

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

MONEY LAUNDERING AND TERRORIST FINANCING (HIGH-RISK COUNTRIES) (AMENDMENT) REGULATIONS 2022

Monday 25 April 2022

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Friday 29 April 2022

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The Committee consisted of the following Members:

Chair: † STEWART HOSIE

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| † Begum, Apsana (<i>Poplar and Limehouse</i>) (Lab) | † Jones, Mr David (<i>Clwyd West</i>) (Con) |
| † Beresford, Sir Paul (<i>Mole Valley</i>) (Con) | † Levy, Ian (<i>Blyth Valley</i>) (Con) |
| Byrne, Liam (<i>Birmingham, Hodge Hill</i>) (Lab) | Lloyd, Tony (<i>Rochdale</i>) (Lab) |
| † Cowan, Ronnie (<i>Inverclyde</i>) (SNP) | † Mak, Alan (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Creasy, Stella (<i>Walthamstow</i>) (Lab/Co-op) | † Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| † Dinenage, Dame Caroline (<i>Gosport</i>) (Con) | † Twist, Liz (<i>Blaydon</i>) (Lab) |
| Fabricant, Michael (<i>Lichfield</i>) (Con) | † Williams, Craig (<i>Montgomeryshire</i>) (Con) |
| † Glen, John (<i>Economic Secretary to the Treasury</i>) | Seb Newman, Paul Owen, <i>Committee Clerks</i> |
| † Goodwill, Sir Robert (<i>Scarborough and Whitby</i>) (Con) | |
| † Holden, Mr Richard (<i>North West Durham</i>) (Con) | † attended the Committee |

First Delegated Legislation Committee

Monday 25 April 2022

[STEWART HOSIE *in the Chair*]

Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2022

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 (High-Risk Countries) (Amendment) Regulations 2022 (S.I. 2022, No. 393).

It is a pleasure to serve under your chairship this afternoon, Mr Hosie.

The Government recognise the threat that economic crime poses to the UK and our international partners, and 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, 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 through the economic crime levy and the Economic Crime (Transparency and Enforcement) Act 2022, and by 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 legislative framework for tackling money laundering and terrorist financing, they set out various measures that businesses must take to protect the UK from illicit financial flows. Under the regulations, businesses are required to conduct enhanced checks on business relationships and transactions with high-risk third countries, which are countries identified as having strategic deficiencies in their anti-money laundering and counter-terrorism financing regimes that could pose a significant threat to the UK's financial system.

This 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-terrorism financing. The UK's high-risk third countries list will now include the United Arab Emirates, and will no longer include Zimbabwe. In March 2022, the UAE was listed by the FATF, and Zimbabwe was removed, having completed its FATF action plan to address the key deficiencies in its anti-money laundering and terrorist financing regimes.

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 list 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 terrorist financing. This amendment will enable the money laundering regulations to continue to work as effectively as possible to protect the UK financial system. It is crucial for protecting UK businesses and the financial system from money launderers and terrorist financiers. I therefore hope that colleagues will join me in supporting this legislation.

4.33 pm

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under your chairmanship, Mr Hosie. The Labour party is completely committed to supporting the global effort to combat money laundering and terrorist financing. The Financial Action Task Force has long warned about the major weaknesses in the United Arab Emirates' anti-money laundering framework, not least its chaotic approach to registering companies, which makes it near impossible for law enforcement agencies to find out what is behind a suspicious company registered in the country. I will come to the Financial Action Task Force's decision on Zimbabwe later, but it came as little surprise when that intergovernmental organisation decided—correctly, in my opinion—to add the UAE to the greylist of high-risk countries at its meeting last month. We on the Labour Benches therefore wholeheartedly support the regulations, and welcome the inclusion of the UAE in the UK's list of high-risk third countries for money laundering.

However, the Minister will not be surprised to hear that I have a few questions for him. Will he explain how we got here? As Spotlight on Corruption—a campaign group that works to end corruption within the UK and wherever the UK has influence—and others have pointed out, the UK Government are supposedly a key partner of the UAE in tackling illicit finance. The Government must take some responsibility for the UAE's failure to improve its anti-money laundering controls.

The co-operation between the UK and the UAE dates back to 2019, when the Foreign, Commonwealth and Development Office appointed an illicit finance policy lead at the British embassy in Abu Dhabi as part of the UK Government's newly deployed serious and organised crime network, while the 2020-2021 Gulf strategy fund programme committed to improving the UAE and UK's joint ability to tackle illicit finance and last year's integrated review vowed to increase the UK's co-operation with our close partner, the UAE, to tackle global illicit financial flows.

Indeed, last September the Home Secretary went as far as to describe this co-operation as a “new landmark partnership” to

“raise professional standards on countering money laundering.”

Will the Minister set out exactly what went wrong? Why did the UK Government's so-called “landmark partnership” fail so terribly at improving the UAE's anti-money laundering controls? As he will know, that failure has had tragic consequences. It has been reported in *The Guardian*, *The New York Times* and elsewhere that

Russian kleptocrats linked to the Kremlin are now moving their assets to the UAE to avoid western sanctions. As a country, we cannot stand by as Russia exploits the UAE's lax financial system to fund its bloody war in Ukraine.

I understand that as part of the UK and UAE's illicit finance partnership, there are annual meetings between the Home Secretary and the UAE Minister of State to ensure progress on money laundering. Will the Minister tell us what work the Government have been doing in the lead-up to that meeting to press the UAE to take the necessary steps to prevent illicit finance from Russia and elsewhere from flowing through its economy? Does the Minister agree that if the UK is to successfully influence the UAE to crack down on money laundering and terrorist financing, his Government must first get its own house in order?

For years, the Government have stood by as dirty money from Russia and elsewhere flooded the UK's financial services sector. It was only after the Russian invasion of Ukraine in February this year that the Government finally passed an economic crime Act. Even then, Ministers had to be dragged through the Lobby to rush through legislation that could have been passed years ago.

The job of closing down the London laundromat of dirty money is only half done. To restore the UK's international reputation, the Government must fast-track the publication of the much delayed register of overseas beneficial ownership of property in the UK, and urgently implement reform of Companies House to crack down on shell companies hiding cash in Britain. Only then will the UK have the moral authority to exert influence over the UAE and our other international partners in the fight against global money laundering.

Finally, I want to ask the Minister about his Government's approach to the UK's autonomous list of high-risk third countries. I am not overly concerned about the removal of Zimbabwe from the list; Zimbabwe is not a major international transit centre for dirty money, and the UK's financial services sector has limited interaction with companies and individuals linked to its Government. However, I want to hear reassurances and details from the Minister today on how his Government will continue to monitor money laundering and terrorist financing risks linked to Zimbabwe, despite the country's removal from the list.

Will the Minister explain why Russia is not included on the UK's list, despite the huge threat that dirty money from Russia poses to our national security? Although we support the Government's policy of automatically including countries added to the international greylists and blacklists, surely it would be in the UK's interest to include on our high-risk list certain countries, such as Russia, regardless of whether or not the Financial Action Task Force has decided to omit them.

For all their tough talk on dirty money from Russia, the Government have yet to convince us that they are committed to cracking down on money laundering in the UK and abroad, and that has been demonstrated by their delay on Companies House reform and the failure of their partnership with the UAE to improve that country's anti-money laundering regime. We welcome the regulations, but ultimately the UK is simply following the lead of the Financial Action Task Force. The Government have to do much better than this if they

are serious about ending the UK's reputation as a safe haven for dirty money. I hope the Minister will answer the questions that I have set out.

4.40 pm

Sir Robert Goodwill (Scarborough and Whitby) (Con): I do not want to detain the Committee long, as I very much support the measures before us today, but will the Minister comment on some of the activity by the financial institutions, particularly the high street banks, which has become more of a box-ticking operation than perhaps an intelligence-led investigatory process? Let me give one example from my own experience as a North Yorkshire farmer with a turnover of less than £200,000.

I was telephoned by my bank, HSBC, some years ago to ask whether I had done any business in Iran. It is a little ridiculous to start interrogating farmers, and crofters in Scotland, about their activities. Many small businesses are being asked a load of questions that can only be seen as box-ticking exercises. That same bank was fined £63.9 million in December last year for not monitoring financial transactions—for a period the whole of Wales was not being monitored—and was previously fined £1.2 billion in the USA for not being on top of money laundering associated with the drugs trade.

Another area where the bank seemed to be overly officious is with regard to politically exposed persons. Every Member of Parliament is a politically exposed person, and in many cases it is almost like we are too difficult. I have heard stories from colleagues whose sons and daughters cannot get mortgages, because it seems too difficult to answer the questions about whether we are subject to bribes or other types of illegal financial activity, when in fact the UK is very high on the global index of non-criminal activity among our political classes; we are one of the least corrupt countries in the world.

Will the Minister talk a little about working with the financial institutions in the implementation of the measure to ensure that we target dodgy transactions and do not just tick boxes for North Yorkshire farmers who might be doing some business in Iran, or indeed for Members of this House and other Parliaments around the world who seem to be getting the glare of attention from these institutions, which should perhaps be looking elsewhere for illegal activity?

4.42 pm

John Glen: I will endeavour to address the points made by the hon. Member for Hampstead and Kilburn, but I will turn first to the two points made by my right hon. Friend the Member for Scarborough and Whitby, the first of which was on the nature of the regulator's engagement with small entities—he cited his own in North Yorkshire. The new chief executive of the Financial Conduct Authority, who was appointed in October 2020, is undertaking a transformation programme at the FCA that is designed to interrogate risks more effectively and to target compliance activity more proportionately. A lot of progress has been made, but clearly there is more to be done. I will be happy to take up any individual examples that my right hon. Friend raises formally.

My right hon. Friend also raised the issue of PEPs—politically exposed persons—and the frustrations that occur when colleagues are prevented from accessing financial services products, as well as the consequences

[John Glen]

of not resolving that issue. There is a framework for light-touch, proportionate and appropriate interrogation of such risks, although sometimes those processes are not always executed properly. I have taken that up on two occasions over the last few years, and there has been an incremental step change each time, although the situation is not yet perfect. Again, I will be happy to take that up that issue.

The hon. Member for Hampstead and Kilburn raised three points—on the UAE, Zimbabwe and Russia—which I will take in turn. On the listing of the UAE, she recognises the history. At the March 2022 FATF plenary, the FATF concluded that the UAE should be added to the list of jurisdictions with significant weaknesses in its counter-illicit finance regimes, but recognised that the UAE had made significant progress. A lot of FATF assessments are not black and white, as many of the countries are on a journey, but in my experience the FATF is pretty rigorous in its assessments and pretty unashamed in intervening, regardless of any lobbying. I am clear that the process is rigorous and thorough.

The UAE expressed its high-level political commitment to making further reforms in a number of areas in order to exit the FATF list. The UK is working closely with the UAE to address those weaknesses in the UK-UAE partnership in order to tackle illicit finance. By aligning the UK's approach to that of the FATF, the UK is in line with international standards. The identification of countries is underpinned by the FATF's consistent technical methodology and robust assessment processes. On occasion, other countries' representatives have challenged those processes, asking me, "Would the UK intervene?"; we do not. As a key, leading member of the FATF—one of its 39 countries—we stand by its methodology.

The hon. Member for Hampstead and Kilburn asked a number of questions about the history of the relationship with the UAE, and cited Spotlight on Corruption and other organisations, such as Transparency International. We look carefully at what they have to say. I cannot answer her questions about the specifics of the UAE-UK relationship historically, but I will write to her if I can find any more information.

The hon. Lady made a number of assertions about the FATF and where the UK is. I recognise the politics of the matter, and the movements that the Government have made in this Session and hope to make in future. I draw her attention to the mutual evaluation report of the UK's system in December 2018, which cited the progress needed on the register of overseas beneficial ownership and Companies House reform. A large amount of money—£63 million—was allocated to work on Companies House reform at the last spending review,

and the legislation is coming to make good on that. I do not accept all that the hon. Lady said, but I welcome the steps that have been taken in these difficult times, and that will continue to be taken to accelerate and to meet the conditions set out in that report. Overall, that FATF analysis of the UK was extremely complementary—one of the best reports it has ever done—and we should be proud of our progress.

On Zimbabwe, I acknowledge and am grateful for the hon. Lady's assent to what I am proposing today. Clearly, there is an ongoing piece of work with every country. Countries move through the journey, from being a cause for concern to not a cause for concern; this measure is the consequence of that. She asked why Russia has not been added to the high-risk third countries list. The UK's HRTC list mirrors those identified by the FATF in its public documents as having poor anti-money laundering and counter-terrorist financing controls. I certainly grasp the optics of where Russia is—that it is not on the list—but by aligning our approach FATF we remain in line with international standards. The identification of high-risk countries is underpinned by that consistent, objective methodology and robust assessment process.

It is important not to look at the UK's list of high-risk jurisdictions in isolation. The money laundering regulations require enhanced scrutiny in a range of situations that present a high risk of money laundering, and Russia will be included in that. Regardless of listing, firms have to make nuanced risk assessments of business relationships and transactions. The UK's national risk assessment on money laundering and terrorist financing publicly identified Russia as high risk. We will continue to work with our allies, including the FATF, the EU and the US on these matters, ensuring the continuation of a co-ordinated and targeted response to Russia's invasion of Ukraine that protects the international financial system as a consequence.

I have addressed the three countries that the hon. Lady mentioned. It is the Government's view that this amendment will ensure that UK legislation remains up to date and continues to protect the financial system from the threats posed by jurisdictions with inadequate money laundering and terrorist financing systems. The amendment enables the UK to remain in line with international standards on anti-money laundering and terrorist financing, allowing it to continue to play its full part in the fight against economic crime. I hope the Committee has found my observations somewhat illuminating, and supports the regulations.

Question put and agreed to.

4.49 pm

Committee rose.

