EXPLANATORY MEMORANDUM TO

THE MONEY LAUNDERING AND TERRORIST FINANCING (AMENDMENT) REGULATIONS 2026

2026 No. 621

1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Lucy Rigby MP, Economic Secretary to the Treasury at His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Emily Bayley, Deputy Director for Sanctions, Illicit Finance and Security at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Hala Najjar, Email: Hala.Najjar@hmtreasury.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Statutory Instrument (SI) amends the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 2017/692) (the MLRs) and related legislation. The SI makes targeted changes to improve the effectiveness, proportionality and clarity of the UK's anti-money laundering (AML) and counter-terrorist financing (CTF) regime and ensure maintained compliance with Financial Action Task Force (FATF) standards. In particular it:

- refines customer due diligence (CDD), enhanced due diligence (EDD) and additional due diligence (ADD) requirements, including for unusually complex or unusually large transactions, high risk jurisdictions and pooled client accounts and cryptoasset correspondent relationships;
- updates currency thresholds from euros to sterling;
- strengthens the regime for cryptoasset businesses in aligning it with the new financial services regulatory regime for cryptoassets established under the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 S.I 2026/102;
- reforms the Trust Registration Service (TRS) requirements to close identified gaps, while introducing a de minimis exemption for low-value, low-risk trusts;
- brings the sale of "off-the-shelf" firms within the scope of regulated trust or company service provider (TCSP) activity;

- clarifies that a firm is excluded from the definition of an "insurance undertaking" to the extent it is carrying out or effecting a contract of reinsurance; and,
- enhances information-sharing and cooperation between AML/CTF supervisors and other public bodies.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction which the instrument forms part of the law of) is all of the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is all of the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The instrument implements the Government's response to HM Treasury's 2024 consultation "Improving the effectiveness of the Money Laundering Regulations",[1] which followed the 2022 review of the UK's AML/CTF regulatory and supervisory regime. Those exercises found that, while the core framework of the MLRs remained broadly fit for purpose, there were a number of areas where changes would improve effectiveness for both regulated firms and customers, and help focus effort on higher risk activity.

5.2 The principal objectives of the instrument are to:

- close specific regulatory gaps, including in relation to the sale of off-the-shelf firms by TCSPs and the registration of certain non-UK trusts holding UK land;
- support a more risk based and proportionate approach, in particular to CDD and EDD, including by narrowing mandatory EDD for high-risk jurisdictions to the Financial Action Task Force (FATF) "Call for Action" list and clarifying the treatment of "unusually complex" transactions;
- update currency thresholds so that they are expressed in sterling and, where relevant, calibrated to remain consistent with FATF standards;
- strengthen the regime for cryptoasset businesses, including change in control provisions , and align these arrangements with the new financial services regulatory regime for cryptoassets;
- reduce unnecessary burdens on low-risk trusts, including through a de minimis exemption, while preserving transparency in higher risk cases; and
- improve cooperation and information sharing across the AML/CTF system, including with Companies House and the Financial Regulators Complaints Commissioner, so that intelligence about economic crime is used more effectively.

5.3 These changes are intended to support the UK's wider work under the Economic Crime Plan 2023–26 and forthcoming anti money-laundering and asset recovery strategy, and to ensure the UK's AML/CTF regime remains aligned with international standards set by FATF, of which the UK is a founding member, ahead of FATF's next mutual evaluation of the UK starting in 2026.

[1] Full consultation and response https://www.gov.uk/government/consultations/improving-the-effectiveness-of-the-money-laundering-regulations

What was the previous policy, how is this different?

5.4 There were areas previously where the MLRs were either not clear, not in keeping with a non-prescriptive, risk-based approach, or contained outdated references that reflected their origins as EU law.

5.5 Under the previous framework:

- certain CDD and EDD provisions were drafted in a way that, in practice, led to inconsistent or overly cautious interpretations, for example the requirement to apply EDD to "complex or unusually large transactions", and the obligation to apply mandatory EDD to customers and transactions linked to both categories of FATF listed "high risk third countries";
- transaction thresholds for CDD and other requirements were expressed in euros, reflecting the origins of the MLRs in EU law, and in some cases were not clearly aligned with FATF thresholds when converted;
- the sale of an "off-the-shelf" firm was not previously a regulated TCSP activity, creating a risk that firms formed in advance for onward sale could be transferred without CDD being undertaken;
- cryptoasset businesses registered under the MLRs were subject to a fit and proper assessment based on beneficial ownership, and change in control provisions were triggered only by potential changes of that beneficial ownership;
- TRS registration requirements did not capture all non-UK trusts holding UK land before 6 October 2020 and there was no de minimis exemption for low value, low risk trusts; and
- information sharing gateways available to supervisory authorities did not previously include the Financial Regulators Complaints Commissioner. Supervisory authorities were also previously not under a duty to cooperate or coordinate activities with Companies House.

5.6 The instrument:

- clarifies that EDD is required for "unusually complex" (rather than all complex) transactions, narrows mandatory jurisdiction-based EDD to "FATF Call for Action" countries, and amends the regime in relation to pooled client accounts to allow for a more risk-based approach;
- converts euro denominated thresholds in the MLRs to sterling, using a one-to-one conversion except where that would risk misalignment with FATF standards;
- explicitly brings the sale of off-the-shelf firms within the definition of TCSP activity, ensuring that CDD applies to the onward sale of a pre-existing firm;
- aligns change in control thresholds for MLR registered cryptoasset businesses with FSMA thresholds;
- extends TRS registration and data sharing rules to non UK trusts that acquired UK land prior to 6 October 2020 and continue to hold it, introduces a de minimis exemption for certain low value non-taxable trusts, widens the two year registration exemption to include additional trusts arising from the death of a settlor, exempts Scottish survivorship destination trusts and removes Stamp Duty Reserve Tax from the list of "relevant taxes" that alone trigger registration; and
- expands and clarifies cooperation and information sharing duties, including with the Registrar of Companies and the Financial Regulators Complaints Commissioner, and excludes Norges Bank from the application of certain Parts of the MLRs when carrying out exempt activities, bringing it into alignment with its exemption under the FSMA Exemption Order.

6. Legislative and Legal Context

How has the law changed?

6.1 The SI amends the MLRs. It is made under sections 49 and 54(2) of, and Schedule 2 to, the Sanctions and Anti-Money Laundering Act 2018.

6.2 The MLRs are a central part of the UK's AML/CTF regime, setting out requirements on customer due diligence, ongoing monitoring, record-keeping, reporting, supervision and registration. The SI makes targeted amendments to that framework, including the main changes which are detailed below:

- amending customer due diligence and enhanced due diligence provisions (for example for "unusually complex or unusually large" transactions, high-risk jurisdictions, pooled client accounts, and the onboarding of customers following a bank insolvency);
- converting monetary thresholds from euros to sterling in a way that is consistent with Financial Action Task Force (FATF) standards;
- updating provisions for cryptoasset businesses, the regime for changes in control, to align with the FSMA framework being introduced for cryptoassets;
- expanding and refining trust registration requirements in Part 5 and Schedule 3A to the MLRs, including extending registration to certain non-UK express trusts holding UK land, extending the two-year exemption from registration of trusts arising on death, an exemption for Scottish survivorship destination trusts and introducing a de minimis exemption for low-value, low-risk trusts;
- removing Stamp Duty Reserve Tax from the list of "relevant taxes" that trigger registration on the trust registration service;
- clarifying the scope of regulated trust or company service provider (TCSP) activity so that the sale of "off-the-shelf" firms is subject to MLR obligations; and
- updating information-sharing and co-operation provisions (for example regulations 50, 52, 52A and 52B) including so that supervisory authorities can share relevant information with the Registrar of Companies and the Financial Regulators Complaints Commissioner.

6.3 The instrument necessitates consequential amendments to the Proceeds of Crime Act 2002 ("POCA") and the Terrorism Act 2000 ("TACT") in order to reflect changes to the scope of the AML-regulated sector.

Why was this approach taken to change the law?

6.4 Legislative amendment was required because the relevant requirements and exemptions are set out in secondary legislation. Non-statutory action (such as guidance alone) could not:

- expand or narrow the scope of regulated persons or activities (for example to bring the sale of off-the-shelf firms into the scope of TCSP activities);
- amend due diligence and change in control thresholds expressed on the face of the MLRs (including currency conversions from euros to sterling);
- alter the list of taxes and trust types that trigger, or are exempt from, registration on the Trust Registration Service; or
- confer, or clarify, statutory information-sharing gateways and cooperation duties between supervisors and public bodies.

6.5 Within those constraints, a targeted amending instrument was chosen rather than remaking the MLRs in their entirety. This allows specific deficiencies and gaps

identified in the 2022 review of the AML/CTF regime and the 2024 consultation "Improving the Effectiveness of the Money Laundering Regulations" to be addressed in a proportionate way, ahead of the next full review of the MLRs, while maintaining continuity for firms and supervisors and ensuring the UK remains aligned with relevant FATF standards.

7. Consultation

Summary of consultation outcome and methodology

7.1 A public consultation was held between March and June 2024, receiving 224 responses from regulated firms across all major sectors, supervisors, law enforcement bodies, professional and trade associations, and civil society. The consultation sought views on proposed changes across four main areas: customer due diligence, system coordination and information sharing, scope and registration issues (including for TCSPs and cryptoasset businesses), and reforms to the Trust Registration Service. HM Treasury also ran a survey on the cost of compliance with the MLRs. The Government's response was published in July 2025.[2]

7.2 In light of that consultation, the Government decided to legislate in those areas where there was clear evidence that amendments to the MLRs would materially improve effectiveness or proportionality, and to address other issues through non legislative means such as sectoral guidance and supervisory practice.

7.3 The draft SI was published for technical consultation in September 2025, inviting feedback from industry and other interested parties to ensure practical operability and avoid unintended consequences. HM Treasury received responses from a range of regulated businesses, trade associations, and supervisory bodies. These responses were carefully considered and have resulted in some changes to the instrument of which the significant ones are covered below.

Pooled Client Accounts

7.4 The majority of responses to the consultation on the draft SI related to the provisions intended to widen access to Pooled Client Accounts (PCAs). Legal sector respondents in particular expressed concern that the changes could result in more onerous treatment of PCAs held by legal businesses, due to the proposed removal of the provisions on PCAs from regulation 37 (Simplified Due Diligence). Respondents also expressed concerns about the length of the new provisions and requested additional clarity around the duties imposed on the customer i.e. the holder of the PCA.

7.5 Following careful consideration of the feedback received, HM Treasury has made the following changes to the provisions on PCAs in order to address these concerns:

- Retaining the provisions on PCAs in regulation 37, in order to make clear that banks may apply a simplified set of controls to a PCA provided that the PCA-holder is subject to the MLRs or equivalent regulations overseas; the business relationship with the PCA-holder presents a low risk of money laundering and terrorist financing; and information on the identity of the underlying customers is available on request to the PCA-holder.
- Clarifying that a PCA-holder is not required under the relevant provisions to provide information which is legally privileged.

[2] https://www.gov.uk/government/consultations/improving-the-effectiveness-of-the-money-laundering-regulations

- Clarifying that a disclosure of information in relation to a PCA made under the relevant provisions does not breach a duty of confidentiality owed by a professional legal adviser to a client or any other restriction on the disclosure of information.
- Clarifying that the new requirements only apply to PCAs created after the provisions come into force.
- Other drafting changes including minor amendments to simplify the wording of the new requirements and to update regulation 8 (application) in respect of PCA-holders.

Onboarding of customers following bank insolvency

7.6 Some respondents, particularly from the financial sector, expressed concerns that the proposed drafting in relation to bank insolvency would fail to achieve its intended effect of reducing barriers to the rapid onboarding of customers who are migrating accounts following a bank insolvency. The concerns included the existence of other practical and legal barriers to rapid mass-onboarding; the lack of provision for a flexible approach to CDD obligations other than identity verification; the complexity of the drafting; and the need for guidance on how banks should operationalize the carve-out.

7.7 Following careful consideration and consultation with stakeholders including the Financial Conduct Authority (FCA) and the Bank of England, HM Treasury has made changes to the drafting in order to address these concerns while retaining appropriate safeguards. The changes include:

- Clarifying that credit institutions may permit "insolvent bank customers", as defined in the regulations, to open and transact from accounts prior to the completion of customer due diligence measures other than those specified, provided the other safeguards and conditions are applied.
- Clarifying which specific requirements under regulation 28 constitute identifying a business customer for the purposes of this measure.
- Simplifying the requirements by removing the additional provisions in respect of personal customers and the requirement to notify the FCA when applying the carve-out.
- Simplifying the definition of "insolvent bank customer" by removing the reference to the customer 'applying' for an account, so that the provisions cover scenarios in which the customer may not have submitted an individual application for a new account.

7.8 HM Treasury recognises that this measure does not by itself resolve all the issues associated with the rapid onboarding of customers following a bank insolvency. HM Treasury remains open to continued dialogue with all stakeholders, including relevant industry bodies, around roles and expectations for contingency planning for such a scenario. In relation to the need for guidance on the implementation of the measure, HM Treasury, the FCA and the Bank of England are prepared to support the production of guidance by the Joint Money Laundering Steering Group, as the most appropriate owner of financial sector guidance on the Money Laundering Regulations.

Counterparty due diligence requirements for cryptoasset businesses

7.9 Feedback from the technical consultation suggested there should be an implementation period before cryptoasset businesses are required to carry out

counterparty due diligence when entering correspondent relationships. HM Treasury supports this suggestion, recognising that time will be needed for businesses to update their systems to carry out the new requirement, and for further guidance to be issued. There will therefore be a 9-month implementation period before the new requirement is commenced.

Trust Registration Service

7.10 Following the technical consultation HMRC made two significant adjustments to the draft.

7.11 Firstly, trusts exempted from registration on TRS were removed as trusts which count towards the de minimis limit. The de minimis was limited to one trust, the amendment allows the settlor to have trusts which are exempt from TRS registration as well as the de minimis trust. Given the low risk exempted trusts present, this amendment meets the policy intent of the original proposed amendment without significant impact or risk.

7.12 Secondly, the start date for the de minimis trusts amendment was removed, thus allowing existing trusts to be able to close their trusts on TRS. The original drafting applied the new exemption for the de minimis to trusts created on or after the implementation date: the outcome of this was that trusts that are already registered and are below the de minimis limit must remain on TRS. This placed an ongoing administrative requirement on those trusts: this was not consistent with the original policy objective to remove the requirement from certain low-risk trusts. The draft was therefore amended to release existing trusts that meet the de minimis from the requirement to remain registered.

Norges Bank

7.13 Following the technical consultation, an amendment to the Financial Services and Markets Act 2000 (Exemption) Order 2001 ("the FSMA Exemption Order") was removed. The original drafting of the SI removed para 58 of the FSMA Exemption Order and inserted a new sub-category of exempted entities titled, 'Overseas sovereign wealth funds operated by a central bank or public body'. The only entrant to this sub-category was Norges Bank, new para 59. The drafting has been simplified and the MLR SI now explicitly exempts Norges Bank from the MLRs for the activities for which it is exempt under the FSMA Exemption Order.

8. Applicable Guidance

8.1 The MLRs allow for relevant persons to consider any guidance which has been issued by the FCA or issued by any other supervisory authority or appropriate body and approved by HM Treasury.

8.2 To avoid confusion and inconsistent guidance within sectors, HM Treasury approves a single piece of guidance for each sector regulated under the MLRs, drafted either by the supervisory authority/authorities, or by another appropriate body.

8.3 The existing guidance for each sector will be updated by the relevant supervisory body or appropriate body, in order to accommodate the changes made by this instrument. This revised guidance will then subsequently be approved by HM Treasury.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The impact on businesses, charities, and voluntary bodies is expected to be broadly positive. The removal of EDD requirements and the conversion of currency thresholds from euros to sterling will reduce administrative burden and compliance costs for UK-based firms. The removal of dual registration requirements for cryptoasset businesses will simplify compliance for affected firms. The expansion of trust registration requirements may increase administrative obligations for some trusts, but the introduction of a de minimis exemption will reduce unnecessary burdens for small, low-risk trusts and community organisations. TCSPs selling off-the-shelf firms may face minor additional compliance requirements, but these are proportionate and justified by the need to close regulatory gaps.

9.3 The legislation does impact small or micro businesses. To minimise the impact, the approach taken is to exempt small and micro businesses from requirements where possible, notably through the introduction of the de minimis exemption for trust registration.

9.4 The impact on the public sector is expected to be limited to minor increases in supervisory and administrative activity for HMRC, the FCA, and Companies House, associated with expanded registration and information sharing. These impacts are expected to be offset by improved effectiveness in preventing and detecting financial crime.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The next comprehensive review of the MLRs is due to be conducted in 2027, and the measures in this instrument will be assessed as part of that review.

10.2 HM Treasury also engages frequently with stakeholders in both the public and private sectors to understand how the MLRs are being applied and works to resolve any issues.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument makes changes to the MLRs, further to changes that were previously made by a number of instruments, the most relevant of which are the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 (S.I. 2019/1511) ("the 2019 Regulations") and the Money Laundering and Terrorist Financing (Amendment) (EU Exit) Regulations 2020 (S.I. 2020/991) ("the 2020 Regulations").

11.2 The MLRs were made under section 2(2) of the European Communities Act 1972 (c.68). These Regulations are made under the separate powers in section 49 and 54(2) of, and Schedule 2 to, the Sanctions and Anti-Money Laundering Act 2018 (c.13) ("SAMLA") and are subject to the draft affirmative procedure as required by section 55(5)(d) of that Act. All specific procedural and publication requirements for this instrument have been complied with.

12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury, Lucy Rigby MP, has made the following statement regarding Human Rights:

"In my view the provisions of The Money Laundering and Terrorist Financing (Amendment) Regulations 2026 are compatible with the Convention rights".

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").