

Anti-
Money Laundering/Counter
Terrorist-Financing
(AML/CTF) Supervision
Reform: Duties, Powers, and
Accountability Consultation
Response

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Counter Terrorist-
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(AML/CTF) Supervision
Reform: Duties, Powers,
and Accountability
Consultation Response



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Ministerial Foreword

1.1 Effective AML/CTF supervision of professional services firms is central to the UK's efforts to combat money laundering and terrorist financing. Reforming the supervisory regime is therefore not solely about institutional change, but about ensuring that supervisors are equipped with the right tools, clear responsibilities and appropriate safeguards to deliver consistent, proportionate and risk-based oversight.

1.2 The Financial Conduct Authority's expanded role will be critical to achieving this. To succeed, it must be able to support firms in meeting their obligations, identify and respond to risks as they emerge, and take timely and proportionate action where standards fall short. At the same time, it is essential that this framework provides clarity and certainty to firms, and operates in a way that is proportionate to the diverse nature of the sectors it oversees.

1.3 Following our decision to make the FCA the AML/CTF supervisor for legal and accountancy service providers and trust and company service providers, this response sets out the Government's position on the proposed powers that would make the FCA an effective AML/CTF supervisor across the full supervisory framework. Throughout the process, the Government's approach has been to build on existing powers where they are sufficient, to introduce targeted improvements where necessary, while aiming to ensure that any new powers are proportionate and do not create extra burdens on firms.

1.4 I am grateful to all those who engaged with the consultation and provided detailed, constructive evidence. Your contributions have played a vital role in shaping the Government's approach, helping to ensure that the powers and safeguards we are introducing are both effective and proportionate, minimise burdens on firms of all sizes, and support strong cooperation between regulators and other AML/CTF supervisors both during the transition and beyond. Responses also highlighted areas where proposals could be strengthened or refined, to ensure that the new supervisory model works effectively in practice.

1.5 The Government is committed to delivering a system that protects the integrity of the UK's professional services sectors while supporting growth and maintaining confidence among firms, consumers and international partners.



Rachel Blake MP

Chapter 2: Executive summary and policy statement

Background

2.1 Following the decision to make the FCA the AML/CTF supervisor for legal and accountancy service providers and trust and company service providers, as announced in October 2025, a consultation was published which sought views on the supervisory framework required to support the FCA in its expanded role. This consultation focused on whether the existing powers available under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) and other legislative frameworks are sufficient, and where targeted amendments may be necessary to ensure effective, proportionate and risk-based supervision.

2.2 The consultation covered the full spectrum of AML/CTF supervisory issues, including registration and gatekeeping, risk-based supervision, guidance, information-gathering and intelligence-sharing, enforcement, appeals, fees and funding, transition arrangements, and accountability. In most areas, the consultation proposed extending or adapting existing supervisory powers, rather than creating new obligations for firms.

2.3 This response summarises the evidence and views provided by stakeholders, including regulated firms, Professional Body Supervisors (PBSs), public authorities and civil society organisations, and sets out the Government's position on the appropriate supervisory powers and safeguards. It explains how the Government intends to proceed in each area, including where legislative changes will be taken forward, where existing provisions are considered sufficient, and where further work will be required as part of implementation.

2.4 Throughout this process, the Government's objective remains to deliver a supervisory framework that supports effective prevention of money laundering and terrorist financing, while maintaining proportionality, minimising unnecessary burdens on legitimate businesses, and ensuring appropriate accountability and rights of appeal.

Policy decisions on proposals

Registration and gatekeeping

We will make the FCA responsible for registering professional services firms carrying out AML/CTF-regulated activity and for maintaining a public register of those firms, providing a single, authoritative source to confirm which firms are legally permitted to undertake in-scope activity, supporting transparency for consumers and law enforcement, and helping to identify firms carrying out regulated activity without appropriate supervision. All AML/CTF Supervisors will be given an explicit power to cancel a firm's registration where it is no longer carrying out regulated activity, operating as an administrative function subject to appropriate safeguards.

The application of regulation 58 "fit and proper" requirements, enabling supervisors to assess the integrity, competence and compliance history of firms and their beneficial owners, officers and managers, will be extended across legal and accountancy service providers, aligning these sectors with trust and company service providers, which are already within scope, supporting a more consistent and risk-based approach to gatekeeping.

Risk-based supervision and supervisory tools

Existing duties relating to risk-based supervision would apply to the FCA's expanded remit, including the extension of regulations 17 and 46, which requires supervisors to identify and assess money laundering and terrorist financing risks, develop and maintain risk profiles, and apply a risk-based approach to monitoring firms' compliance with the MLRs. The FCA would be able to deploy a range of supervisory tools, including information requests, inspections and thematic engagement, to support early and proportionate intervention where risks are identified.

In addition, the FCA will be equipped with additional supervisory tools, including the power to appoint a skilled person and the power to issue directions to firms, subject to appropriate statutory safeguards to ensure their proportionate use. These powers would also be applied consistently across other relevant public-sector AML/CTF supervisors.

Guidance

The responsibility for issuing and approving AML/CTF guidance for professional services firms would transfer to the FCA. This approach is intended to support clearer and more timely communication of supervisory expectations.

HM Treasury would retain a limited oversight role, including the ability to intervene where necessary to ensure guidance remains aligned with the policy intent of the MLRs. Industry input would continue to play an important role in the development of guidance, ensuring it remains practical and reflective of sector-specific expertise. This approach will apply consistently across other public sector AML/CTF supervisors, including HMRC and the Gambling Commission.

Information and intelligence

Existing information-gathering, inspection and information-sharing powers within the MLRs will be extended to the FCA's supervision of professional services firms. This includes extending requirements under regulation 47, which requires supervisors to provide firms with up to date information on money laundering and terrorist financing risks and applying existing information-sharing duties and gateways under regulations 46, 50 and 52 which require supervisors to cooperate with other authorities, share relevant information, and notify law enforcement of suspected illicit activity, to the FCA's expanded remit.

We will not introduce new legislative requirements at this stage to mandate the sharing of Suspicious Activity Reports (SARs) directly with supervisors. Instead, we would seek to improve the effectiveness of existing information-sharing mechanisms within the current framework.

Our view is that existing whistleblowing protections are sufficient and would apply to the FCA's expanded role, with no additional legislative requirements proposed at this stage.

Information-sharing and cooperation

The government will place an ongoing requirement on the FCA and existing PBSs to establish information-sharing and cooperation arrangements. These arrangements would support a more joined-up supervisory system, minimise duplication for firms, and enable effective two-way exchange of information across both AML/CTF and wider regulatory functions.

This framework would be underpinned by appropriate safeguards, including protections for legal professional privilege, data protection requirements and confidentiality obligations.

Enforcement and appeals

Post-transition, the FCA will be able to exercise the existing range of enforcement powers available under the MLRs in relation to

professional services firms, including civil sanctions and, where appropriate, criminal proceedings.

For enforcement action in response to lower-level breaches of the MLRs, a more streamlined approach may be appropriate and will be explored further to ensure enforcement remains proportionate and effective.

Decisions taken by the FCA would continue to be subject to established tribunal and judicial oversight arrangements, maintaining independent routes of appeal.

Fees and funding

The Government intends for the FCA's AML/CTF supervisory activities to be funded on a cost-recovery basis through fees charged to supervised firms, consistent with its existing funding model. The FCA would consult separately on the detailed structure and operation of these fees.

Transition

A range of transitional arrangements will be necessary to support a smooth and low-burden transfer to the new supervisory model. This includes enhanced cooperation and information-sharing between the FCA, HMRC and current PBSs, alongside reliance on existing data and approvals where appropriate to avoid duplication.

The Government recognises the need to ensure continuity of supervision, minimise disruption for firms, and preserve sector-specific expertise during the transition period. Further detail on the operation of these arrangements would be developed in collaboration with stakeholders.

Accountability, independence and wider legislative context

The Government recognises the need for FCA to retain its operational independence while remaining accountable to HM Treasury and Parliament through its existing statutory mechanisms. During the transition period, OPBAS will continue to oversee the performance of professional body supervisors, with its functions expected to cease once the FCA fully assumes AML/CTF supervisory responsibilities.

The Government also considers that the Economic Crime and Corporate Transparency Act 2023 economic crime objective for legal regulators should be retained, with a continued focus on proportionate application and effective cooperation with the FCA.

Chapter 3: Registration and gatekeeping

Background

This section and the following sections summarise respondents' views to each question and sets out some of the main points respondents made.

3.1 Effective registration and gatekeeping arrangements are a critical component of the UK's AML/CTF supervisory framework. Robust controls at the point of entry into the regulated population help to prevent criminals, those lacking integrity, or individuals without the necessary competence from accessing regulated professional services and exploiting them to facilitate money laundering or terrorist financing. Clear and consistent registration arrangements also support effective supervision by enabling supervisors, law enforcement and the public to identify which firms are undertaking regulated activity and who is responsible for overseeing them.

3.2 The current AML/CTF supervisory landscape for professional services has evolved over time and is characterised by multiple registration routes and varied gatekeeping standards across different supervisors. This fragmentation can result in inconsistencies in how firms are assessed at the point of entry, differences in the information collected, and challenges for consumers and authorities in identifying which body is supervising a particular firm. In some cases, firms may be able to move between supervisors or operate at the margins of supervisory remits, creating potential gaps that can be exploited by bad actors. While information-sharing and coordination between supervisors, including HMRC and professional body supervisors, aim to mitigate these risks, the current framework remains complex and can allow inconsistencies to persist. The proposed reforms will further strengthen this position by providing a more coherent and consistent approach to supervision, supported by clearer powers and a more integrated framework.

3.3 Registration serves both a prudential and supervisory function within the AML/CTF regime. It establishes whether a firm is legally permitted to conduct regulated activity and enables supervisors to collect and maintain accurate information about firms, their beneficial owners, officers and managers, and the nature of the services they provide. Public registers in particular play an important transparency role, helping counterparties, clients and authorities verify a firm's supervisory status and reducing the risk of unsupervised activity.

3.4 Gatekeeping requirements under the Money Laundering Regulations complement registration requirements by ensuring that

firms and key individuals meet minimum standards of integrity and suitability before being permitted to operate. The current framework includes a range of gatekeeping checks, such as approvals tests and fit and proper assessments, which are applied according to the level of risk and the relevant supervisory responsibility across sectors. These tests are intended to reflect a risk-based approach. In practice, this means more stringent entry controls apply in higher-risk sectors. These include enhanced scrutiny of beneficial owners, officers and managers, and more detailed assessments of integrity, competence and compliance history. But the gatekeeping approach within this framework also varies between supervisors.

3.5 Maintaining the accuracy and integrity of the registration system over time is also an important supervisory objective. Where firms cease to undertake regulated activities, or where information becomes outdated, supervisors require tools to ensure that registers remain current and reliable. Similarly, supervisors must be able to take action against firms or individuals who carry out regulated activity without being registered, in order to protect the credibility of the regime and ensure a level playing field for compliant businesses.

3.6 In the context of supervision reform, the Government's objective is to simplify and strengthen registration and gatekeeping arrangements for professional services firms, supporting a more coherent, consistent and risk-based approach across sectors. This includes ensuring that registration requirements are clear, gatekeeping standards are proportionate to risk, and supervisory responsibilities are exercised in a way that protects the integrity of the AML/CTF regime while minimising unnecessary burdens on firms.

Registration and public registers of supervised entities

1. Do you agree with our proposal to amend the MLRs to require the FCA to maintain registers of the professional services firms (legal, accountancy and TCSPs) they supervise? Are there any practical challenges or unintended consequences we should consider?

3.7 Respondents who provided a response to this question were largely in favour of the FCA maintaining a register for professional services firms. Those who were supportive of the proposal mentioned that a single FCA-maintained register allows for greater transparency and makes it easier for firms, consumers and law enforcement to confirm AML/CTF supervisory status. Supportive responses also highlighted that a public register would close opportunities for unsupervised firms, improve regulators' ability to detect firms that should be supervised but are not, and help identify firms making misleading claims about their supervisory or professional status.

3.8 A number of respondents supported the proposal of the FCA maintaining a register but highlighted the need for the right

safeguards and warned that without a clear design, the proposal risked imposing unnecessary burdens on firms. A number of respondents in the legal sector stated that legal professionals already appear on multiple statutory registers and that the introduction of this proposal could create confusion for firms and the public but could also present practical difficulties associated with maintaining data accuracy. Some respondents also suggested that firms already supervised by their current PBS should be automatically passported, rather than being required to re-register.

3.9 Responses which opposed the FCA maintaining a public register of professional services firms for AML/CTF purposes mentioned that some specialised legal professionals strongly objected to their inclusion on any potential register on the basis that their work typically falls almost entirely outside the scope of the MLRs and including them on the register could create additional costs and administrative demands that would be disproportionate, especially for smaller firms.

Policy Statement

3.10 HM Treasury will amend the MLRs to require the FCA to maintain registers of the professional services firms they will supervise, and to require firms to be registered with the FCA in order to lawfully carry out regulated activity within scope of the Regulations. This amendment will be done via Secondary Legislation through an MLRs SI in due course.

2. Do you agree with our proposal to grant supervisors the explicit ability to cancel a business' registration when it no longer carries out regulated activities? How might these changes affect firms of different sizes or structures?

3.11 Those who support the proposal for AML/CTF supervisors to have the ability to cancel a business' registration when it no longer carries out regulated activity generally viewed the ability to cancel registrations as a necessary tool to maintain accurate registers, reduce administrative burden, and ensure supervisory resources are focused on firms truly carrying out regulated activities. A number of public sector bodies supported the proposal on the grounds that explicit cancellation powers improve supervisory accuracy and reduce the risk of bad actors maintaining a veneer of legitimacy. Supportive respondents emphasised that the measure would help "police the perimeter" more effectively by preventing firms from holding themselves out as supervised when they have ceased relevant work. A number of supportive respondents stressed the need for safeguards to be built into any cancellation process, including clear criteria for determining inactivity and a requirement to provide reasonable notice to firms before cancellation.

3.12 Some respondents raised concerns around practicality, fairness and risk of error. Respondents in the legal sector highlighted that many firms undertake work only intermittently, meaning absence of activity over a period is not a reliable indicator that a firm intends to completely cease carrying out regulated activities. Other respondents stressed that cancellation must not occur automatically as this could lead to the disruption of ongoing client matters, especially for conveyancing or transactional work. Respondents from both legal and accountancy sectors highlighted uncertainty around how the FCA would detect inactivity, given supervisors may not have visibility of firms' pipelines, staff movements, or work mixes. These respondents warned that without evidence-based criteria, the risk of arbitrary decisions increases significantly.

3.13 Respondents who opposed the proposal argued that giving AML/CTF supervisors this power was incompatible with how legal services are regulated, particularly in Scotland and Northern Ireland. For Scotland in particular, it was cited that under Scottish partnership law, any partner change technically dissolves and reconstitutes a partnership, potentially triggering repeated unnecessary cancellations under the proposed system. A number of legal respondents argued that cancellation powers should rest only with the "home" legal regulator, not the FCA, and warned that the proposal risks creating a "two track" regulatory regime that undermines devolved or existing statutory frameworks.

Policy Statement

3.14 The Government's view is that granting supervisors an explicit power to cancel a business's AML/CTF registration where it no longer carries out regulated activity is appropriate and necessary to maintain an accurate and reliable supervisory register. This supports the reform objective of improving supervisory effectiveness while reducing unnecessary burdens on firms whose registrations should no longer be active.

3.15 However, the Government recognises the concerns raised by respondents about the potential for premature, incorrect, or disproportionate cancellations, particularly in sectors where AML regulated work may be undertaken intermittently, such as parts of the legal profession. To ensure this power is applied in a fair, proportionate and risk sensitive manner, the cancellation process will be underpinned by robust safeguards.

3.16 For this power to be effective, the Government intends for supervisors to base any cancellation decision on reliable information. This may be supported by strengthened intelligence-sharing arrangements, including proposed improvements to information flows between supervisors and other relevant bodies, including professional bodies and regulators. These measures would help support decisions, including potential cancellations, being based on accurate and up-to-date intelligence, reducing the risk of decisions

being made on incomplete information and promoting a more consistent, evidence-based approach across sectors.

3.17 In line with the concerns highlighted in consultation responses, supervisors will be expected to implement operational safeguards to prevent undue disruption. These include:

- providing advance notice to firms prior to cancellation;
- taking reasonable steps to verify inactivity, including attempts to contact the firm;
- applying sector-specific guidance on assessing inactivity, recognising variation in how frequently different professions undertake regulated work

3.18 The Government agrees with respondents that this cancellation power must operate as a non-enforcement administrative function, specifically enabling supervisors to remove a firm's registration where it no longer carries out regulated activity, rather than as a tool for enforcement in response to breaches of the MLRs. The power will be used only where a supervisor is satisfied, based on verifiable information, that a firm is no longer carrying out relevant activity, and should not interfere with the ability of firms across the regulated sectors to continue providing regulated services where such activity is undertaken infrequently or on an occasional basis.

3.19 This amendment will be implemented through secondary legislation via an amendment to the MLRs in due course.

Gatekeeping: approvals and fit and proper testing

3. Do you support the application of regulation 58 “fit and proper” tests to legal, accountancy, and trust & company service providers? Please explain your reasoning.

3.20 Those who supported the proposal to apply regulation 58 “fit and proper” tests across legal, accountancy, and trust and company service providers generally viewed the enhanced testing regime as a means to strengthen gatekeeping and ensure that unsuitable individuals are prevented from entering or remaining within the AML regulated population. A number of accountancy PBSs highlighted that they already operate fitness and propriety assessments for their members, and therefore considered an FCA-led framework to be a natural extension that could promote consistency and reduce gaps in the current system. Civil society groups and some public sector bodies also strongly supported the proposal, noting that existing regulation 26 checks, which are applied to beneficial owners, officers and managers in certain supervised firms, are implemented unevenly across supervisors. They argued that extending regulation 58 would enable the FCA to take a more consistent and

comprehensive approach to assessing competency, integrity and overall suitability for AML/CTF purposes at the point of entry.

3.21 A number of respondents expressed concerns about practicality, proportionality, and the potential for administrative burdens on firms, particularly in terms of compliance costs and operational impact. Respondents emphasised that BOOMs populations within professional services firms can be large and complex, raising questions about the FCA's ability to process fit and proper assessments efficiently without causing significant delays in firm operations or partner appointments. Legal sector respondents in particular highlighted the risk of inconsistent outcomes where FCA assessments diverge from existing or prior suitability assessments carried out by professional body regulators, warning that this could create uncertainty and undermine established suitability frameworks. Other respondents stressed that regulation 58 must continue to reflect a risk-based approach, noting that some professions or sub sectors pose inherently lower AML risks, and that a blanket application of the test could lead to unnecessary bureaucracy.

3.22 Respondents who opposed the proposal were mainly from the legal sector, and argued that extending regulation 58 to legal services is unnecessary, duplicative, and incompatible with existing regulatory frameworks. Many noted that solicitors, barristers and other legal professionals already undergo rigorous statutory fitness and propriety assessments, and warned that a parallel FCA-administered test would add cost and friction without providing additional AML benefit. Concerns were also raised that FCA testing could interfere with the independence of legal regulators or contradict their decisions, leading to uncertainty over who has primacy in assessing professional suitability. Some respondents highlighted the disproportionate impact on smaller firms, sole practitioners and sectors such as insolvency practitioners who already operate under stringent licensing requirements.

Policy Statement

3.23 HM Treasury will apply regulation 58 "fit and proper" requirements to legal and accountancy service providers, aligning these sectors with trust and company service providers already in scope. This reflects the high-risk nature of these sectors, as identified in the National Risk Assessment, and the importance of consistent gatekeeping across the AML/CTF supervisory system.

3.24 Regulation 58 provides a broader assessment of suitability than regulation 26, which focuses primarily on checks on criminal convictions for beneficial owners, officers and managers. Regulation 58 enables supervisors to consider integrity, competence and compliance history in addition to checks on criminal convictions. The Government considers this approach proportionate and aligned with existing expectations for professional services firms from their respective professional bodies.

3.25 HM Treasury recognises concerns raised by some respondents about potential overlap with existing professional body assessments and the risk of delay during transition, particularly for firms with large or complex BOOM populations. To support a smooth transition, the Government expects the FCA to be able to make use of existing checks where appropriate and to operate processes that avoid unnecessary duplication.

3.26 Effective application of regulation 58 will depend on the FCA having access to timely and reliable intelligence from existing PBSs. HM Treasury's proposals to strengthen information-sharing, as part of this consultation, will support consistent, proportionate decision-making on gatekeeping across sectors. These arrangements will assist the FCA in assessing ongoing fit and proper checks for BOOMs.

3.27 To ensure proportionality and minimise burdens during transition, the Government will incorporate supporting measures to ensure structured information-sharing arrangements between FCA and current PBSs to support ongoing assessments of BOOM suitability and integrity.

3.28 HM Treasury recognises the importance of ensuring a proportionate transition for firms. To avoid subjecting legal and accountancy service providers to multiple sequential changes to regulation 58, arising from both AML/CTF supervision reform and forthcoming Anti-Money Laundering and Asset Recovery strategy proposals, these sectors will not be brought within scope of regulation 58 prior to transition. Once supervisory responsibility transfers to the FCA, regulation 58 will be applied consistently across the relevant population.

4. What are your views on the proposed changes to regulation 58, including the requirement for BOOMs to pass the fit and proper test before acting, mandatory disclosure of relevant convictions, and the introduction of an enforcement power similar to those under regulation 26?

3.29 Those who supported the proposal to strengthen regulation 58 generally viewed these reforms as necessary enhancements to gatekeeping within the supervisory regime. Supportive respondents, including several accountancy PBSs, considered the measures an important mechanism for closing existing loopholes, such as gaps in the consistency and scope of current suitability checks, which ensures that senior individuals in supervised firms meet appropriate standards of probity, and improving consistency across high-risk professional sectors. Some civil society organisations argued that this proposal is needed as current arrangements under regulation 26 are insufficiently robust and allow individuals to operate in senior AML-relevant roles without adequate scrutiny. Public sector organisations echoed this argument, noting that strengthened entry controls

would help improve identification of high-risk individuals and ensure that bad actors cannot exploit the system.

3.30 Some respondents raised concerns regarding practicality, proportionality, and the risk of operational disruption that the proposal might pose, particularly within the legal sector. These respondents supported the policy intent but cautioned that reforms must not duplicate existing vetting conducted by existing supervisors, nor impose undue burdens on firms, particularly where long approval timelines could impede the recruitment of essential roles such as Money Laundering Reporting Officers or delay partner appointments. Others who opposed the proposal questioned whether the FCA would have sufficient capacity to process large volumes of BOOM applications during transition, warning that delays could result in inadvertent non-compliance and operational bottlenecks.

3.31 Respondents who opposed the proposal argued that the changes were duplicative, disproportionate, and misaligned with established legal regulatory systems. Some respondents highlighted that legal professionals already undergo extensive suitability, character and probity checks conducted by statutory regulators, and contended that additional FCA imposed checks would create unnecessary bureaucracy, risk contradictory determinations, and undermine the coherence of the regulatory framework. Opponents also warned that requiring FCA approval before BOOMs act could disrupt firm governance, delaying partner promotions and jeopardising client service continuity, particularly in conveyancing and litigation. Respondents from Scotland and Northern Ireland emphasised that the proposals were incompatible with devolved legal frameworks such as the Solicitors (Scotland) Act 1980, Scottish partnership law, and Northern Ireland's ownership restrictions, could require legislative changes not acknowledged in the consultation.

Policy Statement

3.32 Following our decision to amend regulation 58 so it applies to Accountancy Service Providers and Legal Service Providers as part of regulation 58, HM Treasury recognises that the Regulation needs to be strengthened in order to support more robust gatekeeping and help reduce opportunities for bad actors.

3.33 As HM Treasury takes forward this work, we intend to continue to work closely with supervisors to understand what changes to regulation 58 may be needed to support enhanced gatekeeping which is also proportionate.

Policing the perimeter

<p>5. Should the FCA be granted any extra powers or responsibilities with regards to “policing the perimeter” beyond those currently in the MLRs?</p>
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3.34 Respondents who supported granting the FCA additional perimeter-policing powers generally viewed this as necessary to address existing supervisory gaps, ensure that all relevant persons are registered, and create a more consistent and effective AML/CTF regime. Many firms emphasised that currently unsupervised firms can operate undetected, undermining market integrity and enabling illicit activity. Some respondents also considered that the proposal would create a level playing field for firms within supervised sectors and help address areas where firms may fall outside AML/CTF supervision. Civil Society respondents argued that the FCA's cross-sector visibility makes it better placed than PBSs to detect unsupervised actors, especially in complex or fragmented parts of the professional services economy. They also emphasised that the FCA should issue clearer guidance on what activities fall in scope of the MLRs and proactively identify areas where legal uncertainty enables non-compliance.

3.35 Though supportive of the proposal, a number of respondents raised concerns around the scope, proportionality, and practicality of AML/CTF supervisors having this power. Some of those who opposed expressed uncertainty about what “policing the perimeter” actually entails and called for clear definitions with examples otherwise there is the chance of scope-creep which could include the inappropriate FCA involvement in legal services outside the scope of the MLRs. Some accountancy sector respondents noted practical barriers, including unclear definitions of ‘accountancy services’ and the lack of a protected title. They argued that this makes it difficult to define the regulatory perimeter and identify which firms should fall within AML/CTF supervision without further legislative clarity.

3.36 Legal sector respondents who opposed the proposal argued that existing professional regulatory frameworks already provide robust mechanisms to prevent and address unauthorised legal services. A few respondents warned that this proposal could result in increased costs for supervised and regulated professions. Opposition from the accountancy sector focused around not seeing a clear need for additional powers beyond those already in the MLRs and that the consultation did not provide enough evidence to suggest that the current arrangements were insufficient.

Policy Statement

3.37 The FCA will not be granted any extra powers or responsibilities with regards to “policing the perimeter” beyond those currently in the MLRs. However, the FCA will be able to use its existing powers to identify and take enforcement action against firms carrying out AML/CTF-regulated activity where they are not registered for supervision, including requiring such firms to register or to cease regulated activity where appropriate.

Chapter 4: Risk-based supervision

Background

4.1 A risk-based approach to supervision is central to the effective operation of the UK's AML/CTF regime. Given the diversity of firms, sectors, and business models subject to the Money Laundering Regulations, supervisors must be able to allocate resources proportionately and focus attention on areas of highest money laundering and terrorist financing risk. Risk based supervision supports both supervisory effectiveness and proportionality, enabling supervisors to target their interventions where they are most likely to have the greatest preventative and deterrent impact.

4.2 The MLRs place obligations on supervisory authorities to identify and assess the risks present within the sectors and firms they supervise, taking account of domestic and international risk assessments and relevant intelligence. Supervisors are expected to maintain an up to date understanding of sector specific and firm level risks, and to use this understanding to inform the nature, frequency and intensity of their supervisory activity. This includes recognition that different firms may have different risk profiles based on their size, client base, geographical exposure, and the nature of services they provide.

4.3 Effective risk based supervision relies on a combination of data, information gathering and engagement with firms. Supervisors use a range of tools, including desk based reviews, on-site inspections and targeted information requests, to assess the adequacy of systems and controls and to test how firms manage the risks they face. These activities are designed to promote consistent standards and strengthen systemic resilience, supporting firms to enhance their AML/CTF frameworks and address any weaknesses identified

4.4 Supervisors also play an important role in communicating relevant risk information back to firms, supporting them to understand emerging threats and adapt their own risk assessments and controls accordingly. Sharing insights derived from supervisory activity, intelligence and wider risk assessments can help firms keep their compliance efforts current and proportionate and avoid defensive or overly cautious approaches that can lead to unnecessary burdens or derisking.

4.5 In exercising their functions, supervisors are expected to balance the need for robust oversight with the principles of proportionality and growth. Risk based supervision allows supervisors to intervene early where concerns arise, to address weaknesses before they escalate into more serious compliance failures, and to

deploy enforcement action where necessary in a manner that is targeted and dissuasive. A well-functioning risk based supervisory model is therefore key to maintaining confidence in the AML/CTF regime while supporting legitimate business activity.

4.6 Regulations 17 and 46 of the Money Laundering Regulations establish the core framework for risk-based AML/CTF supervision. Regulation 17 requires supervisors to identify, assess and understand the domestic and international risks of money laundering and terrorist financing present within the sectors and firms they supervise. Regulation 46 places corresponding duties on supervisory authorities to monitor compliance with the MLRs and to apply a risk-based approach to supervisory activity, including determining the nature, frequency and intensity of supervision, and taking effective measures to encourage firms to report breaches of the MLRs.

Risk assessment and supervisory activity

6. Do you foresee any issues or risks with the extension of regulations 17 and 46 to the FCA in carrying out its extended remit, particularly in relation to how these powers will interact with the FCA's proposed enforcement toolkit (as outlined in Chapter 6)?

4.7 Respondents provided a range of answers with potential risks linked to the respondent's sector. Many legal sector respondents identified risks and conditions for successful implementation while accountancy bodies and several civil society organisations generally supported the principle of extending regulations 17 and 46, subject to proportionate application and adequate FCA resourcing.

4.8 Supportive respondents emphasised that placing equivalent duties on the FCA would maintain consistency with obligations already applied to PBSs, align supervisory expectations across professional services, and underpin a risk based approach to targeting higher risk activity. These respondents viewed the extension as a necessary foundation for a coherent system as responsibilities transition to the new supervisory model.

4.9 Across sectors there was a commonly expressed expectation that the FCA's application of regulations 17 and 46 should be proportionate, with particular regard to the operational realities of smaller firms and sole practitioners. Respondents warned that implementing a data-intensive model designed for large financial institutions could impose disproportionate reporting burdens on smaller firms or sole practitioners, without demonstrable improvements in AML/CTF outcomes. While some responses accepted that data can support effective risk profiling, respondents questioned the availability, comparability and proportionality of the datasets likely to be requested across professional services firms, with respondents noting that many firms do not structure records in the same way as FCA regulated financial firms.

4.10 Respondents also asked for a clear distinction between supervision and enforcement, to avoid inadvertently penalising firms for technical deficiencies in risk assessments or data submissions. A number of respondents advocated for a more supportive approach to supervision, such as education and guidance, with enforcement used as a last resort, to enable constructive engagement and prevent defensive, paperwork-driven compliance.

Policy Statement

4.11 HM Treasury will extend regulations 17 and 46 in relation to the FCA's expanded role as AML/CTF supervisor for professional services firms. This amendment will be implemented through secondary legislation via an amendment to the MLRs in due course.

4.12 In applying these duties, the FCA would be expected to take a proportionate, risk-based approach, with a clear distinction between supervision and enforcement. This includes prioritising engagement, guidance and remediation where appropriate, and ensuring that enforcement action is targeted and proportionate, supporting effective compliance without imposing unnecessary burdens on firms or inhibiting growth.

Additional intervention powers

7. What are your views on introducing new supervisory powers to make directions and appoint a skilled person? If this power is introduced for the FCA, should it also be available to HMRC and the Gambling Commission?

4.13 Respondents who were supportive of introducing the powers commented on the benefits of early intervention, within a proportionate and risk-based AML/CTF supervisory framework.

4.14 For the skilled persons power, respondents who were unsupportive criticised the power as being duplicative of regulation 21, which requires, where appropriate, independent AML/CTF compliance by way of internal audits. Unsupportive respondents also commented on disproportionate application of the power, manifesting in considerable financial costs and administrative burdens for investigated firms. Unsupportive respondents finally commented on the expertise of the skilled person and the necessity for them to have sufficient knowledge of the sector being assessed to accurately grasp relevant issues. This must be balanced with principles of objectivity, to avoid a situation where sectors are policing themselves or being assessed by direct competitors.

4.15 Regarding the power of direction, respondents' concerns were diverse, with individual respondents bringing up issues not felt across the board. The most common concern was again around proportionality, in relation to a broad application of the power, resulting in financial costs and operational burdens being felt disproportionately by smaller firms.

4.16 Respondents who were supportive of extension of the powers to HMRC and the Gambling Commission focused on consistency of application across supervisors. This support was often caveated by the need for other safeguards to be implemented within the FCA, and subsequently equally extended to HMRC and the Gambling Commission, such as around costs and the suitability of appointed skilled persons. Respondents unsupportive of this extension stated that it would further compound issues such as proportionality, consistency and fairness, linked to transparency of application.

Policy Statement

4.17 As recognised by various respondents, the existence of these powers serves to strengthen the UK AML/CTF compliance strategy, by facilitating important preventative capabilities, which allow for early intervention before harm crystallises and enforcement action must instead be pursued.

4.18 HM Treasury therefore intends to introduce the skilled persons power and power of direction to the MLRs for the new sectors under FCA supervision, as well as for HMRC and the Gambling Commission, to promote early intervention within a risk-based supervisory approach. HM Treasury will look to include the statutory safeguard found within regulation 74B of the MLRs, report by a skilled person for cryptoasset businesses, “where the FCA reasonably considers”, to promote proportionate use of both powers under the “reasonableness” test. This would also allow the FCA (and any additional supervisors) discretion in their supervisory approach.

4.19 The implementation of these additional supervisory powers amendment will be done through secondary legislation via an amendment to the MLRs in due course.

Information-gathering and inspections

Background

4.20 It is essential that the FCA has sufficient powers to carry out effective inspections of supervised firms. This will enable the FCA to assess, including by gaining insight into firms’ internal controls and culture, whether firms understand and comply effectively with their duties to prevent ML/TF. Gathering information will also help the FCA to build a clearer picture of sector-specific risks and evolving threats.

4.21 Strong coordination with law enforcement and other authorities will be essential not only to support the FCA’s ability to access and share intelligence on emerging typologies, criminal trends, and relevant information about supervised entities, but also to ensure the FCA actively assesses and communicates sector-specific ML/TF risks. Information-sharing must be bilateral, with the FCA expected to develop a nuanced understanding of the risks across the sectors it supervises and proactively share insights with law enforcement and other authorities.

4.22 HM Treasury proposed to extend the information and inspection powers under regulations 66, 69, 70, 72 and 74A to the new sectors the FCA will supervise as a result of reform.

Response Analysis and Policy Statements

8. Do you agree with our proposal to extend the information gathering and inspection powers in the MLRs to the new sectors within FCA supervision?

4.23 Almost all respondents who engaged with this question were supportive of the proposal to extend the existing information gathering and inspection powers in the MLRs to the new sectors under FCA supervision.

4.24 Where respondents expressed concerns, these were mostly seeking further clarity on the implications for client confidentiality and legal professional privilege. HM Treasury's approach to these issues is set out in more detail in response to the question below.

4.25 Other respondents raised concerns in relation to duplication of requests from the FCA, professional bodies and relevant regulatory bodies, and potential issues in relation to cost. As outlined elsewhere in this response, HM Treasury is committed to ensuring that there are ongoing information-sharing requirements that will apply to both the FCA and current PBSs that will enable the coordination of information requests and the timings of inspections. This cooperation should minimise burdens on firms.

Policy Statement

4.26 HM Treasury will extend the information gathering and inspection powers in the MLRs to the new sectors under FCA supervision.

9. Do you believe any changes are needed to the information-gathering and inspection powers in the MLRs beyond extending them to the FCA in supervising accountancy, legal and trust and company service providers for AML/CTF matters?

Legal Professional Privilege

4.27 Respondents to this question overwhelmingly focused on Legal Professional Privilege (LPP). This fundamental legal principle protects a client's legal advice from being disclosed. This is important in all instances, but especially important for law firms who may hold privileged legal advice the firm gave to clients. Regulation 72 protects LPP, limiting supervisors' information gathering powers such that they do not apply to privileged information.

4.28 Just under half of respondents addressed LPP in their response, though many of those who did not refer to it agreed to

Question 8's proposal to the existing information-sharing and government powers, which include the protection for LPP set out in regulation 72. Of the 51 respondents who addressed LPP, the vast majority (43) were from the legal sector. Respondents almost all agreed explicitly that the current rules in regulation 72 should be retained, although comments often went beyond this. Many respondents emphasised their view that LPP needs greater consideration, given its importance as a fundamental legal principle. On the core question of the applicability of LPP to the FCA's power of information access and inspections, respondents from the legal sector ranged between suggesting the need for clear protocols for reviewing privileged material to ensure LPP is protected and calling for a complete prohibition on the FCA having access to privileged material.

Policy Statement

4.29 The government is committed to enabling the FCA to fulfil its supervisory duties effectively, including by having access to all relevant material required under the MLRs. It is the Government's view that documents required for routine AML/CTF supervision would not generally attract legal professional privilege, and that the existing protections for privileged material will continue to apply. Regulation 72's protections will therefore remain unchanged. This means that the FCA will not be able to use its information gathering powers to require disclosure of any document which attracts legal professional privilege.

4.30 However, it is essential there is a clear understanding between the FCA and legal professionals on what documentation will be required during a supervisory visit, and, for example, how they should handle instances in which privileged information needs to be redacted from a relevant file without creating unnecessary complexity. The FCA will put guidance in place to ensure there is clarity on what documents are required and how it will handle issues of privilege when they arise.

4.31 A few respondents also raised the possibility that criminally complicit or wilfully negligent legal professionals would falsely claim LPP to withhold documents from supervisors. The government is committed to upholding legal privilege, including protecting it from abuse. The FCA will therefore ensure it is prepared to utilise prescribed processes through the Courts where necessary to prevent this abuse of LPP.

Chapter 5: Guidance

Background

5.1 AML/CTF guidance is an important source of support for regulated firms. While following guidance is neither mandatory nor a statutory defence, courts must consider whether a person followed any relevant guidance in determining whether a person has committed an offence. Consequently, well-drafted and up-to-date guidance plays an important role as part of an effective AML/CTF regime as it can translate complex legal and regulatory expectations into practical sector-specific advice. High quality guidance will help the FCA communicate to professional services firms its expectations of what effective compliance with the MLRs looks like in practice.

5.2 Regulations 19, 21, 24 and 35 of the MLRs contain provisions that allow firms to take account of guidance when determining appropriate and proportionate AML/CTF measures. Separately, section 330(8) and section 331(7) of the Proceeds of Crime Act 2002 (POCA), and section 21A(6) of the Terrorism Act 2000 (TACT), provide that whether a person followed relevant guidance is a factor the court must consider when determining whether an offence has been committed. These provisions refer to guidance issued by the FCA, or by another supervisory authority or appropriate body and approved by HM Treasury.

5.3 At present, sectoral guidance is issued by a wide range of bodies, including groups representing industry such as the Joint Money Laundering Steering Group (JMLSG) and the Legal Sector Affinity Group (LSAG), or supervisors including the FCA, Gambling Commission, and HMRC. LSAG produces guidance for the legal sector, the Consultative Committee of Accountancy Bodies (CCAB) produces guidance for the accountancy sector, and HMRC produces guidance for Trust and Company Service Providers (TCSPs), with varying levels of supervisory and industry input. We consider input from industry to be valuable in this process, as it enables the final guidance to benefit from sector-specific expertise and practical experience.

5.4 While there is no specific regulation that makes adherence to guidance mandatory, firms are expected to take account of relevant guidance, and other information provided by their supervisor, when complying with their obligations under the MLRs and determining appropriate and proportionate controls. It is hoped that removing the requirement for HM Treasury to approve most guidance will enable it to be published more quickly, which in turn should support firms in complying more effectively with their obligations under the AML/CTF regime.

5.5 In the consultation we asked firstly what role FCA ought to have in the new guidance regime for professional services firms.

Secondly, we asked about the existing process for approving practitioner-drafted guidance, and specifically whether instead of HM Treasury approving this guidance, the appropriate supervisors ought to instead with HM Treasury retaining a “right of veto”.

Response Analysis

10. Do you agree that responsibility for issuing AML/CTF guidance for the legal, accountancy and trust and company service provider sectors should be transferred to the FCA?

5.6 A majority of those who expressed a clear opinion on this question were in favour, although an equally large number of respondents replied but without a clear overall view. The difference in overall response here was driven largely by which aspect of the guidance system the respondent focused on. Those who focused on the role PBSs play in the current system generally agreed that supervisory input into guidance ought to transfer to the FCA, naturally. Other respondents focussed on who should be responsible for drafting the guidance, expressing a preference that this be practitioner-led, building on existing LSAG and CCAB guidance. These respondents often said that the FCA should not be responsible, but rather that industry should be. Most respondents support some version of this approach.

11. Do you agree that the MLRs should be amended to transfer responsibility for approving AML/CTF guidance to the relevant public sector supervisor, with HM Treasury retaining a ‘right of veto’ but not having responsibility for approving entire guidance documents?

5.7 A narrow majority of respondents to this question expressed no overall view on who ought to approve guidance. Of those that did give a clear opinion, the majority agreed that it is better for supervisors to approve guidance.

5.8 Key arguments for the supervisor approving guidance were that the supervisors have more staff, and more sectoral expertise than HM Treasury does. This capacity could allow them to approve guidance in a timelier fashion and also may mean they are better placed to understand sectoral details. This could lead to better guidance. Where guidance is drafted directly by the supervisor, HM Treasury does not need to be involved at all, which is certain to be faster.

5.9 Respondents who were opposed stressed the risks. Firstly, not everyone agreed that supervisors would approve guidance more quickly, noting that larger organisations such as the FCA may have more complex processes that can slow decision-making. There was also mention of the time it may take HM Treasury to exercise a veto, which could slow approval down. HM Treasury also may have less sectoral expertise, but being responsible for drafting changes to the

MLRs themselves may understand the intent behind amendments better. Finally, some argued that there need to be democratic controls on supervisors' powers. Whilst most respondents who commented on this did agree that an HM Treasury veto would be sufficient, this was not unanimous. This included concern that supervisors may increasingly expect guidance to reflect their own views and drafting style, which could undermine its status as practitioner-led guidance over time.

Policy Statement

5.10 HM Treasury agrees that guidance is most effective where it draws on practitioner expertise, where this is practicable. Both industry-developed and supervisor-developed guidance play important and complementary roles, with industry bodies providing detailed, practice-focused insight and supervisors ensuring guidance reflects regulatory expectations and promotes consistent standards across the regime. Therefore, it is supportive of guidance for legal and accountancy firms being drafted by practitioners after the implementation of supervision reform. In practice, we expect this will require the existing Legal Sector Affinity Group and Consultative Committee of Accountancy Bodies to be reformulated to account for PBSs losing their AML/CTF responsibilities. HM Treasury will work with the relevant trade associations between now and the point at which the FCA formally assumes responsibilities for AML/CTF supervision of professional services firms ("go live"), with the aim of achieving this in practice. This approach is also expected to continue to apply to the financial sector's Joint Money Laundering Steering Group.

5.11 On the approvals process, HM Treasury's view is that on balance a system where supervisors approve guidance is more rational and efficient than HM Treasury doing so, so long as HM Treasury retains a veto over any guidance and final arbitrator role to ensure guidance remains proportionate and true to the intention of the Regulations.

5.12 Currently, the MLRs, POCA, and TACT contain provisions concerning guidance issued by the FCA or issued by someone else but approved by HM Treasury. We intend to change this system so that guidance is valid either if (a) it is issued by a supervisors directly or (b) it is practitioner-drafted and approved by the relevant supervisors. HM Treasury will retain a veto in either instance. We intend to move to this system after professional services AML/CTF supervision is taken over by the FCA. HM Treasury will continue to approve guidance in the meantime.

5.13 As above, we expect guidance for law firms, accountancy firms, and financial services firms to be practitioner-drafted, with the FCA approving this guidance. Other sectors do not currently draft their own guidance, but supervisors engage with industry and seek input to their own draft guidance. We expect the supervisors for these

sectors to continue to draft guidance at least for the foreseeable future.

5.14 The details of this arrangement, and in particular the mechanism by which HM Treasury may operate a veto, if necessary, are expected to be set out in the MLRs. This will also provide clarity on arrangements where there are competing or conflicting drafts of guidance and how this would be resolved. We currently intend to consult on the details of this veto mechanism and expectations around final arbiter rights, where industry guidance conflicts with one another, in later 2026. We then aim to lay an SI to amend the MLRs accordingly in 2027.

Chapter 6: Information and intelligence

Background

6.1 Tackling economic crime requires domestic and international co-ordination. It is therefore important that supervisors share information with each other and with firms, and that they ensure their supervised population understands and complies with obligations to report suspicious activity. Receiving intelligence allows supervisors to better detect risks in their areas of responsibility, whilst the proactive and responsive sharing of information with law enforcement is essential to the investigation of the most serious economic crimes. In this way, supervisors have a key role to play in disrupting the activities of organised criminal groups.

Response Analysis and Policy Statements

Provision of information to firms

12. Do you agree to the extension of requirements under regulation 47 to the FCA in relation to accountancy, legal and trust and company service providers?

6.2 Regulation 47 of the MLRs outlines that supervisory authorities have an obligation to provide up-to-date information on money laundering and terrorist financing to the entities they supervise. This includes relevant information on ML/TF practices identified by the supervisor, HM Treasury, the Home Office or the National Crime Agency (NCA).

6.3 Almost all respondents who engaged with this question agreed with the proposal to extend the requirements under regulation 47 to the FCA's supervision of accountants, lawyers and trust and company service providers.

6.4 Where respondents disagreed or were hesitant, concerns focused on proportionality, sector and jurisdiction specificity and the need for coordination between the FCA and current PBSs. HM Treasury is confident that the FCA will build the necessary sector and jurisdiction-specific expertise to provide relevant information to all firms within its supervised population. Proportionality is a key tenet of AML/CTF supervision which the FCA will need to take account of when fulfilling its obligations under regulation 47. Cooperation requirements on both the FCA and current PBSs outlined in detail in Chapter 11 will ensure that information-sharing can be coordinated.

Policy Statement

6.5 HM Treasury will extend the requirements under regulation 47 to the FCA in relation to accountancy, legal and trust and company service providers. This amendment will be implemented through secondary legislation via an amendment to the MLRs in due course.

Information-sharing

13. Do you see any issues with the FCA's information-sharing duties and powers in regulations 46, 50 and 52 applying to the professional services firms it supervises for AML/CTF purposes?

6.6 Regulation 46 states that supervisory authorities have a duty to notify the NCA if they know, suspect or have reasonable grounds for knowing or suspecting ML or TF. Regulation 103 places this general duty on the FCA as an organisation specifically, alongside other public authorities.

6.7 Regulation 50 requires supervisory authorities to co-operate with other regulatory bodies, HM Treasury (which oversees the AML/CTF regulatory regime), and law enforcement agencies in developing and implementing policies to counter money laundering and terrorist financing. This may include coordinating domestic activities and engaging with overseas authorities to ensure effective cross-border supervision and facilitate the exchange of relevant information, subject to confidentiality obligations and, where applicable, the consent of the authority which provided the information. A proposed amendment to this regulation, already announced here, would include Companies House within scope of the duty for AML/CTF supervisors to cooperate with other authorities, recognising its enhanced role as a gatekeeper for corporate transparency and as an integral part of the UK's AML/CTF supervisory framework.

6.8 Regulation 52 permits supervisory authorities to disclose information obtained in relation to their supervisory functions to other relevant authorities, where the disclosure is for purposes connected with the effective exercise of the authority's functions under the MLRs or with any other functions related to money laundering, terrorist financing, or the integrity of the international financial system, the functions of a law enforcement authority or equivalent functions of an overseas authority.

6.9 Almost all respondents who engaged with this question did not see an issue with extending the information-sharing duties in regulations 46, 50 and 52 to the FCA in respect of its supervision of professional services firms for AML/CTF purposes.

6.10 Where respondents highlighted issues with the proposal, concerns focused on risks to client confidentiality and legal professional privilege posed as a result of extending the regulations. HM Treasury's approach to LPP is covered in detail in Chapter 4.

6.11 Responses also raised concerns around scope creep in terms of the powers being used to gather information that is not relevant to or necessary for AML/CTF supervision. The powers the FCA will have under the MLRs are explicitly restricted to their role as an AML/CTF supervisor. Therefore, HM Treasury is confident that this will not be an issue.

6.12 Other concerns included proportionality, sector and jurisdiction specificity and the risk of duplication. Respondents highlighted the need for cooperation between the FCA and public bodies which is addressed in Chapter 10 of this document. HM Treasury is confident that the FCA will build the necessary sector and jurisdiction-specific expertise to ensure that these powers are exercised appropriately and proportionality will continue to be key to their approach to AML/CTF supervision.

Policy Statement

6.13 HM Treasury will intend to apply the FCA's information-sharing duties and powers in regulations 46, 50 and 52 to the professional services firms it will supervise for AML/CTF purposes. This amendment will be implemented through secondary legislation via an amendment to the MLRs in due course.

14. Do you agree that the MLRs should be amended to require the NCA to share SARs with the FCA and other public sector supervisors, where these have been submitted by or relate to firms within their supervisory population?

6.14 Respondents expressed a range of views on whether the MLRs should be amended to require the NCA to share SARs with the FCA and other public sector supervisors. Support generally came from accountancy bodies, public sector organisations and civil society groups who emphasised improved supervisory effectiveness and system co-ordination, while legal sector respondents were more frequently cautious or opposed.

6.15 Supportive respondents argued that direct SAR access would improve risk-based, intelligence led supervision, enable supervisors to identify systemic weaknesses, and reduce duplication where information already submitted to the NCA is subsequently requested by supervisors. Others proposed going further by allowing supervisors to understand outcomes of SARs to refine thematic analysis. Civil society submissions emphasised that access could raise SAR quality and accountability over time. Even among supporters, there was a strong emphasis on strict safeguards to ensure the proposal was effective.

6.16 Many legal sector respondents opposed direct supervisory access, arguing that SARs are principally an intelligence tool for law enforcement and that broader access risks undermining confidentiality, LPP and the confidence of those submitting SARs.

Respondents warned that this could deter reporting or lead to more defensive and lower-quality SARs, as well as increasing the risk of tipping off during routine supervisory engagement. Several expressed that existing powers, such as those under regulation 66, which allow supervisors to request copies of SARs directly from firms where reasonably required for supervisory functions, are sufficient.

Policy Statement

6.17 HM Treasury recognises that SARs play an important role in supporting risk based supervision and also notes that supervisors already have access to SARs in a number of circumstances, through existing mechanisms. In light of these considerations, the Government does not intend to introduce legislative changes at this stage to require the NCA to share SARs directly with supervisors. Given the mixed evidence provided through the consultation and the range of views on the appropriate scope of access, HM Treasury considers it more proportionate to build on existing mechanisms rather than introduce new statutory requirements.

6.18 HM Treasury will continue working with supervisors and the NCA to understand how SARs related information can be used most effectively within the current regulatory framework, and to identify where improvements can be made in practice which may support more targeted and risk-based supervision.

Whistleblowing

15. Do you agree that these existing whistleblowing protections are sufficient and appropriate?
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6.19 Most respondents agreed that the existing whistleblowing protections provide a useful foundation for individuals raising concerns about potential breaches of the MLRs. These respondents considered the current framework under Public Interest Disclosure Act 1998 and sector specific rules to be broadly appropriate, while emphasising the importance of maintaining clear and accessible reporting channels under the new supervisory model. Many also stressed the need for continued awareness raising across the professional services sectors, particularly in smaller firms where formal HR structures and established internal processes may be limited.

6.20 Some respondents expressed uncertainty about whether the protections are sufficient in the context of AML/CTF work, particularly within the legal sector. These respondents highlighted the interaction between whistleblowing obligations, professional duties and LPP, noting that the absence of clear guidance may create hesitation or confusion for individuals considering whether a disclosure is protected. They also raised concerns about potential uncertainty around reporting routes, especially where AML/CTF matters and wider professional conduct issues overlap, underscoring

the need for strong coordination between the FCA and existing PBSs.

Policy Statement

6.21 HM Treasury considers that the existing whistleblowing protections under the current legislative framework are sufficient and proportionate. The FCA will be the prescribed authority for the purposes of receiving disclosures relating to AML/CTF matters for professional services firms, and no additional whistleblowing powers or requirements will be introduced as part of this reform.

Chapter 7: Enforcement

7.1 Effective AML/CTF supervision depends on the credible use of proportionate and dissuasive enforcement action. Enforcement is not an end in itself, but a necessary component of a supervisory system that promotes accountability, incentivises sustained compliance, and maintains confidence in the integrity of the UK's AML/CTF regime. A well-functioning enforcement framework allows supervisors to address serious or persistent non-compliance, while reinforcing supervisory expectations across the wider regulated population.

7.2 As set out in the consultation document, the Government's approach to supervision reform is founded on a risk-based and preventative model of supervision, in which engagement, guidance and early intervention are the primary tools for supporting firms to meet their obligations. However, this approach must be underpinned by the ability to take timely, proportionate and dissuasive enforcement action where firms fail to comply with the MLRs. Without this, supervisory action risks losing credibility and effectiveness, particularly in relation to the most serious breaches.

7.3 The consultation therefore sought views on whether the FCA will require a comprehensive and effective enforcement toolkit in order to succeed in its expanded role as AML/CTF supervisor for professional services firms. It proposed that the FCA should be able to rely on the existing enforcement powers available under the MLRs, rather than the creation of new or bespoke powers, and that these powers should apply consistently across the FCA's supervised AML/CTF population.

7.4 In particular, the consultation highlighted the FCA's ability to:

- impose financial penalties, public censure, or both, where a person has breached the MLRs;
- impose prohibitions on senior managers or remove authorisation where appropriate; and
- initiate criminal proceedings in serious cases.

7.5 These powers are set out in Part 9 of the MLRs and form the basis of a graduated and proportionate enforcement framework. Their consistent and effective application is intended to address concerns raised in previous reviews and evaluations regarding uneven and insufficiently dissuasive enforcement in parts of the current supervisory regime, and to support stronger deterrence against AML/CTF non-compliance.

16. Do you foresee any issues with our proposal for the FCA to exercise the same enforcement powers already exercised by it in relation to the financial services firms for professional services firms too?

7.6 There was a consensus that the enforcement powers contained in the MLRs presently are fine, and issues raised mostly concerned the use of these powers, not the legislation itself.

7.7 Some respondents interpreted HM Treasury's consultation document to say that all powers the FCA exercises with relation to financial services firms, including those originating in the Financial Services and Markets Act (FSMA) rather than the MLRs, should be granted to the FCA to oversee professional service firms' AML/CTF work. HM Treasury is proposing that the enforcement powers already contained in the MLRs apply to the FCA in respect of its AML/CTF supervision of professional services firms.

7.8 Some respondents expressed concern that, whilst these may be the adequate powers, the FCA will use them too stringently and without proper consideration of the nature of professional services firms' work. The main concern expressed, however, was the possibility of dual enforcement. Different respondents focused on different issues. Some stressed the burden of a firm being investigated twice by two supervisors (for instance, the FCA and the SRA) separately for the same issue. Others argued that a firm should not face two sanctions from two supervisors for the same breach.

7.9 Some respondents raised the issue of the FCA requiring firms to provide privileged documents as part of an investigation. This is covered in Chapter 4.

Policy Statement

7.10 HM Treasury envisages that the FCA and legacy PBSs, in their professional standards oversight capacity, will co-ordinate investigations or sanctions, where appropriate.

7.11 There may be instances in which the FCA and a PB need to co-ordinate to land enforcement action together. For instance, if the FCA withdraw a firm's MLRs registration, the firm's PB will also need to alter that firm's membership or practising certificate to reflect the restrictions this implies. Similarly, if, for instance, a conveyancing firm loses its ability to carry out work within scope of the MLRs, that firm's non-MLRs supervisor may need to step in to protect clients of the firm. We expect the FCA and PBs to co-ordinate in these instances to ensure that whatever enforcement action is taken lands efficiently.

7.12 There is already some co-operation between the FCA and PBSs in relation to areas such as information-sharing, which may be used for enforcement purposes. For instance, the FCA and SRA already have a small overlapping population, and a published Memorandum of Understanding which governs this relationship.

Deepening this relationship and establishing similar processes with other PBSs will be necessary to enable effective co-ordination.

7.13 In order to ensure that enforcement action is co-ordinated (where appropriate) and proportionate, HM Treasury will establish in the MLRs both a duty for supervisors to co-operate with each other, and a clear information-sharing gateway, so files on investigations and enforcement actions can be shared. These are detailed in Chapter 11.

17. Are there any additional enforcement powers that you feel the FCA should be equipped with to ensure non-compliance is disincentivised effectively?

7.14 Most respondents did not provide any suggestions for additional powers, and there was no consensus that any specific extra powers are required at this time.

18. Do you think any amendments to regulations 81 and 82 would help the FCA issue minor fines for more routine instances of non-compliance such as failure to register?

7.15 Regulations 81 and 82 set out the procedures the FCA and HMRC must follow when imposing civil penalties under the MLRs, including how decisions are made and the factors taken into account when determining the level of penalty. The administrative process for FCA enforcement is appropriate for enforcement action related to substantive breaches. However, if the FCA used the full process to issue a small fine for e.g. a failure to register, the administrative costs of complying with the enforcement process would be so high on their own as to make any enforcement action disproportionate.

7.16 Around half of all respondents provided evidence without expressing an overall view on this question. Of those who did, about the same number agreed amendments were necessary as disagreed.

7.17 Those who agreed a simpler administrative process for fine issuance was desirable usually argued this on the basis of costs to firms.

7.18 Some respondents expressed opposition to any changes which weaken the processes in regulations 81 and 82. In response to the argument that the current process is burdensome, some of these respondents argued that failure to register or file proper paperwork is best addressed through pastoral supervisory intervention, not enforcement action of any size.

7.19 There was widespread agreement that the details of any new reform would be crucial to determining whether it is desirable. Respondents stressed the need for proportionate controls, even in a more streamlined system. Respondents said that a new process must have a clearly defined scope, and only be usable for a defined, low level of sanction. There must be a clear appeal route, and the FCA's process must remain fair and transparent.

Policy Statement

7.20 HM Treasury agrees that applying the existing enforcement process to all AML/CTF enforcement action taken by the FCA, including lower-level or routine breaches, would be disproportionate in some future enforcement cases. The enforcement process set out in regulations 81 and 82 is appropriate to ensure that enforcement related to a substantial breach is fair. However, the FCA also needs to ensure firms do not ignore more routine obligations to register for supervision, file relevant documents, etc. Without a second, more streamlined process it is likely the FCA would either not be able to use sanctions in a dissuasive way, or otherwise that it will do so, but firms would then face a disproportionately complex bureaucratic process which would be time consuming and expensive for both them and the FCA.

7.21 HM Treasury also, however, notes comments that such a proposal can only be assessed in the detail of a new regime, which will need to ensure enforcement action is still only used proportionately, and is always fair and transparent. Therefore, we will consult in due course on the specifics of the new enforcement process for the issuing of minor fines, with a clear and limited scope, as well as safeguards. Any proposals being taken forward could be implemented by a future SI, with consideration given to their application across all relevant AML/CTF supervisors to support a consistent and proportionate approach to enforcement across the regime.

Chapter 8: Appeals

8.1 Under the current system, firms supervised by PBSs have different methods to challenge PBS decisions. For legal PBSs, appeal routes vary by profession; for example, solicitors in England and Wales have a route of appeal to a separate tribunal, the Solicitors' Disciplinary Tribunal. In some cases, decisions made by these bodies—whether through internal review processes or independent tribunals—may be subject to further appeal through the formal courts and tribunals system. Regulation 93, for example, makes the exercise of powers by the FCA appealable to the Upper Tribunal. For instance, regulations 94 to 100 set out the more detailed arrangements by which HMRC's use of powers is challenged, first through an internal process and then to the First Tier Tribunal. HM Treasury considers that less complex and less burdensome appeals routes are an important complement to formal appeals to tribunals

19. Do you have any issues with our intention that decisions made by the FCA in relation to their AML/CTF supervision of professional services firms be appealable to public tribunals, in line with the existing system?

8.2 Respondents agreed on the importance of judicial appeals routes. Rather than taking issue with judicial appeal routes per se, many respondents' main concern was that it must not be the first port of call.

Policy Statement

8.3 Respondents noted the complexity of the current regime. Appeals against alleged breaches of the MLRs by professional services firms may be heard in different forums depending on who currently supervises them, for example the Solicitors' Disciplinary Tribunal, the Scottish Solicitors Disciplinary Tribunal, the High Court, the Upper Tribunal, or the First-tier Tribunal. Respondents also questioned whether for Scottish firms the Upper Tribunal for Scotland was more appropriate, and whether appeals against Upper Tribunal decisions for Scottish firms would be heard in the Court of Session.

8.4 HM Treasury agrees on the importance of independent judicial appeals and will work with the FCA to ensure that the internal appeals mechanisms have appropriate expertise in professional services. This is a complex area, and HM Treasury will discuss which court or tribunal is most appropriate to hear these appeals with the judiciary and other stakeholders.

Chapter 9: Fees and funding

9.1 Effective AML/CTF supervision requires a sustainable funding model that supports robust, risk-based supervision while remaining proportionate and fair to professional service firms. In line with the approach taken by existing public sector AML/CTF supervisors, the Government's intention is that the FCA's AML/CTF supervisory activities for firms should be funded on a full cost-recovery basis. Fees would enable the FCA to carry out its supervisory functions effectively, including investment in staff capability, data and systems, while avoiding the imposition of unnecessary or disproportionate burdens on legitimate businesses, particularly smaller firms and sole practitioners.

20. Do you have any comments regarding the FCA charging fees, under regulation 102, noting the possible proposed amendments?

9.2 Respondents generally accepted that the FCA will need to recover the costs of its AML/CTF supervisory functions; however, concerns focussed on the proportionality, transparency and overall impact of the proposed fee regime. Many stakeholders across the legal and accountancy sectors emphasised that firms already pay significant regulatory fees to existing PBSs and, in some cases, the Economic Crime Levy. Respondents cautioned that introducing FCA fees without reductions in costs elsewhere risks firms paying duplicative or overlapping regulatory fees, particularly where they continue to pay professional body fees alongside new FCA charges, and that this could have disproportionate impacts on smaller firms and sole practitioners, who may lack the financial resilience to absorb additional regulatory overheads. Respondents across sectors called for a tiered, risk-based fee model that reflects firm size, structure and the extent of in scope AML activity.

9.3 A strong theme across responses was the need for clarity and predictability in how fees will be calculated, what data firms will be required to provide, and how fee income will be used. Some respondents argued that FCA fees should be ring fenced solely for AML/CTF supervision of professional services firms, with annual reporting to ensure accountability and prevent cross-subsidy of wider FCA activities. Several respondents supported the FCA being permitted to deduct enforcement costs from penalty receipts (the MLRs do not currently permit this), while others warned that this could create unintended incentives and stressed the importance of maintaining supervisory neutrality. Respondents also highlighted the need for alignment with jurisdiction specific frameworks, particularly in Scotland and Northern Ireland, to avoid creating inconsistencies or disproportionately high charges for low risk or regionally distinct professions.

9.4 Across the professional services sectors, concerns centred on the risk that higher regulatory costs could lead firms to reduce AML/CTF regulated activity, withdraw from certain markets, or pass increased costs onto consumers which could potentially limit access to legal and accountancy services. Respondents who raised these concerns therefore urged HM Treasury and the FCA to ensure that the future fee model does not result in a net increase in the overall fees and charges paid by firms, and avoids duplicative charging during transition.

Policy Statement

9.5 The FCA will fund its future ongoing AML/CTF supervisory activities through charging fees on its supervised population. The fee structure will be determined through a further consultation.

Chapter 10: Transition and Supervisory Co-ordination

Background

10.1 One of the main concerns about having a public body supervise professional services expressed by respondents to the 2023 AML/CTF supervision reform consultation was the transitional risk and the resource needed to implement this change. Implementation will inevitably take several years and during this time, the UK's ML/TF defences may come under threat if the appropriate safeguards are not in place.

10.2 To reduce these potential risks, HM Treasury consulted on potential additional powers that might be required by the FCA, HMRC and PBSs to ensure that they can achieve a smooth transition while reducing scope for duplication. The intention is that this will limit friction for firms, in support of the Government's wider Growth Mission. We were also aware of concerns, particularly amongst the legal sector in relation to whether the FCA will have sufficient sector-specific expertise to take on this new role.

10.3 In the consultation, we are committed to working with supervisors to minimise the burden on firms of being required to register with different bodies. However, firms or individuals may be required to confirm certain details - potentially on an annual basis - as they already are, and it is proposed that the FCA will be responsible for applying fit and proper requirements under regulation 58 in respect of professional services firms it supervises, being able to make use of existing checks carried out by professional body supervisors where these meet the requirements of the Regulation, and avoiding unnecessary duplication. HMRC (who supervise a number of accountancy service providers) and the current PBSs are likely to have live supervisory case work that it may be appropriate for the FCA to take forward. There may also be new firms who will be awaiting registration for AML/CTF purposes during the transition period.

10.4 HM Treasury also sought views on the appropriate information-sharing agreements that should exist between the PBSs and the FCA during the transition period, as well as how ongoing cooperation can limit the regulatory burden on firms. We also asked respondents to suggest whether there were any additional legislative measures that could be taken to prevent additional regulatory burdens arising.

Response Analysis and Policy Statements

21. Are there any specific powers or transitional arrangements that you believe would help the FCA, current supervisors, or HM Treasury support a smooth and low-burden transition for firms already supervised under the MLRs?

10.5 Respondents who engaged with this question gave a range of views. The need to avoid regulatory gaps was raised frequently, with responses highlighting the need to ensure that there is no period where firms are unsupervised during the transition. The fact that the transition to FCA supervision should avoid duplication of regulation, minimise administrative burden – particularly for smaller firms – and be underpinned by clear timelines, early communication and proportionate expectations was a consistent theme across the responses.

10.6 The need for effective information-sharing arrangements was also raised frequently. A number of responses highlighted the need for explicit legal gateways to facilitate information-sharing, with some respondents suggesting that a statutory duty should be placed on the PBSs to cooperate during the transition period. Other responses suggested that existing registrations, approvals and risk assessments of current supervisors should be adopted by the FCA to avoid excessive burdens on firms through having to re-register and reshare information.

10.7 Responses also focused on live supervisory investigations and enforcement and disciplinary cases. Various suggestions were made in this area, with some responses indicating that PBSs should be responsible for concluding cases, whilst others proposed a dual approach to ongoing cases throughout the transition period and others suggesting that cases are moved over to the FCA.

10.8 The need to preserve sector and jurisdiction-specific expertise was raised frequently. Responses highlighted the need for the FCA to develop specialist knowledge of the new sectors under their responsibility and to avoid a ‘one-size-fits-all’ approach. The distinctiveness of the Scottish legal system and the need for the FCA to build expertise in relation to this was also raised. Specific concerns, such as in relation to barristers frequently moving in and out of scope of the MLRs, were also raised.

10.9 Responses suggested a range of measures to ensure that necessary expertise is both preserved and developed during the transition period. Proposed mechanisms included transitional teams, secondments from PBSs, advisory panels, contracting-out arrangements, phased or risk-based sequencing, and retention or recruitment of PBS staff.

10.10 A common theme was also the request for clarity on how the FCA’s supervisory model will operate in practice, particularly around fees, data requirements, IT systems and fit-and-proper testing. There

was clear appetite for further engagement and consultation on transition planning before implementation.

10.11 Only a limited number of respondents proposed explicit legislative measures to support a smooth transition. Those that did primarily focused on cooperation arrangements and potential statutory requirements on the FCA to recognise existing registrations.

Policy Statement

10.12 HM Treasury agrees with many of the issues raised by respondents in relation to this question. There is a clear need to minimise additional regulatory burdens that could fall to firms during the transition period. This includes avoiding unnecessary additional requirements for businesses that are already registered with a supervisor. The operational independence of the FCA and other AML/CTF supervisors continues to be of paramount importance to HM Treasury, and including legislative provisions that would limit the FCA's ability to carry out additional checks on firms during the transition period would not be appropriate. However, the FCA is committed to ensuring that burdens on firms are minimised during the transition period, including in relation to re-registration requirements.

10.13 HM Treasury agrees that clear, effective information-sharing arrangements are of paramount importance in ensuring a smooth transition period and minimising the regulatory burden on firms on an ongoing basis. As part of this, we would look to take forward measures that will require ongoing cooperation between the FCA, HMRC and the existing PBSs beyond the transition period. This will enable the FCA, professional bodies and relevant legal regulatory bodies to coordinate their registration and information gathering processes, align inspection timings and discuss enforcement and disciplinary proceedings. This measure will be essential to limiting the burden on firms going forward, minimising the risks of dual-regulation and dual-enforcement.

10.14 In reflecting the transfer of accountancy service providers and trust and company service providers from HMRC to the FCA, close cooperation and information-sharing between the FCA and HMRC will be required, alongside effective coordination across AML/CTF supervisors during the transition period and beyond.

10.15 In relation to live investigations and enforcement proceedings, information relating to these areas will be shared with the FCA as part of the transition period. The FCA would look to work closely with PBSs and HMRC as part of the implementation process to determine how this will be carried out in practice.

10.16 Both HM Treasury and the FCA recognise the distinctiveness of the new sectors and jurisdictions that will be brought under FCA responsibility. We are committed to ensuring that the new supervisory system respects and preserves these distinctions and

that the FCA's approach to supervision is compatible with wider legal obligations on firms in different jurisdictions. The FCA will not take a 'one size fits all' approach to supervision, allowing for flexibility in approach towards firms of different sizes, in different sectors and in different jurisdictions. The FCA will continue to engage with current supervisors to determine the most effective way to preserve and develop this expertise.

10.17 Both HM Treasury and the FCA will continue to engage with PBSs, HMRC, representative bodies and wider civil society as the plan for implementation is developed in more detail.

10.18 These arrangements will be taken forward through primary legislation in the Financial Services Bill and implemented in detail through secondary legislation amending the Money Laundering Regulations during the FCA's implementation period.

22. Do you agree that a requirement should be placed on the FCA and existing professional bodies and regulators to create an information-sharing regime that minimises burdens on firms?

10.19 Almost all respondents agreed with the proposal to require the FCA and current PBSs to establish an information-sharing regime that minimises burdens on firms.

10.20 Responses consistently emphasised the importance of this for avoiding duplicative data requests, the need to engage with multiple registration processes and overlapping reporting obligations. There was also support for a single registration and data-submission process, with some responses suggesting that data should only need to be submitted to professional bodies and relevant legal services regulators who would then share relevant information with the FCA. There was clear support that the regime should have a statutory basis with clear requirements on the different bodies and explicit legal gateways.

10.21 Responses highlighted the need for certain safeguards to ensure that the regime works effectively. These included statutory limitations to ensure that the data is used only for AML/CTF supervision purposes (including, where relevant, non-AML supervisory functions of existing PBSs), the need to protect client confidentiality and legal professional privilege, the need for compliance with data protections legislation and transparency for firms in relation to when their data is shared.

10.22 Practical considerations were also raised, highlighting the fact that PBSs hold data in different formats and upgrading IT systems would be costly. Therefore, respondents suggested that the FCA should rely on existing systems where possible to avoid placing additional burdens on PBSs.

10.23 The need for two-way information-sharing was also highlighted as being essential to the success of the regime. There was clear support for the FCA sharing information with the present PBSs to highlight potential conduct issues within their sectors.

10.24 Other respondents proposed operational features such as time-bound obligations, penalties for non-compliance, joint registers of firms and regular review of the regime to ensure it remains effective.

Policy Statement

10.25 Having considered the responses to this question, HM Treasury will legislate to place an obligation on the FCA and existing PBSs to establish information-sharing and cooperation arrangements. This will be essential in reducing regulatory burdens on firms and ensuring a more joined-up system, minimising duplication and supporting effective two-way information-sharing between the FCA and existing PBSs across both AML/CTF supervision and wider regulatory functions.

10.26 The specifics of how this regime will operate in practice will be for the FCA and existing PBSs to determine in collaboration. However, there is agreement that the regime must have the necessary safeguards to ensure that it is effective, including compliance with confidentiality and data protection requirements and legal professional privilege.

10.27 HM Treasury agrees that two-way information-sharing is essential to ensuring the success of the regime and creating a cohesive regulatory landscape. This will form part of the legislative basis of the requirement to create the regime.

23. Are there other legislative measures that would prevent additional regulatory burdens arising?

10.28 Many respondents did not engage with this question. Where respondents did engage, many did not propose additional legislative measures, instead indicating that further clarity on the transition period, implementation and the FCA's final supervisory model is required before commenting further.

10.29 Some respondents highlighted areas covered earlier in this Chapter and in the following two Chapters around the need to prevent duplication of regulation and minimise dual-regulation and dual-enforcement. Respondents suggested statutory delineation of roles, measures to indicate primacy to avoid parallel enforcement and duplicative inspections and separation of AML/CTF supervision from wider professional conduct, particularly to protect jurisdiction-specific distinctions.

10.30 There was also support for clear and specific legal gateways to facilitate the information-sharing regime discussed above, alongside emphasis on the need to protect legal professional privilege.

Policy Statement

10.31 HM Treasury is confident that the creation of an ongoing information-sharing regime between the FCA, current PBSs, and HMRC alongside an ongoing cooperation requirement on these same organisations, will be effective in preventing additional and/or duplicative regulatory burdens and minimising the risks of dual-regulation and dual-enforcement.

10.32 As outlined elsewhere in this response, the government is clear that the FCA's role will be restricted to AML/CTF supervision in respect of professional services firms. Other regulators will continue to hold responsibility for wider professional conduct regulation across the different jurisdictions. This delineation of responsibility is founded on the MLRs which will provide the FCA with the necessary powers to be an effective supervisor.

10.33 Both HM Treasury and the FCA will continue to engage closely with firms, PBSs, HMRC and regulators and civil society to develop transition and implementation plans, and more detail will be provided in due course.

Chapter 11: The role of OPBAS and professional services legislation

Background

11.1 The Office for Professional Body AML Supervision (OPBAS) has played a key role in the UK's current AML/CTF supervisory regime, ensuring consistency and improving the standards of PBS supervision.

11.2 Following the conclusion of supervision reform, OPBAS will no longer be required to oversee the work of the PBSs and OPBAS will cease to exist. However, during the transition period, OPBAS will continue to work to maintain standards and support the transition to a new supervisory model.

11.3 We are also aware of the interaction between the MLRs and wider statutory frameworks and obligations governing professional services. We recognise that firms will need clarity on how these wider requirements will be affected by changes to the UK's supervision regime.

11.4 In the consultation, we asked respondents whether there were any additional powers that could be granted to OPBAS in order to ensure that standards of supervision are maintained during the transition period. We also asked for views on wider legislative changes that may be required to ensure the success of reform, including alignment with existing statutory frameworks and the economic crime objective introduced by the Economic Crime and Corporate Transparency Act 2023.

Response Analysis and Policy Statements

24. Are there any additional powers that would support OPBAS to provide effective oversight of the PBSs during the transition? If so, please provide an overview.

11.5 Almost all respondents expressed the opinion that granting additional powers to OPBAS in relation to the ongoing oversight of PBSs during the transition would not be beneficial.

11.6 There was a clear view amongst respondents that the focus of OPBAS should now turn to supporting the smooth transition to the new supervisory model. Concerns were raised around PBS resourcing constraints as their focus will necessarily shift to preparing for the new supervisory model, limiting their ability to focus on improving supervisory standards.

11.7 Where respondents agreed with granting OPBAS additional powers, these were primarily in relation to ensuring that information was shared with the FCA in a timely manner. Respondents suggested enhancements to OPBAS' power of direction alongside the ability to require PBSs to prioritise data sharing and cooperation. There was some support for a limited fining power but the issuing of deanonymized OPBAS reports was not popular. One respondent suggested that OPBAS should be given the ability to issue monetary or other incentives to ensure that PBSs remain appropriately resourced during the transition period. Another respondent indicated that OPBAS should have the ability to take direct control of the supervision of a PBS's population where that PBS is failing to meet expected standards of supervisory effectiveness.

Policy Statement

11.8 HM Treasury agrees that OPBAS has sufficient powers that can be exercised during the transition period to ensure that the PBSs' current level of supervisory effectiveness is maintained. HM Treasury will continue to work closely with OPBAS to ensure that the transition to the new supervisory model is as smooth as possible for both PBSs and their supervised populations. Therefore, the government does not intend to introduce new powers for OPBAS.

25. Are there any wider legislative changes that may be necessary to support the effective implementation of this policy, including alignment with existing statutory frameworks governing professional services?

11.9 Respondents highlighted a wide range of legislative changes that may be necessary to support the effective implementation of this policy.

11.10 A range of existing pieces of legislation were identified as potentially needing amendments to ensure that the reform is successful. These included the Legal Services Act 2007, the Solicitors Act 1974 and the Administration of Justice Act 1985. One respondent also highlighted the fact that insolvency regulators were granted new objectives under the Small Business, Enterprise and Employment Act 2015 which will need to be considered in relation to the FCA's approach to supervision. Respondents also highlighted the Scottish legislation that may require amendments, including the Solicitors (Scotland) Act 1980 and the regulation of Legal Services (Scotland) Act 2025

11.11 Some respondents stated a preference for statutory measures that would clearly define the limits of the FCA's role, restricted to AML/CTF compliance. The intention behind this was to ensure that there is no overlap between the roles and powers of different regulators. Concerns around dual-regulation and dual-enforcement were also raised, with respondents suggesting that the primacy of

regulators in different circumstances should be established in legislation. This could include, for example, stating that where a firm has breached both AML/CTF regulations and professional codes of conduct, only the FCA should be able to take enforcement action. Respondents also suggested that a statutory provision should be introduced that would require the FCA to act proportionately when carrying out its AML/CTF supervisory functions.

11.12 Respondents also commented on legislative measures that they felt could simplify the transition period and ongoing cooperation between regulators once the reforms are complete. A statutory requirement on the FCA to ‘passport’ fit and proper tests, registrations and approvals issued by PBSs was suggested. Points around aligning FCA and SRA processes so that FCA evidence would be admissible by the Solicitors Disciplinary Tribunal were also raised, along with the suggestion that the FCA could sub-contract supervisory work out to the PBSs, either during the transition period or on an ongoing basis.

Policy Statement

11.13 HM Treasury recognises the wide range of interactions with existing legislation and the potential need for alignment and amendments to ensure that firms are able to meet their existing obligations. We will continue to review existing legislation, including those Acts listed above, and make consequential amendments as necessary. We will consult as needed on any required changes in due course.

11.14 Both HM Treasury and the FCA also recognise the distinctiveness of the Scottish and Northern Irish legal system and legislation. We are committed to ensuring that the new supervisory system respects and preserves these distinctions and that the FCA’s approach to supervision is compatible with the wider legal obligations on Scottish and Northern Irish firms. The FCA will not take a ‘one size fits all’ approach to supervision, allowing for flexibility in approach towards firms of different sizes, in different sectors and in different jurisdictions. Engagement with Scottish and Northern Irish representatives will continue through the implementation process to ensure alignment.

11.15 In relation to a statutory measure to define the limits of the FCA’s role, HM Treasury’s view is that additional legislation in this area would be unnecessary. The MLRs are clear that supervisors should not go beyond enforcing compliance with the regulations, and that the powers granted to supervisors under the MLRs can only be used in relation to AML/CTF compliance. Similarly, proportionality is a key tenet of the MLRs with supervisors required to take a proportionate approach to supervision. HM Treasury has also undertaken work to make the regulations themselves more proportionate, laying an SI on 25 March 2026.

11.16 In relation to suggestions that legislation should set out the primacy of regulators in different circumstances, HM Treasury does

not consider that additional legislative provision is necessary. As set out in the previous chapter, our expectation is that an ongoing information-sharing regime will be established between the FCA and current PBSs once reform is complete, along with a permanent obligation to cooperate. This will ensure that supervisory and enforcement decisions can be coordinated between regulators, minimising the burden on firms and limiting the risk of dual-regulation. This information-sharing regime should also be used to coordinate the production of evidence and ensure that the work undertaken by the FCA in investigating wrongdoing can be used by regulators in other contexts, such as considering whether a solicitor should be struck off.

11.17 The operational independence of the FCA continues to be of paramount importance to HM Treasury. Including legislative provisions that would limit the FCA's ability to carry out additional checks on firms during the transition period or require the sub-contracting of supervisory work would not be appropriate. The FCA is committed to ensuring that burdens on firms are minimised during the transition period.

<p>26. Should any changes be made to the economic crime objective introduced for legal regulators by the Economic Crime and Corporate Transparency Act?</p>
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11.18 Respondents expressed differing views on whether changes should be made to the economic crime objective introduced for legal regulators by the Economic Crime and Corporate Transparency Act 2023. Responses were predominantly from the legal sector, with a few responses from civil society and the accountancy sector.

11.19 Most respondents to this question supported revising or repealing the economic crime objective. This view was particularly prominent among respondents from the legal sector, who argued that the transfer of AML/CTF supervisory responsibility to the FCA undermines the practical basis on which legal regulators can meet the objective. These respondents raised concerns about duplication of regulatory activity and the risk that legal regulators would be required to demonstrate compliance with an objective that they no longer have the tools or remit to perform effectively.

11.20 Some respondents supported maintaining the objective, often emphasising that economic crime risks extend beyond money laundering and terrorist financing, such as fraud and sanctions breaches. Respondents who took this view typically highlighted the importance of integrity, public confidence and transparency in the legal sector, and considered that the objective continues to provide a useful statutory basis for regulators' work in these areas.

11.21 Some respondents did not take a defined position on repeal or retention but instead focused on the need for greater clarity and proportionality in how the objective operates post transition. These

respondents generally accepted the objective in principle but argued that expectations would need to change significantly following the move to the new AML/CTF supervision regime, particularly through revised guidance and greater clarity of roles to avoid duplication.

11.22 A few respondents argued for strengthening the objective or extending its application, including suggestions that the FCA should itself be subject to a comparable objective. This position was not widely shared and represented a clear minority view.

Policy Statement

11.23 The Government's view is that the economic crime objective should be maintained. Economic crime risks facing the legal services sector extend beyond money laundering and terrorist financing alone, which includes fraud, sanctions breaches, bribery and tax evasion. Retaining this objective ensures that legal services regulators continue to have a clear statutory basis for promoting the prevention and detection of these harms, in line with the wider public interest and the integrity of the legal sector.

11.24 The Government recognises the concerns raised by respondents regarding how the objective should operate in practice following the transfer of AML/CTF supervisory responsibility to the FCA, including the risk of regulatory duplication or disproportionate burdens on firms. The Government is clear that maintaining the objective should not result in legal services regulators duplicating the FCA's AML/CTF supervisory role, nor should it require regulators to undertake work that is unnecessary or misaligned with the risks present in their regulated populations.

11.25 The Government considers that amendment or repeal of the objective is not necessary. Instead, the objective can continue to operate effectively within the new supervisory framework through a proportionate, outcomes focused approach, supported by regulatory expectations. The Legal Services Board has already adopted an outcomes-based framework in its statutory guidance and will continue to engage with regulators to understand how they can best demonstrate compliance and proportionality in their approaches.

11.26 The Government considers that effective cooperation, engagement and information-sharing between the FCA and legal services regulators should be recognised as a key factor in how regulators discharge their responsibilities under the objective, including in supporting effective AML/CTF supervision while co-ordinating enforcement matters where appropriate.

11.27 In implementing this approach, the Government expects that:

- legal services regulators will focus on economic crime risks that are relevant to their regulated populations;
- the objective will be applied in a risk-based and proportionate manner, avoiding unnecessary or duplicative regulatory requirements for firms;

- cooperation between legal regulators and the FCA, including during the transition period and in BAU supervision, will form an important part of regulators' approach; and
- appropriate account will be taken of jurisdiction specific legal frameworks, including in Scotland and Northern Ireland.

11.28 The Government considers that retaining the economic crime objective, supported by proportionate guidance from the Legal Services Board, strikes the right balance between maintaining an effective framework for tackling economic crime and delivering proportionality for this new AML/CTF supervisory regime.

Chapter 12: Accountability and independence

Background

12.1 It is essential that the FCA is operationally independent of Government to fulfil its role effectively. However, there must be mechanisms in place so that it is accountable to HM Treasury, Parliament and the public for its overall performance. HM Treasury cannot intervene in the FCA's supervisory oversight of firms, and this important safeguard should apply to AML/CTF supervision of professional services firms.

12.2 There are several accountability mechanisms set out in legislation to ensure that the FCA is accountable. The FCA reports to HM Treasury on its progress via its Annual Report, a copy of which is then laid in Parliament. In this way, the FCA is statutorily required to demonstrate its performance and effectiveness to Parliament. HM Treasury can require the FCA to carry out an investigation where there has been a serious regulatory failure, or if it believes an investigation is in the public interest. The FCA appears before the Treasury Committee three times per year in a general accountability hearing. This provides an opportunity for Parliament to scrutinise all aspects of the FCA's work at regular intervals.

12.3 The FCA also regularly gives evidence to other Parliamentary committees, as well as responding to requests for information from MPs and peers through letters, Parliamentary Questions and evidence to All Party Parliamentary Groups.

12.4 HM Treasury is responsible for making some appointments to the FCA's Board which holds the organisation to account and helps set its strategic direction.

12.5 In the consultation, we proposed that the FCA continue to have its existing accountability mechanisms and that these should apply when carrying out its additional supervisory duties.

12.6 The consultation also highlighted the importance of ensuring that the government has the means to influence the overall strategic direction of regulators' work, including in relation to driving economic growth and considering the impact of supervision on affected firms and wider sectors. We asked respondents to consider what measures the government should take to ensure a proportionate overall approach to supervision, including prioritising growth.

Response Analysis and Policy Statements

27. Do you have any issues with our intention to apply the FCA's existing accountability mechanisms in carrying out its additional supervisory duties?

12.7 Of the respondents who engaged with this question, almost all agreed with our intention to apply the FCA's existing accountability mechanisms in carrying out its additional supervisory duties.

12.8 A few respondents expressed hesitation, highlighting that the FCA framework has been developed primarily with the financial sector in mind. Therefore, respondents suggested that it may be necessary to introduce additional governance arrangements or specific training to ensure that the framework is applied effectively to the professional services sectors and that jurisdictional differences are also reflected.

12.9 A few Scottish respondents suggested that the FCA should be accountable to the Scottish Parliament through its existing accountability mechanisms. This argument is based on the fact that Scottish legal sector regulation sits with the Law Society of Scotland, which has statutory responsibility for regulating the legal profession in Scotland.

12.10 A few respondents highlighted the importance of ensuring that areas of responsibility are clearly defined and distinctions maintained. Respondents highlighted that this would ensure that duplication is limited.

12.11 Conversely, a few respondents suggested that applying existing accountability mechanisms would be insufficient. One respondent suggested that there should be increased scrutiny of the FCA's work whilst another suggested that the FCA should be accountable to the Ministry of Justice as well as HM Treasury. A few respondents suggested that the FCA should be required to produce a separate annual report focused on the AML/CTF supervision of professional services firms, with the FCA appearing before Parliamentary committees to report on its supervisory role, as well as introducing a statutory veto for the Treasury Select Committee in relation to the appointment and dismissal of the FCA's Chief Executive.

Policy Statement

12.12 HM Treasury will ensure that the FCA's existing accountability mechanisms apply when carrying out its additional supervisory responsibilities towards professional services firms.

12.13 We recognise the need to ensure that the application of these mechanisms is tailored to professional services sectors. The FCA is conscious of the need to adopt different approaches in supervising different sectors and jurisdictions.

12.14 AML/CTF legislation is a reserved matter so it is right that the FCA should continue to be accountable to the UK Parliament. The Scottish Parliament and the Law Society of Scotland will maintain responsibility for wider legal regulation, with the FCA cooperating with the Law Society of Scotland to minimise duplication and burdens on firms.

12.15 HM Treasury is conscious of the risk of duplication of requirements on firms as a result of supervision reform. We will ensure that the FCA and existing PBSs have the means to share information and cooperate effectively to minimise burdens.

12.16 HM Treasury's view is that the FCA's existing accountability mechanisms strike the correct balance between maintaining essential operational independence and ensuring that the FCA remains accountable to HM Treasury and Parliament. Parliamentary committees will also have the opportunity to inquire about supervision during the FCA's regular appearances. HM Treasury already makes some appointments to the FCA's Board, and we believe this strikes the appropriate balance without the need for a Treasury Select Committee veto in relation to the appointment of the CEO. Therefore, we are not proposing to make further changes to existing accountability mechanisms.

28. What measures do you think should be taken to ensure a proportionate overall approach to supervision, including prioritising growth?

12.17 Just over half of respondents engaged with this question and shared a range of views on how HM Treasury can ensure that a proportionate overall approach is taken to supervision, including prioritising growth.

12.18 A few respondents explicitly suggested legislative measures that could be taken. One respondent suggested that an arrangement for ongoing dialogue between the FCA and current PBSs be established to ensure ongoing cooperation. Another respondent suggested that the FCA be required to conduct a small firm impact assessment before introducing new supervision processes.

12.19 Other respondents focused on high-level concepts that should underpin the FCA's approach to supervision but that do not necessarily require additional legislation.

12.20 The need for a proportionate approach to supervision, particularly in relation to fees and enforcement action, was raised frequently. The importance of the risk-based approach which is central to the MLRs was also emphasised by respondents. The need for clear and consistent procedures and guidance was also flagged as essential for aiding firms' compliance with the regulations.

12.21 Other respondents highlighted the importance of the FCA rapidly acquiring relevant sector and jurisdiction-specific knowledge as central to ensuring effective supervision. The need for the FCA to adapt its approach depending on the size of firms was also raised with respondents expressing concerns that the reform would impact the viability of some smaller firms.

12.22 Ongoing close collaboration between the FCA, HM Treasury and the current PBSs was highlighted by a number of respondents as central to minimising burdens on firms and avoiding potential issues around dual-regulation and dual-enforcement.

Policy Statement

12.23 HM Treasury is committed to ensuring that a proportionate overall approach is taken to supervision, including prioritising growth.

12.24 Proportionality and the use of a risk-based approach is central to the MLRs and will continue to underpin the FCA's approach to supervision. This applies to supervision, enforcement and the levying of fees. The FCA is an experienced AML/CTF supervisor and will be able to translate this knowledge to inform its supervision of new sectors.

12.25 As mentioned previously, the FCA is conscious of the need to tailor its approach to supervision to take into account differing sectors, firm sizes and jurisdiction-specific requirements. The FCA already supervises a wide range of firms, from large multinational institutions to small businesses and sole practitioners, and will build on this experience while developing the additional sector-specific expertise needed to supervise professional services firms effectively. This will be a priority to ensure the success of the reform.

12.26 In terms of legislative measures, as outlined in Chapter 11, we intend to legislate to create an ongoing information-sharing regime between the FCA and existing PBSs, alongside an ongoing requirement to cooperate. This approach will reduce duplication, minimising burdens on firms and reducing the risks associated with dual-regulation and dual-enforcement.

Annex: Glossary

AML – Anti-Money Laundering

ASP – Accountancy Service Provider

BOOM – Beneficial Owner, Officer, or Manager

CCAB – Consultative Committee of Accountancy Bodies

CTF – Counter-Terrorist Financing

FCA – Financial Conduct Authority

“Firm” - When this document refers to a “business”, “firm” or “regulated firm”, this is used to encompass all regulated entities, including sole traders. The term “professional services” is used in this document to refer to lawyers, accountants, and TCSPs.

FSMA – Financial Services and Markets Act

HMRC – His Majesty’s Revenue and Customs

JMLSG – Joint Money Laundering Steering Group

LPP – Legal Professional Privilege

LSAG – Legal Sector Affinity Group

LSP – Legal Service Provider

MLR(s) – Money Laundering Regulations

NCA – National Crime Agency

NRA – National Risk Assessment

OPBAS – Office for Professional Body Anti-Money Laundering
Supervision

PBS – Professional Body Supervisor

POCA – Proceeds of Crime Act 2002

Regulations – the Money Laundering Regulations

SAR – Suspicious Activity Report

SPSS – Single Professional Services Supervisor

TACT – Terrorism Act 2000

TCSP – Trust and Company Service Provider

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