Briefing: The importance of reforming anti-money laundering supervision of the legal sector through the Financial Services and Markets Bill

Background
In October 2025, the UK government committed to consolidating anti-money laundering (AML) supervision of the professional services by transferring these responsibilities from 22 different Professional Body Supervisors in the legal and accountancy sectors to the Financial Conduct Authority (FCA). The Financial Services and Markets Bill, currently before Parliament, would pave the way for these reforms. Despite strong lobbying from the legal sector against the reforms, it is crucial that the government press ahead with its plans to deliver more consistent and effective AML supervision.

A. Why exempting the legal sector from AML supervisory reform would seriously damage the UK's credibility on illicit finance

1. HM Treasury's National Risk Assessment 2025 rated the legal sector as high risk for money laundering. It found that the legal sector is the second most likely sector to be involved in sanctions breaches, after the financial sector. It also found that there has been no change to the vulnerabilities in the sector since 2020 – which include misuse of trust and company services, conveyancing and client accounts – due to "*weaknesses in supervision*".

2. The main rationale for consolidating the UK's 22 different professional body supervisors (which include 9 legal sector supervisors) is to ensure stronger and more consistent anti-money laundering supervision. Exempting the legal sector would be deeply damaging to meeting the government's goals for AML supervisory reform, where consolidation has been determined as the best way to achieve more effective supervision.

3. The UK faces an evaluation in 2027 by the global anti-money laundering watchdog – the Financial Action Task Force (FATF) – where the UK currently holds the presidency. A negative review by the FATF would be very damaging to the UK, with an exemption for the legal sector from AML supervisory reform likely to be seen as a serious rollback on the government's commitment to raising standards in this area. Weak AML supervision of the professional services was a major concern in FATF's 2018 review of the UK. Recent reviews by the body (for instance Canada in 2026) have been particularly critical of AML frameworks that offer carve-outs or special treatment for the legal sector.

4. Reforming the UK's AML supervisory framework to achieve more effective supervision was a key commitment in both the government's 2026 Anti-Money Laundering and Asset Recovery Strategy and its 2025 Anti-Corruption Strategy. Both strategies highlighted that the reform would deliver *"consistent standards, strengthen enforcement, and … more risk-based and proportionate decisions."*

B. Legal sector regulators lack the appetite and powers to enforce AML rules as robustly as the Financial Conduct Authority (FCA)

5. Legal sector regulators do not have criminal enforcement powers like the FCA, while the powers they do have vary widely. For example, while the Solicitors Regulation Authority (SRA) can now impose unlimited fines, the maximum fine that can be imposed on solicitors in Northern Ireland is £3,000.

6. The FCA would be able to impose larger and more deterrent fines particularly on large city law firms than the SRA, where there are egregious breaches. Under the SRA's fining framework, AML fines can only be imposed up to a maximum of 5% of firm turnover while the FCA routinely levies anti-money laundering (AML) fines of 15% **of "relevant revenue" and can increase this to 20% in especially serious cases.**

7. The SRA is currently facing intense scrutiny over wider regulatory failures, culminating in a recent formal public censure by the Legal Services Board for "systemic failures". A damning independent review recently found ineffective use of intelligence across the SRA and a failure to investigate complex financial risks.

8. Recent AML cases against big law firms have exposed significant regulatory gaps for solicitors. A recent Court of Appeal decision found that a law firm's breach of the UK's Money Laundering Regulations (MLRs) will not automatically amount to professional misconduct under the SRA's Principles, unless sufficiently serious. This has left real uncertainties about SRA enforcement against anti-money laundering breaches.

9. The SRA's enforcement meanwhile has been heavily focused on small high-street firms, with 86% of AML enforcement actions in 2024/25 against firms with fewer than 20 fee earners. It has struggled to land cases against big firms in contested cases – with a string of losses over the last two years in its most high-profile cases against London firms. It is likely that the FCA, with its more robust regulatory approach, will more likely be able to land AML fines against large commercial law firms than the SRA has been able to.

10. The Council for Licensed Conveyancers (CLC) has struggled to make a dent in non-compliance in the conveyancing sector. This sector is particularly high risk, with the NCA estimating that £10 billion of dirty money is laundered through UK property each year. As the National Risk Assessment highlights, non-compliance with the MLRs actually rose from 48% of firms reviewed in 2021/22 to 66% in 2023/34. In 2025/26, less than 5% of firms inspected by the CLC were fully compliant. The CLC has consistently preferred informal actions (such as a written warning or advice) over formal actions (such as fines or revoking a license to practice). Over the past two years it took informal

actions in over 80% of its responses to non-compliance, and imposed just two fines worth £4,500 in 2025/26.

11. In 2026, seven years after its creation, the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) found "*continued failures*" across legal and accountancy sector supervisors which it said "*call into question the consistency and effectiveness of AML supervision*".

C. Legal sector professional bodies have consistently sought weaker regulatory implementation of AML rules and economic crime, while the UK financial sector has sought parity

12. Despite the fact that other regulated firms face the prospect of unlimited fines for anti-money laundering failures, the Law Society lobbied against the increase of the SRA's fines from £2,000 to £25,000 in 2022, and then against the introduction of unlimited fining powers for the SRA during the passage of the Economic Crime and Corporate Transparency Act 2023 (ECCTA).

13. Three years on from the ECCTA coming into force, the SRA has only just been able to introduce the power to impose unlimited fines in economic crime cases in October 2026. This delay is largely due to opposition from the Law Society, and other legal sector trade bodies. The exercise of this new power is likely to face constant challenge and appeal, with some legal experts questioning whether the SRA will in fact be able to impose unlimited fines on firms for breaches under the Money Laundering Regulations.

14. Despite the legal sector lobbying during ECCTA, the last government decided to proceed with stronger regulation for the legal sector on economic crime anyway. The legal sector's lobbying was particularly criticised by Lord Ken Clarke during the final debates of the Bill.

15. Exempting the legal sector from AML supervisory reform would likely lead to even greater pressure from the profession on both legal sector regulators and the government to adopt further carve-outs for the legal sector from AML rules, and prevent robust regulatory action by the SRA.

16. UK Finance welcomed the government's decision to consolidate professional-services AML supervision within the FCA. They have consistently argued that the legal sector imports risk into the financial system in the UK, leaving the financial sector to carry an unfair share of the responsibility for due diligence.

D. How AML reform needs to address legal professional privilege

17. While legal professional privilege is a fundamental right belonging to a client, legal sector regulators must be able to look behind privilege to properly regulate lawyers and uphold the high ethical standards needed to maintain public trust in the legal profession. Without inspecting privileged material, the regulator is left with a very superficial account of what a law firm knew when assessing risks and of the adequacy of their due diligence.

18. Until a recent court challenge brought by Carter-Ruck, the SRA – and indeed many in the legal profession itself – had long assumed it had power to compel the production of privileged material when investigating professional misconduct and has relied on this power in many AML cases. The High Court has however ruled that the SRA does not currently have these powers, while observing that the question of whether the regulator should have these powers is "*ultimately, a matter for Parliament*".

19. This ruling has already caused massive disruption to the SRA's work – not just on AML – and risks leaving the regulator little more than a paper tiger. As the SRA itself has argued, if it cannot "*consider … [privileged] material, there is a risk that serious wrongdoing on the part of solicitors may be occluded from regulatory oversight*".

20. Parliament needs to urgently and expressly set out the investigative powers of legal sector regulators in relation to legal professional privilege to address this. While it is essential that the SRA's powers be placed on a clear statutory footing, AML supervisory reforms mean that Parliament also needs to grasp the nettle of legal privilege in relation to the FCA's role as AML supervisor of the legal sector. It is essential that the SRA be empowered to share privileged material with the FCA where serious failings and potential breaches of the MLR are exposed.

E. Why the FCA should take over AML supervision in the devolved nations.

21. A key point of contention has been whether the FCA should take over AML regulation for lawyers in devolved jurisdictions. The Law Society of Scotland (LSS) has been particularly vocal in opposing the move.

22. Scottish legal practices are exposed to high money laundering risks – including risks around Chinese underground banking and property. In 2023/24, 82% of residential conveyancing files reviewed by the LSS were assessed as 'critically non-compliant' or 'non-compliant', and every single trust and company service provision file was assessed as 'non-compliant', with 75% of these 'critically non-compliant'. In its latest AML report for 2025/26, the LSS found that nearly half (47%) of firms assessed were not fully compliant with the MLRs, however it issued just 3 fines worth a combined total of just £2,000.

23. The LSS has just seven staff dedicated to tackling AML. This is less than the Law Society of Northern Ireland which has nine staff, despite the fact the LSS has a larger and more high risk membership than Northern Ireland.

24. The Law Society in Northern Ireland has also failed to take robust enforcement action against AML breaches. While the Solicitors Disciplinary Tribunal in Northern Ireland can only impose fines up to £3,000, it seldom gets near this limit. For example, a solicitor in Northern Ireland was fined a mere £2,000 in April 2024 after multiple and serious breaches of AML obligations – and this is one of its biggest ever fines.

25. The FCA has a strong presence in Scotland. It had a staff of 350 in Edinburgh by the end of 2025 – a 250% increase since 2020 – and plans to increase staff across its Edinburgh and Leeds offices to over 1000 by 2030.