# How UK company formation agents fuel fraud

**LONDON:** British government efforts to crack down on money laundering and fraud through UK businesses are failing to tackle a key area - the role of company formation agents - a Reuters study of the sector shows. Some formation agents, who typically offer to create new businesses for fees of about 200 pounds ($288) or less, fail to perform significant due diligence on who their customers are or why they are buying new companies, according to lawyers. The agents offer to set up companies within a day or even a few hours, allowing time for only minimal checks.

The weaknesses of the system make it vulnerable to abuse. A Reuters analysis of bank transaction data gives a unique insight into how newly-formed UK businesses were used to conceal huge flows of money that originated in Russia and eastern Europe. The bank transaction data spanned 2006 to 2008; such data is rarely available and Reuters was unable to obtain more up-to-date information.

Frances Coulson, head of insolvency and litigation at Moon Beever solicitors, said the data showed how illicit money passes through Britain. She said such flows still continue because no regulatory or investigatory changes have had any significant effect in clamping down on the practice.

"This is going on now and all the time," said Coulson, who is a trustee director of the Fraud Advisory Panel, a body set up by the Institute for Chartered Accountants in England and Wales. "All the indicators are that it's getting worse."

Coulson said better due diligence - such as checking identification documents - by company formation agents and the UK corporate register, Companies House, would help combat fraud. Formation agents, also known as company service providers, are regulated by Her Majesty's Revenue and Customs (HMRC), the UK tax collector, which maintains a list of approved agents. However, HMRC does not publish the list, thus preventing potential customers from easily checking the status of an agent.

New rules coming into effect later this year are intended to improve corporate transparency. From June, British authorities will begin compiling and publishing details of "people with significant control" of businesses.

The aim is to prevent fraudsters from setting up companies whose directors and shareholders are nominees - people who are directors in name only and are acting on behalf of someone else - or opaque corporations. However, critics say there are no new funds to help police the system.

### SECRET MILLIONS

An indication of the scale of fraud through UK companies can be found in data detailing 1.3m transactions that originated in Russia and Eastern Europe and passed through two U.S. banks between April 2006 and November 2008. A Reuters analysis of the data shows that nearly $2 billion was paid into the bank accounts of newly-created UK companies and limited liability partnerships (LLPs) that went on to claim in corporate filings that they were not trading and were dormant.

Receiving large sums of money while claiming to be dormant is a breach of UK company and tax laws. A further $230 million flowed through the bank accounts of 15 businesses which simply did not file accounts.

One of the businesses appearing in the bank data was Starion Overseas LLP, a partnership set up in 2006. Starion Overseas was one of 20 LLPs created on a single day - June 29, 2006 - by a formation agent called @UKPLC, filings show. @UKPLC formed the LLPs on behalf of a Panamanian-Russian company called Midland Group. — Reuters

MADRID: A cranes seen at a construction site in Madrid. 2016 was poised to be a good year for Spanish builders but the lack of a government three months after an inconclusive general election has put the brakes on economic activity. — AFP

# FSB flags slow 'too big to fail' bank rule adoption

## 'Shocks' could spark more rate cuts: Economist

**LONDON:** Many countries have not yet introduced laws allowing regulators to write down bank's debts to avoid taxpayer bailouts and prevent them being "too big to fail", the world's top financial watchdog warned yesterday.

The Financial Stability Board (FSB), which can "name and shame" those which do not yet comply with its rules, said member countries that do not yet have these laws include Argentina, Australia, Brazil, Canada, China and Chinese territory Hong Kong, India, Indonesia, Korea, Mexico, Russia and Saudi Arabia. The FSB, which is chaired by Bank of England Governor Mark Carney, is tasked with coordinating financial regulation for the Group of 20 economies (G20). Membership of the G20 includes a commitment to implement rules it has agreed.

In a review of how G20 countries have implemented rules to avoid a repeat of government bailouts of lenders as during the 2007-09 financial crisis, it said few of its members have introduced the so-called bail-in tool. This gives regulators powers to write down a bank's bonds to top up capital and keep core parts of a bank functioning, such as customer deposits and payments.

"Only the European Union member states, Switzerland and the United States are currently able to achieve a creditor-financed resolution to support continuity of critical functions," it said.

The bulk of the world's 30 globally systemic banks, such as HSBC, Deutsche Bank, JPMorgan, Citi and BNP Paribas, are in these jurisdictions. Ravi Menon, managing director of the Monetary Authority of Singapore, who chairs an FSB committee on implementing rules, said the reforms on resolving or winding down failing banks are a critical component of addressing the too-big-to-fail problem, where governments have no option but to bail them out because of the knock-on damage that would be caused if they did not.

"Substantial work remains to put in place a full set of resolution powers and recovery and resolution planning requirements," added Fernando Restoy, Deputy Governor of the Bank of Spain and chair of the team who carried out the review. The task force said countries that have not fully implemented the rules on dealing with failing banks should say by December what actions they have taken or intend to take.

### Rate cut warning

The ECB could further slash its super-low interest rates if the economic outlook worsens, its chief economist Peter Praet said yesterday, stressing the bank still has ammunition to fight deflation.

"We have not reached the physical lower bound" on rates, Praet told Italian daily La Repubilcca in remarks released by the Frankfurt-based ECB. "If new negative shocks should worsen the outlook, or if financing conditions should not adjust in the direction and to the extent that is necessary to boost the economy and inflation, a rate reduction remains in our armory," he said. — AFP

# EU lobby says China should open market

**BEIJING:** China should open its markets to foreign business and implement overdue reforms if it wants to achieve its economic goals, a European business lobby said yesterday, weighing in on Beijing's new five-year plan. Chinese Premier Li Keqiang has said the country faces a tough battle to keep its economy growing by at least 6.5 percent a year over the next five years while creating more jobs and restructuring inefficient industries.

To breathe new life into the economy, leaders have put forward various plans to make the country a world leader in advanced industries such as semiconductors, robotics, aviation equipment and satellites. The European Union Chamber of Commerce in China said it welcomed China's goals to increase innovation, reform state-owned firms, and develop environmental technology as part of an economic plan for 2016-2020 set out at an annual session of parliament which closed this week.

However, a Made in China 2025 initiative to drive domestic innovation would only succeed in tandem with markets that are "permitted to operate freely", it said in an emailed statement. "Stronger protection for intellectual property rights and greater respect for trade secrets of firms operating in China are further examples of measures that will support innovation," the chamber said.

China's reforms should "involve pursuing a genuine market opening based on customers' demands, not policy planning", it said. Growth of 6.5 percent would be welcomed by most countries but it would be the slowest pace in China in a quarter century as the world's second biggest economy grapples with wobbly financial markets, softening global trade and efforts to reduce environmental degradation. Officials have repeatedly pledged to lower market access barriers, but foreign industry groups say a list of prohibited and restricted industries for foreign investors is still too broad and must be cut back. Business advocates cite sluggish progress in reform efforts and policy uncertainty as weakening confidence in the market. — Reuters