PUBLIC HEARING
FINANCIAL INTELLIGENCE UNITS (FIUs): "INS AND OUTS"
AND THE RUSSIAN "LAUNDROMAT" CASE

PANEL 1: Cooperation between FIUs / financial supervisors

Sebastian Fiedler, Bund Deutscher Kriminalbeamter (BDK)
(via video conference from Berlin)

Paolo Costanzo, Italian FIU (Banca d’Italia)

PANEL 2: The Russian "Laundromat" case

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity)
(via video conference from Riga)
IN THE CHAIR: WERNER LANGEN  
Chair of the Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion

(The meeting opened at 15.05)

PANEL 1: Cooperation between FIUs / financial supervisors

Chair. – Welcome. There are not many people here yet but the co-rapporteurs have arrived, so we can begin. Before I give the floor to the two experts for the first part, I would like to draw your attention to the agenda. Does anyone have any objections to the agenda? No. The agenda is adopted.

Next: Chair’s announcements. Firstly: Nearly all the booths are occupied. Everyone who is due to speak may use their mother tongue. The papers and other documents are available, but not here. The meeting is again being webstreamed, like all the previous meetings, and there are two announcements in addition to the Chair’s announcements. The first: The appearance last week of Maltese Prime Minister Muscat led to discussions in Parliament. He was heavily criticised here for again summoning people against whom there is evidence. But that is an internal decision of the Maltese government. He confirmed that four investigations are under way. Unfortunately, only one of these – according to my research – is in connection with the Panama Papers; three are investigations against officials who do not appear in the Panama Papers. So this is, if you like, a red herring on his part. The outcome of our discussions was vicious attacks on the Chair and other Members of various Groups. This led to the former outstanding socialist labour leader and union chief calling for the Chair to be replaced and saying in a number of interviews in Malta that the Chair was persona non grata, as he had asked the Prime Minister tough questions rather than praising him.

I am saying this here because I would find it strange for former union bosses and socialists from Malta to be deciding on our leadership personnel. I for one am not prepared to give way on any of these matters – quite the reverse: the question about the others in Malta who appear in the Panama Papers will have to be revisited. And if the Prime Minister promises to appear before the Committee when all this is settled, he will be given a warm welcome in a spirit of fairness and openness. I mention this for the benefit of those who were not up to date with these matters.

The second point is the press release regarding access to data, which we sent out today and which was agreed with the Groups. I presume everyone has got it, or that it is still being circulated. It has been sent out.

Those were my announcements. And now to point 3: adoption of the minutes of six meetings from 6 April to 30 May, which were sent to the members on 19 June this year. Does anyone have anything to say about these minutes? No one. Then the minutes are adopted.

I now come to the main part: the first part of this afternoon’s meeting. This morning we discussed the topic of whistleblowers with five experts. It was an interesting meeting. We now come to the public hearing on ‘Financial Intelligence Units: ins and outs’, with the ‘Russian “Laundromat” Case’ in the second part. In the first part we have two outstanding experts. One will be taking part via videoconference – Sebastian Fiedler of the Federal German Association of Detective Officers and Crime Investigators, based in Berlin. And the videoconferencing, as we have just seen, is working, with a clear connection and clear transmission. It has not always
been like that here, which is why we chose this spacious room. Welcome, Mr Fiedler. Next I would like to welcome Paolo Constanzo from the Italian FIU, from the Banca d’Italia. Welcome Mr Constanzo.

Our problem is that we invited a number of experts, but these are the only ones who were available, as there are meetings in Spain this week. The Financial Action Task Force is meeting in Valencia, and some representatives of the EU Financial Intelligence Units cannot be with us today, as they are at the plenary meeting of the FATF in Valencia.

I should remind everyone that we have had discussions with representatives of FIUs in the UK, Luxembourg, Malta and the US, and that we also had meetings earlier with representatives from Belgium and France.

We are glad to have with us today the two representatives of the European Financial Intelligence Units from Germany and Italy, with journalists from the Organized Crime and Corruption Reporting Project joining us in the second part.

So, ladies and gentlemen, I would like to begin with Mr Fiedler and then Mr Constanzo. I will give the floor to Mr Fiedler, via videoconference, for no more than 10 minutes. Mr Fiedler, you have the floor.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – Chair, ladies and gentlemen, thank you for inviting me and requesting my involvement. I would like to say two things straight away, as I am not an official representative of a Financial Intelligence Unit but Vice-Chair of the Federal German Association of Detective Officers and Crime Investigators (the professional body for German detective officers) and also head of the criminal investigation academy of the educational institution of our profession, and as such I am helping out, if you like, to try and answer your questions, which you ask from your perspective, from the point of view of a professional representative. So I am not appearing today in an official, government capacity but as a representative of a professional body. It is in this capacity that I would like to focus on some aspects which are important to us.

One of the most important is without doubt what will happen here in Germany in the context of the Financial Intelligence Unit, which will become clear in the next few months with the adoption recently of new anti-money laundering legislation. Previously we had a decentrally-organised FIU in Germany; in fact this is what we still have today. This means that until now, every suspicious transaction report has been sent both to the criminal investigation office of the Bundesland concerned and to the Federal Criminal Police Office. To acquaint you with the staff resources available: according to a repeat request by the Federal Criminal Police Office, some 300 staff members have been entrusted with this task in Germany. As a result of a debate which we followed very critically, the Bundestag decided to approve a transfer to the area of finance and to establish an administrative FIU in the future, to be set up in Germany’s customs administration.

Our criticism here is targeted expressly at the German Federal Government, which – and I will not mince my words – sad to say, lied in the German Parliament, as an increase in staffing was what had always been talked about. The numbers in the Federal Criminal Police Office – they have just over 20 people working on these tasks – were simply compared with future staff resources; the final figure will be 165. They recognise that: 300 people are now working on processing suspicious transaction reports; in the future this number will be 165: more or less half. You must also appreciate that we are seeing a huge increase in the number of such reports. Just in Germany we have gone from around 20 000 to the 50 000 we expect to see this year.
And this brings me to the crucial point which I think needs to be made in this debate: there is much talk at European level of the tools, possibilities and means by which FIUs might be interconnected. We approve wholeheartedly of this; however, what must be highlighted is the staff resources – the people who work there. I am not aware of a single FIU in the European Union where sufficient staff resources have been made available for this task. It is also important to bear in mind the qualifications of staff, and this is an area where – in Germany at least – we have a big problem and where we have identified a major security risk, at least in terms of the future.

At European level, it has to be said that, depending on the Bundesland and how the evaluation is done, at least 25 to 30% of suspicious transaction reports have an international context: in other words, the need for cooperation in this area is plain for all to see. Here we should stress the positive benefit of FIU.net at European level. But here too there are discussions about staffing. Europol must be given more staff as a priority if this fine instrument is to be developed.

I would also like to use this opportunity to again state what we see as the most important points, and here I think I am speaking for the whole German police force but also in a European context: what we urgently need in the fight against money laundering – and this applies first and foremost to the Financial Intelligence Units – are central registers. We cannot say this emphatically enough. Of course, we need a property register if we are to do our work effectively, as we are naturally dependent on this information base when evaluating and analysing the relevant suspicious transaction reports. We cannot pursue our investigations with a hodgepodge of information stored in old-fashioned equipment by having to look for individual pages in registers in individual towns and districts; we really need access to central registers. The example of Spain shows that individual proceedings against Russian organised crime would not have been possible without such a register in that country.

In short, there must be an increase in transparency to the detriment of money-launderers and a long-term strengthening of Financial Intelligence Units in terms of their working potential and their toolboxes. I see this as pivotal and really vital, above all because the successes we are currently achieving barely register on the scale if we compare the order of magnitude of the criminal organisations’ proceeds – and this is undisputed – against our successes.

This situation means that all discussions from now on must be really open and honest. At European level, too, we need long-term support, clear signals from the European Parliament and support for the nation states.

These are my opening remarks. Thank you for your attention.

Chair. – Thank you Mr Fiedler. One of your last points was access to the central register. This is one of Parliament’s demands in the on-going trilogue on the Anti-Money Laundering Directive. We support the proposal unreservedly. But those present will have more far-reaching questions to ask.

I would like to welcome back Paolo Costanzo from the Italian FIU, Banca d’Italia, and give him the floor.

Paolo Costanzo, Italian FIU (Banca d’Italia), – Mr Chair, I would like to thank the PANA Committee for inviting me and, more generally, for the very commendable work this committee is doing. I am really pleased that you have decided to focus specifically on Financial Intelligence Units (FIUs).
I say this not only because I work in an FIU – so I can see directly the added value FIUs can give to analytical work, intelligence and investigation on matters concerning money laundering and also terrorist financing and the money-laundering predicate offences, including particularly tax crimes – but also because we believe that this is a time when many things are changing, both as regards as the fiduciary landscape and the operational scenario, which really deserve attention.

I would add that FIUs also need attention in terms of receiving support to foster their activities and cooperation. There are many initiatives under way this year. We are very much aware of the legislation which is being negotiated, and, as you mention Mr Chair, the trilogues which are ongoing, and the amendments to 4th Directive. There are other initiatives also being discussed. The European Commission is working intensely on a number of fronts and FIUs are doing their best to contribute to these joint efforts. You mention, Mr Chair, the ongoing meetings that the Financial Action Task Force is holding this week: I was attending them but I came here specifically to honour this invitation because I believe that what the Parliament and this committee can do for FIUs, and more generally for European activities to combat money laundering and counter terrorist financing, is really crucial.

Let me add that, like my German colleague, I am not speaking in an official capacity. I am a representative of the Italian Financial Intelligence Unit within the Bank of Italy but I am here more in my capacity as a member of the FIUs platform, and I propose briefly to present the main outcomes of the mapping exercise that this body has conducted at European level on FIUs’ activities, features and international cooperation. That exercise was conducted not only, of course, by the Italian FIU: it was a joint work by a team comprising also the FIUs of France, Romania and the UK, at least initially. I may have forgotten someone: there were four FIUs involved in this project overall.

I have prepared a brief presentation, I had to streamline it a lot so it would be, more or less, 10 slides. I will focus very briefly on the mapping exercise. Initially this presentation was longer. I hope you can read the text on the screen, but I guess you cannot. The idea was to present in more detail the different outcomes and different parts.

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Chair. – We can find this in written form in the documents which were handed out earlier, so we can read it.

1-008-0000
Paolo Costanzo, Italian FIU (Banca d’Italia). – In any event, given that I only have a few minutes up at the front, I will try to focus on the process, but I am very happy to respond, as far as I can, to any questions should any of the participants want to ask about particular aspects of the exercise.

The presentation and the exercise itself are structured, as you can see from this slide, with a focus on the status, autonomy and independence of FIUs, which are, of course, preliminary conditions for FIUs to be effective in their work. We have focused our research on the information that FIUs receive or otherwise have available, either by initial disclosures or through subsequent queries, for example to central databases – and I fully share your call to have central databases set up across all Member States.

The study then focuses on domestic functions and we have asked ourselves what precisely FIUs do. For example, when they say that they do analysis, how do they disseminate the information for ensuring law-enforcement action to competent police bodies? We have also focused on FIU-to-FIU cooperation, which is certainly a critical area. I believe this is an area where the Parliament, the Commission and the Council can really add value. FIUs need a solid network of cooperation, and it is our experience – I am referring not only to my own experience in the
Italian FIU but also to the general experience of FIUs in the EU – is that cooperation works, but could certainly work better. There are many hindrances and we still do not have a level playing field. So perhaps there is a need to harmonise more. There are some conclusions in the mapping exercise which focus on what can be done to address the problems identified in terms of potential legislation, better national implementation and enhanced practice by the FIUs.

I will say just a few words on what the EU FIU Platform is. It is a working group, which is chaired by the Commission. It was actually set up back in 2006 so it has been operating for more than 10 years. It has been recognised in the 4th Directive under Article 51, which has given quite a broad mandate to this body. I have listed the main areas of work, namely to foster the FIUs’ cooperation, for example providing for the governance of the FIU Net by the FIUs and for work by the FIUs on operational aspects such as identifying cross-border suspicious transaction reports (STRs), and facilitating joint analysis.

Let me underscore these two last items. They are – at least in my view, but also in the more recent experience of the Platform – quite telling in terms of potential future developments towards some sort of centralised harmonisation or coordination of FIUs’ activities and cooperation in the EU.

The Platform adopted its work plan at the end of 2015 and I am pleased to say that some streams have already been completed, for example the identification of criteria for cross-border STRs and the conditions to ease and speed up the release of consent for FIUs to use the information exchanged among themselves for further investigations or prosecution.

The mapping exercise was completed at the end of 2016. Let me stress a couple of things on the outcome of the exercise, which was of course endorsed by the Ecofin Council at the beginning of 2016 in the wake of terrorist attacks in Europe. There was a call by Ministers to FIUs to accelerate this exercise and also to the Commission to consider it in relation to future measures to be proposed to foster and enhance FIUs’ cooperation and information exchange. By the way, the Commission has already been quite active on this matter, not only because of the European Agenda on Security, but also in relation to its Action Plan, issued in 2016, which focused on measures to reinforce the FIUs’ activities and corporation. The report has, of course, been made available to the Council and to Member States for the implementation of EU legislation, and Parliament also has access to the document.

The hope is that the results of this work can be considered both in the current negotiations which are ongoing for the 5th Directive and also in devising potential new measures in future rounds of initiatives, including, if necessary, through additional legislation at EU level.

Very briefly, on the scope and objectives: I mentioned that, traditionally, when FIUs meet and discuss internationally – at EU level and also at FATF level – they focus on the external aspects of FIU-to-FIU cooperation. The problem there is actually that the FIUs’ capacity to engage effectively in international cooperation is a function of their domestic features. So we felt it necessary to explore the way in which FIUs are set up or organised domestically, what resources they have and what working procedures they adopt, because our thinking was that it would be on the basis of those features that FIUs could effectively engage in meaningful cooperation among themselves besides, of course, being effective domestically.

That is why the mapping exercise has quite a broad scope. It explores the features of domestic FIUs and, under a building-block approach, it also comes to some analysis and conclusions on the FIUs’ capacity effectively to cooperate among themselves. We have focused on the existing differences among FIUs and we have been surprised to see how different FIUs are within the EU. We have also considered the misalignments vis-à-vis EU provisions, and even there we have found some results that give grounds for concern.
This is a representation of the building-block approach that I mentioned. We have studies on the FIUs’ domestic status and organisation. We have explored more fully the international cooperation dimension, also considering the domestic functions and the sets of information that FIUs have available for their own analysis and information sharing.

This is just the structure of the report. I will not go into it in detail. I hope we will have opportunities to discuss these aspects later on if the committee members wish to do so.

I will give a very brief outline of the main findings. This is a very high-level summary. As I mentioned, we have identified several shortcomings in the way in which FIUs work domestically and are capable of having a dialogue internationally. We were, of course, aware that implementation of the 4th Directive was ongoing while we were carrying out the exercise so we did not expect to find a situation where national laws were in compliance with the 4th Directive – that was a given. But we were still surprised to find that some of these shortcomings were possibly not even in line with the previous 3rd Directive. For example, in terms of the ways in which FIUs are capable of performing analyses, or the conditions and constraints they face in sharing information among themselves, there are several profound differences among FIUs.

In the EU we are, of course, quite privileged, when compared to the global system, because we have a very long-standing practice of cooperation. We talk to each other on a daily basis.

Chair. – Can I just ask (there’s no clock in the room): there are 13 minutes left – do you think you could move on to the conclusions?

Paolo Costanzo, Italian FIU (Banca d’Italia). – I apologise, I will come to my conclusions very quickly. I guess that these are already the conclusions in terms of the findings of the report. I can be brief, simply adding that the root causes of these problems – and again I will be happy to explore further if there are questions on that – are both in the inadequate implementation of key EU provisions, and as I said some of those even date back to the 3rd Directive, but also somehow to the lack of a sufficiently harmonised approach by the EU provisions themselves. So there is this combined effect of perhaps not ideal national implementation, but also perhaps a too high level of domestic provisions which have led us to a situation in which FIUs are different from each other and have difficulties in being effective domestically and internationally.

Chair. – I would like to repeat that we have your comments in written form to aid our understanding – and that applies to the questions as well. Thank you to our two speakers.

Before I give the floor to our rapporteurs, I would like to stress that the two presentations took a very different approach. In the second we have an attempt at harmonisation and creating a platform so that lessons can be learned and cooperation improved. And in the case of Germany (this was Mr Fiedler’s), changing the organisation and reducing staff, which raises other questions. But that is something for subsequent questions to look into.

I would like to start by giving the floor to Jeppe Kofod. We agreed that slots should be four minutes long (for question and answer together).

Jeppe Kofod (S&D). – Mr Fiedler, you asked for support: for the European Parliament to cooperate strongly with FIUs, and for support on central registers. On both issues you really can count on support from this House.
My question concerns the clear need for harmonisation on FIUs at European level. We need a legal framework for the exchange of information and so on, but, Mr Costanzo, in your written reply you wrote that the main obstacles are related to the insufficient capacity of foreign counterparts to provide information, possibly because of a lack of domestic access to relevant sources. Can you give some examples of what type of deficiencies you have experienced, and also do you have any examples of cases in which you had to drop investigations or prosecutions of money launderers or tax evaders due to lack of capacity?

That will be really interesting for us to know in terms of cooperation with other Member States. And if the answer is yes, do you have any examples related to the Panama Papers? Also, what tools and registers do you need – this is something you spoke about briefly – what concrete tools to maximise your fight against these criminals?

Paolo Costanzo, Italian FIU (Banca d’Italia). – Thank you for the question, which goes to the heart of the problem. Both things are true, in my understanding: there is certainly a relatively poor level of harmonisation in some areas, and that is why, in operational experience, we then face situations where, when information is needed from abroad, we may not receive it because in many cases the requested counterpart – and this could apply in certain respects to my own case, where it may reflect a too general and piecemeal approach in the legislation – will not necessarily have the capacity to access relevant information.

For example, in relation to access to financial information, to bank account identification: it is only the 4th Directive which provides for the setting up at national level of bank account registers. And I know that Parliament is quite keen, in its proposed amendments, to expand that idea, to add other centralised databases to the list of mandatory databases. It is an important aspect, but in the meantime, while the legislation merely mentions the need to have access to financial information or to law-enforcement information generally, there will be gaps and unevenness in terms of the capacities of the European FIUs.

Coming to your second question, about cases where we have dropped analyses or investigations because of a lack of cooperation from abroad. That has actually happened. There can be cases of total failure of cooperation: FIUs sometimes cannot reply, or they cannot say anything, or they cannot consent to the use of information for ensuring investigations by disseminating it to competent domestic authorities. Most times they provide partial responses. Honestly, in the EU I do not recall, at least in recent times, any cases of outright refusal to cooperate. In the case of partial replies, we have to limit ourselves, for example, to certain aspects of the information received, and also the usefulness of the information may be limited.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – So, I will try to give a succinct summary of what I was trying to say. Transposing any European directive is doomed to fail and be undermined if the resources of the country concerned are inadequate, and this is the case in many Member States. To put it briefly and clearly: there are thousands of suspicious transaction reports waiting to be dealt with in Germany. If these include any sensitive cases, we will be talking in future committees of inquiry in Parliaments about why the police apparently knew of certain matters but were unable to conduct investigations.

And of course, the matter of European and international cooperation depends on the amount of resources set aside in each country – i.e. the implementation of the kind of directive and the toolboxes you’re talking about and each perusal of the register depends on how many resources and which staff members with which qualifications are set aside for this. There’s no escaping this aspect of the situation.
Petr Ježek (ALDE). – I would like to thank the speakers very much for their very open interventions and, in fact, alarming revelations. At the very beginning, I almost thought we were having another hearing on whistleblowing.

It is known that FIUs in different Member States are different, they have problems, they have different structures and they may be understaffed, but it is really serious to hear again that there is quite a lack of human resources and qualified human resources and that FIUs are able to tackle just a tiny fraction of the problem. I would have many questions, but rather to the representatives of the Member States, because it is clear that representatives of Parliament and the FIUs are of the same view, including when it comes to the beneficial ownership register, and central registers in general. I very much hope that if journalists are watching this hearing they will spread the news.

I know that Mr Fiedler said that there is not a single FIU which would have enough human resources, and qualified ones, but I would still like to ask which one he considers at least to be in the front, and which could serve as an example – or rather the country in which it is based could serve an example – of how to equip an FIU.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – I must say, in all honesty, that I cannot answer this question completely and definitively, as it implies us dealing with the Member State concerned, the thresholds and the procedures of the reporting system. As you know, these systems are different and as a result, different numbers of reports are processed. You have to consider the question of competences – how are they processed? Here, as my Italian colleague has mentioned, we have a very heterogeneous system.

We must, of course, overcome heterogeneously-constructed organisations and competences if we are to promote cooperation. So the key concept here is of course that harmonisation naturally requires better cooperation on this issue, and you need to find solutions for yourselves in terms of the expectations you formulate in Parliament for the Member States and what human resources – in what quantities – you expect and require, irrespective of the reporting system in each case.

In any case, I would certainly ask the Member States, for example, how many unprocessed cases there are at the moment in each of them. I am not aware of this having happened before. I know it has taken place in individual Bundesländer in Germany, but I have not heard of it at the European level. It also gives you a way of holding more, objectifiable discussions.

Paolo Costanzo, Italian FIU (Banca d'Italia). – I fully agree with Mr Fiedler; the question has several answers, depending on the situation. The mapping exercise includes some data on human resources. FIUs outmatch their staff in terms of resources; we range from a maximum of 300 to a minimum of 13. The average is something in between. What matters is that these differences do also depend on differences in functions and tasks and workloads. FIUs are also different in that they do different things. For example, some of them also perform supervisory tasks in addition to the core FIU function.

Let me stress that in parallel to the increasing workload – and all FIUs to my knowledge are facing increasing volumes of incoming disclosures that they have to analyse and a number of additional inputs due, for example, but not exclusively, to the terrorist financing emergency, with the Panama Papers case being another example where FIUs are really getting more involved at the national level and international cooperation – what we are trying to do, and here I would like to bring a tiny piece of my national experience and am aware that this is common
to other countries, is that we are really leveraging on IT tools. You cannot rely on papers or on a case by-a-case examination by hand, only based on the human element. We need to rely on intelligent IT tools and innovative technology. That is absolutely key, and we are realising this more, also due to the innovations in the more traditional financial sector activities.

Dariusz Rosati (PPE). – Many thanks to our guests for their very interesting introductions. My first question is a follow-up to the topic which has been discussed, namely cross-border cooperation between the FIUs within the Union. I would like to ask you how many times you are faced with the cases of refusal or inadequate answer from other FIUs when you address them to provide you with some information? What are the reasons for that, except for under-staffing or procedural differences? Is a possible solution to have a European answer to that, some kind of a framework regulation or a framework legislative act that would perhaps to some extent harmonise the operation of the FIUs and also introduce incentives or rules for cooperation?

The second question refers to crowdfunding: crowdfunding platforms have become a popular form of collecting money for all sorts of noble goals, but as some evidence demonstrates they are also used for financing some not so noble goals including terrorism. My question is: to what extent is this an area in which you are trying to get more information and investigate it in a more systematic way? Do we have regular check-ups on how these crowdfunding platforms’ money is used, who are the beneficial owners behind them, who are the real beneficiaries of those innovative practices and in general, what is the extent of illegal financing or illegal activities behind those forms of money collection?

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – I am very sorry but I do not know of any analyses pertaining to the two questions (I was aware of only two). I am not aware of any analysis in Germany of which cases what approach based on refusal by which FIU played a part. So it would not be appropriate to make an analysis here based on gut feeling. Nor do I know of any analysis of crowdfunding at the moment. So I cannot answer the questions just now; the best I could do would be to send them subsequently.

Chair. – If you get the information, we will be happy to receive the answers in writing.

Paolo Costanzo, Italian FIU (Banca d’Italia). – I will try to be very brief. On the first question, how many refusals and how many inadequate answers do we receive? Refusals: none on [activities] within the EU. The good news is that we always get an answer, to the extent possible, from the interested FIU. Inadequate answers: a lot. We do receive a lot of inadequate feedback from FIUs, not only within the EU but including within the EU.

Let me respond with an example. Perhaps the most basic type of exchange is one where FIU A asks FIU B: ‘I have an account in my country, I have funds coming in from someone from your country (country B), please tell me what the origin of these funds is and where these funds are coming from in terms of the account.’ In these cases, the requested FIU sometimes does not have the means to respond: it is not a matter of willingness, it is simply that they do not have the legal capacity to access banking information, to access financial information on where accounts are being held, what transactions are being carried out on them and where the money being transferred to country A originates from.

This lack of capacity is really a hindrance to effective FIU-to-FIU cooperation. Beneficial ownership is another area affected and I am sure I do not need to give examples on that. Of course, more rules would be one of the ways of tackling this problem, because if we harmonise
the information powers and duties of FIUs to a greater extent, that would really help them to get access to information.

On crowdfunding, like my German colleague I do not have – or at least to my knowledge we do not have – particular and specific experience in this sector in terms of investigation for money laundering or predicate offences. However, more generally, forms of collecting money, fund-raising etcetera, are, of course, an area to which we pay great attention. We pay a lot of attention to any sort of fund-raising, especially when it is tainted – no, tainted is a bad word, let us say characterised – by subjective elements, for example, certain diaspora communities are a priority for our attention. We focus on that a lot, together with – and this is a key issue in international cooperation also – remittance activities. So money collection and remittance activities are two areas to which we really pay attention.

Paul Tang (S&D). – Thank you, Mr Fiedler and Mr Costanzo, for taking the time. Your contributions have been very interesting, but also a bit disturbing, I must say. We see a lack of resources for every FIU throughout Europe and, at the same time, cooperation among the FIUs could still be better. So there is work to be done.

Let me focus on a different point where I am curious, namely the reporting itself. My understanding is that there is still a lot of defensive reporting from obliged entities like financial institutions, leading to either over-reporting – producing noise – or under-reporting – only if they have to. How seriously do you take this problem? I think that is a question for both of you. We also see that countries show very different numbers of reporting. I remember that Europol in a previous hearing said that it was surprising that Cyprus, Malta and Luxembourg had little reports, even though they are engaged in offshore financial services and the online gambling industry. Do you also see differences across countries?

Secondly, I would like to know more about the mutual cooperation between FIUs and the tax authorities. My understanding is that in some countries – or maybe in many countries – there is still not clear agreement, meaning that cooperation between FIUs and tax authorities is still far from optimal.

Paolo Costanzo, Italian FIU (Banca d’Italia). – On the first question about the noise – defensive reporting – that certainly exists, of course. There is a great deal of defensive reporting and measures are being implemented to tackle that issue. At least in my national experience, and I am aware that the same goes for other countries, we are very committed to providing feedback and indicators to reporting entities to provide them with, let us say, an ex-ante defence rather than an ex-post reporting strategy as to the duty to cooperate. So we try to assist them in reporting meaningful activities by providing indicators and feedback. That is the first point.

More generally, let me also stress that terrorist financing has brought about, perhaps not a paradigm shift, but still a different view. We need a lot of intelligence, which perhaps is an ex-ante approach to suspicion, and we need intelligence on anomalies, which may appear in the first instance as some sort of defensive reporting and of dumping the FIU with a lot of noise but, if properly used, that may turn out to be useful for TF anti-terrorist financing intelligence activities. You may not have a fully-fledged suspicion and, in that sense, you may have some noise, but still you may find the needle in the haystack if, for example, you are able to apply proper IT tools. That goes back to the point that I made before on machine learning and IT tools for TF intelligence. So that may be a view which may be a bit contrariant to defensive reporting necessarily being noise.

The last point on this, one element of the strategy against defensive reporting is to value threshold-based reporting as a complementary aspect. So we are trying to complement the need
to report suspicion with a more objective obligation to report transactions, depending on the nature of the transaction and on the threshold of the transaction. Very briefly, we do have cooperation between FIU tax authorities, but of course it could be improved. In my national experience, we receive STRs from tax authorities to some extent – but we would like to have more – both as regards disclosures of potential tax-based money laundering and information which is ready for analysis on money laundering.

Sebastian Fiedler, *Federal German Association of Detective Officers and Crime Investigators (BDK).* – Thank you very much. The subject of suspicious transaction reports – if I understood the translation correctly – has been mentioned. We focus heavily on this, from a national perspective, and particularly on the system for reporting suspicious transactions as far as the non-financial sector is concerned, as we have been bemoaning our non-functioning supervisory structure for years here.

In Germany it is the Länder which have competence in this area. In 2012 the Bundesrat launched an initiative for it to pass to federal level. Our position on this is the same. The Bundesländer – 16 in Germany – have come up with different competences and at the same time provided completely inadequate staffing. This has led to well over 90% of suspicious transaction reports coming from the financial sector, with those of us in the non-financial sector receiving virtually none at all. So we have no insight; there is no sensitisation of the obliged entities concerned here in the goods trade. To give one example: there is a series of analyses which confirm this picture, which is why our request in this regard also extends to national supervision of the non-financial sector (in the case of Germany).

The second part concerns cooperation with the tax authorities. Here we must differentiate in Germany’s case. With the decentralised model, which still exists, the customs and the criminal investigation department work together in groups. Tax investigation happens at Bundesland level, and here the work intensity can be stepped up in many Bundesländer. In fact that discussion belongs to the past; as I made clear in my opening statement, we have many misgivings about the future FIU structure. In this respect there are more question marks over the future than answers. And that is partly what we are criticising.

Chair. – Thank you Mr Fiedler. If you are familiar with the federal system in Germany, you will know how difficult cooperation at the level of the 16 Bundesländer is. It is similar in Austria, and in Belgium. It is a major problem wherever there are federal structures.

I will now give the floor to Professor Bernd Lucke.

Bernd Lucke (ECR). – Thank you Chair. I have a string of questions; I probably won’t get through them all. Firstly I would like your assessment (and here I am addressing both speakers) of the possibility of political influence being exerted on the FIUs. More specifically I would like to know whether you are aware of any examples of particular institutional arrangements from your practical work with other FIUs in other Member States where you would say that there is a particularly real possibility of political influence – or the other way round: that the FIU can work relatively free from political influence.

This is of interest to me because there is a strong suspicion that certain Member States are havens for money-laundering operations, so that you ask yourself to what extent the FIUs there are able to take action against particular interests. We would be especially interested if you could name names in those places and say that, in your experience, certain countries or the FIUs in those countries were being subjected to particularly strong political influence.
My second question: I am interested in the internal organisation of FIUs. I would like to know this: is there, where you work or in other FIUs, any such thing as assessment of the work, in other words an evaluation of the work undertaken on cases so far and of the success achieved by the FIUs? Is there any kind of reporting which would argue that there is a number of unprocessed cases, as Mr Fiedler said with the example of Germany – stalled cases, possibly because of inadequate cooperation with FIUs in other countries, and possibly an analysis of amounts which have been recovered? So my question is this: does this kind of reporting, or assessment, exist in your organisation or in other FIUs? If not, what is stopping you from putting it into place?

Because I think one important thing would be to ramp up the political pressure. We as the European Parliament have only a limited mandate to intervene as legislators in matters which belong to the Member States’ area of competence. But it would of course be good to generate political pressure, and since many of these cases are of a cross-border nature and grind to a halt perhaps because other FIUs cannot cooperate or can only do so to a limited degree, one starting-point might be for us to say that attention should at least be paid to this by publishing such reports.

Briefly, if I may, my final question: I made a note of a few things which you said should happen if the FIUs are to be able to function properly. These were: central registers, investigative powers for FIUs (this is the issue of customs officials in Germany), access to investigating authorities’ databases and, of course, the right to pass on relevant information to other FIUs. Are there any other things we do not yet know about or which I did not pick up on now which would be important in improving cooperation between FIUs and which would enable us to propose legislation if there are problems which could be better tackled through legislation at EU rather than Member State level?

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Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – I am happy to be here on a voluntary basis, Chair. I will try to make this clear in the limited time available. Political influence on FIUs: I cannot give a comprehensive answer on this. But in terms of Germany, I can say, definitively and in terms of the current status quo regarding police competences, that there has certainly been no political influence exerted here.

If you like – and to put it somewhat provocatively – the biggest political influence has been in terms of a functioning system being destroyed and staff resources halved. I don’t think I can imagine at the moment, quite honestly, a worse negative political influence than one which has a new system set up and endowed with questions for the future rather than the system which functions perfectly well being provided with extra resources. With regard to other countries, I’m afraid I cannot name any names.

You talked about internal organisation / reporting, Professor Lucke: this exists in Germany. The main features of this are available in two reports, both of which are published by the Federal Criminal Police Office. There is a joint press conference every year with the Federal Financial Supervisory Authority where there is a presentation of the evaluation of suspicious transaction reporting together with all the background information. I have already sent you some of the information, over 90% of which comes from the financial sector. There is also an associated report on how successful (or rather, how unsuccessful) we are in the field of asset recovery. The responsibility for this lies in part with different organisational units. This is a shortcoming which has afflicted us for decades and which always has us looking towards Italy for a positive approach, as we are pleased to see the effective tools available to our Italian colleagues which enable them to identify and confiscate huge sums.
The last part was, I think, the question of whether anything more was needed. In terms of
priorities I would say: after human resources and the central registers which I just mentioned
(the investigative possibilities), nothing at all in political terms.

Chair. – Thank you very much. You mentioned access to property registers in your opening
statement. This seems to me to be an important point and one which is being pursued.

Given the praise for the Italian FIU, your answer can be a short one, Mr Constanzo.

Paolo Costanzo, Italian FIU (Banca d’Italia). – Thank you. I will respond very briefly on the
different points raised. On independence vis-à-vis political influence, let me stress first that in
my case we are set up within the Central Bank, so we have a double layer of independence from
the political power: one, because the Central Bank is independent in itself; and two, because we
are independent within the Central Bank, so we are quite well protected.

I am very confident that more or less the same situation applies in other EU countries. I am not
aware of any case of political influence within the EU. I am aware of cases of serious political
influence in other countries far away from the EU, where the FIUs have sometimes been used
for political fights. The governments use the FIUs’ intelligence for tactical political objectives,
for example in order to discredit adversaries, which is really bad, and sometimes they have used
foreign information for doing that. So this is a threat for everyone when it happens in one
country.

What sometimes exists within the EU is something different and that is administrative rather
than political influence. Sometimes, given that FIUs are mostly set up within a big organisation,
they are subject not to influence from politicians but to influence from higher-rank officials
from the parent organisation, which can sometimes access the information or decides on
priorities, on budget, on resources. This is a form of influence which sometimes… there is a
mapping exercise to demonstrate that this may happen, which is a different but perhaps also a
serious problem.

On the assessment of the work, I guess that any administration or organisation has ways of
testing and interrogating itself on its work, but what we honestly focus on very much, at least
in our experience in Italy, is to translate this into an accountability concept. We really try to be
accountable to the outside, and by the outside I mean – of course that depends on the national
arrangements, but in our case we are accountable to the public in general. We publish a number
of figures, of statistics which try to reflect the workload and also the results of the work that we
do. We are also accountable to the parliament, because of course there is money at stake and
there are also public interests at stake and we are keen to demonstrate that we pursue those
interests. We report to the parliament and of course to the Minister of Finance and Economy as
well.

Thirdly, on additional problems that we face in an analyses in international cooperation let me
flag two of them, and thank you for your question.

First, analyses. They exist, because there is a need for someone to carry out analyses; this is
distinguished from investigation and this distinction is sometimes blurred. It is crucial: if we
want to have effective FIUs providing added value to investigations, we need to keep analysis
distinct from investigation, otherwise we muddy the whole picture, and we really compromise
the effectiveness of FIUs as such.

Secondly, the problem of the use of the information exchanged. Sometimes FIUs can exchange
information. So we do receive responses to the requests, but too often that information cannot
be used for further investigation or prosecution, because we do not receive the consent from the providing FIU which does not have the legal capacity to do that. So the restriction on consent for further use of the information exchanged is a hindrance to international cooperation.

Chair. – Thank you very much. We have had just about 11 minutes for questions and answers. These were important points. If I may make a brief observation, I think the experience of Italy with anti-mafia legislation is in many respects way ahead of that of other countries. This might be one of the main reasons for the good organisation in Italy.

Next on the list is Matt Carthy for GUE/NGL.

Matt Carthy (GUE/NGL). – Thank you, Chair. My first question is to Mr Costanzo. The studies that were carried out for this Committee comment on the relationship between FIUs and law enforcement, and one of the findings is that the assumption that FIUs embedded in law enforcement have better access to police intelligence is not actually true. In your own presentation you emphasised the importance of the FIU’s autonomy and the role its organisational status has within that. In addition to ensuring that FIUs have a high level of legal autonomy on a par with legal enforcement bodies themselves, do you think those FIUs which are not embedded within law enforcement are able to achieve a higher level of autonomy, or do you actually think that the model itself is irrelevant?

My question to both representatives is that it is widely acknowledged that the risk indicators for money laundering and terrorist financing are significantly different, and that it is much harder actually to detect and prevent terror financing due to the fact that legal funds may be used, and in small amounts, that actually then further criminal aims. I am wondering if either of you could outline how the system works in your own respective countries both among FIUs and obliged entities, in order to deal with that particular challenge.

Paolo Costanzo, Italian FIU (Banca d’Italia). – Briefly, on the model and its influence on FIUs’ independence, the findings of the research we conducted is that the model has a lot of influence on the resulting independence. However, it is not the choice of the model per se that matters – it is not necessarily the case that police FIUs are less independent than administrative or hybrid FIUs. Having said that, the empirical evidence based on the information gathered seems to show that police FIUs are embedded more deeply in their parent organisation. There are sometimes offices within police administrations, and therefore they somehow may enjoy less independence, vis-à-vis other cases where FIUs are set up as fully-fledged units within ministries or supervisory authorities.

So, it is not that they are police per se, but because they are sometimes too deeply embedded in their own parent organisation which makes them perhaps less independent. Another factor, which I mentioned before, is that unfortunately – and this is a risk in the case of police FIUs – they tend to merge analyses and investigations, and so the analytical function is not independent from the investigation. They use suspicious transaction disclosures for starting genuine investigations rather than separating out the two faces of financial analysis and investigation. That is other evidence from the report.

Your question on risk indicators for money laundering as opposed to terrorist financing is extremely relevant and also a current challenge. It is true that different inputs and feedbacks must be given to reporting entities for these two purposes. Traditional money laundering is something perhaps easier, if only because we have more experience in that terrorist financing is extremely evasive to capture. As you said, the amounts are much less. The anomalies are almost absent. Terrorist financing transactions are normal transactions, and they are really undistinguishable under an objective analysis, so the focus is much more perhaps on subjective
elements which are very sensitive data and which sometimes cannot even be disclosed to the reporting entities to receive feedback. So, it is a challenge. We are trying to work on this also at international level by joining forces and gathering intelligence which we are striving to make available to the private sector to get feedback from there.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – Just a short addition and to agree with the previous speaker. In theory, the only way to achieve even better results in identifying terrorist financing would be to conduct more intensive scanning in cooperation with financial institutions: scanning with regard to a combination of criteria relating to individuals and to transactions, which need constant updating.

Chair. – I think the independence aspect is particularly significant for FIUs. I do not want to return to the issue of Malta, but the FIU there conducted an investigation which was not passed on to the Public Prosecutor’s Office as this independence did not exist. But that is another topic.

Sven Giegold for the Greens has the floor.

Sven Giegold (Verts/ALE). – Thank you Chair. I know of at least three FIU reports which did not result in investigations in Malta. We do not know if there are more, but anybody listening is welcome to send us details.

My question is to Mr Costanzo. We read your report with great interest and I think it is a really valuable exercise. I would mainly like to touch on two issues.

First, I have seen your written answer to our questions but could you detail as precisely as possible which violations or incomplete transpositions or implementations of the Third Anti-Money Laundering Directive you have found, and in which Member States? You are saying it is incomplete, but you did not name the Member States, the FIUs, which do not fully correspond to the Third AMLD.

Second, interestingly, on page xxxvii you explain and make your case for a European FIU. Could you explain to the committee why you believe that a European FIU is needed?

Paolo Costanzo, Italian FIU (Banca d’Italia). – Regarding violations of the Third Directive, allow me not to name names as I do not have them in front of me. The exercise has been carried out based on individual submissions, but they have been sanitised, so there are not any flagged violations in the report. Anyway, it is true that the report acknowledges that there may be cases where the national implementation or FIUs’ practices are, to say the least, not aligned with the EU legislation dating back to 2005.

In terms of examples, when an FIU does not have access to financial information – and by that I mean simple, plain bank account information – to us, to the people drafting the mapping exercise and the platform that has approved it, that is a violation of the Third Directive and perhaps even the Second Directive, and certainly of the Financial Action Task Force (FATF) recommendations.

As I mentioned before, there are also problems in terms of providing consent for their use. This is a major problem. The Third Directive provides for a general duty for FIUs to consent to the subsequent use of the information shared for further investigations, save for certain exceptions. In practice, sometimes the exceptions are more than the rules, i.e. consent is denied more frequently than consent is granted. I think the report gives the impression that there may be an area there where the Third Directive is not being properly implemented. There may be other
examples, and if I have time I am happy to go on, but I will try to focus on the most relevant aspects.

Sven Giegold (Verts/ALE). – I just wanted to ask very precisely: could we get this list? Even if you are not able to name the country, could we get examples in writing afterwards and, if you cannot name the countries, with examples of areas where we have problems with the Third AMLD?

Paolo Costanzo, Italian FIU (Banca d’Italia). – Yes, if it is within the report, I will try. I would be very glad to provide the committee with a simple list of the findings we have in the report.

Very briefly, regarding the FIUs, certainly the report reflects that. There is a paragraph saying that an EU FIU would provide an answer to certain questions. Honestly, allow me to elaborate on that by saying that, with hindsight, perhaps there is an earlier reflection to make there. As I said in the beginning, FIUs are very, very different from each other, so I think that a coordinating body sitting over such a diversified bunch of FIUs is not necessarily an effective solution now. Perhaps we need a more harmonised framework beforehand in order to have effective coordination at EU level. Having said that, coordinating and facilitating cooperation is certainly a very good idea.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – I will say just one thing about this: that the suspicious transaction reports are forwarded to Europol, to an analysis file, and Europol must of course take good care of the analysis. Of course, they are – as in many other cases – dependent on all the Member States’ departments involved being properly supplied.

Chair. – Thank you very much. This brings us to the end of the group list. I have one request for catch-the-eye: Ana Gomes, Vice-Chair.

Catch-the-eye

Ana Gomes (S&D). – You tell us that 90% of the suspicious transaction reports received come from the financial sector. This means that entities subject to obligations in this respect, such as lawyers and real estate agents, do not actually feel themselves to be under an obligation – nobody is really holding them to any obligation.

I would like to ask Mr Costanzo, in particular, how this is happening with the new investors’ programme that you have in Italy. That is one more of these golden-visa investors’ programmes actually fuelling money laundering: that is what it is meant for. I would also like to ask you what the role of the FIUs is in checking transfers to offshore territories? It could be royalties, dividends and so on. In many countries such transfers are supposed to be notified by the banks and financial institutions to the tax authorities, but not necessarily to the FIUs. Is there anyone doing an anti-money-laundering check on these transfers to offshore territories?

Paolo Costanzo, Italian FIU (Banca d’Italia). – On the reporting rate from non-financial institutions, it is true that the bulk of suspicious transaction reports comes from financial institutions. What I can add on that, from a practitioner’s perspective, is that cooperation by non-financial sectors is increasing, at least that is the case in Italy. We receive an increasing number of reports from, for example, notaries, and also from accountants and other non-financial professions. One element which is helping there is the role played by self-regulatory organisations which act as filters – though filter is not perhaps the right word, let us say they
act as facilitators – for reassuring reporting professionals that, for example, confidentiality is respected and the use of the information is guaranteed to be confidential.

On the investments programme, I can only give you the perspective of a practitioner from an FIU point of view. We always do our best to tackle any potential money-laundering risk stemming from Italy or from outside it, and we will continue to do that.

Regarding transfers to and from offshore, that is one of our standing priorities, one of the major areas of risk that we continue to monitor constantly, based on domestic disclosures, on any available source and mostly on international cooperation. As you know, there are many different offshore regimes, companies, privileged countries, financial secrecy countries, and there are many components to that, and we really need international efforts to tackle all this. It is not an issue which can be tackled from one FIU’s perspective or even one country’s perspective.

Chair. – Thank you very much. As far as self-regulation by suppliers, tax advisors and lawyers is concerned, the Commission today submitted a proposal according to which these groups are obliged to report any grounds for suspicion. This is a stronger obligation than previously. I assume this, together with the penalties envisaged, will be an effective instrument.

Mr Fiedler now has the floor.

Sebastian Fiedler, Federal German Association of Detective Officers and Crime Investigators (BDK). – Thank you Chair. I hesitate to contradict you, but experience with Germany does not give much cause for optimism on this point. All I can say is that essentially there is just one supervisory body in operation; in theory, self-regulatory bodies such as lawyers and tax advisors form a supervisory body in this respect. They have been subject to a reporting obligation from us for years, yet only a tiny number of reports comes from this area.

Hence our request for efficient, effective supervision to be undertaken with appropriate tools and a proper advisory and awareness-raising function. This is in my view the only effective way of informing obliged entities and raising their awareness about why we need their support. And, of course, a proper supervisory system must also ensure that we receive all the available relevant information.

(End of catch-the-eye procedure)

Chair. – Thank you Mr Fiedler. You do not need to contradict me, as I agree entirely with your view that the proposal, as far as I was able to read it at lunchtime, is inadequate on certain points and that we will of course make improvements to it in Parliament’s and the Council’s co-decision procedure. If you have any suggestions, they will be most welcome.

I would like to thank our two experts and speakers today very much indeed. In the first panel we received some interesting pointers for our work on the requisite staffing. Mr Fiedler, I must pay you a compliment: your performance today as a union representative was excellent. And from the perspective of legislation in Italy which, owing to the earlier anti-mafia legislation, is in many respects outstanding, there is much to do. I would like to express my thanks. You also promised to provide documents and extra material in writing. I would like to encourage you to do so.

I hereby bring the first part of the panel to a close. We will have a three-minute break before the second part, which will be chaired by the first Vice-Chair, Ana Gomes. Thanks also to the interpreters and all who took part. Thank you.
(The sitting is suspended briefly.)

PANEL 2: The Russian "Laundromat" case

IN THE CHAIR: ANA GOMES
Vice-Chair of the Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion

We now have the second session on the Russian ‘Laundromat’ case. Let me introduce the speakers for the second panel and welcome them. I would like to introduce Mr Paul Cristian Radu from Investigative Dashboard, Organised Crime and Corruption Reporting Project, and Mr Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). We will have him in video conference, he is there, and I would like to welcome him and thank him for being available to us.

Without further ado, let us listen to Mr Radu. I will just repeat the methodology we have been following. Each speaker will have a maximum of a ten-minute slot for introductory remarks. After the presentations by the speakers there will be an exchange with members of the Committee. Questions will be asked in slots of five minutes, so basic questions should be a maximum of one minute and then the time for the answer.

Mr Radu, you have the floor.

Paul Cristian Radu, Investigative Dashboard, Organised Crime and Corruption Reporting Project. - Thank you for inviting me. I represent here the Organized Crime and Corruption Reporting Project, which is right now the largest investigative reporting organisation in the world. What we do best is follow the money.

In about 2010, I noticed, together with my colleagues, that we were investigating the same thing over and over again. Crime was done in the same way, and especially high-level monéy laundering was done by drug cartels all over the world, for example Mexican drug cartels using banks in Latvia and that kind of thing. So in 2010 we decided to investigate the infrastructure that makes this large-scale money laundering possible.

We came across a New Zealand company with a bank account at a Latvian bank, Baltic International Bank. What was really peculiar about this bank account was that it handled about USD 680 million in transactions and the money did not belong to one beneficiary, but to many criminal groups: Vietnamese organised crime, Russian organised crime, Magnitsky money and other organised crime groups. That was very interesting because what we came across was this ready-made platform that allowed for large-scale money laundering at a very small cost compared to traditional money laundering. So in this case the money launderers would put together the platform and would include banks in it. They would supply their clients with offshore companies with bank accounts in the banks that they controlled, and then they would also issue the so-called fraud manuals.

Basically the bank would give you a ready-made service to launder money and the fraud manual would even contain information such as advising: don’t send money in round numbers, don’t send one million, send 999 000, use crooked numbers. There were instructions such as: don’t
say that you are shipping goods from a port if your company is not based next to the sea. So there were very clear instructions on how to avoid the detection of money laundering.

As I mentioned, we started working on this in 2010 and then we realised that the problem was actually much bigger. In about 2010, while also working on other projects – for instance, together with the International Consortium of Investigative Journalists, we were partners in the Panama Papers, LuxLeaks, Swiss Leaks and many others – we came across a structure for which I coined the title ‘Russian Laundromat’. We realised that the Moldovan justice system and the Moldovan banking system is used for a large high-scale money laundering operation with about USD 20.8 billion being wired from 19 banks in Russia. Some of the banks involved were connected to Vladimir Putin’s cousin so we are talking about high-level political connections. There were some 19 banks in Russia and one bank in the Republic of Moldova, and then all the money went to Trasta Komercbanka in Riga, Latvia, and from there on to the EU, the US and other countries in the world.

At the receiving end of the Russian Laundromat, there are more than 5 000 companies and 732 banks in 96 countries. So we are talking about the whole world. This is massive. What was really interesting about this when we looked at it was that everything originated in one single bank in the Republic of Moldova. You can have two approaches when you look at this type of money laundering. There are more than 60 000 transactions and that is very hard to follow. I do not think any FIU or compliance department in any of the big banks would be able to process that and look into 60 000 suspicious transactions in 60 000 SARs. But you can look at it from a different point of view, namely one single point of origin. I think this is the problem with the current system. The failure of the system is that we have all these policies to know your customer and, in some cases, to know your customer’s customer, but what we do not know is who owns the banks that are used to wire the money and this is the problem.

This is something that can easily be tackled. Who owns the bank in Moldova that enabled the wiring of USD 20.8 billion to the EU, US and other countries? If you look at the ownership structure of the bank, you will see that there are offshore companies – most of them LPs, most of them British offshore type of companies, SLPs and LPs – without real beneficial owners. If you look deeper, you will see that the beneficial owners listed on paper with Companies House, the register of companies in the UK, they are formation agents, the usual proxies. If you look at the beneficial owners that are listed with the bank as owning the bank accounts, they are the same proxies and the same formation agents.

So this is very easy to detect. It is only a few clicks away so you do not have to look at all 60 000 transactions to realise that there is something going on but not if you do not even know who owns the banks that wired the money. This is the case with many banks. I am talking now about the Russian Laundromat, the USD 20 billion, but there are four other banks in Moldova from which criminals stole USD 1 billion, which left Moldova’s economy in a shambles. So there are many other instances where high-level money laundering was occurring and it is very easy to spot. You do not have to go for the transactions. You have to go for the bank and to find out who the owners of the bank are.

This comes down to the big banks in the EU. As I mentioned, most of the money in the Russian Laundromat was handled by Trasta Komercbanka, a bank that was shut down in the spring of last year after our report, but then PrivatBank was also involved in this and Danske Bank handled more than USD 1.2 billion in the Russian Laundromat scheme. Deutsche Bank laundered lots of money and, when we talked to Deutsche Bank, they told us this was possible because this money was being wired until the end of 2014. They said: this was possible before because we did not have enough compliance officers but we have now hired 1 000 more people to do compliance. I do not think that is enough.
I think that Mr Costanzo is right that there is a need for technology to be implemented at this level to detect patterns. If you remember, when I started talking, I told you that I saw a pattern. We were investigating the same thing over and over again. These patterns are easy to spot by using software. This is something that we are doing now at the Organized Crime and Corruption Reporting Project. We are developing something called crime pattern reporting, which is a piece of software that can spot possible instances of corruption, money laundering and other such wrongdoing.

Technology is key as is the will to act on the part of the big banks. There need to be audits with all the big banks of the banks that own corresponding bank accounts with them. This is quite easy. If you look at banks like Deutsche Bank, Raiffeisen and Danske, there are not that many corresponding bank accounts with banks all over the world. These are actually a few thousand. So this is doable without tens of thousands of people and lots of resources, and I think this is something that needs to be done.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – I am Head of the Latvian Financial Intelligence Unit, the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity. That is a very long title. Let us call it the Latvian Financial Intelligence Unit (FIU) for short.

The Unit was founded in 1998 and is an institution of administrative type. We exercise its functions under the supervision of the Prosecutor’s Office, but we are not the prosecutor. Since 2005, we have the Coordinated Financial Sector Development Board which is designated by the Cabinet of Ministers and coordinated by the Prime Minister. Since 2005, we have had three priorities. The first is the finding and disclosure of large money laundering schemes, by which we understand 20 or more participants in several transactions. The second priority is the freezing of a large amount of the proceeds derived from criminal activity. The third priority is preparing case materials of a quality to further the pre-trial investigations.

I would like to draw your attention to the following statistics. In the last three and a half years, the FIU issued almost 1,000 orders for the freezing of funds derived from criminal activity, and the total amount is a little more than EUR 160 million in different bank accounts. This is of course [as a result of] the derogation of the funds from the criminals.

It was possible to reach such a result by virtue of the necessary information obtained from foreign FIU colleagues as well. The statistics demonstrate that in 2016 the average time for receiving information from foreign FIUs was 34 calendar days, but the average time for the Latvian FIU’s responses to other financial intelligence units’ requests was only 12 calendar days. Of course we have international limits but we are anyway preparing answers to requests much quicker than our colleagues.

What happens to the frozen funds in Latvia? In 2016, 70 decisions were taken in 57 criminal cases and the funds, a total amount of EUR 59.5 million, as well as cards, were confiscated and EUR 46 million of the amount mentioned was confiscated on behalf of the Latvian state budget. However, there is more to combating money laundering than this. At the moment we have the following current topics on our agenda: fulfilment of the Fourth Directive requirements, and the reporting system to the FIU from legal subjects to make the anti-money laundering system more effective.

This was my brief introductory statement about our work and our effectiveness.

Jeppe Kofod (S&D). – I would like to thank our two panellists for their presentation. First of all, some of us know the Russian Laundromat case quite well, but it is still very shocking that
a case involving such an amount of money and so many actors can take place with the involvement of EU Member States, among others.

Mr Radu, how do you regard this horrible maladministration by the authorities, and is there a lack of cooperation? Do you see that in this case? Where do EU Member States come into the equation? Can you elaborate on that?

Mr Burkāns, as I said, the scandal involved many EU Member States and large EU banks, including in Denmark, where, as we heard, over a billion euro went through the Danske Bank and Nordea. Could you elaborate a bit on how that could happen? I think that is important. And also with Latvia, how could your banks be used for this, and why did you not detect the issue at an earlier stage?

Secondly, you talked about the prosecutions, and I know that is not your responsibility as an FIU, but do you see enough prosecutions being taken in Latvia and elsewhere? And how is the cooperation on this case between Latvia and other FIUs in EU Member States?

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – In reply to your first question, Mr Kofod, the Russian Laundromat case is actually the ultimate expression of the lack of cooperation between law enforcement agencies and FIUs. We exposed the Russian Laundromat in 2014, and last year law enforcement agencies in two countries came back to us – to journalists – saying: ‘We cannot continue our investigation because of the lack of exchange of information across borders’, especially because Russia was not providing any information.

The Federal Security Service of the Russian Federation (FSB) asked for a lot of information regarding the Russian Laundromat but they never returned any information. They handed us the data, they handed us bank accounts, they handed us the transactions, and this is how we managed, cooperating with Süddeutsche Zeitung, the Guardian and other newspapers, to expose where the money from the ‘laundromat’ went.

The approach from the law enforcement point of view was again that they were looking at transactions, and these transactions are very hard to follow because we are dealing with people who are very experienced. These criminals are very creative, they have a lot more knowledge than the prosecutor sitting somewhere in an office in a particular country, because they have cross-border experience. In many cases they have obviously much more money at their disposal, they have advisors and they have a lot of support that they can use in order to devise their schemes.

Going after all the transactions is going to confuse things a bit more. It is easier to go for the banks involved because if you cut access to the financial systems, to these banks that are proven to have conducted and condoned money laudering on a large scale, that is what is going to hurt the criminals.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – I received three questions and I will answer one by one. The first question was how it happened. I would like to draw to your attention that the Laundromat case took place between January 2011 and October 2014. I cannot disclose information concerning the reporters, but already on 17 May 2012 we received the first report about the suspicious transaction from the bank. It is not allowed for me to disclose which bank it was but we received this report and it was a very good report, and after several days we prepared the spontaneous report to our colleagues in Moldova that ‘something suspicious is going on, please immediately do something’ but they are keeping silence.
Approximately after a year we once more sent a second letter because we had information from the bank, we saw that transactions are going on, but we believed that there was a certain legal basis, because the judges in Moldova had already taken a number of court decisions, and the bases for these transactions were of course the execution of court decisions and we were surprised. Only after that Moldova initiated a couple of criminal cases, and the preliminary investigations started, and we are very proud that – at least we believe that – we are the first who sounded the alarm that something wrong was going on, but our colleagues were late.

Speaking about the prosecutions, I would like to say that in Latvia there are several criminal cases, and of course the effectiveness of these investigations, the prosecutions and convictions, is not the Financial Intelligence Unit’s responsibility, but the work is ongoing and the investigators are working very hard.

I would like to underline that the banks are supervised not by the Central Bank but by the Financial and Capital Market Commission, and the Commission also carried out their audits and their investigations and sanctions have been applied not only for the breaches regarding the mentioned case but also taking account of other breaches identified during several inspections, in particular gaps in the internal control system.

Trasta Komercbanka was mentioned several times and the misconduct consisted of money laundering, deficiencies in the internal control system and also in board enrolment. The sanction from the Financial and Capital Market side was that the Commission revoked its licence. At the moment the Bank has not been working since 4 March of last year.

On the last question concerning cooperation with other FIUs, I already mentioned our colleagues, I was critical, because if we receive a request to freeze funds, we have very large practice in this area, I believe that already in 2012 or 2013 we were in position to freeze something – but we have what we have at this time. Concerning the overall cooperation among the FIUs, we have been members of the international organisation Egmont Group since 1999 and also we are using the FIU network.

I would like to mention at the same time that our largest partner in cooperation statistically is the Financial Intelligence Unit of Moldova. We are receiving a large amount of requests and we are sending the answers within 12 days, that is much quicker than our other partners are doing in this matter. These are my short answers to your questions.

1-051-0000

Petr Ježek (ALDE). – Thank you to both speakers, particularly for the efforts made and your successful work. As you say, you follow the money, and I have a question in this respect. If I understood correctly, according to the Organized Crime and Corruption Reporting Project (OCCRP), most of the dirty money from the Laundromat went to Hong Kong, China and some smaller European countries, rather than to the US. What is the reason for this?

I have a similar question for Mr Burkāns. Latvia was not a recipient country in the Russian Laundromat scheme, so what was the reason? Was it because, as you said, you discovered it early, or earlier than the others?

1-052-0000

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – Yes, indeed. If we look at the money flows, the US received much less than other countries. I think that is because the US is doing a better job at detecting money laundering, and it is actually confiscating money. One of the cases that we exposed when we started working on this in 2010 was the Magnitsky case, which is a big case across Europe and across the US. Just last month the prosecution in New York managed to come to an understanding with this
group that was laundering money in the US and they confiscated from them USD 5.9 million. So I think the difference is that the US is actively going after the money. I would like to mention one other thing here. I do not want to single out Latvia because all the Baltic countries are providing the same level of services when it comes to banking secrecy and to enabling money laundering. Lithuania is the same, Estonia is the same, and there are many Launderoms. What we are talking about right now is just the Russian Laundermat, but there are many other Launderoms. In Ukraine they are called plochadskiis. They are smaller, perhaps up to USD 1 billion or 2 billion, but there are many Launderoms. So the scale of the problem is much larger than this 20 billion that I have talked about here. People are talking about 80 billion over the same period of time. When I say people, I am talking about sources in law enforcement in Moldova, for instance. I think the problem is much, much larger. It is interesting if we look back at the ownership of these banks, if we look at Swiss banking records, if we look at Latvian banking records and so on, you will see that there is a provision there that the client does not have US citizenship. That is again coming back to your question about the US not receiving large amounts of money. Money is going to the US, but much less, and in some cases US banks have refused the transactions.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – Yes, when covering this case and other cases too I visited Chişinău in Moldova, and also my colleagues conducted visits here in Riga, and we also discussed this question of why dirty money is coming to Latvia and not to other countries and why the criminals prefer Latvia.

The conclusion was that there is not one concrete large reason for this. Of course, we can say that we are like a bridge between the Eastern countries and Western countries, and many of our inhabitants understand very well the Russian language and we have a common history and so on, but these are our conclusions.

First of all, it is my opinion that we some scientific research to ask the criminals why they prefer these countries but not the others. There could be many, many reasons for that, but I would like to say that for the purpose of successfully combating these money launderers we need a very excellent legal framework to freeze money for a long time period and also to cooperate with our colleagues. We can obviously issue one thousand orders for freezing assets, but our colleagues sometimes have freezing time only of one, two or three days or a little bit more. It is very difficult to cooperate with them. Also, I am inviting them to please, if they have concrete information, request us and we shall immediately freeze the money, but these foreign requests are not so often made to Riga.

Chair. – Well, Mr Burkāns, since the prime minister at the time that this was happening is now an EU Commissioner, Mr Dombrovskis, maybe he can help in enabling this study to identify why the criminals prefer countries like Latvia. As Mr Radu said, of course, Latvia is not the only case: there are many more.

Now I give the floor to Mr Rosati from the EPP Group.

Dariusz Rosati (PPE). – First of all, I would like to refer to the cases which you registered, Mr Radu, in Latvia and some other places, as well as another case, which has surfaced recently – that of Ljubljanska Banka from Slovenia, where a transfer of USD 1 billion was made by an Iranian person who was the subject of an international warrant issued in the EU. The bank then sent transfers of smaller amounts of money from this USD 1 billion to 400 different bank accounts across the world.
This is a new issue and will probably be investigated here in this committee but I wanted to ask if you had heard of the story and whether this is a similar type of scheme?

The second question concerns your point about focusing on banks. Under all the anti-money laundering directives, Nos 2, 3 and 4, banks in the EU are required to report all suspicious transactions. You said there was a case of 60 000 suspicious transactions. I understand they were not reported on the same day or even in the same month, but it is a burden for FIUs to investigate them. However, were all of them duly reported by banks?

My third question follows on from that: where is the problem here? Do we have a problem with existing legislation, which is full of loopholes and unable to capture or identify suspicious practices or wrong-doing, or is this is a question of implementation, or enforcement, by individual Member States? Some Member States seem to be more active, or more frequently quoted, in the context of money laundering, while others are less to the fore. So where would you, with your experience, see the main problems? Should we improve the EU legislation first, to close the loopholes, or should we insist on Member States being more determined to implement the existing law?

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – I can see only the area which is covered by our Financial Intelligence Unit. I haven’t the information what is going on outside the EU, but my opinion is that some other FIUs are rather slow.

If we should receive information within a certain time we can act immediately. That means that maybe FIUs are overloaded with reports, and if you have on your hands a very large number of reports – in Latvia we have approximately 15-16 000 reports every year and we are analysing each of them, that means that we have approximately 1 000 or even more reports per one employee, and every year we have a little bit less than 300 business days. That means that per one employee we have three reports to be analysed every day and that means the time for analysis is rather short.

We must change the system. For example this year we already finalised our analysis work and forwarded it to the Ministry of Finance, our new draft that our legal subjects shall not report about the suspicious transactions but about the existing typologies, about the real final work of the banks and so on. That means that we need to change our analysis work, not only in the FIU area, but also in the banks and others, and to draw the main attention to cases of large-scale schemes in Latvia.

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – Thank you for these questions, they are challenging actually. I am not familiar with the scheme in Slovenia in particular, but what I can say is that, as I mentioned before, there are many ‘laundromats’, and one thing to understand about the laundromat is that these are structures that are created such as.

You may be familiar with Tor, a tool you can use on the internet to hide your browsing – so instead of the traffic going from this computer to that website, it goes through various other computers to get to the website, so nobody can really see what is going on, or what I am browsing. The Russian Laundromat, if I can put it that way, is the same idea, and probably the laundromat in Slovenia is the same, because what is going on with a laundromat is that many criminal groups and corrupt politicians are putting their money together to be distributed afterwards, so it is a case of mix and match.
This is very hard to follow, I mean when we looked at the Russian Laundromat and we looked at transactions in Russia and transactions in Moldova, transactions in Latvia, transactions here and there, we could not say ‘OK, so the predicate crime was there!’ because money from Vietnamese organised crime was mixed with Sinaloa drug cartel money from Mexico, and so on.

Now, of course, there were not 60 000 suspicious activity reports. I wish there had been, although that would be overwhelming to any compliance department of any bank and to any FIU. But this is one instance of the Russian Laundromat, and there are many other instances, so probably, in the end, millions of transactions would have to be flagged as suspicious.

As to tackling this, on how to actually solve this, as I see it, if efforts are improved only at nation-state level, they are never going to be very efficient. The laws need to be improved at EU level because that is how the criminals think – they are organised criminals, they operate across many frontiers. For them, the EU is the playground, while law enforcement and the nation states, confined within national borders, are minor players. I think it takes a network to fight a network. You cannot do it otherwise. So, in order to the deter this type of high-level money laundering – because this is the type of money laundering that really hurts countries, you look at Moldova, you look at the political situation and economic situation and you will realise that cash was bleeding out of Moldova for years and years, and I am not just talking about the Russian laundromat, I am talking about the one billion stolen from Moldovan banks, much of which ended up in the EU while, at the same time, the EU is giving peanuts to Moldova – you need this overview, you need this approach that is similar to that of the criminals in that you operate from above, from at least EU level.

1-058-0000
Evelyn Regner (S&D). – Many thanks for your impressive accounts, Mr Radu and Mr Burkāns. I would like to add that it takes a network to fight a network. The motto, in other words, is: ‘Know your customer policies.’ You gave an impressive account of how many countries, banks, letterbox companies and so on – how many actors are involved. We have a commitment, with the third Anti-Money Laundering Directive, to ‘know your customer policies’, something we have often seen in other cases: what is in place is not enough – these self-imposed obligations of the banks. To be rather more specific and also to take up Mr Rosati’s question: what changes do you think might be needed to ‘Know your customer policies’ for it to be really useful?

In another example I recall – that of the Berenberg Bank – we heard that they had completely abandoned their ‘Know your customer policies’. And as I see it, Mossack Fonseca is a perversion of the whole system. So how in your view could we build on this? And the second point concerns what you said about networks: It takes a network.

We are busy with this now and we hope that the European Public Prosecutor’s Office will become reality, initially in a limited form. It is in the conception phase, very much in short trousers, and cannot yet cover this range of tasks. What tasks do you think it should be able to cover so that we can make some progress on this? The question is, of course, for both Mr Burkāns and Mr Radu.

1-059-0000
Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – Of course the Financial Intelligence Units are not covering the question of the internal control systems of the banks. This is the responsibility of the supervising Latvian Financial Capital Market Commission, and so on. We are not supervisors.

But as a lawyer I am thinking, brainstorming about the situation, how to improve the situation? How to successfully combat the money launderers? I once already suggested [one solution]. At
the moment the legal requirements are that, if the assets, criminally obtained assets, are forwarded from one country to another country, we need rogatory letters with the request ‘please arrest these assets, please send them back’ and so on. But why could we not organise things in such a manner that the Financial Intelligence Unit, which is receiving the STR from the banks and sees the grounds, the factual grounds and also the legal grounds, can issue the order, ‘send the money back to the country where the money was located in the beginning’ and after that ‘please make the investigation in this country’, in country A and in country B.

That means that maybe the Financial Intelligence Unit should have the power not only to freeze money but to send it back to the victims’ account and we shall make this process much quicker. But at the moment there are a number of obstacles, requirements of conventions, directives and so. It is a fantastical suggestion, but I believe that after years we shall have such orders.

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – If we look again at the structure behind the Russian Laundromat we see the banks that were taken over by criminals, and I am talking about banks in Moldova. The law in Moldova required that if you owned more than 5% of a bank you needed to disclose beneficial ownership. What the criminals did in the first stage of this operation was to own 4.9%, via multiple-offer vehicles. That was easy.

Then the Moldovans thought they would outsmart the criminals and they imposed a threshold of 1%. What did the criminals do? They owned 0.9%. So, really the key to this is transparent bank ownership, and this goes hand-in-hand with beneficial ownership registries. That said, the criminals are very creative and, if you look at some of these companies, they have owners on paper but those are just proxies, or the formation agents themselves, the people setting up the companies in the first place.

It is easy to look up a name and to find out that the same name that owns the bank is actually involved in 200 or 2000 other companies. It is not physically possible to manage all those companies. I think banking ownership is most important, and it is also important to identify the hubs in the networks because, if we look back at the Russian Laundromat and other laundromats, there is always a handful of companies that are pivots inside the system. In the case of the Russian Laundromat, with USD 20 billion, we are talking about 12 companies only. Most of them are British, Cypriot or Delaware-based companies. Again, just looking for those would make a huge difference. One such company, for instance, is called Westbourne Enterprises Limited. This is a British company that handled more than USD 3 billion inside the laundromat and inside many other schemes, not just the Russian Laundromat. This company was owned by the formation agent, and this formation agent also provided the beneficial owner of the bank account and the beneficial owner for the bank.

You need to look more closely at the infrastructure – not the transactions, which are hard to follow – but look for the beneficial ownership of the main companies and the formation agents involved. If we look at the structure that was set up, no more than five formation agents worked the system over the past 10 years. We are talking about British formation agents, Panamanian formation agents, and formation agents based in Delaware and in Cyprus. So it is just a handful, which can be investigated, and the idea is to go to the root of the problem, rather than to follow the outcome of this deluge of transactions.

Roberts Zīle (ECR). – Being Latvian, I have very mixed feelings today. On the one hand, I do not feel very proud but, at the same time, it is good that we are speaking about this topic today and that Mr Burkāns is here.
Mr Burkāns has mentioned that the FIU in Latvia was established in 1998, when I had the honour of being the Minister of Finance. We introduced anti-money-laundering legislation with a view to moving closer to the western type of banking in the future – to introduce all the institutions necessary – but this was almost 20 years ago. Also, our Financial and Capital Security Market Commission, which supervised the banking sector, and the insurance and capital market, was created at the same time. We did research on the British system, on how to supervise the financial sector, and in 1998 I think this was the correct method.

What is confusing me is the system which Mr Burkāns has been describing here: they do part of the work, but they do not have enough legal rights to send money back, as he has just described it. At the same time, we have a supervisory commission which should know all the bank owners, as outlined by Mr Radu. It would be good if the supervisory commission in Latvia could sit down together with Mr Burkāns, and then we could see the broad picture.

Latvia is a small country in terms of its institutions and the people working there but, of course, not in terms of the amount of laundering which is going on through its banks. That is a shame to us and, moreover, I think it is why certain routes are leading to Latvia. Unfortunately, it is very difficult to fight. Not only do we have a knowledge of the Russian language in Latvia, but we also have a so-called post-Soviet type, or Russian type, of business coming through Latvia, because a lot of them have influence in Latvia since we regained our independence. Unfortunately, we still have a lot of problems in relation to efforts to create a financial service centre in Latvia: we still have about one half of deposits coming from third countries – and we can guess which countries – into our banking sector. And, in terms of deposit requirements, they could create problems if they were to disappear very quickly from the banks.

I think we also have compliance problems. I remember that some of our banks used to have correspondent accounts and dealings with US banks to carry out transactions in dollars, perhaps some 10 years ago, but one by one they disappeared. The last one was the Deutsche Bank, and I think that is also at an end now. But this business is still going on, and that is the background to my questions.

Mr Burkāns, do you see, in relation to your examples, that you would like to send money back? Do you need EU legislation to empower you, on your side, or do you think that we can do it in Latvia ourselves with national legislation – not against international or EU legislation, but to create a so-called joint information exchange in order to understand the picture that Mr Radu describes? Could it be done, at least in part, in Latvia, or do we have to wait for the EU, and try to influence the Commission in this regard?
The second question is for both of you. Do you think that in future Latvia will cease to be named in connection with laundromat-type activities, something which is really shameful for the image of the country?

1-062-0000

**Viesturs Burkāns**, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – Thank you, it is a very good question. Of course I have no doubt that we cannot only change our national legislation, our AML law, because if we had such a situation, it would not be possible to cooperate with other countries, with other FIUs. At least we need changes in the directive, but best of all we need changes in the FATF recommendations. All countries, all FIUs, must cooperate and work in one common manner. This is my answer and I believe in it.

1-063-0000

**Paul Cristian Radu**, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – Latvia, as you know, has featured a lot in our reporting in the past eight years because of the problems there, but I see Latvia taking some steps, some measures against money
laundering, for instance, the financial authority there shutting down banks and withdrawing licences.

One thing that you need to be very careful with, I’m talking about the EU, is Ukraine. Ukraine is very possible to become the new Latvia or the new Lithuania or Estonia. There are banks that are being taken over right now in Ukraine by the same group of people that we are talking about here, and actually one of the people manning all these accounts, the e-banking on this, was based in Ukraine. He was extradited from Kiev to Moldova, he has now been arrested in Moldova, but Ukraine has always played a very important role and Ukraine being now a darling of the EU, this can enable the organised criminals in that country to do business as Europe.

Miguel Urbán Crespo (GUE/NGL). – Madam Chair, listening to the speeches, especially that of Mr Radu, one of the most striking issues is that this is not an exception; it truly is the norm. And this, I believe, is the most worrying thing here, independently of the case in hand.

In fact, one of the most surprising facts revealed by the ‘Panama papers’ is that high net wealth individuals – including criminals – did not even have to go to Panama or to Switzerland; they simply had to step out of their homes and walk round the corner to a branch of a major European bank, which could act as facilitator of money laundering or tax evasion. And I believe that the ‘Russian Laundromat’ is a good example of precisely this.

And, in fact, our concern should be deciding what legislative response to bring to bear on the role of banks as facilitators in money laundering and tax evasion. I believe that this should be a matter of concern for this committee, and our Group intends to push very hard in this direction for the final report.

This is essentially why I wanted to ask both of you, particularly Mr Radu, two questions.

I don’t know if you are aware of this, but the Commission has recently submitted a proposal to levy a fine on facilitators; not only banks, but all facilitators. We believe that this fine is set so low that it could only be effective in smaller cases and not large-scale operations.

In your view, could this measure even help legitimise large unlawful transactions by enabling parties to pay a fine significantly below the overall amount of the transaction?

I would also add a further element to what you have already proposed: would possible withdrawal of banking licences in the event of recurrent transactions not be a more effective deterrent? I think this is an important issue for us in this regard.

And, secondly, with a view to carrying out the necessary and overdue due diligence, do you consider the internal compliance checks carried out by departments in banks to be sufficient? I am asking because we have seen in other cases that self-regulation checks have left a lot to be desired.

In this regard, what other measures could be taken or introduced to enforce due diligence in the case of banks?

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – Thank you for the very interesting questions. I think the most important thing is to understand and to go after the infrastructure. The facilitators, the people setting up these structures, are the pillars of the whole system and it is very important to tackle these. The power of organised crime is that it can operate across many frontiers, but it is also its weakness.
As you said, you can go to a street corner here in Brussels and you can set up a structure that is connected to Panama, to Cyprus, to Delaware, to Nevada, and so on. I think we need to understand a little bit how these people work because there are huge formation agent networks. We saw, in the case of the Panama papers, with the Fonseca lawyers, that they had bureaux all over the world and it is the same with the formation agents in Latvia and in Estonia. They are not only acting inside the country; they have operations all across the world. They have offices everywhere and they connect with other formation agents. So tackling those and the companies that they establish, and knowing that they are suspicious companies because they were established by these particular formation agents, would be a big thing.

I agree with you that fines are not very efficient in this respect because, when we are talking about large-scale money laundering the criminals will simply deduct the fines from their final money. They have done this many times. There is the Wachovia case, which is famous in the US, and there are others.

On internal checks on banks, I think these are not enough because, as we heard here, there are not enough people able to perform deep investigations, and sometimes you need really deep research. Secondly, a lot of the banks just mimic doing due diligence. They use a few databases, PEPs databases, and just look for those. They do not really look for the beneficial owners and do not look in depth at transactions. I think a lot can be done there but all it needs to be tackled from a broader point of view.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – Yes, I agree with the previous speaker. Of course the main point is the work of the banks. I mean, of course we can punish them because their internal control system is not on a high level. But we also understand that the organisers of these schemes very well understand the competence and the possibilities of law enforcement institutions, that we have borders, that we need to send the rogatory letters. But they are acting without borders, sending money from one bank to another bank and so on, and each bank is seeing only the part that they can see – incoming transfer and outgoing transfer – and if the money is changing country immediately after that, that means that another bank is seeing the same situation.

My opinion is that the information exchange among the different banks must be enlarged to exchange information, to see all this network. At the moment many FIUs are involved but there is not one FIU responsible for instigation of all this scheme. Maybe there is really a need for this EU FIU at least to cover the EU area, but you see that this Laundromat scheme is covering many countries, as far as I know 96 countries. We can’t have at the moment the FIU of the world, but at least we need the FIU of the EU to successfully combat these schemes.

Miguel Urbán Crespo (GUE/NGL). – Madam Chair, just on the issue of withdrawing banking licences: do you think the recommendation of withdrawing the licences of banks guilty of recidivism needs to be incorporated?

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – Definitely, I think this is very important. I think the banks need to have this looming over their heads. It is the only way for them to comply, I think.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – I agree, I fully agree.
Heidi Hautala (Verts/ALE).—Thank you very much, Chair. All afternoon we have heard about the lack of – or let’s say the holes between the – FIUs in their work but so far nobody, I think, mentioned Eurojust. I would like to ask Mr Burkāns if there is some experience of the involvement of Eurojust in helping with these investigations? Once I visited the Eurojust headquarters and they were more than willing to get involved if they got a request from either an EU Member State or a state which has a cooperation agreement with Eurojust, such as Moldova which was then the discussion. So that was my question to Mr Burkāns.

Then two brief questions to Mr Radu. You explained how important it is to look at who owns the banks and then you said that it is very easy to find the corresponding account holders. I am very pleased if this is so easy, but could you explain a little bit more why it is so easy and is it really so easy?

My second question to you would be that you mentioned your original discovery from this New Zealand company to the Latvian bank account, that the money belonged to Russian organised crime and some Magnitsky money was involved. Now, just a few days ago there was a report in the American media, including CNN, that some of the Magnitsky money, as it is called, has been traced to some Syrian chemical weapons programme. I don’t know if you know about this, and if it is possible to find this link in a totally reliable way or is it just an assumption?

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity).—As I have said already, since 1998 we have been members of the Egmond Group. There are more than 150 FIUs and we are cooperating, exchanging information among us and this is the main network for us. Of course, if we have a need we can use also FIUnet, or even request and exchange information through Interpol, Europol and also ask Eurojust, but the main network for us is the Egmond Group, with the 150 financial intelligence units.

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project.—On the first question, banks know which other banks own corresponding accounts with their own accounts. So that is something that they need to approve. Smaller banks need to open up bank accounts with bigger banks in order to have access to the international money system, to actually be able to transfer money. That is one thing.

In our case, we identify these corresponding banks – and most of these corresponding banks are public because smaller banks brag about it on their website, saying we have corresponding back accounts with Deutsche Bank, with Bank of New York, etc., etc. – in the spreadsheets that we got from court cases or from leaks. We did identify the routing numbers, we did identify the Swift codes and we did identify the banks that drafted the transfers.

On the Magnitsky money, this is what is so complex about the Laundromats again, as the money is mixed. So it is very possible that a Syrian chemical weapons programme was sponsored via the same platform the Magnitsky money came into, because as I mentioned in the case of the New Zealand company, what we saw was Sinaloa money – Sinaloa is one of the most powerful drug cartels in Mexico and very cruel, very violent – and we saw Vietnamese organised crime, we interviewed a Vietnamese criminal who was transferring money and was explaining how he uses the system, and he was for a while in jail in Bucharest, Romania. So this mixing of money makes it very, very hard to detect what gets in and what goes out, but it is highly possible that that is the case – that the company was sponsored with this money.

We have seen lots of Iranian money in these platforms as well, while sanctions were ongoing.
Chair. – It is now my turn to speak. I would just like to say that transparency for banking shareholders may not be enough. In the case of my own country, Portugal, it’s very transparent that obvious PEPs, particularly from Angola, were shareholders and nobody was doing anything, not even when Portugal was under the Troika supervision, and it took some complaints, formal complaints, to the European Banking Authority for this to start to be dealt with, which is far from over. But definitely seizure, confiscation and withdrawal of licensing, not only for banks but also for intermediaries such as lawyers, is absolutely essential, I would say, in general terms.

But my question to you is: How do you also look at the system of buying a residence in European countries through these ‘golden visa’ investors’ programmes? Is this something which is actually meant not to benefit from the proceeds of the Laundromat once that is done? Or is this also part of the Laundromat system?

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – I think the ‘golden visa’ programmes allow for dirty money to enter the EU and they can be part of the Laundromat, they can be fresh money that is not part of the Laundromat, because unfortunately there are not many questions asked once the capital enters the country. Visas are issued and then investment continues, and it is just business as usual. I think it is very detrimental, I mean having a really negative impact on Europe, on the EU and on many countries.

Chair. – Mr Burkāns, would you like to add something, for instance whether your FIU is actually able to track what is going on in terms of your own investors’ programme system?

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – Yes, we are also covering this question too and have been working in this field for several years, and my conclusion is that we already sent several cases to law enforcement for investigation of money laundering in this area. But the number of these cases is very, very small and I believe that this system as such must be working and mainly there is clean money.

But, together with the police, we are checking this system on a daily basis and it is possible for us with the help of the software to find out the criminal assets and immediately freeze them.

Nuno Melo (PPE). – Madam President, very briefly, it has occurred to me following your question and the reply that your response articulated absolute certainties and, in particular, evoked situations that, I thought, could perhaps be different.

I had the impression that your response implied that granting residency via this investment programme was a very bad thing and was only related to money laundering. I believe I know Portuguese law reasonably well, and under Portuguese law, residency can be also awarded in cases where businesses and create jobs, among other situations. But not everything boils down to the payment of monies in exchange for favours.

There are many cases in my country of entrepreneurs who have invested, built up their companies and created jobs and, in recompense, were granted this benefit. The reply does not appear to cover this situation.
I would like to ask whether you at least acknowledge that there are also exceptions to this rule; not everything should be tarred with the same brush of corruption, as some would wish; we need to live in the real world.

Paul Cristian Radu, Investigative Dashboard, Organized Crime and Corruption Reporting Project. – First of all, I don’t make the rules, I investigate and expose criminal schemes.

Now it’s all a matter of what you put first. Is it America first and you withdraw from the Paris Agreement? Is it Latvia first? It is Estonia first? Is it Portugal first or is it the EU first? That’s what it comes down to in the end, because with ‘golden visa’ programmes, you’re attracting money and investors at the expense of other countries in the EU, depending on what kind of facilities you’re offering.

So yes, from your point of view, if you’re a nation state that manages to attract such money that’s good, inside your borders. Now the problem will be – and I’m not saying that it is all dirty money, a lot of it can be clean money – despite that the moral argument on this, I think this is a golden opportunity for organised crime to invest their money. I’m not saying all that money is organised crime money.

Viesturs Burkāns, Head of Latvian FIU (Office for Prevention of Laundering of Proceeds Derived from Criminal Activity). – I would like to add that in all these cases, whether it’s a Laundromat case or other case, our efforts depend on how good cooperation is with the other FIUs. And I would like to say, thinking about this problem, why, for instance in this Laundromat case, did we not receive a spontaneous report from Moldova, from Russia or from other countries stating that the predicate crime took place in their countries and that they are warning us, please follow the money, please freeze the money, and so on? But they are keeping silence. Why? What are the reasons?

Chair. – Thank you Mr Burkāns. I think we are ending our debate. I can say that obviously creating jobs in our countries is very good – but you can ask an investor from the drug cartel to come and create jobs; it is easy to create jobs with money, whatever the origin of the money. The question is whether we want jobs created out of dirty money, be it from drugs or some other dirty source. That is exactly why we are discussing it. Indeed sometimes the origin of the money can be clean and there is no problem with that. The question is that the system is fuelling a lot of these problems in terms of money laundering.

Nuno Melo (PPE). – I would like to raise, very briefly, a point of order on another subject.

And I would like to make a comment on this, if I may: I understand that this a matter of evaluating an existing political system, for reasons that are essentially political in nature. What I find to be unacceptable is considering honest people who just want to start companies and help the country develop (and I must say that I’m not a federalist, but I would not ascribe to ‘Portugal first’ either, but my country is not a region in Europe, it’s a country) as if they were involved in drug cartels is rather unfair.

Lastly, I would like to make a comment to the Bureau. It’s not really a matter for our guests, it concerns the work for the mission to Lisbon. I will therefore speak if the Chair allows me... (the Chair cut off the speaker). It concerns a publication that will be distributed to Members going to Lisbon – and indeed have already been handed out by another Portuguese Member – which I read with great interest, and noted, unfortunately, that it contained only articles and information from the Bloco de Esquerda (Left Bloc), which forms part of the GUE here at the
European Parliament. It goes by the name of esquerda.net... – I understand that you are receiving instructions to help you come up with a response, but still... – what I found in the publication are articles from esquerda.net, the Bloco de Esquerda, a party in the GUE, alongside the Portuguese Communist Party. Among the articles I read are some by Ana Gomes MEP, which in my opinion contained nothing useful.

As it happens, the European Parliament is more than just the Bloco de Esquerda or the Socialist Party. This parliament runs the gamut from the far left, the Bloco de Esquerda, all the way to the extreme right, and the EPP is to be found between them.

I am also Portuguese, and I will be going on this mission. I myself have written a great deal, many articles, and I have been told something about their translation into English. As far as I am aware, Parliament has an interpreting service, which is capable of taking texts in Portuguese – which, let us not forget, is an official language of the European Parliament – and translating them into English. I myself could help here.

And what I find objectionable is for a pluralist parliament to distribute a publication from the Bloco de Esquerda and the Socialist Party that articulates a view with which, for the most part, I do not agree.

This is thus unfair, Madam Chair. And what I wanted to say to the Bureau was it makes sense for this content to be translated into English too; Portuguese is a fully-fledged official language and not some mere dialect, and Parliament has easy translation systems.

Chair. – Mr Melo, we take note of your views, and will forward them to the Chair, Werner Langen, whom I am replacing today. I have had nothing whatsoever to do with the drafting of this document, and Mr Langen will be sure to respond to the objections you have raised.

I would just like to thank everybody for this very interesting and useful exchange with lots of suggestions for action by our inquiry committee. Thank you so much.

The next meeting of the Committee will take place on 3 July with Commissioner Věra Jourová and on 10 July we will have a meeting with EU Finance Ministers.

(The meeting closed at 17.50)