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Laundromats: responding to new challenges in the international fight against organised crime, corruption and money laundering

Report[1]
Committee on Legal Affairs and Human Rights
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Summary

The Committee on Legal Affairs and Human Rights is deeply concerned about the extent of money laundering involving Council of Europe member States, notably the recent examples known as the "Global Laundromat" and the "Azerbaijani Laundromat".

These "Laundromats" both involved large sums of money from wealthy businessmen, organised criminals and high officials. Both exploited various weaknesses across multiple jurisdictions, including shell companies, often based in the United Kingdom or its Overseas Territories, and poorly regulated banks, notably in Latvia and Estonia. The Global Laundromat involved corrupt Moldovan judges. The Azerbaijani Laundromat contributed to corruptive activities within the Parliamentary Assembly. Neither has been adequately investigated by national authorities.

The committee's report analyses the problems at all levels before making a series of recommendations to be addressed to member States, to the European Union and to the Committee of Ministers intended to reinforce the international fight against money laundering, organised crime and corruption.

1. Reference to committee: Doc. 14439, Reference 4344 of 24 November 2017.

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A. Draft resolution[2]

1. The Parliamentary Assembly is deeply concerned about the extent of money laundering involving Council of Europe member States. The "Global Laundromat", by which at least US$21 billion and perhaps as much as US$80 billion was illegally transferred from the Russian Federation to recipients around the world, and the "Azerbaijani Laundromat", by which US$2.9 billion was moved out of Azerbaijan, are the most alarming recent examples. Money laundering, especially on this scale, is a serious threat to democratic stability, human rights and the rule of law in the countries from, through and to which illicit funds are transferred, *inter alia* by facilitating, encouraging and concealing corruption and other serious criminal activity.

2. The Global Laundromat was made possible by serious structural issues, at various levels. It originated in the desire of Russian businessmen, organised criminals and, apparently, interests connected to State organs (notably the Federal Security Service, FSB) to illicitly transfer huge amounts of money out of the country, at minimal transaction cost. It typically depended upon corruption in the Moldovan judicial and banking systems; the opaque beneficial ownership of shell companies, often based in the United Kingdom or its Overseas Territories; and failures and inadequacies in the anti-money laundering (AML) systems of many banks, especially ABLV bank in Latvia, along with ineffective national AML supervisory regimes. Despite some encouraging developments in the Republic of Moldova and the promise of an investigation in the United Kingdom, the Global Laundromat has still not been subject to proper criminal investigation. It is of particular concern that the Moldovan authorities have accused their Russian counterparts of obstructing their work, allegedly under instructions from the FSB.

3. The Azerbaijani Laundromat involved several similar features. The money often came from wealthy businessmen and others closely associated with the highest levels of government, including family members of government ministers and the president. It passed through shell companies with concealed beneficial ownership, the most significant of which were again based in the United Kingdom or its Overseas Territories. Much of the money was laundered through a Baltic bank, in this case Danske Bank's Estonian branch; Danske Bank's internal AML procedures at both branch and group level were catastrophically deficient. National AML authorities proved ineffective, with uncertainty over the division of responsibilities between the Estonian and Danish financial supervisory authorities.

4. The Azerbaijani Laundromat also provided money that contributed to corruptive activities within the Parliamentary Assembly, as was established in the report of the Independent Investigative Body on the allegations of corruption within the Parliamentary Assembly (IBAC). Five former Assembly members most clearly seem to have received some of this money, all of whom have been sanctioned by the Assembly for breaches of its ethical rules. Luca Volontè is being prosecuted by the Italian authorities for bribery and money laundering. Alain Destexhe has been investigated by the Belgian authorities. The German Parliament has found that Karin Strenz violated its ethical rules. It is however not known thus far whether any action has been taken against the two others, Eduard Lintner of Germany and Zmago Jelinčič Plemeniti of Slovenia. Despite Assembly Resolution 2185 (2017) "Azerbaijan's chairmanship of the Council of Europe: what follow-up on respect for human rights?" having specifically urged the Azerbaijani authorities to start an independent and impartial inquiry into these allegations without delay, it would seem that nothing has been done and the two Azerbaijani parliamentarians who were most deeply involved – Elkhan Suleymanov and Muslum Mammadov – have not been subject to any form of sanction.

5. Analysis of the Laundromats and other large-scale money-laundering schemes of recent years points to problems at various levels. These include the following:

5.1. at the level of financial institutions and other commercial entities:

5.1.1. inadequate understanding and implementation of AML requirements by trust and corporate service providers, financial institutions and other regulated entities, including failure to apply basic "know your customer" and source of funds/wealth procedures, incompatible information technology systems preventing application of AML common standards and procedures, branches relying on crucial documents in languages not understood in the head office and failure to fill key AML staff positions;

5.1.2. deliberate or negligent minimisation of money-laundering risks by top and senior management of financial institutions;

5.1.3. complicity between employees and known or suspected money launderers;

2. Draft resolution adopted by the committee on 4 March 2019.

5.1.4. lack or weakness of whistle-blowing procedures and protection within financial institutions;

5.2. at the national level:

5.2.1. inadequate domestic law and policy on prevention of corruption, notably a lack of publicly accessible declarations of the property and income of public officials, including parliamentarians and government ministers, and candidates to elected public office, and the possibility for persons charged or even convicted of corruption or money-laundering offences to run for and be elected to public office;

5.2.2. inadequate AML legal frameworks, including provisions allowing for opaque beneficial ownership of companies and trusts;

5.2.3. under-resourced AML supervisory and investigative bodies and fragmentation of AML responsibilities between numerous agencies, some of which may be uncertain of their precise role;

5.2.4. failure to prosecute money laundering as a third party or standalone offence, instead requiring proof of a predicate offence, which is often committed in an unco-operative foreign jurisdiction;

5.2.5. inadequate identification and tracing of the proceeds of crime during the early stages of criminal investigations;

5.2.6. criminal sentences for money-laundering offences that are insufficiently dissuasive;

5.2.7. repression and restriction of the activities of independent civil society and media actors, who provide an important democratic check on corruption and other criminal activity;

5.2.8. failures by national authorities to co-operate with AML investigations by other countries' authorities, and even obstruction of those investigations;

5.2.9. uncertainty over the division of responsibility between national financial supervisory authorities in relation to AML supervision of multinational financial institutions;

5.3. at the European and international levels:

5.3.1. European Union AML supervision that is dependent on decentralised national authorities, despite their proven inadequacy in some countries;

5.3.2. incomplete transposition into national law and implementation of key European Union instruments, notably the Fourth Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (Directive (EU) 105/849);

5.3.3. until recently, relative inattention by the Financial Action Task Force (FATF) and the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) to the effectiveness and implementation of national AML regimes.

6. The Assembly therefore calls on:

6.1. the Russian Federation to:

6.1.1. investigate fully and effectively the Global Laundromat, as revealed in widespread public media reports and making full use of evidence obtained in other criminal investigations, and to prosecute and punish all those who have committed related offences;

6.1.2. co-operate fully with the relevant authorities of other countries in the investigation of the Global Laundromat and other international money laundering schemes involving Russia;

6.2. the Republic of Moldova to:

6.2.1. pursue its investigation of the Global Laundromat fully and effectively and prosecute and punish all those who have committed related offences;

6.2.2. introduce provisions preventing persons charged or convicted of serious offences, including corruption and money laundering, from taking or exercising public office;

6.2.3. pursue investigations and prosecutions of candidates for public office and public officials, including elected officials, expeditiously, whilst scrupulously avoiding unequal treatment on political grounds;

6.2.4. consider repealing the “fiscal amnesty” introduced in July 2018, as it risks facilitating money laundering;

6.2.5. ensure that its “golden visa” programme is strictly regulated, as this too risks facilitating money laundering, especially when taken together with the “fiscal amnesty”;

6.3. Azerbaijan to:

6.3.1. investigate fully and effectively the money laundering from Azerbaijan, as revealed in widespread public media reports, including the IBAC report, and prosecute and punish all those who have committed related offences;

6.3.2. fully respect the fundamental rights and freedoms of independent civil society and media bodies, as previously requested by the Assembly on numerous occasions;

6.3.3. respond without further delay to Assembly Resolution 2185 (2017) “Azerbaijan’s chairmanship of the Council of Europe: what follow-up on respect for human rights?”, in particular by starting an independent and impartial inquiry into the allegations of corruption of Assembly members set out in the IBAC report and by co-operating fully with the competent international authorities and bodies on this issue;

6.4. the United Kingdom to:

6.4.1. ensure full implementation of the new requirement that the authorities of British Overseas Territories introduce a publicly accessible register of the beneficial ownership of companies and trusts within their jurisdictions;

6.4.2. consider extending that requirement to the Crown Dependencies Jersey, Guernsey and the Isle of Man;

6.4.3. consider requiring full transparency of beneficial ownership of all United Kingdom-based companies and trusts, including limited liability partnerships, with a publicly accessible register;

6.4.4. ensure that trust and corporate service providers comply fully with AML requirements and are effectively supervised by relevant domestic authorities;

6.4.5. ensure that the new National Economic Crime Centre operates effectively to avoid fragmentation and inefficiency of AML activity;

6.4.6. ensure that the potential of the new Unexplained Wealth Order is fully exploited;

6.4.7. ensure that there is no weakening of AML standards or activity following the United Kingdom’s departure from the European Union, and make every effort to ensure that the United Kingdom remains as fully engaged as possible with relevant European Union bodies, including Europol;

6.5. Denmark to:

6.5.1. ensure that Danske Bank fully and effectively implements all orders given to it by the Danish financial supervisory authorities;

6.5.2. take appropriate action, including criminal action, against any employee of Danske Bank, including top and senior management, who may have violated AML regulations and laws;

6.6. Estonia to:

6.6.1. ensure that Danske Bank fully and effectively implements any measures indicated to it by the Estonian financial supervisory authorities;

6.6.2. take appropriate action, including criminal action, against any employee of Danske Bank, including top and senior management, who may have violated AML regulations and laws;

6.7. all member States of the Council of Europe to:

6.7.1. investigate fully and effectively any and all involvement in the Laundromats of natural or legal persons within their jurisdiction;

6.7.2. require elected public officials and candidates for elected office, including candidates for president, to make publicly accessible declarations of their property and income;

6.7.3. ensure that their domestic AML regimes are fully compliant with all applicable international standards and effectively implemented;

6.7.4. ensure that their AML supervisory bodies are adequately resourced, with sufficient, appropriately skilled and remunerated staff;

6.7.5. provide for non-conviction-based confiscation in their national laws, as well as the possibility of equivalent value confiscation and taxation of illegal gains, while establishing appropriate safeguards, as recommended in Resolution 2218 (2018) on fighting organised crime by facilitating the confiscation of illegal assets;

6.7.6. implement promptly and fully all relevant recommendations of the FATF, MONEYVAL and the Council of Europe's Group of States against Corruption (GRECO);

6.8. the European Union to:

6.8.1. ensure that its member States transpose into national law and implement fully and effectively the European Union's Fourth and Fifth (Directive (EU) 2018/843) Anti-Money Laundering Directives;

6.8.2. ensure that the proposed amending Regulation on banking supervision enables the European Banking Authority to co-ordinate and evaluate relevant national authorities, so as to ensure synergies, avoid discrepancies in the interpretation of rules and practical activities, and address weaknesses in and enhance the functioning of the overall AML system;

6.8.3. ensure full and effective implementation of its December 2018 Anti-Money Laundering Action Plan;

6.8.4. ensure that the proposed directive on whistle-blower protection provides for effective protection for whistle-blowers in the financial sector;

6.8.5. enhance co-ordination of its AML activities with those of the Council of Europe.

B. Draft recommendation[3]

1. Recalling its Resolution … (2019) "Laundromats: responding to new challenges in the international fight against organised crime, corruption and money laundering", the Parliamentary Assembly calls on the Committee of Ministers to:

1.1. maintain national and international activities and co-operation to counter organised crime, corruption and money laundering as strategic priorities of the Council of Europe, bearing in mind the serious threats they represent to democratic stability, human rights and the rule of law throughout Europe;

1.2. ensure that regardless of the future budgetary situation, such activities, notably the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and the Group of States against Corruption (GRECO), continue to be adequately resourced;

1.3. enhance co-ordination of its anti-money laundering activities with those of other international bodies, notably the European Union, the Organisation for Economic Co-operation and Development and the United Nations.

3. Draft recommendation adopted unanimously by the committee on 4 March 2019.

C. Explanatory memorandum by Mr Mart van de Ven, rapporteur

1. Introduction

1. The motion for a resolution underlying this report was prompted by the "Global Laundromat" money-laundering scheme, exposed by investigative journalists working for the Organised Crime and Corruption Reporting Project (OCCRP) and used to transfer at least US$21 billion between 2010 and 2014 from shell companies in the Russian Federation to banks in 96 countries around the world.[4] The motion also mentions what has since become known as the "Azerbaijani Laundromat", also exposed by the OCCRP (and others), which describe it as a "a complex money-laundering operation and slush fund that handled $2.9 billion over a two-year period through four shell companies registered in the UK".[5]

2. Corruption, organised crime and money laundering are serious and growing threats to the rule of law and obstacles to democratic and economic development, as noted in the motion. The scale, duration and reach of the "Global" and "Azerbaijani" money-laundering schemes suggest possible weaknesses in national, regional and/or international mechanisms for combating money laundering by organised criminal groups and other actors. The motion therefore calls on the Parliamentary Assembly to inquire into these issues with a view to making possible recommendations for enhancing national mechanisms and international co-operation to combat money laundering.

3. In the course of preparation of this report, I went to London (United Kingdom), where I met officials of the National Crime Agency and representatives of Transparency International UK. In addition, the Committee on Legal Affairs and Human Rights has held two hearings with experts. The first, during the committee meeting on 26 June 2018, involved the participation of Mr Paul Radu, Executive Director of the Organized Crime and Corruption Reporting Project (OCCRP), and Ms Maira Martini, Knowledge and Policy Coordinator, Transparency International. The second, during the committee meeting on 13 December 2018, involved Mr Daniel Thelesklaf, Chairperson of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe (MONEYVAL), Ms Khadija Ismayilova, Regional editor, OCCRP, Mr Howard Wilkinson, formerly Head of the Markets trading unit in the Baltics, Danske Bank Estonia (the Danske Bank whistle-blower), and Mr Steve Kohn, partner, Kohn, Kohn and Colapinto (Mr Wilkinson's attorney). I would like to thank all of the aforementioned for their invaluable contributions to the preparation of this report.

2. The "Global Laundromat"

2.1. Functioning of the "Global Laundromat"

4. The Global Laundromat scheme operated as follows. Shell companies secretly owned by Russian money launderers were formed overseas, existing only on paper and with no real-world business activity. One such company then "lent" a sum of money to another, which signed a contract promising to repay that sum – although no actual money was transferred. The debt was guaranteed by a Russian company in a deal involving a Moldovan citizen. The debtor company then defaulted on the loan, leading the creditor company to demand repayment from the guarantor Russian company. Thanks to the involvement of the Moldovan citizen, the repayment could be enforced in a Moldovan court, where a corrupted judge ordered the Russian company to honour the guarantee and repay the debt to the creditor company. The Moldovan court appointed a judicial executor – also party to the scheme – to arrange the transfer, which was made by the Russian guarantor company from a Russian bank to an account at Moldincoinbank, laundered as a court-ordered debt repayment.

5. US$8 billion was withdrawn directly from the Moldincoinbank accounts and a further US$13 billion was transferred to the Trasta Komercbanka in Latvia and from there, around the world.[6] (Moldovan and Latvian law- enforcement officers believe the true total may be as high as US$80 billion.[7]) These transactions began in 2010, although most took place in 2013 and 2014. During this period, 21 shell companies made

4. Doc. 14439; Reference 4345 of 24 November 2017.
5. "The Azerbaijani Laundromat", OCCRP.
6. One of Trasta Komercbanka's major shareholders was Ivan Fursin, a former member of the Ukrainian delegation to the Parliamentary Assembly ("Latvia: European Central Bank Revokes Trasta Komercbanka License", OCCRP, 5 March 2016). Its Deputy Chairperson was Alfreds Cepanis, former president of the Latvian Parliament. One of its shareholders was also Deputy Chairperson of Centragas AG in Vienna, controlled by the Ukrainian Dmytro Firtash and of which Ivan Fursin also held a 10% stake. Trasta Komercbanka was also involved in laundering the US$230 million relating to the

26 746 payments, involving 732 foreign banks, including many with headquarters in Council of Europe member States such as Ukraine, Denmark, the United Kingdom, Cyprus, Switzerland, Estonia, Sweden, Lithuania, the Netherlands, Germany, Hungary and Turkey.[8]

6. According to reports, 19 Russian banks and more than 90 Russian companies were involved in the scheme. One of the banks was the Russian Land Bank (RZB), which from 2011 onwards was owned by six Cyprus-based companies. The largest share was held by Boaden Ltd, owned by Alexander Grigoriev from St Petersburg, who became head of the RZB executive board. A new management team was put in place, including Igor Putin, cousin of the Russian president.[9] In March 2014, the Russian Central Bank revoked RZB's licence for violation of anti-money-laundering regulations in relation to transactions worth around US $500 million; Moldovan investigators claim that RZB actually transferred around US$5 billion to Moldincoinbank. In March 2013, Grigoriev acquired another Russian bank, Zapadny, which was also involved in transferring money to Moldincoinbank. Ilya Lomakin-Rumyantsev, head of the Experts Directorate of the Russian Presidential Administration until 2011,[10] was head of Zapadny's board. Zapadny also had its licence revoked, in April 2014.

7. Between December 2013 and May 2014, over US$21 million was deposited in Moldincoinbank accounts held by Grigoriev. This money had been transferred from a Moldovan company and a South African one, of which the former was registered at the same address as the headquarters of a company connected to Veaceslav Platon. This former Moldovan MP Veaceslav Platon officially controlled 4.5% of Moldincoinbank and is suspected to have also been behind other nominal shareholders. These two companies had in turn received the money from two British companies, one of which was called Westburn Properties Ltd. When the OCCRP contacted Grigoriev prior to October 2014, he denied holding any Moldincoinbank accounts and said that it was up to the Russian authorities to prove any wrongdoing in relation to his banks' transfers of money out of Russia. He was arrested in Moscow in October 2015 on charges relating to another bank, Doninvest, which had also had its banking licence revoked. Reports have described him as "Head of one of the largest organised crime group [sic] in Russia".[11] Another RZB shareholder, Beslan Bulguchev, received US $1.4 million on his Moldincoinbank account from the same South African company.

8. The money was often transferred to extremely wealthy Russian businessmen, close to the very centre of power. Alexey Krapivin, for example, reportedly received US$277 million on Swiss bank accounts via the Laundromat.[12] Krapivin was the son of an adviser to the head of Russian Railways, who had been a close associate of President Putin since the 1990s. The Krapivins' own business empire, involving numerous shell companies whose true ownership was concealed,[13] was based on contracts with Russian Railways worth hundreds of millions of dollars, many of which were reportedly performed fraudulently. Other Russian users of the Laundromat also held contracts with the Russian State: Georgy Gens, for example, who owned a company registered in the British Virgin Islands that received US$27 million via the Laundromat, also owns the Lanit group, an information technology company that between 2010 and 2016 earned US$890 million from

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Magnitsky case ("Following the Magnitsky Money", OCCRP, 12 August 2012), as well as a US$150 million fraud involving a Ukrainian State-owned company in which Fursin also played a separate role ("Echo of Scandal of the Year: Money for Boiko Oil Rig were paid into 'Personal' Bank", Anti-Corruption Action Centre, 14 July 2012).

7. "The Global Laundromat: how did it work and who benefited?", *The Guardian*, 20 March 2017.

8. "The top 50 global banks allegedly involved in a $21 billion Russian money-laundering scheme", Quartz, 21 March 2017.

9. Igor Putin was also an investor in (as was Alexander Grigoriev) and board member of Prompersbank, described as a "crucial link" in another Russian money-laundering scheme over which Deutsche Bank was fined US$630 million by United States and United Kingdom regulators ("The Russian Banker Who Knew Too Much", *Bloomsberg*, 20 November 2017). He was also a director of Master Bank, whose licence was revoked in 2013 for illegal malpractice ("Russia Revokes Licence of a Bank With Ties to Putin", *New York Times*, 20 November 2013).

10. "Executive order releasing Ilya Lomakin-Rumyantsev from his duties as head of the Presidential Experts' Directorate", en.kremlin.ru, 24 March 2011.

11. "With regard to main cashier Grigoriev it was initiated case for creating OCG", Crime Russia, 15 August 2016.

12. "Prosecutor General's Office raids Russian Railways", Crime Russia, 31 March 2017.

13. Information on their true ownership came to light partly through the "Panama Papers" leak ("Wringing profits from the Russian Railways", OCCRP, 5 April 2016) and partly through information from German Gorbuntsov, a Russian banker (and former co-owner, with Krapivin senior, of the STB bank where the Krapivins' railway contracting companies held their accounts), who fled to London where he survived an assassination attempt in 2012 ("Russian Railways paid billions to secretive private companies", Reuters, 23 May 2014). Gorbuntsov has since returned to the Republic of Moldova, where he is being investigated for money-laundering offences relating to Universalbank, which he owned from 2008 to 2011 ("Moldova Charges Russian Banker With Money-Laundering", Reuters, 12 December 2017). The Republic of Moldova has issued an international arrest warrant for Renato Usatii, leader of a pro-Russian political party who assumed ownership of Universalbank in 2011 and now lives in Moscow, on charges relating to the Gorbuntsov assassination attempt ("Moldovan court issues arrest warrant for Renato Usatii in Gorbuntsov case", *bne IntelliNews*, 26 October 2016).

State contracts. Sergey Girdin, the beneficial owner of another company registered in the British Virgin Islands that received almost US$96 million via the Laundromat, also owns an IT company that has contracts worth US $246 million with State-owned Sberbank. Ruslan Rostovtsev, former Vice-Mayor of Sochi and a Russian coal tycoon rumoured to be involved in smuggling from the separatist Donetsk region of Ukraine,[14] reportedly transferred more than US$400 million out of Russia.[15]

9. A number of the Russian companies had shareholders or directors who were citizens of the Republic of Moldova or Ukraine. Investigations by the OCCRP indicate that these individuals, often people of modest means, were acting as fronts. For example, Ruslan Siloci, a small businessman from Căuşeni who lived with his parents, was listed as majority shareholder in a company that supposedly owed US$500 million to Westburn Properties. Siloci effectively admitted to OCCRP journalists that he was used as a proxy. Căuşeni is the hometown of Veaceslav Platon, whose father is head of the local Moldincoinbank branch.

10. The first transaction under the Global Laundromat scheme took place on 22 October 2010, when a British company, Valemont Properties Ltd, brought a court case in Chisinau against the guarantors of a loan it had made to another British company. The guarantors were a Moldovan man and two Russian companies. The judge certified the debt and ordered the Moldovan man and the Russian companies to forfeit the guarantee; the Russian companies then transferred billions of roubles from two Russian banks, EB Transinvestbank OOO and KB Inkredbank, to a Moldincoinbank account controlled by a Moldovan judicial executor. This money was then converted into pounds and transferred to Valemont. As previously noted, other Russian Laundromat transfers followed this same pattern. In May 2014, the Moldovan Superior Council of Magistrates stated that many of the judicial rulings in debt recovery cases of this sort had been issued illegally, based on documents that had not been properly authenticated or notarised. Valemont Properties continued to play a central role in the Global Laundromat: for example, on the same day that it received a US $5.9 million transfer via Moldincoinbank, Valemont paid a German company US$250 000 for two Bentley cars; one was sent to Veaceslav Platon's then wife, the other to an employee of one of his companies.

2.2. The situation in specific countries involved in the Global Laundromat

11. The Republic of Moldova has made some progress in investigating the Global Laundromat. In autumn 2016, 14 current and former judges and two bailiffs were arrested; international arrest warrants were issued with respect to another judge and a bailiff and a further judge was under investigation prior to his death. The 14 judges and two prosecutors were formally accused of complicity in money laundering and deliberately issuing decisions contrary to the law on 8 February 2017.[16] On 10 March 2017, the Anti-Corruption Prosecution Office filed charges against four current or former senior officials of the Moldovan National Bank: former Vice- Governor Emma Tăbârță, Director of the Banking Supervision Department Matei Dohotaru, Director of Regulation and Authorization Department Vladimir Țurcan, and the deputy head of the latter department. The four were charged with offences concerning supervisory failures in relation to Moldincoinbank that allowed suspect transactions of over US$22 billion to occur.[17] Veaceslav Platon was arrested in July 2016 in Kyiv, Ukraine and extradited to the Republic of Moldova on charges of involvement in orchestrating the Russian Laundromat. In April 2017, Platon was sentenced to 18 years' imprisonment for unrelated money laundering and embezzlement offences (known in the Republic of Moldova as the "theft of the century").[18] (Ilan Shor, who in March 2015 was arrested for his role in the "theft of the century", is said to have received around US$22 million via the Global Laundromat.[19]) Others apparently implicated seem not to have been investigated: for example, US$130 000 passed through the Laundromat to pay for the London accommodation of the daughter of Ion Muruianu, former president of the Moldovan Supreme Court and since 2012 a judge of the Chisinau Court of Appeals. Muruianu has stated that this was pursuant to an agreement with an unnamed "shareholder of several banks", a description that would fit Platon.

14. "Who Profits From The Broken Russia-Ukraine Peace Deal?", *Forbes*, 26 January 2018.
15. "Coal mining turns laundering: new facts on Moldovan laundromat", *Pravda*, 8 January 2019.
16. "'Russian Laundromat' case sent to court in Moldova, fourteen judges and two bailiffs involved", Moldova.org, 8 February 2017.
17. "'Russian Laundromat': Cases of four employees of Moldova National Bank sent to court", Moldova.org, 13 March 2017.
18. "Moldovan businessman jailed for role in $1 billion bank fraud", Reuters, 20 April 2017.
19. "Two huge scams. One Moldovan businessman", OCCRP, 20 March 2017. In June 2015, whilst still under arrest, Shor was elected Mayor of the Moldovan city of Orhei. It can be recalled that Platon had also been elected to political office in Moldova.

12. More recent developments in the Republic of Moldova have, however, been less encouraging. Moldinconbank is still in business and was recently bought by two Bulgarian businessmen: Ognian Donev, who was charged with money laundering in 2012 and tax evasion in 2015;[20] and Radosvet Radev, a media owner and former collaborator with the Communist-era Committee for State Security.[21] A "fiscal amnesty" introduced in July 2018 allows Moldovans to register assets without proof of how they were acquired by paying a 3% tax. Opposition leader Andrei Nastase – whose victory in the June 2018 Chisinau mayoral election was annulled by the Moldovan courts – has described the measure as "legalisation of fraudulently acquired money".[22] In November, the European Commission – in response to rule of law concerns including the "fiscal amnesty", the 2018 Chisinau mayoral elections and the US$1 billion "theft of the century" – cut its annual financial assistance to the Republic of Moldova by €20 million and suspended its €100 million macrofinancial assistance programme.[23] This can be set alongside the Republic of Moldova's new "golden passport" scheme, which has been criticised as having the potential to facilitate money laundering, and which would give new Moldovan citizens visa-free access to the Schengen area and other Council of Europe member States, including Russia and Turkey.[24]

13. The 2016 report of the Group of States against Corruption (GRECO) on the Republic of Moldova noted that "[c]orruption represents one of the major issues in the Republic of Moldova. Effective implementation of the legislative and policy framework for the fight against corruption remains problematic and the major institutions in charge of fighting corruption suffer from weak capacities and lack of independence". As regards the judiciary, the report notes that "the Superior Council of the Magistracy faces criticism as regards its composition and operation … Awareness of ethics and integrity rules among judges needs to be heightened and rules on gifts and other advantages properly enforced. The legal and operational framework for disciplinary liability of judges needs to be reviewed, in order to reinforce their accountability".[25] The Republic of Moldova ranked 117th out of 180 States in Transparency International's Corruption Perceptions Index 2018, a climb of five places since 2017, scoring 33/100 (0 being the most corrupt), two points better, but still below the eastern European and central Asian average. The latest MONEYVAL report on the Republic of Moldova, from 2012, mentioned a series of deficiencies, including in relation to prosecution of money-laundering offences, the regime for confiscating laundered property, identification of beneficial owners and understanding the ownership and control structures of customers that are legal persons, reporting of suspicious transactions and the use of shell or "ghost" companies to commit money laundering through fictitious banking transactions.[26]

14. As previously noted, at least two of the Russian banks involved in the Global Laundromat, RZB and Zapadny, had their licences revoked in 2014, shortly before the OCCRP went public with the results of its investigations. Beyond such administrative sanctions against corporate entities, however, little information is available on any investigation into the Global Laundromat by the Russian authorities. Grigoriev was arrested in October 2015 on organised crime and bank fraud charges but has yet to be tried.[27] In July 2018, it was reported that Boris Fomin, a former director of Promsperbank – whose shareholders included Igor Putin and Grigoriev and which was closed by the Russian Central Bank in 2015 – had given evidence about a network of corrupt Russian bankers, known as "Miaso" ("meat"), that had organised the Global Laundromat.[28] Mr Fomin's evidence is said to implicate Ivan Myazin, known as "shadow banker number 1", who was himself detained by the FSB in relation to embezzlement from Promsperbank,[29] and who had "extensive contacts in law enforcement agencies, as well as with the Central Bank of the Russian Federation and the Federal Financial Markets Service"; Myazin reportedly used money from Promsperbank to bribe Russian Central Bank officials.[30] From the information available, however, it is unclear whether the Russian authorities are actively investigating the Global Laundromat itself, or other criminal activity by individuals who happen also to have been involved in the Laundromat. As for Igor Putin, he seems to have remained untouched.[31]

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20. "Bulgaria's Sopharma CEO Ognian Donev Charged with BGN 63 M Tax Evasion", *Novinite*, 30 July 2015.
21. "Powerful Bulgarian businessmen buy 'bad apple' bank in Moldova", Bivol, 23 January 2019.
22. "Moldovan Opposition Leader Says New Tax Measures 'Legalize Fraud'", RFE/RL, 30 July 2018.
23. "EU Cuts Moldova Funding Amid Rule-Of-Law Concerns", RFE/RL, 15 November 2018.
24. "Moldova Hopes 'Golden Visa' Program Will Bring In € 1.3 Bill", OCCRP, 12 July 2018. In another parallel with the situation in Malta, it can be noted that Moldova's "golden passport" scheme will also be (partly) administered by Henley and Partners, allegedly involved in passport-related corruption and money laundering in Malta.
25. "Fourth Evaluation Round: Corruption prevention in respect of members of Parliament, judges and prosecutors", GRECO, 1 July 2016. The next report is expected in July 2019.
26. "Report on Fourth Assessment Visit – Executive Summary", MONEYVAL, 4 December 2012.
27. "Banking behind the mirror. Who is going to dethrone current 'cash-out king'?"", Crime Russia, 29 October 2018.
28. "Miaso withdraws $21 billion from Russia", Rosbalt, 3 July 2018.
29. "'Shadow Banker No. 1' detained in case of $51.6m embezzlement from Promsperbank", Crime Russia, 15 May 2018.
30. "Ex-head of Promsperbank rolls on protection from Central Bank and Deutsche Bank", Crime Russia, 16 May 2018.

15. The other two countries that played a particularly prominent role in the Global Laundromat are Latvia and the United Kingdom, including British Overseas Territories such as the British Virgin Islands. Latvia has been described as vulnerable to laundering of money from Russia for several reasons: its relative stability compared to many of its eastern neighbours; its low taxes and Russian-speaking financial professionals; and its access to the broader western market, circumventing stricter regulation in other countries. It is said that most of Latvia's 16 banks cater almost exclusively to foreign clients, whose deposits, mainly held in immediately transferable form, amounted to 43% of the Latvian banking system;[32] the chair of the parliamentary Committee on Defence, Home Affairs and Corruption Prevention has described Latvia as the "Switzerland of the Baltic States.[33] Latvia's own financial supervisory authority has advised that the risk to a bank of being engaged in transactions involving money laundering is higher for those holding non-residents' funds.[34] In February 2018, the Latvian Prime Minister promised to reduce the amount of foreign deposits in the country's banks, following the US Treasury's accusations of "institutionalised money laundering" against the ABLV bank, Latvia's third-largest lender,[35] suspected of having indirect links to the North Korean weapons programme. Latvia was last assessed by MONEYVAL in 2012, when it was found to be only partially compliant with the recommendations of the Financial Action Task Force (FATF) on customer due diligence, suspicious transaction reporting and special attention for higher risk countries, amongst other issues.[36] The next MONEYVAL report on Latvia is expected soon. Trasta Komercbanka's activities were curtailed by the Latvian financial services authority (FSA) in January 2016 and its licence revoked by the European Central Bank in March the same year (its licence to operate in Cyprus was also revoked by that country's central bank; four of the eight banks receiving the most money via the Global Laundromat operated in Cyprus). A national audit of the Latvian banking system following the Global Laundromat reports led to just €640 000 in fines against three banks.[37] In 2017, Latvia launched just 85 money-laundering investigations, despite its banks having made 17 900 suspicious transaction reports.[38]

16. A 2015 British Government report recognised that "[t]he same factors that make the UK an attractive place for legitimate financial activity also make it an attractive place through which to launder the proceeds of crime". An equivalent report in 2017 stated that "the key money laundering risk in relation to Russia is that the proceeds of crime and corruption may be channelled through the UK economy, through both regulated and unregulated sectors".[39] Ownership Transparency has observed that "[l]awful UK 'corporations of convenience', legally constructed to conceal beneficial ownership, aided in layering and legitimising criminal enterprise to launder illicit funds".[40] The 21 shell companies involved included the two mentioned above, Westburn Properties Ltd and Valemont Properties Ltd; 19 of them were British, and most of them have since been dissolved.[41] 113 "Scottish limited partnerships" (SLPs), described as "the UK's own home-grown secrecy vehicle", were also involved in transferring money.[42] British-based banks were also involved in laundering some US$740 million of the Laundromat money.[43] In March 2017, the minister responsible for banking and financial services regulation announced to parliament that the Financial Conduct Authority and the National Crime Agency (NCA) would investigate the Global Laundromat reports.[44] These investigations appear to be still ongoing. By contrast, it has been reported that senior management at the NCA instructed the head of its international corruption unit to halt an inquiry into Russian money laundering linked to the Magnitsky case; the NCA has denied that there was any political influence behind this decision.[45]

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31. "Chi è Igor Putin, il cugino del presidente russo", *Lettera* 43, 3 December 2018.
32. "A Latvian Sock in the Laundromat? The Fight against Money Laundering", Foreign Policy Research Institute, 28 April 2017.
33. "Latvia: When the United States scolded the 'Switzerland of the Baltics'", Euractiv, 5 September 2018.
34. "Non-resident banking business in Latvia – benefits and risks", Financial and Capital Market Commission, 26 November 2012.
35. "Latvia PM vows to act on money laundering allegations", *Financial Times*, 23 February 2018.
36. "Report on Fourth Assessment Visit – Summary", MONEYVAL, 5 July 2012.
37. "Latvia's top banking official is accused of demanding bribes", *The Economist*, 22 February 2018.
38. "Russian billions slip through Latvia's loose net", Reuters, 16 March 2018.
39. "National risk assessment of money laundering and terrorist financing", H.M. Treasury/ Home Office, October 2015 / October 2017.
40. "Lessons from the Global Laundromat investigation: Part One", Ownership Transparency, 29 March 2017.
41. "British banks handled vast sums of laundered Russian money", *The Guardian*, 20 March 2017.
42. "Offshore in the UK: Analysing the Use of Scottish Limited Partnerships in Corruption and Money Laundering", Transparency International/Bellingcat, June 2017.
43. "UK authorities explore 'Laundromat' money-laundering claims", *Financial Times*, 22 March 2017.
44. "UK to investigate any UK banking involvement in 'Laundromat' case", Reuters, 21 March 2017.
45. "MPs demand explanation for not investigating 'Russian money laundering'", *The Telegraph*, 6 October 2018.

17. Effective international co-operation between national investigative and regulatory agencies will be essential if the full extent of the Global Laundromat is to be clarified and those responsible for criminal conduct are to be punished. Officers from the British National Crime Agency co-operated with Moldovan police in November 2014 in attempting to identify the routes taken by laundered money and the role that British companies may have played. By contrast, the Moldovan authorities have complained about a lack of co-operation and even obstruction on the part of the Russian authorities: a statement issued in March 2017 claimed that "abuse, harassing Moldovan officials at the entry into the Russian Federation and putting them on international monitoring, took speed and size once the [Global Laundromat] investigation progressed". The Moldovan authorities reportedly believe the harassment to have been ordered by the interior ministry and the FSB, whose officials "used part of the money from the money laundering to further Russian State interests".[46]

3. The "Azerbaijani Laundromat"

3.1. Functioning of the "Azerbaijani Laundromat"

18. The "Azerbaijani Laundromat", which came to light following a leak of banking records, had many similarities to the Global Laundromat. The similarities lie in the involvement of persons close to the centre of political power, and the fact that the money was transferred through shell companies. These included four core companies registered in the United Kingdom with secret beneficial ownership: Hilux Services and Polux Management, Scottish limited partnerships (see above) based in Scotland, and Metastar Invest LLP and LCM Alliance LLP, based in England, as well as numerous entities based in off-shore jurisdictions. At least 33 of the companies involved in the Global Laundromat also played a part in the Azerbaijani Laundromat.[47] Latvian Trasta Komercbanka, which played a central role in the Global Laundromat, was also involved in the Azerbaijani Laundromat.[48] The key foreign bank involved in the Azerbaijani Laundromat, Danske Bank Estonia, was also located in a Baltic State; this bank had also received almost US$1.2 billion from Trasta Komercbanka through the Global Laundromat.[49] Once again, there were connections to the Magnitsky case: Metastar Invest was controlled by two companies based in Belize that also controlled a UK-registered company, Armut Services, said to have helped in transferring the US$230 million involved in the Magnitsky case out of Russia;[50] and Magnitsky money passed through Danske Bank Estonia. Unlike the Global Laundromat, however, the Azerbaijani Laundromat did not depend on judicial corruption or fictitious debt repayments as cover for the transfers, which amounted to US$2.9 billion through over 16 000 transactions.

19. $1.4 billion came from an account at the State-owned International Bank of Azerbaijan (IBA) in the name of Baktelekom MMC. Baktelekom was founded by Rasim Asadov, the son of a former interior minister and business partner of members of the family of President Aliyev's wife. IBA is also suspected of having knowingly made billions of dollars' worth of bad loans to overseas shell companies, including some involved in the Azerbaijani Laundromat. IBA filed for bankruptcy protection in the United Kingdom and United States in early 2017. The two next biggest contributors were offshore companies "with direct connections to the Azerbaijani regime and ties to a major corruption case involving [former PACE member Luca Volontè]": Faberlex LP (based in Scotland), which transferred over US$169 million; and Jetfield Networks Ltd (based in New Zealand), which transferred US$105 million. The Russian State weapons export company Rosoboronexport, a supplier of military equipment to the Azerbaijani Government, transferred over US$29 million to Metastar Invest,[51]

20. As with the Global Laundromat, local people of modest means were sometimes used to conceal the true ownership and control of shell companies. Faberlex, Hilux and Polux were "owned" by a driver employed by a Baku bank who lived surrounded by small poultry farms on the outskirts of Baku. The identity of other people involved is perhaps more revealing: bank documents for LCM Alliance name as a signatory Zamina Zamanova, an assistant director of Kapital Bank, which is owned by President Aliyev's family. Although the four core shell companies were registered in the United Kingdom, the addresses for their Danske Bank accounts were all in Baku.

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46. "Moldova sees Russian plot to derail money-laundering probe", Reuters, 15 March 2017.
47. "The Origin of the Money", OCCRP, 4 September 2017.
48. "Massive Azerbaijan 'laundromat' scheme had a Latvian connection", LSM, 4 September 2017.
49. Danske Bank Estonia is also suspected of involvement in money laundering by a UK-registered company, Lantana Trade LLP, whose owners were involved in various Russian banks that had been closed down, amongst which Promsperbank, whose shareholders included Igor Putin and Alexander Grigoriev (see above).
50. "UK companies 'linked to Azerbaijan pipeline bribery scandal'", *The Observer*, 31 December 2016.
51. "The Origin of the Money", OCCRP.

21. The laundered money reached a wide range of beneficiaries, including family members of several high officials. These included Yaqub Eyyubov, Azerbaijan's first deputy prime minister (appointed directly by the President) since 2003, with important roles in the energy industry and international relations, to whom Russian President Putin presented the Order of Friendship in 2016. Over US$9 million was transferred from Rosoboronexport, with whom Eyyubov had negotiated an arms contract, to Hungarian bank accounts held by a company based in the British Virgin Islands, Velasco International Inc, that had been created by Mossack Fonseca and was owned by one of Eyyubov's sons. Over US$1.2 million was received by Czech-based AME Holdings S.R.O., which was controlled by a company registered in the British Virgin Islands, Nettle Stone Investments Ltd; Nettle Stone was owned by the sons of the deputy chief of the Azerbaijani anti-corruption authority, Ali Nagiyev, who have extensive business interests in the Czech Republic. Metastar Invest made monthly payments totalling over US$1.3 million to the daughters of Fizuli Alakbarov, Minister for Labour and Social Protection. Azer Gasimov, President Aliyev's press secretary, received four payments totalling US $130 400, purportedly for an "educational field trip".

22. The use of off-shore shell companies by persons close to political power in Azerbaijan was also documented in reporting of the "Panama Papers" affair in 2016.[52] President Aliyev's son and two daughters, along with the son of the tax minister, Fazil Mammadov, were the beneficial owners of 80% of a Panama-based foundation, managed by their mother (and now Vice-President), Mehriban Aliyeva, and Mammadov, that controlled a Panama-based company whose titular directors were provided by the Panamanian law firm, Mossack Fonseca. This company in turn owned shares in a UK-based company that owned 51% of AtaHolding, one of Azerbaijan's biggest conglomerates, worth US$490 million in 2014, with interests in the country's banking, telecommunications, construction, mining, oil and gas sectors. This structure would have allowed the concealed transfer of profits from AtaHolding to the children of President Aliyev and of Mammadov. President Aliyev's daughters also partly controlled three Panamanian companies that owned 56% of a consortium that obtained a 30-year mining lease in Azerbaijan.[53]

3.2. The situation in specific countries involved in the Azerbaijani Laundromat

23. The US$2.9 billion passed through the accounts of the four main shell companies at Danske Bank Estonia. Following revelations of Danske Bank's involvement in laundering over a billion dollars of Global Laundromat money, its CEO had stated that the bank only discovered the situation after the transfers had ended; its chief legal officer gave a similar response to the Azerbaijani Laundromat reports. A Danish money-laundering expert has said that "Danske Bank [broke] almost all AML [anti-money laundering] rules possible in this case"; the president of the American Anti-Corruption Institute stated that it should not have been possible for Danske Bank to miss the size and patterns of transactions. The case of Danske Bank and its Estonian branch is of such significance that I will address it separately in section 4 of this report.

24. As noted above, the United Kingdom was also heavily implicated in the Azerbaijani Laundromat, with four UK-registered shell companies playing a central role. In total, more than 20 Scottish limited partnerships were involved in transferring funds; one of them, Westburn Enterprises, was also involved in the Global Laundromat.[54] Since the United Kingdom was so significantly implicated in both schemes, I will examine it separately in section 6 below.

25. In Transparency International's 2018 Corruption Perceptions Index, Azerbaijan scored 25/100, 6 points less than in 2017 and 10 points below the eastern European and central Asian average, coming 152nd out of 180 countries assessed, a fall of 30 places. The 2014 MONEYVAL report on Azerbaijan noted, in its key findings, a series of shortcomings.[55] These include undue limitations on the scope of criminal offences; criminal liability for money laundering not extending to legal persons; ineffective criminalisation of money laundering, with few convictions and no cases of stand-alone and autonomous money laundering; no submissions of suspicious transaction reports by designated non-financial businesses and professions and only one by a non-banking financial institution; sanctions for infringement of the anti-money laundering regime

52. See the report of the Committee on Social Affairs, Health and Sustainable Development, "Lessons from the 'Panama Papers' to ensure fiscal and social justice", Doc. 14141.
53. "How Family that Runs Azerbaijan Built an Empire of Hidden Wealth", International Consortium of Investigative Journalists (ICIJ), 4 April 2016. The ICIJ adds the caveat that "[w]hile there is no doubt that these secret companies existed …, it is unclear whether or not the proposed structure to benefit President Aliyev's teenage daughters and six-year-old son … was ever adopted". Other examples can be found in the articles "Offshore companies provide link between corporate mogul and Azerbaijan's president", ICIJ, 3 April 2013, and "Offshores Close to President Paid Nothing for State Share of Telecom", OCCRP, 27 May 2015.
54. "Revealed: all the Scottish shell firms in Azerbaijan Laundromat", *The Herald*, 8 September 2017.
55. "Report on Fourth Assessment Visit – Executive Summary", MONEYVAL, 10 December 2014.

that are not effective, proportionate or dissuasive, and which have rarely been applied in practice and never been applied to senior management; and no requirement for information on beneficial ownership to be collected or made available by State authorities. In June 2012, the Azerbaijani Parliament voted to restrict public access to information about the registration, ownership structure and shareholders of Azerbaijani corporations, and gave President Aliyev and his wife lifetime immunity from criminal prosecution.[56]

26. The Assembly has already provisionally considered this situation. In Resolution 2185 (2017) "Azerbaijan's chairmanship of the Council of Europe: what follow-up on respect for human rights?", the Assembly "[noted] with great concern reports linking the Azerbaijani Government to a large-scale money-laundering scheme in place between 2012 and 2014, used, *inter alia*, to influence the work of members of the Assembly as regards the human rights situation in Azerbaijan. The Assembly urges the Azerbaijani authorities to start an independent and impartial inquiry into these allegations without delay and, furthermore, to co-operate fully with the competent international authorities and bodies on this issue". Regrettably, the Azerbaijani authorities seem to have made no effort nor shown the slightest political will to give any effect to the Assembly's request. I will now look at the issue in more detail.

3.3. The Azerbaijani Laundromat and corruptive activities in the Parliamentary Assembly

27. The Azerbaijani Laundromat was also used to corrupt certain members of the Parliamentary Assembly, as described in the report of the Independent Investigative Body on the allegations of corruption within the Parliamentary Assembly (IBAC). According to sources cited in the IBAC report, Luca Volontè, a member of the Italian delegation to the Assembly (from 2008-2013) and erstwhile chair of the Assembly's EPP/CD political group, received more than €2 million from various Azerbaijani sources, including two members of the Azerbaijani delegation to the Assembly.[57] Much of this money was transferred through companies involved in the Azerbaijani Laundromat, including Metastar and Jetfield, via various banks, including in Latvia and Estonia, to Mr Volontè's foundation, "Novae Terrae", and LGV, a company he set up during this period in his wife's name. Two of the transfers to LGV raised suspicions in the recipient bank, ultimately leading to the ongoing Italian criminal investigation of Mr Volontè for bribery and money laundering. In email exchanges during this period with Elkhan Suleymanov, member of the Azerbaijani delegation, Mr Volontè expressed a clear expectation of reward following the Assembly's notorious rejection, in which Mr Volontè is believed to have been heavily involved, of the "Strässer report" on political prisoners in Azerbaijan; Mr Suleymanov replied affirmatively. In an earlier message, Mr Volontè had told Muslum Mammadov, another member of the Azerbaijani delegation, that his wish was Mr Volontè's command.

28. Another recipient of large sums of money via the Azerbaijani Laundromat was Eduard Lintner (member of the German delegation, 1999-2010; erstwhile Chairperson of the Committee on Legal Affairs and Human Rights and the Monitoring Committee). In 2009, Mr Lintner set up the Society for Promoting German-Azerbaijani Relations (GEFDAB). In 2013, GEFDAB organised an observation mission that issued a very positive assessment of the Azerbaijani presidential elections, despite the Organization for Security and Co-operation in Europe (OSCE) having found numerous serious flaws. Between 2012 and 2014, Mr Lintner reportedly received a total of €819 500 from Azerbaijan via the Azerbaijani Laundromat companies Polux, Metastar and Hilux; documents received by the IBAC from the Italian prosecutors of Mr Volontè showed receipts of €799 500 on Mr Lintner's personal accounts from Hilux, Jetfield and Metastar. One can also mention Mr Zmago Jelinčič Plemeniti (member of the Slovenian delegation, 2009-2012), President of the Slovenian National Party, who received €25 000 in July 2012 from one of the British companies involved in the Azerbaijani Laundromat. Mr Jelinčič Plemeniti had acted as an observer in three Azerbaijani elections, in 2005, 2010 and 2013, on which he had given a positive assessment.

29. Mr Lintner also transferred Azerbaijani money to other Assembly members involved in activities relating to Azerbaijan. Karin Strenz (member of the German delegation, 2010-2018), for example, received money from Line-M, a company set up by Mr Lintner reportedly for the sole purpose of transferring Azerbaijani money for lobbying in Germany, in return for "consultancy services". Ms Strenz participated in monitoring of Azerbaijani elections in 2010 organised by Mr Lintner. The IBAC report also contains details of her suspicious behaviour during the Assembly's observation of the 2015 Azerbaijani parliamentary elections. Two members of the Belgian delegation to the Assembly, Alain Destexhe (2014-2017; erstwhile Chairperson of the Committee on Legal Affairs and Human Rights and its rapporteur on Azerbaijan) and Stef Goris (Assembly member from 1999-2007), founded the European Academy of Election Observation (EAEO), which received financing from one of Mr Lintner's Azerbaijani-funded organisations. The IBAC report notes that the EAEO

56. "Azerbaijan: Parliament Throws Veil of Secrecy over Business Sector", EurasiaNet, 13 June 2012.
57. See also "Ein Korruptionsskandal mit Folgen", *Der Tagesspiegel,* 16 January 2018, which gives the more precise figure of €2.39 million.

gave positive assessments of the Azerbaijani elections that it observed, contrary to the general international criticism. The EAEO's mission to the 2016 Azerbaijani constitutional referendum, for example, included members of the Parliamentary Assembly of the Council of Europe (amongst whom Thierry Mariani of the French delegation (2012-2017)), erstwhile Chairperson of the Assembly's Committee on Migration, Refugees and Displaced Persons), despite the fact that there was also an official Assembly observation mission.[58]

30. On 18 January 2019, the German Parliament ruled that Ms Strenz had broken parliamentary rules on declaring external income by failing to disclose money and gifts received from Azerbaijani lobbyists. She faces a fine of up to €60 000. "Let's hope politicians in … Belgium, and other parliaments hit by the scandal will quickly follow the *Bundestag*'s lead", said Human Rights Watch in a statement welcoming this development. To the best of my knowledge, however, no other Assembly member has yet been subject to any form of sanction by their domestic authorities.

31. Although the Ecolo party called on the Belgian Senate to determine that Mr Destexhe had breached the code of ethics,[59] the leaders of the Senate, having reportedly discussed Mr Destexhe's case behind closed doors, decided to take no further action.[60] This decision seems to have been based on the fact that in 2017, the Belgian prosecutor had opened criminal proceedings against Mr Destexhe in relation to the financing of the EAEO, these proceedings purportedly raising issues in relation to the separation of powers. I find this argument unconvincing. I am not aware of any subsequent progress in the criminal proceedings, but should they prove inconclusive, the Belgian Senate will no longer have any excuse for failing to act.

32. The Italian prosecutors in the case of Mr Volontè have deepened their investigations into Azerbaijani money laundering, looking closely at the roles of Danske Bank Estonia and four UK-based companies. Letters rogatory have been sent to the Danish, Estonian, Latvian and United Kingdom authorities requesting further information. The Italian media speculates that these investigations may widen to include Malta, since Hilux is understood to have held an account at Pilatus Bank, many of whose other account holders were Azerbaijani "politically-exposed persons" (PEPs, i.e. individuals whose profile suggests a particular need for AML checks). It can be recalled that Pilatus Bank was at the centre of Daphne Caruana Galizia's investigative reporting prior to her assassination in November 2017.[61]

33. In October 2018, Transparency International, noting the Assembly's call on national authorities to follow up the IBAC report,[62] which "presented sufficient evidence for 18 European countries to launch their own investigations into corruptive activities", "tried to determine which implicated countries pursued legal action. In 12 European countries, there has been no official follow-up by law enforcement, while investigations are pending in four. In one country, Italy, there is an ongoing criminal procedure in court on charges of bribery. Two of the countries – Azerbaijan and Hungary – refused to open investigations".[63] This is extremely disappointing, especially given the Assembly's separate, direct request to Azerbaijan in Resolution 2185 (see above). I hope that the Assembly will continue to push for follow-up at national level.

4. Danske Bank Estonia

34. Although far from being the only bank or financial institution involved in the Laundromats, the case of Danske Bank Estonia deserves special attention as an illustration of acute and protracted failure in AML regulation. Danske Bank, founded in 1871, is Denmark's largest bank. In 2006, it bought the Finnish Sampo Bank, including its Estonian operations, which became Danske Bank Estonia. A large part of Sampo Bank's customer base consisted of non-residents, especially from Russia and other former-Soviet countries, notably Ukraine and Azerbaijan. Concerns emerged as early as 2007, when the Estonian FSA issued a critical inspection report and the Russian Central Bank wrote to warn the Danish Financial Supervisory Authority

58. The head of this EAEO group was Mr Angelo Farrugia, speaker of the Maltese Parliament. In this connection, one may recall the strong suspicions involving Azerbaijan of high-level corruption in the Maltese Government and money laundering through Maltese banks: see Mr Pieter Omtzigt's introductory memorandum on "The assassination of Daphne Caruana Galizia and the rule of law in Malta and beyond: ensuring that the whole truth emerges", document AS/Jur (2018) 30.

59. "Azerigate – Ecolo demande au Sénat de constater qu'Alain Destexhe a enfreint son code de déontologie", Agence Belga, 4 May 2018.

60. "Destexhe – Azerbaïdjan: le Sénat a fermé les yeux", *Le Vif/L'Express*, 17 January 2019.

61. "Danske Bank, anche i pm di Milano indagano sul fiume di denaro da Baku" and "Danske Bank, i pm di Milano indagano anche in Estonia, Lettonia e Gran Bretagna", Il Sole 24 Ore, 2 and 21 January 2019.

62. Resolution 2216 (2018) on "Follow-up to the report of the Independent Investigative Body on the allegations of corruption within the Parliamentary Assembly" called on national parliaments and governments "to examine the IBAC's report and to take the necessary measures in respect of the cases mentioned, which require their full attention".

63. "The Azerbaijani Laundromat One Year On: Has Justice Been Served?", Transparency International, 1 October 2018.

(DFSA) that Sampo Bank clients "permanently participate in financial transactions of doubtful origin". Yet in 2008, Danske Bank decided not to migrate its Baltic banking activities onto the group's information technology platform; this meant that the group's general AML procedures and monitoring were not applied in the Estonian branch; and that the group's headquarters had less insight into its activities, a problem worsened by the fact that many documents within the branch were written in Estonian or Russian. In 2010, Danske Bank even considered increasing its non-resident business in Estonia, with the executive board being "comfortable [with] substantial Russian deposits". Mr Wilkinson has described the Estonian branch as "an unprofitable bank serving resident customers concealing a massively profitable non-resident business": in 2011, the branch contributed 11% of Danske Bank's profits, despite holding only 0.5% of the group's assets; between 2012-2014, over 90% of the branch's profits came from non-residents. In violation of AML regulations, Danske Bank's head office was without a crucial AML official from January to November 2013. That same year, a correspondent bank, JPMorgan, was so concerned by the money laundering risks that it stopped clearing dollar transactions for Danske Bank Estonia. When, during the same period, the new Danske Bank executive responsible for Estonia suggested that the branch's non-resident business needed to be "reviewed and potentially reduced", the group's head of international banking, Thomas Borgen, responded by referring to "the need for a middle ground". Later that year, a whistle-blower – later revealed to be Mr Wilkinson, who took part in our committee hearing – filed an internal report entitled "Whistleblowing disclosure – knowingly dealing with criminals in Estonia Branch". The report was circulated to various management and supervisory structures and was followed in early 2014 by further reports of "similar irregularities". Amongst other things, the whistle-blower informed Danske Bank management that the Estonian branch had only belatedly discovered that its clients included a British limited liability partnership (LLP) linked to the Putin family and the Russian FSB. During this period, awareness of inadequate AML procedures at the branch was growing within the group, with an internal audit finding that "we cannot identify actual sources of funds or beneficial owners". This led to suggestions from within Danske Bank to withdraw from the "offshore business". In 2015, further concerns were raised by the Estonian FSA and correspondent banks, after which Danske Bank began closing non-resident accounts held at the Estonian branch, a process it completed in early 2016. Mr Borgen, at the time the group's chief executive, was against this, considering it "unwise to speed up an exit strategy as this might significantly impact any sales price".

35. In September 2018, a specially commissioned report found that between 2007-2015, €200 billion had passed through the non-resident portfolio of Danske Bank Estonia, which included around 10 000 customers. Of 6 200 customers who were examined, the vast majority were deemed suspicious, and it is expected that a large part of their transactions, in some cases all of them, were suspicious. Forty-two employees and agents of the branch are considered to have been involved in some suspicious activity; Danske Bank has reported eight former employees to the Estonian police.[64] Lars Mørch, head of Baltic operations, resigned in April 2018; Mr Borgen, chief executive, resigned in September 2018; and in November, Danske Bank's chairman was ousted by its main shareholder and the chairman of its audit committee resigned. The Danish FSA has twice ordered Danske Bank to increase its capital requirements as a result of substantial increases in the bank's compliance and reputations risk: by DKK 5 billion following the FSA's May 2018 report; and by a further DKK 10 billion in October 2018, due to non-fulfilment of a key order made in the May report. In its annual report, published on 1 February 2019, Danske announced that it would spend DKK 2 billion to improve its anti-money laundering controls. Danske Bank and its personnel have clearly paid a price for the scandal at its Estonian branch: whether that price is high enough, however, is another matter; certainly, it comes too late to prevent the serious harm that has already been done.

36. The fact that money laundering through Danske Bank Estonia continued despite several national supervisory bodies having raised concerns illustrates a weakness in the overall AML system. As noted above, in 2007, the Estonian FSA issued a critical report and the Russian Central Bank expressed concerns to the Danish FSA. A second Estonian FSA report in 2009 was less critical, but a mid-2014 on-site inspection revealed large scale, long-lasting systemic AML violations and led the FSA to order the bank to remedy identified breaches and bring its activities into compliance with basic AML regulations. Between 2015 and 2018, the Danish FSA conducted three further AML inspections – but by then, the damage had been done.

37. An August 2017, the FATF Mutual Evaluation Report found that Denmark had only a "moderate level of understanding of its money laundering risks". There were particular problems in the national risk assessment; no national AML strategy or policy; no co-ordination of the objectives and activities of individual competent authorities; ineffective functioning of the financial intelligence unit due to lack of human resources and operational autonomy; inadequate understanding of risk and weak implementation of AML measures in almost all of the financial sector; and application of lenient criminal sentences in practice, which limited the

64. "Report on the Non-Resident Portfolio at Danske Bank's Estonian branch", Bruun & Hjejle, 19 September 2018.

dissuasiveness of the more severe sentences available in theory. Denmark was only partially compliant with 19 of the FATF's 40 recommendations. These are just some of the main findings: a more detailed reading of the report is even more alarming.

38. On 28 November 2018, the Danish Public Prosecutor for Serious Economic and International Crime preliminarily charged the bank with four violations of the Danish Anti-Money Laundering Act. Several other countries have also opened criminal proceedings in relation to Danske Bank. In October 2018, the bank announced that it was "in dialogue with the US authorities" and had received requests for information from the US Department of Justice in connection with a criminal investigation into the Estonian branch. In January 2019, Danske Bank received a letter from the investigating judge of the French Tribunal de Grande Instance de Paris, summoning the bank to an interview to discuss the ongoing investigation and stating that the judge envisaged placing Danske Bank under formal investigation. Also in January, a pension fund has brought civil proceedings against Danske Bank before a New York court, accusing it of artificially inflating its share price by hiding and failing to stop money laundering at its Estonian branch.

5. Common weaknesses in national AML supervisory regimes

39. Looking at national AML supervisory regimes more generally, Transparency International underlines the inadequacy of national legal frameworks and poor enforcement. In its survey of 23 G20 countries and guest countries, Transparency International found 11 of them to have weak or average legal frameworks for identifying beneficial ownership of companies and trusts. Fifteen countries relied on information on beneficial ownership collected by financial institutions and other obliged professionals (lawyers, accountants, etc.), despite experience (in cases such as Mossack Fonseca and Danske Bank) having revealed negligence and complicity. Transparency International has therefore long called for public central beneficial ownership registers, and welcomes the recent European Union Fifth Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (Directive (EU) 2018/843, "Anti-Money Laundering Directive") and the requirement for British Overseas Territories to establish public beneficial ownership registers as setting a new standard – whilst emphasising that other countries must follow suit to avoid that money launderers simply turn to other jurisdictions. Another problem highlighted by Transparency International is reliance on a risk-based approach to AML enforcement. Whilst this is essential to efficient allocation of resources, the risk-assessment exercise must be undertaken properly.

40. Transparency International's recommendations for addressing these and other problems include a strategic approach by AML supervisory bodies. Supervisory bodies should make better use of technology to cross-check information, look for patterns and guide on-site inspections, allowing more effective use of detailed information at transaction level, including on concentration of bank ownership, the share of non-residents amongst the client base, the share of foreign currency deposits – all of which should be shared by supervised entities with supervisory bodies. Supervised entities should improve the quality – and quantity – of their suspicious transaction reports and maintain a clear audit trail of their client risk assessments. They should also promptly share any evidence of wrongdoing with law-enforcement authorities. Supervised entities, including their top and senior managers, should be subject to proportionate and dissuasive sanctions for failing to comply with AML requirements.

41. The Danske Bank case has also revealed uncertainty about the division of responsibilities between national financial supervisory authorities in respect of multinational banks. On 29 January 2019, the Danish FSA issued a statement that "[a]s the host country supervisory authority, the Estonian supervisory authority (EFSA) has had and still has responsibility for the anti-money laundering supervision of the Estonian branch. This follows from EU legislation, and this division of responsibilities was also followed in practice … The Danish FSA co-ordinated the overall supervision of Danske Bank, including the AML area".[65] The next day, the Estonian FSA replied, stating that: "We welcome the clear indication now given by our Danish colleagues that [the Estonian FSA] should firmly take the lead in supervising the Danske Bank in Estonia, clarity that we have been waiting for from DSFA for some years … The Danish Financial Supervisory Authority was and is responsible for supervising the governance of Danske Bank, including its branches. [The Estonian FSA] stands ready to take over supervision of Danske Bank as whole."[66] Later that day, the Danish FSA responded, stating that "this division of responsibilities was also described in the joint statement issued by the Danish FSA and the [Estonian FSA] on May 28, 2018 … The described division of responsibilities has also been followed in practice … The [Estonian FSA] had the power to stop the offenses when [it] became aware

65. "Statement on supervision of Danske Bank as regards the Estonian case", 29 January 2019.
66. "Response to the Report on the Danish FSA's supervision of Danske Bank", 30 January 2019.

of them through inspections in 2014". Whilst I do not know everything that lies behind these exchanges and cannot tell which account is most accurate, it is of great concern that this uncertainty even exists. If there is a need for clarification, it should be addressed as a matter of the utmost urgency.

42. Ms Ismayilova reminded the committee of the importance of strong, independent mechanisms outside the immediate AML context. Underlining the significance of corruption throughout the money-laundering chain – something that Mr Thelesklaf also mentioned – Ms Ismayilova called for stronger anti-corruption mechanisms, notably in Russia and Azerbaijan, including not only State authorities but also independent media and civil society bodies. Corruption could also be prevented by requiring persons such as State officials, presidential candidates and members of parliament to make property and income declarations publicly accessible.

43. Another weakness relates to whistle-blower opportunities and protection. Mr Wilkinson stated that he had not been able to identify any whistle-blower procedures within Danske Bank, nor was he, or other members of his team, made aware of any internal procedures for reporting money laundering suspicions. Mr Wilkinson's lawyer, Mr Kohn argues that European whistle-blower protection should emulate that in the United States, where it is considered obstruction of justice for an employer to threaten legal action against an employee who reveals criminal misconduct. In this connection, I would recall the Assembly's previous work on whistle-blowers, notably its Resolution 1729 (2010) on the protection of "whistle-blowers", and the ongoing work of our committee's rapporteur, Mr Sylvain Waserman. I would encourage Mr Waserman to take account of Mr Wilkinson's experience and Mr Kohn's recommendation in the preparation of his report.

44. It can be noted that many of the above recommendations are reflected in the position expressed by the Danish FSA in January 2019, which called for better and more effective defence lines in the banks; an obligation to provide information and criminal liability as well as better protection of whistle-blowers; fiercer consequences when a bank's top and senior management fails to recognise its responsibility; and a top class European AML supervision (see Section 7 below).[67]

6. The situation in the United Kingdom and its Overseas Territories

45. The United Kingdom played a prominent role in both Laundromats, largely through the use of shell companies either in its Overseas Territories or, in the form of various types of limited partnerships, within the United Kingdom itself. The National Crime Agency estimates that "many hundreds of billions of pounds" are laundered through United Kingdom banks each year.[68] Transparency International found that 766 UK-registered companies created by trust and corporate service providers had been directly involved in 52 corruption and money laundering cases worth £80 billion.[69] Global Witness has calculated that from 2008-2018, more than seven times more money flowed from Russia to the Overseas Territories than to the United Kingdom: £68 billion in total, with £34 billion invested in 2018 – the British Virgin Islands alone are the second most popular destination for Russian money, after Cyprus. As well as being involved in the Global and Azerbaijani Laundromats, companies based in Overseas Territories were implicated in money laundering involving Russian organised criminals, including weapons, drugs and human traffickers, and a businessman linked to Syria's chemical and biological weapons programme.[70]

46. When I went to London, the Joint Financial Analysis Centre (JFAC) presented their analysis of "general Laundromat features": trade-based money laundering is common; United Kingdom shell companies feature heavily, usually limited liability partnerships (see above); shell companies are almost always procured from Trust and Company Service Providers (TCSPs); large volumes of funds are transferred across multiple shell companies; predicate offences are often unclear; networks are used by a variety of criminals, with unknown links between them; and the schemes are spread across multiple jurisdictions.

47. These characteristics help to understand the United Kingdom's vulnerabilities. The JFAC was admirably frank about these, describing them as follows, with the first three relating more to the regulatory authorities' responsibilities and the remainder to the responsibilities of regulated entities:

– United Kingdom law allows LLPs to be owned by corporate entities based anywhere in the world;

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67. "Statement on supervision of Danske Bank as regards the Estonian case", 29 January 2019.
68. "London's financial flows are polluted by laundered money", *The Economist*, 11 October 2018.
69. "Hiding in Plain Sight: How UK Companies are Used to Launder Corrupt Wealth", November 2017.
70. "Missing the Bigger Picture? Russian Money and the UK's Tax Havens", April 2018. It should be noted that not all of these transfers necessarily amount to illegal money laundering. Global Witness recommended that the Overseas Territories should be required to introduce public registers of beneficial ownership – see below.

– the United Kingdom's "persons of significant control" (PSC) register, intended to identify ultimate beneficial owners, "is ineffective" – in particular, companies may legally report having no PSC if no single entity holds more than 25% of the company's shares, which is simple to arrange further "up the chain";

– Companies House (which incorporates and dissolves companies and maintains a public register of company information) has very limited resources to investigate or prosecute fraudulently registered companies – indeed, it sees itself purely as a register and not a compliance or enforcement body;

– most banks' "know your customer" AML processes do not sufficiently question why a British company uses a foreign bank account, or test the answer they receive;

– TCSPs provide corporate structures on an industrial scale, selling ready-made, "off the shelf" companies;

– TCSPs often rely on AML checks carried out in other European jurisdictions and undertake limited or no further checks of their own.

48. Other commentators have identified further problems. One is a lack of resources: the National Crime Agency's budget will fall by £10 million in 2018-2019, and it has far fewer skilled investigators than, say, the United States or Italy; those it has are less well paid, and often lured away to the private sector. AML activity is fragmented, often involving not only the National Crime Agency but also the Serious Fraud Office, the City of London Police, Her Majesty's Revenue and Customs, and others. A new National Economic Crime Centre within the Agency is intended to deal with big cases and co-ordinate other agencies' work but will have a 2018-2019 budget of only £4-5 million and rely on staff and resources from existing agencies.[71]

49. In 2016, following the 2013 G8 summit in Scotland and the 2016 Anti-Corruption Summit in London, the United Kingdom introduced a register of "Persons with Significant Control" (PSC), one of the first public registers of the beneficial owners of companies.[72] The effectiveness of the register has been criticised, however, including as a means for regulating Scottish limited partnerships – a study showed that only 30% had made statements naming a PSC.[73]

50. In December 2018, the United Kingdom Government announced a series of proposals concerning the regulation of limited partnerships, including Scottish limited partnerships. In future, only professionals registered with an AML supervisory body will be able to create limited partnerships. Applications to create limited partnerships from overseas could be limited to European Economic Area jurisdictions. Limited partnerships will have to confirm certain key information annually, including on persons of significant control. In addition, Companies House will have the power to strike off limited partnerships that are no longer active, simplifying regulatory and investigative activity.[74] The government has also committed to reviewing the role of Companies House in protecting against the abuse of UK-registered companies.

51. These measures, which will require legislation in order to take effect, may have the potential to respond to some of the vulnerabilities described by the JFAC (see above). Their impact will, however, be limited, insofar as they do not cover companies or limited liability partnerships. An analysis by the Royal United Services Institute notes that companies and limited liability partnerships "present no lesser money-laundering risks … It appears, however, that the proposed reforms are focused narrowly on addressing the apparent misuse of Scottish [limited partnerships]". The Institute's analysis recognises that "changing registration requirements for companies and limited liability partnerships presents greater challenges than changing them for limited partnerships, yet by foregoing an opportunity to examine the matter, the government exposes itself to charges of looking for a solution where it is easiest to find, rather than where it is most needed. In short, while the newly unveiled reforms cheer those who wish the United Kingdom to succeed in its fight against money laundering, they would do well to ask the government for more in the coming years". In the light of their role in the Laundromats, I would agree that beneficial ownership of United Kingdom limited liability partnerships must also be made fully transparent.

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71. "Britain's war on dirty money lacks oomph", *The Economist*, 11 October 2018.
72. "Learning the lessons from the UK's public beneficial ownership register", Open Ownership/Global Witness, October 2017. The European Union's Fourth Anti-Money Laundering Directive, which entered into force on 26 June 2017, also sets transparency requirements about beneficial ownership for companies; a 5th directive has since been introduced.
73. "How the British Government's Attempts to Fight Corruption and Money Laundering are Already Failing", Bellingcat, 14 November 2017.
74. "Limited Partnerships: Reform of Limited Partnership Law", Department for Business, Energy, and Industrial Strategy, December 2018.

52. Another recent development is the introduction of "Unexplained Wealth Orders" under the Criminal Finances Act 2017, which require a person who is suspected of involvement in serious crime to explain their ownership of particular property, where it is suspected that the person's known lawful income would be insufficient to acquire that property; information thus obtained may be used in further proceedings, including freezing and seizure of assets.[75] The first Unexplained Wealth Orders were obtained in October 2018 against £22 million worth of properties held by Zamira Hajiyeva, wife of the former chairperson of the International Bank of Azerbaijan, who was imprisoned in 2016 for embezzlement and other offences; they were subsequently relied upon to seize £400 000 worth of jewellery.[76]

53. The UK Sanctions and Anti-Money Laundering Act 2018, section 51, introduced a requirement for the authorities of British Overseas Territories to introduce a publicly accessible register of the beneficial ownership of companies within their jurisdictions.[77] The authorities of the Cayman Islands, Bermuda, the British Virgin Islands and Gibraltar are reported to have reacted angrily, claiming the Act undermines long-established autonomy and threatens their important financial sectors. Their main concern is that not only would a public register cause companies and investors to quit their financial sectors for jurisdictions with "tougher privacy laws", but that their existing beneficial ownership registers, accessible to United Kingdom law-enforcement agencies (but not public), were already sufficient.[78] Global Witness, on the other hand, described the development as "a huge win in the fight against the corruption, tax dodging and money laundering. The United Kingdom's tax havens have featured in countless corruption and money laundering cases – ending their corporate secrecy will throw a huge spanner in the works of corrupt dictators, tax evaders and organised criminals".[79] I tend to share the view of Global Witness and welcome the 2018 Act.

54. The 2018 Act transposes the standards of the EU 5th Anti-Money Laundering Directive (see below) into national law and will remain part of United Kingdom national legislation even after Brexit. Leaving the European Union does, however, inevitably introduce uncertainty about future AML regulation in the United Kingdom, which will remain an important international centre for financial, legal and corporate services. The non-governmental organisation Tax Justice Network believes that "[a]t least in this area the United Kingdom will not pursue a post-Brexit race to the bottom on financial secrecy. This decision [to implement the EU 5th Anti-Money Laundering Directive] will help establish the fifth directive and its position on public registers as the international standard". Others have been less sanguine. One commentator has noted that "[t]he most effective response to [globalised criminality] has been co-operative action, commonly organised at the European level. Brexit moves the United Kingdom in the opposite direction, isolating it from neighbouring States and, as such, weakening its defences against illicit transactions. This weakness will attract criminals, and the United Kingdom risks becoming the preferred locale for such criminal activity … With money laundering being internationally organised, the EIS [Europol Information System] has proven to be a useful tool for investigators. However, the United Kingdom may not continue to enjoy its benefits post-Brexit. It is incredibly likely that the withdrawal process will lead to the United Kingdom leaving Europol, and even if the government were to sign a new bilateral security agreement with the European Union, indications from Brussels suggest that the United Kingdom will no longer be able to access the EIS on an unrestricted basis. This loss of shared intelligence will greatly hinder the ability to combat illicit flows, as British officials will be unable to 'follow the money trail' once it has left their locality".[80] These are alarming prospects.

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75. See further "Circular 003/2018: unexplained wealth orders", United Kingdom Home Office, 1 February 2018.
76. "Jewels linked to Azeri banker's wife's unexplained wealth seized", *Financial Times*, 2 November 2018.
77. The British Overseas Territories include Anguilla, Bermuda, British Antarctic Territory, British Indian Ocean Territory, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, Pitcairn, Henderson, Ducie and Oeno Islands, St Helena, Ascension and Tristan da Cunha, South Georgia and the South Sandwich Islands, the Sovereign Base Areas of Akrotiri and Dhekelia, Turks and Caicos Islands, Virgin Islands.

The Act does not apply to the crown dependencies of Jersey, Guernsey and the Isle of Man, which have also been implicated in money-laundering activities, although the NGO Tax Justice Network has suggested that, "recognising the importance for their business models of maintaining full access to EU markets, [the Crown Dependencies] are likely to align with the [2018 Act] standard".

78. See "UK beneficial ownership vote alarms Overseas Territories; financial services vital for several islands", *MercoPress*, 4 July 2018.
79. "Global Witness Response to the Government's Acceptance of Public Ownership Registers for UK Overseas Territories", 1 May 2018.
80. "Brexit could make the UK the money laundering capital of the world", *The Independent*, 10 January 2019.

7. The situation in the European Union

55. The 5th Anti-Money Laundering Directive – which was adopted in April 2018, entered into force on 9 July 2018 and must be transposed into national legislation by 10 January 2020 – is part of the European Union's response to the evolving context, including recent terrorist attacks and the Panama Papers revelations. The new directive has five main aims:

– to increase transparency by establishing publicly accessible beneficial ownership registers for companies and trusts, with information to be verified by the national authorities, in order to prevent money laundering and terrorist financing via opaque structures. National beneficial ownership registers will be interconnected to facilitate information exchange;

– to broaden the criteria for assessing high-risk third counties and ensure a common high level of safeguards for financial flows from such countries;

– to improve the work of Financial Intelligence Units with better access to information through centralised bank account registers and enhanced mutual co-operation;

– to improve the co-operation and exchange of information between anti-money laundering and financial supervisors and the European Central Bank;

– to tackle terrorist financing risks linked to anonymous use of virtual currencies and of pre-paid cards.[81]

56. The 5th Anti-Money Laundering Directive has, however, been criticised for certain flaws. Its fundamental reliance on decentralised national authorities to deal with an international problem is said to have been proved ineffective already, notably in relation to the money-laundering scandals in Latvia and Estonia, and there is no EU body to co-ordinate efforts to plug gaps in effective regulation.[82] Its effectiveness will also depend on national implementation. In this respect, it should be noted that many EU member States have still not fully transposed the 2015 4th Anti-Money Laundering Directive into national law, which should have been done by 26 June 2017. The European Commission has launched infringement proceedings in relation to the 4th Directive against a large number of EU member States since July 2017, including Belgium, Bulgaria, Cyprus, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania and the Slovak Republic. Greece, Ireland and Romania were referred to the Court of Justice of the European Union on 19 July 2018, and Luxembourg on 8 November 2018. The most recent measures were taken on 24 January 2019, in relation to Belgium, Bulgaria, Cyprus, Finland, France, Germany, Lithuania, Poland, Portugal and the Slovak Republic.

57. Some of the concerns over a lack of strong EU central oversight may be alleviated by a proposed new regulation on banking supervision, which would reinforce the role of the European Banking Authority (EBA). Under this proposal, the EBA would be able to:

– collect information from competent national authorities on identified weaknesses in their AML efforts;

– enhance supervision by developing common standards and co-ordinating national supervisory authorities;

– perform risk assessments on competent national authorities to evaluate their strategies and resources for responding to emerging AML risks;

– facilitate international co-operation with non-EU countries;

– should national authorities fail to act, address decisions directly to individual banks.[83]

58. These developments should also be seen in the context of the European Union's wider approach to money laundering. In December 2018, the Council of the European Union adopted an Anti-Money Laundering Action Plan, with eight objectives covering a range of short-term actions and involving numerous European and national actors. The timelines for achievement of these objectives range from immediately to January 2020.

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81. See further "Strengthened EU rules to prevent money laundering and terrorist financing: Fact sheet", European Commission, 9 July 2018.
82. "New EU Anti-Money Laundering Rules Come Under Fire", OCCRP, 10 July 2018.
83. "Anti-money laundering: Council agrees position on reinforced supervision for banks", Council of the European Union, 19 December 2018.

8. The international monitoring regime

59. International monitoring of national AML systems on a peer-to-peer basis is led by the Financial Action Task Force (FATF). The FATF's 40 Recommendations of 2012 set the international standards. There are nine "FATF-style regional bodies' that supervise implementation of FATF standards for States that are not members of the OECD. The Council of Europe's MONEYVAL is one such body. MONEYVAL neither conducts investigations nor addresses individual cases, but rather looks at systemic issues.

60. MONEYVAL is currently working on its fifth round of evaluations, whose main component will be to assess effectiveness: the best laws in the world make no difference if they are not applied in practice. For the FATF, which is taking the same approach, none of the 50 countries assessed since 2014 scores "highly effective" on law enforcement; 85% of them had either moderate of low effectiveness. MONEYVAL has so far completed around one third of fifth round evaluations, which have revealed certain recurring issues:

– third party and standalone money laundering convictions are still rare, with money laundering seen as an adjunct to a predicate offence. As a result, the range of money laundering convictions only partially reflects actual risks;

– trust and corporate service providers in international financial centres are rarely prosecuted, despite evidence that they wittingly abet criminals to establish complex and opaque corporate structures that are subsequently used to conceal proceeds of crime;

– little progress has been made in identifying and tracing the proceeds of crime during the early stages of investigations, often as a result of a lack of expertise in conducting parallel financial investigations;

– confiscation of cash transported across borders is often implemented ineffectively.

61. MONEYVAL's analysis of the "Laundromats" confirms their exploitation of a variety of weaknesses and vulnerabilities: in some countries, a weak judicial system was exploited; in others, failures of the supervisory authorities were involved. This reflects the common obstacles found in countries assessed by MONEYVAL: corruption, especially of the judiciary or supervisory authorities; legal provisions that facilitate the creation of structures, such as shell companies, often used for money laundering; and a lack of will to provide international co-operation.

9. Recovery, transfer and disposition of laundered assets

62. A second motion relating to the Azerbaijani Laundromat has been referred to the Committee on Legal Affairs and Human Rights.[84] Although the Assembly did not propose that this motion be taken into account in the preparation of the present report, it would make no sense not to do so. Of particular relevance in the present context is the idea that "the profit that Danske Bank has made by being an instrument in the Laundromat, must be channelled to the Azerbaijani civil society with an aim to address corruption, promote human rights and democracy in Azerbaijan".[85]

63. Numerous technical and practical questions arise, however, from the idea set out in the new motion. For instance, can one isolate and quantify the "profit that Danske Bank has made by being an instrument in the Laundromat"? What would be the legal basis for seizing that profit? What about the laundered assets themselves; should they be left untouched? Why only Danske Bank, when numerous other actors were involved in the Azerbaijani Laundromat? How does one identify suitable civil society organisations in Azerbaijan, which is notorious for the number of its "government-organised non-governmental organisations" (GONGOs), and ensure that only the former receive recovered funds? Why should the profits be used (only) for fighting corruption and promoting human rights and democracy? Can the proposal be reconciled with the Danish Government's desire to quantify and confiscate the profits Danske Bank made from illicit dealings in Estonia,[86] and with Danske Bank's own commitment to "make the gross income from such transactions available to the benefit of society, for instance through supporting efforts to combat financial crime"?[87]

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84. "Follow-up to the Azerbaijani Laundromat investigation", Doc. 14653, 16 October 2018.
85. The other issues raised in the motion concern political prisoners in Azerbaijan, currently being examined in Ms Thorhildur Sunna Ævarsdóttir report for the Committee on Legal Affairs and Human Rights, and follow-up to corrupt practices in the Assembly, currently being examined by the Committee on Rules of Procedure, Immunities and Institutional Affairs.
86. "Danske Bank's Laundering Profits Targeted by Danish Government", *Bloomberg*, 5 July 2018.
87. "Danske Bank intends to waive income from suspicious transactions in Estonia", 18 July 2018.

64. In fact, the international community has been developing mechanisms intended to achieve similar aims for many years. The 2003 United Nations Convention Against Corruption (UNCAC), in particular, includes a Chapter V on asset recovery, with Article 51 establishing that "the return of assets pursuant to this chapter is a fundamental principle of this Convention", and Article 57 establishing special provisions for the return and disposal of assets. In 2007, the Stolen Asset Recovery Initiative (StAR), a partnership between the World Bank and the United Nations Office on Drugs and Crime (UNODC), which serves as secretariat to the Conference of the States Parties to the UNCAC, was launched to support international efforts to end safe havens for corrupt funds. StAR works with developing countries and financial centres to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets. Any new mechanism would have to be consistent with existing international law and practice or have a compelling reason for not being so.

65. In December 2017, the United Kingdom and the United States, with the support of StAR, co-hosted a Global Forum on Asset Recovery (GFAR). The GFAR adopted "Principles for Disposition and Transfer of Confiscated Stolen Assets in Corruption Cases", of which the following are particularly relevant:

> *"successful return of stolen assets is fundamentally based on there being a strong partnership between transferring and receiving countries";*
>
> *"countries should work together to establish arrangements for transfer that are mutually agreed";*
>
> *"where possible, and without prejudice to identified victims, stolen assets recovered from corrupt officials should benefit the people of the nations harmed by the underlying corrupt conduct";*
>
> *"where possible, in the end use of confiscated proceeds, consideration should also be given to encouraging actions which fulfil UNCAC principles of combating corruption, repairing the damage done by corruption, and achieving development goals";*
>
> *"disposition of confiscated proceeds of crime should be considered in a case-specific manner";*
>
> *"case-specific agreements or arrangements [under UNCAC Article 57(5)] should … be concluded to help ensure the transparent and effective use, administration and monitoring of returned proceeds. The transferring mechanism(s) should, where possible, use existing political and institutional frameworks and be in line with the country development strategy in order to ensure coherence, avoid duplication and optimize efficiency";*
>
> *"all steps should be taken to ensure that the disposition of confiscated proceeds of crime do not benefit persons involved in the commission of the offence(s)";*
>
> *"to the extent appropriate and permitted by law, individuals and groups outside the public sector, such as civil society, non-governmental organizations and community-based organizations, should be encouraged to participate in the asset return process, including by helping to identify how harm can be remedied, contributing to decisions on return and disposition, and fostering transparency and accountability in the transfer, disposition and administration of recovered assets".*

66. One example of an asset recovery and disposition programme that could be compared to the proposal in the new motion was administered by the BOTA Foundation, founded in 2008 by the governments of Kazakhstan, United States and Switzerland, and five citizens of Kazakhstan. The Foundation operated with international partners IREX (an international development and education NGO) and Save the Children, selected by the World Bank, for five years until the end of 2014. The BOTA Foundation was the largest child and youth welfare foundation in Kazakhstan at the time, using US$115 million in recovered assets to improve the lives of over 208 000 poor children and young people. Oxford Policy Management (OPM) state that "overall the qualitative evaluation has confirmed that the BOTA programs have been implemented across all three activities with high levels of effectiveness for those that receive the benefit, and, BOTA has been having a positive impact on recipients across all three activities". The Foundation's experience and lessons have been said to "provide a model for future asset restitution cases worldwide".

67. In my view, it is premature to suggest the proposal in the new motion as a response to the Azerbaijani Laundromat, as several essential questions must first be answered and general principles established. At the same time, the underlying idea is certainly interesting, also from a general perspective. The foundations have already been laid in Assembly Resolution 2218 (2018) on fighting crime by facilitating the confiscation of illegal assets, which noted that confiscation "generates resources to compensate victims and rebuild communities damaged by criminal activities" and called on States to define "clear rules for the sharing of successfully confiscated assets among the countries involved". I therefore encourage the Committee on Legal Affairs and Human Rights to take up the matter in a separate report.

10. Conclusions and recommendations

68. The Global Laundromat and the Azerbaijani Laundromat are, of course, not the only instances of money laundering in recent years. They are, however, of particular interest and importance. An obvious element is their scale, especially that of the Global Laundromat. Another point of interest is the similarities between them and the striking overlaps in terms of some of the actors that are involved or associated with them – which may or may not be a coincidence. But perhaps the most significant consideration is the extent to which their inner workings have been made public, thanks to leaks of otherwise confidential information and the scrupulous investigative work of journalists.

69. I refer to the attached draft resolution and recommendation for my conclusions on the problems, at various levels, that allowed the Laundromats to operate and my recommendations on action to be taken by specific member States, by all member States, by the European Union and by the Committee of Ministers.