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Prosecutor sounds alarm over Luxembourg's backlog of 862 financial crime cases

RAYMOND FRENKEN · OCTOBER 14, 2024

Martine Solovieff, prosecutor general in Luxembourg. Photo via Wikipedia.

Martine Solovieff, Luxembourg's top criminal prosecutor, has issued a stark warning regarding the country's persistent struggle with financial crime investigations, citing overwhelming caseloads and staffing shortages as key obstacles.

In comments to *Investment Officer* that highlight the systemic issues facing the judicial system, Solovieff acknowledged the "disastrous situation" that has plagued Luxembourg's financial crime prosecution for years, despite recent efforts to bolster resources.

According to Solovieff, a prominent figure in Luxembourg government circles, there were 862 ongoing cases in the financial crime division, with 415 cases placed on hold, as of 12 July. This backlog has persisted even as the number of cases resolved saw some improvement, with 376 cases concluded in 2023 and 476 new investigations launched.

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"This illustrates the disastrous situation that has persisted for years," she told *Investment Officer Luxembourg* via email. "This explanation aims to clarify, but not excuse, the exorbitant delays. I fully understand the distress of the defrauded investors."

Luxembourg's appeal to global fund managers has made it a magnet not only for legitimate investments but also for complex financial crime, adding urgency to the need for judicial reforms. The prosecutor's forthright comments are likely to add pressure on policymakers to address the judiciary's structural deficiencies.

The staffing situation, though marginally improved, remains a critical constraint, Solovieff said. Since 2018, personnel numbers have increased from 57 to 91, with the anti-money laundering section undergoing the most significant reinforcement, expanding from 11 investigators in 2018 to 29 in 2024.

'Reality is disheartening'

Efforts are underway to further strengthen the judiciary. On 16 September, eight additional deputies joined the Luxembourg Public Prosecutor's Office, allowing for a boost in the economic and financial crime division's capabilities, Solovieff noted. The investigatory chamber in Luxembourg has also seen an increase in its staffing, with three additional magistrates bringing the total to 19. These reinforcements are set to continue into 2025 and 2026, though doubts remain about their potential impact.

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"Let's hope this reinforcement will yield results," Solovieff said, while also noting that the legal profession is facing recruitment challenges due to a perceived lack of appeal in magistracy careers. "The reality is disheartening, but it explains why magistrates and investigators are overwhelmed, despite some glimmers of hope."

Solovieff also highlighted the international dimensions of many of the financial crime cases, which frequently involve complex cross-border links. She pointed to the difficulties in tracing illicit financial flows, particularly given the often unsatisfactory judicial cooperation with non-European states, in particular offshore jurisdictions.

Poor international cooperation

"It remains important not to forget that such cases often have international ramifications in multiple countries, making it difficult to trace financial flows, particularly as judicial cooperation with certain non-European states is not functioning satisfactorily," Solovieff said.

Her remarks come amid growing scrutiny over Luxembourg's ability to manage the intricate web of financial crime that accompanies its position as a global financial centre. While Luxembourg has taken steps to improve its anti-money laundering framework, including legislative changes and increased enforcement, the scale of the problem appears to have outpaced the judiciary's capacity to handle cases expeditiously.

Unintended consequences

Luxembourg in recent decades has grown rapidly into a global investment funds hub, hosting 5,619 billion euro in domiciled assets per July 2024—more than 60 times its GDP. This substantial growth, driven by a favourable regulatory regime and flexible solutions for alternative investment funds, has also brought unintended consequences, with financial crime activities increasingly imported from abroad.

Solovieff was appointed as prosecutor general in 2015 and recently announced that she will retire in February 2025. Solovieff has served in the judiciary for nearly four decades. She began her career as a magistrate at the Luxembourg Public Prosecutor's Office, where she remained for 14 years. During this time, she handled economic and financial crime cases, international judicial cooperation, and led the anti-money laundering unit from 1996 to 1999.

Columna LFP1 investors ask Solovieff for help

Solovieff expressed her concerns when responding to a request for comment on a letter written to her last week on behalf of a group of some 200 international investors in the former Columna LFP1 fund. She confirmed that this particular investigation has been underway since 2017 but declined to provide details. The LFP1 case has become a controversial, high-profile case involving alleged financial misconduct.

The letter to Solovieff and Claude Marx, director-general of the CSSF, was signed by Saskia Bystedt and Franck Peltier, two former LFP1 investors. The group, which for years has been led by a British activist investigator, David Mapley, claims they have suffered substantial losses in what they describe as a Ponzi scheme tied to the Luxembourg-based LFP I Sicav-Columna Commodities sub-fund.

The letter alleges that the Columna fund defrauded approximately 55 million dollars from investors in 2016, with over 200 victims—including pension funds and individuals with retirement savings—losing their investments. The investors argue that the fund suffered from poor management and oversight and claim that its directors, investment manager, and investment advisor lacked adequate expertise to handle the fund's complex strategy, which ultimately led to its collapse.

'Everyone got off scot-free'

"Everyone got off scot-free, whilst the CSSF promotes Luxembourg as a financial centre," Bystedt said on Linkedin. "I and 300+ investors lost all our money—our pensions, our retirement savings, and when we complained to the CSSF they told us we were "well-informed" investors and to go away."

Mapley, a British national, became a controversial figure in the LFP1 saga. He was appointed in 2018 to investigate alleged fraud and help restructure the fund. Initially viewed as a potential saviour amid significant financial losses and suspicions of misconduct, Mapley's tenure soon sparked divisions. According to Luxembourg press reports, his assertive management style and conflicts with certain investors led to a fracturing within the fund's administration.

According to Mapley, the LFP1 case involves a total of four Ponzi schemes –Aventor, Blackstar Commodities, Columna Commodities, and Equity Power Fund– that collectively defrauded investors of about 100 million euro. In a recent letter to the Columna shareholders and the prosecutor general, he said that the LFP management company and its owners "effectively comprised an organised financial crime group" and this group operated in Luxembourg "under the very noses of the CSSF." The LFP manco was acquired in 2017 by Alter Domus, one of the world's biggest asset services firms. The Columna fund at that time was already put into liquidation.

CSSF said that it did not want to comment on this case. PwC Luxembourg, also under fire from the LFP1 investors, had a similar response. "Professional secrecy obligations applying to our firm prevent us from commenting on any client matters, whether said relationship exists or not," a spokesperson said.

Further reading on Investment Officer Luxembourg:

- FATF: 'Luxembourg has a very good idea of what it needs to do'
- Banque Havilland's demise opens old wounds in Luxembourg
- CSSF held back Alter Domus fine announcement for a year
- Investment fund sues CSSF for €99 million