

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Second Delegated Legislation Committee

MONEY LAUNDERING AND TERRORIST  
FINANCING (AMENDMENT) (NO. 2) (HIGH-RISK  
COUNTRIES) REGULATIONS 2021

*Monday 13 September 2021*

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**The Committee consisted of the following Members:**

*Chair:* SIR GRAHAM BRADY

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|--|--|
| † Aiken, Nickie ( <i>Cities of London and Westminster</i> )<br>(Con) | † McFadden, Mr Pat ( <i>Wolverhampton South East</i> )<br>(Lab)                  |
| Ali, Rushanara ( <i>Bethnal Green and Bow</i> ) (Lab)                | Osamor, Kate ( <i>Edmonton</i> ) (Lab/Co-op)                                     |
| † Antoniazzi, Tonia ( <i>Gower</i> ) (Lab)                           | † Owen, Sarah ( <i>Luton North</i> ) (Lab)                                       |
| † Baker, Duncan ( <i>North Norfolk</i> ) (Con)                       | † Russell, Dean ( <i>Watford</i> ) (Con)   |
| † Coutinho, Claire ( <i>East Surrey</i> ) (Con)                      | † Rutley, David ( <i>Lord Commissioner of Her Majesty's</i><br><i>Treasury</i> ) |
| † Fell, Simon ( <i>Barrow and Furness</i> ) (Con)                    | † Vickers, Matt ( <i>Stockton South</i> ) (Con)                                  |
| † Glen, John ( <i>Economic Secretary to the Treasury</i> )           |  |
| † Grant, Peter ( <i>Glenrothes</i> ) (SNP)                           |  |
| † Griffith, Andrew ( <i>Arundel and South Downs</i> ) (Con)          | Yohanna Sallberg, <i>Committee Clerk</i>   |
| Gwynne, Andrew ( <i>Denton and Reddish</i> ) (Lab)                   |  |
| † Holmes, Paul ( <i>Eastleigh</i> ) (Con)                            | † <b>attended the Committee</b>  |

## Second Delegated Legislation Committee

Monday 13 September 2021

[SIR GRAHAM BRADY *in the Chair*]

### Money Laundering and Terrorist Financing (Amendment) (No. 2) (High-Risk Countries) Regulations 2021

**The Chair:** I remind colleagues that Mr Speaker has encouraged Members to wear face coverings in Committee when they are not speaking. *Hansard* colleagues will be grateful if Members send speaking notes to [hansardnotes@parliament.uk](mailto:hansardnotes@parliament.uk).

4.30 pm

**The Economic Secretary to the Treasury (John Glen):** I beg to move,

That the Committee has considered the Money Laundering and Terrorist Financing (Amendment) (No. 2) (High-Risk Countries) Regulations 2021 (S.I. 2021, No. 827).

May I say what a pleasure it is to serve under your chairmanship, Sir Graham?

The Government recognise the threat that economic crime poses to the UK and are committed to combating money laundering and terrorist financing. Illicit finance causes significant social and economic cost through its links to serious and organised crime. It is a threat to our national security and risks damaging our international reputation as a fair and open rules-based economy. It also undermines the integrity and stability of our financial sector and can reduce opportunities for legitimate business in the UK. That is why the Government are focused on making the UK an inhospitable environment for illicit finance. We have taken significant action to tackle money laundering and terrorism financing and have strengthened the whole system response to economic crime.

Underpinning those efforts are the money laundering regulations—a key part of our legislative framework—that set out a number of measures that certain businesses must take to combat money laundering and terrorist financing. They include the need for businesses to identify and verify the people and organisations with whom they have a business relationship or for whom they facilitate transactions. In addition, they require that financial institutions and other regulated businesses conduct additional checks or enhanced due diligence on business relationships and transactions involving high-risk third countries that have been identified as having strategic deficiencies in their anti-money laundering and counter-terrorism financing regimes and posing a significant threat to the UK's financial system. The statutory instrument under discussion updates the list of countries that are specified as high risk in the money laundering regulations.

At present, the UK's list of high-risk third countries specified in the money laundering regulations mirrors that identified in February by the Financial Action Task Force, the global standard setter for anti-money

laundering and counter-terrorist financing. The Financial Action Task Force carries out periodic reviews and regularly updates its list. As a result, following the conclusion of a FATF plenary in June this year, it updated its public list of jurisdictions with strategic deficiencies to reflect changing risks and circumstances in these jurisdictions and in the global economy.

This instrument will therefore amend the money laundering regulations to update the UK's list of high-risk third countries to mirror the latest FATF public list, ensuring that the UK's list is responsive to the latest threats emanating from high-risk countries with inadequate counter-illicit finance systems and that the UK remains at the forefront of global standards on money laundering and terrorist financing. This update is an integral part of helping to protect our national security and the UK's international reputation, businesses and financial systems from money launderers and terrorist financiers.

I thank Members for examining this important measure that will update the UK's high-risk third countries list. Businesses that fall under the scope of the money laundering regulations and that deal with such countries will be required to take extra security measures. This amendment will enable the money laundering regulations to continue to work as effectively as possible to protect the UK's financial systems. It will allow the UK to continue to play its full part in the fight against economic crime and I hope that colleagues will join me in supporting it.

4.34 pm

**Mr Pat McFadden** (Wolverhampton South East) (Lab): Thank you for your chairmanship today, Sir Graham.

I am grateful for the Minister's explanation of the measure and of the criteria for including countries on the list, which is updated periodically and relies heavily on the work of the Financial Action Task Force. We shall not, of course, oppose this today because we believe that it is important to have the strongest anti-money laundering regime and to take the strongest measures possible. That is very much in the public interest. It is not easy, because regulators have to keep track of evolving practice among those who try to get round the law.

There is a particular duty on the UK to take the issue seriously given the size and global reach of our financial services sector. Anything that suggest slackness on our part—anything that involves UK institutions and anything where it appears that the regulators have taken their eye off the ball—is bad for public confidence in the UK's financial services sector. Sadly, UK institutions have been named quite a lot in recent years in stories about illicit finance.

We see from the regulations that the picture changes over time, with some countries coming off the list and others being put on to it. For example, Ghana has been removed from the list, but Haiti, Malta, the Philippines and South Sudan have been added. Malta is an EU member state. One would hope that high standards of governance and supervision were in place. Can the Minister explain further why Malta has been added to the list?

More notably, Afghanistan is not on the list. Is that because the measure was drafted in July, before the Taliban takeover? If so, have the Government taken

measures on money laundering and terrorist financing since the Taliban assumed control on 15 August? A brief look at the Government's consolidated list of financial sanctions targets shows that there are 135 Afghans on it, a number of whom have assumed positions of significant power in the Afghan Government. Sirajuddin Haqqani, the new Afghan Government's interior Minister, is on the UK consolidated sanctions list. He is also on the FBI's most wanted list, because—according to Reuters—of his links to suicide attacks and al-Qaeda. There are others, too.

How do the Government intend to respond to the formation of the Afghan Government and money laundering and terrorist financing? We do not want to do things that hurt the Afghan people, but what will the Treasury, regulators and, indeed, the Government as a whole do to ensure that funds are not channelled to terrorist organisations as a result of the Taliban takeover?

4.38 pm

**Peter Grant** (Glenrothes) (SNP): It is a pleasure to serve under your chairmanship, Sir Graham.

I will certainly support the statutory instrument, although like the shadow spokesperson, the right hon. Member for Wolverhampton South East, I have some questions and observations. It is absolutely right that decisions are based on the best economic intelligence that can be gathered and, if possible, made on a global basis. It does not work if one or two countries apply sanctions but no one else does, any more than it does if one or two countries dodge the sanctions that everyone else tries to apply. It is important to ensure that our allies throughout the world work with or are exposed to the same rules as we are.

When we last debated money laundering regulations I mentioned something that I shall mention again because it should give us all a bit of a kick. Of the 24 high-risk third party countries on the list, seven are members of the British Commonwealth, including one, Zimbabwe, where there are historical concerns about the rule of law as well as money laundering. One country on the list is a British overseas territory.

In some of those countries, the problems with the lack of proper financial regulation—with being seen worldwide as havens for all kinds of dodgy financial dealings—have been present since the days of direct rule and the British empire. The problems were created 100 years ago, or perhaps more recently, and we are now trying to clear up the mess left behind by our imperial forefathers. It is as good an example as any of the maxim that, in international affairs, what we do to other people we very often end up doing to ourselves.

The right hon. Member for Wolverhampton South East mentioned one or two examples that are clearly going in the wrong direction. We cannot afford to be complacent. Many Governments and widely respected non-governmental organisations have been saying for a number of years that they are concerned about the direction in which financial regulation in the United Kingdom is going. Perhaps more accurately, they are concerned that it is not going in the right direction as fast as the bad guys are trying to pull in the wrong direction.

The Government consultation on their company regulation contained a lot of positives, and I certainly look forward to seeing what draft legislation emerges from it. The response that the SNP submitted in 2019

included two key points. The United Kingdom needs a robust and transparent system of company registration, which we do not have just now. The system of company registration is not working. It must be crystal clear who owns companies, who benefits from them and who is pulling the strings.

We need other legislation on Scottish limited partnerships, which we know have been used and abused to facilitate money laundering and all the criminal and terrorist activities that it supports.

We will support the regulations today, but, as I heard myself saying last week—doubtless I will hear myself saying the same on other financial regulation legislation over the coming weeks and months—this is a small step in the right direction that does not go nearly far enough. Will the Minister tell us when the substantial weaknesses in company registration legislation will be sorted out? My concern is that if we are not careful we could start to see the United Kingdom appear on some people's suggestions for additions to, if not a red list, an amber list. Give the extent to which the United Kingdom's economy and, indeed, Scotland's economy rely on our reputation as a trustworthy place to do financial business, we cannot afford to take that risk.

4.43 pm

**John Glen:** I am happy to address Members' points.

It is the Government's view that the amendment will ensure that UK legislation remains up to date and continues to protect the financial system from the threat by jurisdictions with inadequate money laundering and terrorist financing. The amendment enables the UK to remain in line with international standards on money laundering and terrorist financing, allowing it to continue to play its full part in the fight against economic crime. I agree with the right hon. Member for Wolverhampton South East and the hon. Member for Glenrothes about the need to retain high standards in our financial services regulation—the consistent duty I have put on our regulators in conversations with them, week in, week out.

The right hon. Member for Wolverhampton South East was absolutely right when he said that, because of the size and sophisticated nature of financial services in the United Kingdom, keeping to those high standards will always be an imperative for us. He asked me to comment on the listing of Malta and Afghanistan. At the June 2021 FATF plenary, FATF collectively agreed to include Malta on its list of jurisdictions under increased monitoring. As this is one of the FATF public lists that the UK list mirrors, Malta will be added to the UK's list of high-risk third countries. The outstanding issues that Malta must address are outlined in FATF's publicly available statement.

The hon. Member for Glenrothes made a point about this country's past. FATF's rules and processes are searching, rigorous and extensive. The British Government receive extensive lobbying on these matters but we defer to the rigour of the process, no matter how uncomfortable it might be given the strong relationships we might otherwise have. Part of today's upgrading following the June decisions goes ahead of where the EU is on a number of these issues, and I am pleased that we are applying the highest standards.

The right hon. Member for Wolverhampton South East made a number of points about Afghanistan and the challenges that exist. Afghanistan is not currently

[John Glen]

identified on any of FATF's public lists, but it is important to note that the money laundering regulations require enhanced due diligence in a range of situations that present a high risk of money laundering or terrorist financing, not just where a transaction or business relationship involves a country that is listed as high risk. When assessing whether there is a high risk of money laundering or terrorist financing, the regulated sector must take a number of factors into consideration, including geographical risk where countries have been identified by credible sources and alerts from supervisory and regulatory bodies.

There are at present various sanctions in place in relation to Afghanistan that include members of the Taliban. Targeted sanctions impose an asset freeze, including making directly or indirectly available funds or economic resources to or for the benefit of designated individuals or entities. Under the UN's existing Afghanistan sanctions regime, 135 designated individuals are linked to the Taliban or the Haqqani network—which as Members will know is a UK-designated and proscribed organisation closely linked to the Taliban—and four Afghan Hawala businesses. Several other designated groups and individuals with links or possible links to the Taliban are also designated under the UN al-Qaeda/Daesh regime, UNSCR 1267.

As anti-money laundering and counter-terrorism financing supervisors, the Financial Conduct Authority and HMRC reminded obliged firms in their recent alerts about potential financial crime risks from Afghanistan and about their obligations to ensure that they appropriately monitor and assess transactions with Afghanistan to mitigate the risk of their firms being exploited for money laundering or terrorist financing purposes and to implement sanctions screening. Similarly, the Office of Financial Sanctions Implementation, which sits within the Treasury, issued an alert reminding businesses that UN sanctions are already in place against individuals and entities associated with the Taliban. The alert advised businesses to exercise caution given the changing

environment and reminded them of the continued existing obligations to carry out customer due diligence and implement sanction screening.

FATF will continue to analyse countries at risk and will likely look at those matters during its next plenary, which I believe is in October. The United Kingdom will play an active part in that conversation.

**Mr McFadden:** If we were to think of a country at greatest risk of being used for terrorist financing, Afghanistan and its new Government would be high in our thoughts. The Minister tells the Committee that the list is based on FATF's work. I understand that, but presumably the Government have the power to go beyond FATF and say, "We think Afghanistan should be on the list." Is there anything to stop the Government adding Afghanistan to the list, according to their own timetable, before FATF looks at the issue again?

**John Glen:** The purpose of this statutory instrument is to update according to the last assessment. We would not want, as a response to immediate events and without analysis or rigour, to add additional countries. I have explained at some length the considerable sanctions regime against proscribed individuals and the upgrading of the advice on its obligations to the regulated sector from HMRC and the FCA. Other jurisdictions such as the EU are not even upgraded to the list that I hope the Committee will agree to today. We do not rule anything out in the future, but we believe that FATF is rigorous. Indeed, the UK experienced rigorous analysis in 2018. We stand by the assessment and will see what it will do in October.

The hon. Member for Glenrothes mentioned wider issues with Scottish limited partnerships. The registration numbers thereof have diminished significantly recently, but as this is a BEIS competence I hope he will not mind my writing to him on it. I hope that satisfies the Committee.

*Question put and agreed to.*

4.51 pm

*Committee rose.*