



**TRANSPARENCY
INTERNATIONAL**
the global coalition against corruption



UP TO THE TASK?

**The state of play in countries committed to
freezing and seizing Russian dirty money**

EXECUTIVE SUMMARY

Russia's brutal invasion of Ukraine in February 2022 ignited a global reckoning over the dangers of kleptocracy and the international community's decades-long complicity. The initial response of the advanced Western economies was to unleash new waves of targeted sanctions against Kremlin-linked individuals. But denying safe haven to Russian kleptocrats calls for multilateral efforts, including tracking down the illicit wealth they have diligently hidden across the globe.

In a welcome step, several governments – primarily Western economies such as those making up the Group of 7 (G7) – are now joining efforts to share intelligence and cooperate across borders as part of a dedicated task force. To succeed, they must focus on two main objectives while respecting due process and the rule of law:

- + implementing sanctions effectively, including as a means of preventing the flight of assets that could be subject to criminal or civil investigation
- + securing meaningful action against those assets, individuals and entities where there is sufficient evidence of their involvement in corruption, sanctions evasion or other crimes

This study assesses how well countries leading multilateral efforts to freeze and seize kleptocrats' assets are equipped to deliver on these objectives. The comparative analysis covers eight countries: Australia, Canada, France, Germany, Italy, the Netherlands, the United Kingdom (UK) and the

United States (US). A majority of these have also set up national task forces to implement sanctions, but most are focused on coordination. Only the US's KleptoCapture task force has a distinct asset tracing mandate.

Transparency International found that insufficient transparency measures – that kleptocrats have abused for decades – allow the elites to keep their assets out of authorities' reach. What's more, patchy regulation of private sector intermediaries and under-resourcing compromise authorities' ability to act on available evidence and track down illicit assets. Unless reforms are passed, most countries will also face significant legal challenges when it comes to confiscating and eventually returning these assets to the victims of corruption.

While high-profile yacht seizures have been making international headlines, these are only a small fraction of kleptocrats' illicit wealth stashed abroad. But even these early successes have at times been hampered by layers of secrecy and barriers to international cooperation. These cases illustrate the obstacles to effectively deliver on stated objectives facing even the most willing authorities.

I. NOWHERE TO HIDE

Anonymous companies and trusts make it easier for kleptocrats to purchase real estate or other luxury goods and to launder their ill-gotten gains. We find that, despite commitments and pledges to improve transparency in beneficial ownership of companies and trusts, current rules and practices are far from satisfactory. Most countries' real estate sectors are particularly vulnerable to dirty money due to a significant loophole that allows for anonymous ownership of properties through foreign companies.

Availability of information on companies' real owners

- + In **Germany, France, the Netherlands** and the **UK** registers of companies' beneficial owners are in place, but all four lack sufficient data verification.
- + **Australia, Canada, Italy** and the **US** still rely on the information collected by financial institutions to identify the beneficial owners of companies, which is known to be a deeply flawed approach. In the past year, all but **Australia** have progressed or fast-tracked commitments to establish registers.

Availability of information on trusts' real owners

- + Only **Germany, France** and the **UK** have registers for trusts, but all restrict access by "legitimate interest" or registration requirements.
- + **Australia, Canada, Italy, the Netherlands** and the **US** have no registers for trusts at all. Italy and the Netherlands have not yet complied with the European Union (EU) requirements that mandated beneficial ownership registers of trusts by June 2017.

Availability of information on real estate ownership

- + None of the countries systematically collect beneficial ownership information for real estate properties.
- + In **France, Germany, the Netherlands** and the **UK**, it is possible to cross-reference the real

owners of properties owned through companies using the beneficial ownership register. In France and the Netherlands, however, information is not available for foreign companies as they are not required to disclose their beneficial owners to any register when purchasing real estate, creating a loophole. Current plans for beneficial ownership registers in Italy and the US will also leave this gap.

- + Only **Germany** currently requires foreign companies to disclose their beneficial owners to the authorities in order to purchase properties. In the **UK**, parliament recently approved legislation to address this loophole.

Availability of information on luxury goods ownership

None of the countries systematically collect beneficial ownership information for yachts or private planes.

II. NO ONE TO HELP

Lawyers, accountants, bankers, investment advisers and real estate agents are uniquely placed to identify and report on criminals and sanctioned individuals. Yet past scandals have shown them – wilfully or unwittingly – facilitating cross-border corruption, money laundering and sanctions evasion. We found that the national frameworks do not sufficiently extend regulation to non-financial gatekeepers. Even in the countries where key professions are under anti-money laundering obligations, compliance remains patchy – especially in the real estate sector.

- + Key gatekeeper professions have anti-money laundering requirements in **Germany, France, Italy, the Netherlands** and the **UK**, but not in **Australia, Canada** and the **US**. Most significantly, trust and corporate service providers and lawyers in those three countries are under no obligation to conduct customer due diligence, identify the beneficial owner of legal entity clients or establish their source of wealth.
- + In the **US**, investment advisers are not even obliged to conduct customer due diligence on their clients, while in **Australia** they are regularly exempted from these duties. However, no country covered in the study provides authorities

with direct and immediate access to information on end investors of investment funds such as hedge funds and private equity.

- + **Germany, France, Italy, the Netherlands** and the **UK** have reporting obligations for dealers in luxury goods. However, **Australia, Canada** and the **US** only include jewellers in anti-money laundering obligations.

III. NO IMPUNITY

To break the cycle of impunity and money laundering, the ultimate objective of multilateral efforts should be to confiscate and return stolen assets to the victims. This is only possible, however, if countries can efficiently gather intelligence and investigate complex, cross-border cases.

Considering the likely challenges of prosecuting kleptocrats for their involvement in corruption and other crimes, the use of tools such as non-conviction based asset confiscation could play a pivotal role in ensuring some level of accountability. Yet we found that the powers, resources and tools available to the authorities tasked with freezing, seizing and confiscating illicit assets are inadequate.

Financial intelligence units

- + The financial intelligence units (FIUs) are under-resourced in the majority of countries covered, particularly in the **UK** and the **US**, where FIUs received 5,300 and 10,130 suspicious transaction reports – respectively – per staff member, according to most recent annual data. Even **Germany's** FIU, which is relatively better resourced after a series of reforms, continues to face serious challenges in effectiveness and implementation of a risk-based approach.
- + When compared to the size of their economies, FIUs are insufficiently funded across all countries. **Australia**, followed by **Canada**, have larger budgets for their FIUs relative to other countries, but their FIUs also have additional regulatory and supervisory responsibilities. **France**, the **Netherlands**, and particularly the **UK** and the **US** dedicate substantially fewer resources to their FIUs.

Law enforcement agencies

- + Governments do not consistently publish budget and staff data for specialised anti-corruption or

financial crime law enforcement units. Only **Italy** and the **Netherlands** consistently publish budget and staff figures for their specialist units, while the **UK** publishes this data for the Serious Fraud Office only.

- + Of the countries assessed, only **Germany** does not have a federal law enforcement unit dedicated to anti-corruption or to investigating financial crimes. While the federal police are part of the domestic task force, they do not have specialised anti-corruption or anti-money laundering teams.

Asset confiscation tools

- + **France** and the **Netherlands** do not allow for non-conviction based confiscation with a civil burden of proof, but others have some mechanisms available.
- + Only **Australia** and the **UK** have unexplained wealth order tools available to law enforcement. Unexplained wealth can be confiscated for organised crime offences in **Germany**. **France** also has an illicit enrichment tool available to prosecutors.
- + In addition, **Australia**, the **UK** and the **US** each have mechanisms that allow for civil forfeiture proceedings against assets that run independent of or in parallel to criminal procedures.

RECOMMENDATIONS

Russia's invasion of Ukraine has shed new light on the systemic weaknesses that allowed kleptocrats to find safe haven for their illicit wealth abroad. Until the gaps identified across the assessed countries are addressed, multilateral efforts risk being undercut by the same deficiencies that created a problem of this scale in the first place. To ensure that kleptocrats – originating from Russia or elsewhere – can be effectively deterred, governments leading the efforts to freeze and seize illicit wealth should:

1. **Pro-actively identify and freeze the assets of kleptocrats.** Governments should explicitly mandate that their task forces trace the assets of designated and corrupt individuals. They should also go beyond "freezing to seizing" and aim to confiscate the assets when they are linked to grand corruption and other crimes, following due process. To that end, governments should prioritise reforms that grant necessary powers to

law enforcement to proactively trace and investigate assets linked to sanctioned individuals.

- 2. Fast-track key transparency measures.** All remaining countries should establish and maintain central registers with verified information about the real owners of companies – including foreign-registered companies buying real estate – and trusts. All should ensure information is available publicly in open data formats so that foreign authorities, media and civil society can access the information and support accountability efforts. Authorities should record and publicly disclose information about the real owners of assets, including end investors of hedge funds and private equities, yachts and private jets.
- 3. Regulate and hold to account all professional enablers of financial crime.** Banks, corporate service providers, lawyers, investment fund managers, accountants, real estate agents and luxury goods dealers should be obligated to identify the beneficial owners of customers, conduct enhanced due diligence on politically

exposed persons, and report suspicious transactions to authorities. Those found to be enabling Russian kleptocrats and other corrupt individuals should be held to account.

- 4. Effectively resource financial intelligence units and law enforcement, as well as strengthen mechanisms for confiscating assets.** Countries should ensure that law enforcement and financial intelligence units are empowered and well-resourced. To move beyond sanctions, they should also ensure that they have civil and criminal mechanisms to seize and confiscate assets – including through unexplained wealth orders or non-conviction based forfeiture – and eventually return these assets to the victims of corruption.
- 5. Strengthen multilateral efforts.** The REPO Task Force should expand its current coordination efforts beyond just Russian elites, making both the multilateral and domestic task forces permanent. These task forces should publicly report on their work, including on the assets frozen, investigations initiated and confiscation efforts.

