Parliamentary Briefing

Financial Services and Markets Bill [HL]

Second Reading, House of Lords, 8 June 2026

The Law Society of England and Wales is the independent professional body that works globally to support and represent 210,000 solicitors, promoting the highest professional standards and the rule of law.

Summary

- The Financial Services and Markets Bill will enable reforms to the UK's anti-money laundering and counter-terrorist financing (AML/CTF) supervisory framework.
- Specifically, the Bill will enable - through regulations - the transfer of frontline AML regulation for the solicitor profession from the Solicitor's Regulation Authority to the Financial Conduct Authority as the Single Professional Services Supervisor.
- This is a seismic shakeup to how law firms and their AML/CTF obligations are regulated which risks sending shockwaves through the sector. The change is likely to divert attention, resources and time from supporting clients and growing their businesses to ensure firms can adapt to the changes.
- As these changes are implemented, rather than introducing additional layers of regulation, the Government should prioritise a regulatory agenda that simplifies requirements, reduces duplication, and minimises compliance burdens. This shift will enable law firms to focus on economic growth while maintaining robust safeguards against economic crime.
- While the Bill establishes the primary legislative framework, we still await publication of HM Treasury's response to their 2025 consultation on AML/CTF Supervision Reform that sets out the substantive areas where primary and secondary legislative, regulatory, and operational changes will be required.
- Without the consultation response and a clear approach from HM Treasury, we are concerned that Parliament is being asked to legislate for powers to enable the detail of reforms that remain unclear and that the sector has not seen.
- Changing the AML regulator for the solicitor profession from the SRA to the FCA risks creating dual regulation for solicitors – adding a second referee to an already complex landscape. One (the SRA) already knows the rules of legal practice, and now another (the FCA) is being added, with different rules and expectations. Instead of making decisions clearer, it could create added confusion, increase compliance requirements and have a disproportionate burden on small and high street firms.

- The FCA is used to regulating banks and financial firms. Applying its approach to solicitors is a bit like using a banking rulebook to run a law firm - some rules will fit, but others won't reflect how legal practice actually works. With the consultation response still outstanding, the sector has no clear picture of how the FCA will approach its new regulatory responsibilities.
- Solicitors play an important role in tackling economic crime and we are supportive of the Government's efforts to strengthen the UK's AML/CTF supervisory framework.
- The Government should provide urgent clarity on the detail of these reforms before progressing further. This includes publishing the response to the 2025 Treasury consultation, engaging closely with the legal sector, and ensuring that any new system avoids duplication, remains proportionate, and protects the core principles of legal practice. Without these safeguards, the reforms risk placing unnecessary burdens on law firms and undermining, rather than strengthening, the UK's framework for tackling economic crime.

1. The legal sector and our role in tackling economic crime

The legal sector is an economic powerhouse. Our members employ 1.1% of the UK workforce, while contributing £60bn to the UK economy. Much of the value of legal services is also in how it facilitates other economic champions to thrive.

Our sector supports the UK to be a global leader in financial services, with the Government's Growth and Competitiveness Strategy itself recognising that English and Welsh law's position as a global standard "*affords the financial services sector a competitive advantage*".

Our members play an important role in tackling economic crime and supporting the Government's efforts to strengthen the UK's anti-money laundering and counter-terrorist financing (AML/CTF) supervisory framework. By ensuring regulation on AML and in other areas is proportionate, and through a close relationship with the growth sectors that support financial services, the Government can underpin that leading position.

2. The proposed reforms to the AML/CTF supervisory framework

The UK Government announced in October 2025 that the Financial Conduct Authority (FCA) will be the single professional services supervisor. For solicitors, this means that AML/CTF supervision and regulation will be removed from the Solicitors Regulation Authority (SRA) and undertaken by the FCA. The SRA will retain its non-AML/CTF supervisory and regulator roles.

The changes follow HM Treasury's 2023 consultation into reforming AML and CTF supervision and the 2025 consultation on the key duties, powers and accountabilities the FCA will need to effectively supervise professional services businesses. The UK Government has not yet published its response to the 2025 consultation.

The Financial Services and Markets Bill provides the legislative vehicle to enact these reforms, which are a major change to how law firms are supervised for anti-money laundering and counter-terrorist financing (AML/CTF). At the moment, solicitors are regulated by the Solicitors Regulation Authority (SRA). Under these reforms, responsibility for AML/CTF supervision would move to the Financial Conduct Authority (FCA), which mainly regulates financial services firms. While the aim is to strengthen the UK's fight against economic crime, this would introduce a new regulator into the legal sector and significantly change how law firms are overseen.

The Law Society is concerned that, as currently proposed, the reforms risk making the system more complicated rather than simpler. Solicitors could face dual regulation, dealing with both the SRA and the FCA, leading to duplication, higher costs, and increased administrative burden—particularly for small and high street firms. There is also a lack of clarity about how the new system will work in practice, as much of the detail will be set out later in secondary legislation that has not yet been published. In addition, the proposals may not fully reflect the unique nature of legal practice, including duties around client confidentiality and legal professional privilege.

3. Key clauses in the Bill

Our members are most interested in clauses 14 and 48 of the Bill which create the enabling powers for the reform of the AML/CTF supervisory regime for solicitors. This will move the supervision from the current supervisor (the SRA) to the Financial Conduct Authority.

Clause 14 amends the Sanctions and Anti-Money Laundering Act 2018 (SAMLA) to provide powers to enable the Secretary of State or HM Treasury to make provisions about cooperation and information-sharing in secondary legislation, and to ensure that the FCA is successful in fulfilling its new supervisory responsibilities.

Clause 48 provides HM Treasury with the spending authority to make payments to the FCA to cover costs incurred for the expansion of the FCA's AML/CTF supervisory responsibilities.

Much of the detail of the changes has been left to secondary legislation, and without the Government's response to the 2025 consultation, the sector is in the dark about how these changes will work in practice.

4. The clarity the sector needs

It is fundamental that the Financial Conduct Authority (FCA)-led supervisory model reflects the realities of legal practice. Solicitors operate within a distinct regulatory framework defined by ethical duties, obligations to the court and the rule of law, and the protections of legal professional privilege and client confidentiality. These features materially differentiate the sector from the FCA's existing remit. As such, "one-size-fits-all" approach to AML supervision would be inappropriate.

Following the decision to transfer AML/CTF supervision for solicitors from the Solicitors Regulatory Authority (SRA) to the FCA and Treasury's initial consultation, we have identified a set of priority issues and practical, solution-focused recommendations to ensure the new regime is effective, proportionate, and legally coherent.

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What the sector does not have is an understanding of the detail coming from the resulting regulations and implementation. If the Government is to legislate in this way and leave so much to secondary legislation, they must first respond to the 2025 Treasury Consultation and set out the detail of the FCA's new powers, responsibilities and duties.

5. Our key concerns

While supporting robust AML/CTF compliance for the regulated sector, the Law Society emphasises that reforms must respect the legal sector's unique regulatory frameworks, the application of a risk-based approach, avoid duplication, and ensure proportionality. Any changes should build on existing oversight by the SRA, target material AML/CTF risks, and include safeguards to protect client interests, firm continuity, and professional obligations.

At the moment, there are several outstanding questions around the implementation of the AML/CTF regulatory changes for the legal sector. These are set out below:

6. The risk of regulatory duplication and the need for proportionality

Registration and gatekeeping

The forthcoming regulations will change the registration process for AML/CTF compliance. The detail of these must ensure that the FCA cannot cancel a firm's AML/CTF registration without explicit consent from the SRA, as this risks regulatory inconsistency and may misrepresent the operational realities of legal practices.

Proposals for new fit and proper requirements

These are the regulatory tests designed to ensure that individuals running, owning, or managing high-risk regulated businesses do not pose a risk of facilitating money laundering or terrorist financing.

Under Regulation 58 of the Money Laundering Regulations 2017 (MLRs 2017), supervisory authorities apply a qualitative assessment to ensure designated individuals and businesses are suitable to operate in regulated sectors. These do not currently apply to solicitors who are regulated by the SRA.

HM Treasury plans to extend the tests and enhance the reporting requirements for solicitors. This will duplicate existing SRA oversight, creates unnecessary burdens, and may delay routine business operations.

The FCA's new enforcement and supervisory powers

The Treasury plans to extend the FCA's enforcement powers to law firms. This is disproportionate, likely to duplicate SRA oversight, and will place undue burden on smaller and high street practices. The drafting of the regulations for these new powers must ensure that AML/CTF supervision is confined to regulated legal activities, as defined by the Legal Services Act 2007.

The reforms also risk double jeopardy and two-tier enforcement, exposing firms to overlapping or inconsistent regulatory actions.

Clause 14 of the Bill will also create the enabling legislation to allow Ministers to grant the FCA powers to issue directions or appoint skilled persons for the supervision of solicitors.

This move is unnecessary given the existing mandatory AML/CTF independent audit requirements as well as continuing SRA oversight. If this goes ahead, there will be increased burdens, prohibitive costs and the potential disruption to the delivery of legal services.

The sector needs assurance that the FCA will be taking a risk-based approach to supervision. Applying the current broad FCA risk assessments has the potential to misrepresent risks across diverse legal practices, particularly small firms, and duplicate existing supervisory mechanisms carried out by the SRA.

7. The importance of legal expertise, professional privilege and confidentiality

AML/CTF guidance must remain practitioner-led

Guidance on AML supervision for solicitors should remain practitioner-led through the current HM Treasury approved Legal Sector Affinity Group to ensure sector-specific expertise and practical applicability is maintained.

The FCA must not have direct access to Suspicious Activity Reports (SARs)

It has been proposed that following the Bill, the MLRs would be amended to require the National Crime Agency (NCA) to share Suspicious Activity Reports (SARs) with the FCA and other public sector supervisors for firms they oversee for regulatory purposes.

This raises serious concerns: the SARs regime is primarily a law enforcement intelligence tool, designed to protect confidentiality, sensitive information, and legal privilege, especially for law firms under the Proceeds of Crime Act 2002. The proposed expansion of access for regulatory purposes will undermine confidence in reporting and the function of SARs as intelligence tool.

The enhancement of information sharing must protect Privilege

The Government consulted on whether to extend the requirements under Regulation 47 to the FCA in relation to legal service providers. Regulation 47 primarily concerns the provision of information by supervisory authorities to inform supervised firms about potential money laundering and terrorist financing (ML/TF) risks. The proposal would mean that the FCA, in addition to its existing supervisory functions, would have a role in providing such information to these sectors.

We support extending Regulation 47 to enhance information sharing but warn it must avoid duplication with the SRA and protect Legal Professional Privilege, client confidentiality, and trust.

Questions for the Minister:

- The proposed AML supervisory reforms will be a seismic shakeup of the regulatory landscape for law firms - will the Minister publish the full detail or draft regulations (particularly those enabled by clauses 14 and 48) before they are implemented, so that the legal sector can properly prepare?
- When will the response to the Treasury's 2025 consultation on the key duties, powers and accountabilities the FCA will need to effectively supervise professional services businesses?
- It's vital that professional services sectors like the legal sector have clarity and we avoid a situation where a second referee is added to an already complex regulatory landscape - how will the Government ensure that transferring supervision to the FCA does not result in dual regulation or duplication between the FCA and the SRA?
- What assessment has the Government made of the impact of the change to AML regulator on small and high street law firms, particularly in terms of cost, capacity, and administrative burden?
- How will the Government ensure that any FCA-led regime avoids using a banking rulebook for other sectors, and that it can reflects and safeguards the unique features for example of legal practice, including legal professional privilege, client confidentiality, and duties to the court?
- What steps will be taken to ensure that the new regime remains proportionate, risk-based, and targeted at genuine AML/CTF risks, rather than imposing blanket requirements on all firms?
- Does the Minister agree that without careful drafting, the Bill is at risk of creating increased burdens, costs, and requirements for solicitors who are already regulated by the SRA?

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