Briefing: Strengthening the UK's defence against dirty money through the Financial Services and Markets Bill 2026

The Financial Services and Markets Bill provides **a crucial step towards upgrading the UK's Anti-Money Laundering (AML) (AML) regime,** particularly for legal, accountancy and company formation services.

In October 2025, the government committed to **ending the current "*complex and disjointed*" AML regime which included 23 different supervisors for professional services**, by transferring AML supervision from these bodies to the Financial Conduct Authority (FCA).[1]

This reform is crucial to the UK's **international credibility**. In 2027, the global anti-money laundering watchdog the Financial Action Task Force (FATF) will review the UK's track record on money laundering. In 2018, in its last review it strongly criticised the UK's fragmented AML regime and called on the UK to introduce "*major improvements*".

The body set up to improve supervision, the Office of Professional Body Anti-Money Laundering Supervisors (OPBAS), found in 2026 that after seven years of efforts to improve performance by the professional body supervisors, **there were "*continued failures*" which "*call into question the consistency and effectiveness of AML supervision.*"**[2]

This briefing welcomes the government's reforms and strongly recommends it enhances their effectiveness by:

- **Ensuring investigative powers for effective regulation of the legal profession**
- **Securing resourcing for the FCA to be able to fulfil its new role as a super-regulator, and for wider efforts to tackle dirty money**
- **Ensuring reforms to the Senior Manager & Certification Regime (SM&CR) lead to robust senior executive accountability for financial crime and money laundering breaches.**

1. Ensuring investigative powers for effective regulation of the legal sector

1.1. The government's National Risk Assessment of Money Laundering and Terrorist Financing 2025 (NRA) (NRA) confirmed that alongside accountants and trust and company service providers, the legal sector poses a high risk of money-laundering.[3] The NRA found that criminals are attracted to "*the veneer of legitimacy legal professionals can offer due to perceptions of the sector's integrity.*"

1.2 During 2026, a major regulatory gap for the legal sector has emerged that could pose significant obstacles to effective AML supervision for lawyers, as well as for compliance with professional principles more broadly. Following a challenge by law firm Carter-Ruck, the High Court has ruled that the Solicitors Regulation Authority (SRA) may not inspect

[1] HM Treasury, Consultation outcome: Reform of the Anti-Money Laundering and Counter-Terrorism Financing Supervision Regime: Consultation Response, October 2025

[2] Financial Conduct Authority and Office of Professional Body Supervisors, *Multi-PBS review: Multi-PBS project on TCSP risk*, March 2023

[3] Home Office and HM Treasury, *National Risk Assessment of Money Laundering and Terrorist Financing 2025*, July 2025

privileged material when exercising its power to require a law firm or solicitor to provide information or produce documents for purposes of investigating professional misconduct.[4] The SRA and its predecessor and its predecessor had routinely used that power to inspect privileged material during investigations since 1974 when it was introduced, without challenge.

1.3. This ruling has significant ramifications for the SRA's powers to investigate wrongdoing by lawyers, including money laundering failures. Without parliamentary intervention, it risks rendering the inner workings of law firms a black box and the regulator a paper tiger. The High Court ruled that it was for Parliament to now decide whether the SRA should have that power.

1.4. The government has said that the FCA, in taking over responsibility for supervising AML compliance by the legal sector, "*will not be able to compel disclosure of legally privileged material under new responsibilities.*"[5] It is therefore critical that Parliament puts the SRA's power to do so into statute, and that there are gateways for the SRA to share relevant material about money laundering breaches and misconduct with the FCA. Without this, there is a high risk that scrutiny of the legal sector's adherence to money laundering rules will be reduced to superficial analysis of tick-box compliance.

Recommendation 1: The FSMB should:

- Expressly empower the SRA to request the production of privileged material where it considers this necessary for investigating professional misconduct by a solicitor or law firm.
- Empower the SRA to share relevant privileged material with the FCA where it considers this necessary for purposes of investigating AML breaches by a solicitor or law firm.

2. Properly resourcing the FCA and wider law enforcement to tackle dirty money

2.1 The FCA can impose large fines on companies that breach AML regulations and criminally prosecute companies that engage in financial crime related wrongdoing. Over the last decade it secured over £1.1 billion in regulatory and criminal fines according to research by Spotlight on Corruption.

2.2 The FCA must remit all its fines to the Treasury's Consolidated Fund. However, the FCA is able to deduct its enforcement costs which it must then use to rebate its regulated firms.[6] These rebates are significant, amounting to £72.8 m to regulated firms in 2026/27,[7] and £70m the year before.[8]

2.3 The FCA's new role will require it to expend significant resources on recruiting and retaining staff with specific expertise in supervising the legal, accountancy and corporate service provider sectors. FCA modelling estimates that it will need to raise £35 million a year

[4] Spotlight on Corruption, High Court ruling exposes major gap in powers to investigate misconduct by lawyers, September 2026
[5] House of Lords, Financial Services and Markets Bill - Volume 857: debated on Wednesday 24 June 2026
[6] Financial Conduct Authority, Financial Penalty Scheme, April 2025
[7] Financial Conduct Authority, *Consultation Paper CP26/11**: FCA regulated fees and levies: rates proposals for 2026/27*, March 2026, p.10
[8] Financial Conduct Authority, *Consultation Paper CP25/7**: FCA regulated fees and levies: rates proposals for 2025/26*, April 2025

through charging fees on its newly supervised firms, and that this could increase if "*technological efficiencies are not realised*".[9]

2.4 While fees will be the primary way in which the FCA is resourced for AML supervision, it should also be empowered to retain fines to offset certain costs, without having to rebate them to firms. This would enable it to invest in technology, expertise and capacity. Given that all regulated firms benefit from the UK financial system being regulated in a fair and robust way that prevents misconduct and financial crime, there is a strong case for doing reinvestment over rebate.[10]

2.5 Other regulators such as the Competition and Markets Authority (CMA)[11], OFCOM[12], and the Information Commissioner's Office[13] (ICO) are permitted to retain fines to offset certain costs. The CMA can offset 100% of its litigation costs using its penalty income;[14] the ICO can retain a portion of civil penalties up to a cap of £7.5m a year for litigation costs; and Ofcom can retain sums including those received from financial penalties.[15]

The need for an Economic Crime Fighting Fund to ensure sustainable reinvestment in enforcement

2.6 The FCA cannot tackle dirty money on its own, and needs a properly resourced landscape of other bodies with which to work. This is particularly the case with criminal accountability for money laundering.

2.7 The government has recognised in its Anti-Money Laundering and Asset Recovery strategy that there are ongoing issues with pursuing money laundering prosecutions, particularly complex ones involving companies and directors.[16] These are cases that can take significant resource, and a considerable amount of time. Without proper focus and resourcing, there is unlikely to be meaningful appetite from law enforcement to take them on.

2.8 The introduction of the Economic Crime Levy (ECL) - a levy on private sector firms regulated for money laundering - has provided a very welcome funding boost for law enforcement and prosecutorial bodies. However it has also created additional complexities as an external funding stream, and is still not enough to tackle the scale of the problem.

2.9 To ensure there is continuing private sector buy-in for the Levy and to boost resourcing particularly to tackle complex money laundering and rising threats of financial crime, the government should establish an Economic Crime Fighting Fund. This would be a vehicle for reinvesting a greater portion of enforcement receipts back into law enforcement agencies, pooling funding streams to lower administrative costs of external grants, as well as ensuring victims are adequately compensated. Increased investment in enforcement is increasingly showing increased returns particularly in the form of stronger asset recovery which increased by 20% in 2025-26 on the previous year.

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[9] HM Treasury, *Final Overarching Impact Assessment for the Bill as introduced in the House of Lords*, May 2026, p.479

[10] Financial Conduct Authority, *Consultation Paper CP18/10 *: FCA regulated fees and levies: Rates proposals 2018/19*, April 2018, p.35

[11] Competition & Markets Authority, Annual Report and Accounts 2025 to 2026, July 2026

[12] OFCOM, The Office of Communications Section 400 Licence Fees and Penalties Accounts 2024-2025, July 2025

[13] Information Commissioner's Office: *Information Commissioner's Annual Report and Financial Statements 2024/25*, July 2025

[14] Competition & Markets Authority, *Annual Report and Accounts 2025 to 2026*

[15] OFCOM, *The Office of Communications Section 400 Licence Fees and Penalties Accounts 2024-2025*

[16] UK Government, *Anti-money laundering and asset recovery strategy 2026–2029*, September 2026

Recommendation 2: The FSMB should be amended to enable the FCA to retain a proportion of the fines for enforcement and litigation, and to remove the requirement to rebate firms it regulates rather than reinvesting these costs in enforcement.

Recommendation 3: The FSMB should be amended to require the Treasury to assess the viability and potential merits of establishing an economic crime fighting fund, based on receipts from economic crime enforcement including AML fines imposed by the FCA.

3. Ensuring the Senior Manager & Certification Regime (SM&CR) is used to hold senior executives to account for financial crime and money laundering, and for responsible AI adoption

3.1 The SM&CR, established after the 2008 financial crisis, is a crucial tool for holding senior managers to account for corporate conduct, and compliance with financial crime and money laundering rules. Its primary intentions are to reduce high-risk taking that might undermine the integrity of the market and cause harm. An official evaluation in 2023 found it had ensured senior managers were taking more responsibility, with 95% of firms surveyed saying the regime had had a positive impact on individual behaviour.[17]

3.2 Clauses 31 to 36 of the FSMB remove key parts of the Senior Managers and Certification Regime (SM&CR) from legislation, empowering the FCA to remake the regime via regulations. The government has said it would like the FCA to reduce the "burden" of the SM&CR by 50%. While some of the incoming changes to the SM&CR are relatively minor and sensible, others are significant.[18] Some white collar crime experts have questioned whether there are risks these reforms may lead to the regulator "*pursuing economic growth at the expense of its broader regulatory objectives.*"[19]

3.3. While streamlining the regime, it is critical that new risks of financial crime are not created, and that the SM&CR is robustly enforced. This is particularly important as the SM&CR acts as the primary regulatory route for holding financial firms to account for their adoption and implementation of Artificial Intelligence (AI). To date rates of enforcement under the SM&CR particularly for financial crime have been low.[20]

3.4 The Treasury Committee,[21] the FCA itself[22], and the EU[23] have noted the use of AI in financial services poses significant risks to consumers and financial stability with increasing evidence that consumer fraud is being turbocharged by AI. At the same time, AI adoption is leading to significant job reduction in the financial sector, including in financial crime compliance teams.[24]

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[17] Bank of England, DP1/23 – Review of the Senior Managers and Certification Regime (SM&CR), March 2023

[18] *Changes include the removal of the certification regime entirely (to be replaced by new rules); a reduction in the number of senior managers that require regulatory approval; and streamlining current conduct rules while scrapping the requirement for firms to notify the regulator when these rules are breached.*

[19] Kingsley Napley, SMCR Reform in 2026: Key Changes and What Lies Ahead, May 2026

[20] Consultancy.UK, FCA failing to apply powers for sanctioning misconduct under SMCR, June 2023; Financial Conduct Authority, Information on investigations into breaches under SM&CR - November 2024

[21] Treasury Committee, *Artificial intelligence in financial services*, January 2026

[22] Financial Conduct Authority, Review into the long-term impact of AI on retail financial services (The Mills Review), July 2026

[23] European Banking Authority, *The AI Act: Implications for the EU Banking and Payments Sector*, November 2025

[24] Meta Intro, Standard Chartered to Cut Thousands of Jobs in 2026 AI Push, May 2026

Recommendation 4: The FSMB should be amended to require the PRA and FCA to report annually to the Treasury Select Committee annually on a) what the impact of the reduction in the scope of the SM&CR has had on financial crime, consumer protection and market integrity; and b) the number of investigations and enforcement actions they have taken under the SM&CR to ensure accountability of senior managers for money laundering and financial crime, and for responsible AI adoption.

Recommendation 5: The FSMB should be amended to require the PRA and FCA to work with a wide range of stakeholders including public interest groups to develop principles and guidance on how they will use the SM&CR to encourage responsible AI adoption and how the regime will be used to ensure accountability for potential harms resulting from increased AI use including greenwashing, discrimination, and financial crime.

Recommendation 6: The FSMB should be amended to require the PRA and FCA to consult on expanding the SM&CR to a broader range of regulated bodies, including those regulated for Anti-Money Laundering.