Joint Committee on the National Security Strategy

Oral evidence: Defending democracy (Political finance)

Monday 12 January 2026

4.40 pm

Watch the meeting

Members present: Matt Western (The Chair); Liam Byrne; Sarah Champion; Mr Tanmanjeet Singh Dhesi; Bill Esterson; Baroness Kidron; Edward Morello; Lord Sarfraz; Lord Sedwill; Lord Tunnicliffe; Dame Emily Thornberry; Derek Twigg; Lord Watts; Sir Gavin Williamson.

Evidence Session No. 3 Heard in Public Questions 32 - 45

Witnesses

I: Natasha Powell, Chief Compliance Officer, Kraken Digital Asset Exchange; Dr Sam Power, Lecturer, University of Bristol; Tom Keatinge, Director of the Centre for Finance and Security, RUSI; Duncan Hames, Director of Policy and Programmes, Transparency International.

Examination of witnesses

Natasha Powell, Dr Sam Power, Tom Keatinge and Duncan Hames.

Q32 **The Chair:** Welcome to this meeting of the Joint Committee on the National Security Strategy. Our session today will look at defending democracy, with a particular focus on political finance and foreign influence. Can I ask our panellists to introduce themselves, perhaps starting with Dr Power?

Dr Sam Power: I am a lecturer in politics at the University of Bristol and an expert in political financing; I was an expert consultant in the Committee on Standards in Public Life’s 2021 review of electoral finance. I have also worked with a number of electoral management bodies across the world. Most recently, I conducted some training sessions with the Moldovan Central Electoral Commission in the lead-up to its parliamentary elections last year.

Tom Keatinge: Good afternoon. I am the director of the Centre for Finance and Security at RUSI where, among other things, we run a project looking at the malign influence of finance in elections and democratic processes, including in the UK.

Natasha Powell: Good afternoon. I am the chief compliance office at Kraken UK, which is one of the largest trading venues for digital assets and crypto in the UK. I hope to assist you this afternoon with my practical experience of overseeing compliance, financial crime, sanctions controls, bribery and corruption, as well as of conducting risk control management frameworks both at traditional financial banking and payments institutions and, most latterly, within the crypto sphere at Kraken.

Duncan Hames: Hello. I am the director of policy and programmes at Transparency International UK, which is a worldwide anti-corruption movement in more than 100 countries. In the UK, we have published on corruption risks in UK political campaign finance practices and on the activities of foreign interests in seeking to influence parliamentarians in the UK Parliament.

Q33 **The Chair:** I shall start with a quick question aimed to Tom. According to *Political Quarterly*, we perhaps need a "medium-sized political finance scandal that puts reform on the agenda". What do you think of that?

Tom Keatinge: There is nothing like a crisis to motivate people, is there?

The Chair: Are we not taking this seriously?

Tom Keatinge: I am taking it seriously.

The Chair: I asked whether we are taking it seriously.

Tom Keatinge: The jury is out. It is good that you are holding these hearings. There are a few points to reflect on.

First, we have a long-standing defence against electoral interference, but we need to query whether that has actually done what it was intended to do. Secondly, we live in an age where finance is very different to the way it looked 25 years ago, when PPERA originally existed. Have we kept up with the way in which finance has developed to ensure that our democracy is defended against whatever may be possible as a result of those developments? I hope that we do not have a crisis; obviously, we should try to avoid that happening.

The Chair: Sam and Duncan, this one is for you. There are many who say that it would not take much to shift the needle in electoral terms: a couple of percent through all sorts of methods, which are increasingly digital methods. How vulnerable is the electoral system to such a change?

Dr Sam Power: What you are getting at here is the watchword of the day both in British politics and, I suppose, more widely: fragmentation. We have an increasingly fragmented electorate; that is a truth.

There are many things that we know about money in politics; there is much that we do not know about money in politics as well. One thing that we know with relative certainty is that money matters for electoral outcomes, but this does not mean that money decides electoral outcomes. I like to think of it as a sort of start-up cost: you need a certain amount of money to get off the ground.

The second thing that we know is that money has diminishing returns. In a hyper-partisan political space, your money either does not go very far or butts up against a wall. An analogy I like to use is that of the NRA. No matter how much money you spend, you cannot really convince the NRA to endorse greater gun control because it is pretty set in its ways on that. If you have a fragmented political space, what you have are voters who are much more willing to shop around.

So there are two problems, or two effects that money can have, here. Number one is that your pool of persuadable electorate has suddenly gotten bigger. Because of the voting system under which we operate, you need fewer votes to win in this fragmented landscape. So, although money has diminishing returns, when you have a fragmented landscape with a greater persuadable electorate—and where you need fewer votes to have some kind of meaningful electoral outcome—money is a lot more effective.

There is also the effect of fragmentation. Why is the voter fragmenting? One reason is anger with the current political system and the way in which politics are currently run. They are looking for other options; the effect of that anger is looking for other options, as well as switching off from politics. So you can use money in a third way if you are a malign influence: you can prey on that anger and increasing distrust. You can perhaps put your money not necessarily towards different electoral outcomes but towards disincentivising the public from engaging in politics, full stop.

Duncan Hames: I do not think that it is helpful to think of foreign interference and its financial methods as being about changing an electoral outcome. It can achieve all sorts of other things in our public discourse and how policy evolves; indeed, in a number of instances, we have seen foreign interference manipulate the actions of already-elected politicians to serve such ends. The Nathan Gill case last year is a very good example of that. The money was not intended to change whether or not he was an elected parliamentarian; it was intended to change what he did with that platform. So it matters, even if you cannot show that it is changing the results of electoral events.

Q34 **Edward Morello:** I want to follow up on both of the points made there, especially the one from Dr Power. To what extent is foreign money being used to increase fragmentation? Mr Hames made the point about where that money is well spent on echoing or expanding the reach on, for example, social media platforms. Is that where the smart money is going, if in spending it you get your best outcome from a fragmented public or political discourse? Is it not being spent on trying to influence the outcome of individual politicians but rather on increasing the space in which you have to operate, by fragmenting public discourse?

Dr Sam Power: It is hard to say how much foreign interference there is in political finance. You would be hard pushed to say that foreign interference causes this fragmentation, which is part of a long-standing trend in British politics that others have written about much more than I have. On where the smart money goes, we might get on to this but my position is that, if you are a malign foreign actor—as a thought experiment—the smart money does not go on an election, because the clue is in the title of an election: it is a regulated period. Why on earth, if you are trying to use your money wisely, would you spend it at a time when regulation is much tighter? If you are trying to play the system and the fragmentation of the system, it is much more sensible, if you are a malign actor, to go for the parts that are unregulated—in between elections, for example.

Lord Watts: You used the analogy of the gun lobby not changing its mind, but is not a better analogy the way that the gun lobby went to Canada with large amounts of money and changed the gun agenda in Canada? Canada was previously against wider ownership of guns and for more control, but this was turned completely around following a campaign by organisations within a different country.

Dr Sam Power: Certainly, if you are thinking about foreign interference, you are dealing with a challenge on a supranational scale as opposed to a national scale. When your pool of persuadable electorate gets bigger and, if you are trying to spend smart money—like the gun lobby in Canada—then perhaps you would try to persuade more people to get that on the agenda. I am sure that is one way. Again, that is outside the regulated financial system almost. You might do that through think tanks, conferences and all these different things that are outside party politics but are perhaps another smart way to spend money if you are trying to gain a meaningful hold on the political debate.

Q35 **Lord Sedwill:** That neatly takes us on to the topic we were going to pursue next. Summarising what you have said so far, foreign money could be used to try to increase fragmentation, to increase disillusionment with politics generally and to essentially corrupt people who are in positions of authority anyway. Dr Power, you referred to the unregulated periods away from elections. I take it, by the way, that none of you feels that the electoral periods themselves are necessarily sufficiently regulated, but you talked about other vulnerabilities—you might want to touch on that. Clearly there is a vulnerability there. What is the capability of our system to deal with all those unregulated periods outwith elections, and indeed the other means that Dr Power suggested could be used to achieve these results?

Dr Sam Power: It is an important caveat to say that we can talk about the unregulated period but we should have in mind, in the background, that that does not necessarily mean that we regulate elections all that well in the regulated period either. We do it much better, but there are still concerns, and that is what the elections Bill will hopefully address. If the question is, "How adequate are regulations in the so-called unregulated period?"—

Lord Sedwill: I am interested in the adequacy but also the capability of the regulator.

Dr Sam Power: Do you mean the Electoral Commission?

Lord Sedwill: Yes.

Dr Sam Power: I do not think the regulations are adequate enough. We currently have an assumption under electoral law that democracy happens at elections, but it is increasingly the case that democracy is happening constantly—the rise of online campaigning shows that. In that sense, this is the place that you would look to bring in further regulations.

Another thing that we know about money in politics is that it is like water. It flows, sometimes somewhat uncontrollably, and it stops when it gets to a dam, but it also finds its way through the cracks—and this is where one of the cracks is. There are a number of issues that could be solved within the regulated period, some of which were looked at by the CSPL in 2021. The first is to think about limiting spending annually, not just at elections—so looking at limiting election spending and limiting spending by political parties annually. We looked into this in the CSPL in 2021, and it was ultimately decided not to do it because it would be overly burdensome on many campaigners when campaigns are decentralised.

I suggest that, in the five years since that review was conducted, there have been great leaps in technology that could really help with those supposedly overly burdensome regulations. I have been running a project on how electoral management bodies with political finance oversight capabilities can use AI to help them to regulate. Political parties can also use that to help them to conduct some of their accounting. It strikes me that we could open that question. Things such as the costs of staffing could be included in spending limits, as recommended in the 2021 CSPL review. There are a number of solutions that we could think about. If we are talking about the regulators, the Electoral Commission does a reasonable job. It operates reasonably well with the legislation that it is given.

Lord Sedwill: Mr Hames, there is often an impetus, if something does not feel quite adequate, to say that we need more regulation as opposed to saying that we need better capability to enforce the existing regulation; I am not suggesting that these are necessarily alternatives. But, on the risk you are talking about, there is quite a lot of regulation on people of political influence not being corrupted by foreign money. How good is the capability to deal with that at the moment? Is the answer more regulation, more capability or something else?

Duncan Hames: The Nathan Gill case that I mentioned is the first time that the UK Bribery Act, which is 15 years old now, has been used in relation to a UK elected official in receipt of bribes. There is a bit of a problem, in this particular area of offending, of relying on authorities to go after the bad actors after the offending has happened, because the consequence of that interference has already occurred. In the case of Nathan Gill, we were fortunate to have the intelligence provided by the FBI, which was the lead for the Metropolitan Police's investigation.

Law enforcement in more mundane areas of crime talks about target hardening. How do we prevent the harm from happening in the first place by making the potential victims and those who might get caught up in it less likely to be successfully targeted? That is a good frame to think about this problem with UK politics. How can we look at how UK politics is financed and make it less vulnerable to a situation where bad actors have unwelcome and undue influence over those who are meant to be representing the British public?

At the moment, because we have a system founded on the assumption that those who we think are acceptable or permissible donors should be allowed to give as much as they like to whomever they like, we create a situation that is very vulnerable because we are then left policing the perimeter, just making sure that it is not the bad actors who are doing this. So long as money buys influence in British politics, the underlying situation is very vulnerable. That is why we advocate for some kind of cap on the amount of influence someone's money can get them, because at the moment there are some very large sums. The largest sum ever given by a living person to a British political party was donated last summer. The amount of money that is being spent is also much higher. At the last general election, it was approaching £100 million. There have been rules—in 2023, I think—that have relaxed those limits and therefore have been part of this developing situation. So there is a lot that we could do to protect our democratic process from being interfered with or corrupted in the first place, before you get on to the question of whether law enforcement or regulators are able to go after the bad actors after the event.

Lord Sedwill: Mr Keatinge and Ms Powell, do you want to pick up those points? Perhaps I may add a related point. This committee recently looked at the collapse of the China espionage cases: there is an example, not involving money particularly, although presumably these guys would have been paid, but of a foreign actor seeking to at least gain information. We do not know whether they were seeking to gain influence as well in British politics. It is not just money; there are other means by which a state actor in particular can operate. Can you pick up this target point? How do we get people to understand what the risks are and what the consequences might be for them if they cross the line?

Tom Keatinge: There is another actor in all this, and this might give a segue to Natasha. The money is being handled by the private sector, which has decades of expectation on it to know whose money it is handling for what end and all that sort of stuff. There is information in the private sector that can illuminate the challenge that we are talking about here. The problem is that the government authorities then need to be able to act on the information that is provided to them through suspicious activity reporting or whatever mechanism might exist. It is a cliché but there is a whole-of-society issue to think about here. The Electoral Commission needs to be empowered with the resources and capabilities it needs to deal with the way in which modern-day finance works. At the same time, the private sector, whether it is traditional finance or registered crypto exchanges in the UK, needs also to understand the threat that is out there and be attuned to what is needed to be reported and so on. We should clearly leverage the capability of the finance sector in this if our focus is on being concerned about where money is coming from, and what it is being used for. It is the same as if you were asking a bank to think about when it is talking about an organised crime group or a terrorist actor.

Dr Sam Power: The only thing I should add to Duncan's point on caps on donations is that, for some reason or a number of reasons, there seems to be some antipathy to caps on donations or upper limits on annual donations. Legislatively, you get people in a room talking about political finance and how to prevent foreign interference. That is what we are doing here. With the proposed limits on corporate donations, you end up tying it to tax and you get into some quite complex things, which I support. But the simple thing is to put a cap on donations. That limits and prevents a lot of what we are talking about when it comes to foreign interference. It is important, as the elections Bill is coming through and if we are serious about foreign interference, to find an acceptable level of where that cap on donations is. The reasons that we do not talk about caps on donations are well covered. It is to do with the need for state financing, perhaps, and to buttress further funds. Find the acceptable limit where you do not necessarily need state financing, if that is off the table, and that gets you over the hump of a lot of issues as it relates to foreign interference, because that is a quick fix in many ways.

Lord Sedwill: I wanted to ask Ms Powell a question and then we will need to move on. Is that still really true in the modern world, where presumably, using AI and distributed means of making donations, you could cap a donation but a sophisticated foreign actor might therefore be able to make 100 donations under a series of false flags?

Natasha Powell: Yes, absolutely, that technology exists. People are able to do micro donations through fiat and through crypto. What has evolved and will continue to evolve is the mechanisms by which we can detect that behaviour. A donation could be broken up and sent in tranches of, say, £100; it is nondescript but sent over multiple times through multiple intermediaries. Where crypto actually has an advantage is that the technology that supports it allows us to trace the origin of those funds through intermediaries and ultimately to the originator. Although we may not know the name of the originator, we can spot the behaviours. We can spot where there was a wallet that sent tranches of X figure to 100 other wallets, which then broke those up further and sent tranches of X to 100 other wallets. You will be able to detect that in the transaction monitoring that underpins the ultimate recipient's donation.

The Chair: Order, order. The sitting is now suspended for a few moments while Lords members need to go and vote.

Sitting suspended.

The Chair: Order, order. We return to our session hearing. Lord Sedwill, you were just completing your question.

Lord Sedwill: Yes. Ms Powell, perhaps you can just reprise a bit of what you were saying. You were helpfully explaining the risk of concealed and distributed donations, but also how tech may be able to track some of that.

Natasha Powell: Yes. I was advocating on behalf of the technology that underpins crypto, and its ability to detect and identify where there is malign or suspicious activity at play for the purposes of either political donations or any other funding purposes. Crypto is no different from any other asset class when it comes to making a payment. If you execute that payment outside of the regulated perimeter, there are risks involved. If you execute it within the regulated perimeter, those risks can be managed. It is the duty of the Government, our policymakers and our regulators to enforce those requirements.

Where it comes to the provenance, nature and structure of transactions, regulated players in this space will have technology at their hands which will allow them to not only detect provenance—where a payment has come from—but what has happened to that payment along its payments journey. Did it start off in an offshore account and was it then splintered into multiple miniature payments, which then landed in multiple wallets in the UK, which were then centred back into a single wallet which may or may not belong to or be associated with a political party? That tech is not NASA. It is not out of reach of UK regulated entities, and it is deployed and working every day as we speak. The mechanism to do so takes an expert eye, yes—a well-trained compliance or anti-financial crime professional—but it is achievable and deployable.

Lord Sedwill: I could pursue this, but others are going to. It is really interesting.

The Chair: We are going to come back to this in greater detail.

Q36 **Liam Byrne:** Sam Power, let me just pursue the point that you made a moment ago about how politics does not just happen at elections; crucially, it happens between elections, which is when the agendas for elections tend to be shaped. Is it therefore wise to try to judge political finance in and of itself without looking at media finance more generally? Some of the research that I will publish this year shows that a very small number of individuals have invested getting on for a couple of hundred million pounds into UK media systems. Some of that money trickles through into the bank accounts of politicians, declared in the proper way. You have also got social media companies using ad-share revenue to help leverage content created by some politicians in those media channels. Do we not need to look at the media-political complex and all the funding that is going through it to really understand what is going on?

Dr Sam Power: Certainly. There are elements of a narrow focus if you just look at political finance, but I much prefer to think about what the influence ecosystem is in a country. Again, political finance is actually quite a small part of that influence ecosystem. If you are investing smart money as a malign foreign actor, or just a malign actor more broadly, are you going to spend your money only on the political system, which is relatively, if not perfectly—if not even all that well—regulated? Well, no; you might think about the media. You might buy a football team. You might give money to a university. You might set up a think tank or fund an APPG. There are all manner of things that you might do in terms of lobbying which fall outside what we would understand as the regulated political finance system but are worthy of attention, especially when we are talking about malign foreign interference. It is a very small part of a bigger story, I agree.

Liam Byrne: Duncan Hames, what do you think about the need to point the focus at this influence ecosystem that Sam Power has just told us about?

Duncan Hames: I agree. I recognise the likely limited scope for the elections Bill, but that does not mean to say we should not look separately at some areas that might be outside the scope of that piece of legislation. Look at RT, for example, taken off British airwaves, as it were, following the full-scale invasion of Ukraine, but only after it had platformed the late Alex Salmond, with his own show, for its own editorial reasons. Certain media outlets have a way of funding political actors. Iranian Press TV used to pay appearance fees to British parliamentarians in a manner that other broadcasters would not, and cultivated some regular participants who said the things that it was keen to have said. So, yes, while we should look at how political parties are financed, we should not be naive and think that is the only way in which foreign interference reaches UK politics. Secondary employment, which I know the Commons Standards Committee is looking at, is a relevant vector here, as are all-party parliamentary groups.

The Chair: Order, order. I am afraid that we are going to have to suspend a second time, because it appears as though there is a vote.

Sitting suspended.

The Chair: Order, order. We return to our sitting following that vote/non-vote. Lord Sarfraz wanted to come in briefly and then perhaps ask a follow-up question.

Q37 **Lord Sarfraz:** I am going to go on to the next question, if that is okay. I want to back up a little. Why do people get so spooked when it comes to crypto? Is there any evidence that the risk of bad foreign state actors influencing politics is amplified in any way with crypto donations versus fiat or donations of any other kind?

Natasha Powell: I cannot speak to whether there is any evidence, but I can give you some insight into why I think people are spooked by crypto. What we are doing in the crypto industry is facilitating the movement of funds on an instantaneous basis, across borders, with minimal friction. This does not mean that appropriate guard-rails cannot be placed around the system to ensure that you understand who the actors are, what the purposes of transactions are, what the sources of funds are and what the sources of wealth are, just as you can do with any other traditional finance product. I think that the speed and boundaryless elements of crypto heighten the perception of risk in political donations involving crypto.

Lord Sarfraz: You have talked about provenance and the ability to track the various transactions and wallets throughout a particular crypto asset. Take a political party that decides to accept a donation from an individual or an organisation. If that payment is being made, has that happened? Has any exchange done that yet? Have you been asked to do that by any political party? Have you seen any patterns that would trigger that sort of provenance review?

Natasha Powell: As one of the requirements of being a money laundering-registered crypto asset exchange in the UK, we are required to monitor transactions that flow through our platforms for key money laundering risks. Those risks will standardly involve politically exposed persons, sanctions and adverse media, as well as people involved in crime and corruption in other ways.

Currently—we have done this for the past five years—we deploy, and continue to evolve and refine our deployment of, infrastructure that allows us to spot moneys being moved by PEPs and sanctioned or otherwise illegal activity players. So the answer to your question is yes: we are currently doing that and can currently do that.

Lord Sarfraz: You can currently do that; I want to probe you a bit more on that. Say Joe Public is making a political donation. Right now, would you be monitoring at all the source of the money in the crypto wallet of Joe Public? Has it come from an overseas source, for example?

Natasha Powell: I would do that for any transaction, regardless of whether it was a political donation or was for any other payment purpose. The technology that underpins the crypto exchange will identify the transaction, identify the key risk elements involved in that transaction and report them up through the compliance and governance framework that is provisioned by the exchange in question—akin to what happens in a traditional banking institution.

Lord Sarfraz: Are you satisfied by the Government's proposals for regulating cryptocurrencies, particularly to address the security concerns around anonymity?

Natasha Powell: The rules that preside over our ability to track and trace transactions that might be involved in money laundering, corruption, bribery, et cetera, have been in place for some time now. They are part of the money laundering regulations that underpin every financial institution. They were deployed by the Government for UK-registered crypto exchanges in 2019. The industry is hugely supportive of more regulation in this space because more regulation legitimises what we do. We want to deliver in line with the regulatory expectations so that conversations such as this one become less frequent and so that crypto is seen, just like fiat, as something that can be controlled and governed.

The new rules that are being introduced are looking to implement more robust governance, better operational resilience and greater levels of consumer protection in these institutions; all of those things will build on the integrity layer of these financial institutions. However, what they are not necessarily doing is changing the nature of our well-trodden path in deploying tech for financial crimes, sanctions, PEPs, adverse media, et cetera, because we are already doing those things and will continue to do them to the best of our ability. We will often do them in cutting-edge, technology market-leading ways and within a framework that makes the houses—the financial institutions—that do them fall squarely within that regulated perimeter.

On what we are doing in terms of political financing, if a party chooses to receive a political finance donation through crypto, we would advocate for a nominal and bring it into a regulated space. We will deploy the full force of the control environment that the UK regulators expect of us to oversee, monitor and protect that payment.

Lord Sarfraz: Does anyone else want to come in on that?

Duncan Hames: I could. This ties in with where Lord Sedwill's questions were heading earlier: how ready are regulators and law enforcement agencies to act on this kind of intelligence? Although we have heard about all sorts of types of illicit finance, in the case of election laws, you could have a totally honest businessperson who has earned their money honestly but is not permissible as a donor because they are not a UK national. They may be looking to fund a British political party, in contravention of our donation laws, but they would not otherwise be a person of interest to UK law enforcement. So there is a real question here about whether there would be an appropriate regulatory response to the kind of intelligence that you or traditional financial institutions might bring about the origins of funds coming into British politics.

We have seen that previously. There was a case, which was reported in *New York Times*, of a large donation through a politically well-connected person here in the UK, where Barclays bank raised concerns about the origin of the funds. At the end of the day, regulators here were not able to evidence the case that this was channelling someone else's money, even though said donor had received more than £1 million in a gift from a family member who was a non-permissible source of funds almost immediately prior to making this donation. So it is one thing to have the intelligence and it is another to have a system capable of acting on it before the horse has bolted.

Tom Keatinge: There is this discussion about whether we should ban crypto donations and this sort of thing, but I want to go back to two points that Natasha made: crypto is an accelerant and it operates seamlessly across borders. Until we are comfortable that we are able to deal with those two issues—maybe it is by making sure that the donations come through exchanges in the UK-regulated environment—there should be a moratorium on the use of crypto. We cannot truthfully say right now that we understand how to manage the risk related to crypto. We can potentially set up frameworks and so on, but I have yet to hear anybody who is advocating for the inclusion of crypto in political donations then say, "This is how we will manage the risk" in a way that addresses the two risks that Natasha mentioned.

If you are sitting in Moscow right now and you want to get money into the UK, you will not get it through the banking system because of the way sanctions work. You are much more likely to be able to get it from Moscow to London using crypto. Until we can be comfortable that we are managing both sides—traditional finance and crypto—the same way, then we should have a moratorium until we can articulate that we have the right controls in place to deal with the risks related to crypto.

The Chair: We will come on to this in a moment in a bit more depth.

Natasha Powell: But just to address that, whatever is possible in the traditional finance space is possible and will be targeted with more precision in the crypto space because of the technology that underpins it. On the statement that money coming in from Russia is more likely to come in through crypto, we can see it: we know where it is and we can stop it if we want to. If there are guard-rails around political donations that say, "Donations should be made only from UK individuals", crypto and crypto transaction monitoring—blockchain analytics—will allow us to cement that into code, so we can stop any transaction we do not want to accept that is from outside the UK or that has a genesis from outside the UK.

Q38 **Derek Twigg:** Just so I understand—it was interesting seeing the contrast of your views—what if a foreign state wanted to transfer money to an individual in this country who then, a year or six months later, donated it? Where is the check on that?

Natasha Powell: I can speak to that if it is through crypto. If the donation was made through crypto, from wallet A to wallet B, and the individual who owns wallet B wants to convert that into fiat—into GBP—they will have to do that through a crypto exchange that would exchange that for them. The question that I would be asking anyone who came to my exchange who wanted to convert a large crypto amount into GBP is: "Where did you get the cash from? Give me the evidence of where that has come from". I will ask that question, but I will also be able to see it on the blockchain. You will not be able to change or hide the fact that you have received a crypto donation from a wallet that is based in Russia, is owned by a Russian UBO or has a connection outside the UK.

Derek Twigg: So you are saying that, if individual A received donations 12 months previously from individual B somewhere else in the world, and then individual A decided to donate that to a political party some 12 months later, they would have to prove before they could do that where they got the money from.

Natasha Powell: There would be source of funds checks.

Derek Twigg: What regulation says they have to do that?

Natasha Powell: Money laundering regulations do. If you wanted to deposit a large chunk of cash into a crypto exchange—

Derek Twigg: I am not talking about an exchange; I am talking about transferring to an individual. If I wanted to donate to you, as a colleague, friend or whatever, an amount of cryptocurrency, that would be done properly. But, 12 months later, if I wanted to donate it to a political party, how would that be stopped? Are you saying that you still have to prove where it was from originally?

Natasha Powell: Yes, the mechanism by which you will cash out that crypto into spendable pounds requires you to tell me where your crypto came from.

Q39 **Lord Watts:** In a similar vein, if someone were to transfer crypto to a banking area that has no disclosure—a Swiss bank account, for example—and someone who had that account then transferred cash for that value into the UK, is there any way of detecting that? It seems to me very unlikely that you would be able to tell where that money had come from if it had come from a Swiss bank.

Natasha Powell: You could see that it came from a Swiss bank account, yes.

Tom Keatinge: This gets to the heart of the issue, which is that we have all got very focused on crypto being part of the last mile. We can take the model that Natasha is talking about and say that that has to come from a UK-registered exchange and we trust that; it is being monitored by the FCA and everything else. There is a whole load of other crypto stuff out there that obviously is not regulated by the UK, but the point you are making is that stuff goes on with crypto and then gets converted into cash. A ban on crypto donations would have absolutely no impact on that whatever. We come back to the point about whom the money is coming from originally and what their ambition is. The form that it travels in is, frankly, immaterial.

Natasha Powell: The form that it travels in is immaterial because that same nested transaction could have happened in fiat, goods or crypto.

Lord Watts: Is there no way of tracking that, whether it is crypto or normal currency?

Tom Keatinge: There is not, unless you ask the donor and say to them, "You have to declare where this has come from and where you got it".

Lord Watts: If money is coming from a Swiss bank account, how do you check that? If money comes from Russia to a Swiss bank account and is then transferred by an individual to the UK, whether it is cash or crypto you would not be able to tell, would you?

Natasha Powell: Well, you can see that it has come from a Swiss bank account.

Lord Watts: Yes, but you would not be able to tell that it has come from Russia.

Natasha Powell: No, but you can ask for the KYB.

The Chair: You could ask whose account it is.

Natasha Powell: Yes—you could ask for the genesis of the Swiss bank account and where the funds came from.

Lord Watts: Someone might have millions of pounds in a Swiss bank account.

Natasha Powell: Candidly, if a British financial institution is receiving a payment of millions of pounds from a Swiss bank account, the banking rails and the banking institution will ask what the source of funds is for that transaction. The transaction would be held up and questions would be asked.

Q40 **The Chair:** I have to move us on because we are getting very tight for time, but I have one brief final question for Ms Powell. In looking at the technical side of oversight of, say, crypto coming in, this would, I guess, fall to the Electoral Commission, working with other agencies. How difficult is it to track and trace the money coming in through crypto?

Natasha Powell: It is not difficult if you have well-trained people and good technology to do so.

The Chair: What sort of resource do you imagine you would need?

Natasha Powell: It is the same resource as you would need if you were tracing fiat. I do not imagine that the electoral office or local candidate's office have money laundering officers looking at fiat payments; they would not need to do so because they rely on the banking institutions to do that work for them. It is the same in relation to crypto. You would rely on the infrastructure that supports the crypto payments to be regulated to the extent that it must make sure that the transactions that go through it have been monitored appropriately, from a risk perspective.

Q41 **Mr Tanmanjeet Singh Dhesi:** Mr Keatinge, I will start with yourself, if I may. Along with my colleague Liam Byrne and some other parliamentary Select Committee chairs, I have written to the Prime Minister urging the Government to ban cryptocurrency political donations. Some stakeholders have called for a temporary ban until the new transparency rules come into force. In your opinion, would a ban be proportionate or unhelpful?

Tom Keatinge: I think that a ban risks missing the wood for the trees. I am one of the people who has argued very strongly for a moratorium until such time as we can reassure ourselves that the systems and processes that Natasha has been talking about are in place and are operating.

For example, everything that we have been talking about here has been predicated on the donation being received from an exchange that is regulated appropriately and is operating appropriately in the UK. However, there are other exchanges and other ways of moving crypto. There are over-the-counter brokers round the corner from here where you can go and exchange cash for crypto, no questions asked. There are lots of other options out there.

That is why, as I said in response to an earlier question, I think that a ban would give us a false sense of security. What we need is a moratorium until such time as we are sure that we have the right checks and balances in place to deal with the incremental risk that comes from the inclusion of cryptocurrency. We may ensure that exchanges are regulated in the UK, but there may be other issues that we should be thinking about.

So, with all due respect, every time I read in the *Guardian* that a letter has been submitted on this topic, I think, "Sure, but where does that get us?" Is that making the system more secure when, as we were just talking about, all sorts of stuff could be going on involving cryptocurrency? In the first 99 miles, it is only the last mile where we think, "We're protecting ourselves because we're banning donations by crypto". It is a much bigger risk that we need to get our arms around and understand.

Mr Tanmanjeet Singh Dhesi: So you want a moratorium now while we consider the way forward?

Tom Keatinge: Yes.

Mr Tanmanjeet Singh Dhesi: Ms Powell, what are your views with respect to a potential ban or a moratorium—or would you favour neither?

Natasha Powell: As a compliance officer, I believe that regulation helps us manage risk and bans displace it. If you say, "No crypto donations, they're illegal", people will go offshore and find different ways of doing them. They will keep happening; they will just do so under the radar. If you enable UK individuals to make political donations to UK political parties through UK-regulated institutions, you will create a safe and legitimate means of doing so.

Mr Tanmanjeet Singh Dhesi: In terms of regulations, let us take the US example. I believe, Mr Keatinge, that it was the 2024 RUSI paper that outlined that, in the US case, it was close to $800 million. There was simply no way for the campaigns—or, indeed, the Federal Election Commission—to tell where this combined sum originated from. So the US regulation does not seem to have worked. Would you not agree, Ms Powell?

Natasha Powell: In relation to crypto donations?

Mr Tanmanjeet Singh Dhesi: Yes.

Natasha Powell: I do not think that regulation in the US has ever evolved enough to make those statements. In Europe, and in the UK, we are further along the regulatory agenda in relation to oversight of crypto and crypto guard-rails than they are in the US.

It would take very little time to deploy a framework that allowed a legitimate public-private partnership to provide enough information on the provenance and sources of funds and wealth in relation to donations made on the blockchain; that could be shared, as necessary and as directed, between regulated exchanges and law enforcement agencies, local regulators and political parties. Obviously, do not deploy regulations and rules without testing them out and making sure that they will achieve the objective you are aiming for, but activating such a framework does not need to take a huge amount of time.

Mr Tanmanjeet Singh Dhesi: Also, if we look at regulation, there are ways to slice up donations. If they are below $200, that makes a difference.

We are also facing the problem—again, this was outlined in the 2024 RUSI paper that looked into this issue—of mixers. They randomly shuffle multiple deposits, including the likes of tornado cash, and obscure blockchain links; you talked about blockchain data earlier. They can also use a dark web system such as the onion route, which simply buys offline bitcoin wallets from owners for a cash premium. If there are so many different ways to obscure where payments are coming from, how are regulators going to be able to get on top of the issue?

Natasha Powell: There are different ways of doing it. One is setting out clear regulatory objectives. If you want to enable individuals to make safe donations to political parties, where we have full transparency, you set up a regime that is designed to do that. In doing so, you say that that regime does not include the use of privacy tokens, mixers, tumblers and other technology that can help obfuscate the source of funds. That is achievable. What blockchain analytics allow us to do is determine when they have been used; we may not be able to stop them being used, but we can spot them being used. If we can spot them being used, that payment moves outside our risk appetite and becomes reportable, so you can investigate it further if needed.

Mr Tanmanjeet Singh Dhesi: Mr Keatinge, is there a need for political donations to permit all available technologies?

Tom Keatinge: I do not follow.

Mr Tanmanjeet Singh Dhesi: Basically, is there a need for political donations to permit all available technology?

Tom Keatinge: The discussion risks missing form over substance. Ultimately, we want to know who is funding political parties and political campaigns in the UK.

Mr Tanmanjeet Singh Dhesi: Agreed.

Tom Keatinge: Whether they are funding through beans, cash or crypto, we need to be sure that the provenance of the money is appropriate.

Ultimately, that comes down to transparency. For example, as Natasha said, if the registered exchange that is managing crypto payments to a political party identifies that a payment in its history has involved privacy coins, mixers or tumblers—whatever it may be—that payment should be blocked because you cannot guarantee where that money came from originally. We need to think about what outcome we are trying to achieve; we then need to make sure that the different methods by which funds are being received meet the outcomes that we are aiming to achieve.

Natasha Powell: We can deploy controls to address any risks. On the risk of smaller donations being made and us not knowing where donations under £500 came from, we can tailor the control environment to make sure that we ask for the sources of funds for all political donations. If we consider political donations high-risk transactions, we can deploy a full and aggressive suite of control mechanisms to address those risks.

Q42 **Liam Byrne:** Duncan, let me come to you. It sounds as though what has just been sketched out is a fantastically expensive set of regulatory transaction costs for what are pretty unclear gains in permitting crypto donations. However, we have also established that political finance stretches much more widely than simply donations to political parties. It includes media fees, social media fees and personal donations.

In the United States, we have seen some politicians set up cryptocurrency companies and sell for example, meme coins. We have seen them sell shares so that they are not just cash-flowing influence but capitalising influence. Can you give us a sense of some of the other vulnerabilities that begin to creep into the system once you permit crypto in the political world?

Duncan Hames: It is certainly the case that we are seeing some innovations in routes to funding politicians. It is not all being spent on their political campaigns, either; in some countries, it is enriching the politicians and their fundraisers, who take a cut of it in the process.

The discussion we have had is about what is technically possible. There is a separate question as to what, in terms of the regulations that you as lawmakers require, is actually asked of this system. Unfortunately, one of our problems in political finance is that the rule-makers have an interest in how the system operates. I am not trying to be disparaging here, but there is a conflict of interest. We—and, frankly, if you look at opinion polling, much of the British public—have severe doubts as to whether this regulatory environment will protect the public interest or allow the maintenance of an arrangement which suits politicians, whose position is sustained by the ability to bring in funds from all sorts of directions.

At the end of the day, whatever mechanisms you have in place and whatever rules you have, all this conversation is about policing the perimeter. It is about saying that we need to stop certain people putting money in certain politicians' hands because we have some rules, but other people ought to be able to give as much as they like. We would not be losing sleep at night about who is giving money to which politician if the amounts were so small that they were incapable of buying undue influence, but instead we seem wedded to a situation where it is possible for these to be really influential amounts of money.

Liam Byrne: Sam Power, what is your observation about the other kinds of finance that we need to be taking aim at here to safeguard the system as it is?

Dr Sam Power: In terms of different types of political financing, as I have said, lots of parts of the influence ecosystem require attention. Regulated political finance is a small element of that, but we should not lose sight of the fact that it is an important element.

I was interested in the discussion we were just having. We talk about this £500 limit, for example, where anything under £500 is not a donation under electoral law, so nobody has to do any checks on it. The Electoral Commission would like people to do checks on that, but go figure: if you do not have to, why would you? Why is it £500? It could be smaller. Maybe there were various reasons in the past why it is £500. Why not consider making it £200? Why not £50, like it is for candidates?

There are a lot of options, which begin to dampen down. Then we can talk about different forms of cryptocurrency that are and are not acceptable. Then we can move into how well our lobbying regime holds up. What about second jobs? What about donations in kind? What about all these important and different elements of the influence ecosystem? But if we are thinking about political finance, there are some fixes which could go into the elections Bill, which should be the focus, that might address some of these issues.

Liam Byrne: Some of us have had experience of asking the National Crime Agency to investigate the ultimate sources of finance that have come into UK politics, and I think most of us involved in that work were fairly horrified at the NCA's lack of capability to look through some basic transactions. If the National Crime Agency cannot develop this capability, Duncan Hames, how confident are you that the Electoral Commission could quickly acquire the capability to start policing cryptocurrency donations?

Duncan Hames: My concern is that all the practice we have of trying to deal with illicit finance is oriented around concern for criminal activity, terrorist financing and people engaged in serious criminal activities. Yet the rules that we are trying to defend in protecting our democracy also include preventing foreign interference, which may be not from a state agency or a criminal gang but from an otherwise law-abiding person in another country who wishes to have influence over the practice of our democracy in the UK. None of the practices in countering illicit finance considers these people to be high-risk, because they are not involved in crime, terrorist financing or other illicit activity, but, none the less, we have a higher bar in protecting our democracy and making sure that it serves the interests of the British public, not those who happen to own major social media platforms, traditional media outlets or otherwise.

Liam Byrne: What is your specific confidence level in how quickly the Electoral Commission could acquire what sounds like a pretty sophisticated set of regulatory techniques and capabilities? Could it put it together quite quickly?

Duncan Hames: I think what has been proposed is that we rely on the financial institutions as the first line of defence in this regard. As I say, I do not think any of us thinks it is reasonable to expect the level of policing of illicit finance that we have in the rest of the system, which also struggles, sitting within the Electoral Commission, or it being able independently to mount these defences.

Natasha Powell: It is difficult, but it is new. We cannot not do things because they are too hard, difficult or expensive. There are opportunities for public-private partnership which would facilitate intelligence sharing and transaction investigation in a way that would certainly lighten the burden and demystify some of the risks associated with this. Expecting the Electoral Commission to be a Jack of all trades is unrealistic, but there are experts out there who can do this work with it.

Dr Sam Power: I have done work on precisely this with artificial intelligence adoption for electoral commissions, and the primary problem that they have, the UK Electoral Commission included, is the amount of expertise you need to put these artificial intelligence systems in place and to maintain them. I would draw that analogy here. You have great promises of certain types of cryptocurrency that might provide certain benefits, which Natasha has outlined well, but it is a big ask of the Electoral Commission to have the skills and to be constantly upskilling itself without significant resource.

What Natasha talks about is very similar to what we have suggested in the research on AI. There are a lot of good stakeholders interested in this—academics, people who work in the private sector, politicians and regulators—who all share areas of expertise. You cannot just expect an electoral regulator to do this, but if you engage a nexus of stakeholders, if you will, in these sorts of technologies, then you might be able to find ways to engage them well.

Liam Byrne: There is perhaps more confidence in state capability on the panel than on the committee.

The Chair: Edward Morello, do you want to come in any more on transparency?

Edward Morello: No, I feel like we have talked in depth about the various options—virtual asset service providers or FSA-registered ones. My takeaway so far is that it is going to be extremely difficult to build an ecosystem robust enough not to be circumnavigated by some of the things that Tan has outlined.

Q43 **Lord Watts:** Can I just ask about oversight? Who should be given responsibility for oversight, especially for foreign donations? Is it the Electoral Commission, the National Crime Agency or the Metropolitan Police? Should there be a co-ordinating unit that brings all those bodies together? If so, do we need to involve HMRC? If we are going to do that, should the political parties not be asked to do more scrutinising of where those resources are coming from? Should treasurers—I apologise to some of our colleagues—not be accountable and have responsibility for making sure that the money they receive has come from a permitted place?

Dr Sam Power: People on the panel started looking at me, so perhaps that one has been passed on to me.

Essentially, there are regulatory ecosystems in almost every country in the world. In the UK, we are comfortable with a multi-agency approach to regulating elections. We have that at the moment: Ofcom; the Advertising Standards Authority; there are lots of elements to this. The problem that there has been, and I hope that this will be addressed in the elections Bill, is one of data sharing. The Electoral Commission and other regulators have been hamstrung by the extent to which they can co-ordinate and co-operate with each other to address these things. On who should have the power over what, maybe I am just unoriginal, but it becomes quite clear: if it is foreign donations, that is for the Electoral Commission; if it is to do with fraud, that is for the Serious Fraud Office. People are pretty clear about their purview but that is not the problem. The sharing of the information is the problem, and the engaging.

In terms of political parties, you can ask a number of treasurers that have come a cropper before, but they are regulated in some way, as is the case for election agents. We can go back to the example of micro donations, which was one of the panel's questions. Currently, as far as I understand electoral law, the onus is on the donor—right? It is a breach of electoral law for a donor knowingly to keep micro-donating underneath the £500 threshold for a donation in such a way in which they are trying to conceal the donation.

There is nothing, as far as I am aware, in electoral law where the onus is on the political party to do anything that the Electoral Commission would like it to do. That is as far as I understand it. The Electoral Commission would like political parties to be live to the possibility that people are doing this because this is illegal. But where is the incentive for a political party to do that if it is making money? There is a good case to at least bring political parties back in and say "There is some onus on you and, hopefully, your donor checks will go some way to doing this. There is some onus on you to assess whether this is happening". We do have this in electoral law. We have purpose tests. We have the idea that something can be reasonably understood to be this way. Thereby, it would not be just two £400 donations, one in January and the other in December, but multiple donations that you are not checking.

The final thing you might do is standardise accounting returns so that it is blindingly obvious where and how this money is broken down. Currently, political parties can report their accounts in any way that they want. If you broke it down such that they had to clearly account for exactly where the money was coming from, perhaps it would be a bit easier to see where the potential non-checking risk was.

Lord Watts: To get over the data protection thing, would it not be a good idea to have one multi-disciplined unit with which to be able to look at all aspects of these things, rather than do it separately?

Dr Sam Power: My problem with that is that you lose. What are you actually doing? You are creating a huge Zeppelin organisation that is the Serious Fraud Office, the Electoral Commission, the Ethics and Integrity Commission, Ofcom and the Advertising Standards Authority. Sure, you can data-share but who is doing what and when? It gets incredibly complex. You lose institutional expertise. My position would be, especially since it is in the elections Bill, if you get the data-sharing aspect of it right, you keep the best of the slightly devolved system without needing to completely reorganise, centralise everything and perhaps throw the baby out with the bathwater, as it were.

Lord Tunnicliffe: Not on this subject, but is it reasonable for us to ask the witnesses, where they feel we might not have been entirely clear, to voluntarily submit further evidence?

The Chair: I am sure that the witnesses would be delighted to submit further evidence, as required, but we may want to give them a steer as well.

Lord Tunnicliffe: I have a lot of scenarios messed up in my mind.

Q44 **Lord Sarfraz:** A final question. Natasha, should we think about different types of cryptocurrency differently? Should we think about stablecoins differently from the way in which we think of Bitcoin or whatever? Should we think about them all the same?

Natasha Powell: No. Not all cryptocurrencies are created or made equally. There are different coins and tokens for different purposes. Your comments around tokenised equity, meme coins and so on speak to that. For the purposes of a payment donation, stablecoins or any of the other major cryptocurrencies should be treated similarly. Outside that, you may want to have risk parameters or express prohibitions as regards appropriateness on use of certain coins for political donations.

Lord Sarfraz: By major, you mean a certain market cap?

Natasha Powell: Yes, exactly—size, stability and resilience.

Q45 **The Chair:** Thank you. I have just a few points, but they are not for now because we are at time and appreciate that we have probably stretched your understanding through two votes this afternoon. There were just a couple of things that we did not get to, perhaps. One was around business donations and to what extent they should be legitimate, whether they be from a foreign business or UK incorporated or unincorporated businesses. Another point is about UK nationals living abroad and to what extent there should be any regulation or control over those who perhaps have not lived in the country for 30 years, have no intention of living here and may not pay tax here. Are there any thoughts on that? As I say, those questions are not for now, but perhaps we could put that in writing as well. Another point we did not get to was whether, on receipt of a crypto donation, there should be a time window within which that has to be turned into hard currency. Again, perhaps I could put that to you in writing, Ms Powell, to respond to.

A final question is something that someone threw at me and I had no idea of the answer. If someone receives a significant windfall of many millions of pounds from the currency fluctuation in crypto, say with Bitcoin, can that fluctuation driven by market forces be at play from certain external state actors to try and drive the price up or down? Can you answer that now?

Natasha Powell: I can try to. Crypto, as we have discussed, is a form of payment. It is also a form of investment. So, much like any stock or share there is a value attached to that, which will rise and fall in line with market expectations. It would take a huge amount of influence to change the price of a major cryptocurrency or stablecoin, making it hugely unlikely. If it was a smaller-cap coin, could market events change the price or value of that token? Sure, in the same way in which they could for any stock on the stock market.

Tom Keatinge: I should add one other risk in all this: political decisions in other countries. It is not without reason that the crypto market performed in the way it did following the US election in November 2024. That kind of influence could also be brought to bear. It does not need to be somebody cornering the market and pumping up the price.

The Chair: Thank you. We will be writing to you with some further questions. It has been a helpful, interesting and stimulating session. Thank you indeed for your contributions and patience this afternoon in enduring those two votes that interrupted us. That concludes our session today. Thank you again for your time. Order, order.