

The possible displacement effect in criminal methods of operation resulting from the increasing transparency of beneficial ownership of companies

Extract from NCA Amber ALERT of November 2017 (Reference: 0471-ECC)

Overview

There have been a number of increased transparency measures introduced to assist accountants and financial institutions in identifying ultimate beneficial owners, and to assist law enforcement in preventing and detecting tax evasion and money laundering, including:

- the automatic exchange of tax information with UK Overseas Territories;
- the Common Reporting Standard for the automatic exchange of financial information;
- the US Foreign Account Tax Compliance Act (2010);
- Companies House beta search service;
- the increased information sharing provisions in the Criminal Finances Act (2017); and
- the 4th and 5th EU Money Laundering Directive provisions on ultimate beneficial ownership.

The following are 'red flag' indicators as criminals change their behaviour as a result of the measures introduced.

Environmental Patterns

- Increase in online adverts for company formation agent service providers.
- Increase in sophisticated and experienced or trusted company formation agents being asked to set up corporate structures.
- More criminal approaches to bank staff working in back office, IT, or compliance functions.
- More criminal approaches to staff working in HMRC, Companies House, or law enforcement.
- Increase in criminal approaches to I.T. suppliers in high-risk jurisdictions where transparency measures are less advanced or non-existent.

Crime Patterns

- Increase in 'crime as a service' appearing on the dark web to enable criminals to set up convincing corporate structures or steal data or use stolen data.
- Increase in identity fraud impersonation cases involving companies/company directors.
- Increase in successful identity frauds involving companies.
- Increase in false document production, and trends of certain types of documents and non-UK nationalities being used.
- Increase in scams and investment frauds targeting individuals who are company directors.
- More complicit company formation agents identified in investigations.
- More instances of nominee directors being identified in criminal structures.
- Short term increase in Scottish limited partnerships appearing in investigations.
- Long term decrease in Scottish limited partnerships appearing in investigations.

Onboarding Patterns

- Increase in the number of companies having been set up by company formation agents.
- Increased complexity of structures used by both criminals and genuine clients e.g. nominee directors, nominee shareholders, dummy settlors.

- Increase in the number of companies where ownership is split so no one individual or entity owns 25% or more.
- Increase in false identity and other documentation being identified.
- New company/corporate structures suddenly becoming popular e.g. insurance wrappers.
- Short term increase in Scottish limited partnerships appearing in applications.
- Long term decrease in Scottish limited partnerships appearing in applications.

Monitoring Patterns

- Increase in money or assets transferring from companies to newly created companies.
- Increase shifting of money and assets to high risk jurisdictions not implementing transparency measures.
- Increase in fund flows from offshore jurisdictions.
- Increase in abandoned companies that go dormant.
- Lots of companies suddenly splitting ownership so no one owns 25% or more.

Suspicious Activity Reporting [SARs]

If you know/suspect ML or terrorist financing activity you should make a SAR and include the alert reference **0471-ECC** within the text *in addition* to the ongoing use of the Glossary of Terms.

Guidance on reporting is available at: www.nationalcrimeagency.gov.uk

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

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