

## **TRANSPARENCY INTERNATIONAL UK RESPONSE TO ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING SUPERVISION REFORM: DUTIES, POWERS, AND ACCOUNTABILITY CONSULTATION**

We welcome the publication of this consultation and the announcement that the Financial Conduct Authority (FCA) will take on supervisory duties of the legal, accountancy and company formation sectors.

The UK is a destination for those seeking to invest the proceeds of crime from around the world, with the National Crime Agency (NCA) estimating more than £100 billion is laundered through the UK each year.<sup>1</sup> The regulated sector is Britain's first line of defence against dirty money, however it is currently proving to be ineffective in this role. This is in large part due to the fragmented and uncoordinated supervisory system that sits above it.

The Government's decision to overhaul this system, with the FCA taking on supervisory duties of legal, accountancy and company formation sectors, has the potential to deliver more effective private sector oversight. However, to make this a success the must have the right supervisory and, where necessary, enforcement powers for the new sectors it will supervise.

To ensure the FCA is able to adequately supervise lawyers, accountants and professional services to detect and tackle money laundering, the Government should:

1. ringfence funding for the supervision of legal, accountancy and Trust and Corporate Service Providers (TCSP) sectors
2. ensure the FCA has powers to effectively police the perimeter of its regulated population
3. align the FCA's supervisory powers and responsibilities with those it already has for the financial sector
4. ensure the FCA can access legally privileged documents from law firms for regulatory purposes, as is currently the case for the Solicitors Regulation Authority (SRA)
5. create more information sharing gateways to give supervisors more insights on their regulated populations
6. put in place measures for to avoid a collapse of supervision amongst professional body supervisors during the transition period

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<sup>1</sup> <http://www.nationalcrimeagency.gov.uk/news/nca-and-fca-publish-priorities-to-combat-biggest-economic-crime-threats>, [accessed: 17 December 2025].

## Ringfence funding for the supervision of legal, accountancy and Trust and Corporate Service Providers (TCSP) sectors

Given the FCA's principle function is to regulate financial services, there is a danger that supervision of legal, accountancy and TCSP sectors falls down its priority list, resulting in insufficient levels of oversight for these firms. Similarly, there is a risk that AML consolidation is treated principally as a cost-cutting measure, with the additional revenue it brings being used to cross-subsidise savings elsewhere at the FCA.

To ensure the effective and consistent supervision of newly supervised sectors, the FCA should ringfence funding it receives in fees from legal, accountancy and TCSP firms. This money should only be used for the supervision of these sectors and not be used for the wider work of the FCA. The FCA should account for how it deploys these resources to provide transparency as part of its annual reporting processes.

## Ensure the FCA has powers to effectively police the perimeter of its regulated population

### **Register of supervised firms**

Ensuring only responsible firms can carry out regulated activity helps create a more trustworthy business environment, and makes the UK a more attractive place to invest. Bringing in a legal requirement to maintain registers of supervised entities – as is currently the case for financial institutions – would make it easier for the FCA to 'police the perimeter', identifying potentially unregulated businesses. It would help businesses, domestic and international law enforcement, as well as civil society and journalists help with this task. And provide a greater understanding of the scale and nature of the regulated sector, which can be used to improve anti-money laundering policymaking and operational responses to illicit finance.

### **Case study: Environmental crime and unregistered formation agents**

This year we notified relevant authorities about a network of UK companies that are being used to obscure the ownership of key industrial assets in an Eastern European country. Media reports state they are owned by a politically connected entrepreneur who has faced criminal investigations and regulatory violations including charges of large-scale tax evasion, environmental sanctions, and substantial unpaid debts from 2008 to 2025.

We identified five different TCSPs who had provided services for these companies, however could only find one of these firms on a list of supervised businesses. Having a centralised register of professionals regulated for AML would make it easier to check whether these firms are compliant, and report suspected breaches of the rules.

## **Application of fit and proper tests to legal, accountancy, and trust & company service providers**

We support the introduction of fit and proper tests to these sectors. These areas of activity pose a sufficiently high money laundering risk to require greater scrutiny over the owners and directors of companies engaged in them.

There are several examples of media investigations naming formation agents providing services to money launderers, but little action taken by regulators to penalise or prohibit these firms from carrying out further business.<sup>2</sup>

Law firms also feature prominently in money laundering schemes, with greater scrutiny required over owners and senior partners at firms who work for numerous high-risk clients. For instance, a UK law firm came under the spotlight when it was revealed they attempted to represent sanctioned Russian businessman, which resulted in the law firm's closure and the SRA ceasing to regulate them. However, the senior partner from this business runs another law firm, which continues to operate and has not received any regulatory attention. Under these circumstances a prospective FCA fit and proper regime for the legal sector should take factors like this into account.

Some firms in these sectors have been able to operate where the owners whose fitness and propriety is in question. For example, a HMRC regulated TCSP was owned by an individual who was known to be an associate of a jailed PEP. This individual was indicted in 2024 in another European country on money laundering charges, whilst being able to use the TCSP he was connected to in the UK to set up and administer companies. Under HMRC's light-touch fit and proper test this may not be taken into account, however under a prospective FCA regime this would ensure these individuals face more scrutiny.

It is important that associations like this are taken into account by the broader fit and proper testing regime that the FCA uses, rather than simply checking whether individuals or entities have been the subject of criminal convictions.

We also support the introduction of the requirement for Beneficial Owners, Officers, and Managers (BOOMs) to pass the fit and proper test before taking on these roles in regulated firms, including mandatory disclosure of relevant convictions, and the introduction of an enforcement power similar to those under regulation 26. One of the key findings from our assessment of electronic money institutions was that preventing

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<sup>2</sup> See: <https://www.occrp.org/en/project/29leaks-inside-a-london-company-mill/what-is-a-company-formation-agent>; <https://www.financeuncovered.org/stories/english-limited-partnerships-secrecy-formation-agencies-ios-las-lotus-comform-corruption>; <https://www.icij.org/investigations/fincen-files/inside-scandal-rocked-danske-estonia-and-the-shell-company-factories-that-served-it/> [accessed: 17 December 2025].

rogue actors entering a sector was far more preferable than having to take enforcement action against them once they had been authorised and then committed wrongdoing.<sup>3</sup>

## Align the FCA's supervisory powers and responsibilities with those it already has for the financial sector

Currently, the FCA and PBS' have a range of powers and responsibilities regarding regulated businesses under their purview that go beyond what is in the money laundering regulations. This provides them with some flexibility when it comes to supervisory and enforcement action. Understanding how these are used currently, and how they should be translated into the new reformed AML supervisory system is key to avoiding gaps emerging.

For example, the FCA often uses powers it has under Financial Services and Markets Act 2000 (FSMA) to take enforcement action against breaches under the money laundering regulations. This includes issuing unlimited fines under section 6.3 of the FCA handbook.<sup>4</sup> Similarly, the SRA has the ability to access privileged information in certain circumstances, which we discuss in more detail below. Government should assess whether PBSs hold any sector-specific powers that should be handed to the FCA. Equally, it should assess whether there are any powers the FCA holds under FSMA that it needs for overseeing AML compliance effectively that it does not have under the MLRs.

Beyond legal powers, resources are key to delivering effective supervision. The FCA should assess whether it has sufficient numbers of staff capable of carrying out an increased number of investigations and enforcement action under the MLRs. Inadequate resourcing for this new area of supervisory activity presents a critical point of failure in these reforms, and needs addressing as a matter of urgency.

## Ensure the FCA can access legally privileged documents from law firms for regulatory purposes, as is currently the case for the SRA

Consideration should be given as to whether these proposed regulatory changes will give the FCA sufficient powers to gather information from law firms that is subject to legal privilege. Currently the SRA have a contested power to obtain legally privileged information from firms when it relates to their regulatory duties.

Legally privileged information relating to advice around property, corporate structures, trusts and banking relationships potentially holds vital information that the FCA needs

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<sup>3</sup> <https://www.transparency.org.uk/sites/default/files/2024-12/Together%20in%20Electric%20Schemes%20-%20Transparency%20International%20UK.pdf>, [accessed: 17 December 2025].

<sup>4</sup> <https://handbook.fca.org.uk/handbook/sysc6/sysc6s3?timeline=true>, [accessed: 17 December 2025].

to assess a law firm's anti-money laundering procedures effectively. These could relate to documents such as:

- file notes of client meetings that include advice, legal risk assessments, or options such as recommending forming companies or trusts in certain jurisdictions for clients they know are high-risk which could contribute towards money laundering
- written advice to a client on how to structure an acquisition, disposal, financing, trust, or corporate vehicle, including the rationale for remaining anonymous in these transactions
- email exchanges within the firm and with the client analysing legal risk, identifying red-flags (e.g. sanctions, corruption risk), and/or advising on how to respond to counterparties or banks
- internal documents outlining potential legal risks, and notes and memos evidencing how legal advice shaped decisions taken by a firm relating to clients

Without access to these documents, the FCA will be unable to fully assess a legal firm's procedures and controls.

Currently the SRA's power to compel firms to hand over privileged material under section 44B of the Solicitors Act 1974 is being challenged in the High Court.<sup>5</sup> Legislation should be introduced that would enable the FCA to view privileged information under the money laundering regulations, setting a clear threshold for the disclosure of this information. This could be achieved using a legal burden such as "reason to suspect a breach of the money laundering regulations."

### **Case study: Al Jazeera investigation into football ownership**

An Al Jazeera investigation into football ownership highlighted the example of an SRA regulated partner at a UK law firm offering the use of client accounts to help mask the origin of funds used to acquire a football club. Correspondence around this arrangement, including communication with other professionals involved, would likely be privileged.<sup>6</sup> The lawyer and his firm said in response to the investigation they comply strictly with all legal and regulatory obligations at all times.

### **Case Study: Azerbaijani PEPs**

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<sup>5</sup> <https://www.legalfutures.co.uk/latest-news/court-to-rule-on-sras-powers-to-see-privileged-material>, [accessed: 17 December 2025].

<sup>6</sup> <https://www.aljazeera.com/features/2021/8/10/how-convicted-criminal-can-buy-famous-english-football-club-launders-money>, [accessed: 17 December 2025].

In a joint investigation with the Observer and the Organised Crime and Corruption Reporting Project in 2020, we profiled the assets belonging to children of Azerbaijan’s former security chief.<sup>7</sup> The investigation relied on leaked documents showing how the children of this PEP had invested in the UK. The UK lawyer representing the PEP’s children helped set up a trust structure, acquire properties, provide use of a client account, and vouch as to the children’s reputation and source of wealth to other professionals. The range of activities and apparent close connection between the lawyer and the family indicates that vital information was held in privileged documents – with the relationship beginning due to an introduction by an accounting firm for tax advice.<sup>8</sup> Subsequently, in August 2025 the SRA fined the lawyer involved for anti-money laundering failings.<sup>9</sup>

## Create information sharing gateways to give supervisors more insights on their regulated populations

### **SARs**

The money laundering regulations should be amended to allow the UK’s Financial Intelligence Unit 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. Currently vital intelligence held within SARs is not reaching money laundering supervisors, which is undermining their effectiveness. The FCA and other statutory supervisory bodies have the correct levels of data security to appropriately handle this information and should be entrusted with it to help identify non-compliance and improve reporting.

### **Dedicated information sharing gateways**

Information sharing gateways should also be expanded so supervisors, including the FCA, can receive sensitive information from professional bodies, the regulated sector and civil society to ensure intelligence on money laundering risk can be acted upon. Currently this type of information sharing is restricted and done on an ad-hoc basis through personal connections. Embedding this in law and ensuring supervisors receive intelligence from the full spectrum of organisations working on anti-money laundering issues will help contribute towards their work.

### **Continued use of Shared Intelligence Service (SIS) and the Financial Crime Information Network (FIN-NET)**

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<sup>7</sup> <https://www.occrp.org/en/investigation/dethroned-azerbaijani-elites-made-big-investments-in-europe> , [accessed: 17 December 2025].

<sup>8</sup> <https://solicitortribunal.org.uk/wp-content/uploads/2024/04/12560-2024.Fordyce.pdf>, paragraph 15.4, [accessed: 17 December 2025].

<sup>9</sup> <https://solicitortribunal.org.uk/case/12560/>, [accessed: 17 December 2025].

PBSs losing their money laundering supervisory role should continue to share information about the populations they oversee for non-AML purposes. For example, where the SRA has evidence of a serious breach of their guidelines, they should share this information with the FCA as it could indicate governance issues that are also of relevance to AML compliance. This continued information sharing should be done through continued use of SIS and FIN-NET platforms, which PBS bodies are currently required to use.

## Put in place measures for to avoid a collapse of supervision amongst professional body supervisors during the transition period

During the transition period before the FCA officially takes on its enhanced supervisory role – which is expected to take several years – there is a heightened risk of the regulated sector receiving insufficient oversight. Those working for PBSs in AML supervisory roles will likely seek alternative employment, with vacant roles being difficult to fill. To address this, the FCA should be empowered to offer future positions in its enhanced supervisory team to existing employees at PBSs who wish to continue working on AML supervision. This would incentivise staff to stay during the transition period and ensure the FCA has knowledgeable staff with sectoral expertise joining once the transition period is over.

Government should legislate to impose a duty on PBSs to cooperate with the FCA during the transition period to help retain relevant knowledge and intelligence. Without this there is a real and high-impact risk that these organisations fail to work productively with the FCA, creating a gap in supervision and enforcement.

Finally, the FCA should form a transition working group to lay the groundwork for when they take over PBS duties. This should include collecting relevant existing data from supervisors, and developing risk assessments on their new regulated population. This group could include secondees from existing PBSs.

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