

# PROFESSIONAL GATEKEEPERS: REAL ESTATE AND LUXURY GOODS

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## G20 COMMITMENTS

As part of the 2015-2016 G20 Anti-Corruption Implementation Plan, the G20 Anti-Corruption Working Group (ACWG) committed to examine the role of intermediaries in facilitating corruption and in the G20 Anti-Corruption Action Plan 2017-2018 a commitment is made to “explore means of promoting a culture of integrity and supporting private sector anti-corruption initiatives, including... in the non-financial professional services sector”. Principle 7 of the G20 high-level beneficial ownership principles is a requirement for financial institutions and DNFBPs (designated non-financial businesses and professions) to verify the beneficial ownership of their customers.

## THE CHALLENGE

Two of the sectors that are particularly attractive for the laundering of corrupt proceeds, in particular in cases of Grand Corruption<sup>1</sup>, are the **real estate** and **luxury goods and assets** sectors. Assessments of national anti-money laundering frameworks consistently identify non-financial sectors as being at risk of facilitating the laundering of corrupt and criminal funds<sup>2</sup>.

In the **real estate** sector, a forthcoming Transparency International assessment of anti-money laundering frameworks in **Australia, Canada, the UK** and the **US** finds multiple weaknesses including: inadequate coverage of anti-money laundering provisions for the sector; limited requirements to identify the beneficial owner of properties; weak rules regarding suspicious transaction reports (STRs); weak or no checks on Politically Exposed Persons (PEPs) and their associates; and inconsistent supervision including lack of sanctions.

In London, for example, there is no data available on the real owners of more than half of the 44,022 land titles owned by overseas companies, whilst nine out of ten of these properties were bought via secrecy jurisdictions, according to recent research by Transparency International UK and Thomson Reuters. In addition, 986 land titles in the data assessed are owned by PEP related companies, although the true number could be much higher<sup>3</sup>.

Transparency International Canada has found that the beneficial owners for 46% of the 100 most valuable residential properties in Greater Vancouver could not be identified, due to their use of anonymous corporate structures and nominees<sup>4</sup>. Meanwhile, 60% of the 800 real estate dealers examined by the Canadian anti-money laundering authority between 2012 and 2016 had significant or very significant deficiencies in their preventive systems<sup>5</sup>.

The largest consumer markets for **luxury goods and assets** are G20 countries including the UK, US, Japan, Germany, France, Italy and China. Multiple sources point to low levels of prevention and high money-laundering risks in luxury sectors. The weaknesses in oversight of the luxury market start with the international standards against money laundering – the Financial Action Task Force (FATF) recommendations<sup>6</sup>. These do not fully cover all

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<sup>1</sup> Transparency International, *What is Grand Corruption and How can We Stop It?*, 2016.

[http://www.transparency.org/news/feature/what\\_is\\_grand\\_corruption\\_and\\_how\\_can\\_we\\_stop\\_it](http://www.transparency.org/news/feature/what_is_grand_corruption_and_how_can_we_stop_it)

<sup>2</sup> Transparency International, *Just for Show? Assessing G20 Promises on Beneficial Ownership*, 2015

[http://www.transparency.org/whatwedo/publication/just\\_for\\_show\\_g20\\_promises](http://www.transparency.org/whatwedo/publication/just_for_show_g20_promises)

<sup>3</sup> Transparency International UK and Thomson Reuters, *London property: A top Destination for Money Launderers*, 2016

<http://www.transparency.org.uk/publications/london-property-tr-ti-uk/>

<sup>4</sup> Transparency International Canada *No reason to hide. Unmasking the Anonymous Owners of Canadian Companies and Trusts*,

December 2016 <http://www.transparencycanada.ca/wp-content/uploads/2016/08/TIC-Infographic-VancouverLuxuryRealEstate-WEB.pdf>

<sup>5</sup> Alexandra Posadzki, The Canadian Press, *Fintrac finds 'very significant' deficiencies at realtors in money laundering probe*, 2016

<http://www.cbc.ca/news/business/fintrac-real-estate-money-laundering-1.3761343>

<sup>6</sup> Financial Action Task Force, *The FATF Recommendations 2012*, [http://www.fatf-gafi.org/publications/fatfrecommendations/?hf=10&b=0&s=desc\(fatf\\_releasedate\)](http://www.fatf-gafi.org/publications/fatfrecommendations/?hf=10&b=0&s=desc(fatf_releasedate))

relevant luxury sectors, focusing mainly on real estate and precious metals and stones. Major luxury markets such as high-end fashion and accessories, art, and luxury transport (from cars to private jets and super-yachts) fall largely outside their scope.

A 2014 risk report on the luxury goods sector found that 56 per cent of respondents in the industry cited bribery, corruption, fraud and money laundering as factors that caused them the most concern. Respondents acknowledged that the globalised nature of the sector had increased the levels of risk<sup>7</sup>. Money laundering risks identified in the luxury art sector include the common use of foreign or offshore accounts and the use of intermediaries to carry out transactions, for example through telephone or online auctions<sup>8</sup>. The Panama Papers also included numerous cases of high-value art being held through anonymous shell companies to disguise their true owners<sup>9</sup>.

According to a 2016 study commissioned by the German Finance Ministry, the majority of money-laundering transactions in the country involve property, cars, artworks, yachts and other luxury items<sup>10</sup>. A Transparency International UK overview of the performance of anti-money laundering supervisory authorities identified a “general lack of awareness of AML obligations” in the luxury goods sectors, together with “lack of information from the supervisor”<sup>11</sup>. A 2016 US State Department report on money laundering notes that in China “valuable assets, such as real estate, art and gold” are used for laundering criminal proceeds<sup>12</sup>. Meanwhile, in Japan dealers in precious metals and stones submitted just five Suspicious Transaction Reports in 2014 (0.0013 per cent of the total)<sup>13</sup>.

## RECOMMENDATIONS

- **G20 countries** should fully comply with, and effectively implement, international FATF anti-money laundering standards for non-financial sectors, in particular for the real estate and high-value good sectors. Priority areas include the requirements regarding customer due diligence; enhanced due diligence for PEPs; identification of the beneficial owner; and effective supervision and sanctions.
- **The G20 ACWG** should work with **FATF** to strengthen standards regarding anti-money laundering obligations in high-value good sectors.
- **The G20 ACWG** should also engage with the B20 to promote greater anti-money laundering due diligence standards in non-financial sectors, in particular real estate and luxury goods and assets.

## SUPPORTING INFORMATION

- *Doors Wide Open: Corruption and Real Estate in Four Key Markets*, Transparency International, forthcoming March 2017, [https://www.transparency.org/whatwedo/publication/doors\\_wide\\_open\\_corruption\\_and\\_real\\_estate\\_in\\_four\\_key\\_markets](https://www.transparency.org/whatwedo/publication/doors_wide_open_corruption_and_real_estate_in_four_key_markets)
- *Tainted Treasures: Money laundering risks in luxury markets*. Transparency International, forthcoming March 2017 [https://www.transparency.org/whatwedo/publication/tainted\\_treasures\\_money\\_laundering\\_risks\\_in\\_luxury\\_markets](https://www.transparency.org/whatwedo/publication/tainted_treasures_money_laundering_risks_in_luxury_markets)
- *No reason to hide. Unmasking the Anonymous Owners of Canadian Companies and Trusts*, Transparency International Canada, December 2016, <http://www.transparencycanada.ca/wp-content/uploads/2016/08/TIC-BeneficialOwnershipReport-Interactive.pdf>

<sup>7</sup> See ACE European Group, *Emerging Risks for the European Luxury Goods Industry to Watch*, 2014 <https://www2.chubb.com/UK-EN/Assets/documents/luxury-goods-report-june-2014-lr.pdf>

<sup>8</sup> See Deloitte, *About the need of forensic and anti-money laundering services for art market professionals*, 2014. [www2.deloitte.com/content/dam/Deloitte/lu/Documents/risk/lu-forensic-aml-art-market.pdf](http://www2.deloitte.com/content/dam/Deloitte/lu/Documents/risk/lu-forensic-aml-art-market.pdf)

<sup>9</sup> See Jake Bernstein, International Consortium of Investigative Journalists, *The Art of Secrecy*, 2015 <https://panamapapers.icij.org/20160407-art-secrecy-offshore.html>

<sup>10</sup> See Deutsche Welle, *Money laundering in Germany 'far bigger than thought'*, 2016 [www.dw.com/en/money-laundering-in-germany-far-bigger-than-thought/a-19205873](http://www.dw.com/en/money-laundering-in-germany-far-bigger-than-thought/a-19205873)

<sup>11</sup> Transparency International UK, *Don't look won't find*, 2015 <http://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/>

<sup>12</sup> US Department of State, *International narcotics control strategy report Volume II: Money laundering and financial crimes* (Washington DC, US State Department, 2016). [www.state.gov/documents/organization/253983.pdf](http://www.state.gov/documents/organization/253983.pdf)

<sup>13</sup> Japan Financial Intelligence Centre, *Annual report 2014* (Tokyo: JAFIC, 2014). [www.npa.go.jp/sosikihanzai/jafic/en/nenzihokoku\\_e/data/jafic\\_2014e.pdf](http://www.npa.go.jp/sosikihanzai/jafic/en/nenzihokoku_e/data/jafic_2014e.pdf)