

EMAIL SUBMISSION TO: Anti-MoneyLaunderingBranch@hmtreasury.gov.uk

To whom it may concern,

Re: HM Treasury's Proposed amendments to the Money Laundering Regulations - draft SI and policy note

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers and regulators.

The input to this response has been curated through a series of member discussions, industry engagement and previous engagement with global regulators over the years and GDF is grateful to its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,
Elise Soucie Watts – Executive Director – GDF

Response to HM Treasury: Introductory Remarks

GDF welcomes the opportunity to respond to HM Treasury's technical consultation on proposed amendments to the Money Laundering Regulations (MLRs). We strongly support HM Treasury's efforts to modernise the UK's AML/CTF framework in a way that is clear, proportionate and internationally aligned.

Ensuring regulatory clarity for crypto asset businesses and their AML/CTF obligations is critical to maintaining market integrity, safeguarding consumers and ensuring that the UK remains a leading hub for responsible innovation in the digital economy. With the right balance of guardrails and proportionality, digital assets can strengthen financial resilience, enhance efficiency and expand inclusion.

To date, overlapping regimes and evolving requirements have created areas of uncertainty and duplication for crypto asset firms, particularly in relation to dual registration and change-in-control provisions. A forward-looking and streamlined framework is therefore essential to provide clarity, reduce unnecessary burden and foster confidence among institutions, entrepreneurs and investors.

As a global members association, GDF has drawn on the insights of our diverse membership base, including firms across the digital asset and financial services ecosystem, as well as our ongoing regulatory engagement worldwide. Our members represent a broad cross-section of the digital asset ecosystem, including exchanges, custodians, technology providers and advisory firms. This gives us a unique perspective on the practical challenges and opportunities facing the industry.

This submission reflects our members' commitment to a principles-based, technology neutral and risk-based approach that both protects market participants and promotes sustainable growth. The key points of feedback from our membership are as follows:

- 1. We strongly support the removal of dual registration and believe that reducing duplication between regimes will strengthen the overall AML/CTF framework;**
- 2. We support the expansion of the scope of the fit & proper tests but with a proportionate application that does not disadvantage start-ups and smaller players;**
- 3. We support tailoring the controller/change in control regime to the governance structures of crypto firms;**
- 4. We recommend clear transitional arrangements for firms moving to the updated MLR requirements to allow firms time to adapt without disrupting compliance.**
- 5. We recommend clear industry specific guidance or supervisory messaging to ensure consistency in approach.**

We look forward to continued engagement with HM Treasury and stand ready to provide further detail as the draft SI is refined and implemented.

GDF Full Response to HMT Proposed Amendments:

Overarching Feedback

Overall, GDF is supportive of the draft SI and of HM Treasury's proposals. Our following comments seek to further strengthen the proposals and provide further clarity to the market. The subsequent comments follow the key areas of feedback set out in the executive summary.

1. Removal of Dual Registration

We strongly support the removal of dual registration and believe that reducing duplication between regimes will strengthen the overall AML/CTF framework. This pragmatic and proportionate step will streamline supervision, reduce unnecessary compliance burdens and allow firms to focus resources on a single, clear regime. However, further clarity is needed on the treatment of "in-flight" MLR applications and the process for firms currently registered under the MLRs to transition into FSMA authorisation. GDF welcomes this reform but encourages HM Treasury to provide transparent and proportionate transitional processes.

2. Need for Proportionate Application of the Expansion of Fit and Proper Tests and Change in Control Notifications

GDF also supports the expansion of the scope of the fit and proper tests to cover the crypto asset sector and to ensure high standards of integrity and accountability across the sector. Aligning change in control requirements with FSMA and replacing the beneficial owner test with the broader change in control regime, will help deliver consistency across frameworks and strengthen confidence in governance standards. To maximise consistency, the regime should explicitly align with the FCA's existing SUP 11 Controllers and Close Links framework. Without this, there is a risk of duplication or divergence between the MLRs and FSMA.

That said, proportionality is vital, and we are concerned that the current expansion of scope to capture indirect ownership interests or minority investors with board representation risks creating disproportionate burdens for early-stage firms. Startups often have a wide range of early investors which may include angels, seed funds and token holders who may cross the 10% threshold. The addition of repeated notifications and checks, for each new stakeholder will add significant cost and delay, as well as significant risk for rejection for reasons that do not fall under the firm's reasonable control. There may also be a risk of duplicative and repeat notifications given cap tables frequently change for early-stage firms, not just in the crypto asset sector.

We are concerned that this may disadvantage early-stage firms and could result in the unintended consequence of pushing angel and VC investment into larger firms instead, having a dampening impact on the UK start-up market, both crypto and beyond.

Furthermore, we would note that crypto firms often have different governance structures than traditional firms. We would encourage HMT to consider sector-specific guidance on how “control” applies in tokenised or decentralised models and believe that specifically with regards to these provisions, as well as the broader regime there is a need for clear transitional arrangements to prevent duplicative requirements during the handover from MLR registration to FSMA authorisation.

Finally, “significant influence” is a very broad concept, and we would encourage greater precision with proportionate expectations, tailored to firm size and risk profile (including considerations around how this applies to DeFi and staking), which would help ensure the regime remains practical for firms of all sizes.

Overall, we encourage clarification of implementation of the fit and proper tests, as well as the change in control thresholds with a proportionate approach that encourages both the appropriate checks and balances, but also scalability and growth for firms of all sizes.

3. Strong Support for Clear Transitional Guidance

We recommend transitional arrangements for updated MLR requirements to allow firms time to adapt without disrupting compliance. Further guidance on the key timelines, as well as treatment for firms and supervisory expectations for the commencement of the FSMA crypto asset perimeter for crypto asset firms will ensure coherence across regimes and provide a clear and transparent point of entry for firms. To manage the transition effectively, firms will require sufficient clarity on sequencing, advance notice of implementation and early FCA guidance on practical issues such as governance, investor agreements and compliance processes. Phased implementation, with clear timelines and guidance around the transition, will help minimise disruption while supporting proportionate and effective regulation.

We note the SI clarifies the definition of “cryptoasset business” and aligns it with the FSMA/RAO Cryptoassets Order 2025. This alignment is important to avoid firms facing inconsistent obligations across the MLRs and FSMA. However, further clarity is needed on how certain activities will be treated, including custodial staking, DeFi interfaces that provide customer-facing control and overseas custodians serving UK clients. FCA guidance setting out criteria for “sufficient control”, for example, governance rights, control of fees or management of user interfaces, would give firms certainty while ensuring higher-risk models remain within scope.

4. Need for updated industry specific guidance or supervisory messaging

We recommend, particularly with regards to the more specific feedback listed below, that there is a need for updated industry specific guidance (JMLSG) or clear supervisory messaging. Without clear guidance, firms may adopt inconsistent approaches that undermine the regulatory intent, increase compliance costs or expose the financial system to heightened risks.

Specific Feedback

1. Amendments to Part 2: Money Laundering and Terrorist Financing, Chapter 2, Regulations 19 and 19 (a) and Part 3: Customer Due Diligence, Chapter 2, Regulation 33

We support the SI clarification that enhanced due diligence is a requirement for firms to have policies and controls to identify “unusually complex or unusually large” transactions as part of their AML risk management.

However, what is considered "unusual" may vary significantly depending on the sector and business model. Without further clarification, there is a risk of inconsistent application or over-reporting.

We recommend sector-level guidance be provided to assist firms in defining “unusual” within the context of their industry.

This will promote consistency in approach and improve the quality of suspicious activity detection and reporting.

2. Amendments to Part 3: Customer Due Diligence, Chapter 2, Regulation 33

We understand and support the intention to redefine "high-risk third countries" in line with FATF’s “Call for Action” list (i.e. countries subject to countermeasures). However, we note the following concerns:

- Some firms may interpret the narrower scope as an invitation to de-risk jurisdictions not on the FATF Call for Action list but still appear on the FATF Jurisdictions Under Increased Monitoring list.
- This may lead to inconsistent treatment of third countries across firms and sectors, increasing the risk of illicit financial flows being routed through jurisdictions with known strategic deficiencies.
- Finally, we would also note that reducing the threshold to £800 is not a simple conversion but would also require an overall change to broader operational processes requiring firms

to reconfigure systems, test interoperability with counterparties and update compliance processes. Given this we propose a phased implementation timeline (e.g. six months minimum) so firms can adapt systems as well as a mechanism to review thresholds over time to maintain proportionality.

While aligning the legal definition is reasonable, this should be accompanied by robust industry guidance reinforcing the need for firms to continue assessing and mitigating risks from all third countries, not just those on the Call for Action list.

Supervisory messaging and industry guidance should discourage wholesale de-risking and instead promote a risk-based assessment.

3. Amendments to Part 3: Customer Due Diligence, Chapter 2, Regulation 34

We note that the definition of “correspondent relationship” in Regulation 34(4)(b) does not include the same geographical limitation (“in a third country”) as that set out in Regulation 34A (1).

This discrepancy could lead to confusion as to whether enhanced due diligence obligations for correspondent relationships apply to both domestic and international arrangements, particularly as VASP-to-VASP interactions are largely user-initiated and not equivalent to correspondent banking relationships.

We recommend HMT ensure consistency between Regulation 34 and 34A by clarifying whether the provisions are intended to apply only to third-country relationships or more broadly.

Where broader application is intended, further guidance should define the thresholds at which correspondent relationships require additional due diligence.

Furthermore, we encourage HM Treasury to reconsider the framing of “correspondent” obligations for VASPs. Unlike banks, VASPs generally do not maintain bilateral correspondent relationships. Interactions are indirect and user-driven — customers initiate transfers between hosted wallets. This structural difference makes it harder to apply banking-style correspondent concepts directly.

To make obligations workable, regulators should clarify what constitutes “sufficient information” on a counterparty VASP in practice and support tools such as public registries of authorised VASPs (as proposed in the EU by GDF/ADAN). Without proportionate standards, there is a risk of wholesale de-risking of smaller or emerging-market VASPs, which would undermine transparency and inclusion.

Overall, we believe it is important to avoid the wholesale de-risking of smaller or emerging-market VASPs as this could limit innovation and adversely impact smaller market participants.

4. *Amendments to Part 4: Reliance and Record-Keeping, Regulation 39*

In regulation 39(4) (reliance)(a), for “high-risk third country”, in both places it occurs, substitute “FATF call for action country”.

The above amendment replacing "high-risk third country" with "FATF call for action country" would allow firms to place reliance on third parties based in jurisdictions under increased monitoring.

This appears to conflict with FATF Recommendation 17, which states that countries should have regard to country risk when allowing reliance on third parties. Jurisdictions under increased monitoring are recognised as having strategic AML/CTF deficiencies, even if not subject to countermeasures.

To remain consistent with FATF recommendations and safeguard against weakened controls, it is our opinion that reliance should not be permitted in jurisdictions under increased monitoring or at minimum, firms relying on third parties in such jurisdictions should be required to apply enhanced measures and robust justification.

This would ensure that the UK's reliance framework continues to uphold a high standard of AML/CTF control.