

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

MONEY LAUNDERING AND TERRORIST FINANCING (HIGH-RISK COUNTRIES) (AMENDMENT) REGULATIONS 2024

Tuesday 6 February 2024

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Saturday 10 February 2024

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The Committee consisted of the following Members:

Chair: SIR ROBERT SYMS

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| † Afolami, Bim (<i>Economic Secretary to the Treasury</i>) | † Mayhew, Jerome (<i>Broadland</i>) (Con) |
| † Aldous, Peter (<i>Waveney</i>) (Con) | † Mohindra, Mr Gagan (<i>South West Hertfordshire</i>) (Con) |
| Barker, Paula (<i>Liverpool, Wavertree</i>) (Lab) | † Mumby-Croft, Holly (<i>Scunthorpe</i>) (Con) |
| Colburn, Elliot (<i>Carshalton and Wallington</i>) (Con) | † Owen, Sarah (<i>Luton North</i>) (Lab) |
| † Cox, Sir Geoffrey (<i>Torridge and West Devon</i>) (Con) | † Rimmer, Ms Marie (<i>St Helens South and Whiston</i>) (Lab) |
| † Djanogly, Mr Jonathan (<i>Huntingdon</i>) (Con) | † Tami, Mark (<i>Alyn and Deeside</i>) (Lab) |
| † Doughty, Stephen (<i>Cardiff South and Penarth</i>) (Lab/Co-op) | † Timms, Sir Stephen (<i>East Ham</i>) (Lab) |
| † Dunne, Philip (<i>Ludlow</i>) (Con) | Stella-Maria Gabriel, <i>Committee Clerk</i> |
| † Largan, Robert (<i>High Peak</i>) (Con) | |
| † McDonald, Stuart C. (<i>Cumbernauld, Kilsyth and Kirkintilloch East</i>) (SNP) | † attended the Committee |

Second Delegated Legislation Committee

Tuesday 6 February 2024

[SIR ROBERT SYMS *in the Chair*]

Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024

9.25 am

The Economic Secretary to the Treasury (Bim Afolami): I beg to move,

That the Committee has considered the Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024 (S.I., 2024, NO. 69).

It is a pleasure to serve under your chairmanship, Sir Robert. The Government recognise the threat that economic crime poses to the United Kingdom and are committed to combating money laundering and terrorist financing. Our commitment is recognised around the world. Illicit finance undermines the integrity and stability of our financial sector and can reduce opportunities for economic growth and legitimate business in our great country. The Government are bearing down on kleptocrats, criminals and terrorists who abuse the UK's financial services sector. The Economic Crime and Corporate Transparency Act 2023 built on the Economic Crime (Transparency and Enforcement) Act 2022 to ensure that the UK has robust, effective defences against illicit finance.

At the centre of the UK's legislative framework for tackling money laundering and terrorist financing are the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which set out various measures that businesses must take to protect the UK from illicit financial flows, such as conducting enhanced checks on business relationships and transactions with high-risk third countries. The 2023 Act changed how high-risk third countries may be defined under the 2017 regulations, and this statutory instrument implements that change. It removes the separate list of countries from schedule 3ZA and replaces it with an ambulatory reference to those countries listed by the Financial Action Task Force, which is the global standard setter for anti-money laundering and counter-terrorist financing. In practical terms, that means that countries listed by the Financial Action Task Force will automatically be in scope of obligations under these regulations.

By taking this approach, which was passed in the 2023 Act, we will ensure that the UK remains at the forefront of global standards on anti-money laundering and counter-terrorist financing. Where countries have made significant progress to improve their defences against illicit finance, it is equally important that we recognise that and promptly remove such countries from the scope of high-risk countries in UK legislation.

Ahead of this update, the UK and Financial Action Task Force lists were already aligned. Indeed, the Government have always updated the UK list, since its creation in 2021, to reflect changes to the Financial

Action Task Force list. The SI does not add or remove any countries from scope or change the obligations of regulated businesses. It delivers on Government policy in a streamlined way, ensuring automatic alignment with the Financial Action Task Force list without the need for frequent, routine secondary legislation coming to Committee Rooms such as this, enjoyable though the process is.

The SI also ensures that firms will be notified in a timely manner of updates to the lists and their obligations, thereby keeping them up to date as risks change. I reassure the Committee that if at any time the Government sees it fit to deviate from the Financial Action Task Force list, we retain the authority and autonomy to do so. In such cases, a statutory instrument will be brought before Parliament for consideration in the normal way. The measures in respect of high-risk countries are an important mechanism to mitigate the risks posed by illicit financial flows from overseas. We will continue to use them and the other tools available to respond to wider and emerging threats from other jurisdictions, including by applying financial sanctions as necessary.

The instrument will enable the 2017 regulations to continue to work as effectively as possible to protect our financial system. It is crucial in protecting British business and the financial system from money launderers and terrorists financiers, so I hope colleagues will join me in supporting it.

9.29 am

Stephen Doughty (Cardiff South and Penarth) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Sir Robert. I thank the Minister for setting out the regulations to the Committee.

Given the interconnected and increasingly precarious global context that we face, and the prevalence of financial impropriety as a key geopolitical dynamic, it is critical that the legislation that underpins our response to both money laundering and terrorist financing is fit for purpose. Labour has been consistent in its support for measures taken by the Government to tackle global streams of illicit finance and to respond boldly to states and other actors that seek to circumvent the rules and structures that are in place to ensure global transparency and good governance. We will not seek to divide the Committee today and we support the measures to be adopted in the statutory instrument.

We recognise the significance of the UK's high-risk third countries list in countering money laundering, terror financing and other forms of illicit finance, and we recognise the necessity of timely and practical updates to that list and a streamlined decision-making process. We also recognise the Financial Action Task Force's legitimacy as an authority when it comes to the effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system, and, of course, the underpinning of many of the illicit activities the Minister referred to.

Providing businesses with the means to respond in real time to international findings and to highlight which jurisdictions are deemed to be high risk enables businesses to protect themselves, their employees and their customers more effectively from exposure. The

regulations are therefore a common-sense step and we will support them. To elongate and delay the process could in some cases increase the risk of exposure and put businesses and affiliates in undue risk.

Will the Minister clarify in a little more detail how the change is being communicated to businesses and all those affected in order to explain how the measure works? We regularly deal with matters relating to sanctions in this place. The Treasury has a critical role in enabling companies to comply with measures such as this, yet unfortunately, when it comes to the sanctions we have debated, companies sometimes unwittingly find themselves in breach, and then voluntarily report themselves. It is critical that the Treasury communicates effectively and provides the appropriate guidance, and it is critical that we work in partnership with all those affected by measures such as these to ensure that they can comply in good time and in full.

There is a series of ongoing issues that are, unfortunately, raised regularly and, given the nature of this measure, I want to draw the Minister's attention to a deeply concerning report in the *Financial Times* relating to the UK's fight against illicit finance. It was reported at the weekend that Iran had allegedly used UK banks to covertly move money around the world as part of a sanctions-evasion scheme backed by Iranian intelligence services. The report alleged that banks

"provided accounts to British front companies secretly owned by a sanctioned Iranian petrochemicals company",

which the United States

"accuses of raising hundreds of millions of dollars for the Iranian Revolutionary Guards Quds Force and of working with Russian intelligence agencies to raise money for Iranian proxy militias."

Labour has regularly called for the proscription of the Islamic Revolutionary Guards Corps as a terrorist organisation, and we have raised again and again with the Government the need to work in lockstep with allies to cut off funding to hostile regimes, including Russia and Iran, that pose systemic challenges to the UK's national security. The recent reports are deeply concerning, and I hope the Minister can set out what the Treasury and the Government as a whole are doing to respond. What conversations are being had with the financial institutions mentioned in the reports, and how will measures such as this ensure that we do not have a situation in which funds are allegedly getting into the hands of Iran or Russia, or indeed any of the other hostile states that threaten us and our allies?

Finally, while I agree with what the Minister said about streamlining processes and ensuring that they can operate in an effective way, the explanatory memorandum references a "burden on parliamentary time"; I hope that does not signal a broader intent on the part of the Government to avoid debates, scrutiny and accountability in Committees such as this. The debates that we have in this place provide an opportunity for the Opposition not only to show where there is unity in the House in taking measures such as these, but to ask important questions about both ongoing matters and the detail of regulations. I hope the Minister can assure us that the Government will not seek to truncate parliamentary scrutiny of such measures, which are often technical in nature but have significant implications for both our national security and the stability and functioning of our financial services and the economy.

9.34 am

Stuart C. McDonald (Cumbernauld, Kilsyth and Kirkintilloch East) (SNP): I am largely on the same page as the Minister and the shadow Minister, but I will make a couple of points.

As we heard from the Minister, Government policy is generally to follow the regularly updated lists published by the Financial Action Task Force, so the SI saves us from having further DL Committees every few months when those lists are updated. It is a faster, streamlined process and there is some sense in that, but it possibly creates a slight gap in accountability. There is less opportunity for Members of this House to question Ministers on why they are following the task force lists without any additions or amendments. Our first suggestion for the Minister is that he undertake to write to Opposition spokespersons each time the list is updated or amended, to explain the Government's reasoning as to why they are, or are not, sticking with the task force lists unamended or otherwise.

Following on from that, I welcome the Minister's clarification that the Government will not hesitate to add additional countries or depart from the task force lists if absolutely necessary, but there is a question mark as to why they are not already doing that. As has been pointed out in regular Delegated Legislation Committees related to due diligence checks, there are some surprising omissions from the lists as it stands. For example, I do not understand why Sudan is not on the list requiring extra due diligence, whereas Gibraltar is. Sudan has two highly corrupt factions basically engaged in a civil war to take control of the country, and the Wagner Group is very much in play there as well. Will the Minister explain why Sudan is not on the list? That question gets to the heart of the point about accountability and our ability to ask questions about why the lists are in the form they are in.

We will not divide on the statutory instrument—we think there is merit on the general direction of travel that the Government propose—but we do raise those simple questions as to whether this is the best way of doing things.

9.36 am

Ms Marie Rimmer (St Helens South and Whiston) (Lab): It is a pleasure to serve under your chairmanship, Sir Robert. Will the Minister cast some light on something to help me to understand? Does the statutory instrument have any impact at all on the overseas territories? If not, how are we going to monitor them and restrict their activities, because most money laundering goes through the overseas territories?

9.37 am

Bim Afolami: I thank the Committee for its broad support. Let me answer the questions that Members have put to me.

The first question was about how one practically manages the process of including countries or not. Broadly speaking, the Financial Action Task Force is the centrepiece for how most countries—all the G7 countries and many others—deal with illicit finance. We do it in such a collaborative way globally because, frankly, in the modern world we can tackle illicit finance only by working in strong, close partnership with other countries. It is quite important that we have a degree of

[*Bim Afolami*]

alignment on how we do that, but we of course retain the right as a sovereign nation, as everybody in the House would agree, to individually put countries on the list if we choose to. The instrument is a common-sense measure that will make it easier and faster to do that, rather than our having to wait for gaps in parliamentary time. Recesses and various other things come up that could mean there is a critical gap and illicit finance could get through defences. That is why we are doing this.

In response to the point made by the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East about writing to the House, we will deposit a notice in the Library when we have done so, so that the House is kept fully informed.

On how the change is being communicated to businesses, the Treasury has active and frequent discussions with the private sector on this and many other matters, so Members should rest assured that businesses and financial institutions are kept closely up to date with what is going on. That is in addition to the publication of an advisory notice, which will be made when any countries are or are not put on the list.

I will have to write to the hon. Member for Cardiff South and Penarth on his point about the situation in Iran. I do not want to inadvertently mislead the House in any regard—I want to be very precise in my answer—so I will write to the hon. Gentleman about his questions in that regard.

On the Crown dependencies and overseas territories, we are committed to working with the overseas territories to tackle illicit finance, and we have long engaged with them on ways in which to do that. We continue to engage with the British Virgin Islands for its ongoing mutual evaluation, and we have supported it with its evaluation process. The BVI's mutual evaluation report will be published after the quality and consistency checks required by the Financial Action Task Force. I cannot comment any further in relation to the BVI, but more broadly we are closely working with the overseas territories and Crown dependencies to ensure that they satisfy all the things that the Financial Action Task Force requires.

Stephen Doughty: In another capacity, I serve as the shadow Minister for the overseas territories. Will the Minister say a little about whether he will publish a list of how exactly the measures apply to all of the overseas territories, where compliance is and what governance mechanisms are in place? OTs and Crown dependencies obviously have different mechanisms for applying UK law; are they doing this by themselves or are we doing it for them? Will the Minister explain that in a bit more detail, perhaps in writing?

Bim Afolami: I am happy to follow that up, but I know that the Crown dependencies and overseas territories are subject to the same rules as any country in relation to the Financial Action Task Force, which is the centrepiece of the whole way in which we tackle this issue, so dealing with them is no different from dealing with any of the countries that are so listed—indeed, I have talked about the BVI. I am happy to follow up in more detail as the hon. Gentleman requires.

In conclusion, the Government are taking focused action to tackle economic crime. We know that the House is united on tackling illicit finance and we strongly support that. I have listened carefully to Members' contributions, and it is the Government's view that this statutory instrument will ensure that UK legislation remains up to date and best delivers on policy commitments. The new definition of high-risk third countries means that the UK automatically reflects changes to Financial Action Task Force lists, putting us entirely in lockstep with the international community on this issue while retaining the ability, if we so choose at any time, to put a country on or off our list.

Stephen Doughty: I appreciate the Minister's generosity in giving way before he sits down. One issue that we have regularly raised regarding our sanctions regimes is the failure to actually prosecute or take forward implementation actions. I do not expect the Minister have the answer in front of him right now, but perhaps he could also outline in writing to the House—to myself and the Library—how many enforcement actions have been brought under the regime to date, and what the implementation mechanism will be for this measure. It is all very well to have the legislation and regulations in place, but unless we provide a deterrent effect against those who would seek to evade such measures, we are not going to be implementing the full picture.

Bim Afolami: I am happy to follow up with the absolute number—again, I do not want to get that wrong in Committee. The Financial Action Task Force takes the approach of working with countries to help to improve their systems. It is not an overtly punitive or aggressive approach; it is an approach that says, “How do we help to support you to make your systems less vulnerable to illicit finance and financial crime?” Of course, when we are dealing with private sector entities that seek to evade rules, they fall under the criminal sanction, as one would expect. I am happy to write to the hon. Gentleman about the precise number that he asks for; I would not want to get it incorrect. With that, I commend the regulations to the Committee.

Question put and agreed to.

9.44 am

Committee rose.