

GRAVE SECRECY

HOW A DEAD MAN CAN OWN A UK
COMPANY AND OTHER HAIR-RAISING
STORIES ABOUT HIDDEN COMPANY
OWNERSHIP FROM KYRGYZSTAN
AND BEYOND

A REPORT BY GLOBAL WITNESS, JUNE 2012



global witness

Please note that each 'shell' company named in this report is a reference to that particular company registered in the named jurisdiction only. For the avoidance of any doubt, Global Witness does not refer to or infer any link to other companies in other jurisdictions which may have the same or similar names. Any such similarities in the names of companies registered in other countries are entirely coincidental.

This report contains some quotations from press articles, documents and sources that have been translated into English from the Russian or other languages. These are clearly indicated in the references.

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EXECUTIVE SUMMARY

It is so easy to set up a company with hidden ownership in Britain that even a dead man can do it. Global Witness's new investigative report *Grave Secrecy* shows the potential for companies in the UK, New Zealand and elsewhere to be used as cover to launder the proceeds of corruption, tax evasion and other crimes.

It is based on an investigation into a Central Asian bank at the centre of major money laundering allegations, but the findings are much broader, highlighting the shocking inadequacy of how some of the world's major economies monitor the registration of companies.

Kyrgyzstan's largest bank, AsiaUniversalBank (AUB), was nationalised and found by the authorities to be insolvent after a revolution overthrew the regime of President Bakiyev in April 2010. The new Kyrgyz authorities allege that AUB was engaged in large-scale money laundering and an independent audit by a multinational firm supports these claims. However, the bank's former management deny the allegations and claim that the new regime illegally expropriated AUB because it was a successful business and that their indictments by the new authorities are politically motivated.

To get beyond these contradictory claims, Global Witness investigated dozens of companies that held accounts at AUB, many registered in the UK, and found significant indicators that suggest money laundering: hundreds of millions of dollars seemed to be moving through their accounts while they were not engaged in any real business activity.

In the most egregious example, the shareholder of one UK company was a Russian man who had actually died some years before the company was registered. His identity had been used to hide the real owner of a company that appeared to have US\$700 million flowing through its account at AUB while doing no business in the UK and failing to file accounts with the UK corporate registry as required. It is scandalous that lax oversight and enforcement over company registration in the UK allows such behaviour to prosper.

Many of the companies in this report, even if incorporated 'onshore', feature shareholders and directors from offshore jurisdictions such as the British Virgin Islands and the Seychelles. But these are not the companies' true owners. They are employees of corporate service providers who are paid, quite legally, to pimp their identity as 'nominee' shareholders and directors, in effect hiding the identity of their customers: the real owners of the company. Technically, police and tax authorities can request

company ownership information, but if it is cross-border the legal processes are cumbersome and the investigators have to know what they are looking for – a *Catch-22* system that does nothing to prevent money laundering and other criminal misuse of these companies in the first place.

The corporate service providers who set up these companies and act as nominees are already required by the anti-money laundering laws to identify who they are acting for and to report any suspicions to the authorities. But the UK, like many countries, currently does little to enforce this existing standard; it is time it did so.

Global Witness believes a further dramatic change is required: the identities of the real, 'beneficial' owners of all companies should be publicly available in the country they are incorporated, and nominee directors and shareholders should be held liable for their clients' actions. The EU has the opportunity to take the lead on this over the next 18 months as it updates its anti-money laundering laws.

This matters because 'shell' companies – entities that are little more than just a name on a piece of paper – are key to the outflow of corrupt money that keeps poor countries poor. Those who loot state funds through corruption or deprive their state of revenues through tax evasion need more than a bank: they need to hide their identity behind a corporate front. Countries such as the UK might have a company registry and consider themselves 'onshore', but as long as they only collect shareholder information, they are effectively permitting hidden company ownership – which means they are as offshore as any palm-fringed island and will continue to facilitate corruption, tax evasion and other crimes. This needs to change.

The report also shows how:

- × The Kyrgyz economy fell into the hands of just a few men, with up to US\$64 million in state funds, including pension funds, potentially missing from AUB. Maxim Bakiyev, the son of the former Kyrgyz president, was friends with AUB's chairman, and is suspected by the Kyrgyz authorities of being involved. Meanwhile, Maxim has claimed asylum in the UK, saying that is being made a scapegoat by the new authorities in Kyrgyzstan.
- × The billions of dollars in suspicious transactions that apparently moved through AUB could not have been transferred without the help of AUB's relationships with banks abroad – called correspondent relationships. Though Swiss bank UBS was sufficiently concerned about



April 2010, Protestors try to storm the Kyrgyz White House, but what was happening to the money in Kyrgyzstan's largest bank?
Photo: Vyacheslav Oseledko/AFP/Getty Images

AUB to close its correspondent account, others kept their doors open. The largest amounts of money from AUB went through Citibank in New York, the UK's Standard Chartered and Austria's Raiffeisen Bank. Global Witness has asked these banks what anti-money laundering checks they did on AUB; Citibank didn't reply, the others couldn't comment due to client confidentiality.

× AUB's international reputation was helped by the presence of three former US Senators, including former presidential candidate Bob Dole, on its board.

Global Witness believes that the identities of the real owners of all companies should be publicly available in the country where they are incorporated.

Countries who do not do this, such as the United Kingdom and the USA, will continue to facilitate corruption and remain just as much a part of the 'offshore' system as any palm-fringed island.

RECOMMENDATIONS FOR POLICY CHANGE

Specific recommendations relating to this case:

Clearly, there is a lot that the new Kyrgyz government can be doing to continue to address the AUB case and the potential loss of state funds. But given the allegations that money has been laundered, including to other jurisdictions, Global Witness also makes the following recommendations:

- × An immediate investigation should be launched in countries where the companies named in this report are registered into their ultimate beneficial owners, the origin of any money found in accounts, and the role of the company service providers who set them up and fronted for them.
- × There should be an urgent review in the UK of Maxim Bakiyev's asylum case, including investigations into the allegations made in this report. If there is enough evidence of wrong-doing, he should be tried in a British court.
- × The authorities in the UK should more actively investigate and prosecute potential breaches of the Companies Act by nominee directors named in this report who:
 - failed to file accounts;
 - signed dormant accounts while their companies saw huge amounts of money pass through their bank accounts.
- × The authorities in Latvia should investigate the US\$30 million payment apparently received by a Dovepark Limited account at Aizkraukles Bank.
- × The authorities in Switzerland should investigate the possibility of laundering relating to the Kyrgyz Development Fund at Verwaltungs und Privat Bank, following the concerns raised by PwC's audit of the Fund.
- × Banks that possessed correspondent relations with AUB should assist the Kyrgyz authorities in trying to trace possibly laundered or stolen money.
- × The authorities in the US, UK and Austria, in their role as regulators of the correspondent banks through which the largest portion of AUB's funds are alleged to have passed, should investigate whether money allegedly stolen from the Kyrgyz state went through their banks, and if necessary (and possible) should use their money laundering laws to prosecute the Kyrgyz officials responsible. They should also investigate whether the correspondent banks that did business with AUB did sufficient due diligence checks on AUB, including on its links to politically exposed persons, and penalise banks that have failed in these responsibilities.

1. New rules on beneficial ownership

- × The EU should adopt a beneficial ownership registries' standard as part of its review of the Third Anti-Money Laundering Directive during 2012-2013, which includes the following elements:
 - Companies should be required to submit the name and address of their beneficial owner(s) to a national registry which should make the information public.
 - The fees charged on incorporation should be increased to cover the extra costs of collecting this information.
 - National corporate registries should carry out due diligence, on a risk based approach, to verify that the beneficial ownership information provided to them is correct. This need not be that onerous: company service providers are already required by the global anti-money laundering standards to do exactly this. The fees charged on incorporation could be increased in countries where they are currently low to cover the extra costs this would entail.
 - The use of nominees to record the ownership of shares should be permitted, but only if the name of the beneficial owner is also recorded and in the public domain.
 - Those holding company officer positions (i.e. secretary, shareholder or director) who act in accordance with the instructions of a third party should be obliged to disclose this fact and place a copy of their instructions on the public record and disclose who they are acting on behalf of.
 - Company directors, whether nominee or not, should be held personally liable for intentional failure to file accounts, supplying false information, and for any actions taken by the company.
- × Those EU members with offshore connections should use their influence to extend this standard to those jurisdictions.

× FATF should adopt this same standard as its level of compliance for Recommendation 24 at the earliest possible opportunity.

× At the very least, the EU should adopt a standard of publicly available shareholder registries in each of its member states, and its members should put pressure on those offshore jurisdictions with which they have relationships to do the same.

2. Better regulation of trust and company service providers

× Countries that do not regulate trust and company service providers under their anti-money laundering laws should do so, with criminal penalties for the worst failures. FATF should penalise those countries that have failed to do this.

× Those countries that already regulate trust and company service providers under their anti-money laundering laws should make significantly greater efforts to ensure that these standards are enforced.

× Countries should actively enforce their company laws requiring accurate filing of accounts, and hold nominee directors to a standard of responsibility which does not permit them to claim ignorance of the activities of the company they purport to direct.

3. More effective FATF evaluation process

FATF should develop a new methodology for assessing compliance for use in its mutual evaluations. It needs to focus on assessing whether laws and regulations are being enforced, not just whether they are on the books. It should also put significantly more pressure on countries that are not in compliance with its standards, either on paper or in practice.

Who bears legal responsibility for a UK company with offshore nominee directors?

Nominee directors of UK companies who are situated offshore often claim that they do not bear responsibility for the companies that they represent because they are nominees only and have little knowledge of the company's activities and no access to its bank accounts. However, the reality is that legally a nominee director has the same duties to the company as any other 'real' director and is liable in exactly the same way.

An offshore nominee director for a UK registered company will therefore be liable for breaches of the UK Companies Act 2006 – such as failure to keep adequate accounting records and reports, or for wrongfully signing dormant accounts. Ignorance is unlikely to be a defence in these circumstances as it is not enough for a nominee director to say that s/he did not have adequate information about the company's financial activity when s/he

signed the accounts. A nominee director has the same duty to exercise reasonable care, skill and diligence in order to fulfil their legal responsibility as a director.

Sometimes the nominee directors may have signed an agreement with their client – the company's real owner – which purports to specifically exclude them from any directorial liabilities. However, such attempts to exclude a nominee director from any responsibility for breaches of the Companies Act in relation to the company s/he directs will not absolve the nominee from statutory liability and may have no legal effect.

In practice, there are very few consequences for nominee directors that breach their duties because these provisions of this Act are not effectively enforced, either for 'real' directors or nominees. Until they are, lax enforcement of UK company law will continue to be exploited by those looking to hide their ownership and conceal the true activities of their UK companies.

The UK's overseas territories and hidden company ownership

Quite a few secrecy jurisdictions are overseas territories of the UK, such as the British Virgin Islands, the Cayman Islands and Anguilla. As seen in this report, because of these jurisdictions' strict secrecy laws, companies and company officers are often located there, providing convenient cover for those who want to hide their identity behind corporate structures. The company registry of the British Virgin Islands, for example, does not give any information regarding a company's directors or shareholders.

Global Witness is often told by British civil servants that the UK has devolved commercial matters to the territories and has limited influence over them. However, there are indications that this is an over-simplification:

1) The UK took over control of the Turks and Caicos, after extensive problems with corruption there. 2) A recent report into the UK's implementation of the OECD anti-bribery convention says that: "the UK can and has extended international treaties to OTs [overseas territories] and enacted legislation in these territories over their objection. As recently as 2000, the UK exercised these powers to enact legislation in the OTs to ensure their compliance with international human rights conventions [...] the UK acknowledged that 'from a constitutional perspective' the UK has 'unlimited power to legislate for the OTs.'"⁴¹⁸

Given this, the UK should do more to ensure that its overseas territories are not used by criminals to hide their identities behind companies. At the very least, the UK should force all overseas territories to have what the UK currently has – an open shareholder registry that lists the legal owners of registered companies – and ensure that all laws governing companies registered in the territories are being enforced.

INTRODUCTION

This is a story that shows the potential for UK-registered companies to be used as money laundering fronts to move billions of dollars of dirty money, with devastating impacts for the countries where the money comes from.

In the first half of 2010 the small Central Asian nation of Kyrgyzstan¹ imploded. An uprising ousted its president, the second such violent change of government in five years, and parts of the country descended into chaos. Apparent ethnic violence between Kyrgyz and Uzbek communities resulted in the deaths of nearly 500 people.²

This left an already relatively poor country close to economic collapse with the financial sector hit especially hard. Kyrgyzstan's largest bank, AsiaUniversalBank (AUB), was taken over by the Kyrgyz National Bank after officials there alleged that AUB was insolvent due to wide-scale money laundering schemes.³ According to these officials, AUB was using a double book-keeping system that had allowed it to record false transactions and make it appear as if it held significantly more assets than it actually did.⁴ An audit of AUB's activities funded by the European Bank for Reconstruction and Development (EBRD) appears to support these allegations. Money was transferred out of AUB through its relationships with banks abroad (known as correspondent relationships), with the largest amount going through Citibank in New York.⁵ Back in 2006, the Central Bank of Russia had warned Russian banks about dubious transactions through AUB, and as a consequence the Swiss bank UBS stopped its correspondent relationship with AUB.⁶ But plenty of other Western banks kept their doors open to AUB and so the money was able to flow.

Global Witness has seen evidence to suggest that millions of dollars were transferred through banks in Europe and the United States. The origin of this money is unknown though at least one Kyrgyz official has alleged that some state funds, including pension funds, went missing from AUB.⁷ The amount of the state funds possibly missing – up to US\$64 million – is considerably less than the total of some suspicious transactions through AUB, which run into the billions and are a significant proportion of the GDP of Kyrgyzstan. This suggests that, if the allegations of money laundering are accurate, AUB could have been used by unknown launderers for their own purposes as well as by those who might have been embezzling state funds. As the origins of the money in the suspicious transactions are unknown, it is not possible to draw a conclusion about whether or not this financial activity constitutes money laundering without further investigation by competent authorities.

The problems with the UK's system of company registration is shown by one company featured in this report that was legally owned by a man from a remote Russian region who had actually died before the company was registered.

Global Witness has spoken to many sources who attest to a strong relationship between AUB and the former president's son, Maxim Bakiyev, which raises suspicions as to whether the bank was working for the good of its clients or for the country's former ruling elite.⁸ More than 30 people have been indicted in Kyrgyzstan for money laundering and other alleged crimes in its banking sector, including Maxim, AUB's former chairman Mikhail Nadel and two other men who had been AUB board members, Eugene Gourevitch and Alexei Yeliseev.⁹ These men reject the indictments, saying that they are politically motivated and unfounded.

Maxim, described before the revolution by the US embassy in a Wikileaks cable as "smart, corrupt and a good ally to have,"¹⁰ arrived by private jet in the UK some weeks after his father was ousted. He has claimed asylum in the UK,¹¹ though he is, as of June 2012, still listed on Interpol's website as a fugitive wanted by the Kyrgyz authorities.¹² Rosa Otunbayeva, who was interim president of Kyrgyzstan until December 2011, has complained that the West failed to respond to her government's request for assistance in extraditions or tracking down money, unlike its reaction to the potential loss of funds from Libya.¹³

Central Asia suffers from high levels of corruption and features a host of iron-fisted dictators of varying degrees of ability, venality and thuggishness, and so an alleged money laundering scandal involving the president's family may not raise too many eyebrows. Yet this report is not just about "a far off country of which we know little".¹⁴ There is a strong international public interest because it implicates the global financial system to which AUB gained access through a network of relationships with some of the world's biggest banks, including Citibank, Standard Chartered and Austria's Raiffeisen Zentralbank.¹⁵

And far from involving only local players, AUB's reputation was buttressed by Western companies: due diligence firm Kroll investigated its anti-money laundering measures and did not find major causes for concern, while Washington PR firm APCO advised the bank and helped recruit three former US Senators, including former presidential candidate Bob Dole, to AUB's board.¹⁶

The ability of an allegedly corrupt Kyrgyz bank to gain access to the global financial system and the endorsement of respected international figures and firms matters because it shows how easily the system could be abused by those wishing to move dirty money. Global Witness is concerned about this because our research on the global financial system repeatedly shows that those who loot the public purse or launder money are enabled to do so by a combination of banks willing to take the money, and hidden company ownership arrangements that help to hide the looters' identities.¹⁷

The Kyrgyz authorities allege that AUB was a money laundering operation; the bank's former management and owners claim it has been expropriated by the new regime and that the indictments are politically motivated, unfounded and legally unstable. In the absence of any clarity, Global Witness has conducted its own extensive investigations including close analysis of documents that show suspicious transactions of many companies with accounts at AUB in the months before the Kyrgyz uprising in April 2010. This resulting report presents disturbing evidence that 'shell' companies registered in the UK, New Zealand, Belize and Bulgaria, among other places, may have facilitated an extensive money laundering scheme at AUB that took advantage of its correspondent banking relationships to transfer money out of Kyrgyzstan to banks all over the world. This information is of public interest internationally, as well as to the people of Kyrgyzstan.

This story highlights the shocking inadequacy of how some of the world's major economies monitor the registration of companies. One UK company, whose AUB account, according to documents seen by Global Witness, saw about US\$700 million flow through it in just under two years, was legally owned by a man living in a remote Russian region. That might be surprising in itself, but what makes it suspicious is the fact that the man had actually died before the company was registered.¹⁸

In just two and a half years it appears that a staggering US\$1.2 billion passed through the AUB accounts of just three UK-registered companies, yet they never filed any account information at all before dissolving.¹⁹

Two further UK companies appear to have had millions going through their AUB accounts while declaring to the UK's corporate registry that they were dormant, a breach of the Companies Act.²⁰

In relation to all of the companies in this report, the origins of the money are still not known, nor its final destination after it left Kyrgyzstan. The secret ownership arrangements of these companies mean it is also unclear who stood behind these – and other – shell companies. According to documents seen by Global Witness, the Kyrgyz authorities believe that some of these companies may have potential direct links to Maxim Bakiyev, the ex-president's son, and to former AUB chairman Mikhail Nadel.²¹

In an interview with Global Witness, Nadel denied the money laundering allegations made by the Kyrgyz authorities and that Maxim had any involvement with the bank.²² Despite several efforts, Global Witness has been unable to contact Maxim Bakiyev in order to get his response. The British authorities need to work with their Kyrgyz counterparts in order to ascertain the truth of the matter and prosecute those responsible for any wrongdoing if such evidence is found.

The fact that many of these companies were registered in the UK shows that this is not just a story about the problems of 'offshore' jurisdictions: there are just as many problems with opaque shell companies onshore, including in the UK. Current tax regulation does not provide adequate oversight over company registration and allows



The real owners of companies can hide their identities behind legal structures.
Photo: Mortal Coil Media

shady individuals to hide their identity and their activities behind a veil of corporate secrecy with ease, while using our financial system with impunity. The privilege of a limited liability company is being abused by those who wish to hide their identity.

The many ways in which hidden company ownership can be achieved are used quite deliberately by those wishing to shield their activities from the public eye: one respondent to Global Witness's enquiries concerning a company that features in this report said he was asked to advise his client on "jurisdictions where the beneficiaries are confidential".²³ The resulting companies were set up in Belize, which lists no ownership information, and New Zealand, which does list legal shareholding, but in this case the shareholder was a nominee – someone paid to act as the shareholder, thus hiding the name of the real person who actually owns the company. It is no coincidence that people choose such jurisdictions and structures for their companies.

The global anti-money laundering standard requires the corporate service providers who set up these shell companies and act as their directors, shareholders and company secretaries to know who they are acting for, and to report any suspicions they have about these businesses to the authorities.²⁴

There are three problems with the current regulatory set-up. Firstly, some countries have not incorporated this global anti-money laundering standard into their laws, such as the USA and Russia. Secondly, many of those countries that have, like the UK, do little to enforce it.

Thirdly, it is currently quite legal for company service providers to pimp their identity as nominee directors and shareholders to customers about whose business they know little, even if they have been able to tick the anti-money laundering laws box that requires them to have a copy of their customer's passport and proof of address. If the company is later found or suspected to have been used for money laundering or other criminality, they explain that they knew nothing about it. Yet the effect of their actions has arguably been to provide a front behind which that criminal behaviour can take place.

This means that companies registered in the UK and elsewhere are not just vulnerable to misuse by the corrupt, but can also be used for tax evasion and other serious crimes not discussed in this report such as human trafficking, drug trafficking, illicit weapons sales and the movement of terrorist finance. The system is in serious need of an overhaul.

The international community must opt for a system where companies are required to disclose the real person who controls a company – known as the ultimate beneficial owner – and where company service providers are held responsible for their clients' actions. There was a

recent opportunity to make this happen, but the world's richest nations flunked it. The Financial Action Task Force (FATF), the inter-governmental body that sets the global standard for anti-money laundering laws, spent the last two years reviewing its standards, including the ownership information that countries should require from companies incorporating in their jurisdiction.²⁵ In the end FATF made few changes; beneficial ownership registries remain only optional – and so the current criminogenic system prevails.

But the European Commission is now re-examining its rules, and this is where the opportunities for change now lie. Brussels must take heed of this problem, and use its 2012-13 review of its anti-money laundering system to change the rules. An EU Internal Security Strategy published in 2010 has already called for change in this direction, suggesting that the EU's anti-money laundering rules should be used to improve transparency on company ownership.²⁶ Europe should take the lead in opting for a system in which countries must have a registry of ultimate beneficial ownership of companies incorporated there, and those EU countries with offshore connections, such as the UK with its Crown Dependencies and Overseas Territories, should use their influence to extend such a standard to those jurisdictions.

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The first chapter of this report outlines the events that took place in Kyrgyzstan from April 2010, the nationalisation of AUB and the claim made by the new authorities that all was not as it seemed at the bank, as well as the version of events according to AUB's Mikhail Nadel and other key figures.

Chapter 2 sets out Global Witness's investigation of a number of shell companies with accounts at AUB, whose management arrangements and transactions suggest alarming red flags for money laundering. This chapter examines the role of the company service providers that set them up, and looks at the loopholes in the global standards for company registration.

Chapter 3 introduces some of the main characters associated with the bank who are now under suspicion by the Kyrgyz authorities, and sets out the extraordinary control they gained over the Kyrgyz economy and public finances in the last years of President Bakiyev's regime. It then sets out some intriguing links between a few of these characters and several of the shell companies identified in chapter 2.

The final chapter briefly examines the ways that AUB was able to access the global financial system, including its correspondent banks, and the role of a Washington PR firm that put three former US senators on the bank's board. The report concludes with a discussion about what governments must do to end the problem of hidden company ownership.

CHAPTER 1.

ASIAUNIVERSALBANK: COOKING THE BOOKS?

This chapter sets out what happened at AsiaUniversalBank (AUB) from April 2010, its nationalisation and the allegation of the new authorities that AUB was falsifying its financial records and acting as a money laundering vehicle. It also looks at the findings of an independent audit on AUB and covers the response of the bank's former chairman Mikhail Nadel and other key figures, who deny the allegations made against AUB.

When the then-president of Kyrgyzstan, Kurmanbek Bakiyev, was forced to flee the capital Bishkek in fear for his life because of a popular uprising on 7 April 2010, officials quickly took steps to prevent a possible outflow of capital from the country. The following day, the National Bank of Kyrgyzstan replaced the management of several banks, including AUB, the country's largest bank, because of the "circumstances of theft and a threat of theft".²⁷ Global Witness understands from a number of sources that AUB in particular was targeted due to a long-standing and widely-held belief in Kyrgyzstan that the Bakiyev family enjoyed a close relationship with AUB's senior managers.²⁸

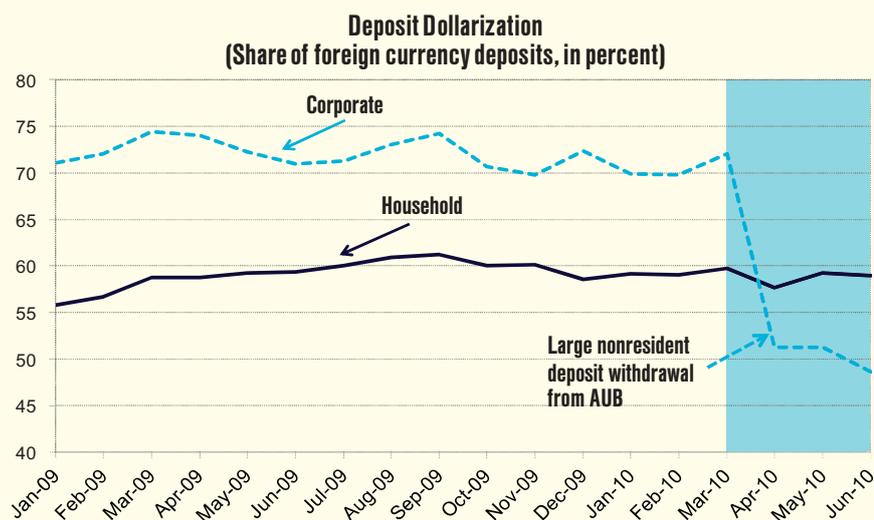
According to statements given to the press by Kyrgyz National Bank officials, these efforts were too late as the

money had already gone.²⁹ AUB was declared insolvent in October 2010 and subsequently nationalised.³⁰ According to the International Monetary Fund (IMF), Kyrgyzstan's financial system was "deeply affected by the crisis, primarily through the impact on the systemically important Asia Universal Bank."³¹ The World Bank also cited the restructuring of AUB as one of the reasons why Kyrgyzstan's economy shrunk in 2010.³²

Officials investigating the bank after the nationalisation were in for a big shock: at first glance the books appeared to show that around US\$240 million had been withdrawn and moved out of Kyrgyzstan in the week before the revolution.³³ An October 2010 IMF report also shows massive withdrawals (see diagram below).³⁴

The former chairman of AUB, Mikhail Nadel, justified some transfers in a press interview, acknowledging a surge in withdrawals at the time of the government collapse, but arguing it was only clients rescuing their funds from a coup: "One has to remember that this is the second revolution in Kyrgyzstan in five years. [...] In hindsight, clients were right to panic [...]. It was clients who withdrew their money and, I believe, it was a normal reaction."³⁵ Nadel's lawyer told Global Witness that Nadel did not withdraw his own personal funds.³⁶

IMF DIAGRAM SHOWING LARGE DOLLAR WITHDRAWALS FROM AUB TO ABROAD BEFORE THE 2010 REVOLUTION



SOURCE: IMF COUNTRY REPORT NO. 10/336, OCTOBER 2010.



President Bakiyev did little to curb corruption and nepotism in Kyrgyzstan while in power.
 Photo: ASSOCIATED PRESS / Alexander Zemlianichenko

However, the story did not end there. After further research, senior officials from the National Bank alleged in the press that AUB had been systematically transferring money out of the country for a period of years and had covered this up by manipulating bank transaction records to hide the fact that the money was gone. Baktygul Jeenbaeva, then-acting governor of the National Bank and now a deputy chair, commented: “Now we can say with confidence that the management of AUB had been falsifying their data over the course of 10 years.”³⁷ Ulan Sarbanov, who was head of the National Bank of Kyrgyzstan from 1999-2005 and “a credible source”³⁸ according to a leaked US government cable, made similar allegations, telling the *Wall Street Journal* that during his tenure he was suspicious of AUB’s activities, as it “could produce different balance sheets on the same day.”³⁹

A Kyrgyz newspaper, citing National Bank deputy chair Abdybaly tegin Suerkul, reported that such huge transfers had not actually taken place in the week of the uprising: “a check has shown that no-one removed US\$240 million [from AUB] a day before the events in April. That sum simply did not exist, as it was only a fiction written down on paper.”⁴⁰ Global Witness understands that millions did leave AUB in the first week of April, but how much in total, and where it went to, remains unclear. According to the article, AUB’s system recorded thousands of fictitious payments and in reality AUB owned much less than what was shown on its accounts and in press reports: “80% of the bank’s own capital was made up of air, it was virtual.”⁴¹

An investigative report by Kyrgyz financial magazine *Finansist* alleged that on the day of the uprising AUB

claimed to have 12 billion Kyrgyz som (US\$265 million) more in correspondent accounts at other banks than it actually held.⁴²

Why did the bank appear to have so little money? According to the National Bank’s then governor, Jeenbaeva, speaking in 2011 in a Kyrgyz press interview: “former shareholders and directors had withdrawn the bank’s assets. [...] AUB showed large amounts of money on its balance sheets, but after a cross-check of 60 correspondent banks it became clear that the money was taken out of the bank almost immediately after it came in.”⁴³

In other words, AUB had, according to National Bank officials, tried to make its books appear balanced in the week before the uprising by creating financial statements that showed around US\$240 million being transferred out of the country. But this money had already been transferred out of the bank at a much earlier time, officials alleged. So when the National Bank launched its investigation, it discovered that AUB was insolvent – as virtually all of its capital had been transferred out of the bank. The bank was taken over by the Kyrgyz authorities and restructured as a result.

The Kyrgyz prosecutor has since alleged that “corrupt schemes [at AUB]” used “falsification of accounts and client transactions,” and that “the maintenance of accounts of fictitious companies and the manipulation of the bank’s balance sheet involving large sums served as an instrument for the illegal extraction of revenue [and] the embezzlement of budget funds [...]”⁴⁴

Following the uprising, the investigative article in *Finansist* documented the “unknown war” from around 2000 between AUB and the National Bank of Kyrgyzstan regarding AUB’s failure, according to the latter, to comply with reporting requirements.⁴⁵ Former chairman of the National Bank of Kyrgyzstan, Ulan Sarbanov, has also gone on the record in the press with his concerns about the way AUB was run, and alleged that when as chairman he tried to help the Russian Central Bank investigate suspicious transactions between AUB and Russian banks, he was forced out of his job by President Bakiyev.⁴⁶

The claims that AUB was involved in illegal activity are supported by an independent audit, funded by the European Bank for Reconstruction and Development (EBRD), completed around February 2011. Global Witness understands that the audit, by multinational accountancy firm BDO, focused on transfers immediately prior to the April 2010 events and concludes that it is probable that AUB was predominantly being used for criminal purposes, that AUB knowingly facilitated money laundering, that the bank’s IT system, BANK++, was probably manipulated to disguise payments and that more than 80% of transactions reviewed were not corroborated by SWIFT, the international payment system. It also said that the bank’s market value was nil, and that its liabilities outweighed its assets.⁴⁷



AsiaUniversalBank's former headquarters in Bishkek. The bank is alleged by the new authorities to have been a money laundering vehicle.

The BANK++ system was provided by a Russian firm called Fininfor, a company that has close ties to AUB through its shareholders and personnel. Mikhail Nadel confirmed to Global Witness that BANK++ was AUB's core banking system and explained that Alexandra Katrin, an AUB employee, was responsible for it.⁴⁸ It is not clear if Alexandra Katrin was involved in the alleged manipulation of BANK++. However, she was an AUB board member from 1999 and, crucially, chair of its audit committee, so arguably she could be expected to have an oversight role of the bank's finances. She worked closely with Fininfor, one of whose shareholders was her husband, who also held shares in AUB.⁴⁹ Katrin has been indicted by the Kyrgyz authorities in regard to the money laundering allegations; her husband has not.⁵⁰ Neither Alexandra Katrin nor her husband responded to questions posed by Global Witness.

Fininfor's General Director said that allegations put to him by Global Witness that BANK++ may have been used fraudulently by AUB, facilitated by close connections between the two companies, were "groundless", and that: "it is just impossible to use the Bank++ for any falsification or fraud. [...] Bank++ has been subject to IT security audit numerous times. Not once did any of the international auditing companies accuse Bank ++ of any improprieties. [...] Fininfor has never been and could not be involved in AUB operations, as it is not a bank, but separate independent software-development entity." He also said the BANK++ system was developed in a way that did not allow any operations which were not within officially approved bank procedures, in line with National Bank of Kyrgyzstan requirements, and added that the allegations made against Fininfor were part of the "political attack" against AUB.⁵¹

Nadel also denies BANK++ had been misused, and maintains his own innocence, vigorously disputing the allegation that AUB was a money laundering vehicle.

He alleges that the authorities at the National Bank of Kyrgyzstan intentionally bankrupted AUB in order to take over its assets illegally. In response to Global Witness's enquiries, Nadel's lawyer stated that the temporary administration installed by the interim government at AUB "improperly wrote off substantial debts owed to AUB and created a false picture of its financial worth."⁵² When Global Witness interviewed Nadel he brought one of his former AUB colleagues, Denis Slobodyan. The latter commented that because AUB was the country's biggest bank with the most easily identifiable assets, "under the pretext of preserving assets of the country, they [officials from the National Bank of Kyrgyzstan] took over the bank and actually destroyed it."⁵³ Nadel's full rebuttal is overleaf. As far as Global Witness is aware, the Kyrgyz authorities have not indicted Denis Slobodyan and there is no evidence that he was himself involved in money laundering or any illegal activity.

This report examines these competing claims about AUB using the evidence available to us, and comes to the conclusion that, despite Nadel's denials, there is evidence of very suspicious financial activity at AUB, and it centres on dozens of companies which held accounts there which are apparent shell companies – that is to say companies that exist in name only and are not involved in any legitimate business activity. One of the reasons we are presenting this evidence is that these companies were incorporated in other jurisdictions, including the UK and New Zealand. Full investigations should be undertaken by the authorities in all of the countries involved.

ANOTHER SIDE TO THE STORY: THAT MONEY LAUNDERING DID NOT TAKE PLACE AT AUB



Was the international community too quick to lavish awards on Mikhail Nadel and his AUB?
Photo: *The Asian Banker*

Former AUB chairman Mikhail Nadel and other key figures mentioned in this report have told Global Witness that they believe the events of April 2010 in Kyrgyzstan were not an uprising but a coup orchestrated by the opposition which had no constitutional foundation and that the accusations against AUB are baseless. Nadel maintains that the nationalisation of AUB was part of the coup, and similarly in breach of the law of Kyrgyzstan.

On the takeover of AUB, Nadel's lawyer told Global Witness that a group of heavily armed men arrived at AUB's head office without notice in the early hours of the morning of 8 April 2010 and demanded immediate and unrestricted access to AUB computer servers. Nadel claims that the consequent placing of AUB into temporary administration, the replacement of AUB management and the purported nationalisation of AUB shares, including his own personal shareholding, were all contrary to Kyrgyz law. He argues that these acts were carried out by the new government in order to illegally obtain the bank's funds and due to a mistaken perception that AUB had been close to the previous regime.⁵⁴

Global Witness wrote to the National Bank of Kyrgyzstan to get its side of the story. In an emailed response a senior official explained that the initial plan had been to recapitalise AUB, but further investigation revealed what the official described as "faked financial reporting" at AUB. The same official believed that as Nadel may have been complicit in the alleged schemes, "the rehabilitation and the return of the bank to the person who [is] suspected of committing serious economic crimes against our country for us is not acceptable."⁵⁵

Nadel's lawyer stated: "[Nadel] also believes that money from AUB safe deposit boxes which belonged to clients of AUB were split between (and signed for by) members of the new government" and provided Global Witness with documentation that in Nadel's opinion shows such signatures. Money from AUB's safety deposit boxes, according to a news article forwarded by Nadel's lawyer, was not transferred to the Kyrgyz budget.⁵⁶ The National Bank official commented to Global Witness: "we assure you that seizure of funds from the bank of cells was conducted in compliance with the procedural rules of our country. [...] All the money is safely deposited in the National Bank as evidence."⁵⁷

The stealing of money from safety deposit boxes, while a serious crime if true, would not in Global Witness's view explain the disappearance of millions of dollars that the bank supposedly held as of April 2010. Nadel's explanation to the press of the disappearance of AUB's asset base was as follows: "If anyone is to be accused of embezzlement, I would like to pose an open question as to how a bank which was audited and confirmed by the new regime to have more assets than liabilities suddenly suffers a tremendous loss in assets and is pushed towards technical bankruptcy, which served as a pre-text for nationalization. This, in my opinion, is embezzlement."⁵⁸

However, the above-quoted press interviews with National Bank officials suggest that the alleged schemes in place at AUB took some time to reveal: Nadel's "open question" regarding how a supposedly asset-rich bank can suffer a loss in assets could, in Global Witness's view, potentially be explained by the alleged manipulation of its banking system that was only discovered some time after the revolution. The EBRD-funded audit of AUB which supported the view that the bank actually had very few assets and was manipulating its transaction reporting system was only completed some ten months after the uprising.

Nadel argues that this forensic audit was conducted after more than six months of government control of AUB by which time the temporary administration had purposefully run down the bank's condition. However, Global Witness understands that the audit, though completed in February 2011, focused on a review of AUB's financial records during the period immediately prior to the April 2010 events. Nadel's lawyer commented: "At the time of our client's last involvement with AUB i.e. pre-revolution in April 2010, AUB was both solvent and, as far as our client was aware, run in accordance with AML [anti-money laundering] procedures." The lawyer added that by April 2010 AUB held one-third of the total assets in the Kyrgyz banking system, and that, until the bank was taken over, the funds remained in AUB's account.⁵⁹

Nadel also rejects the claim that AUB was used to launder or steal money. His lawyer commented: "As recently as 31 December 2008, the [National Bank of Kyrgyzstan] provided a certificate attesting to AUB's compliance with all the relevant regulatory requirements. [...] Mr Nadel and the other directors of the bank placed a high value on the importance of anti-corruption policies – overseeing the implementation of the extensive AML procedures at AUB. [...] During the time that our client was involved in the running of AUB, such corrupt schemes did not take place, or if they did, our client was not aware of them."⁶⁰

Another former AUB board member, not named in this report, told Global Witness that: "as board members, we have done all we can to ensure AUB activities were as transparent as possible [...] As a board member, it would be difficult to know exactly each and every transaction effected. However, with the help of reports from Kroll Associates [see page 62] and the Management Board, we carefully scrutinised the bank's activities – to the best of my knowledge, we are not aware of any of the allegations that have been put forth by the Kyrgyz prosecutors regarding illicit activities."⁶¹

The current Kyrgyz authorities do not agree with the AUB managers' version of events. In February 2011 the Kyrgyz Prosecutor publicly revealed that over 30 people had been indicted in relation to alleged money laundering and fraud schemes at Kyrgyz banks, including AUB.⁶²

However, the independence of the legal system in Kyrgyzstan and other Central Asian countries has long

been a concern of many observers, including the US State Department.⁶³ Global Witness has been given documents by one of those indicted showing that the Bishkek District Court had ordered the case to be sent back to the prosecutor to remedy the deficiencies and procedural irregularities that were in contravention of Kyrgyz law.⁶⁴ For example, many people were indicted without being present.

At a further hearing in December 2011, the matter was sent back once more to the prosecutor "for filling in the investigator gaps." Again, this centred around procedural and evidential deficiencies. It was found that allegations of money laundering were made without any evidence and "the criminal case is completely missing any statutory procedural documents from which it will arise that the defendants have received any income by illegal means and in what amount. [...] The charges are mainly based on investigation suppositions, but not on the criminal case materials [...] [the case has been] investigated superficially with accusatory bias."⁶⁵ Global Witness understands that the investigation continues.

In April 2011, Mikhail Nadel was found guilty in absentia by a Kyrgyz court of money laundering and other crimes. Nadel denies the charges on the basis that they were "completely baseless" and "politically motivated". He believes that he does not feature on the "wanted persons" section of the Interpol website because Interpol shared this view. He told Global Witness that "my unlawful conviction in absentia was undermined by the Kyrgyz Court of Appeal in June last year, after it determined that the evidence the prosecutor's office had relied on was not conclusive." His lawyer added further: "The law of Kyrgyzstan does not permit charging people in absentia. To do so directly contradicts established legal procedure [...] [Nadel] has never been charged, served with proceedings or even informed of the investigations [...] For the charge of money laundering to be brought, the prosecution must first demonstrate that the laundered funds were indeed the proceeds of illegal activities. No such evidence was provided by the prosecution [...] He was incorrectly convicted and sentenced and is now appealing. Mr Nadel denies any wrongdoing or involvement in the alleged corrupt schemes."⁶⁶

Following the response from Nadel's lawyer, Global Witness contacted a senior official in the Kyrgyz Prosecutor's office in May 2012. In answer to a question about whether Nadel's conviction was overturned, the senior official stated that "the verdict of the Leninsky District Court is not repealed but remains in force"^{66b}

It is because of the uncertainties over the indictments and prosecution of these cases, and the claims that they are politically motivated, that Global Witness carried out its own investigation into the companies with accounts at AUB. Since our powers are limited, it is all the more important that competent authorities of countries with a nexus to this case conduct their own investigations to discover the truth of the matter.

CHAPTER 2. THE USE OF SHELL COMPANIES FOR SUSPICIOUS TRANSACTIONS

This chapter sets out Global Witness’s investigation of a number of shell companies with accounts at AUB, whose management arrangements and transactions suggest alarming red flags for money laundering. It examines the role of the company service providers who set them up, and looks at the loopholes in the current global standards for company registration.

i. Transactions through shell companies: an introduction to the evidence

Global Witness has seen three documents which detail the transactions of various companies with accounts at AUB. This section introduces the documents, assesses the possibility that they could have been forged by those seeking to implicate AUB, and concludes that this is very unlikely. It then sets out the reasons for Global Witness’s belief that the structure and activities of these companies constitute significant red flags for potential money laundering.

The first two documents emerged from the Kyrgyz investigation into AUB. According to a source knowledgeable about the case in Bishkek, they record transactions between June 2008 and April 2010 made by six companies with suspicious transactions through the bank. The documents include confirmation of the transactions from the SWIFT international bank payments system.⁶⁷ As this information was produced by the authorities in Kyrgyzstan, Global Witness cannot confirm it is accurate, though we have obtained confirmation of a few of the payments from companies that received them. We refer to these two documents as the “SWIFT” documents. (Note: these documents were not compiled by SWIFT itself, but by the Kyrgyz authorities using information from the SWIFT system.)

The third document appears to be an AUB transaction record for the week before the revolution. At this time the bank was still chaired by Nadel.⁶⁸ It lists the transactions of seven companies with accounts at AUB, and lists dozens of other companies which made payments to or received payments from these seven. We will refer to this as the “AUB” document. If the allegation regarding

manipulation of AUB’s BANK++ system to create fictitious payment records is true, the problem is that we cannot say whether a particular payment listed on this document actually happened or whether it was a transaction on paper only to cover up money already transferred. The source in Bishkek knowledgeable about the AUB case told Global Witness that this document includes a mixture of fake and real transactions.

There would be two ways to verify which transactions were real – by accessing information from the international correspondent banks which are necessary for any cross-border payment, or from the SWIFT system. Global Witness does not have the authority to gather information from either of these sources. However, one company, Sorento Resources Ltd, is listed on both the “SWIFT” and the “AUB” documents and so the transactions as recorded by each document can be compared. This “SWIFT” document also compares the date of the transactions as recorded by the SWIFT system and by AUB’s own BANK++ system.⁶⁹

× Sometimes both the amount of money transferred and the date on which it was transferred matches exactly in both the “AUB” and “SWIFT” documents. The fact that some transactions appear in both documents – which Global Witness obtained from two different sources – means that this is either a highly sophisticated co-ordinated forgery or that some of the transactions did actually take place.

× Sometimes, the “SWIFT” documents and the “AUB” document match on the amounts of money transferred, but the dates differ – by up to 75 days. If the “SWIFT” document contains authentic information from the SWIFT system, this date discrepancy would support the allegation that AUB was producing inaccurate financial reports.

× Other comparisons reveal that the “AUB” document features some payments that are not on the “SWIFT” document. If the “SWIFT” document is genuine and the “AUB” document is a record of transactions as logged by BANK++, then it would seem these payments may never have taken place, giving further weight to the allegation (as made by the EBRD-funded audit) that AUB was falsifying its financial statements.

Many of the companies mentioned on these documents are apparent shell companies – organisations that are not engaged in genuine business other than the transferring of money. However, the “AUB” document also indicates payments made by some of these shell companies to real companies, i.e. to companies engaging in genuine business: a well-known law firm, a subsidiary of a major international oil and gas company, a logistics company and a PR firm. The “SWIFT” documents do not list the payments for six out of the seven companies on the “AUB” document, so Global Witness contacted the real companies in question to see whether these transfers had taken place. Each replied that they had conducted no business with the firms in question and had received no such payment.⁷⁰ If the “AUB” document was created by BANK++ then this is more evidence supporting the allegation of manipulation of the BANK++ system, that is to say AUB logged payments to genuine companies that simply did not occur in reality, on any date.

All of this presumes, however, that the SWIFT information provided by the Kyrgyz authorities is accurate. So, turning now to the “SWIFT” documents, these also list, among thousands of transactions, some real companies as receiving payments. Global Witness contacted some of these real companies, and unlike those on the “AUB” document, this time they confirmed they had received the payments (see box overleaf for why these transactions raise further questions about suspicious activity).⁷¹ Although the volume of transactions means it is not practical to verify them all, the fact that some of these real companies received the payments is further indication that the transactions listed on the “SWIFT” documents genuinely took place. Meanwhile, Nadel has claimed that any evidence used to justify the nationalisation could have been created by the National Bank’s new management.⁷²

To summarise, we have three documents which list dozens of companies making payments through AUB. Two were compiled by and came from the Kyrgyz authorities and so are subject to Nadel’s concerns that officials were playing with the numbers to justify nationalising AUB on the false pretext that it was insolvent. The third document appears to have been produced by AUB’s BANK++ system and thus, if the allegations made against the bank are true, may include transactions that did not take place at that time but were created by a manipulated system to cover up transactions made at an earlier date.

There is a key to the riddle, though, and it lies in the companies themselves. Global Witness searched for the companies listed in all the documents to find out where they are incorporated and what business they are involved in. For many companies, no information is available beyond corporate registry listings; we cannot find them engaged in any legitimate business activity and most submitted no account information to company registries. A few of them, identified in the sections below, filed dormant accounts in the UK, indicating that they had not done any business at all.⁷³

These companies were incorporated mainly in the UK, New Zealand and Belize, and all of them were registered after President Bakiyev’s rise to power in March 2005. Most importantly, many of them are linked to each other via the company service providers that registered them, which immediately makes the companies suspicious since they are purportedly carrying out commercial trading transactions, (i.e. the sale of consumer and industrial goods) with each other. This is covered in more detail on pages 36 to 42 and on the chart on pages 22 and 23.

Global Witness considers that for the information in the documents to have been faked by someone seeking to implicate AUB, the faker would have had to have gone to some extreme lengths. This is because:

- × There are complex links between a significant number of the companies in these documents: they share directors, shareholders and company service providers who set them up. These links exist independently of the transactions recorded on the transaction documents.
- × These links could not be created simply by searching on corporate databases for companies that share the same director, as some of the information is not available in publicly searchable databases and can only be obtained by purchasing the documents from the registry itself, such as in Belize, in which case the faker would either need to know what he was looking for, or to have set all the companies up himself.
- × Forging either the “SWIFT” or “AUB” documents would therefore require prior knowledge of the links between these entities, or would need the forger himself to set them up in the first place. This is unlikely as it would have required four years of planning; some of the companies were registered as far back as 2006.

Therefore, Global Witness believes that although these documents were obtained from the Kyrgyz authorities, the details of the companies that did business at AUB have not been faked. This suggests that further investigation is required, investigation that we believe is in the public interest.

What we can say from our own investigations is that a set of companies exist, as set out below, which do not have obvious business purposes and which all have links to others in the group. Evidence from several documents suggests that many of these companies had bank accounts at AUB. In addition, the “SWIFT” documents in particular appear to show that some of these companies have repeatedly transferred large sums of money to each other. Repeated transactions between related companies are an acknowledged red flag for money laundering activity, as explained in the box overleaf. Given their links to AUB, these companies and the correspondent banking records should be investigated by the relevant authorities to ascertain the facts.

SUSPICIOUS SHELL COMPANIES: A HOST OF RED FLAGS

Our analysis of the shell companies and the “SWIFT” and “AUB” documents has highlighted the following indicators which, taken together, suggest to Global Witness that suspicious activity was taking place:

- × Virtually all of the corporate officers of these companies (directors, shareholders, company secretaries) are acting as nominees – people who are paid to take legal responsibility for these companies, thus hiding the name of the real person to whom the company actually belongs, referred to as the ultimate beneficial owner. This person, the true owner, thus does not necessarily feature on any public documentation and his or her identity remains hidden. This is a widespread and entirely legal practice; for a company to have a nominee director or shareholder does not indicate dubious activity in itself, but when coupled with the other red flags below it raises serious concerns.
- × Many of the companies feature company officers from countries that do not list ownership of companies, such as Belize, Vanuatu, the Seychelles, the Marshall Islands and the British Virgin Islands.
- × The bank transfer documents often log payments as apparent purchases of sports equipment, clothing or building materials, sometimes totalling hundreds of thousands of dollars in separate payments made over several days (or the transactions are listed as loan repayments). This is a classic laundering technique since these are inconspicuous items commonly traded in large quantities.
- × Many of these transactions that look like payments for commercial and industrial goods between companies trading with each other in the open market are in fact between companies that are related to each other through the company service providers that set them up. In some cases, the documents show money transferred from one company to another, and then back again.
- × The cumulative size of some of these transfers is equivalent to a significant proportion of the GDP of Kyrgyzstan. For example, just three companies, which appeared to be doing no real business in Kyrgyzstan, had US\$1.2 billion move through their AUB accounts in less than two years – more than a quarter of the country’s GDP in the year of the revolution.⁷⁴
- × The majority of the UK and New Zealand companies mentioned below filed no account information at all to their company registries, despite, in the case of three UK

companies (see case study 2), appearing to handle over a billion dollars of transactions.

- × The few remaining companies in the UK, as indicated below, actually told Companies House that they were dormant. Two of them (see case studies 1 and 2) appear to have handled millions of dollars during their period of ‘dormancy’.
- × The majority of the payments in the bank documents appear to be transfers between shell companies and there is little record of any of these companies themselves carrying out legitimate ‘real’ business, e.g. manufacturing, selling, advising.⁷⁵ According to a source knowledgeable with the case in Kyrgyzstan, investigations revealed at least 3,000 shell companies with accounts at AUB.⁷⁶
- × Global Witness has evidence that suggests that at least one of these companies may have been used as a payment vehicle in a possible tax avoidance scheme. A New Zealand company mentioned below, Lenymar Limited, appears to have made over 1,300 transactions in just over a year.⁷⁷ The majority of them appear to be suspicious transactions with other shell companies, some of which feature in this report. However, the “SWIFT” documents indicate that some payments were also made to legitimate companies whose businesses encompass a wide range of products and services.

Global Witness contacted some of these firms. One company, a Germany cleaning equipment company, said that a Russian chemical company had purchased cleaning materials from them and paid using funds from an account held by Lenymar at AUB. However, another legitimate German company that was also paid by Lenymar told Global Witness that it had no business with this Russian chemical company, and that its client in this case was another company based in Russia that had purchased fluorescent light tubes.⁷⁸

If this information is accurate, it suggests that a range of different companies were using Lenymar to pay for goods and services in Europe for transportation to Russia. Why would Russian companies buying goods from Germany use a Kyrgyz bank account in the name of a New Zealand company? One possibility might be in order to avoid tax. In 2006, the Russian Central Bank suggested that certain AUB transactions concealed payments for “grey import” schemes – a way for clients in the former Soviet Union to avoid import tax (see page 59).

The fact that Lenymar – a shell company registered in New Zealand⁷⁹ – had an account at AUB which was used by various Russian companies suggests that these payments may fall into this category. It also raises the possibility that companies such as Lenymar could have been used for a variety of suspicious deals through AUB, including tax avoidance, and, potentially, because of the vast amounts of cash flowing through them, as laundering vehicles. Obviously, it would require the powers of competent authorities to investigate this fully.

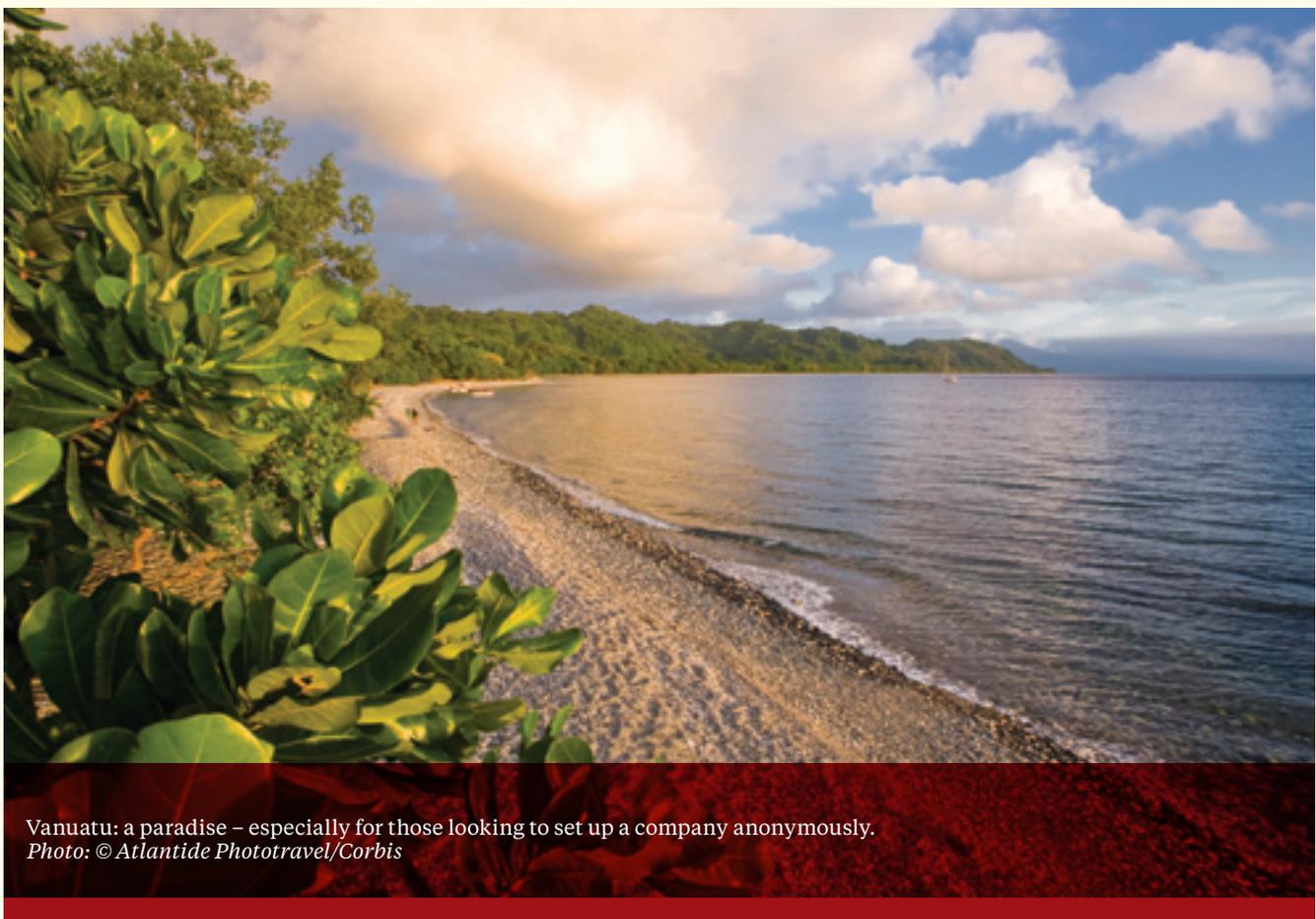
In summary, our investigations show that these companies were often transacting with a group of companies not only whose ownership is hidden but who are related through the use of the same officers or same company services provider, and thus are likely to have been set up by one individual or group for a particular purpose.

In an interview with a Kyrgyz news agency, Nadel defended the fact that many of his clients were offshore companies: “Offshore companies aren’t a carte blanche for stealing. The companies are [used] worldwide [...] to minimize taxation of [these] structures’ owners. Look at the ownership structure of the ten largest banks in the world: their principal owners are offshore funds.”⁸⁰

Nadel is not wrong about the extensive use of offshore companies for tax avoidance. The cross-border tax avoidance strategies of major multinationals are currently receiving growing media and policy attention. The shell companies in this report do not obviously fit into this category, since they do not appear to be subsidiaries of major businesses (unless any links to them are exceptionally well hidden). They may, as the Lenymar example above shows, fit into the category of smaller import-export companies apparently using such payment vehicles to avoid their tax obligations.

The point remains, though, that these companies do not appear to be carrying out any ‘business’ in the ‘real’ sense of offering a product or service and employing people; they are vehicles for moving money. Tax avoidance is one reason for moving money, and while it may fall on the legal side of the illegal-legal divide, the mechanisms used to achieve it create pipelines for the movement of money that is definitely illegal: tax evasion, corruption and organised crime. If a shell company structure can be used for technically legal tax avoidance purposes, it can also be used to move entirely dirty money, as Raymond Baker so clearly pointed out in his book *Capitalism’s Achilles Heel*.⁸¹

This is why Global Witness believes that the shell company structures that feature in this report are at the very least suspicious and support the allegations of money laundering at AUB. While no conclusions can be drawn as the origins of the money are unknown, they are certainly worthy of further investigation. Unless otherwise explained, the red flags above suggest that these companies were mere shells and may have been created to hide other, perhaps illegal, activity. Nadel’s lawyer explained to us that, given Nadel’s supervisory role as the chairman of AUB, he is unable to confirm or deny whether the companies mentioned in this report had accounts at AUB.⁸²



Vanuatu: a paradise – especially for those looking to set up a company anonymously.
Photo: © Atlantide Phototravel/Corbis

ii. How the companies are linked to each other

This section sets out the evidence for one of the main red flags indicating suspicious activity by these companies: the way they are closely related through the service providers that set them up. Two case studies involving UK-registered companies provide compelling examples of these connections, and demonstrate classic techniques of achieving hidden company ownership. They also show how the ‘nominee director’ industry makes a mockery of the UK’s Companies Act. The legislation requires directors to take responsibility for filing accurate company accounts, yet nominees often know next to nothing about the activities of the companies they represent.

The “AUB” document lists the supposed transactions of seven companies. Five of them were registered in Kyrgyzstan: Tez Mobile, CTC Distributors, Furniserv Group, Eurohouse and Ganytime Goods.⁸³ Under President Bakiyev, it became very difficult to discover even legal shareholding information (which some countries list), let alone the real, beneficial, owners of Kyrgyz-registered companies, and so proving links between these companies is impossible without further information.

The sixth company, Brasfort Limited is registered in Belize, according to the “AUB” document. Belize also

does not list owner information. This company was registered on 9 August 2007, according to Belize registry documents.⁸⁴

The final company, Sorento Resources Ltd, is registered in the UK (see case study 1 below). According to documents from the Kyrgyz authorities seen by Global Witness in August 2010, all seven are suspected of being involved in suspicious financial activity, although the authorities have not made public statements about them. Between them they supposedly sold shoes and clothing, metal products, cars and car parts, and financial and consulting services.⁸⁵

The “AUB” document lists the transactions of these seven companies, which therefore gives us the names of dozens of other companies that these seven supposedly did business with. Global Witness has searched through various countries’ corporate registries to see if any of the names match. Of these dozens of other companies:

- × At least ten match the names of companies registered in the UK. Global Witness is concentrating on five of these which are linked to other companies mentioned in the “AUB” document through directorships, date or place of registration or through the company and individuals that registered them. (The remaining five also appear to be shell companies but do not have links to other companies that can be drawn through publicly



Some of the UK companies were registered at mail-forwarding offices, such as this one in London.
Photo: Global Witness

available documents.) The five we concentrate on are: Delanco Limited, Malvin Commodities Ltd, Sofis Untek LLP, Sorento Resources Ltd and Velion Limited. Of these, at least the last three appear to have had accounts at AUB.⁸⁶

× Four companies appear to be registered in New Zealand (Craftur Viss Limited, Economic Group Limited, Lenymar Limited, Magali Limited) and one in Bulgaria (Rideks Consult).⁸⁷ Again, these companies can be linked to the same company service providers that registered or administered other companies mentioned in this report.⁸⁸

× Five of them match the names of entities registered in Belize: Grexton Capital Ltd, Dovepark Limited, Merel Marketing Ltd, Leader Pro Limited, Aron Capital Ltd.⁸⁹ All six Belize-registered companies (including Brasfort, whose transactions are listed in the “AUB” document) were registered between June 2006 and October 2008 and appear to be linked to each other in two groups: all six share just two company service providers and two registered addresses: 1 Mapp Street and Suite 102, Blake Building, Belize.⁹⁰ This second address forms a link to two UK companies, one mentioned by the Kyrgyz authorities in a document seen by Global Witness and one on the “AUB” document.⁹¹ Suite 102, Blake Building is also the registered address of a shell company involved in another controversy in which it is alleged Maxim Bakiyev and his associates took over Kyrgyzstan’s largest mobile phone service provider (see page 56).

The Kyrgyz authorities include the following companies that held accounts at AUB as part of their investigation into suspicious financial activity:

× A further eleven companies registered in the UK which appear to have transferred money out of Kyrgyzstan as part of the alleged scheme at AUB: Aqvenor Ltd,* Avatroniks LLP, Demetra Consulting Ltd, Mastequest LLP, Mediton Limited, Nedox Limited, Novelta Limited,* Perfect Partner Ltd, Taleford Limited, Velcona Limited* and Vestengold LLP*.

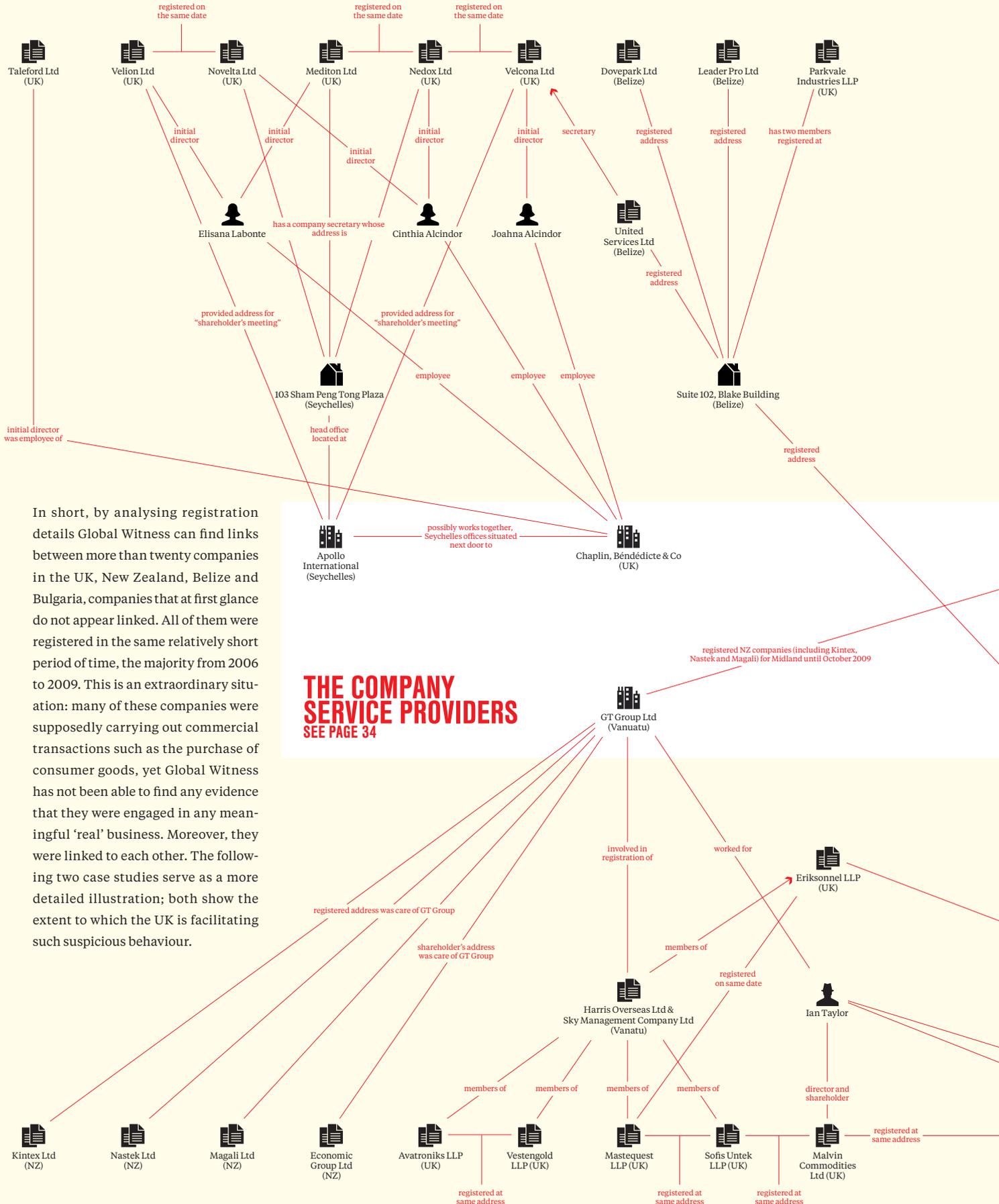
× Another four New Zealand-registered companies: Jorgentur Limited, Lenymar Limited,* Piar Active Limited,* and Merbayer & Co Limited.*⁹²

The asterisked companies also feature on the “SWIFT” transfer documents. The others are not mentioned in the “SWIFT” or “AUB” documents, and we are therefore relying on the Kyrgyz authorities’ investigations that they may be involved in suspicious transactions. However, Global Witness has found links between all of these companies and others mentioned on the transaction documents independently from the Kyrgyz authorities or the “SWIFT” and “AUB” documents. This list is not even exhaustive: the “SWIFT” documents highlight many more companies that link to these entities. Global Witness has concentrated on the ones that appear to be significant in terms of money transferred.



The Blake Building, Belize City, Belize where some of the companies with suspicious transactions were registered.
Photo: Global Witness

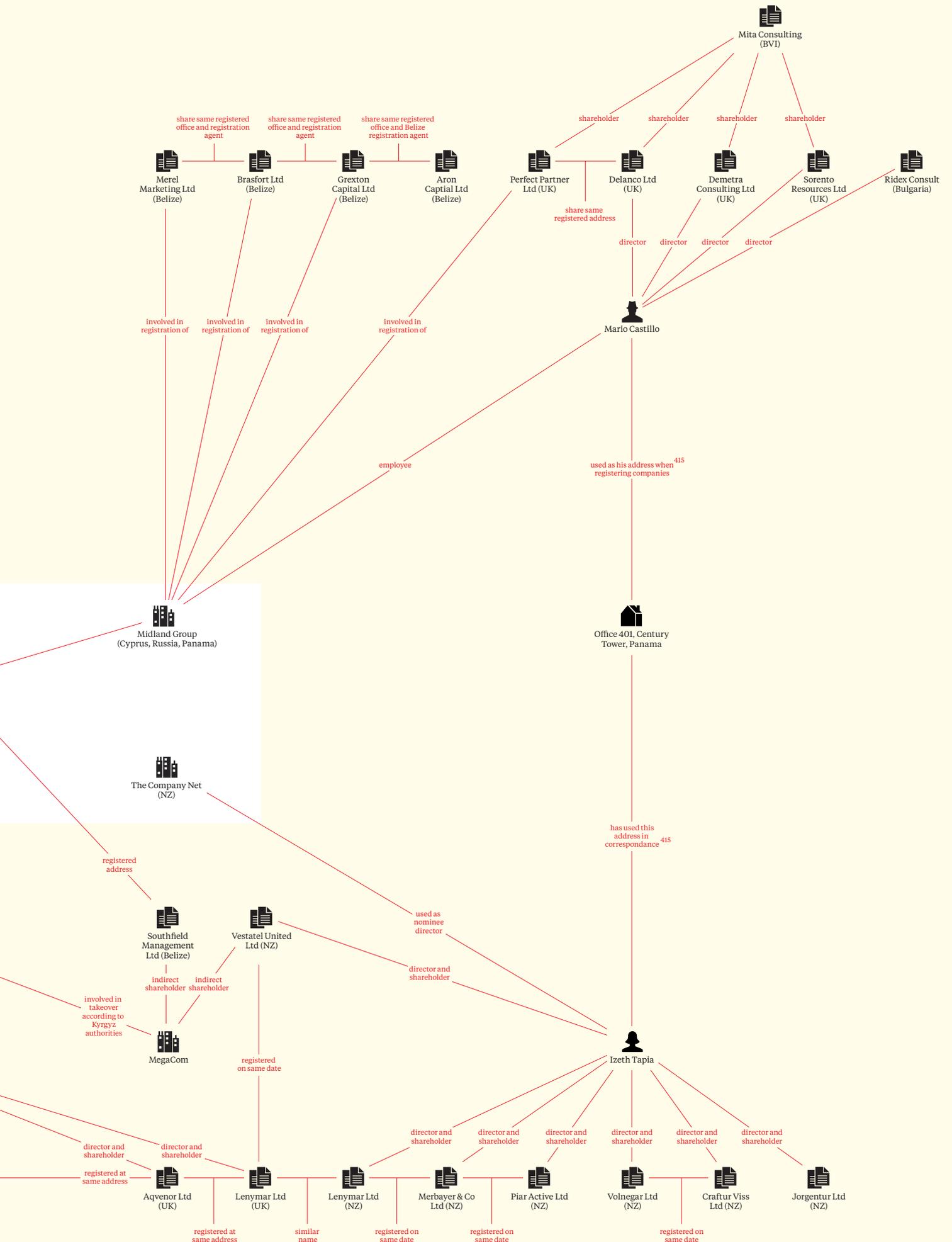
CHART SHOWING THE LINKS BETWEEN THE COMPANIES WITH SUSPICIOUS TRANSACTIONS, THE MEGACOM COMPANIES (SEE PAGE 56) AND THE SERVICE PROVIDERS INVOLVED IN THEIR REGISTRATION



In short, by analysing registration details Global Witness can find links between more than twenty companies in the UK, New Zealand, Belize and Bulgaria, companies that at first glance do not appear linked. All of them were registered in the same relatively short period of time, the majority from 2006 to 2009. This is an extraordinary situation: many of these companies were supposedly carrying out commercial transactions such as the purchase of consumer goods, yet Global Witness has not been able to find any evidence that they were engaged in any meaningful 'real' business. Moreover, they were linked to each other. The following two case studies serve as a more detailed illustration; both show the extent to which the UK is facilitating such suspicious behaviour.

THE COMPANY SERVICE PROVIDERS SEE PAGE 34

registered NZ companies (including Kintex, Nastek and Magali) for Midland until October 2009



CASE STUDY 1: SORENTO RESOURCES LTD



@UKplc's office in West Berkshire: the former registered address of Sorento Resources and over 15,000 other companies.⁴¹⁶
Photo: Global Witness

Sorento Resources Ltd is a UK-registered company with an account at AUB that features on both the “AUB” and “SWIFT” documents. The Kyrgyz authorities suspect that this company has potential direct links to the former president’s son Maxim Bakiyev, though the nature of those links has not been specified to Global Witness.⁹³ The company serves as a typical example of an entity alleged by the Kyrgyz authorities to be involved in money laundering at AUB.

A red flag is raised immediately by the fact that Sorento shares directors and shareholders with other companies whose names feature on the “AUB” document. This raises the possibility that the companies had been set up by the same people as a means of moving money around.

One such company with the same directors and shareholders as Sorento is Delanco Limited. It was registered on 22 June 2007 and features the same original shareholder and director (Mita Consulting Ltd of the British Virgin Islands), the same agent (@UKplc), and the same secretary (Rainmore Management Co of the Marshall Islands) as Sorento.⁹⁴ Its Company House balance sheets for 2008 and 2009 showed just £100, representing 100 shares at £1 each, just like Sorento’s.⁹⁵ Delanco filed dormant accounts in 2009, signed by Mario Castillo, the same Panama-based individual who was the director of Sorento.⁹⁶ Delanco’s registered address was PSS Suite, 27 Old Gloucester Street, London. Global Witness went to this address in January 2012 and found it to be an office of a company called British Monomarks Ltd, a mailbox outfit which provides a forwarding service for companies. The person at the company’s front desk said that approximately 4,000 companies were registered there.⁹⁷ In 2010, Delanco changed its registered address to 5 Jupiter House, Reading, the same address as its and Sorento’s registration agent, a company called @UKplc.⁹⁸

According to the Kyrgyz authorities’ documents, another Sorento-linked company, Demetra Consulting Ltd, is also suspected of involvement in suspicious activity, although this company does not feature on the “AUB” or “SWIFT” documents.⁹⁹ This company was registered in the UK on 31 October 2007; most of its other details (shareholder, director, secretary, agent, 2008/9 accounts) are the same as for Sorento Resources and Delanco.¹⁰⁰ All three companies feature a change of director from Mita Consulting to Mario Castillo of Panama in quick succession: Demetra in August 2008, Delanco in September 2008 and Sorento in October 2008.¹⁰¹

There are further links via company service providers to other entities mentioned above – as shown on the chart on page 22 and 23.

So who does Sorento Resources belong to? The following information is available from Companies House, the registry that collects basic information on all companies incorporated in the UK.

Name: Sorento Resources Ltd.

Registered 6 November 2007.

Address: 6A Vulcan House, Calleva Park, Reading.

Agent: @UKplc Client Director Ltd, 5 Jupiter House, Calleva Park, Reading.

Shareholder and Initial Director: Mita Consulting Ltd, British Virgin Islands.

Secretary: Rainmore Management Co, Marshall Islands.

Dormant Accounts for 2008 & 2009.

Director was changed on 3 October 2008 to Mario Castillo, Panama.

Dissolved 12 October 2010.¹⁰²

This shows that Companies House is not useful for information on who is really behind a company – the ultimate beneficial owner.

At all points in its history, Sorento Resources had an extremely tenuous connection to the UK. Its sole shareholder was a company based in the British Virgin Islands in the Caribbean and its secretary was a management company in the tiny Marshall Islands in the South Pacific. Its sole director for most of its existence was a man called Mario Castillo from Panama, who appears to be a nominee director as he is also listed as a company officer of at least 175 firms registered in the United Kingdom and 100 in New Zealand.¹⁰³ The British Virgin Islands, Marshall Islands and Panama are all classic secrecy jurisdictions whose financial sectors provide services to help people hide their identity behind shell companies.

Sorento Resources did not have a working business address that Global Witness could locate. Its registered address – 6A Vulcan House, Reading – is used by a UK firm, @UKplc, which offers such services as UK incorporation and mail forwarding for clients’ companies. @UKplc is no fly-by-night private company, it is listed on the London Stock Exchange’s Alternative Investment Market and has worked with both the National Audit Office and the National Health Service.¹⁰⁴ Its website boasts that it has registered over 200,000 limited companies.¹⁰⁵ The address from which it operates, Jupiter House in Reading,¹⁰⁶ is shared by another 15,000 companies, which is remarkable given that it is a two-story building with no more than 20 parking spaces in front.

Sorento filed accounting statements to UK Companies House up to 30 November 2008 saying that it was dormant and thus not involved in any business. These accounts were signed by Alice Morwood-Leyland, an employee of @UKplc, and Sorento’s “authorised signatory”. The “SWIFT” document does not cover this period, so Global Witness cannot confirm if Sorento made any transactions during this time.

The following year's dormant accounts, as of November 2009, were signed by Mario Castillo of Panama, who was by then acting as Sorento's nominee director, with the words: "the directors acknowledge their responsibility for [...] preparing accounts which give a true and fair view of the state of affairs of the company [...]."¹⁰⁷

Transfers appear to have been made during this period, however. Data from the "SWIFT" document shows transfers from Sorento's account between 22 December 2008 and 7 April 2010, with nearly US\$32 million of payments transferred between November 2009 and April 2010 to a company called Dovepark Limited¹⁰⁸ (see box on page opposite). If these transactions did take place, this would suggest that when Mario Castillo signed off Sorento's dormant accounts up until 30 November 2009, it was for a period in which the company had done "business", with US\$1.1 million worth of payments made during this accounting year.¹⁰⁸ Global Witness understands that it is a breach, with potential criminal liability, of the Companies Act 2006 to file dormant accounts for a period in which significant financial transactions have taken place.¹⁰⁹ A nominee director would be liable in exactly the same way as any other director.

Castillo told Global Witness in response that: "the request to sign a certain type of accounts was coming to me from our Professional Service Clients who indicated what type of accounts they were requesting to sign [...] I was not aware of any account transaction or bank account opened." Regarding his role providing services for these companies, he said: "Yes, I acted as nominee director ONLY [...] but I had no access to their daily operations, bank account management or any other activity." Global Witness understands that ignorance would be unlikely to be a defence against a potential breach of the UK Companies Act, although the court would consider all the circumstances of the case. Castillo told us that he was not and is not hiding the identity of people alleged to be involved in money laundering and that he follows Panama laws on "Know-Your-Client".¹¹⁰

In addition, a source in Kyrgyzstan familiar with the AUB case said that Sorento saw in total 11 billion soms move through its account at AUB (around US\$255 million), and that it transferred abroad 1.6 billion soms (approx. US\$37 million) using its account at AUB.¹¹¹ However, Global Witness has not been able to verify this allegation.

We wrote to both Alice Morwood-Leyland and the head of @UKplc for their comment. Ms Morwood-Leyland replied the next day: "I do not know of Global Witness and I neither I [*sic*] nor @UK PLC have any authority to disclose any information of any of our clients to a third party."¹¹² Ronald Duncan, @UKplc's Executive Chairman, wrote three days later with a more substantial reply: "It would appear from your letter that one of our customers may have been abusing our services. [...] There are two routes we can take (1) An investigation along side UK Authorities (2) An internal investigation. If there is a UK investigation our preference would be to work with UK authorities as part of the investigation. [...] Please be assured that we treat this matter seriously."¹¹³

In a further response from March 2012, Mr Duncan commented: "We have had no communication from any UK or Kyrgyz authority about the activities that you allege to have taken place."¹¹⁴

What sort of company has its shareholder, director and secretary in three different offshore locations, does not have a real office, and declares firstly that it is dormant and then fails to file accounts, apparently all while handling millions of dollars? And why does the UK allow a company like this, which appears to be conducting no meaningful business in the UK, to be registered here? One document states that Sorento is a "metals and metal processing" company,¹²⁰ and the "AUB" document lists many of its payments as being for "metal products".¹²¹ Global Witness could find no record of the company involved in this business in the UK.



Though registered in the UK, Sorento's Corporate Officers come from far-flung places.

SUSPICIOUS TRANSACTIONS RECEIVED BY AN EU BANK



ABLV Bank in Latvia appeared to receive around US\$30 million from an account at AUB.
Photo: Janis Jaunarajs/Creative Commons

Information from the “SWIFT” document suggests that UK-registered Sorento Resources Ltd transferred from its AUB account a total of US\$31.7 million to an account of Dovepark Limited (Belize) held at a Latvian Bank, Aizkraukles Bank (ABLV).¹¹⁵

This was apparently done in a series of payments from 20 November 2009 to 7 April 2010 – the date of the second Kyrgyz revolution – on which day just under US\$825,000 was transferred in a single transaction. No payment was larger than US\$1 million. Virtually all the payments are listed as for “cold-rolled hot dipped galvanized pre-pain[ted]” metal products.¹¹⁶

These payments also feature on the “AUB” document. Some of these payments were listed as having been made to Dovepark in a ten-day period when Sorento declared it was dormant to Companies House (from 20-30 November 2009). Sorento failed to file accounts the following year

when the rest of these payments were made, before it was dissolved in October 2010.¹¹⁷

This is interesting because Latvia, as part of the European Union, has implemented the EU’s Third Anti-Money Laundering Directive into its law,¹¹⁸ which means that its banks must do checks to identify the real owners of companies such as Dovepark at the point when the account is opened, and, if there is a risk of money laundering, to monitor transactions through the account.

Global Witness wrote to ABLV about these payments and to ask what due diligence it did before allowing the beneficial owners of Dovepark to open an account.

In response, ABLV told Global Witness that it is regulated by Latvian anti-money laundering laws which are consistent with EU legislation, but that it could not comment on this particular case due to national data protection laws.¹¹⁹

CASE STUDY 2: THE UK COMPANY OWNED BY A DEAD MAN

One of the “SWIFT” documents, compiled by the Kyrgyz authorities, logs payments from five companies with accounts at AUB as recorded by the SWIFT system.¹²² Four are registered in the UK and one in New Zealand: Vestengold LLP, Velcona Limited, Velion Limited, Novelta Limited (all UK), and Lenymar Limited (NZ).

The sizes of the transactions made by these companies, according to the “SWIFT” document, are staggering:

- × Between February 2009 and April 2010 Novelta transferred to a company called Volnegar Limited around **US\$115 million**.¹²³ The payments appear to have been made several times a week: just over US\$428,000 on 11 December 2009, US\$399,000 on 14 December 2009, US\$2.91 million on 16 December 2009 and so on.
- × Between June 2008 and October 2009 Velcona transferred to a company called Kintex Limited around **US\$124 million**.¹²⁴
- × Between the same dates Velcona transferred to a company called Nastek Limited a total of around **US\$97 million**.¹²⁵

In all three examples above, the “SWIFT” documents showed large amounts of money were also transferred back in the other direction (itself a red flag for suspicious activity as it suggests the company was simply being used to move money around). As the table opposite shows, the amount of money going in to the accounts of these companies matches approximately the money flowing out.

According to the “SWIFT” documents, a staggering US\$1.2 billion was transferred through the AUB accounts of Novelta, Velcona and Velion in the two years from the time they were registered until the Kyrgyz uprising on 7 April 2010 – some of it after these three companies had actually been dissolved having never filed any accounts.¹²⁷ Global Witness understands that failure to file annual accounts and reports as per the requirements under the Companies Act is a criminal offence under UK law. The fact that these companies were dissolved having not filed accounts while apparently turning over a billion dollars is suspicious to say the least.

Meanwhile Vestengold appeared to make some transactions during a period for which it filed dormant

accounts,¹²⁸ another apparent breach of the UK Companies Act (see page 39).

There are strong links between three of these companies listed on the “SWIFT” documents, Novelta, Velcona and Velion, and two more UK-registered companies called Mediton Limited and Nedox Limited (see chart on page 31). All five had accounts at AUB, are believed by the Kyrgyz authorities to be involved in suspicious activity,¹²⁹ and never filed accounts in the UK.

Velcona, Mediton and Nedox were registered on the same date, 23 April 2008, the other two (Velion and Novelta) on 29 May 2008.¹³⁰ Velion, Mediton and Nedox are all registered at the same address in London.¹³¹ This suggests that the same individual or group of people may be behind these companies.

These companies are slightly different from the other UK-registered companies examined earlier because the shareholders are named individuals, not further companies. However, Global Witness believes that all the shareholders are nominees living in Russia who appear to be ‘fronting’ for someone else – with the effect that the real owners remain hidden. For example, a Russian news website reports that, according to the Russian Federal Tax Service, a man named Mikhail Leonov was banned in 2006 for three years from registering companies in Russia.¹³² Another Russian website states that before the ban he had registered at least 350 companies in Russia.¹³³ A man of the same name is also the shareholder of Velion, featured below.¹³⁴

On the date of Mediton’s registration, 23 April 2008, Russian citizen Ekatarina Bobrova, who replaced Elisana Labonte as the company’s director, held a general meeting for Mediton at Suite 2, 23-24 Great James St, London, according to a Companies House filing. Amazingly, Pavel Kuznetsov, a Russian citizen living in a town 70 km outside of Moscow, held a general meeting for Nedox and Yuri Voznyak from the Russian town of Kaluga held a general meeting for Velcona at the same London address on the same day.¹³⁵ It seems extraordinary that these directors travelled so far for these meetings.

It would be even more surprising if they took place seeing that Yuri Voznyak appears to have died in 2005, three

TOTAL TRANSFERS BY COMPANY ACCORDING TO THE “SWIFT” DOCUMENT²⁶

| | Transfers In, US\$ | Transfers Out, US\$ | Date Of Transfers |
|-----------------------------|--------------------|---------------------|-------------------|
| Velcona Limited (UK) | \$699.0 Million | \$700.0 Million | 17/6/08 – 7/4/10 |
| Velion Limited (UK) | \$365.4 Million | \$365.4 Million | 1/8/08 – 7/4/10 |
| Lenymar Limited (NZ) | \$224.0 Million | \$224.0 Million | 1/4/09 – 7/4/10 |
| Novelta Limited (UK) | \$184.6 Million | \$183.2 Million | 7/8/08 – 7/4/10 |
| Vestengold LLP (UK) | \$41.3 Million | \$41.3 Million | 6/8/09 – 7/4/10 |

OVERVIEW OF NOMINEES ACTING FOR FIVE UK COMPANIES

| NAME | KEY DATES OF ACTIVITY | INITIAL DIRECTOR | SHAREHOLDER AND SUBSEQUENT DIRECTOR | COMPANY SECRETARY |
|--------------------|---|--|---|------------------------------|
| Mediton Ltd | Registered 23 April 2008. Dissolved 3 November 2009. | Elisana Labonte, Seychelles. | Ekaterina Bobrova, Kaluga, Russia. | Eurodata Ltd, Seychelles. |
| Nedox Ltd | Registered 23 April 2008. Dissolved 3 November 2009. | Cynthia Julie Alcindor, Seychelles. | Pavel Kuznetsov, Naro-Fominsk, Russia. | Eurodata Ltd, Seychelles. |
| Novelta Ltd | Registered 29 May 2008. Dissolved 3 November 2009. | Cynthia Julie Alcindor, Seychelles. | Galina Akhmedova, Volsk, Russia. | Eurodata Ltd, Seychelles. |
| Velcona Ltd | Registered 23 April 2008. Dissolved 1 December 2009. | Joahna Alcindor, Seychelles. | Yuri Voznyak, Kaluga, Russia. | United Services Ltd, Belize. |
| Velion Ltd | Registered 29 May 2008. Dissolved 12 January 2010. | Elisana Labonte, Seychelles. | Mikhail Leonov, Moscow. | Joahna Alcindor, Seychelles. |



Kaluga, Russia: a dead man from this town became the owner of a UK company that saw US\$700 million pass through its account, according to documents seen by Global Witness.
Photo: Wikimedia Commons

years before he supposedly owned Velcona and held its meeting. Documents posted on an online Russian legal database from a Russian court case unrelated to the Kyrgyz story, state that a Yuri Vozyak's name had been used fraudulently to run a company after his death. The address of this dead Yuri Vozyak as given in the court documents is the same as that listed in the Velcona filing at Companies House.¹³⁶

On 29 May 2008, a month after this dead man supposedly travelled to London, both Moscow-based Mikhail Leonov and Galina Akhmedova, a Russian citizen who gave her address as in Volsk – a south-western Russian town of 70,000 people, 200 km from the Kazakhstan border and 800 km from Moscow – held general meetings, according to company records, again at Suite 2, 23-24 Great James St, London for the companies they own (Velion and Novelta respectively).¹³⁷

This means that if everything is as it seems, Akhmedova would have undertaken a 4,000 km round-trip (the nearest airport to Volsk is 100 km away) to attend a meeting of a company she owned that was dissolved just over a year later without filing accounts.

Global Witness doubts these general meetings ever took place. If the court case document is accurate, the deceased Yuri Vozyak from Kaluga certainly did not make the trip.

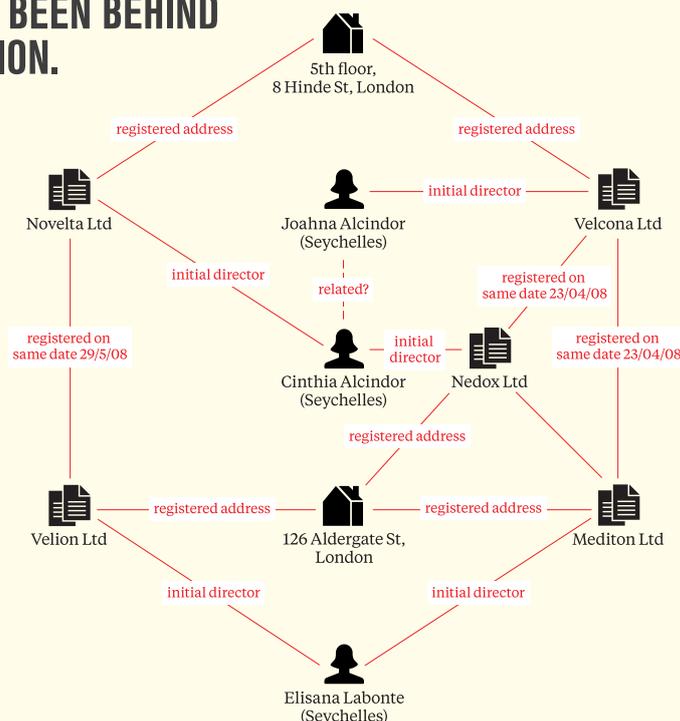
Why would a woman living in Russian make a 4,000 km round trip to London in order to set up a company that was dissolved just over a year later, apparently having done no business?

Global Witness went to this address in Great James St to find it is the office of a corporate service provider called Apollo International. One of its employees said the general meetings “probably” happened but added that the Russian individuals may have sent in their signatures which feature on the Companies House documents. She said that a single individual may be behind such companies because they were registered on the same dates. She added that the shareholders of the above businesses were not Apollo’s clients, and that their client in this case was an agent called Egor Titov to whom we should send any further questions. Titov did not respond to questions posed by Global Witness, sent to an email address provided by Apollo.

Titov, she explained, was the main agent helping the Russian shareholders register companies in the UK using Apollo and that it was therefore his responsibility to perform checks on his clients and “make sure they are real”.¹³⁸

Global Witness understands that if Apollo was providing ongoing services, it would be required in the UK to do due diligence on clients, though it is not clear to Global

LINKS BETWEEN SHELL COMPANIES SUGGEST THAT ONE PERSON OR GROUP MAY HAVE BEEN BEHIND THEIR REGISTRATION.





Did a dead man really travel to this London address to attend a company meeting?
Photo: Global Witness

Witness exactly what role Apollo played in the registration of these companies beyond providing an address for the 'shareholder meetings'.

To summarise, five UK-registered companies shared three nominee directors in the Seychelles, and had Russian owners who 'held' their annual meetings on the same days at the same location in London, despite one of them being dead. Three of the companies – Mediton, Novelta and Nedox – were also all dissolved on the same day. These facts taken together suggest that the same individual or individuals are behind these companies, individuals whose identities remain hidden.

The above information does not suggest that the service providers and nominees who fronted for the real beneficial owners of these five companies have done anything illegal. Neither does it prove illegal behaviour by the real beneficial owners. However, given the red flags in the paragraph above, and the belief of the Kyrgyz authorities that these companies may have been involved in suspicious activity, the UK authorities should investigate the activities of these companies.

Global Witness attempted to contact the individual nominees named in this section. The ones who could be located did not reply.

iii. On company registration, the UK is an 'offshore' jurisdiction like any other

This section shows how the UK, despite its open shareholder registry, is actually just as much a part of the global system permitting hidden company ownership as any 'offshore' financial centre. This is because a UK company can be set up with its real ownership hidden behind other companies in countries that do not list shareholders, or behind nominees who are not required to reveal in company filings that they are nominees. The privilege of limited liability – the original reason for setting up a company rather than trading under one's own name – is now being misused to hide ownership of assets.

Over the years, Global Witness's reports have described dozens of companies registered in Europe that have hidden the interests of the rich and powerful. In *It's a Gas* (2006), a Hungarian company that went on to make millions transporting Turkmen gas to Ukraine was legally owned for a time by an elderly Romanian actress who said she got involved with the company in order to pay her phone bill.¹³⁹ This report has highlighted around fifteen shell companies registered in the UK, although we have found many more. What allows such practices to flourish here?

On the surface it might appear that the UK has fairly strong disclosure requirements. Under the 2006 Companies Act, a UK company has to file with Companies House its registered office address, details of directors and secretary (if it has one), a statement of capital and initial shareholdings (i.e. the legal ownership), and the articles of association.¹⁴⁰

However, as the example of Sorento Resources showed, it is a standard and legal practice to use nominee directors, secretaries and shareholders, as well as mailbox companies for the registered address and boilerplate articles of association. Frequently the directors and shareholders are yet further companies, often registered in offshore jurisdictions where it can be extremely difficult to get access to even the basic legal ownership information that is required in the UK. In effect, the real beneficial ownership is kept secret.

One of the reasons for keeping actual ownership hidden is to make it easier to move dirty money around the globe. Anti-money laundering standards are in place in most countries (although enforced in few of them) that require banks to identify the beneficial owner of any company opening an account, so that they can assess more effectively if they are dealing with a criminal, a terrorist on the international sanctions lists or a corrupt politician from abroad. From the perspective of the money launderer, the chain of ownership leading back to the real beneficial owner needs to be made complicated, with nominees in obscure jurisdictions standing in the way. This makes it harder for a bank to do its due diligence, and much harder for law enforcement to track down the real culprits once the deed is done.

This report has also demonstrated how easy it is to obscure the true ownership and control of UK companies. Britain has been criticised by the international community for failing to ensure that law enforcement and other competent authorities can access adequate, accurate and timely information on the beneficial owner who actually controls a company.

According to the last review carried out by the Financial Action Task (FATF), the international anti-money laundering standard-setter, the UK was only “partially compliant” – the second from bottom rating – with FATF’s Recommendation 33 (the numbers have since changed, so this is now Recommendation 24), which is meant to ensure access to beneficial ownership information. FATF found that “Information on the companies’ registrar pertains only to legal ownership/control (as opposed to beneficial ownership) and is not verified and is not necessarily reliable.”¹⁴¹

So part of the problem is that Companies House does not require UK companies to list their beneficial owner and individuals can use offshore companies and/or nominee shareholders to hide their identities.

Another problem is that Companies House does not appear to be interested in pursuing those who fail to provide the necessary account information. An investigation by accountant Richard Murphy found that in just one year 500,000 companies were dissolved by Companies House, in many cases with almost no information having been submitted to the registry. Murphy revealed that a majority of companies are dissolved because they have not filed the documents required by law: “rather than chase or prosecute them Companies House simply gets rid of the offending companies – so sweeping the problem of non-compliance with the law out of view”.¹⁴²

Tens of thousands of companies are dissolved before they have even filed accounts. While in a proportion of these cases, people might have registered a company then failed to raise the necessary funds or for other reasons been unable to continue setting up a business, this is highly unlikely to be the case with all 500,000 dissolutions a year.

Murphy found that in practice there is very little risk of sanction for failing to provide information to Companies House. And of course, the registry does not verify any of the information that is provided to it, and therefore there is no guarantee that information, even if provided, is accurate. What this means is that the UK is a haven for those seeking to hide their identity behind a company in order to move dirty funds around the world. To be fair to the UK, a lot of other countries are in a similar situation.

In recent years there has been a lot of discussion about ‘offshore’ secrecy jurisdictions providing a convenient front for crooks to hide behind. But anyone wanting to hide their identity can ‘ladder’ the company ownership, which means that one company is owned by another,

which is owned by another, and so on, all in different countries, and making sure to include at some point a country that does not disclose even legal ownership, or permits shareholders to hide behind nominees, at which point the trail goes dead. This means that any distinction between onshore and offshore is meaningless. When a company is registered in a jurisdiction that is a major financial centre such as the UK, it gains the extra credibility of sounding like it is not offshore. But many of the companies mentioned in this report, though registered in the UK, have corporate officers in notorious offshore financial zones with greater levels of secrecy – British Virgin Islands, the Marshall Islands, Vanuatu. This makes the UK just as complicit in this system as any sandy offshore tax haven.

For example, UK companies mentioned above including Sorento, Delanco and Demetra might have been registered in the UK, but their director was in Panama, their shareholder in the British Virgin Islands and their company secretary in the Marshall Islands.

Though this report has highlighted the role of UK, the same could be said of the United States where incredibly over 217,000 companies are registered at one address in Delaware.¹⁴³ We are all part of ‘offshore’.¹⁴⁴

The original purpose of a limited liability company is in its name – to limit the personal liability of individuals going into business in order to promote enterprise and entrepreneurship. The mechanism by which companies do this – the creation of a ‘legal person’ separate from a ‘natural person’ – has a side effect: the ability to hide the real person behind the company. Hidden ownership of assets has now become the main aim of vast numbers of companies in every corporate registry in the world. This means that limited liability companies are being abused for secrecy purposes on an industrial scale – not just by the corrupt, but by tax evaders, fraudsters, human traffickers, drug traffickers and terrorists.

Setting up a company is a privilege, not a right. This privilege is granted by the state and so the state can ask something in return. It is time for national company registers to improve their game. They should all be required to collect and verify, not just legal, but beneficial ownership as well, check that companies are actually trading in the country where they incorporate, and impose serious penalties on company officers who provide false information so that nominees think twice about pimping their identity to people whose business they do not really understand. If registries need to charge a little more than the current incorporation rates in order to do this, then they should do so.

However, there is an additional problem. Shell company schemes are not just about failures of national company registers, they are also about the **company service providers**.

iv. How company service providers help people hide their identity behind opaque shell companies

This section introduces the role of company service providers, who set up many of the shell companies this report has been describing, and provide nominee directors, shareholders and company secretaries, shielding the identities of the real owners from the public. It explains how – in theory – company service providers are regulated for anti-money laundering purposes, as banks are, and must identify the customers they act for. In reality, these regulations are either inadequate or not enforced.

Company ‘webs’ like the ones described in this report can only be set up by professionals willing to register shell companies and hire out their identity to act as nominees. Such organisations also often provide mail-forwarding facilities and sell ‘off-the-shelf’ companies – ready-made companies already registered in particular jurisdictions for customers to purchase. Often shell companies will use more than one service provider to fulfil different roles. These activities are entirely legal.

We are not referring to these companies as ‘offshore’ services providers as some of them operate in the UK or other places of supposedly good repute and, as highlighted above, often register companies in ‘onshore’ locations.

The ease with which an individual can obtain an anonymous company was demonstrated by the Australian academic Jason Sharman. He was able to set up companies with 45 different service providers across the world. Of the 17 service providers in high income countries, 13 offered anonymity. What is particularly shocking about his research is that it was service providers from the UK (seven providers), the USA (four providers) and other major economies who were most willing to provide these secrecy services.¹⁴⁵

The services that these companies offer can be used legitimately by people conducting honest business; for example, an individual may need to create a company quickly and may not want the trouble, or have the necessary knowledge, of arranging everything by him or herself. Some companies will create subsidiaries in other jurisdictions to reduce their tax, which can be a perfectly legal practice, through one that is frequently abusive and, in a time of austerity, increasingly controversial.

However legitimate company service providers and their activities may be, there is a great risk that individuals may use their services to create a company that is a front for illegitimate business.

In most of the corruption cases that Global Witness has investigated across Africa and Asia over a decade and a half, a company service provider has played a role in moving the money (along with a bank). In our view, this means that its actions, although often legal, have facilitated the corruption, and this can happen without any

knowledge by the service provider that the corruption was taking place. This is because it is hard to steal large amounts of money without a means to move it to a safe harbour, and that safe harbour consists most frequently of a bank account opened in the name of a shell company that was set up by a company service provider.

For example, Global Witness’ 2010 report *International Thief Thief: How British Banks are Complicit in Nigerian Corruption* described how a UK-based company service provider incorporated a shell company for a corrupt Nigerian state governor who then received bribes into the company’s UK bank account.¹⁴⁶

According to the Financial Action Task Force (FATF), the global anti-money laundering body, company service providers can be a weak point in the fight against financial crime and can have “varying degrees of awareness of or involvement in the illicit purposes underlying their client’s activities”.¹⁴⁷ It is because of this risk that FATF Recommendation 24 requires countries to regulate trust and company service providers for anti-money laundering purposes.¹⁴⁸ Under the FATF system of non-treaty-based international pressure to do the right thing, countries are supposed to have laws requiring company service providers to carry out the same range of anti-money laundering checks as financial institutions. That includes identifying the beneficial owner, and whether s/he is a public official and therefore a corruption risk (a politically exposed person or ‘PEP’ in the jargon), obtaining information on the purpose of the business activity, and monitoring the customer’s behaviour for suspicious activity, which should be reported to the authorities.

v. The failures in regulation of company service providers

There are two problems with the FATF standard requiring company service providers to do due diligence on their customers. One is that a number of countries are not in compliance with it and simply do not regulate their company service providers for anti-money laundering purposes. The US falls into this category, as does New Zealand (as of June 2012).¹⁴⁹

The other problem is that even where countries have included the FATF standard in their legislation, it has not been done fully and/or is not being effectively enforced in practice. In the UK, company service providers have been regulated for money laundering purposes since 2003.¹⁵⁰ The rules were strengthened in 2007.¹⁵¹ But they are not being effectively enforced.

But before we get to enforcement, there is a loophole even within the UK standard: while there is a clear obligation for these organisations to identify their clients, establish the source of funds, monitor ongoing relationships and to report any suspicious activity, the setting up of a

company does not trigger these requirements if there is no ongoing relationship. HM Revenue & Customs (HMRC), the UK's tax authority, is responsible for regulating company service providers in the UK. It told Global Witness that both it and the Association of Company Registration Agents (ACRA) agreed that the setting up of a company by itself is viewed as a one-off event and therefore not subject to anti-money laundering corporate due diligence.¹⁵²

This point was cited by Jordans, a Bristol-based services provider that registered Velion, Velcona, Mediton, Novelta, Nedox, when Global Witness asked what due diligence it had done on its clients. Jordans said: "In the case of the above companies, we acted as the company formation agent and provided no on-going services to these companies [...] Our view, supported by QC legal advice, is that it is not necessary for a company formation agent to conduct due diligence on a company formation only under Regulation 7 of the Money Laundering Regulations 2007. You may also be aware that any individual can go directly to Companies House and form a company without having to provide due diligence." Jordans said that it does perform due diligence if there is an ongoing relationship, and that: "Jordans has complied in every respect with UK anti-money laundering regulations."¹⁵³

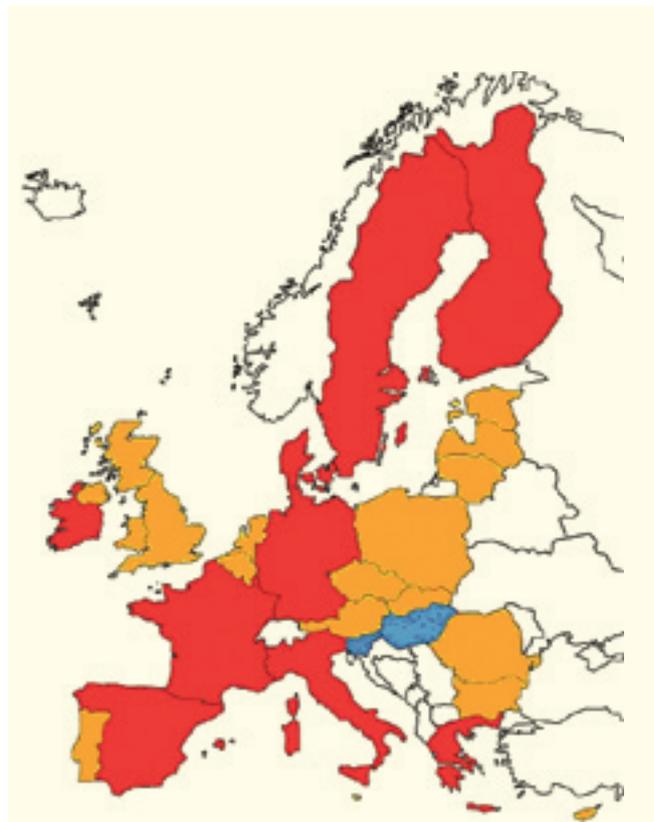
Yet as seen above, the FATF standard is that company service providers should be covered by anti-money laundering regulations including when "acting as a formation agent of legal persons", i.e. setting up a company. The UK's failure to meet this FATF standard means that a company service provider in the UK can set up a company for an unknown person without doing any due diligence checks on them, as long as they are not providing ongoing services such as nominee directorships, shareholdings or a forwarding address. A number of the companies Global Witness has examined fall into this category: the shareholders and directors are nominees in the Seychelles, Russia or Panama (we will come to their due diligence requirements shortly) and so the UK provider who registers the company here has no responsibilities. This company has just slipped through the net. Add a bank account in a jurisdiction that does not enforce customer due diligence requirements on its banks – and potentially you have the perfect money laundering arrangement.

Of course, as Jordans points out, you do not have to use a company service provider to set up a company in the UK, as is the case in some other jurisdictions; you can go straight to Companies House and register it yourself. So this loophole in the requirements on service providers is consistent with the much more significant loophole that Companies House does not require any verification of the information provided to it.

The next question is: where due diligence obligations do exist on UK company service providers, how good is the compliance? Nobody really knows. FATF gave the UK a

"partially compliant" score for this issue in its 2007 evaluation of the UK's anti-money laundering standard – but it was mostly measuring that the requirement is in place in the regulations, not whether it is being enforced; the follow-up report of 2009 also did not pay attention to enforcement.¹⁵⁴ HMRC told Global Witness it has had responsibility for supervising the sector for four years and is still in the process of assessing compliance. It has commissioned research into compliance across the industries that it supervises, including ongoing research on anti-money laundering procedures.¹⁵⁵

HMRC said that its supervisors relied on intelligence provided to them, but added that these supervisors were not investigators and so do not look into specific incidents of wrongdoing. If there are serious concerns then the case might get passed onto HMRC's investigative unit, but this is very rare. The industry thus appears to be largely self-reporting: company service providers will give HMRC their own assessment of how compliant they think they are. This would be inadequate to even deter – let alone stop – abuse of the system by rogue providers, or the clients of those who are failing to do enough due diligence.



NOT GOOD ENOUGH:

Map showing which EU countries are 'compliant' (green, i.e. no country is), 'largely compliant' (blue), 'partially compliant' (orange) and 'not compliant' (red) with the FATF recommendation to regulate company service providers.⁴¹⁴

As of September 2011, 2,385 companies had registered with HMRC for anti-money laundering supervision. Global Witness asked HMRC on how many occasions has it taken regulatory action against a company service provider following a supervisory visit. There have been none so far. Regarding the penalties for non-compliant companies, HMRC commented that thus far “22 penalties have been raised against [company service providers] and a further 17 penalties for businesses that act in more than one capacity, one of which [was a company service provider].”¹⁵⁶ But these penalties were for failure to register, or late registration with HMRC. In other words, no company services provider has yet to be penalised for failure to conduct proper due diligence or implement anti-money laundering controls. This is not an effective enforcement regime, and so the UK is wide open to those who wish to set up opaque shell companies, which can then be misused.

An end to regulatory loopholes in New Zealand?

In New Zealand, where some companies that feature in this report are incorporated, company service providers are not currently subject to the anti-money laundering laws, and therefore are not regulated for this purpose.¹⁵⁷

New regulations due to come into force in June 2013 will bring company formation agents under the anti-money laundering laws, requiring them to do due diligence to

identify the beneficial owners of their customers and file suspicious activity reports.¹⁵⁸

The government has also proposed changes, as yet not adopted, to the company registration rules which would require each New Zealand company to have a resident agent in the country, give new powers to the Registrar of Companies, and introduce criminal offences for directors who commit a serious breach of their duties.¹⁵⁹ The New Zealand authorities must then ensure that these new regulations are properly enforced.

vi. Two dozen companies, but only a handful of company service providers

This section shows how many of the companies with suspicious transactions through AUB were set up by the same few company service providers. It sets out the anti-money laundering obligations in the countries where they operate, and their responses to Global Witness’s questions about what due diligence they did to identify their customers.

Investigations by Global Witness indicate that five company service providers, or people connected to them, appear to be involved in some capacity in all of the shell companies named in this report that were registered in the UK and New Zealand, and some of those in Belize. These service providers are Apollo International of Seychelles, Chaplin Bénédicte & Co of the UK and the Seychelles, GT Group of Vanuatu, the Company Net of New Zealand, and the Midland Group of Cyprus, Russia and other jurisdictions.

While other company service providers were also involved, acting as registration agents or company secretaries as seen above, Global Witness notes that those detailed in the following section appear to have a more sustained involvement in providing services for a number of the companies that have featured in this chapter.

Countries such as the Seychelles, Kyrgyzstan and Belize – where other apparent shell companies featured in this scandal were registered¹⁶⁰ – do not give any information regarding company directors or shareholders; therefore it is more difficult to link companies registered in these jurisdictions to a particular web of companies. Such links may, or may not, exist. However, as seen on pages 22 and 23, several of the Belize companies can be linked to some of the UK companies.

a) Apollo International and Chaplin, Bénédicte & Co Ltd

Many company service providers work together, or will use other service providers for certain aspects of company registration. It is therefore sometimes difficult to establish which service provider was ultimately responsible and took the instruction from the beneficial owner.



The London office of Chaplin, Bénédicte & Co sits above a café – not the most salubrious of locations.
Photo: Global Witness

This is the case with Novelta, Velcona, Velion, Mediton and Nedox, the five UK companies with accounts at AUB whose owners included a dead Russian, which never filed any account information, and just three of which saw US\$1.2 billion go through their accounts at AUB in two years, according to documents seen by Global Witness. (see case study 2 on page 28).¹⁶¹

These companies' original directors all work for Chaplin, Bénédicte & Co Ltd, a British company which also has an office in the Seychelles.¹⁶² Yet the address where the shareholders supposedly convened for these companies' first general meetings is the UK office of a different service provider, Apollo International. Furthermore, the address of the company secretary of Mediton, Novelta and Nedox is located at the same address as Apollo's head office in the Seychelles.¹⁶³

As seen on page 31, an employee in Apollo's UK office told Global Witness that the agent responsible for these companies was a man named Egor Titov. Neither Titov, nor Apollo's head office in the Seychelles responded to questions posed to them by Global Witness. Therefore it is hard to establish what Apollo's exact role was in regard to these companies, but it is possible that Apollo used the services of Chaplin's Seychelles office employees to act as nominee directors. This would be entirely feasible since Chaplin's Seychelles office is next door to Apollo's head office.¹⁶⁴

Under UK anti-money laundering regulations, Chaplin, as a company service provider that is based in the UK and helped to register these companies and provide nominee directorship services, is required to verify the ultimate beneficial owner of these companies, understand the nature of the business and maintain ongoing scrutiny of the relationship (even though the directorship/shareholding was passed to Russian individuals in under a week).¹⁶⁵

The Seychelles, where both Chaplin and Apollo have an office, requires its company service providers to know the beneficial owner of their clients and report suspicions to the authorities. However, a FATF mutual evaluation team assessing the Seychelles' anti-money laundering laws in 2006 was told that "it was very difficult in practice to identify the beneficial owners," and concluded that although company service providers "were relatively more aware of their obligations under the AML [anti-money laundering] Act [than other non-financial institutions such as real estate agents, casinos and lawyers], their level of compliance with the requirements of the AML Act was minimal as they found the obligations too onerous."¹⁶⁶ The FATF report does not make clear which Seychelles-based company service providers it based this view on.

It appears that an individual or individuals were able to use companies registered by Chaplin and Apollo as vehicles to make suspicious transactions through AUB.

Global Witness asked Chaplin and Apollo what due diligence they did to identify these companies' beneficial owners, and whether they filed any suspicious activity reports to the authorities.

Fabien Bénédicte Suant, a partner of Chaplin, Bénédicte & Co, told Global Witness that his company "operates strict Know-Your-Client and due diligence procedures and our provision of trust and company services, whether in the UK or the Seychelles adhere strictly to all rules, regulations and obligations required by the respective Governments, including high levels of Anti-Money Laundering procedures." However, regarding Mediton, Nedox, Novelta, Velion and Velcona, Mr Suant stated that "at no point have we been involved in [these companies], whether by way of registration agent or as company secretary or in any other advisory capacity."¹⁶⁷

This is somewhat surprising, given that three of the companies (Nedox, Mediton and Novelta) were registered at Chaplin's address (126 Aldersgate St, London) and that, as stated above, the original corporate officers of all of these companies were individuals in Seychelles whose names match employees of Chaplin in their Seychelles office. We asked Mr Suant about this apparent inconsistency but received no response.

Apollo International did not reply.

b) GT Group

The GT Group was involved in the registration of two companies that feature as recipients and originators of multi-million payments on the "SWIFT" record of banking transactions through AUB: Nastek Limited and Kintex Limited.¹⁶⁸ The "AUB" document also features a company called Magali Limited.¹⁶⁹ Though these documents do not give the places of registration of these companies, they match the names of companies registered in New Zealand. The address for all three is C/- GT Group, Level 5, 369 Queen Street, Auckland, New Zealand.¹⁷⁰

In addition, Ian Taylor of GT Group Ltd is listed as the director and shareholder of two UK-registered companies, Malvin Commodities Ltd and Aqvenor Ltd, which feature on the bank transfer documents as entities transacting with other companies that held accounts at AUB.¹⁷¹

Three other UK companies believed by the Kyrgyz authorities to have made suspicious transactions (Avatroniks LLP, Mastequest LLP, Vestengold LLP) and another company that features on the "AUB" transfer document (Sofis Untek LLP) also have links to the GT Group.¹⁷²

The GT Group is rather infamous, having been founded by British citizen Geoffrey Taylor, who was born in the small English town of Cleethorpes and emigrated to New Zealand in the 1960s.¹⁷³ He claims to be both a Lord – Lord Stubbington – and a knight, having been



GT Group's former address in Queen St, New Zealand and (inset) GT Group's Ian Taylor. Companies registered by GT Group have been involved in many scandals.
 Photo: Global Witness

given the honorific title 'Sir' by the unrecognized Hutt River Principality in Australia, though he has been reportedly stripped both of this 'knighthood' and his Hutt River 'citizenship'.¹⁷⁴ After his retirement, his sons ran GT Group.

GT Group was registered in the South Pacific island of Vanuatu, and, according to Geoffrey's son, Ian Taylor, "was a small company that incorporated New Zealand companies" and a very small number of companies in five or six other jurisdictions, including Vanuatu.¹⁷⁵

As noted above, company services providers can often provide cover for unscrupulous characters. The GT Group even once advertised that it offers this service: "[Geoffrey Taylor] can act as Director and Shareholder for clients without arousing suspicion that he is a nominee only. In this way he can act as your front man and attract attention away from you."¹⁷⁶

The GT Group can boast a superlative record in acting as a 'front man' for dubious individuals. According to a US money laundering case in which Wachovia bank settled with the Department of Justice, paying a US\$160 million fine, four New Zealand companies were alleged to have laundered the proceeds of Mexican cocaine smugglers.¹⁷⁷

The New Zealand corporate registry shows that the registered address of these four firms were care of the GT Group.¹⁷⁸ A second scandal saw a GT-registered company, Bristoll Export, allegedly used in what has been described as the largest tax fraud scheme in Russian history, involving the alleged theft by Russian officials of tax that had been paid to the state by the investment firm Hermitage Capital Management.¹⁷⁹ Hermitage has called for an investigation.

A third scandal saw GT Group register a company, SP Trading, which was later used to lease an aircraft that transported arms from North Korea bound for Iran.¹⁸⁰ At the time, GT Group's Ian Taylor issued a press release saying that GT Group's role was simply to incorporate and to act as a registered agent for SP Trading "at the request of one of our professional clients based in the United Kingdom", that the client met the due diligence requirements in place with regard to identification of the beneficial owner and that they had no connection to the activities of SP Trading. Their general position is that "GT Group Limited is not responsible for the operation or activities of companies it has incorporated."¹⁸¹

This is the standard response Global Witness receives whenever it contacts company service providers that

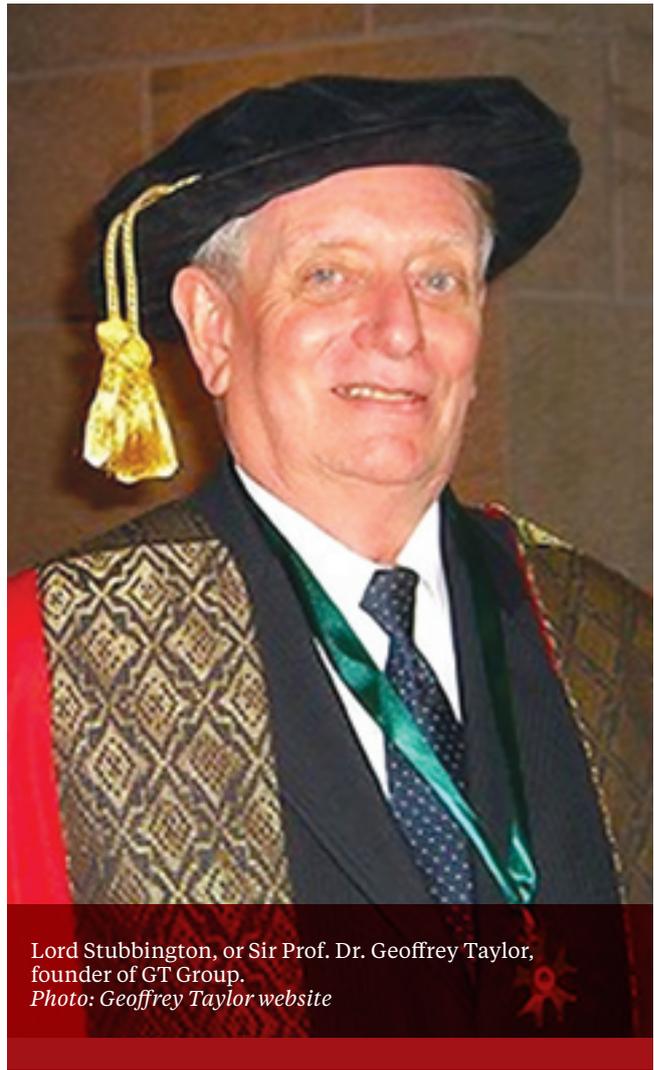
have set up shell companies which then become involved in alleged corruption or other malfeasance. Taylor said that, regarding SP Trading, the day that GT Group learnt of its link to this company, it sent a representative to New Zealand to meet detectives there and provide copies of the passport and address of SP Trading's beneficial owner. He added that GT Group complied with and went beyond all regulation requirements.¹⁸²

Following these scandals, according to Ian Taylor, GT Group was closed by its director in July 2011 because of "inaccurate and negative media reports."¹⁸³ In a press interview, he reacted with outrage, claiming that they were being victimised: "We have spent the last 10 years building a good reputation, good client base and a good business, and it is all gone due to some irresponsible media and a government department that was embarrassed by that media and looked to blame someone."¹⁸⁴

On the apparent transfers of millions of dollars through accounts at AUB of companies registered by GT Group, Taylor commented that neither "GT Group, nor myself have any knowledge or information relating to this. [...] GT Group, nor myself, or any member, or employee of GT Group has ever assisted in the transfer of funds anywhere near the value of [Global Witness's] statements. We provided company formations and nominee services only." He refuted that GT Group's actions had in any way facilitated any criminal activity, adding that: "GT Group offered nominee services for legal tax avoidance and asset protection. No offer was ever made to assist any criminal. Any client suspected of being a criminal, was refused services. Any client suspected of any illegal tax evasion, was denied services."¹⁸⁵ Global Witness has been unable to contact Geoffrey Taylor to get his response.

As mentioned on page 28, according to the "SWIFT" document, Vestengold LLP appeared to make some transactions during a period for which it filed dormant accounts,¹⁸⁶ an apparent breach of the UK Companies Act. Usually the company's director would be responsible for the breach. However, Ian Taylor provided a document to Global Witness, purportedly from the beneficial owner of Vestengold, which states: "I/we [the beneficial owners] fully exonerate our Servicing Agents, Company registration Agents, Nominee Director(s)/Shareholders/Secretary and the Certified Public Accountants submitting the accounts and tax return from any consequences from misstatement."¹⁸⁷ Global Witness understands that this would not be sufficient to avoid liability for a breach of the UK Companies Act for filing dormant accounts during a period when there have been significant financial transactions.¹⁸⁸

Taylor also said that Vestengold "was not incorporated or managed by any GT Group employee or company. The only connection to GT Group was that GT Group incorporated [its two members] for a UK client, at their request and further, GT Group provided a Nominee Director service for these two companies. Neither [member] were ever managed by GT Group, or its employees."¹⁸⁹



Lord Stubbington, or Sir Prof. Dr. Geoffrey Taylor, founder of GT Group.
Photo: Geoffrey Taylor website

Vanuatu does in theory require its company service providers to do anti-money laundering due diligence on their clients. However, FATF has raised concerns that in practice the law is not well implemented.¹⁹⁰ Ian Taylor told Global Witness: "GT Group provided services to professionals and required a copy of the beneficial owner's passport and proof of address to be held on file."¹⁹¹

c) The Company Net

According to corporate filings, another New Zealand company service provider, The Company Net, was involved in the registration or administration of seven companies mentioned in this report (and at least another four companies whose names appear in the "SWIFT" documents but do not feature in this report).¹⁹² One company, mentioned below, is Vesatel United Ltd, which, according to somebody close to the deal, had a stake in the firm that controversially took over the Kyrgyz mobile telephone company MegaCom (see page 56).

Global Witness sent both an email and a letter to Glenn Smith, the director of The Company Net, for his comment. He did not respond.

All seven companies that were registered by the Company Net feature a Panamanian nominee director, Izeth Tapia. When contacted by Global Witness she replied: “I am required by law to carry out anti-money laundering due diligence [...] There has been no reason to suspect any illegal activity [by the companies in question] in the time period in question. [...]” Tapia confirmed she had identified the beneficial owners and obtained information on the business activity of the companies.¹⁹³

When Global Witness asked in a follow-up email which company she worked for, she replied: “I live with my little baby in a small town in the interior of the country and I have no job, no work for anyone, I’ve only been a nominal head these corporations and I have nothing more to say about this topic.”¹⁹⁴

At the time these companies were set up by the Company Net, New Zealand did not regulate its company service providers for anti-money laundering purposes – although it is now planning to do so (see page 36).

d) Midland Group

The Midland Group was involved in the registration of some of the companies that the Kyrgyz authorities believe may be involved in the alleged money laundering scheme at AUB, including Sorento Resources which according to the “SWIFT” documents transferred nearly US\$32 million to an obscure company in Belize in the four months before the Kyrgyz uprising. The link to Midland is provided by Mario Castillo, who works for Midland Counselors at Law in Panama, and is the director of Sorento, Demetra and Delanco and Bulgarian firm Ridex Consult.¹⁹⁵ Midland was also involved with the registration of Merel Marketing Ltd, Brasfort Limited and Grexton Capital Ltd in Belize and Kintex Limited, Magali Limited and Nastek Limited in New Zealand.¹⁹⁶

Midland Counselor’s associate company, Midland Consult, is a company service provider with its head office in Cyprus, which specialises in incorporation and providing nominee shareholders and directors. It has offices in Hong Kong, Nicosia, Panama, Riga, Moscow, St. Petersburg and Kiev.¹⁹⁷ According to one website, the head of the group, Maxim Stepanov, worked as a Russian diplomat in several embassies and consulates throughout Latin America until 1997.¹⁹⁸

In 2007, Midland’s website stated that a “tailor-made” company could be incorporated within 20 working days but adds that “ready-made” companies can be purchased immediately (“Click here to see the list of ready-made companies”) and offered the services of a nominee director or shareholder for an extra charge of US\$300 per year.¹⁹⁹ Its current website helpfully adds that “Information about the beneficiary: the register of directors & secretaries in GB [Great Britain] is public. Information about the beneficial owner may be provided only to the secretary & are kept private.”²⁰⁰

Depending on where Midland carries out its services, different regulatory structures apply. As has already been discussed, the UK does regulate company service providers for anti-money laundering purposes although supervision and enforcement are lacking. Belize also requires company service providers to do due diligence on their clients.²⁰¹ At the time of the transactions featured in this report, Panama did not regulate company service providers for anti-money laundering purposes; a new law came in requiring this in February 2011. Russia does not have this requirement.²⁰² The Marshall Islands, where Rainmore Management Co was registered (which provided company secretarial services for Sorento, Demetra and Delanco) does not regulate its company service providers either.²⁰³

Global Witness wrote to the head of the Midland Group, Maxim Stepanov, about the companies featured in this report in which Midland had involvement, to find out what due diligence had been done on its clients. He said that Midland does ‘know your customer’ checks, and that “we at Midland Panama office which is a Law firm DO KEEP the DD [due diligence] information on the beneficiaries of the following companies.” He added: “We can provide the clients details and contact information on EVERY company we incorporated at first request of the Competent Authorities.” (Although not to Global Witness, since “you are not the Authority to disclose such information.”)²⁰⁵

Stepanov clarified that Midland acted as corporate agents only and did not have any involvement in the day-to-day businesses or financial transactions of the companies. Global Witness has seen a page from Midland’s website in 2007 that offered to open bank accounts at “top European banks” including AUB and Latvia’s Aizkraukles Bank.²⁰⁴ Stepanov said that Midland did not open any bank accounts for these companies. He also said that Midland’s involvement ceased “on the transfer of the incorporated company documents to professional intermediaries and financial institutions.”²⁰⁵

However, companies he was referring to in making this last statement included Delanco, Demetra and Sorento Resources. Global Witness notes that Mario Castillo of Midland Counselors at Law in Panama, a company founded by Stepanov,²⁰⁶ was a nominee director for these companies and signed their dormant account submissions to Companies House, suggesting that Midland’s role did continue past incorporation.²⁰⁷ In a further letter Stepanov said that while Castillo performed a nominee director role, he “had no access to any financial transactions or daily operations of the companies” and “was getting instructions on what type of accounts to sign from Professional Service Clients on behalf of the mentioned companies.”²⁰⁸

This illustrates very clearly the nature of the nominee business: the whole point is that the nominee ‘director’ usually does not know what the real owners of the company are actually doing with it. In fact, as discussed on

page 7 it is just as much a breach of the UK Companies Act for a nominee director as for a ‘real’ director to file dormant accounts for a period in which significant transactions have taken place.

However, in practice this is simply not enforced. This is why it is so easy for such companies to be misused by the people who actually control them, and how easy it is for nominees to unwittingly facilitate potentially criminal behaviour by the real owners of the company. As Stepanov points out, “we at Midland [...] were not aware of any illegal activities [and] did not participate in any of the alleged illegal activity of mentioned companies.” He also explains that, “all of these companies were purchased by Professional Services Clients and we had no relations with the final beneficiaries and their activities.”²⁰⁹

Stepanov told Global Witness that GT Group had registered at the request of Midland Group a number of the companies, including Kintex and Nastek. As stated on page 28, Kintex and Nastek appear to have received millions of dollars into their accounts at AUB between June 2008 and October 2009.²¹⁰ The registration was done, he said, for three different professional firms, one in Russia and two in Latvia. He also told us that he had met Geoffrey Taylor of GT Group in 2002 at the “Shorex Wealth Management Forum” at the Noga Hilton in Geneva. “I had no doubt that exhibitors and delegates at this event are reputable people,” Stepanov said. According to Stepanov, GT Group provided incorporation of New Zealand companies to Midland until October 2009.²¹¹

In addition, Bristol Export, a company which was solely owned by a company called Midland New Zealand, was allegedly involved in the above-mentioned Russian tax fraud involving the theft of tax that had been paid by Hermitage Capital Management; this company, as seen above, was registered to GT Group’s address. Stepanov is reported to have told the press in response to these allegations that his customers were “honest, decent businessmen and have no criminal conduct found by the Courts of Justice.”²¹²

Midland is not only linked to these companies registered in the UK and New Zealand, but also to some of those in Belize. Regarding three of the Belize-registered companies that feature in this report (Merel Marketing Ltd, Brasfort Limited and Grexton Capital Ltd), Stepanov told Global Witness that “Midland Group has acted as incorporating intermediary only between the Agent in Belize and [the] professional firm in Moscow who ordered them.”²¹³ Both Grexton Capital and Brasfort are believed by the Kyrgyz authorities to have possible links to Maxim Bakiyev²¹⁴ (see page 55).

Midland was not involved in the registration or administration of the other Belize-registered companies mentioned in this report.²¹⁵



Hermitage Capital’s lawyer, Sergei Magnitsky, died in custody in suspicious circumstances while investigating a Russian tax fraud that was allegedly perpetrated using shell companies. *Photo: Hermitage Fund*

Conclusion

The reason that the money laundering experts at FATF have decided company service providers should be regulated is because they can form a vital link in the chain against money laundering – the point of doing due diligence is so they can find out who they are really dealing with and file suspicious activity reports to the authorities if they suspect such behaviour. The only people who can really assess whether company service providers have done proper due diligence are their regulators, or law enforcement. Global Witness can only ask them to tell us what due diligence they did: any answers are included above. We also asked all of the company service providers we wrote to if they filed any suspicious activity reports (SARs) concerning the companies mentioned in this report. None of those that replied mentioned having filed SARs.

The fact that so many jurisdictions still do not regulate company service providers is worrying and it is no less concerning that enforcement is lacking in those countries that do regulate them. FATF should do more to put pressure on countries that are not in compliance with its standards and do more to measure whether countries are enforcing standards that they do have in place.

In our letters to company service providers, Global Witness put to them the suggestion that while not acting illegally, their incorporation of shell companies and role as nominee company officials may have had, in this case, the effect of facilitating money laundering, and that the current system of regulation is not enough to prevent this. Those who responded strongly rejected this, some talking about their compliance officers and the fact that they are regulated. Ian Taylor, formerly of the GT Group, commented that if Global Witness's statement about company service providers in effect facilitating money laundering were true "then you could also say that the New Zealand government facilitated such activity by allowing companies to be registered."²¹⁶ Global Witness would not disagree with this. Stepanov pointed out that Midland's offices are situated in what he described as "well regulated jurisdictions, such as Hong Kong and Russia."²¹⁷

Many also pointed out that they are not hiding the beneficial owners of these companies, as they are willing to provide this information to the competent authorities on receipt of an official request. This is a reference to the fact that governments can, technically, obtain information from each other on beneficial ownership under bilateral mutual legal assistance treaties or tax information exchange agreements. This might enable law enforcement agencies to follow the money trail, albeit very slowly. But in tax cases and stolen asset recovery cases the researchers have to know what they are looking for, since they are not allowed to go on 'fishing expeditions', which



The founder of Midland Consult and Midland Counselors at Law, Maxim Stepanov.
Photo: panamaoffshore.com

frequently precludes any investigation. And, crucially, it is useless for preventing the misuse of shell companies and nominee services in the first place.

Ultimately the problem extends much further than the current regulatory standard recognises; Global Witness believes that the nominees who front companies for their real owners should be held responsible if money laundering or criminal activity is committed by those who are really in charge.

vii. Whose companies are these anyway?

According to documents seen by Global Witness, the Kyrgyz authorities believe that:

× Maxim Bakiyev, the son of the former president, is potentially linked to a number of companies that feature in the bank transfer documents: Aron Capital Ltd, Brasfort Ltd, Grexton Capital Ltd, Leader Pro Limited (all registered in Belize), Craftur Viss Ltd, Lenymar Ltd, Magali Ltd, Piar Active Ltd (New Zealand), Perfect Partner Ltd, Sofis Untek LLP, Sorento Resources Ltd, Velion Ltd (UK) and Eurohouse, Ganytime Goods, Tez Mobile, CTC Distributors (Kyrgyzstan).²¹⁸

× Mikhail Nadel, the former chairman of AUB, may have links to Aqvenor Ltd (UK).²¹⁹

This does not necessarily mean that the Kyrgyz authorities believe they are the beneficial owners of these companies. Global Witness has not been able to verify this information, although there is evidence that Grexton Capital is controlled by an associate of Maxim Bakiyev (see page 55). As established above, registry records often just give the name of a company's legal owner and not its beneficial owner – the person who reaps the financial rewards of the business. This results in the real owner remaining hidden, which renders even publicly available registries quite useless in trying to ascertain the person ultimately responsible for a particular company. This is why Global Witness believes that the authorities in the countries where these companies are registered should look into the suspicions of the Kyrgyz authorities.

Global Witness asked Nadel whether he had links to Aqvenor; his lawyer said he had no connection to, nor had any knowledge of it, since he was not involved in day to day management of the bank.²²⁰

Global Witness wrote to many of the company service providers responsible for the above companies and others mentioned in this report to ask if Maxim Bakiyev was the beneficial owner and if not, who was.

Izeth Tapia, the director of seven companies mentioned in this report stated: "I am prohibited by law and duty to clients to disclose the ultimate beneficial owners unless there is a court order to do so. However, I can confirm that I never represented Bakiyev family members or any



Both Izeth Tapia and Mario Castillo (inset) work in this building, the Century Tower, in Panama but for different companies. Both acted as nominee directors for many companies mentioned in this report.⁴¹⁵
Photo: Global Witness

of individual [*sic*] I knew to be an associate of a Bakiyev family member. [...] My records indicate that the companies in question were not in any way connected to the Bakiyev family.”²²¹

Mario Castillo, the nominee director of Sorento Resources,²²² and an employee of Midland Counselors replied: “Having checked our physical files, due diligence, agents’ correspondence, instructions, signed Powers of Attorneys in our office and in our offices in other countries, and having consulted our agent in the United Kingdom and in other countries, we have come to conclusion that the person to whom you refer to as ‘MAXIM BAKIYEV’ has never been neither our client, nor Beneficial Owner of the Companies mentioned in your letter.”²²³

Maxim Stepanov, whose Midland Group of companies was also involved in setting up Brasfort, Grexton Capital and Magali, said that he had never had any business in Kyrgyzstan, and that: “We, neither me personally or my colleagues or our professional directors in Midland Group offices that act as Nominees for Midland Group have NEVER met or know personally or had any contacts or deals or business with former President of Kyrgyzstan (Kurmanbek Bakiyev), neither with his Family members. We do not deal with PEPs [politically exposed persons] as a rule.”²²⁴

The Fitton Legal Company, the UK-based company secretary of Aqvenor Ltd, Lenymar Ltd (UK) and Malvin Commodities Ltd, said it had “no relationship whatsoever” with any member of the Bakiyev family or Mikhail Nadel, adding that it adheres to strict anti-money laundering and due diligence procedures and carries out risk checks. It received no information indicating improper conduct by these companies. Fitton said that it identifies beneficial owners, who for these three companies were men called Valentins Sarigins, Antons Brieditis and Leonids Kazakovs respectively. None are politically exposed persons, according to Fitton’s research.²²⁵ Their names suggest that these men may be Latvian by origin but Global Witness has not been able to locate them to verify whether they really are the beneficial owners and are responsible for these companies, or are acting on behalf of someone else. Global Witness sent letters to Fitton for the representative there to forward to them, but has received no response.

Ian Taylor, formerly of the GT Group, said when asked about Maxim Bakiyev: “[Neither] GT Group, nor myself has any knowledge of this family, nor has it, or does it associate with this family in any way.”²²⁶ Mr Taylor provided Global Witness with a document regarding Vestengold LLP,²²⁷ given to him by his former client (this was a UK-based client for whom GT incorporated two Vanuatu companies which stood as ‘members’ of Vestengold and provided nominee directors for them).

The document is a “Declaration of the Owner” of Vestengold LLP, and it gives the beneficial owner as a man named Dmitri Trifonov who gave his address as 187 Toktogula St, Bishkek, Kyrgyzstan.²²⁸ This address was the headquarters of AUB at the time the document was signed.²²⁹

This is evidence – from a source with no relation to the current Kyrgyz authorities – of an AUB link to the ownership of at least one shell company with suspicious transactions through the bank. The document, signed by Trifonov and dated 15 December 2009, states that the company was dormant for the accounting period. However, the “SWIFT” documents show that Vestengold’s AUB account saw millions of dollars pass through it during this period of dormancy (which it also declared to UK Companies House) – an apparent breach of the UK Companies Act for the nominee director signing the accounts.

The document signed by Trifonov purporting to “exonerate” its nominee directors and company service providers from liability in an event such as this (seen on page 39) is unlikely to have the desired effect.²³⁰ Global Witness has been unable to locate Dmitri Trifonov for his comment, as the contact details given on the document are no longer in use.

When Global Witness asked Ian Taylor, formerly of the GT Group, several follow up questions, including whether it was his understanding that other companies controlled by the same two members as Vestengold LLP mentioned in this report (Avatroniks, Mastequest, Sofis Untek and also Eriksonnel LLP, see p57) have the same beneficial owner, and whether it would be possible to contact whomever was ultimately responsible for them, he replied: “I have already spent considerable time answering your questions. I have clearly advised you of the facts and advise you that you are now bound to report only the facts that you know. Please do not continue to waste my time.”²³¹

As discussed above, Chaplin, Bénédicte & Co surprisingly said it had no links to Velion, one of the five companies mentioned on page 29. Apollo International and the Company Net Trust did not respond.

Global Witness has made several attempts to contact Maxim Bakiyev about the allegations contained in this report. Global Witness asked a former business partner of Bakiyev, Valeri Belokon, and Bakiyev’s friend Mikhail Nadel for an email or postal address through which to contact him. Mr Belokon stated that he had no authority to give us these details. Nadel did not respond to this request. Global Witness also sent a letter for Maxim Bakiyev care of a law firm that was reported in 2010 to be representing him. The law firm responded by saying it had no authority to forward the letter and was no longer representing him.²³²

CHAPTER 3.

THE KYRGYZ ECONOMY: IN THE HANDS OF A FEW MEN

This chapter introduces the key players involved with AsiaUniversalBank (AUB) and their extraordinary control over a number of Kyrgyzstan’s state assets, and examines the possibility that state funds went missing from AUB.

It then looks at some of the Belize companies seen above and their possible ties to an alleged associate of Maxim Bakiyev. It also investigates companies set up by the same service providers mentioned above and the companies’ roles in a suspicious takeover deal in Kyrgyzstan that featured two former AUB board members. This supports the allegation that a small group of well-connected people were gaining control of the Kyrgyz economy, and using offshore shell companies set up by the same group of service providers to move their money and take control of successful companies.

i. The origins of AUB

In 1999, Mikhail Nadel, a Russian businessman, bought a Kyrgyz subsidiary of a Western Samoan bank, named International Business Bank, for US\$150,000. It was renamed AsiaUniversalBank in 2000. Nadel claimed that he was attracted to Kyrgyzstan’s liberal banking laws and relished the opportunity to expand its banking sector. He told Russian *Forbes* magazine in 2006: “when I looked at the currency and banking laws in Kyrgyzstan, I found it to be completely fantastic because they didn’t hinder the economy, but contributed to it.”²³³ Nadel had bought the bank from an associate named Ilia Karas who was at that time a partner in another bank in Djibouti with a Moscow-born US citizen called Eugene Gourevitch.²³⁴ Gourevitch’s work with AUB dates back to at least 2002.²³⁵ He became an AUB board member in 2006 and as of July 2009 held nearly 9% of the bank’s shares.²³⁶ Ilia Karas had no involvement with AUB after he sold it to Nadel.

Two sources told Global Witness that AUB enjoyed a privileged position within the country’s banking system. One described how foreign businessmen were strongly advised to open an account at AUB, else risked not being able to operate within the country.²³⁸ Nadel disputed the claims that companies in Kyrgyzstan were forced to bank

with AUB in a press interview from October 2010, claiming that people chose it simply because it was the country’s best bank.²³⁹

ii. Eugene Gourevitch: a former AUB board member and businessman with significant influence over Kyrgyz state funds and companies

Gourevitch’s influential position over the Kyrgyz economy began in 2009 when a group of companies he founded – the MGN Group – started to manage key state assets. According to its website, MGN began managing assets belonging to the Social Fund in January 2009, having won a tender.²⁴⁰ The Social Fund’s capital, which included state pensions, was held at AUB; this was confirmed to Global Witness by Mikhail Nadel.²⁴¹

In April and May 2009, Gourevitch was elected to the boards of three Kyrgyz state companies and his associates at MGN were elected to the boards of a further six.²⁴² When asked in a media interview why he was on so many boards, Gourevitch replied: “It’s a part of our [i.e. MGN’s] mandate of dealing with the assets of the Social Fund. It’s the only way we can effectively manage these assets [...] the Social Fund owns a minority share of these companies – 3% or 4%.”²⁴³

Several of the companies on whose boards MGN officials sat were controversially privatised later in 2009/10.²⁴⁴ Without naming specific companies, the IMF said that many privatisations that took place under President Bakiyev were done “hastily and nontransparently.”²⁴⁵ The World Bank also had its doubts, commenting: “Electricity generation was briefly privatized in 2010, but it was done along with a sudden increase in electric tariffs and in a way that appeared corrupt.”²⁴⁷ In 2011, the General Prosecutor launched criminal proceedings regarding several privatisations of companies on whose boards sat MGN employees, alleging that some of the deals were completed using AUB accounts with falsified records and offshore companies.³¹¹

In September 2009 it was announced that Gourevitch’s MGN had won an uncontested tender to manage another



Kyrgyztelecom was privatised in controversial circumstances in 2009.
Photo: Global Witness

Kyrgyz state fund: the Development Fund. This was set up to promote economic growth and consisted largely of a US\$300 million loan granted by Russia earlier in 2009.²⁴⁸ It was held for a time at AUB.²⁴⁹

MGN was the only bidder, due to the lack of other suitable companies, according to a press conference given by the Development Fund's head, a Kyrgyz lawyer called Alexei Yeliseev – who had until July 2009 been Deputy Chairman of the board at AUB.²⁵⁰ Gourevitch had also recently left the AUB board,²⁵¹ though continued to hold shares in AUB. According to Denis Slobodyan, a former MGN and AUB staff member²⁵² interviewed with Nadel by Global Witness, Gourevitch had sold his AUB shares by April 2010.²⁵³

In a blog post from September 2009, Gourevitch was scathing about a spate of news articles that suggested his MGN Group was “essentially staging a takeover of the entire financial and industrial system of the Kyrgyz Republic.” He said both MGN and AUB were “recognized internationally for the quality of their services and transparency of their operations.”²⁵⁴

Gourevitch also denied that his business in Kyrgyzstan was the result of any relationship with the Bakiyev family: when asked by a radio station in October 2009 for his comment on the allegation that his business became successful in Kyrgyzstan because he possessed very strong links to the president's family, in particular to Maxim, the president's son, he replied: “It is an absolute lie. First of all, I own 100% of this business [MGN Group] and I was the only one to take all the commercial responsibility. [...] I think envy might be to blame for these allegations as we are achieving good results. Thus, there is no support from the presidential family or anyone in the government.”²⁵⁵

But things started to unravel for Gourevitch in March 2010 when the Italian authorities issued a warrant for his and others' arrest for his alleged involvement in a

telecoms fraud scheme reported to be as large as US\$2.7 billion,²⁵⁶ causing him to step down from MGN and his positions in Kyrgyzstan. The investigating magistrate in the Italian preliminary investigation reportedly alleged that Gourevitch became involved “because of his status as an expert in company organization and international money laundering” and that Gourevitch had “created, managed and used... a series of companies through which he moved an enormous quantity of money constituting the ‘cuts’ destined for the various members of the conspiracy.”²⁵⁷

The preliminary investigation report cites a letter from the Republic of Cyprus's unit for combating money laundering which alleges that Gourevitch used two companies registered in Cyprus to “launder proceeds from criminal activities such as carousel frauds and the trafficking of tobacco and drugs, perpetrated presumably in Italy and the United Kingdom.”²⁵⁸ Gourevitch has denied the allegations²⁵⁹ and Global Witness understands that the investigation is ongoing; as of February 2012 Gourevitch was in New York City.

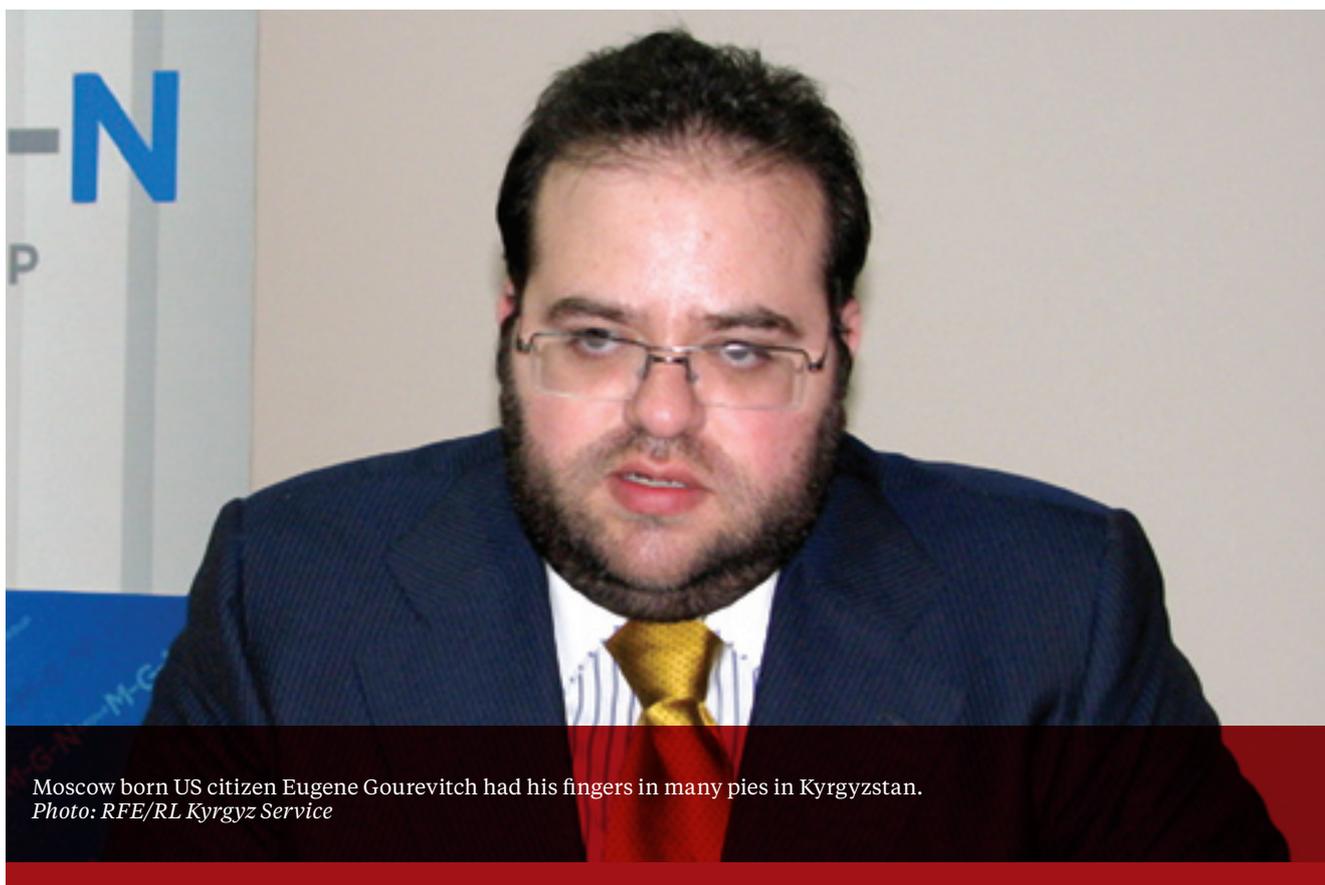
The IMF, writing in 2010 after the uprising, voiced concern over the Gourevitch situation: “The previous authorities’ [i.e. under President Bakiyev] decision in September 2009 to place a substantial portion of the saved bilateral assistance received in 2009 in investments overseas raised concerns about governance and safeguards of public resources. Such concerns were heightened further by the issuance of an arrest warrant in March 2010 by the Italian authorities for alleged fraud by the head of the MGN Group.”²⁶⁰

The IMF also expressed concerns in October 2010 that money that remained in AUB may have gone missing: “The [National Bank of Kyrgyzstan] introduced temporary administration in AUB [...] after a discovery that a sizable portion of [AUB's] liquid assets, placed with asset management companies abroad during the previous regime, may not be recoverable.”²⁶¹ Global Witness understands that the “asset management companies” refers to Gourevitch's MGN Group.

An audit by accountancy firm PwC on the Kyrgyz Development Fund confirms that MGN appeared to move a significant proportion of the fund's money from AUB predominantly to a Swiss branch of a Liechtenstein bank, though the money seems to have been returned to the Development Fund at the National Bank before April 2010 (see page 52).²⁶²

Gourevitch has been indicted in the money laundering case at AUB²⁶³ and in April 2011, it was reported that he was found guilty in absentia in a Kyrgyz case related to one of his positions connected to his work at MGN.²⁶⁴

Global Witness asked for Gourevitch's comment on these allegations. His lawyer replied: “It is beyond dispute that following the revolution of 2010, the newly-empowered Kyrgyz Government embarked upon a political campaign



Moscow born US citizen Eugene Gourevitch had his fingers in many pies in Kyrgyzstan.
Photo: RFE/RL Kyrgyz Service

to denounce what it claimed were abuses and misdeed [*sic*] of prior Government officials and those in positions of influence in the country. Unfortunately, the newly-empowered government misused the nation's court system in advancing its political ends. Central to this misuse was a baseless criminal proceeding brought against Mr. Gourevitch during which he was charged and convicted without being afforded an opportunity to defend himself, to call witnesses on his own behalf or to challenge the Government's evidence. Indeed, this criminal proceeding was conducted without Mr. Gourevitch's knowledge, in clear violation of Kyrgyz law as well as the law of all civilized countries with functioning criminal justice systems."²⁶⁵

Gourevitch's lawyer did not respond to Global Witness's enquiries about the Italian arrest warrant issued in 2010 for his alleged involvement in a telecoms fraud.

Global Witness raised with Nadel and Slobodyan the allegation made by the Italian investigating magistrate that Gourevitch was an expert in company organisation and surmised that, if true, this could have helped him launder money from AUB. Slobodyan replied: "From what I understand Eugene was responsible for international relations at AUB, as a board member he had no access to operations at the bank AUB. Board members did not get involved with day to day running of the bank, so I'm not sure where the link [to the allegations made in the Italian case] would be."²⁶⁶

iii. MAXIMISATION of the Kyrgyz economy?

The Kyrgyz prosecutor has indicted Maxim Bakiyev, the former president's son, regarding allegations of money laundering through AUB and other Kyrgyz banks.²⁶⁷ Many sources (not only those who opposed the Bakiyev regime) have attested to the extraordinary influence Maxim developed over Kyrgyzstan's business sector, including AUB, as well as over state funds.

US embassy cables support these allegations of his widespread influence over the Kyrgyz economy. One cable describes a business brunch attended by Prince Andrew, the then-UK Ambassador for Trade, and various expat businessmen in October 2008: "All of the businessmen [...] chorused that nothing gets done in Kyrgyzstan if President Bakiyev's son Maxim does not get 'his cut' [...] Prince Andrew took up the topic with gusto, saying that he keeps hearing Maxim's name 'over and over again' whenever he discusses doing business in this country."²⁶⁸

Another cable states: "various sources have alleged to [US embassy officials] that [Maxim] Bakiyev's associates have extorted money from them or forced the sale of their business." It details how, in one example, an American businessman alleged that representatives of Maxim Bakiyev requested a payment of US\$12 million to help the businessman avoid trouble with local residents regarding a mining project. According to the businessman, when he did not pay, local residents started protesting – which



Maxim Bakiyev gained extraordinary control over the Kyrgyz economy while his father was in power and was described as “smart, corrupt and a good ally to have” by one US embassy cable.
 Photo: ASSOCIATED PRESS / Sultan Dosaliyev

served as a pretext for a Kyrgyz court to take the licence from him.²⁶⁹ In an article from *The Wall Street Journal* from June 2010 a number of businessmen complained publicly that Maxim Bakiyev used tax police and prosecutors to seize their businesses, whose cash flows they say were then diverted to AUB.²⁷⁰ Global Witness spoke to another businessman in Bishkek who said that such tactics were “par for the course” in the region and had heard similar allegations in the Kyrgyz capital.²⁷¹ Nadel’s lawyer commented to Global Witness that Nadel was not aware of anyone being forced to sell their business and/or divert money to AUB.²⁷²

Questions also arose about Maxim’s possible influence over AUB. One Russian news article, from May 2007, alleged that he had a controlling interest in the bank.²⁷³ According to a leaked US government cable, Maxim denied involvement with AUB in conversation with a US official; the official noted in the cable that Maxim was “widely rumoured to have a hidden interest in AUB.”²⁷⁴ A former chairman of the National Bank of Kyrgyzstan, Ulan Sarbanov, claimed in the *Wall Street Journal* article that AUB managers consulted regularly with “the younger Mr. Bakiyev” [i.e. Maxim] about the banking business.²⁷⁵

And in an interview with *Euromoney* from early 2011, one of the current deputy chairmen of the National Bank of Kyrgyzstan, Zair Chokoev said: “The Bakiyev regime had protected AUB. [...] Maksim was not signing financial documents himself, but all the people signing the

documents had direct contact with Maksim – they were Maksim’s people. Even though he was not on the board of AUB and even though he didn’t sign the documents, he had direct contact with the managers.”²⁷⁶

In a 2007 interview with a Russian newspaper Maxim denied any link with the bank: “I have no relation to this bank. I’ve not been anywhere near it.”²⁷⁷ Nadel’s colleague Denis Slobodyan told Global Witness that there was a general presumption in Kyrgyzstan that if a business was successful then it had to be owned by Maxim Bakiyev, but this was not the case at AUB. Slobodyan added that AUB was already the biggest corporate bank in Kyrgyzstan before Bakiyev came to power, so it did not need the help of the president’s family.²⁷⁸ Nadel’s lawyer told Global Witness that Nadel was not involved in any business activities with Maxim Bakiyev and that Maxim had no controlling influence over AUB, explaining that the bank was a “trustworthy institution and not a puppet of the Government.”²⁷⁹

But Nadel, who ran the bank, was good friends with Maxim. Nadel told Global Witness that he was “very close” to him when in Kyrgyzstan, having known him since 2002/3, but adding, “There were no dividends for this friendship.”²⁸⁰ They certainly seemed close when, according to a US embassy cable, Maxim opened a new hotel at a famous Kyrgyz lake resort in June 2009: “a number of the guests appeared quite at ease with Maxim. Perhaps the most high profile of the guests was AsiaUniversalBank (AUB) Chairman Mikhail Nadel [*sic*], who acted like the

second host of the party, loudly toasting with the men and making advances at the women.”²⁸¹

Maxim Bakiyev had links with at least one other Kyrgyz bank. Valeri Belokon, the owner of Manas Bank (and co-owner of the UK’s Blackpool Football Club), has confirmed to Global Witness in an interview that Maxim had an office in Manas Bank’s Bishkek headquarters, and that Manas itself was set up at Maxim’s suggestion.²⁸² At the time, Belokon and Maxim were business partners with joint ownership of a Latvian company.²⁸³ Following the uprising in April 2010, Manas Bank was also put under temporary administration by the Kyrgyz authorities, and Belokon is one of the 32 people indicted by the Kyrgyz authorities for alleged involvement in money laundering in Kyrgyzstan.²⁸⁴

However in further comments, Belokon told Global Witness that Maxim had no interest in and played no role at Manas Bank, and that Maxim had held an office at the Manas Bank address before Manas Bank itself was founded. He also noted that the office had a separate entrance from Manas Bank.²⁸⁵ He said: “I would like to explain that my friendship with Maxim Bakiyev did not facilitate the foundation process of Manas Bank as well as my other activities of Manas Bank [...] Manas Bank was absolutely independent and operated without any interference of Maxim Bakiyev.” Belokon rejected the indictment against him, adding that “rules have not been observed and therefore the decision to hold me criminally liable has not come into force [see page 15] [...] I have not committed any crime for which I am being accused.” On Manas Bank being put into temporary administration, he said that as there were no violations of the law in the activities of Manas Bank, the replacement of the management

of the bank by a “stooge of the National Bank is illegal and political.” He added that he was bringing arbitration proceedings in relation to this.²⁸⁶

The above sources all give strong indications of Maxim’s influence. What is exceptionally clear is that he did gain an extraordinary level of control over public agencies and funds. In late October 2009, Maxim became the head of a government entity named the Central Agency for Development, Innovation and Investment (often referred to by its Russian acronym, TSARII).²⁸⁷ This put him in charge of the Development Fund, a key state asset which held the US\$300 million loan from Russia.²⁸⁸ This was only a few weeks after it was announced that Eugene Gourevitch’s MGN Asset Management won an uncontested tender to manage this fund. The executive director of the Development Fund was Alexei Yeliseev, who was formerly AUB’s deputy board chairman, and later worked at TSARII.²⁸⁹

As noted above, the fund was held for a time at AUB, which was run by Maxim’s friend Nadel and on whose board had sat Gourevitch. As of October 2009 Gourevitch may still have been an AUB shareholder; Global Witness understands he was in the process of selling his shares when the revolution occurred in April 2010.

Maxim’s position at TSARII was not viewed as a positive development: in the words of an independent investigation by former UN officials and the OSCE Special Representative for Central Asia after the uprising: “The government of Kyrgyzstan had effectively become a family controlled business.”²⁹⁰

Various US embassy cables clearly show how Bishkek-based diplomats viewed Maxim, with one US official describing him in one as “smart, corrupt and a good ally to have”.²⁹¹ The US view of Maxim as corrupt seemed to be no obstacle to dealing with him; this may have been related to the American airbase at Manas airport outside the capital Bishkek, key for US operations in nearby Afghanistan. Kyrgyzstan found itself caught in a geopolitical battle when Russia requested it be closed. In another leaked cable, a Kyrgyz government official claiming to be a confidant of Maxim is reported to have told a US official there was a window of opportunity to “reconvince” Maxim to keep the Manas Airbase open – if the US government was willing to buy off Maxim. The cable notes that the official did not appear to be acting on Maxim’s instructions, and states that the “suggestion of paying Maxim to change President Bakiyev’s mind is clearly unacceptable,” then added, “it is widely believed that for any project to go forward, one needs the support of (at least one member of) the Bakiyev family.”²⁹²

Following the revolution, the Kyrgyz authorities alleged that Maxim controlled Kyrgyz companies under investigation for their links to companies with Pentagon contracts to supply fuel to the airbase.²⁹³ An independent international commission set up by the Special



Valeri Belokon, co-owner of Blackpool Football Club, was in business with Maxim Bakiyev in Latvia.
Photo: Vesti Segodnya

Representative for Central Asia of the OSCE Parliamentary Assembly which investigated the events surrounding the ethnic violence of June 2010 says: “[Manas Airbase] has also been the source of corrupt enrichment for the Akayev [the first president of Kyrgyzstan] and the Bakiyev families through the preferential granting of supply (mostly fuel) contracts.”²⁹⁴ However, a US Congress Subcommittee investigation into the fuel contracts uncovered no credible evidence to link the Bakiyev regime to these deals, although it noted that the US Department of Defense’s principal fuel contracting arm had turned a blind eye to allegations of corruption and took no apparent action to investigate the allegations of the Bakiyevs’ involvement at Manas Airbase. Maxim denied the Subcommittee’s request for an interview.²⁹⁵

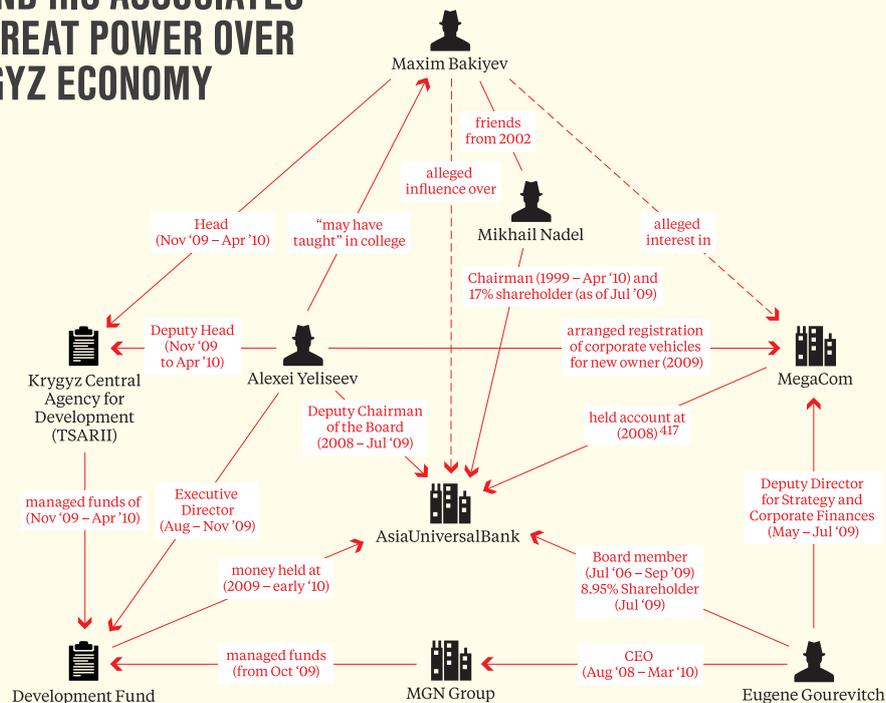
As noted above, Global Witness made several attempts to contact Maxim Bakiyev to ask for his response to these allegations, but was unable to reach him. Back in June 2010, shortly after parts of Kyrgyzstan descended into violence, Maxim Bakiyev is reported to have released a statement through his lawyers in London which said: “I have been forced into exile in fear for my life. The interim government in Kyrgyzstan accuses me of new crimes every day. The charges are bogus, to divert attention from their own crimes. They accuse me before there has been any opportunity for an investigation. Clearly they seek to try to make me a scapegoat for the chaos in the country. I view events in my homeland with horror and pray for an end to the violence.”²⁹⁶

iv. Alexei Yeliseev: another former AUB board member with control over Kyrgyz state assets

Another key figure in this story who has been indicted by the Kyrgyz authorities for alleged money laundering is Alexei Yeliseev, who appears in this report in a number of roles. Yeliseev appeared on page 46 explaining as executive director of the Development Fund that Gourevitch’s MGN Group was the only bidder for the job of managing its assets. Yeliseev had also previously been deputy chairman of the board at AUB from 2008 until July 2009. In November 2009, he became deputy head of TSARII, the government agency responsible for the Development Fund. He was one of five deputies under Maxim, he told Global Witness.³⁰²

A US embassy cable refer to Yeliseev as “a former classmate” of Maxim,³⁰³ both having studied at the same university in Bishkek, though in separate years, graduating one year apart.³⁰⁴ Another source familiar with this institution said that the two men were as “thick as thieves” while there.³⁰⁵ In an interview with Global Witness, Yeliseev denied knowing Maxim in university but added: “I started teaching right after graduating, seminars and specialist courses, so I may have taught him.”³⁰⁶

MAXIM AND HIS ASSOCIATES GAINED GREAT POWER OVER THE KYRGYZ ECONOMY



One source in Bishkek told Global Witness that Yeliseev was often referred to as “Maxim’s lawyer”.³⁰⁷ When Global Witness put this to Yeliseev he said:

*I never represented him personally [...] but it turned out later I had worked for a few of his companies, but my clients that represented these companies never disclosed him to me as the beneficiary.*³⁰⁸

In an emailed response, Yeliseev said that client confidentiality did not allow to name which companies these were.³⁰⁹

Asked about his indictment in the AUB case, Yeliseev said:

I don’t know anything about this. [...] I officially live in Latvia. [...] I made my coordinates public, I have an official lawyer in Kyrgyzstan and ask to relate any official requests or accusations officially. In the one and a half years [since the revolution] no-one has come forward with such requests, no notifications have been served. So I do not consider there is any official mention of me in a case.

He also denied the allegations made by the Kyrgyz authorities regarding AUB (see page 54).³¹⁰



Alexei Yeliseev: what was his relationship to Maxim Bakiyev?
Photo: Kyrgyz Development Fund website

WHERE IS MAXIM BAKIYEV NOW?

Maxim Bakiyev reportedly claimed asylum in the UK, arriving by private jet in June 2010 after some time in Latvia and possibly Germany.²⁹⁷ The British authorities have remained tight-lipped: a question about Maxim’s asylum bid submitted to the Secretary of State for the Home Office by a British MP received the response that it is not policy to comment on such cases.²⁹⁸ In April 2011, the chairman of the Kyrgyz budget and finance committee was reported to have alleged in parliament that Maxim Bakiyev had purchased a £5.8 million London house.²⁹⁹

Roza Otunbayeva, interim president of Kyrgyzstan until December 2011, has complained that Western authorities have been unwilling to assist in investigating the alleged crimes of the former regime: “Unlike today in Libya, no assets or bank accounts of Bakiyev’s big clan members have been frozen. All our attempts to bring to accountability and our requests for extradition from Western countries have been ignored.”³⁰⁰ The Home Office told Global Witness it could not confirm or deny whether requests for help had been received or acted upon.³⁰¹



A house in Kyrgyzstan believed to be owned by Maxim Bakiyev was burnt by protestors during the revolution.
Photo: Dalton Bennett

v. Did government funds go missing from AUB?

As seen above, the management of the Development Fund in particular was an extraordinary, extremely close arrangement involving:

- × the president's son, Maxim Bakiyev, as head of the agency that oversaw the fund,
- × his friend Mikhail Nadel who ran the bank, AUB, where the fund was deposited,
- × an ex-AUB board member, Alexei Yeliseev, who was head of the Fund, and
- × another former AUB board member, Eugene Gourevitch, whose company MGN managed the fund.

The Kyrgyz prosecutor's office alleges that: "a number of corrupt schemes aimed at the large-scale embezzlement of state funds and the assets of commercial banks were created by the members of the family of former President of Kyrgyzstan K. S. Bakiyev and their associates who occupied high posts [including at TSARII]." It also alleges that thefts from some of the state funds were done apparently with "a view to ensuring the liquidity of AUB" but were "subsequently withdrawn abroad into the accounts of offshore companies" and that "similar illegal actions were carried out also to conceal the illegal provenance of monetary means and to give a legitimate appearance to their possession."³¹¹

There are differing figures, however, for how much money might be missing.

Up to 2.9 billion Kyrgyz soms (US\$64 million) could be missing, as several sources in a position to know have told Global Witness that this was the amount of state money held at AUB in early 2010. The revolution occurred in April 2010, after which AUB was declared insolvent. According to the sources, this missing money belonged to three different state funds:

- × The Social Fund, which held state pensions (1.5 billion som / US\$33 million),
- × The Development Fund, set up to promote economic growth (0.9 billion som / US\$20 million),
- × The State Property Fund which is responsible for the management and sale of state assets (0.5 billion som / US\$11 million).³¹²

According to the IMF, 2.5 billion soms (US\$55 million) of Kyrgyz state money was held at AUB "including Social Fund and Kyrgyz Republic Development Fund deposits."³¹³ Little has been reported about what happened to the State Property Fund money. As to the Social Fund, whose assets were managed by Gourevitch's MGN, then-acting chairperson of the Kyrgyz National Bank,

Baktygul Jeenbaeva alleged in a press interview that the US\$33 million held at AUB was stolen: "The bank [AUB] existed practically for the purpose of withdrawing government funds [...] Money arrived from the Social Fund, it was transferred out almost immediately. This money was transferred out already in 2009. The bank provides reports on the account of having this money available while it does not have any of it." She added that this was "pensioners' money, which hurts. [...] The Fund's former management placed and lost this money. [...] What is bad is that the money was stolen, and we have to work again in order to return it."³¹⁴ Nadel's colleague Denis Slobodyan denied this, saying, "Not a single cent of government money went missing [from AUB]." Nadel himself said that US\$50 million of Social Fund money was held in AUB, as of 7 April 2010.³¹⁵ In a blog post, Gourevitch said that MGN's management of the fund's assets did not actually include the cash, just the state enterprises.³¹⁶

This leaves the Development Fund, whose extraordinary management arrangements are set out above, and 0.9 billion som (US\$20 million) of which was held at AUB in early 2010, according to our sources.³¹⁷ However, AUB's Denis Slobodyan provided Global Witness with a single page of an unnamed report, which appears to show that 880 million som (US\$19.6 million) of Development Fund money was returned from AUB to the National Bank at the behest of the World Bank in March 2010, leaving less than 3 million som (US\$67,000) of Development Fund monies at AUB, his implication being that it would have been impossible for millions of dollars worth of Development Fund money to have gone missing from AUB because at the time of the uprising the vast majority of Development Fund money held at AUB had been returned to the National Bank of Kyrgyzstan.

A highly critical "criminal investigation audit" of the Development Fund's operations commissioned by the UK's Department for International Development and completed by international accountancy firm PwC in August 2011 reveals the lack of accountability regarding the fund's management, and concludes that concerns remain that money laundering or other illegal activity may have happened. The negative findings include:

- × The Fund was supposed to provide both monthly reports to the National Bank and quarterly public reports, but never did. It was apparently reporting to TSARII, but PwC could not locate any of these reports.³¹⁸
- × There were potential conflicts of interest in that the head of TSARII was the fund's Chairman [Maxim Bakiyev], while a deputy of TSARII was a member of the fund's board of directors, and it was to TSARII that the fund was supposed to be reporting. This meant that the fund had no independent oversight.³¹⁹
- × Proper management structures were not in place until some months after:

- Gourevitch's MGN Group of companies was awarded the management contract in August 2009.³²⁰ (As seen on page 46, the announcement that MGN had supposedly won an uncontested tender was only made in September 2009.)
- Money was transferred from the Development Fund to an MGN Asset Management account at AUB in September 2009.³²¹ The Development Fund transferred complete control of this account to MGN and did not have access to this money after it was transferred. The account may not have been specially created just for the Fund's money, as it had already been in use for almost a year.

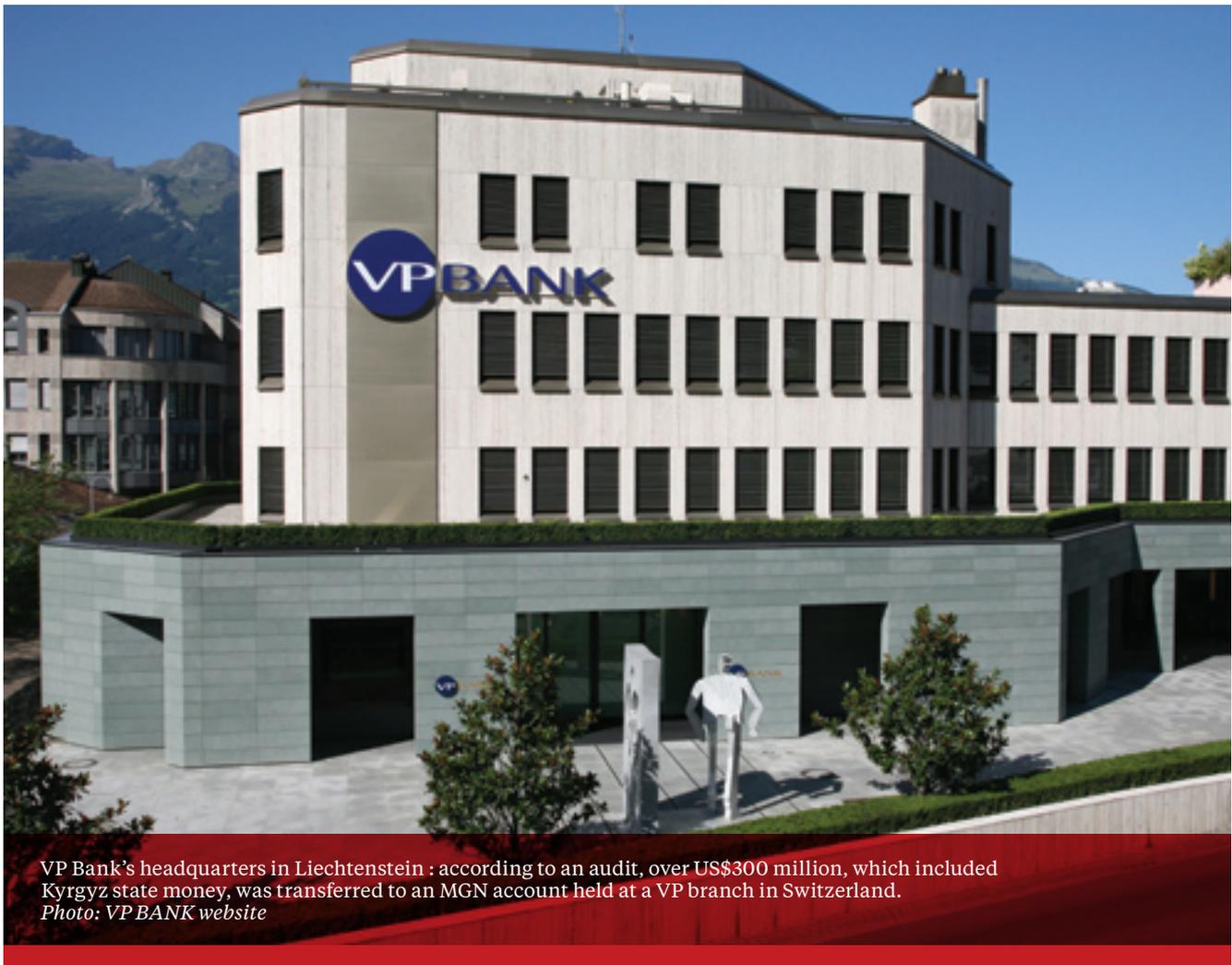
“We want the [Development] fund’s activities to be transparent and open [...] the fund may even [...] broadcast [its procedures] live on TV so that the whole country sees that the procedure of adopting decisions and the fund’s activities are transparent.”

Maxim Bakiyev, head of state agency TSARII⁴¹³

US\$306.8 million appears to have then been transferred from an MGN account at AUB to a Swiss branch of a Liechtenstein bank, Verwaltungs und Privat (VP Bank), though it is unclear from the report how much of this was Development Fund money. An expert on the management of state funds told Global Witness that state funds are often held in foreign banks to reduce risk, but added that such a practice also makes it easier for funds to be misappropriated.³²² The IMF had also raised concerns about this, as seen on page 46 above.

PwC says it could not establish precisely what happened to the Development Fund money once it was transferred to AUB and then to VP Bank, though it states that MGN returned the money to AUB and then to the National Bank.³²³ Global Witness understands this money was returned due to concerns voiced by the IMF.³²⁴

PwC concludes that though it saw no evidence that a major part of the Fund's money was misappropriated, it could not establish how the money had been used after it got to Switzerland, and so “concerns remained that it may have been used for money laundering or other illegal activities.”³²⁵ VP Bank declined to comment, citing banking secrecy.³²⁶



VP Bank's headquarters in Liechtenstein : according to an audit, over US\$300 million, which included Kyrgyz state money, was transferred to an MGN account held at a VP branch in Switzerland.
Photo: VP BANK website

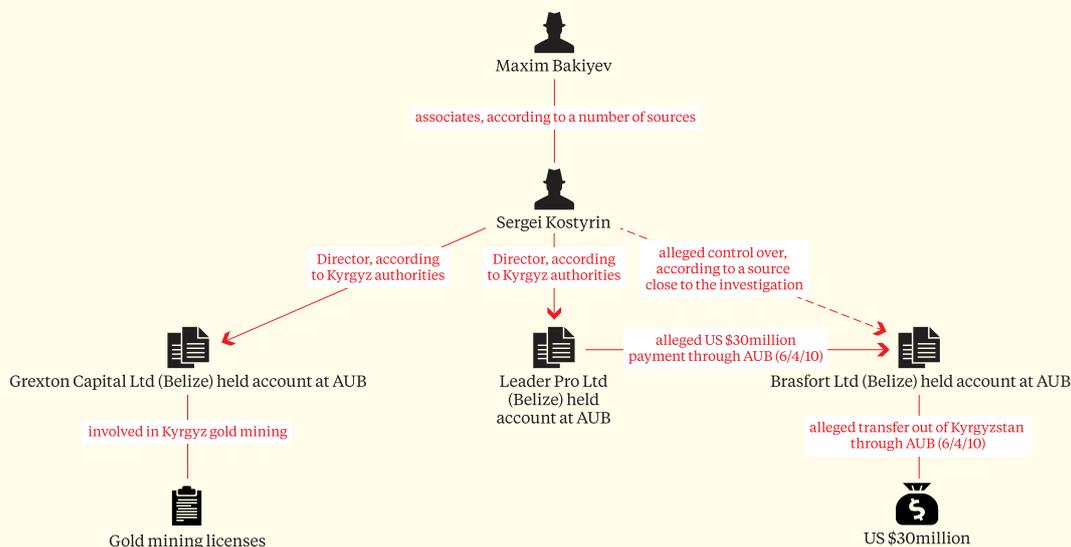
Alexei Yeliseev told Global Witness in an interview that he had left the Development Fund when he joined TSARII and thus did not hold positions at both as described by the PwC audit. He also said that the fund's activities and his own actions were lawful, transparent and in good faith, and denied the allegations of the prosecutor that AUB was a money laundering vehicle and that any of the Development Fund had gone missing: "As far as I know, Development Fund money is still there."³²⁷ He did not respond to further requests for comment.

Nadel's lawyer told Global Witness that as far as Nadel was aware the criminal investigations into the funds placed with AUB relate to the government officials who authorised the transaction and not AUB itself. He said that:

*Our client has no further information in relation to the alleged embezzlement of the state funds. He was not aware of any such embezzlement by Bakiyev's family [...] monies from the Social Fund and the State Property Fund were placed with AUB in accordance with the applicable procedure. As far as our client is aware, money [from the two funds] was never transferred from AUB abroad, or to any offshore companies; the money either remained in the bank's correspondent accounts, or correspondent accounts with [the National Bank of Kyrgyzstan], or in cash at the bank. [...] We understand that until the bank was taken over, the funds remained in AUB's account i.e. had not been embezzled. [...] As far as our client is aware, no government funds were ever misused or transferred abroad to offshore companies.*³²⁸

To summarise, the Kyrgyz prosecutor's office has alleged that under President Bakiyev a "number of corrupt schemes aimed at the large-scale embezzlement of state funds had been created."³²⁹ What is particularly striking, though, is that if up to US\$64 million did go missing from state funds at AUB, this would still be just a fraction of the size of the suspicious activity carried out by some of the shell companies with accounts at the bank, which for just three companies in less than two years appears to have run to US\$1.2 billion, more than a quarter of the country's GDP in the year of the revolution.³³⁰ What this indicates is that any laundering that may have taken place is likely to have involved more than state looting. It would also have been laundering for other, currently unknown parties.

BAKIYEV'S ASSOCIATE SERGEI KOSTYRIN ALLEGEDLY CONTROLLED SOME OF THE COMPANIES THAT TRANSFERRED MONEY FROM AUB



SERGEI KOSTYRIN, MAXIM BAKIYEV AND THE BELIZE COMPANIES

In chapter 2, we set out a series of shell companies with suspicious transactions through AUB, and examined the ways the companies are linked to each other. Now, we set out an example showing how some of those companies appear to be linked to an associate of Maxim Bakiyev. Because of the usual problems in identifying the real beneficial owners of companies, we cannot verify these links; this would require investigation by the authorities.

One of the companies that appeared in chapter 2 as a company involved in suspicious transactions through AUB was Belize-registered Grexton Capital.

A man called Sergei Kostyrin, who appears on a wanted list posted online by the Kyrgyz Financial Police³³¹ and has been indicted by the Kyrgyz authorities in regard to the money laundering allegations,³³² was the director of a company called Grexton Capital Ltd, according to a Kyrgyz state website that documents the holders of mining licences.³³³

According to the “AUB” document, a company called Grexton Capital, seen briefly on page 42, had an account at AUB through which millions of dollars of suspicious transactions appear to have flowed during 2009/10 to suspect Kyrgyz companies.³³⁴ Global Witness has been told by sources in Kyrgyzstan that Grexton, along with other companies with millions of dollars of suspicious transactions through AUB, was controlled by Kostyrin.

Other documents from the Kyrgyz authorities say that Grexton Capital is a Belize-registered company.³³⁵ Of course, given the usual secrecy in Belize as elsewhere, directors and shareholders (let alone the beneficial owner) of Grexton are not listed there, so the Belize corporate registry, the one place where one might logically expect to be able to establish the control of companies, is useless for confirming these suspicions that Kostyrin controls the company. Nor is the company service provider, at least the one we can identify, any help. As seen on page 41, Maxim Stepanov of the Midland Group which was involved in incorporating Grexton told Global Witness that the Midland Group acted as an incorporating intermediary only between the agent in Belize and the professional firm in Moscow who ordered this and two other companies. He said he had never met Kostyrin, who was not a client of Midland.³³⁶

A number of sources have indicated that Kostyrin is an associate of Maxim Bakiyev.³³⁷ This raises the possibility that Kostyrin may have been fronting for some of Maxim Bakiyev’s interests.

Though Global Witness cannot verify this, it appears that a man of this name was involved in a number of businesses in Kyrgyzstan during President Bakiyev’s rule and that he knew Maxim Bakiyev.

For example, from February 2009, Sergei Kostyrin was chairman of the supervisory council of Manas Bank, owned, as seen in chapter 3, by Latvian businessman Valeri Belokon, who has been a business partner of Maxim.³³⁸ Belokon told Global Witness that Manas Bank was looking to bring in an outside person to mediate between his (Belokon’s) people, and that Maxim Bakiyev suggested that Kostyrin be employed.³³⁹ This indicates that Maxim knew Sergei Kostyrin.

Grexton Capital was not the only company with suspicious transactions through AUB that is alleged to be controlled by Kostyrin: others include the Belize-registered companies Leader Pro Limited and Brasfort Limited, according to a source close to the case. Again, the Belize registry provides no information on the beneficial ownership of these two companies, so we cannot verify these allegations of Kostyrin’s control. The source alleged that on 6 April 2010, US\$30 million was transferred from Leader Pro to an AUB account held by Brasfort, and that this money was then transferred out.³⁴⁰ This payment is recorded in the “AUB” document, though Global Witness has not seen SWIFT verification. The “AUB” document shows that US\$30 million was then transferred to an account also in the name of Brasfort Limited with the note “transfer of own funds.”³⁴¹ It is unclear from the record whether this was to another account held at AUB, or to another bank.

Global Witness has been unable to locate Kostyrin to get his comment on these allegations. A source told Global Witness that he may be in Russia or Belarus. We sent an email to a possible address for Grexton Capital with our questions for Kostyrin, but it is unclear whether the address is active and checked by Kostyrin; we have received no reply.

EUGENE GOUREVITCH, ALEXEI YELISEEV AND THE MEGACOM TAKEOVER

This story concerns two former AUB board members and associates of Maxim Bakiyev, Eugene Gourevitch and Alexei Yeliseev, who have been indicted by the Kyrgyz prosecutor's office, accused of trying to take over Kyrgyzstan's largest mobile phone company illegally.³⁴²

This story is well-known in Kyrgyzstan, but we are briefly revisiting a key aspect of it here. Not only does it involve control of a major company being transferred to companies with hidden ownership, but investigations by Global Witness show new links between companies allegedly involved in this scandal and companies alleged to have been involved in the suspected money laundering scheme at AUB. This continues to build the evidence that a small group of well-connected people were gaining control of the Kyrgyz economy, and using offshore shell companies set up by the same group of service providers to move their money and to take control of successful companies.

In May 2009, Eugene Gourevitch was appointed as the Deputy Director for Strategy and Corporate Finances at MegaCom, a position he held for three months.³⁴³ He was already both a shareholder and a board member of AUB and on the board of a number of state-run companies as part of his company MGN's role of managing assets of the state Social Fund. MGN would later in the year also take on management of the Development Fund.

When asked about his position, Gourevitch noted on his blog of his new job at MegaCom: "This was a private agreement between me and the directors of the MegaCom company, who asked me to help optimise certain processes at the company. I did this. Nothing sensational."³⁴⁵ It was during this time that the company's owner controversially changed hands.

MegaCom's new owner was Alfa Telecom, owned in turn by two further companies with hidden beneficial owners: Southfield Management Inc, registered in Belize (initially holding a 99% share), and Vesatel United Ltd, registered in New Zealand (with the remaining 1%).³⁴⁶ The names of Southfield and Vesatel were confirmed to Global Witness by Alexei Yeliseev, who arranged the legal ownership structure of Alfa Telecom. Yeliseev has already appeared in this story as (a) a former AUB board member, and (b)

one of Maxim Bakiyev's former deputies at TSARII and (c) the former executive director of the state Development Fund.

The timing of Vesatel's and Southfield's incorporation in February and July 2009 respectively, i.e. shortly before the MegaCom takeover, suggests they may have been set up purely for the purpose of holding an ownership stake. Either of these companies could be a secrecy vehicle for somebody benefitting from the deal who did not want to be known. The secrecy permitted by jurisdictions such as Belize (as well as New Zealand, which like the UK does not seem to mind that its companies can be owned by offshore nominees) means that we can neither verify the real owner(s), nor remove Maxim Bakiyev from suspicion of being behind these companies.

Yeliseev told Global Witness his client in this case was a Kazakh businessman, Vitaly Kuchura, who was representing the interests of a Kazakh investors group: "I registered the company Alfa Telecom on Mr Kuchura's behalf. This company then bought MegaCom without any of my involvement." Asked by Global Witness about Maxim's alleged involvement in this deal, he said: "It's difficult to tell if Maxim had anything to do with that group [represented by Kuchura]. In any case this was not disclosed to me. [...] I have documents to prove that Kuchura is the sole beneficiary of Southfield, if there are any relationships beyond that I don't know them."³⁴⁷ Global Witness sent Kuchura a letter to ask about his role and whose interests he was representing, but has not received a reply.

But what do national corporate registries tell us about who was behind Southfield and Vesatel? Vesatel is incorporated in New Zealand which has an open shareholder registry, but the next level of ownership up the chain takes us back into secrecy: it was registered on 9 February 2009 with a Panama-based nominee, Izeth Tapia, as its shareholder and director.³⁴⁸ Tapia is also listed as the shareholder and director of six other New Zealand-registered companies which made suspicious transactions through AUB (see pages 22 and 23).³⁴⁹ Tapia told Global Witness that she had seen no evidence that Vesatel was involved in an unlawful takeover of MegaCom.³⁵⁰

As discussed above, the Belize registry does not list any information about directors or shareholders. However, Southfield shares both its registered address in Belize – Suite 102, Blake Building – and its registration agent (information which is given in the registry) with two companies with suspicious transactions through AUB, Dovepark Limited (see page 27) and Leader Pro Limited.³⁵¹ The director of Leader Pro, as we saw on the previous page, is alleged by a source close to the case to be Sergei Kostyrin, an associate of Maxim Bakiyev. This address is also shared by the nominee secretary of UK company Velcona Limited – the company apparently registered by a deceased Russian (see page 31).³⁵²

Of course, this does not mean necessarily that Kostyrin is behind Southfield or that Yeliseev has any link to any of

the companies alleged to be involved in suspicious activity at AUB. These links may just be a coincidence. But the coincidence is rather startling: out of all the countries in the world where you can register companies, and out of all the service providers in those countries, the same two – one in New Zealand and the other in Belize – have been used in both these scandals. A Belize state website gives 78 registered agents in 2011 for international business, so the coincidence is particularly remarkable.³⁵³ Once again, it suggests the possibility that a small group of people set up a group of companies, using the same providers, for a shared and suspicious set of purposes, which the authorities in these countries should investigate.

In a phone interview, Global Witness asked Yeliseev to comment on the coincidence that both companies he set up, Vesatel United and Southfield Management, appear to be registered by the same providers who registered a number of companies with suspicious transactions through AUB. Yeliseev told Global Witness: “I didn’t get into the details of the deal much [...] Kuchura asked for a consultation on jurisdictions where the beneficiaries are confidential, so I offered several jurisdictions [...] I had partners that dealt in offshore company registrations so I ordered these companies from them.”

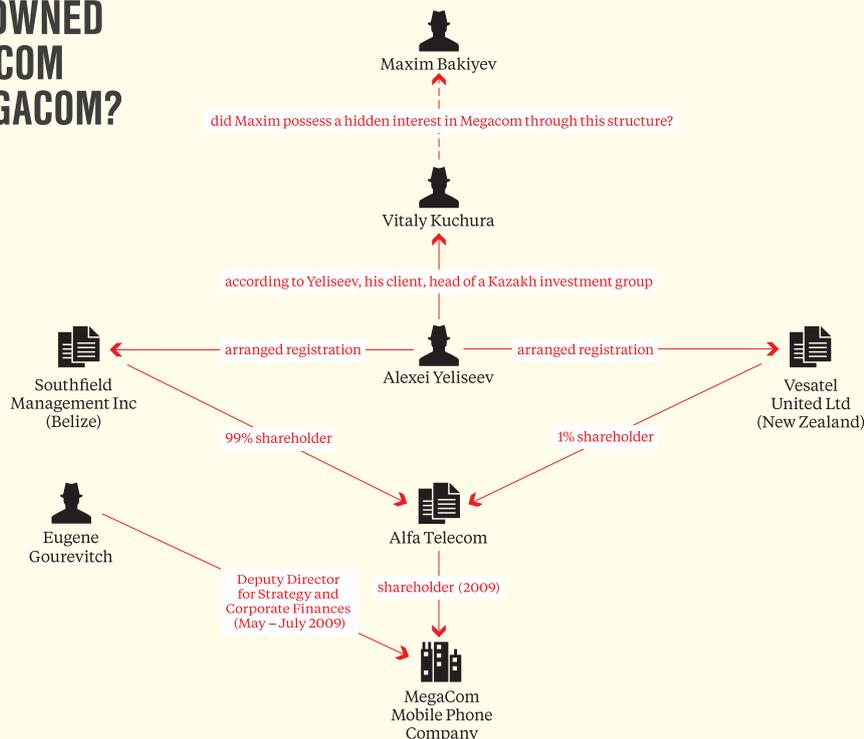
In response to a question about whether he had registered other companies in these countries which linked to AUB, Yeliseev said he did not register any other companies which weren’t related to Alfa Telecom.³⁵⁴ In a follow-up email, Global Witness asked who his partners were who provided the offshore companies. Yeliseev did not reply. Gourevitch’s lawyer made no reference to the MegaCom issue in his response.

Yeliseev’s point that Kuchura had asked for information on jurisdictions where beneficial ownership is confidential is a fascinating one. The choice of Belize, where not even legal shareholding is listed, is therefore presumably not coincidental: it was chosen because it offered secret ownership. And the ownership of the New Zealand company by a Panama-based nominee provides, in practice, a similar shield from public scrutiny.

According to allegations made by the Kyrgyz prosecutor’s office, Gourevitch and Yeliseev intentionally bankrupted the company which previously owned MegaCom.³⁴⁴ Another company, Eriksonnel LLP, is believed by the Kyrgyz authorities to have been used in regard to this.³⁵⁵ Eriksonnel’s members (two Vanuatu companies, registered by the GT Group) are the same as for Vestengold LLP and three other companies (see page 38),³⁵⁶ indicating that the same group of people may be behind these five companies. Ian Taylor of GT Group did not respond to Global Witness’ request for comment on Eriksonnel’s possible involvement in this deal. Yeliseev denied involvement in the alleged bankrupting of MegaCom’s previous owner to Global Witness.³⁵⁴

Because of the secrecy currently permitted over who really owns companies, Global Witness, which does not have the power of law enforcement to compel ownership information, is not in a position to verify who is behind these companies and was ultimately responsible for this controversial deal. Given the public interest, the jurisdictions in which these companies have been set up should use their powers to investigate. But beyond that, the case for more transparency regarding company ownership is clear: it would make it harder for dubious individuals, including people in positions of political power, to gain control of key assets at the expense of democracy, stability and the economic interests of ordinary people.

WHO REALLY OWNED KYRGYZ TELECOM COMPANY MEGACOM?



CHAPTER 4. HOW AUB GAINED ACCESS TO THE GLOBAL FINANCIAL SYSTEM

As chapter 2 showed, shell companies registered in major jurisdictions such as the UK allowed the alleged money laundering to take place. But that is not the only way that the AUB story spread beyond Kyrgyzstan's borders. This chapter examines the other mechanisms that helped AUB gain its access to the global financial system.

i. Correspondent Banks: how the global banking system aided AUB

The Kyrgyz authorities have alleged that AUB was used as a laundering vehicle to transfer money abroad. Money in financial institutions cannot cross currency borders without a link with a bank in the other country; this is referred to as a correspondent banking relationship. AUB possessed such relationships with many major international banks, giving AUB access to the financial systems of other countries outside of Central Asia. So if the Kyrgyz authorities' allegations are true, then Global Witness considers that the correspondent banking relationships facilitated this laundering.

Correspondent relationships pose a high money laundering risk. As the UK regulator, the Financial Services Authority, recently acknowledged: "correspondents often have no direct relationship with the underlying parties to a transaction and are therefore not in a position to verify their identities. In addition, they often have limited information regarding the nature or purpose of the underlying transactions, particularly when processing electronic payments or clearing cheques. It is therefore primarily non-face-to-face business and must be regarded as high risk from a money laundering and terrorist financing perspective."³⁵⁷

According to AUB's annual reports, in 2003 it already had over 120 correspondent banking relationships,³⁵⁸ and by 2009 these included Bank of China, Citibank (USA/UK), Credit Suisse (Switzerland), Nordea Bank Finland plc, Raiffeisen Zentralbank (Austria), Handelsbanken (Sweden), Société Générale (France), and Standard Chartered (UK).³⁵⁹ AUB thus had access to the American, European and Chinese financial systems through these

relationships. AUB also had representative offices in two EU countries, Austria and Latvia, and also in Ukraine.³⁶⁰

A source familiar with this case has told Global Witness that AUB's most significant correspondent relationships (in terms of money transfers) were through Citibank, Raiffeisen Zentralbank and Standard Chartered.³⁶¹ Global Witness understands that the majority of the money allegedly transferred out of AUB by suspicious entities went through Citibank in New York. (Thus is not the first time a Global Witness report has featured a Citibank correspondent account: in 2009 we investigated Citibank's role in processing corrupt payments for former Liberian president Charles Taylor, who was found guilty of war crimes and crimes against humanity in April 2012.³⁶²)

This risk is recognised in the global anti-money laundering standards set by the Financial Action Task Force (FATF), an Organisation for Economic Co-operation and Development (OECD) grouping whose standards are supposed to be incorporated into national anti-money laundering laws globally. FATF's Recommendation 13 requires a bank to gather information about its correspondent banking partners; this should include understanding the reputation of the institution, assessing the bank's anti-money laundering controls, and ascertaining and how well it is regulated and whether it has faced any regulatory action.³⁶³

Of the jurisdictions in which AUB's correspondent banks listed above are incorporated, the US requires its banks by law to do due diligence on their correspondent banks, as do the member states of the European Union.³⁶⁴ As of their most recent FATF mutual evaluations, Finland, Switzerland and China had not adopted this standard requiring their banks to do due diligence on their correspondent customers.³⁶⁵

Banks in the EU or US entering a correspondent relationship with AUB were therefore required to ask questions about AUB's due diligence systems and its regulation. If those banks in countries that have not yet adopted the FATF standard into law had a prudent eye to reducing their money laundering risk, they too would have done some due diligence. In Global Witness's opinion,



Of all the correspondent accounts that AUB possessed, Citibank in New York is believed by the Kyrgyz authorities to have had the most money going through it.
 Photo: Ramin Talaie/Corbis

a prudent bank anywhere would also want to find out whether any senior political figures were close to or involved in the management of its respondent bank, in this case, AUB. A relationship with AUB should therefore certainly have raised some red flags:

× In 2006 the Russian Central Bank published an open letter on its website warning its regional banks about “dubious transactions” through AUB’s correspondent accounts at Russian banks.³⁶⁶ It said that in the first half of 2005 suspicious transfers involving AUB totalled 170 billion roubles, approx. US\$6 billion. This is more than double Kyrgyzstan’s annual GDP at that time. The scale and regularity of these operations suggested that they concealed “payment for grey import”, it said – i.e. a way for clients in the former Soviet Union to avoid tax.³⁶⁷

× Anyone looking at AUB’s annual report following the accusations made by the Russian Central Bank, would see that Deloitte & Touche, which had audited AUB in 2003 and 2004, had not done so for 2005.³⁶⁸ Following the 2010 revolution it was reported that Deloitte had suspended its audit and was replaced by another firm.³⁶⁹ (Global Witness asked Deloitte & Touche to confirm this; the firm said that it was unable to discuss client matters³⁷⁰). One would hope that a bank reviewing its correspondent relationship with AUB would have made enquiries at the time why AUB’s relationship with Deloitte had ended.

× In 2007, an article appeared in the Russian press questioning Maxim Bakiyev’s influence over Kyrgyzstan’s business sector and alleging that he possessed links to AUB.³⁷¹

We wrote to many of the banks in correspondent relationships with AUB to question them on their due diligence procedures. Inevitably, none were able to comment specifically on the due diligence that they did in this case due to client confidentiality, although some were able to comment on their general procedures.

Société Générale’s two-line reply stated that AUB was not a client³⁷² – self-evidently, as AUB no longer exists as a banking institution after its nationalisation by the Kyrgyz authorities. When asked by Global Witness whether AUB had ever been a client, the bank gave no further comment and referred us back to its original response.³⁷³ Standard Chartered said it was unable to comment on specific clients but offered to meet Global Witness to discuss its approach to financial crime.³⁷⁴

Credit Suisse, Svenska Handelsbanken and Raiffeisen Zentralbank said that due to banking legislation they were also unable to confirm whether AUB had been a client but detailed their policies regarding due diligence and anti-money laundering. Svenska Handelsbanken said that its due diligence process included a detailed study as to the possible existence of “politically exposed people” on correspondent banks’ boards; Raiffeisen said it monitors “persons related to customers”.³⁷⁵

Nordea Bank said that “correspondent banks are regarded as customers of Nordea the same way as any other corporate customer,” that due diligence when opening such an account was “mandatory” and that, while banking confidentiality regulations prevented the bank from speaking about specific relationships, the “alleged black-listing” of a bank by Russia’s Central Bank would have triggered enhanced processes concerning transactions with that particular bank.³⁷⁶

UBS acknowledged that it did have a correspondent account with AUB for just over one year. However: “The relationship was closed as a result of concerns that [UBS] had following due diligence undertaken by UBS and following the issuance in February 2006 of the Russian Central Bank statement.”³⁷⁷

The fact that UBS – a major Swiss bank that has been in a fair amount of regulatory hot water with the US authorities over tax evasion by its American customers³⁷⁸ – had enough concerns to end a lucrative correspondent relationship with AUB makes it all the more surprising that many of AUB’s other correspondent banks maintained their relationships.

Citibank, alleged by the Kyrgyz authorities to have processed the largest proportion of the suspicious transactions, did not reply.

Now that the indictments against some of AUB’s former senior managers have been made public, the banks that kept correspondent accounts open should review their due diligence procedures to ascertain if there were red flags that they may have missed and whether their policies and procedures are appropriate, and their regulators should ensure that they are applying the required standards on correspondent banking due diligence.

ii. APCO and Kroll: how American firms helped AUB with its reputational difficulties

One of the most striking features of AUB’s international access was the presence of three former US senators on its board: Bob Dole, J. Bennett Johnston and Donald W. Riegle Jr. How did this happen, particularly after the Russian Central Bank had warned Russian banks about the risks of doing business with AUB?

The answer is that following the Russian Central Bank’s action in 2006, AUB hired a Washington DC public relations company, APCO Worldwide[†], to, as APCO put it, “act as strategic consultant for AUB Bank” and “facilitate [AUB’s] ability to meet international standards of compliance with international banking norms across-the-

board”.³⁷⁹ According to AUB’s Denis Slobodyan, the deal was brokered by Eugene Gourevitch.³⁸⁰

APCO said it had “secured an agreement with AUB that it would put in place an independent board of directors.” Former US senators J. Bennett Johnston and Bob Dole – the latter a senior counsellor at APCO from 2004 to 2008³⁸¹ and a former presidential candidate – were hired to AUB’s board in June 2007.³⁸² The following year, in April 2008, Eugene Gourevitch and his wife made a donation of US\$4,600 to Elizabeth Dole’s US Senate election campaign.³⁸³ In early 2010 Senator Dole resigned from AUB’s board due to travel obligations and was replaced by another former US senator, Donald W. Riegle Jr, an employee of APCO. Both Riegle Jr and Johnston were still on the board at the time of the uprising in Kyrgyzstan in April 2010.³⁸⁴

“I think it [hiring APCO] made it difference. Before it was like ‘Kyrgyzstan, where’s that?’ Then it was, ‘Bob Dole is a board member? Interesting, tell us more.’”

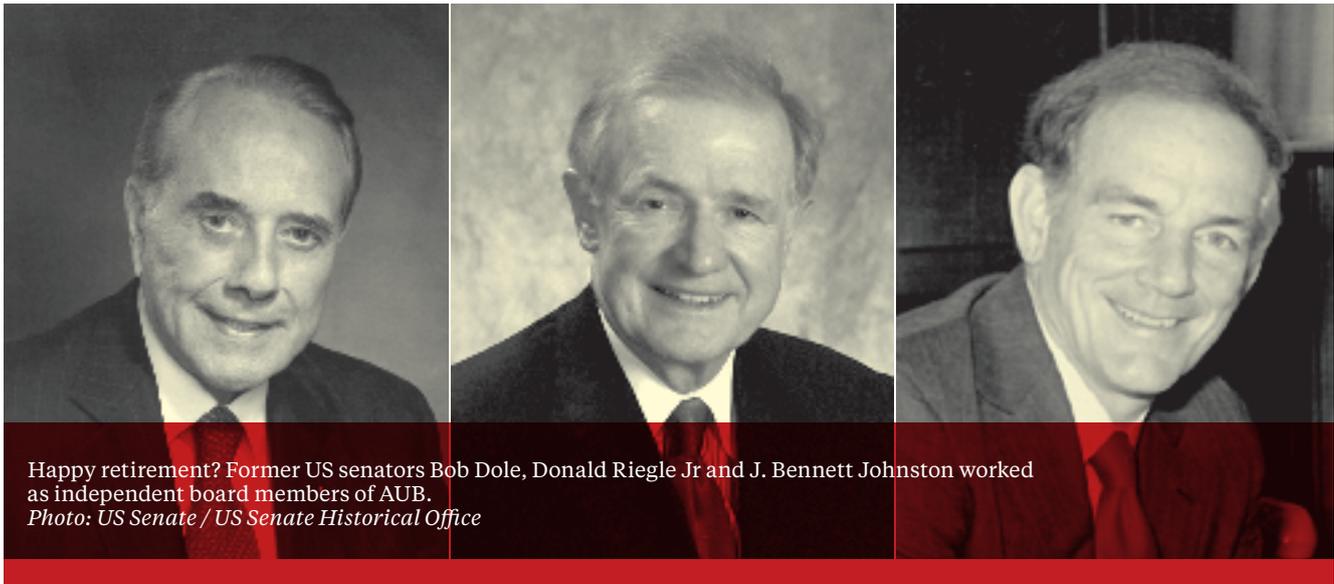
AUB’s Denis Slobodyan

Global Witness wrote to APCO and the three former senators to ask what due diligence they did on the bank before accepting AUB as a client and to get their comment on the money laundering accusations facing AUB.

APCO explained that it undertook internet-based searches and contacted regional experts in the US government in Washington DC, Kyrgyzstan and Kazakhstan regarding AUB. Further, before accepting AUB as a client, APCO made it clear to AUB that its services would only continue so long as all recommendations made by the independent board members were accepted by AUB management and the bank hired an independent due diligence firm to conduct a review of and improve AUB’s anti-money laundering procedures.³⁸⁵

Internal reforms APCO helped initiate, it said, included the appointment of a new chief anti-money laundering compliance officer, the implementation of comprehensive anti-money laundering and “know your customer” requirements and the establishment for the first time in a Kyrgyz bank of a dedicated Control and Compliance Department.³⁸⁶ The former senators replied jointly saying that APCO provided the due diligence, adding: “it was understood that we would resign, if AUB failed to take these steps or continue to implement current and future recommendations of engaged independent consulting firms.”³⁸⁷

[†] This report makes reference to the role of US company APCO Worldwide in the events described. By coincidence, a board member of the US-based Global Witness Foundation (which we emphasise has played no role in any aspect of the production of this report) works for APCO, and so as to avoid any conflict of interest he has resigned from his voluntary position on the board of the Global Witness Foundation.



Happy retirement? Former US senators Bob Dole, Donald Riegle Jr and J. Bennett Johnston worked as independent board members of AUB.
 Photo: US Senate / US Senate Historical Office

The EBRD-funded audit of February 2011 has since supported the allegations of the Kyrgyz prosecutor that money laundering legislation was ignored at AUB and the bank's own systems were manipulated to facilitate money laundering. APCO said that both it and the former senators have seen "no evidence, from any source, at any time to indicate, let alone to show" that this is what occurred. APCO told Global Witness that "As we understand it, AUB was nationalised by coup leaders who toppled the previous government and then indicted their political enemies and those they viewed as associated with them, including some bank officers."³⁸⁸

Global Witness has no evidence to suggest that the former senators and APCO had any knowledge when working with AUB that the bank may have been used as a money laundering vehicle, or that they profited from their arrangement with AUB in any way over and above the remuneration the senators received for acting as board members and APCO for acting as an advisor. The former senators refused to disclose their remuneration, citing the fact the bank was not a publicly-traded firm.³⁸⁹

But it is arguable that the actions of APCO and the former senators had the effect of laundering the international reputation of AUB; in other words, gave an entity improved international legitimacy by association with respected individuals or bodies, particularly through the former US senators who were put on the bank's board. AUB's Denis Slobodyan told Global Witness: "I think it [hiring APCO] made a difference. Before it was like 'Kyrgyzstan, where's that?' Then it was, 'Bob Dole is a board member? Interesting, tell us more.'"³⁹⁰ According to one news article, Gourevitch claimed in a January 2010 Twitter posting that allegations of money laundering

against AUB were groundless because "'well-known and ethically spotless people' such as [the] former US Senators [...] had accepted seats on the AUB board."³⁹¹ Former AUB board member Alexei Yeliseev told Global Witness: "It was the only bank in Kyrgyzstan to have independent American directors on its board, well-respected senators, even a former presidential candidate. There was a very strong effort to ensure transparency from the point of view of American law."³⁹²

Global Witness's use of the term "reputation laundering" does not suggest illegal activity, and may have been an unwitting consequence of the actions of the individual or organisation involved. APCO may well have had the best of intentions in mind – the positive development of the Kyrgyz banking sector – when it agreed to take on AUB as a client. However, it remains Global Witness's view that if the allegations against AUB are true, then APCO has inadvertently lent credibility to a criminal enterprise.

APCO maintains that this is "factually inaccurate and offensive. APCO made it clear that it would remain an advisor only as long as the bank leadership was committed to meeting international standards, a principle subject to ongoing oversight and monitoring." According to APCO, Global Witness's view that their actions constituted an act of "laundering the reputation" of AUB "makes no sense on its face and is neither logical nor reasonable."³⁹³

KROLL'S REPORTS ON AUB

Kroll Associates was chosen as the independent investigation firm after APCO had recommended that AUB employ such a company. Kroll conducted several anti-money laundering checks and performed due diligence to review AUB's reputation, history and issues of controversy that had been linked to the bank. Nadel and Gourevitch have both cited the bank's relationship with Kroll as evidence of its good procedures and standing.³⁹⁵

Global Witness has seen two reports by Kroll on AUB from 2009; one is a report following "transaction testing" by Kroll to see if AUB's anti-money laundering and anti-terrorism financing procedures were sound, the second is a due diligence report on the bank's reputation. The money laundering report is cautiously positive, concluding that while systems had improved since the previous year, too much time was being spent on low rather than high risk activities, and various "ongoing enhancement efforts" were necessary.³⁹⁶

If AUB was indeed manipulating its banking transaction system, as the EBRD-funded audit says, then Kroll would not necessarily be expected to pick this up, since it would arguably have been difficult to spot; in particular the report was based on a sample of client accounts.

The anti-money laundering review did note extensive relationships between client accounts including those of offshore corporations, and concluded that although no obvious illegal activity was identified, a more detailed review was necessary to prove the activities in such relationships were legitimate and reasonable.³⁹⁷

But Global Witness believes that the other Kroll due diligence report it has seen on AUB's reputation and background is severely lacking. In places it reads, in Global Witness's opinion, like an apology for the bank. For example, on the question of the bank's links with Maxim Bakiyev, there seems to be a substantial disconnect between what this report says and what every single non-AUB source with whom Global Witness has consulted (including from international financial institutions and a Western diplomat) has said. Nadel's lawyer has indicated that this was a draft report which was unfinished at the time of the April 2010 events,³⁹⁸ although the version of the due diligence report that Global Witness has seen appears complete and is not marked as a draft. It deals with the key topic of the alleged links between Maxim Bakiyev and AUB mainly which is remarkable given the importance of the issue and its possible impact on the bank's operations. The footnote reads:

Similar rumours – not precise allegations as such – also abound regarding ties between AUB and President Bakiyev's son, Maxim Bakiyev, a wealthy businessman in his own right. It should be noted that AUB is not alone in being perceived as being the beneficiary of Bakiyev's patronage – rumours also link the Bakiyevs to [two other Kyrgyz banks] and references in the public domain are usually found in blogs in the form of a vague suggestion. This tells us no more than if people want to see Maxim Bakiyev behind business and banking in [Kyrgyzstan], then that is what they will see. Kroll has found no evidence to suggest that Mikhail Nadel and Maxim Bakiyev have any commercial ties. According to source reports, they know each other socially since 2003 and have a friendship that predates his father's assumption of the country's leadership during the Tulip Revolution [in 2005].³⁹⁹

Maxim Bakiyev and Mikhail Nadel may well have had no commercial ties and Maxim may have owned no AUB shares, but what about the ability of the former to influence the latter, or exert control over the bank in other ways? In Global Witness's opinion, Kroll should have given the issue more prominence and at least detailed the lengths that it went to in order to come to the above conclusion.

APCO told Global Witness that it heard rumours from Bishkek diplomats about Maxim's influence, but that when contacted these officials said they did not have supporting evidence. According to APCO, Kroll said there was "no basis in fact" for the rumours that Maxim Bakiyev held secret shares "or influence" over AUB and this was set forth in the Kroll report and presented by Kroll to the board of directors. However, the Kroll report seen by Global Witness does not deal with the issue of influence, only of the issue of share ownership.⁴⁰⁰ Global Witness does not know if there were further Kroll reports on this issue; if there were, we have not seen them.

APCO said it has had no information "that would show any findings of Kroll Associates regarding AUB to have been inaccurate" and that at no time did APCO learn of any specific fact or allegation that would show that Maxim had an interest in, or ability to influence, AUB.⁴⁰¹

We wrote to Kroll for comment but the company did not reply.



Kroll's headquarters in New York.
Photo: Global Witness

CONCLUSION

Kyrgyzstan under Bakiyev became a nasty, brutish place, with an increased level of violence⁴⁰² and repression. As in the North African countries whose leaders were overthrown in 2011 during the ‘Arab Spring’, the apparent takeover of the economy by a small group of individuals kept Kyrgyzstan’s people mired in poverty and pushed them to breaking point. The uprising was an inevitable consequence of what was perceived to be a particularly virulent kleptocracy – the capture of the country’s major assets for personal gain – and led in part to the tragic events of June 2010 when the country’s citizens turned on each other. The events of 2010 in Kyrgyzstan brought the country close to collapse. AUB is at the heart of this story, having been the country’s largest bank which was subsequently nationalised, with an EBRD-funded audit supporting the view that it was engaged in money laundering.

Inadequate regulation of correspondent banking is one of the factors that allowed AUB to process so many suspicious transactions. Another factor, as chapter 2 showed, involves the loopholes in the global system of company registration. When people can set up shell companies in a major jurisdiction such as the UK and hide their identities so easily – even apparently using the identities of dead people – capital flight out of developing and unstable countries is inevitable.

Nobody who seriously intends to launder money attempts to do so by opening accounts in their own name these days. The inadequacy and, in some cases, secrecy of national company registries are a problem, but so is the system of service providers who front for their hidden clients quite legally without any meaningful knowledge of their business. The UK, New Zealand and the wider international community need to address the fact that ‘onshore’ nations have become just as much a part of the ‘offshore’ problem as sunny Caribbean islands, and are therefore a critical link in the ‘supply chain’ for corruption. We need immediate action to make it harder for people to launder money or loot their nations’ wealth. Current regulations are simply not strong enough and are often not even implemented.

The responsibility to tackle the problem of hidden company ownership lies with the international community. There is no point in any individual nation attempting change on its own, since dodgy business will simply drain to the weakest points in the system. Over the last 20 years, the development of a global framework of anti-money laundering laws has taken account of this fact. The global standard for anti-money laundering is developed, promulgated and its implementation assessed at national level by an international body based at the Organisation

for Economic Co-operation and Development (OECD): the Financial Action Task Force (FATF). Its members are mostly wealthy OECD nations and a few other key emerging economies, but its standards apply worldwide, and are assessed outside FATF member nations by regional FATF-style bodies and the IMF. While FATF has been relatively successful in pushing out standards requiring banks to identify their customers which have now been incorporated into national laws in most countries, it has been less effective in tackling the question of secret company ownership.

It is not as if FATF does not recognise the negative impact of opaque company ownership; it has repeatedly acknowledged the problem, as have others. As early as 2001 the OECD recognised the extent to which ‘corporate vehicles’ (their jargon for companies) and trusts can be abused: “almost every economic crime involves the misuse of corporate entities”.⁴⁰³ FATF raised concerns in a 2006 report on the misuse of companies for money laundering, however, as an Asia-Pacific Group/FATF report on corruption from 2007 notes, nothing was done about this issue after the report was presented to the FATF plenary in February 2007. “As long as no action is taken, this crucial vulnerability will persist,” it noted.⁴⁰⁴ Time and time again, Global Witness reports have showed that corporate entities with opaque ownership are often at the heart of corrupt dealings.

FATF does – sort of – have some standards dealing with this issue. But there are problems with them.

Subjecting company service providers to the anti-money laundering laws requiring them to identify their customers

Firstly, FATF’s Recommendation 22 says that trust and company service providers should be subject to the same anti-money laundering due diligence requirements as banks, i.e. they must identify the beneficial owner, whether they are a politically exposed person, the source of funds and file suspicious activity reports to the authorities if necessary.⁴⁰⁵ But as chapter 2 of this report showed, in too many countries this requirement has not been incorporated into law, such as in Russia and New Zealand, although the latter is now proposing to do so. Even where it is part of the law, such as the UK and the Seychelles, there is insufficient enforcement of it in practice. This is why Global Witness recommends that FATF use its country evaluations not just to assess if laws are on the books, but whether they are being enforced, and that it put much more pressure on those countries not in compliance with its standards.

Making company ownership information available

Secondly, FATF's Recommendation 24 requires countries to prevent misuse of 'corporate vehicles' by making information on companies' beneficial ownership more easily available.⁴⁰⁶ Until this year, the level at which this recommendation has been assessed allowed countries to not require any information to be collected on beneficial ownership, and to rely on the powers of law enforcement to chase up the beneficial owners once a crime has been committed. With complicated structures across multiple jurisdictions, this can take years, by which time the money has long gone – and so has the law enforcement investigation's budget.

FATF recently had an opportunity to improve its standard and close this massive loophole. It has spent the last two years reviewing its Recommendations, and in February 2012 announced the results. Global Witness and many of its partners in civil society argued that FATF should amend its standard so that in order to be compliant with Recommendation 24, countries must collect and verify the beneficial owner of companies that are incorporated. They should also hold nominees responsible for the actions of the company, which is a key aspect of preventing the misuse of corporate vehicles.

But FATF has, to a great extent, dropped the ball. Under the new revised recommendation 24 countries can do one or more of the following to achieve compliance:

- a) Require companies or company registries to obtain and hold up-to-date information on the companies' beneficial ownership;
- b) Require companies to take reasonable measures to obtain and hold up-to-date information on the companies' beneficial ownership;
- c) Using existing information including (i) information obtained by financial institutions or company service providers in the course of their customer due diligence, (ii) information held by other authorities such as tax authorities or financial regulators, and (iii) information held by the company.⁴⁰⁷

So company registries of beneficial ownership are an option, although they don't have to be made public. But FATF missed the opportunity to make this a mandatory standard. Because registries are only an option, any jurisdiction that wishes to continue profiting from peddling secrecy can take one of the other options, which effectively do not provide any improvement on the current situation. The mention of 'reasonable measures' in option b is an invitation to lawyers to set up unreasonable cross-border structures that allow companies to be able to claim that they don't know the identity of their ultimate beneficial owner. Option c seems profoundly circular; if companies do not keep the information themselves it is unlikely that banks or tax authorities will have

managed to find it. (The ability to hide beneficial ownership of assets is of course key to any tax evasion.)

The one positive step FATF has taken in this recent standards revision is to say that as part of compliance with Recommendation 24, countries should get more information out of nominee directors or shareholders about the people they are representing. This would mean either requiring nominees to disclose to any relevant registries who they are representing, or – rather weaker – requiring nominee shareholders and directors to be licenced, for their nominee status to be recorded in registries, and for them to make information on their nominator available to the authorities on request. Of course, jurisdictions can choose to adopt the weaker option.

But overall, this ongoing failure to require beneficial ownership information to be collected is an extraordinary state of affairs. Good anti-money laundering practice includes verification procedures to detect the use of fictitious identities by individuals. This is why banks are required to verify the identity of individuals opening accounts. Yet government-funded and government-run company registration agencies are allowed to create multiple corporate identities for unknown individuals without any process of identification or verification, or any ongoing due diligence. This is a significant inconsistency at the very heart of the global anti-money laundering standards.

However, the door has not closed, and attention now moves to the EU. FATF has raised an option of registries of beneficial ownership, and there is no reason that governments could not act together to implement this best practice standard. Now that the new FATF standards have been agreed, countries will take action to update their own anti-money laundering laws. The member states of the EU do this in Brussels, where the European Commission is already considering what changes will be made during 2012 and 2013 to its current, Third EU Anti-Money Laundering Directive, which is binding on member states.

Global Witness believes that the EU should adopt a beneficial ownership registries' standard for its members, which would be particularly influential in creating momentum towards global change if its members used their influence to ensure it was extended to the offshore jurisdictions with which they have connections. At the very, very least, it should ensure as a first step that all member states have an open registry of legal shareholding, which, unbelievably, is not currently the case. Then the EU's member states should put pressure on the offshore jurisdictions with which they have relationships to do the same.

We are no longer the only ones calling for more information to be made available on company ownership:

× The 2010 EU Internal Security Strategy has already called for change. It includes a suggestion that the EU's Anti-Money Laundering Directive should be used to "enhance the transparency of legal persons and legal arrangements".⁴⁰⁸

× The European Banking Federation, which represents financial institutions within the EU, has called for more information to be provided by governments on corporate ownership to make it easier to carry out customer due diligence.⁴⁰⁹

× And in January 2012 *The Economist* published a leader article arguing: "Anyone registering a limited company should have to declare the names of the real people who ultimately own it, wherever they are, and report any changes. Lying about this should be a crime. Some dodgy places will try to hold out. But anti-money-laundering rules show international co-operation can work. You can no longer open an account at a respectable bank merely with a suitcase of cash. Let the same apply to starting a limited company."⁴¹⁰

× The European Parliament passed a motion in 2011 calling for greater transparency of company registers and another in 2012 asking the European Commission to "make the fight against the abuse of anonymous shell companies in secrecy jurisdictions, enabling criminal financial flows, a key element of the upcoming reform of the Anti-Money Laundering (AML) Directive".⁴¹¹

Objections to beneficial ownership registries frequently centre on the cost to business or 'red tape' fears – which is usually a concern about the impact on small and medium businesses. But most small and medium enterprises do not have difficulty in knowing who their beneficial owners are, and it is not a burden to provide this information in addition to the other information they must already provide. Those who set up the complex multi-jurisdictional structures tend to be bigger companies, or wealthy individuals, seeking to avoid tax in the place they live or do business. They pay large fees to lawyers to set up such structures, and so those lawyers can be instructed to make the information available in the jurisdiction where each element of the structure is incorporated. There would be an increase in the cost of setting up a company to pay for the increased registry staff to verify information given and chase those who have not updated it, but we believe that limited liability is a privilege granted by the state for which it is reasonable to ask a small charge.

Nominee directors and company law

Finally, the current system raises a problem for company law in the UK. As seen in the UK examples in chapter 2, nominee directors have claimed to Global Witness that they had no knowledge of what the companies they 'direct' were doing, and therefore cannot be held

responsible for their actions. Yet the UK Companies Act requires directors, whether nominees or not, to take responsibility, and – in theory – ignorance would be no defence.⁴¹² It seems that the very basis of the nominee director business makes a mockery of the Companies Act. In practice, there are no consequences for these nominee directors, though, because these provisions of the act are not effectively enforced. It is time they were.

Without a radical rethink of the design and enforcement of these key standards, countries such as Kyrgyzstan – let alone many other, much poorer countries in Africa – will struggle to develop while successive leaders take advantage of lax systems of governance to plunder their nations' wealth. All of the loopholes outlined in this report are also available, of course, to those who want to evade tax, which also deprives governments of revenue. Financial centres, both onshore and offshore, and the governments that are supposed to regulate them, remain complicit if they do not act.



New regulations on company ownership will help prevent the flow of dubious money from countries such as Kyrgyzstan.

Photo: Igor Kovalenko/epa/Corbis

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- ⁶⁵ Pervomaisky Regional Court of Bishkek, 28 December 2011. Translation from the Russian provided to Global Witness by Valeri Belokon.

- ⁶⁶ Ugolovnoe delo No 346/11/B. Prigovor imenem Kyrgyzskoi Respubliki, Nadel Mikhail Anatolevich, Lenin regional court of Bishkek, 6 April 2011. Mikhail Nadel responses to Global Witness enquiry, 3 March 2012 and 5 April 2012.
- ^{66b} Email correspondence with senior official from the Kyrgyz Prosecutor's office, May 2012. The official also confirmed to Global Witness that "the accusations of laundering remain in force" against Nadel and the other people indicted as of this date.
- ⁶⁷ The "SWIFT" documents: banking transactions of Lenymar Limited (New Zealand), Novelta Limited (UK), Velcona Limited (UK), Velion Limited (UK), Vestengold LLP (UK), Sorento Resources Ltd (UK).
- ⁶⁸ The "AUB" document: OJSC "AsiaUniversalBank", Bankovskaya vypiska za 1/4/2010 – 7/4/2010, AUB banking transactions for 1 April 2010 to 7 April 2010 of Brasfort Ltd (Belize), Sorento Resources Ltd (UK), OsOO Ganytime Goods (Kyrgyz Republic), OsOO Furniserv Group (KR), OsOO Eurohouse (KR), OsOO CTC Distributors (KR), OsOO Tez Mobile.
- ⁶⁹ The "SWIFT" document of Sorento Resources Ltd (UK) contains a comparison of BANK++ and SWIFT records of transactions. These dates can also be compared to the information from the "AUB" document.
- ⁷⁰ Global Witness interviews and email correspondence with company representatives, August – October 2011.
- ⁷¹ Company correspondence with Global Witness, February 2012.
- ⁷² *The Banker*, 1 September 2010.
- ⁷³ Sorento Resources Ltd, Demetra Consulting Ltd, Delanco Limited filed dormant accounts in the UK in 2008, according to UK Companies House.
- ⁷⁴ The three companies were Velion, Velcona and Novelta. GDP figures from the World Bank's *Databank* website.
- ⁷⁵ One exception is Grexton Capital Ltd, registered in Belize, that appears to have been involved in the Kyrgyz gold mining sector (see page 55).
- ⁷⁶ Global Witness phone interview June 2011.
- ⁷⁷ The "SWIFT" documents: Banking transactions of Lenymar Limited (New Zealand).
- ⁷⁸ Company correspondence with Global Witness, February 2012.
- ⁷⁹ New Zealand companies registry document for Lenymar Limited.
- ⁸⁰ *24.kg* news agency, 8 June 2011.
- ⁸¹ Raymond Baker, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System*, Wiley, 2005.
- ⁸² Mikhail Nadel response to Global Witness enquiry, 5 April 2012.
- ⁸³ The "AUB" document.
- ⁸⁴ International Business Companies Register of Belize, Public Access Information: Brasfort Limited.
- ⁸⁵ Documents from the Kyrgyz authorities, seen by Global Witness, August 2010.
- ⁸⁶ Sorento Resources Ltd's AUB account details are given in both the "AUB" document and a separate record of the company's transactions according to the "SWIFT" document. Sorento Resources, Sofis Untek, and Velion held accounts at AUB according to documents from the Kyrgyz authorities, seen by Global Witness, August 2010.
- ⁸⁷ New Zealand and Bulgarian corporate registries. We have found companies called Magali Ltd in both New Zealand and the UK through New Zealand Companies Office and UK Companies House. We believe the "AUB" document refers to the New Zealand company because the UK version was registered only in May 2010, after the transactions listed in the document. Similarly, a company called Lenymar Ltd. was also registered in the United Kingdom. It is unclear if the UK versions of Lenymar and Magali are related to the ones registered in New Zealand, other than by name.
- ⁸⁸ Namely, the Company Net, Midland Group and GT Group.
- ⁸⁹ International Business Companies Register of Belize. Public Access Information: There is also a no link whatsoever between this company and Dovepark Ltd registered in the UK. This was confirmed by a representative from the UK company to Global Witness on 27 March 2012.
- ⁹⁰ Aron Capital, Grexton, Merel and Brasfort are all registered at 1 Mapp Street. Dovepark and Leader Pro are registered at Suite 102, Blake Building.
- ⁹¹ Velcona Limited is a UK company that features on documents from the Kyrgyz authorities, seen by Global Witness, August 2010, regarding suspicious transactions. Its secretary, United Services Ltd, is registered at Suite 102, Blake Building, Belize, where Dovepark Limited and Leader Pro Ltd are also registered. A company called, Parkvale Industries LLP, which features on the "AUB" document possesses two "members" whose addresses, according to UK Companies House, are also Suite 102, Blake Building, Belize.
- ⁹² Documents from the Kyrgyz authorities, seen by Global Witness, August 2010.
- ⁹³ *Ibid.*
- ⁹⁴ UK Companies House document. There is no link whatsoever between Mita Consulting, registered in the British Virgin Islands and a company of the same name registered in the UK. This was confirmed by a representative from the UK company to Global Witness on 27 March 2012.
- ⁹⁵ UK Companies House, Delanco Limited Dormant accounts 30 June 2009.
- ⁹⁶ *Ibid.*
- ⁹⁷ Global Witness visit to 27 Old Gloucester St, January 2012.
- ⁹⁸ UK Companies House document.
- ⁹⁹ Documents from the Kyrgyz authorities, seen by Global Witness, August 2010.
- ¹⁰⁰ UK Companies House documents, including Demetra Consulting Ltd: Dormant Accounts 2009, 31 October 2009.

- ¹⁰¹ Demetra Consulting Ltd: Director appointed Mario Antonio Alvarado Castillo 11 August 2008; Delanco Limited: Director appointed Mario Antonio Alvarado Castillo 04 September 2008; Sorento Resources Ltd: Director appointed Mario Antonio Alvarado Castillo 03 October 2008.
- ¹⁰² UK Companies House documents, including Certificate of Incorporation of Sorento Resources Ltd.
- ¹⁰³ A search for 'Mario Castillo' in the New Zealand registry gives 108 results as of 15 September 2011. Global Witness found that Castillo held positions in 175 UK companies and partnerships.
- ¹⁰⁴ @UKPlc press release, 5 September 2011; @UKPlc press release, Launch of Innovative NHS Expenditure Carbon Footprint Project, 19 September 2011.
- ¹⁰⁵ <http://www.uk-plc.net/about-us.htm>.
- ¹⁰⁶ <http://www.uk-plc.net/contact-us.htm>.
- ¹⁰⁷ UK Companies House documents: Sorento Resources Ltd, Dormant Accounts 2008 and 2009, approved by the Board 8 December 2008 and 2 December 2009.
- ¹⁰⁸ The "SWIFT" documents: comparison of BANK++ and SWIFT records of transactions of Sorento Resources Ltd (UK).
- ¹⁰⁹ Conversation with Companies House spokesperson, 6 February 2012. Companies Act 2006 Sections 386 and 480, and further independent legal advice provided to Global Witness, April 2010.
- ¹¹⁰ Letter from Mario Castillo to Global Witness, 9 March 2012.
- ¹¹¹ Global Witness phone interview with source, June 2011.
- ¹¹² Letter from Alice Morwood-Leyland to Global Witness, 15 September 2011.
- ¹¹³ Email from Ronald Duncan to Global Witness, 18 September 2011.
- ¹¹⁴ Letter from Ronald Duncan to Global Witness, 2 March 2012.
- ¹¹⁵ The "SWIFT" documents: banking transactions of Sorento Resources Ltd.
- ¹¹⁶ The "SWIFT" and "AUB" documents.
- ¹¹⁷ "The "SWIFT" and "AUB" documents. UK Companies House.
- ¹¹⁸ Transposition of FSAP Directives, State of play as at 25/08/2010, http://ec.europa.eu/internal_market/finances/docs/actionplan/index/100825-transposition_en.pdf.
- ¹¹⁹ ABLV response to Global Witness, 1 February 2012.
- ¹²⁰ Documents from the Kyrgyz authorities, seen by Global Witness, August 2010.
- ¹²¹ The "AUB" document.
- ¹²² The "SWIFT" document.
- ¹²³ US\$102 million was transferred in US dollars with a further US\$3 million approx. sent in Russian roubles (91.4 million roubles) and US\$10 million approx. sent in euros (7.07 million euros).
- ¹²⁴ US\$109.54 million was transferred in US dollars with a further US\$10.3 million approx. transferred in Russian roubles (250.97 million roubles) and US\$4.1 million transferred in euros (3 million euros).
- ¹²⁵ US\$88.36 million was transferred in US dollars with a further US\$4.6 million approx. transferred in Russian roubles (147.7 million roubles) and US\$4.19 million transferred in euros (3.1 million euros).
- ¹²⁶ The money was transferred in a variety of currencies – mainly US dollars, but also Russian roubles, Kyrgyz som and Pounds sterling. These totals have been calculated by adding up the respective totals by currency and converting the non-USD currencies to USD, using an averaged exchange rate during the period the transfers took place.
- ¹²⁷ UK Companies House documents.
- ¹²⁸ According to UK Companies House, Vestengold LLP last filed dormant accounts on 24 December 2009. The "SWIFT" document shows that Vestengold LLP appeared to make financial transactions from 6 August 2009. It did not file accounts in 2010, leading to a "First Gazette" – a decision to strike the company off. No objection was raised by the company, nor accounts filed, so the company was struck off and dissolved on 28 June 2011.
- ¹²⁹ Documents from the Kyrgyz authorities seen by Global Witness, August 2010.
- ¹³⁰ UK Companies House documents.
- ¹³¹ 126 Aldergate St, EC1A 4JQ. UK Companies House documents.
- ¹³² Opasniye svyazi, <http://www.centryug.ru> (in Russian), undated.
- ¹³³ <http://www.j-service.ru> (in Russian), undated.
- ¹³⁴ The article gives his full name as 'Mikhail Valentinovich Leonov'. The name given in Companies House documents is just 'Mikhail Leonov', though both the "SWIFT" document and another document from the Kyrgyz authorities give the director's full name as 'Leonov Mikhail Valentinovich.'
- ¹³⁵ UK Companies House document.
- ¹³⁶ Decision of the Fourth arbitration appeal court from 2 April 2009 #04AP-568/09 (in Russian); Decision of the Federal arbitration court of the East Siberian district from 24 June 2009 #A19-6227/08-F02-2859/2009 (extract) (in Russian).
- ¹³⁷ UK Companies House documents.
- ¹³⁸ Global Witness visit to Suite 2, 23-24 Great James Street, London and interview with employee of Apollo International, 15 November 2011.
- ¹³⁹ Global Witness, *It's a Gas*, April 2006, p38.
- ¹⁴⁰ Companies House, Companies Act 2006 Guidance.
- ¹⁴¹ FATF, "Mutual Evaluation Fourth Follow-Up Report: United Kingdom", 16 October 2009, p19.
- ¹⁴² Richard Murphy, "500,000 missing people: £16 billion of lost tax: How the UK mismanages its companies", March 2011, p3.

- ¹⁴³ 1209 North Orange St, Wilmington, Delaware. See “Don’t blame the Cayman Islands for the financial crisis”, *Cayman Finance*, 13 May 2009.
- ¹⁴⁴ This is a phrase used by Nicholas Shaxson in *Treasure Islands: Tax Havens and the Men who Stole the World*, 2010.
- ¹⁴⁵ Jason Sharman, “Shopping for Anonymous Shell Companies: An Audit Study of Anonymity and Crime in the International Financial System”, *Journal of Economic Perspectives*, Volume 24, Number 4, Fall 2010.
- ¹⁴⁶ Global Witness, *International Thief Thief: How British Banks are Complicit in Nigerian Corruption*, October 2010.
- ¹⁴⁷ FATF, “The Misuse Of Corporate Vehicles, Including Trust And Company Service Providers”, 13 October 2006. p1. FATF, Recommendation 12.
- ¹⁴⁸ FATF 40+9 Recommendations 2003.
- ¹⁴⁹ Financial Action Task Force, Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism for United States of America, June 2006, p300, http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER_US_ES.pdf. Asia-Pacific Group on Money Laundering/Financial Action Task Force, Mutual Evaluation Report for New Zealand, October 2009, page 191 (Rec 12), <http://www.fatf-gafi.org/dataoecd/1/61/43998312>. See also the excellent “Shell Games” series by Reuters investigating the extent and impact of corporate secrecy in the USA, June – December, 2011.
- ¹⁵⁰ UK Money Laundering Regulations 2003, Regulation 2.2(m).
- ¹⁵¹ UK Money Laundering Regulations 2007, Regulation 3.10.
- ¹⁵² Global Witness phone interview with HMRC representative, 31 August 2011.
- ¹⁵³ Jordans’ reply to Global Witness enquiries 21 September 2011 and 2 March 2012.
- ¹⁵⁴ FATF, “Third Mutual Evaluation Report, The United Kingdom of Great Britain and Northern Ireland”, June 2007, p211, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20UK%20FULL.pdf>. Mutual Evaluation Fourth Follow Up report, October 2009, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/For%20UK.pdf>.
- ¹⁵⁵ Global Witness phone interview with HMRC representative, 31 August 2011.
- ¹⁵⁶ Email correspondence with HMRC, 22 September 2010.
- ¹⁵⁷ Asia-Pacific Group on Money Laundering/Financial Action Task Force, “Mutual Evaluation Report for New Zealand”, October 2009, page 191 (Rec 12), <http://www.fatf-gafi.org/dataoecd/1/61/43998312.pdf>.
- ¹⁵⁸ Emails from New Zealand Ministry of Justice press office, 9 and 12 March 2012.
- ¹⁵⁹ Companies and Limited Partnerships Amendment Bill, introduced October 2011, <http://legislation.govt.nz/bill/government/2011/0344/4.0/DLM4094913.html>.
- ¹⁶⁰ One company mentioned in the “AUB” document shares the name of a company registered in the Seychelles. It appears to be a shell, though cannot be linked by the information in its registration document to any of the companies mentioned in this report.
- ¹⁶¹ See table on p29. Another employee of Chaplin’s Seychelles office appeared to be a shareholder of a sixth company, Taleford Limited, which is suspected by the Kyrgyz authorities as being involved in suspicious transactions. This company was registered before the other five. This man was confirmed as working in Chaplin’s Seychelles office in a phone call by Global Witness to Chaplin’s Seychelles office in January 2012.
- ¹⁶² The original directors of the five companies, Elisana Labonte, Cinthia Alcindor and Joahna Alcindor, all work in Chaplin’s Seychelles office and three of these companies’ registered address are the same as Chaplin’s: 126 Aldergate Road, London. Global Witness visited 126 Aldergate Road and found a nameplate of Chaplin, Bénédicte & Co Ltd. It was confirmed to Global Witness that the three women work for Chaplin through a phone call to Chaplin’s Seychelles office, 14 September 2011. Cinthia Alcindor is listed as the ‘contact’ for Chaplin’s office in Seychelles on a list of International Corporate Service Providers provided by the Seychelles International Business Authority, <http://www.siba.net/index.php?s=links-icsp>, accessed 23 March 2012.
- ¹⁶³ UK Companies House. Apollo’s Seychelles office is located at 103 Sham Peng Tong Plaza according to its website, http://apollo-international.com/index.php?option=com_contact&view=contact&id=3&Itemid=77.
- ¹⁶⁴ Chaplin’s office is located at 105 Sham Peng Tong Plaza according to its website, <http://www.cbc-legal.com/contact-us/seychelles-office>.
- ¹⁶⁵ UK Money Laundering Regulations 2007, Regulations 3, 5 and 8.
- ¹⁶⁶ Eastern and Southern Africa Anti-Money Laundering Group, “Mutual Evaluation Report, The Republic of Seychelles”, 2008, paras 630-632 and table 4.1.3.
- ¹⁶⁷ Fabien Bénédicte Suant reply to Global Witness enquiry, 2 March 2012.
- ¹⁶⁸ Banking transactions of Lenymar Limited (New Zealand), Novelta Limited (UK), Velcona Limited (UK), Velion Limited (UK), Vestengold LLP (UK). Nastek Limited received approx. US\$109 million in US dollars, Russian roubles and Euros from Velcona and Lenymar. Kintex Limited received approx. US\$132.5 million in US dollars, Russian roubles and Euros from Velcona and Lenymar. Nastek sent approx. US\$75.6 million in US dollars, Russian roubles and Euros to Velcona and Lenymar. Kintex sent US\$52.4 million in US dollars, Russian roubles and Euros to Velcona and Lenymar.
- ¹⁶⁹ The “AUB” document.
- ¹⁷⁰ New Zealand company registry documents.
- ¹⁷¹ UK Companies House.
- ¹⁷² According to documents from the Kyrgyz authorities seen by Global Witness in August 2010 and the “AUB” document. These LLPs listed members are two Vanuatu-based companies whose address is that of GT Group’s head office, and whose nominee directors are employees of the GT Group.
- ¹⁷³ “North Korean arms plane ‘has links to New Zealand’”, *The Times*, 17 December 2009. Gerard Ryle, “Inside the shell: drugs, arms and tax scams”, *Sydney Morning Herald*, 15 May 2011.
- ¹⁷⁴ *Sydney Morning Herald*. 15 May 2011.

- ¹⁷⁵ <http://www.vfsc.vu/services/directory/ctsp-directory>. Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ¹⁷⁶ The description is Geoffrey's own description of his business taken from his website, according to the High Court of New Zealand Decisions, *Lupton v Commissioner of Inland Revenue Department HC Wellington CIV 208-485-2460* [2011] NZHC, 15 March 2011.
- ¹⁷⁷ Financial Transactions and Reports Analysis Centre of Canada, January-March 2010, p3.
- ¹⁷⁸ New Zealand company registry documents of Melide (NZ) Limited, Keronol Limited, Tormex Limited, Dorio (NZ) Limited.
- ¹⁷⁹ *Sydney Morning Herald*, 15 May 2011; "Crime and Punishment in Putin's Russia," *Barrons*, 16 April 2011.
- ¹⁸⁰ Financial Transactions and Reports Analysis Centre of Canada, January-March 2010, p4; *The Times*, 17 December 2009.
- ¹⁸¹ GT Group Limited, Management Statement, SP Trading Limited, 18 December 2009.
- ¹⁸² Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ¹⁸³ *Ibid.*
- ¹⁸⁴ Michael Field, "'Shell' operation shuts after crime links exposed", *Auckland Now*, 7 June 2011.
- ¹⁸⁵ Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ¹⁸⁶ According to UK Companies House, Vestengold LLP last filed dormant accounts on 24 December 2009. The "SWIFT" document shows that Vestengold LLP appeared to make financial transactions from 6 August 2009.
- ¹⁸⁷ Declaration of the Owner: Vestengold LLP, 15 December 2009.
- ¹⁸⁸ Independent legal advice obtained by Global Witness, April 2012.
- ¹⁸⁹ Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ¹⁹⁰ Asia/Pacific Group on Money Laundering and Offshore Group of Banking Supervisors: Vanuatu, "APG/OGBS 2nd Joint Mutual Evaluation Report", March 2006, p99 and p133.
- ¹⁹¹ Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ¹⁹² Craftur Viss Limited, Jorgentur Limited, Lenymar Limited, Merbayer & Co Limited, Piar Active Limited, Vesatel United Limited, Volnegar Limited.
- ¹⁹³ Izeth Tapia response to Global Witness enquiry, 26 September 2011.
- ¹⁹⁴ Izeth Tapia response to Global Witness enquiry, 24 January 2012.
- ¹⁹⁵ UK Companies House document and response from Mario Castillo, translated from Spanish and sent by an employee of Midland Consult, 20 September 2011. An archived webpage of Midland Consult states that Midland Counselors at Law is Midland Consult's "Associate office in Panama".
- ¹⁹⁶ Maxim Stepanov responses to Global Witness enquiry, February-March 2012; documents from New Zealand corporate registry.
- ¹⁹⁷ Midland Consult website, <http://www.midlandconsult.com/about/>, accessed 23 March 2012.
- ¹⁹⁸ Asia Offshore Association website, <http://www.asiaoffshore.org/russia-maximstepanov>, accessed 17 August 2011 [No longer available].
- ¹⁹⁹ Midland Consult Ltd, UK Incorporation of a Company, accessed via <http://web.archive.org> on 22 September 2011 [No longer available].
- ²⁰⁰ Midland Consult website, Great Britain (Private Limited Company), http://www.midlandconsult.com/jurisdictions/uk_ltd, accessed 23 March 2012.
- ²⁰¹ CFATF, "Belize: Mutual Evaluation 2011", paras 611 and 613, pp125-127.
- ²⁰² CFATF, "Panama: Follow-Up Report to Mutual Evaluation Approved September 2006", February 2009. pp14-15. FATF, "Second Mutual Evaluation Report Anti-Money Laundering and Combating the Financing of Terrorism: Russia", 20 June 2008, p23. http://www.superbancos.gob.pa/documentos_ing/prevention_control_illicit_operations/anti_money_laundering_laws/2-2011_law.pdf.
- ²⁰³ Asia Pacific Group, "Mutual Evaluation Report, Republic of the Marshall Islands", p119.
- ²⁰⁴ Midland Consult Ltd, Bank accounts [2007], accessed via <http://web.archive.org> on 4 January 2011.
- ²⁰⁵ Responses to Global Witness enquiry from Maxim Stepanov, 14 and 24 January, 8 February, 2 March 2012.
- ²⁰⁶ According to <http://midlandcounselorsatlaw.com>. When Global Witness wrote to Castillo, his first response was forwarded to us by somebody writing from a 'Midland Consult' email address in the same format as Stepanov's, suggesting this is part of the same group.
- ²⁰⁷ UK Companies House.
- ²⁰⁸ Maxim Stepanov response to Global Witness enquiry, 2 March 2012.
- ²⁰⁹ *Ibid.*
- ²¹⁰ Midland New Zealand Ltd is listed as the shareholder of these three companies with the registered address being care of the GT Group, according to New Zealand corporate registry.
- ²¹¹ Maxim Stepanov response to Global Witness enquiry, 8 February 2012.
- ²¹² *Barrons*, 16 April 2011.
- ²¹³ Maxim Stepanov response to Global Witness enquiry, 8 February 2012.
- ²¹⁴ Documents from the Kyrgyz authorities seen by Global Witness in August 2010.
- ²¹⁵ Maxim Stepanov response to Global Witness enquiry, 23 March 2012.
- ²¹⁶ Ian Taylor response to Global Witness enquiry, 6 March 2012.

- ²¹⁷ Maxim Stepanov response to Global Witness enquiry, 2 March 2012.
- ²¹⁸ Documents from the Kyrgyz authorities seen by Global Witness in August 2010.
- ²¹⁹ *Ibid.*
- ²²⁰ Mikhail Nadel response to Global Witness enquiry, 5 April 2012.
- ²²¹ Izeth Tapia response to Global Witness enquiry, 26 September 2011.
- ²²² UK Companies House documents and Bulgarian corporate registry document.
- ²²³ Mario Antonio Alvarado Castillo reply to Global Witness enquiry, 20 September 2011. Castillo's reply was translated from the Spanish by an employee of Midland Consult.
- ²²⁴ Response to Global Witness enquiry from Maxim Stepanov, 24 January 2012.
- ²²⁵ The Fitton Legal Company response to Global Witness enquiry, 19 September 2011.
- ²²⁶ Ian Taylor response to Global Witness enquiry, 6 March 2012.
- ²²⁷ Ian Taylor response to Global Witness enquiry, 2 March 2012.
- ²²⁸ Declaration of the Owner: Vestengold LLP, 15 December 2009.
- ²²⁹ AUB's Annual Report 2008, p15, states that AUB's head office moved to 187 Toktogula St in Bishkek in 2001.
- ²³⁰ Independent legal advice provided to Global Witness, April 2012.
- ²³¹ Ian Taylor response to Global Witness enquiry, 12 March 2012.
- ²³² Response from Carter-Ruck to Global Witness enquiry, 5 March 2012.
- ²³³ Mikhail Nadel interviewed by Emmauel Daniel, *The Banking Conversation with Mikhail Anatolyevich Nadel* (Part 1 of 2), Zenith Communications, June 2009, accessed on youtube November 2011. *Forbes* [Russian version], 20 February 2006, translated from the Russian by Global Witness.
- ²³⁴ "Enlightenment on a new bank," *The Indian Ocean Newsletter*, 15 April 2000. *Forbes* [Russian version], 20 February 2006, translated from the Russian by Global Witness. *The Indian Ocean Newsletter*, 20 January 2001, states, "Ilia Karas and Eugene Gourevitch wanted to set up [a bank] last year [2000] under the name Investment Bank of Africa." According to Gourevitch's LinkedIn profile, he was the Senior Vice President at Investment Bank of Africa from December 1999 until January 2001, Eugene Gourevitch profile, LinkedIn profile, accessed December 2010. In an interview in Russian by *Azattyk ünalgysy* (Radio Liberty) on youtube, from 14 October 2009, accessed 23 March 2012, Gourevitch says he is a US citizen, born in Moscow and that he started a bank in Djibouti.
- ²³⁵ Eugene Gourevitch was the head of a company called Virage Consulting, according to US registry records. An April 2002 archive of Virage Consulting's website lists "Asia Universal Bank" under the client section; Virage apparently did "web development" for AUB. By December 2004, the website says "Virage Consulting Ltd. has commenced work on the development of the strategic development plan for AsiaUniversalBank for years 2005-2009." See Virage Consulting, "Clients," archive of Virage Consulting Website, <http://web.archive.org/web/20020402132902/http://www.virageconsulting.com>, accessed 23 March 2012.
- ²³⁶ Gourevitch's appointment to the AUB board is mentioned in the "News," archive of Virage Consulting's Website, <http://web.archive.org/web/20070108125448/www.virageconsulting.com/en/news?PHPSESSID=271b87c130a26685dec7052848812c7a>, accessed 23 March 2012. This website says Gourevitch was appointed at the end of April 2006 though his LinkedIn profile says it happened in June 2006.
- ²³⁷ Kroll Associates' due diligence report on AUB, "Project MORICE: OJSC AsiaUniversalBank", 2 November 2009, p22. The report states that 8.95% is held by Gourevitch in his own name, with 1.09% held by Gamma Square Partners, "a US-based investment fund associated with Eugene Gourevitch".
- ²³⁸ Interview with banking expert and businessman currently resident in Kyrgyzstan, February – March 2012.
- ²³⁹ "New Kyrgyz govt uses old tactics to seize AUB", *Business News Europe*, 5 October 2010.
- ²⁴⁰ Social Fund page of the MGN website, <http://www.mgnam.com/index.php?sp=39>, accessed 23 March 2012.
- ²⁴¹ Global Witness interview with Mikhail Nadel and Denis Slobodyan, 9 September 2011.
- ²⁴² Gourevitch was appointed to the boards of CJSC Central Asian Stock Exchange (CASE), OJSC Manas International Airport Board of Directors and OJSC Electrichek Stantsii. His MGN colleagues became board members of OJSC Bishkekskiy Mashinostroitel'nyy Zavod, OJSC Severelectro, OJSC Vostokelectro, OJSC Kyrgyztelecom, OJSC Kyrgyzgas, OJSC Oshelectro, <http://replay.waybackmachine.org/20090630083524/http://mgn.kg/en/news>, accessed 23 March 2012.
- ²⁴³ Eugene Gourevitch interview with *Azattyk ünalgysy* (Radio Liberty), 14 October 2009, from www.youtube.com accessed 23 March 2012. Translated from the Russian by Global Witness.
- ²⁴⁴ These include SeverElektro, Vostokelectro, Oshelektro, and Kyrgyztelecom; Ministry for State Property press-release "Po realizatsii gosudarstvennykh paketov aktsii OAO "Vostokelektro", OAO "Zhalabatelektro" i OAO "Oshelektro"" (in Russian), 2 April 2010; *24.kg*, "Ministry for State Property cancels the privatisation of Severelectro and Vostokelectro," 15 April 2010; Ministry for State Property press-release "Privatizatsii gosudarstvennykh paketov aktsii OAO "Kyrgyztelekom" (in Russian), 2 February 2010, all accessed 22 November 2011.
- ²⁴⁵ IMF Country Report No. 10/336, October 2010, p8.
- ²⁴⁶ World Bank, "World Bank Support for Revenue Policy Reform in Eastern Europe and Central Asia: With Performance Assessment Reports Of ESW in Georgia, Kazakhstan and Kyrgyz Republic," 29 June 2011.
- ²⁴⁷ Website of the General Prosecutor of the Kyrgyz Republic, "Novosti", 24 February 2011, <http://www.prokuror.kg/?news/shownovelty/143> (in Russian), accessed 23 March 2012.
- ²⁴⁸ According to the head of Development Fund of Kyrgyzstan, Alexei Yeliseev, Transcript of Press-Conference, Development

- Fund of Kyrgyz Republic (in Russian), 23 September 2009. "Kyrgyz fund official explains why contract with foreign tycoon cancelled," *Vecherniy Bishkek*, 16 March 2010, translated from the Russian by BBC Worldwide Monitoring, 24 March 2010; <http://www.pr.kg/news/kg/2010/05/07/15296>, accessed 23 March 2012.
- ²⁴⁹ Confirmed in interview Global Witness interview with Denis Slobodyan and Mikhail Nadel, 9 September 2011, and with other sources, July 2011.
- ²⁵⁰ Head of Development Fund of Kyrgyzstan, Alexei Yeliseev, Transcript of Press-Conference, Development Fund of Kyrgyz Republic (in Russian), 23 September 2009. Yeliseev telephone interview with Global Witness (in Russian), 29 September 2011.
- ²⁵¹ Eugene Gourevitch LinkedIn profile accessed December 2010. Not publicly available.
- ²⁵² In an interview with Global Witness and subsequent communication, Denis Slobodyan told Global Witness that he worked at AUB and spent a year working at MGN.
- ²⁵³ Global Witness interview with Mikhail Nadel and Denis Slobodyan, 9 September 2011.
- ²⁵⁴ Eugene Gourevitch, "Come out, come out whoever you are...", 4 September 2009, Gourevitch's Emerging markets blog, accessed 13 September 2011.
- ²⁵⁵ Eugene Gourevitch Exclusive Interview for *Azattyk ünalgysy* (Radio Liberty), 14 October 2009, www.youtube.com, accessed 23 March 2012. Translated from the Russian by Global Witness.
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ISBN Number: 978-0-9570101-8-5

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