

AML alert: High risk behaviours and typologies associated with the TCSP sector

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Overview

The National Economic Crime Centre (NECC) has recently published an alert which aims to highlight the high-risk behaviours and typologies associated with the Trust and Company Service Provider (TCSP) sector. Working in conjunction with law enforcement and financial sector partners, the alert is the culmination of the High-Risk TCSP Cell, bringing together expertise to provide a baseline understanding of the money laundering threat associated with TCSPs.

Information report

The link between TCSPs and economic crime in the UK has been widely documented by investigative journalists in recent years, and has been a feature of high-profile money laundering investigations as evidenced by numerous organisations. Furthermore, TCSPs were assessed as high risk for money laundering in the National Risk Assessment 2020.

The TCSP sector consists of a number of sub-sectors based on various business models including company formation agents, professional trustees and large franchise operations providing mail holding and forwarding services, accountants and solicitors.

Despite the legitimate use of TCSP services, TCSPs are vulnerable to exploitation by criminals, with the TCSP's involvement sitting on a sliding scale between unwitting, negligent, wilfully blind, and criminally complicit. TCSPs offer services which enhance the attractiveness of companies to criminals, for example to increase anonymity.

The creation of English, Scottish, and Irish Limited Partnerships (LPs) and Limited Liability Partnerships (LLPs) by TCSPs over the last two decades, have been identified as shell companies involved in money laundering schemes such as the Troika, Russian, and Azerbaijani Laundromats (amongst others). These entities are commonly seen to be obscuring the true ownership of high-end properties, or are acting as fronts, transferring suspected illicit funds linked to serious organised crime to offshore destinations. The widespread abuse of LPs and LLP structures has been widely documented, with some reporting highlighting that one in ten LLPs incorporated in the UK have characteristics identical to those used in serious financial crimes such as bribery, embezzlement of public funds, and sanctions evasions, many of which have been set up with the involvement of a TCSP.

Risk Indicators

The TCSP Cell have established a set of risk indicators which have developed with the support of case studies provided by private sector participants. In isolation, the presence of a TCSP or a TCSP/brass plate address may not present a high-risk scenario, but in a particular context and/or accumulation of the below indicators, may be indicative of suspicious activity.

Regulated businesses may wish to use the below list as indicators of suspicious activity when reviewing KYC information or reviewing for suspicious activity as part of their day-to-day activity for risk mitigation, or as part of proactive reviews.

Indicators for Potentially Suspicious TCSPs themselves

Client profile/behaviours

- The TCSP appears to be unsupervised.
- Person/s with Significant Control (PSC) are unidentifiable in Companies House.
- The TCSP is offering shelf companies with similar names to well-known brands.
- Presence of negative news or criminal convictions in relation to the company and/or UBOs/director.

- The TCSP has directors or PSCs in jurisdictions of high money laundering risk.
- The TCSP has directors or PSCs in secrecy jurisdictions, or small offshore jurisdictions.
- The TCSP appears to be located at a residential address.

Transactional behaviours

- A rapid change in transactional pattern or flurry of activity through a TCSP account.
- The TCSP is transacting/conducting business in/with a higher risk jurisdiction known for trade-based money laundering.
- The TCSP is transacting to an extent higher than turnover declared in annual accounts provided to Companies House. For example, a company registered as a micro entity with Companies House as exempt from providing audited accounts is transacting over £632,000 per year.
- The TCSP is transacting despite being dormant (Companies House SIC Code: 99999).
- Profit is transferred to opaque corporate entities, individuals and other companies, without a clear economic rationale for doing so.
- Vague or repetitive payment references.
- Amounts being transferred are either rounded or accumulative (e.g., on consecutive days).

Indicators for Potentially Suspicious Companies Formed by TCSPs

Client profile/behaviours

- The company (client or counterparty) is located at a high risk TCSP/brass plate address.
- Unclear rationale as to why the client or counterparty is connected to this address.
- The company linked to a TCSP appears to have a complex or opaque ownership structure.
- The company linked to a TCSP appears to be connected to offshore locations/secrecy jurisdictions.
- The company is a Limited Partnership (LP), Scottish Limited Partnership (SLP) or Northern Irish Limited Partnership (NILP), Limited Liability Partnership (LLP), or has these structures in its ownership structure, concealing the ultimate beneficial owner.
- The LLP has one or more of the eight features detailed in Transparency International's 'Partner's in Crime' report¹.
- PSCs are unidentifiable in Companies House.
- The company appears to have nominee directors, secretaries or shareholders who are linked to multiple other companies (could possibly be in the thousands).
- Presence of negative news in relation to the company and/or UBOs/directors.
- The company has directors or PSCs in jurisdictions of high money laundering risk, secrecy jurisdictions, or small offshore jurisdictions.
- The company PSC does not have a job role of sufficient standing to be a genuine shareholder, indicating they are likely a nominee shareholder.
- The company is unable to provide a legitimate explanation for why it is seeking UK incorporation, such as limited evidence of trading activity in the UK/EU on accounts or established European located buyers and suppliers.
- Client or counterparty appears to be located at a residential address.
- The company does not have a sufficient online presence to suggest it is legitimately trading.
- Upon review, the company's activity does not appear to be in line with the expected industry or sector as stated at on-boarding.
- Entity is formed with the assistance of a TCSP shortly prior to a flurry of activity and then is closed quickly after activity ceases.

Transactional behaviours

- A rapid change in transactional pattern or flurry of activity through an entity formed or associated to a TCSP.
- The company is transacting/conducting business in/with a higher risk jurisdiction known for trade-based money laundering.
- The company is transacting to an extent higher than turnover declared in annual accounts provided to Companies House.
- The company is transacting despite being dormant (Companies House SIC Code: 99999).
- The company is transacting despite being a non-trading company (Companies House SIC Code: 74990).
- Profit is transferred to opaque corporate entities, individuals and other companies, without a clear economic rationale for doing so.
- Vague or repetitive payment references.
- Amounts being transferred are either rounded or accumulative (e.g., on consecutive days).

Best Practice/Guidance to accountancy firms

The below points are suggested guidance and proactive work regulated businesses may consider taking to mitigate and/or respond to the risks linked to the TCSP sector:

- If on-boarding a TCSP, assess whether there is any negative news associated with the entity itself or their owners/directors.
- Checking whether a TCSP is registered with a supervisory body.
- Consider undertaking proactive reviews into clients or transactional flows linked to high risk TCSP postcodes over a set time-period, utilising the risk indicators outlined in the section above.
- Consider undertaking proactive reviews into UK LPs or LLPs over a set period (clients and transactional flows), utilising risk indicators detailed above (e.g., flows to/from high risk or secrecy jurisdictions).
- Ensuring KYC data is maintained and up-to-date; checking whether directors or secretaries are linked to numerous other companies to assess whether they are nominees.
- Consider proactive reviews to assess direct or indirect exposure into prolific nominee directors and secretaries whose names have been associated with entities involved in numerous money laundering investigations.
- Cross-checking on-boarding documents with Companies House data.
- Perform ongoing monitoring of quantitative risk indicators such as trading volume and transactions to high-risk jurisdictions etc.
- Provide regular training or awareness sessions on TCSP risk, shell companies, the abuse of LPs and LLPs to staff (financial crime, due diligence; transaction monitoring; and front office).

What you can do

If you identify any activity which is akin to some of the methods outlined in this report, and your business falls within the regulated sector, you may wish to submit a Suspicious Activity Report (SAR). If you decided to submit a SAR you should adopt the usual mechanism for doing so, and include the glossary code **XXJMLXX** and the reference **0722-NECC** within the text.

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.

Disclaimer

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