

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

MONEY LAUNDERING AND TERRORIST
FINANCING (AMENDMENT) (NO. 3) (HIGH-RISK
COUNTRIES) REGULATIONS 2021

Monday 22 November 2021

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The Committee consisted of the following Members:

Chair: JULIE ELLIOTT

† Afolami, Bim (*Hitchin and Harpenden*) (Con)
 † Browne, Anthony (*South Cambridgeshire*) (Con)
 Bryant, Chris (*Rhondda*) (Lab)
 † Butler, Rob (*Aylesbury*) (Con)
 † Costa, Alberto (*South Leicestershire*) (Con)
 † Davies, Gareth (*Grantham and Stamford*) (Con)
 † Efford, Clive (*Eltham*) (Lab)
 † Hammond, Stephen (*Wimbledon*) (Con)
 † Hunt, Jane (*Loughborough*) (Con)
 † Jenkinson, Mark (*Workington*) (Con)
 † McFadden, Mr Pat (*Wolverhampton South East*) (Lab)

McDonagh, Siobhain (*Mitcham and Morden*) (Lab)
 † Mak, Alan (*Lord Commissioner of Her Majesty's Treasury*)
 † Newlands, Gavin (*Paisley and Renfrewshire North*) (SNP)
 † Twist, Liz (*Blaydon*) (Lab)
 † Whately, Helen (*Exchequer Secretary to the Treasury*)
 † Whittome, Nadia (*Nottingham East*) (Lab)

Chloe Freeman, *Committee Clerk*

† **attended the Committee**

Third Delegated Legislation Committee

Monday 22 November 2021

[JULIE ELLIOTT *in the Chair*]

Money Laundering and Terrorist Financing (Amendment) (No. 3) (High-Risk Countries) Regulations 2021

4.30 pm

The Chair: I remind Members that they are expected to wear face masks, in line with Government guidance and that of the House of Commons Commission, and to give colleagues space for social distancing when leaving the room.

The Exchequer Secretary to the Treasury (Helen Whately): I beg to move,

That the Committee has considered the Money Laundering and Terrorist Financing (Amendment) (No. 3) (High-Risk Countries) Regulations 2021 (S.I. 2021, No. 1218).

It is a pleasure to serve under your chairmanship, Ms Elliott.

This Government recognise the threat that economic crime poses to the UK, and we are committed to combating money laundering and terrorist financing. Illicit finance causes significant social and economic costs 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, open and 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 we are taking significant action to combat economic crime, from introducing the economic crime levy to progressing the Government's landmark economic crime plan. We are also working closely with the private sector and our international partners to improve the investigation of economic crime, strengthen international standards on corporate transparency, and crack down on illicit financial flows.

The money laundering regulations support our overall efforts. As the UK's core legislation framework for tackling money laundering and terrorist financing, they set out various measures that businesses must take to protect the UK from hostile actors. Under the regulations, businesses are required to conduct enhanced checks on business relationships and transactions with high-risk third countries. Those countries have strategic deficiencies in their anti-money laundering and counter-terrorism financing regimes and could pose a significant threat to the UK's financial system.

The statutory instrument amends the money laundering regulations to update the UK's list of high-risk third countries to mirror lists published by the Financial Action Task Force, the global standard setter for anti-money laundering and counter-terrorist financing. As the Financial Action Task Force carries out its periodic reviews and regularly updates its public lists of jurisdictions with strategic deficiencies, we also need to update our own.

Updating our lists shows that we are responsive to the latest economic crime threats and ensures that the UK remains at the forefront of global standards on anti-money laundering and counter-terrorist financing.

The amendment will enable the money laundering regulations to continue to work as effectively as possible to protect the UK financial system. It is crucial to the protection of our national security and the UK's international reputation, and will secure businesses and the financial system from money launderers and terrorist financiers. I hope that colleagues will join me in supporting this legislation.

4.34 pm

Mr Pat McFadden (Wolverhampton South East) (Lab): It is a pleasure to have your chairing our proceedings, Ms Elliott. I thank the Minister for her explanation.

We debate these money laundering regulations quite regularly—as FATF changes its list, countries are added and removed. This particular statutory instrument removes Botswana and Mauritius from the list of high-risk countries, but adds Turkey, Jordan and Mali, which are now classed as high-risk countries that require extra due diligence.

As the Minister said, those changes are based on periodic FATF reports. I refer to the Treasury's own response to the FATF report, which states in paragraph 1.6:

“Whilst the UK achieved a high rating, the FATF assessed the UK's supervision regime to be only moderately effective. Specifically, it found that there were significant weaknesses in the risk-based approach to supervision among all the UK AML/CTF supervisors, with the exception of the Gambling Commission.”

My first question to the Minister is, what has been done since the Treasury accepted that there were significant weaknesses in our approach? The same document states:

“For the accountancy and legal sectors, weaknesses in supervision and sanctions are a significant issue which the UK has put steps in place to address.”

I would be grateful if the Minister could update us on that. It matters for a number of reasons. The UK has a particular responsibility with regard to money laundering and terrorist financing because of the size of our financial services sector. It is a big advantage for the country to have a financial services sector with such global reach, but that means that it can be attractive to those who make their money through illicit means as well as legitimate ones.

Since we debated the last such statutory instrument some months ago, we have had the publication of the Pandora papers. They set out a familiar story of the UK and its overseas territories—one or two of which are mentioned in the list we are debating—being used as a vehicle for hiding finance and concealing ownership. I would like the Minister to tell us where we are on some of the promised measures on that. For example, where is the registration of overseas entities Bill, which has been promised for years? In fact, 10 December marks the fourth birthday of the promise of that legislation. Where is it? Where is the reform to empower Companies House to do more checks on who the owners and directors of companies actually are? Where is the implementation of the recommendations in the Intelligence and Security Committee's Russia report? What do the Government propose to do to ensure that donations to political parties are not the proceeds of kleptocracy?

Talking of individual countries, why is Russia not on the list we are discussing? Is it really the Government's position that Turkey and Jordan, to take two random examples, are places that require extra due diligence for financial investments, but Russia is not? Similarly, in recent months there has been major change in Afghanistan, but it is not on the list. Why not? What assessment have the Government made of the risk of terrorist financing as a result of the Taliban takeover of Afghanistan? I would be grateful for a response to those questions.

Obviously, we will not oppose this statutory instrument, but it would be absurd to think that all we need to do is mirror the FATF list to have adequate defences on anti-money laundering. It is crucial for our financial system that we act to expose the nature of hidden asset ownership and empower Companies House and others to crack down on illicit finance. Right now, those promises are not being put into practice.

4.38 pm

Gavin Newlands (Paisley and Renfrewshire North) (SNP): It is a pleasure to serve under your chairmanship, Ms Elliot. I look forward to the answers to the questions from the right hon. Member for Wolverhampton South East. He always makes my presence entirely superfluous with his range of questions, two of which I was going to ask the Minister. I look forward to her response.

We will also not oppose the changes proposed, but we expect the Government to continue to monitor the situation in those countries to ensure banks do not unduly take Government-sanctioned high risks. In fact, it is beyond farcical that they list one of their own territories alongside Iran, Syria and the three countries added to the list today.

Terrorist finance—I will not stray too far into this—is not the only risk in financial services. The Companies House reform consultation is not due to end until February. We have been saying for many years that the UK Government must introduce a robust and transparent system of company registration in order to combat money launderers' attempts to register entities for illicit purposes. The UK Government must act to tackle the ongoing improper use of Scottish limited partnerships—SLPs—via the proper reform of Companies House. The only question that remains for me to ask is when the Government expect to bring forward proposals to ensure that the register is accurate and covers these beneficial ownerships?

4.40 pm

Helen Whately: I will briefly pick up on some of the points made by hon. Members and address their questions as much as I can. I appreciate the overall support for the regulations.

The top-line point is that the Government are committed to making the UK a hostile place for illicit finance and economic crime. The Financial Action Task Force found that the UK has one of the strongest systems in the world for combating money laundering. To that end, in our ongoing action against economic crime, we have committed new investments of £18 million in 2022-23 and £12 million per year in 2023-24 and 2024-25 for economic crime reforms, in addition to £63 million across the spending review period for Companies House reform and the introduction of the economic crime

anti-money laundering levy, which will raise approximately £100 million a year from 2023-24 to tackle money laundering and fund economic crime initiatives. We are in the process of legislating for that in the Finance Bill.

The shadow Minister asked about overseas territories. The Government have worked closely with the Crown dependencies and overseas territories to combat the risk of money laundering. They share confidential information on company beneficial ownership and tax information with UK law enforcement bodies under the exchange of notes arrangements and have agreed to introduce publicly accessible registers of company beneficial ownership.

We have already set out plans to reform Companies House and strengthen the UK's ability to combat economic crime. Those reforms are significant and will deliver, alongside broader reforms clamping down on the misuse of corporate entities, more reliable information on the companies register via verification of the identity of people who manage, control or set up companies; greater powers for Companies House to query and challenge the information submitted to it; and the removal of technological and legal barriers to allow enhanced cross-checks on corporate data with other public and private sector bodies. As I said, we have already committed an additional £63 million for Companies House reforms.

I emphasise that the register of overseas entities will be one of the first of its kind in the world, which is good news for the UK; it will enhance our already strong reputation as an honest and trusted place to do business. These measures have full Treasury support but are not Treasury-led. I encourage the right hon. Member for Wolverhampton South East to take up the specific timetable for the introduction of that legislation with the Department for Business, Energy and Industrial Strategy.

The high-risk third countries list will now include Jordan, Turkey and Mali, which were listed by the FATF in October 2021. Botswana and Mauritius will no longer be listed because both have completed their FATF action plans and addressed the deficiencies in their anti-money laundering and anti-terrorist financing regimes that had previously been highlighted. Afghanistan is not identified on any of the FATF's public lists. However, the FATF published a statement expressing concern about the current and evolving money laundering and terrorist financing risk environment in the country. The FATF is closely monitoring the situation and has called on countries to facilitate information sharing with their private sectors on assessing and mitigating any emerging money laundering risks that are identified.

In the absence of any explicit country listing, the money laundering regulations require enhanced checks in all instances where there is a high risk of money laundering or terrorist financing. In implementing this requirement, the regulated sector must consider geographical risks, such as those that exist in Afghanistan, and take into account information from reliable sources, such as the FATF or domestic supervisory and regulatory bodies. UK supervisory bodies, including the Financial Conduct Authority and Her Majesty's Revenue and Customs, recently issued alerts to highlight the increased risk in Afghanistan. Those alerts inform firms that they must appropriately monitor and assess transactions with Afghanistan to mitigate the risks of being exploited for money laundering or terrorist financing purposes. There are also various targeted financial sanction requirements in place in relation to Afghanistan.

[Helen Whately]

It is the Government's view that this measure will ensure that UK legislation remains up to date and continues to protect the financial system from the threat posed by jurisdictions with inadequate AML and CTF systems. The measure also keeps the UK in line with international standards on AML and CTF, allowing it to continue playing its full part in the fight against economic crime. I thank hon. Members for joining us for this afternoon's Committee, and I commend the regulations to the Committee.

4.46 pm

Mr McFadden: The Minister's closing statement, in a sense, sums up the problem. Yes, this list does keep us in line with the FATF list; nobody is disputing that. My point is that that is not enough. We should be capable of exercising our own judgments.

The Minister says, on Afghanistan, that FATF is looking at it, so we will wait until it looks at it. Surely this country, with a financial sector of such a size and a Treasury as powerful as the one she is a Minister in, is capable of exercising its own judgment about the financial risks in other countries? We took a major decision a few years ago that was all about sovereignty, and here we are franchising out our judgment on high-risk countries to another body and saying that until they come up with a verdict, we will not add any country to this list.

The same goes for Russia. Is the Minister really telling us that the Treasury and the Government do not judge Russia to be as big a risk as the countries on this list? That seems to me to be a judgment that is franchising out our capacity to act on these important issues to another body, in a way that the Government have spent five years telling us they do not want to do any more. My plea to the Minister is to have the confidence to exercise some of her own judgments on such things, because the very size of our financial sector means that we must be far less passive than that.

I am afraid it is not enough to say, on the registration of overseas entities Bill, that I will just have to ask another Department. The lack of urgency is not good enough given the risks posed in these repeated releases of papers. Similarly, the Minister is right that plans have been announced—over and over again—to reform Companies House, but they have not been implemented in a way that would empower that body to be a guardian of propriety, rather than simply a library of data.

The statutory instrument will go through, there is no question about that, but I would say to the Minister that we need a lot more urgency if we are to not just keep up with the FATF list but set an example around the world on how to tackle money laundering and terrorist financing. We should be taking enough pride in our country to want to set an example, rather than simply coming back here every few months to say that we have kept up with the FATF list.

Question put and agreed to.

4.48 pm

Committee rose.