

10 measures to expose sanctioned Russian oligarchs' hidden assets

3 March 2022

Actions to sanction those associated with the Russian regime have brought policymakers to a stark realisation: existing standards and regulations are entirely unfit for purpose when it comes to addressing the threats of anonymous wealth.

On 26 February 2022, the European Commission, France, Germany, Italy, the United Kingdom, Canada, and the United States [committed in a joint statement](#) to launching a Transatlantic Task Force to implement sanctions against Russian individuals and companies:

"We, the leaders of the European Commission, France, Germany, Italy, the United Kingdom, Canada, and the United States... commit to launching this coming week a transatlantic task force that will ensure the effective implementation of our financial sanctions by identifying and freezing the assets of sanctioned individuals and companies that exist within our jurisdictions. As a part of this effort we are committed to employing sanctions and other financial and enforcement measures on additional Russian officials and elites close to the Russian government, as well as their families, and their enablers to identify and freeze the assets they hold in our jurisdictions. We will also engage other governments and work to detect and disrupt the movement of ill-gotten gains, and to deny these individuals the ability to hide their assets in jurisdictions across the world."

On 3 March 2022, the US Attorney General Merrick B. Garland [announced the launch of Task Force KleptoCapture](#). The mission of the task force includes:

- *"Investigating and prosecuting violations of new and future sanctions imposed in response to the Ukraine invasion, as well as sanctions imposed for prior instances of Russian aggression and corruption;*
- *"Combating unlawful efforts to undermine restrictions taken against Russian financial institutions, including the prosecution of those who*

try to evade know-your-customer and anti-money laundering measures;

- *“Targeting efforts to use cryptocurrency to evade U.S. sanctions, launder proceeds of foreign corruption, or evade U.S. responses to Russian military aggression; and*
- *“Using civil and criminal asset forfeiture authorities to seize assets belonging to sanctioned individuals or assets identified as the proceeds of unlawful conduct.”*

The commitment to establish taskforces dedicated to uncovering the true beneficial ownership of assets provides a powerful opportunity to create a robust international system of financial transparency. The benefits of doing so would go far beyond the immediate crisis, and respond to a longstanding need to remedy a global financial system that loses \$483 billion a year to tax [havens](#).

Since 2015, the world has been committed to a shared target to curb illicit financial flows. This target, part of the UN Sustainable Development Goals, calls for a level of international cooperation and policy reform which has not yet been met. The High-Level Panel on High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (the UN FACTI panel) has laid out many of the reforms necessary to do so. And US President Joseph Biden is a potential champion, having pledged in his election campaign to lead the global fight against illicit finance.

This briefing lays out the ten measures that are critical to the immediate and longer term success of the recent sanctions and to efforts to curb illicit financial flows, based on the longstanding research and analysis of the Tax Justice Network.

Current efforts to identify, track down, and freeze the assets of sanctioned Russian companies and oligarchs are severely hampered by loopholes, secrecy laws and shortcomings in the global financial system which the high level UN FACTI panel concluded “allow tax abuses, corruption, and money laundering to flourish.” Decades of courting finance from dictators, tax evaders and organised crime with financial secrecy services and eyes-wide-shut regulations have made it nearly impossible for governments to track down the billions in assets and wealth held by their sanction targets. An [estimated](#) \$10 trillion is held offshore anonymously by wealthy individuals and over \$1 trillion in profit is shifted by multinational corporations across borders every year, a large part through the use of shell companies. This is now critically undermining governments’ abilities to protect themselves as well as their neighbours from threats to their sovereignty, their democracies and their economies.

Biggest obstacles to enforcing sanctions

- No country currently requires information to be registered on the beneficial owners of all types of assets, such as real estate, yachts, private jets and art. This means countries have little or no readily available information that immediately shows which of the trillions in assets held within their borders belong to recently sanctioned Russian oligarchs. Instead, countries will need to take the investigative measures listed below to search different sources of financial records to track down the assets and wealth held directly or indirectly by sanctioned persons.
- Very few countries currently require foreign entities holding local assets to register information on their beneficial owners. This means while a domestically incorporated company in the UK may be required to register information about its beneficial owners, a foreign company incorporated elsewhere but holding assets in the UK is not required to do so. This enables sanctioned persons to use foreign shell companies to hide their ownership of local assets.
- Sanctioned persons can hide their ownership of assets and wealth by using [trusts to hold them](#). A trust is a type of arrangement that allows an owner of an asset, referred to as the “settlor”, to place that asset under the name and care of a “trustee”, usually a lawyer or company, who is then responsible for administering the assets in favour of the “beneficiaries”, who may or may not be different from the settlor. For example, a wealthy businessman may place his fortune in trust for a lawyer to administer until the businessman’s children are of age to inherit the fortune. Trusts have been [widely abused](#) to avoid sanctions, abuse tax and, [in the case of Russian oligarch Sergei Pugachev](#), to shield assets from creditors. Most countries permit trusts to exist and grant them legal validity without having to register or formally incorporate with a national authority. This means countries are largely unaware of the existence of most trusts, which makes it very difficult for the few countries that require trusts to register their beneficial owners to enforce this provision. This blind spot is exacerbated by the manner in which trusts usually hold assets. Since trusts in most countries do not have legal personality (ie they cannot own assets), this often results in the trustee appearing as the owner of an asset without any indication that they are acting as a trustee, and not the true owner. This enables the sanctioned person to keep their ownership of the asset hidden while continuing to benefit from the asset.
- No country currently requires complete and relevant information to be registered on the beneficial owners of companies listed on the stock exchange or of investment funds. Countries either fully exempt companies listed on the stock exchange and investment funds from beneficial ownership registration or employ high thresholds on who

should be recognised as a beneficial owner, resulting in most if not all individual investors escaping registration. In 2014, the Central bank of Iran was able to [avoid US sanctions](#) and hold US securities via a financial institution from Luxembourg due to this lack of transparency.

- The use of nominees, bearer shares and stolen or rented identities (eg paying a person \$100 to use their name and have them sign documents) continues in many countries as a facade to hide the beneficial owner of assets.

10 transparency measures to expose assets of sanctioned persons and companies

The challenge of identifying assets and wealth held by sanctioned persons and companies is that, as with most wealthy and powerful individuals and corporations, most of these assets and wealth are often held indirectly through nominees and legal vehicles that hide the sanctioned persons' and companies' true ownership. This means identifying the assets and wealth held by sanctioned persons and companies also requires identifying the nominees and legal vehicles the sanctioned persons and companies use to hold indirectly their assets and wealth. Transparency measures long resisted and delayed by the Transatlantic Task Force's member countries, particularly registration of beneficial ownership information, would have immediately cut through this obfuscation.

Nonetheless, the Transatlantic Task Force, Task Force KleptoCapture and all governments enacting sanctions can take the following actions to identify assets and wealth held directly and indirectly by sanctioned persons and companies.

Immediate measures

1. Analyse long-concealed SWIFT data to detect where money has been rerouted to. The Transatlantic Task Force should require SWIFT to share records of all cross-border banking transactions made in the past 60 days to identify assets of any sanctioned person that may have been moved outside of Russia, as well as to identify any nominees or legal vehicles to whom sanctioned persons may have transferred their assets to avoid detection. The 60-day framework is to tackle recent transactions that could have been made to avoid sanctions, given that countries made advance warnings about the use of sanctions. To date, SWIFT data has only been made available to the US to fight terrorism despite its potential to expose billions in transactions made by organised crime, drug cartels, white-collar criminals and corrupt politicians. This long overdue transparency measure can prove critical for exposing nominees and legal vehicles used by sanctioned persons and companies to cover their tracks. The

Task Force should also obtain and analyse all banking transactions that are not covered by SWIFT, especially national (non-cross border) and intra-bank transactions to search for transactions made by sanctioned persons.

2. Analyse available (although incomplete) wealth data to expose direct and indirect ownership. Countries can search the below list of asset registers to identify any assets or legal vehicles which sanctioned persons may own. Since sanctioned persons may be using nominees or legal vehicles as a façade to indirectly own assets and legal vehicles, countries can expose indirect links by first identifying any legal vehicle (ie company, partnership, foundation, trust, etc) for which a sanctioned person is registered as a “participant” (ie beneficial owner, legal owner, shareholder, director, or party to a trust such as a settlor or beneficiary) on any of the asset registries listed below. Then, a further search of the registries for any legal vehicles for which the identified legal vehicles are involved as a “participant” will identify any other legal vehicles or assets which the sanctioned person may own indirectly. Similarly, search the below registries for any legal vehicles for which nominees associated with the initially identified legal vehicles are registered as a “participant”. This process may need to be repeated several times to expose ownerships chains that contain many “layers” obfuscating the link between an asset and the sanction person at the top of the chain. Countries should share findings with each other to expose ownership chains spanning across multiple jurisdictions.
 - a. The commercial register, trust register, beneficial ownership register and any other register that holds legal and/or beneficial ownership information.
 - b. All databases of registrable assets, particularly real estate (eg the land registry), luxury cars, yachts, private jets, racehorses and so on.
 - c. The securities regulator, the stock exchange and the central securities depository.
 - d. Suspicious transaction reports (STRs) filed to Financial Intelligence Units (FIU) in charge of anti-money laundering.
 - e. Records of bank accounts and financial accounts already held by government authorities, especially records held by tax administrations and used for automatic exchange of information based on the OECD’s Common Reporting Standard (CRS) or the Foreign Account Tax Compliance Act (FATCA).

- f. Information on any crypto-asset available in either the blockchain or data held by crypto-exchanges or institutions trading or exchanging crypto-assets.
3. New ad-hoc reporting on persons subject to sanctions. Establish a new type of ad-hoc reporting, similar to suspicious transaction reporting, to be filed by banks and financial institutions, designated non-financial business and professions (DNFBPs) such as lawyers, notaries, resident agents, accountants, brokers of real estate or luxury goods, and professional nominees who should report any old and current transaction, asset or nominee ownership that may involve a person subject to sanctions. Any nominees and legal vehicles linked to the sanctioned person and exposed by the reporting should be investigated across the SWIFT data and registers as described above. Similar reporting should be carried out by giant international auction houses Sotheby's and Christie's to disclose any transaction involving sanctioned persons or their identified nominees or legal vehicles. Reporting should be designed to generate machine-readable outputs, to maximise search efficiency for receiving organisations.
4. Public disclosure. Publish all asset ownership information (eg beneficial ownership and shareholder information held on the commercial register) or at least share information with a committee of volunteers from the public sector (eg journalists and civil society organisations) to allow the public to help in the detection of assets potentially held by persons subject to sanctions. This would serve as an important first step towards a [public global asset registry](#), which was recently called for [by ICRICT and Italian Prime Minister Mario Draghi](#).

Comprehensive measures

5. Report beneficial ownership information on bank transfers and crypto-assets. As [proposed](#) by the Tax Justice Network in 2019, SWIFT should collect and report data on the beneficial owners of accounts involved in transactions, so that instead of SWIFT messages saying "Company A sent \$1000 to Company B", messages would say "Joe, the beneficial owner of Company A sent \$1000 to his chauffeur Jane, who is the beneficial owner of Company B". This would negate the need to conduct intensive investigations to determine whether

bank transfers were indirectly sent or received by sanctioned persons hiding behind legal vehicles, as all transfers would disclose the beneficial owners of all parties involved.

An alternative option to requiring SWIFT to collect and report beneficial ownership data on bank transfers is to have banks share their know-your-customer (KYC) information, which includes beneficial ownership data, with a central authority, and for the central authority to combine the beneficial ownership data retrieved from banks' know-your-customer information with SWIFT messages on bank transfers. This would avoid requiring changes to SWIFT protocols, but banks would need to be enabled to send personal information (including beneficial ownership information) to a foreign or transnational authority.

Regardless of the option chosen to centralise beneficial ownership data on bank transfers, information at the beneficial ownership level should also be available for crypto-assets. Unlike banks, institutions issuing, trading or exchanging crypto-assets are not always required to collect ownership, let alone beneficial ownership information. The OECD however, is planning to require crypto-assets be covered by the automatic exchange of financial account information under the Common Reporting Standard (CRS).

6. Expand triggers for beneficial ownership registration. As explained in the [State of Play of Beneficial Ownership registration](#) report, it's not enough to require beneficial ownership registration just for local companies, or for trusts that have a local trustee, acquire local real estate or establish local business relations, as [currently required by the EU and many countries](#). This omits those sanctioned persons holding assets in the EU through a non-EU company. For this reason, conditions that trigger beneficial ownership registration in a central register should be expanded to cover all legal vehicles and unincorporated entities where:
 - a. A legal vehicle is created or governed according to local laws
 - b. A foreign legal vehicle has assets or operations in the country
 - c. A foreign legal vehicle has "participants" (eg directors, beneficial owners, shareholder, settlors, etc) who are resident in the country

7. Eliminate the "25 per cent or more" threshold for beneficial owner definitions. Most countries that have laws requiring beneficial owners of companies to be registered utilise the "25 per cent or more" threshold which permits individuals who own less than 25 per cent of

the shares of a company to be exempted from registration. We have documented in length how this exemption allows beneficial owners to circumvent detection by rearranging their shareholdings with the use of nominees and shell companies to make it look as though they own less than 25 per cent of a company. Countries must remove this threshold from their beneficial ownership registration laws and following the examples of [Argentina, Ecuador and Botswana](#) which require any individual with [at least one share](#) or vote or right to benefit to be registered.

Other conditions of [control unrelated to ownership](#), such as having a power of attorney to manage the company, its assets or bank accounts as well as financial instruments (eg call options and convertible debt) should also be part of the beneficial ownership definition. In addition to disclosing basic identity details, beneficial ownership registration should involve disclosing the full ownership chain up to the beneficial owner, all past and current citizenships and residencies, the status as a politically exposed person (PEP) as well as the value or reason for a transaction.

8. [Register beneficial owners of listed companies and investment funds.](#) The lack of beneficial ownership registration for companies listed on stock exchanges and investment funds has been exploited in the past to evade sanctions. In 2014, the Central Bank of Iran was able to dodge US sanctions by use of a financial institution from Luxembourg which enabled Iran to hold \$2 billion in US securities. After the US discovered the arrangement, the circumvention of sanctions didn't end but only became more sophisticated. An additional layer was used to hide Iran's holding of US securities which resulted in [a \\$152 million fine against the Luxembourg financial institution](#). Listed companies and investment funds continue to be left out of beneficial ownership registers, leaving the door wide open for sanctioned persons to circumvent sanctions by holding interests in securities and investment funds.

To close this loophole, as proposed in our briefs on [beneficial ownership for investment funds](#) and [for companies listed on the stock exchange](#), beneficial ownership registration should cover both listed companies (which are usually exempted by many regulations) as well as investment funds (which may be exempted if organised as a trust or limited partnership). Importantly, no generous thresholds should be applied that can allow sanctioned persons to avoid registration. Specifically, the notorious "ownership of 25 per cent or more" discussed above should not be applied to beneficial owners of investment funds and listed company. Not only does this threshold give sanctioned persons enough leeway to avoid registration by reorganising their shareholdings with the use of nominees and shell companies, but even an ownership of just 1 per cent of an investment

fund can be worth millions.

9. Verify beneficial ownership and regulate complex ownership structures. Two methods sanctioned persons can use to avoid beneficial ownership registration when required by law are to provide outdated or inaccurate information, and to utilise complex ownership structures. Under the first method, inaccurate information is provided to national authorities to avoid identification with little risk of consequence. Infamously, the UK companies house lists [“Adolf Tooth Fairy Hitler”](#) as secretary to a company. The Tax Justice Network has published research on measures governments can take to verify beneficial ownership [information](#), including [best examples verification from around the world](#).

The second method involves the use of complex ownership structures where multiple layers of legal vehicles are utilised to hide an individual’s ownership and control of assets, wealth and companies. A Russian oligarch put on the US Office of Foreign Assets Control’s sanctions list in 2018 used a complex ownership structure consisting of entities from Italy, the UK, Luxembourg, Cyprus, the Bahamas, the British Virgin Islands and Cayman Islands to retain control of a US company while avoiding the trigger points for sanctions. Countries can and should regulate complex ownership chains in the ways proposed in [our recent paper](#) to prevent sanctioned persons from circumventing sanctions. In addition, countries can analyse data held on their commercial registers as demonstrated in [our pilot analysis of the UK commercial register](#) to identify suspicious ownership chains worthy of further investigation.

For broader non-compliance, the ideal consequence should be, in addition to any civil or criminal sanction, the de-registration of any legal vehicle which fails to disclose its real and current beneficial owners. In the case of assets held by trusts or companies, failure to disclose legal or beneficial owners should involve freezing assets until the beneficial owners are disclosed (or legal owners, as long as the beneficial ownership register has information on those legal owners). After a deadline, assets should ultimately be confiscated and used to finance the fight against illicit financial flows.

10. Develop national wealth registries towards a Global Asset Registry (GAR). Anonymous wealth ownership will ultimately be defeated through joined-up transparency. Beneficial ownership registries should be interconnected with asset registries – see all those listed under point 2 above – in order to develop national registries and ultimately a [Global Asset Registry](#) to identify sanctioned persons’ ownership of high-value property and assets including real estate,

yachts, private jets, art and so on.

Once beneficial ownership registries cover all relevant legal vehicles (eg foreign companies or trusts created according to local laws) it will be possible to link them to asset registries (eg the real estate register) which may hold only legal ownership information. These asset registries should be expanded to cover [assets outside of the scope](#) (eg art) as well as to ensure that legal owners will always be disclosed with sufficient details. If a trustee holds an asset, the identity of the trust and its beneficial owners should also be disclosed in the asset registry.