

Abuse of UK Limited Partnerships and the outlook for reform

Richard Smith

Beanfeast for investigative journalists

- 2015: the \$3Bn Moldova bank fraud, 21 SLPs
- 2016:
 - the \$10Bn-a-year global “Binary Options” investment fraud (40+ SLPs)
 - \$3Bn “Azeri Laundromat” (20+ SLPs)
- 2017: \$20-\$80Bn “Russian Laundromat”, 113 SLPs
- 2018:
 - Multi-billion-dollar Odebrecht bribery scandal, 4 SLPs
 - \$230Bn Danske Bank Estonia money laundering scandal – unknown number of SLPs, perhaps hundreds
- 2015-2018: Dozens of lesser stories

Common features of abused partnerships

- Opacity: mass-produced anonymous partnerships that have corporate partners registered in secrecy jurisdictions.
 - Anguilla, Belize, BVI, Dominica, Marshall Islands, Panama, St Kitts & Nevis, Seychelles, Vanuatu...
- Controlled offshore, via spectacularly careless (or complicit) TCSPs, some of them identifiable, some not.
- Abuse of Limited Liability Partnership shells well-documented, 2011-2018, e.g. [OCCRP 2011](#), [Global Witness 2012](#), [Private Eye 2013](#), [Independent 2014](#), [Guardian 2017](#), [BBC 2018](#)
- LPs just as easily abused in the same way, by the same crooks
- Bank accounts overseas, in (e.g.) Latvia, Estonia, Ukraine, Moldova

When the SLP boom started

- Glenvale Trading L.P., Partnership no 6444, 4th March 2008
- GP: Whitecrest Ltd of Belize, directed by Matthew Charles Stokes, prolific “Sark Lark” veteran
- LP: Tudorbury Ltd of Belize
- Agent: Kearney Curran & Co of Dublin (with branches in Belize & Panama).

The SLP boom at its peak

- By end-2016,
 - a total of ~20,000 opaque SLPs
 - concentrated at ~25 nominal “places of business”
 - Some hosting thousands of SLPs
 - 9 out of every 10 new SLP registrations was “opaque”, running at over 400/month
- SLP vehicle heavily web-advertised in FSU:
 - Latvia, Estonia, Belarus, Russia, Ukraine

TCSPs and TCSP supervision (1)

- TCSPs introduce the clients to the banks.
- They are not choosing good clients, nor good banks
- “Moldova fraud” banks:
 - PrivatBank Latvia, fined EUR2Mn and board dismissed, 2016
 - ABLV (aka Aizkraukles Bank), forced into liquidation by FinCEN 2018
 - Latvijas Pasta Banka, fined EUR 305,000 2016, and EUR 2.2Mn, 2018

TCSPs and TCSP supervision (2)

- Moldova scam TCSPs:
 - 6 HMRC-registered TCSPs
 - 6 offshore TCSPs (based in the EU or Russia)
 - 4 offshore TCSPs, in unknown locations, identifiable only via the systematic nature of their formation activity
- Their work shows up again in other huge money-laundering cases (Laundromats, Danske Bank)
- All these TCSPs are still cheerfully creating and administering LPs and LLPs in late 2018...

TCSPs and TCSP supervision (3)

- 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...
- Onshore TCSPs: ineffective fitness/properness test.
- HMRC oversight evidently ineffective.
- Offshore TCSPs: the weakest link of all.

LP law and enforcement: neglect

- Governing law out of date.
- Companies House investigation underfunded.
- UK Insolvency Service has no legal powers against dubious/fraudulent Limited Partnerships.
- The existing Scottish legal powers (interdict, dawn raid, asset freezes) would work fine if the partners, LP operators and bank accounts were onshore...but they're not.

Reforms enacted

- PSC disclosure introduced for SLPs in July 2017
- Rate of opaque SLP formation promptly declined by 80%
- But even after that, opaque SLPs still dominate new registrations!
- PSC rules easy to circumvent, see e.g. [GEROY TRADING LP](#) for one of thousands of examples. General Partner is a named resident of the Seychelles (but *he* doesn't control the partnership).
- Meanwhile the rate of opaque *English* LP formations has doubled since July 2017
- TCSPs familiar from SLP horror stories are now registering many more English and NI LPs.
- So that didn't work...

Reforms proposed (10th Dec 2018)

- "Those registering Limited Partnerships must demonstrate they are registered with an official anti-money laundering supervised agent, such as an accountant or a lawyer, or an overseas equivalent."
 - Translation: HMRC, or some overseas equivalent that is just as ineffectual as HMRC
 - Still no effective fitness and properness test, still no enforcement budget
 - Still not included on registration particulars: disclosure of corporate partners' company register location and registered number.
- Dead on Arrival

Reforms proposed (2)

- "The Limited Partnership must demonstrate an ongoing link to the UK, for example by keeping its principal place of business in the UK"
 - The proposed "link" simply requires an LP to continue to have a meaningless UK maildrop address.
 - Every single LP ever involved in a fraud has been able to comply with this requirement and will continue to be able to do so.
- Dead on Arrival

Reforms proposed (3)

- "All Limited Partnerships must submit a confirmation statement at least every 12 months to Companies House to ensure their information is accurate and up to date"
- Submission of a confirmation statement every 12 months does nothing to confirm that the information is accurate.
- Achieves nothing apart from slightly increasing the torrents of unverified claims that already flow into and out of Companies House.
- Dead on Arrival

Reforms proposed (4)

- Companies House will be given powers to strike off dissolved Limited Partnerships and Limited Partnerships which are not carrying on business.
- OK, but where are
 - Powers to strike off miscreant LPs “in the public interest”?
 - Budgets to identify and strike off the 12,000+ SLPs that have already made filings to the effect that the partnership is dissolved?
 - Powers to disqualify miscreant partners?
 - Reforms to LP accounting rules that would make them enforceable?
 - Transparency reforms to English and Northern Irish LPs?