

HMT tightens MLRs, including cryptoasset travel rules

AT A GLANCE

June 2022

What's new?

- HM Treasury (HMT) issued [Amendments to the Money Laundering, Terrorist Financing and Transfer of Funds](#) (Information on the Payer) Regulations 2017 Statutory Instrument 2022 on 15 June 2022.
- The paper is a response to HMT's 2021 [consultation](#) and outlines how the Government will amend the UK's Money Laundering Regulations (MLRs) to meet international standards, and to clarify how the UK's anti-money laundering and counter-terrorist financing (AML/CTF) regime operates.

Contacts

Matthew Russell

Partner

T: +44 (0) 7803 858642

E: matthew.russell@pwc.com

Haydn Jones

Director

T: +44 (0) 7802 438892

E: haydn.jones@pwc.com

Laura Talvitie

Manager

T: +44 (0) 7850 908244

E: laura.talvitie@pwc.com

What does this mean?

Transfer of cryptoassets

- HMT will extend information sharing requirements for wire transfers to include cryptoassets (known as the 'Travel Rule').
- Cryptoasset firms will be required to collect beneficiary and originator information for transactions with an 'elevated risk of illicit finance', as defined in the legislation.
- Unhosted wallet transactions will not automatically be viewed as higher risk. These are wallets hosted by individuals themselves and not by regulated financial institutions.
- Firms are not required to send full personal information with transfers involving only regulated UK-based crypto firms, but must provide it to the beneficiary business on request.
- Threshold for transfers requiring full beneficiary and originator information is set to €1,000, with fiat and crypto transfers treated separately.
- The Travel Rule will apply to crypto exchange or custodian wallet providers, but not to software providers.

- Crypto firms will have a 12-month grace period, until 1 September 2023, to implement the changes, subject to Parliamentary approval.
- HMT will also introduce an additional change requiring any acquirers of registered crypto firms to notify the FCA in advance. This allows the FCA to undertake an early 'fit and proper' assessment of the acquirer and potentially cancel registration of the firm being acquired.

Changes in the wider MLR scope

- Account Information Service Providers will be removed from the regulated sector, as the businesses do not come into direct contact with customers' funds.
- Payment Initiation Service Providers will remain in scope for the MLRs, as the firms are involved in payment chains.
- Bill Payment Service Providers and Telecoms, Digital and IT Payment Service Providers will also remain in scope, pending further investigation on the potential AML/CTF risks.

AT A GLANCE

June 2022

Changes to strengthen supervision

- HMT will proceed to improve consistency of approach to accessing Suspicious Activity Reports by supervisors through an explicit legal power.
- The proposed steps to clarify the activities which make a person a credit and financial institution as per Regulation 10 of the MLRs will not be implemented at this stage.

Changes to strengthen the regime

- HMT will require financial institutions and designated non-financial businesses and professions to identify, assess and take effective action to mitigate proliferation financing risk.
- HMT will amend the MLRs to achieve greater alignment between the forms of business arrangement that a Trust and Company Service Provider can form and those that register with Companies House.
- HMT will expand the discrepancy reporting requirements. In addition to onboarding, any material discrepancies identified in relation to beneficial owner information during the course of the relationship will also need to be reported to the relevant registrar. These particular measures will not come into force until April 2023.

Information sharing and gathering

- HMT will expand the intelligence and information-sharing gateway, to allow for reciprocal sharing from relevant authorities to supervisors.

- It will also expand the list of 'relevant authorities' and enable the FCA to disclose the confidential information it receives, in relation to its MLR duties, more widely.
- HMT will bring Annex I firms in alignment with the current powers that the FCA has available for cryptoasset businesses under the MLRs, creating a level playing field from the position of cryptoasset firms.
- The FCA and HMRC will be able to publish notices of refusal to register, aligning those with the existing powers to publish notices for the cancellation and suspension of registrations.

What do firms need to do?

- Crypto firms may need significant technology investment to implement and comply with the Travel Rule requirements.
- Registered crypto firms will need to carefully consider any planned acquisitions and how those could impact their FCA status.
- All regulated firms should review their CDOD processes and the corresponding mechanisms for gathering information from registers and reporting discrepancies to identify any necessary enhancements.
- All regulated firms need to have a process for assessing proliferation financing risk and be comfortable that it is appropriate for the size and nature of the organisation.

Contacts

Matthew Russell

Partner

T: +44 (0) 7803 858642

E: matthew.russell@pwc.com

Haydn Jones

Director

T: +44 (0) 7802 438892

E: haydn.jones@pwc.com

Laura Talvitie

Manager

T: +44 (0) 7850 908244

E: laura.talvitie@pwc.com

Next steps

The changes to the MLRs have gone through draft secondary legislation entitled 'The Money Laundering and Terrorist Financing (Amendment) (No. 2) Regulations 2022'. Most of the measures will come into force on 1 September 2022, subject to Parliamentary approval.

www.pwc.co.uk/regdevelopments

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2022 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

