NEWS

April 17, 2023

France Acts to Improve Sanctions, AFC Compliance in Real Estate Sector

By Gabriel Vedrenne

An unprecedented barrage of sanctions targeting Russia has placed real estate professionals under the microscope in France, a popular destination for wealthy Russians seeking to invest their funds into property.

French authorities moved quickly to track down assets owned by U.S.- and EU-blacklisted Russian oligarchs in the weeks after the Kremlin-ordered invasion of Ukraine commenced, so much so that by April 2022 they had taken roughly 30 properties worth €570 million into custody before the pace of freezing slowed down significantly.

"We currently have 56 frozen properties corresponding to a value of €806 million, but this is a very undervalued amount because many properties have been renovated, or extended, and the regions where such properties are located have experienced a real estate boom," France's Economic Ministry told *ACAMS moneylaundering.com*.

The total could be even higher if the more than 42,000 professionals operating in the sector would agree to play ball and identify more assets whose owners have hidden themselves behind shell companies and other intermediaries.

But in the context of France's broader campaign against illicit finance, real estate still ranks among the country's top vulnerabilities. The gap has drawn new focus during Western efforts to embargo Russia.

In April 2022, in an unprecedented move, the French Treasury published a list of properties that had been frozen pursuant to sanctions against Russia, as well as a separate document naming the legal entities that owned 53 of the 56 luxury homes on paper.

The data allowed local media outlets to identify Alexander Babakov, an EU- and U.S.-blacklisted Russian lawmaker and presidential envoy, as the owner of Chateau du Clos Renard, an 11-hectare mansion near Versailles, through SCI du Chateau de St. Leger, a local holding company.

French authorities have also frozen a luxury mansion in Saint-Jean-Cap-Ferrat, on the French Riviera, owned by Arkady Rotenberg, a sanctioned Russian oligarch with close ties to Russian President Vladimir Putin.

In May 2022, the Financial Action Task Force (https://www.moneylaundering.com/news/france-earns-fatfs-highest-efficacy-scores-to-date-surpassing-britain/) noted an "inadequate" understanding among French real estate professionals of their unique vulnerability to suspicious and illegally derived funds, "abnormally low reporting activity" from the sector and an "insufficient" number of government examinations of their anti-money laundering controls.

FATF's conclusions were confirmed in September, when a blitz of examinations by the sector's supervisor, the DGCCRF, found that 60 percent of real estate agencies selling properties on the French Riviera, a destination of choice for Russian oligarchs, lacked all familiarity with AML rules and sanctions.

Some of the agencies did not have a risk classification system in place, according to the Economic Ministry, while others did not identify the ultimate beneficiary of the transaction or conduct enhanced due diligence despite the involvement of a politically exposed person.

French officials had already made real estate a top priority in the country's latest two-year action plan against financial crime in March 2021, when they pledged to raise the volume of AML inspections in the sector from the average annual tally of 130.

Real estate also ranked as a special area of concern in France's latest national risk assessment (https://www.moneylaundering.com/news/fintechs-msbs-drive-frances-financial-crime-risks-upwards/) published in February, which highlighted three regions whose real estate markets are particularly exposed to illicit finance: the French Riviera, Paris and ski resorts in the Alps.

At the conclusion of the analysis, the government re-ranked the sector's risk classification from moderate to high.

Tracfin, France's financial intelligence unit, plans to update anti-money laundering guidance first issued to the sector in November 2018, and, as part of France's AML action plan, make professional certification mandatory for each real estate agency's appointed filer of suspicious transactions reports.

The sector's shortcomings spring from a lack of financial and human resources, but above all from a lack of awareness and training, Sebastien Deit, an AML consultant in Paris and partner in a real estate agency, told *moneylaundering.com*.

"French authorities have already initiated the movement by including an AML module in the [real estate agent] license renewal process," Deit said. "But they should now take a look at third parties who introduce clients to the agencies but do not have a professional license, and are therefore not subject to training."

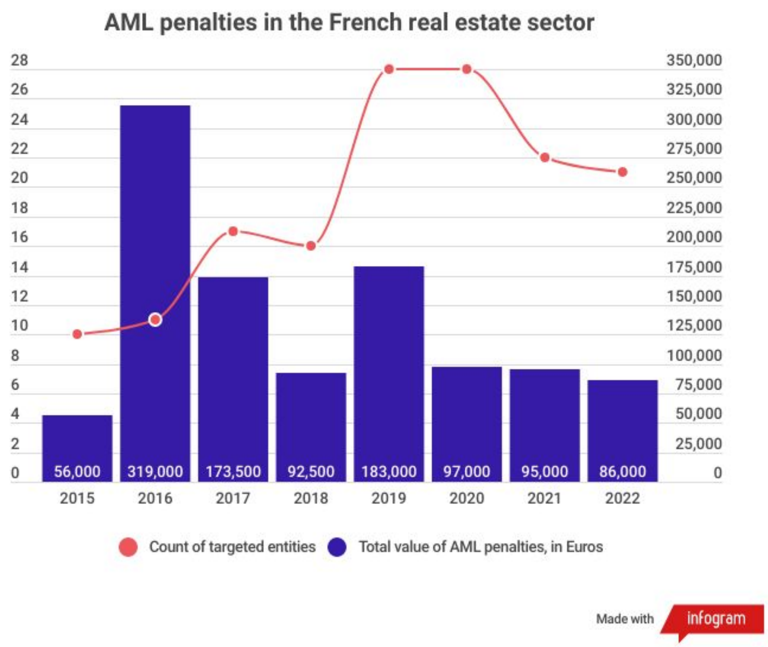
The mission of imposing AML requirements and culture more expansively and thoroughly across the industry may, however, require some degree of adaptation to align with practical realities.

"If the culture of compliance is not yet sufficiently anchored in the real estate sector, it is also because it was designed with the financial sector in mind," said Pauline Le More, a real estate attorney in Paris who advises on AML-related matters. "Professional associations have an important role to play in adapting the message to the characteristics of the sector."

Weak response

Moves by French authorities to instill a stronger compliance culture in the industry may be undermined, however, by the level of fines issued by regulators in response to AML violations, which FATF noted in its May 2022 report "do not always appear to be dissuasive and commensurate with the extent of the AML/CFT breaches found."

One-hundred fifty-five real estate companies have appeared before the National Sanctions Commission, or CNS, the government agency tasked with assessing penalties against companies and individuals caught violating AML rules, since 2015.



Ninety percent of them received fines averaging just over €7,000, but after excluding the record €216,000 outlay that CNS imposed in March 2016 on a network of high-end real estate agencies that had already drawn multiple warnings, the average penalty hovered around €5,800.

AML-related penalties issued by CNS against real estate agencies of €1,500, €4,000 and €4,500 since the turn of the year suggests that paltry fines will remain the norm for the time being.

CNS has also issued work bans against 120 firms and individuals since 2015, but in all cases opted to suspend the prohibitions, potentially reducing their deterrent effect.

A spokesperson for the Economic Ministry told *moneylaundering.com* that while officials are currently not considering toughening penalties, they are planning to publicly name firms and individuals found to have violated AML rules more frequently.

“CNS pays particular attention to the respect of the principle of proportionality, since the vast majority of entities prosecuted are small companies for which the impact of financial penalties is very important, even if the amounts are small,” the spokesperson said.

Contact Gabriel Vedrenne at gvedrenne@acams.org

Topics :	Anti-money laundering
Source:	France
Document Date:	April 17, 2023