

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Second Delegated Legislation Committee

## DRAFT MONEY LAUNDERING AND TERRORIST FINANCING (AMENDMENT) (NO. 2) REGULATIONS 2022

*Monday 18 July 2022*

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**Friday 22 July 2022**

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

*Chair:* RUSHANARA ALI

- |   |   |
|---|---|
| † Argar, Edward ( <i>Charnwood</i> ) (Con)                      | † Mc Nally, John ( <i>Falkirk</i> ) (SNP)                                 |
| Bradshaw, Mr Ben ( <i>Exeter</i> ) (Lab)                        | Matheson, Christian ( <i>City of Chester</i> ) (Lab)                      |
| † Byrne, Liam ( <i>Birmingham, Hodge Hill</i> ) (Lab)           | † Richards, Nicola ( <i>West Bromwich East</i> ) (Con)                    |
| Foy, Mary Kelly ( <i>City of Durham</i> ) (Lab)                 | † Seely, Bob ( <i>Isle of Wight</i> ) (Con)                               |
| † French, Mr Louie ( <i>Old Bexley and Sidcup</i> ) (Con)       | † Siddiq, Tulip ( <i>Hampstead and Kilburn</i> ) (Lab)                    |
| † Fuller, Richard ( <i>Economic Secretary to the Treasury</i> ) | † Twist, Liz ( <i>Blaydon</i> ) (Lab)                                     |
| † Fysh, Mr Marcus ( <i>Yeovil</i> ) (Con)                       | † Whittaker, Craig ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) |
| † Howell, Paul ( <i>Sedgefield</i> ) (Con)                      | Jonathan Finlay, <i>Committee Clerk</i>                                   |
| † Latham, Mrs Pauline ( <i>Mid Derbyshire</i> ) (Con)           |   |
| † Lopresti, Jack ( <i>Filton and Bradley Stoke</i> ) (Con)      | † <b>attended the Committee</b>   |

## Second Delegated Legislation Committee

Monday 18 July 2022

[RUSHANARA ALI *in the Chair*]

### Draft Money Laundering and Terrorist Financing (Amendment) (No.2) Regulations 2022

4.30 pm

**The Economic Secretary to the Treasury (Richard Fuller):** I beg to move,

That the Committee has considered the draft Money Laundering and Terrorist Financing (Amendment) (No.2) Regulations 2022.

It is a particular pleasure to serve under your chairmanship, Ms Ali. This Government recognise the threat posed to the United Kingdom by economic crime and are determined to do whatever it takes to combat money laundering and terrorist financing. Money laundering can undermine the integrity and stability of our financial markets and institutions. It is a global problem and represents a significant threat to the United Kingdom's national security. It is a key enabler of serious and organised crime, which costs the UK at least £37 billion every year. Global leadership is vital and must be underpinned by strong action here at home. While our domestic action must be strong, it must also be proportionate in order to minimise the burden on legitimate customers and businesses. Striking that balance is the reason why the Government continue to review and amend the money laundering regulations.

In January 2020, the Government transposed the European Union's fifth money laundering directive, which provided for the addition of art market participants, letting agents and cryptoasset businesses into the regulated sector, and set out discrepancy reporting requirements to improve the accuracy of the UK's beneficial ownership registers. Since leaving the European Union, we have had the opportunity to ensure that the money laundering regulations go further in protecting the United Kingdom's reputation as a safe place to conduct business. We made several changes to the money laundering regulations earlier this year in relation to high-risk countries and trusts, which allowed us to respond to the latest economic crime risks and protect the United Kingdom from overseas illicit finance flows. However, as we all know, there is more work to be done, which is why the Government are making further necessary updates to the money laundering regulations through today's secondary legislation.

Anti-money laundering regulation must keep pace with the rate of technological change so that no part of our financial system is open to exploitation by criminals. This instrument therefore extends the Financial Action Task Force's recommendation 16, known as the travel rule, to cryptoasset firms. It will require information on the identity of the originator and beneficiary of a transfer of funds or assets to be sent and recorded by the firms making that transfer. This supports the detection and investigation of money laundering and terrorist financing, as the transfers of cryptoassets will become

subject to the same rigorous anti-money laundering requirements as bank transfers. We are also closing a gap in the regulations by requiring proposed acquirers of already registered cryptoasset firms to notify the Financial Conduct Authority ahead of such acquisitions. That will allow the FCA to object to such changes in control before they take place, enabling it to make sure unregistered firms cannot gain access to the United Kingdom.

The instrument also makes several other discrete, targeted changes that are intended to ensure that the regulations are appropriately aligned with updated risk assessments and new international standards. For example, it will ensure that we are aligned with the FATF standards on proliferation financing by introducing a requirement for supervised persons and the private sector to identify and assess risks of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing.

The instrument will go further by strengthening and clarifying how the anti-money laundering regime operates and by ensuring that the United Kingdom's anti-money laundering supervisors have the right powers available to them to respond to new and emerging threats. For example, the instrument will expand the requirements in the regulations to report discrepancies between the information gathered by regulated firms and that held at Companies House, both in the course of ongoing business relationships and for entities in scope of the new register of overseas entities.

To support the objectives of upcoming limited partnership reform and to improve the transparency and integrity of the companies register, the instrument amends the definition of a trust and company service provider—TCSP—to cover the formation of all business arrangements, not just companies, that are required to register at Companies House and to ensure that customer due diligence is conducted for customers of TCSPs.

The instrument makes several technical and clarificatory changes to the regulations to ensure that they are up to date and continue to work in the best way possible. I hope that I have shed light on the main element of this instrument, and I thank hon. Members in advance for their examination of the issues. I hope they will join me in supporting the instrument, and I commend it to the Committee.

4.35 pm

**Tulip Siddiq (Hampstead and Kilburn) (Lab):** It is a pleasure to serve with you in the Chair, Ms Ali.

The Opposition are committed to supporting the global effort to combat money laundering and the financing of terrorism. The Minister will be pleased to hear that we are broadly supportive of the draft regulations and will vote in favour of them. We welcome, in particular, the new travel rule for cryptoassets and the duty on regulated firms to carry out continuous anti-money laundering checks. I am sure the Minister will agree that many of the measures could have been introduced months ago. We are still waiting for the long overdue second economic crime Bill, so perhaps the Minister will be able to update me on the Government's progress on that.

I have a number of questions about the draft regulations. As before, I am happy for the Minister to write to me if he does not have the answers to hand. First, on the

regulations on cryptoasset firms, I welcome regulation 5, which requires cryptoasset firms to record information on the sender and receiver of cryptoasset transfers. That will introduce much-needed transparency to the sector, but it will not come into effect until September 2023. The Minister will be aware that kleptocrats linked to Russia are rushing to convert their assets into cryptocurrencies to avoid the sanctions put in place in response to Russia's invasion of Ukraine. What assessment has the Minister made of the risk that the delay in implementing the regulations will allow Kremlin-linked individuals to avoid sanctions?

I also have a question about regulation 10, which removes the obligation to build a bank account portal. Transparency International has warned that that will leave the UK's anti-money laundering regimes significantly weaker than the EU's. Spotlight on Corruption believes that a portal would have allowed law enforcement and anti-money laundering supervisors to access information on the identity of holders and beneficial owners of banking payment accounts and safe deposit boxes, therefore supporting criminal investigations and the recovery of the proceeds of crime. Why did the Minister arrive at a different conclusion from the anti-corruption experts, despite the Government not even publicly consulting on regulation 10?

The Minister said that the Government decided not to build a bank account portal because of the potential cost to the public and private sector. Could he set out the estimated costs to the public and private sectors of building the portal? Again, if he does not have the information to hand, I am happy to have it later. Could he explain the method used to determine that the cost outweighs the potential benefits of a portal to our economy and society as a result of increasing the capacity of enforcement agencies to investigate and recover the proceeds of crime?

Let me turn now to the consequences of the draft regulations not applying to the UK's Crown dependencies—the Channel Islands and the Isle of Man. The Secondary Legislation Scrutiny Committee in the other place highlighted that this is a potential cause of concern because it risks bad actors in the UK financial services sector moving to the Crown dependencies to avoid anti-money laundering checks. Could the Minister confirm whether he will work with his equivalents in the Crown dependencies to ensure that the changes introduced today are reflected in their regulatory regimes?

Finally, I want to ask the Minister about the relationship of the draft regulations to the Economic Crime (Transparency and Enforcement) Act 2022 and its long overdue second part. The statutory instrument makes minor changes to the 2022 Act to ensure that discrepancies in company records are reported in a timely manner. That seems sensible enough, but does the Minister accept that it will have little impact if the Government continue to delay the second economic crime Bill and a reform of Companies House? We have been promised the Bill for months, but it is yet to materialise. Can the Minister update us on the timetable for the Bill?

The Minister will be happy to know that the Opposition support the draft regulations, but I hope he can address some of the concerns I have outlined.

4.40 pm

**Richard Fuller:** I thank the hon. Lady for her wise words about the import of the instrument we are considering and for the Opposition's overall support for it. She asked a series of questions, and I will reply to them directly. If I miss any, she may want to come back on them.

The hon. Lady asked about the timetable and particularly about cryptoasset firm regulations. One reason why that is coming later is that firms require a technological solution, and in order to get robust solutions, we felt it was appropriate to give time. She also asked specifically about a risk from Russian kleptocrats, but I will write back to her on that point because it covers issues beyond the one I have just made. I will also get back to her on regulation 10.

On the bank account portal, the issue is that the UK has several pre-existing capabilities, such as customer information orders. However, the hon. Lady asked a specific question about the assessment of the costs. I will get back to her on that, but I think the issue has to be seen in the context of what is already in place, rather than an assumption that we have to build something from scratch. The hon. Lady also asked about working with our equivalents in the Crown dependencies and about a potential way around the regulations. That is an important point, and I will continue the normal dialogues with my equivalents in the Crown dependencies.

The hon. Lady asked about the issues around the timetable for the economic crime Bill. I am afraid I am not in a position to advise her any further on that today, but I am sure I will be able to as the Bill comes forward. I think I have answered most of the questions. If I missed any, the hon. Lady can advise me subsequently. On those that I have not answered today, we will respond in writing in due course.

4.43 pm

**John Mc Nally (Falkirk) (SNP):** It is a pleasure, as always, to serve under your chairmanship, Ms Ali. The Minister has probably already answered most of my questions; they have been whittled down to one—much like what is happening in the Tory party at the moment, as it selects a Prime Minister.

I have a brief question to the Minister. As he knows, Parliament was promised a full Companies House reform. There is no doubt that there is a clear need for a full reform of the failing anti-money laundering law. That reform is due to feature in the full economic crime Bill. Like others, that Bill has been delayed and delayed for far too many years. The organisation Spotlight on Corruption works to end corruption in the UK and, importantly, wherever the UK has influence. It has been clear on the need to enable more effective criminal prosecutions of sanctions breaches. It has also noted that there has not been any criminal sanctions enforcement for 12 years. Does the Minister think that statement is accurate? Spotlight on Corruption is also calling for the introduction of an offence either for the failure to prevent sanctions evasion or for conspiracy to commit sanctions evasion. Both are worthy of consideration. Like the Opposition spokesperson, the hon. Member for Hampstead and Kilburn, and many others, I would like to know the timetable for introducing this Bill.

4.44 pm

**Richard Fuller:** The SNP spokesperson makes interesting points, some of which echo those made by the Opposition spokesperson. On the timetable, I will get back to him. He asked about the merits of two additional offences—failure to prevent sanctions evasion and conspiracy to commit sanctions evasion. I have no comment on that, but I would be interested in anything the hon. Gentleman has to send to me to look at.

The hon. Gentleman asked about a full Companies House reform, and he expressed some of the frustration that hon. Members on both sides of the House have

expressed. He will be aware that the Treasury has provided Companies House with £60 million, I think, to begin those reforms, but he is right to draw the Committee's attention to the issue and to hope that further reforms will be forthcoming. Some of those reforms feature in these regulations—for example, the further tightening of some of the restrictions, particularly around TCSPs.

*Question put and agreed to.*

4.46 pm

*Committee rose.*



