - 9 out of every 10 new SLP registrations was opaque, running at close to 400/month
- SLP vehicle heavily web-advertised in FSU:
 - Latvia, Estonia, Belarus, Russia, Ukraine

Onshore players in SLP formation

- Axiano/Lawsons:
 - \$20Bn money laundrette
- Companies Plus:
 - Ukrainian oligarchs, Ukrainian bid-rigging,
 - arms smuggling
- Arran:
 - copyright theft,
 - more arms smuggling

Offshore players in SLP formation

- Kearney Curran and IOS (Burwell) back story includes:
 - FSU bank fraudsters (BTA Bank, \$5Bn),
 - Ukrainian/Russian arms smugglers (MV Faina),
 - and (just for variety) the CIA rendition programme
- Maharal/Cyprus:
 - “Russian Laundering Machine”, OCCRP

What's gone wrong (I)

- TCSPs: “Of more than 350,000 Suspicious Activity Reports...last year, just 177, or 0.05%, came from company service providers.”
- Realistically, the business of some TCSPs is all suspicious activity...
- Ludicrous UK AML framework (20+ agencies with ill-defined responsibility for UK TCSPs)
- Offshore TCSPs aren't even required to be registered: don't look, won't find.

What's gone wrong (II): neglect

- Governing law absurdly out of date, parochial
- Companies House underfunded
- UK Insolvency Service has no legal powers against dubious/fraudulent Limited Partnerships
- The existing Scottish legal powers (interdict, dawn raid, asset freezes) look fine if the partners are onshore...but they're not

Fixing it - some half-baked ideas

- UBO disclosure? **DOUBT IT**
 - PSC thresholds (as intended for LLPs) won't work
 - Anyway, after panamapapers, who trusts (e.g.) a Panamanian UBO disclosure?
- Ban corporate LP & LLP members? **MAYBE**
 - Complete ban falls foul of financial services lobby
 - Allow only UK companies to be corp. members?
 - With a few grandfathered exceptions (World Bank)?
- Gatekeep all TCSPs, monitor their AML. **YES**
- New power to deregister dodgy LPs. **YES**