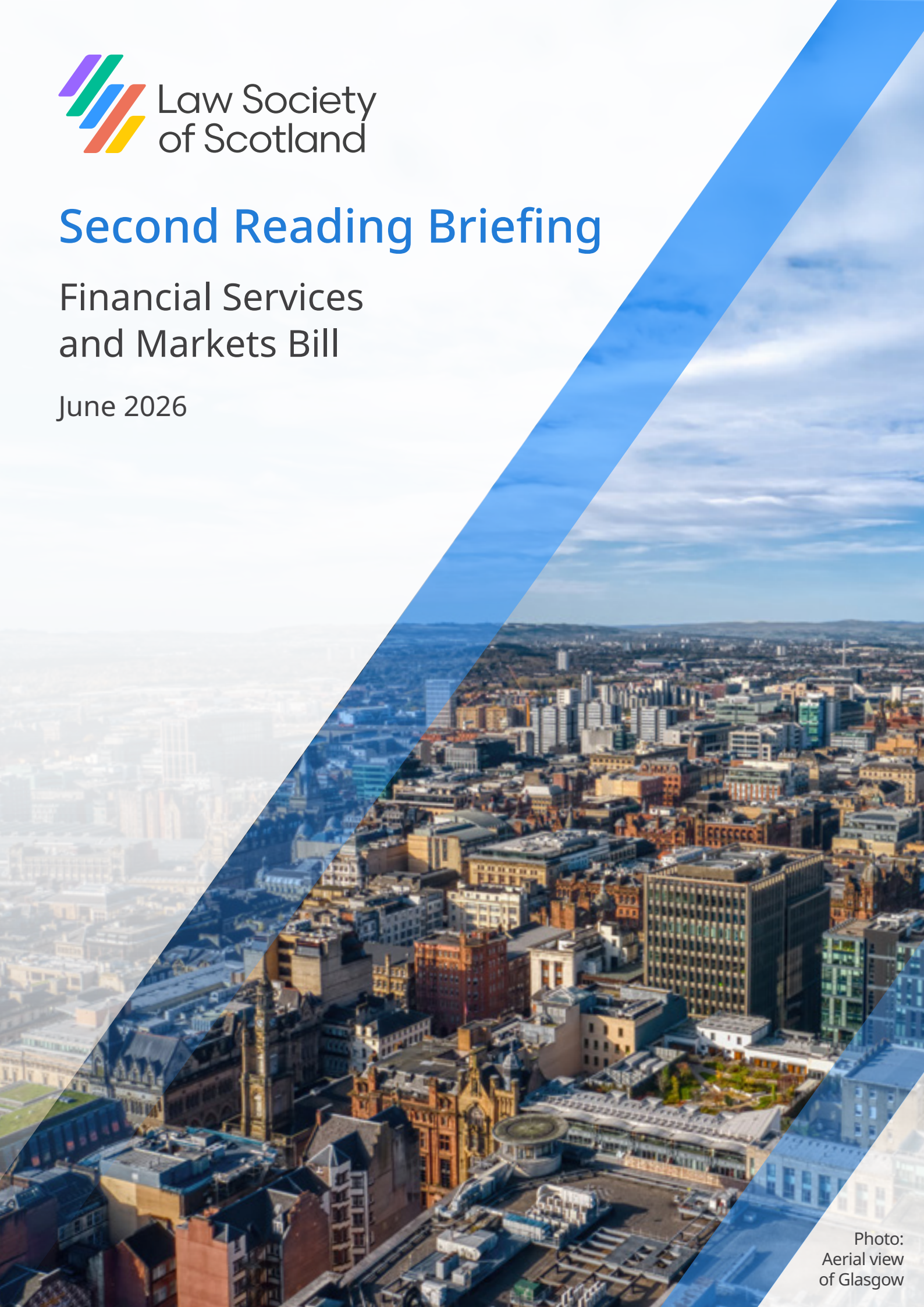


Second Reading Briefing

Financial Services and Markets Bill

June 2026



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Introduction

The Law Society of Scotland is the professional body for over 14,000 Scottish solicitors.

We are a regulator that sets and enforces standards for Scotland's solicitor profession which helps people in need and supports business in Scotland, the UK and overseas. Our regulatory role includes responsibility as the professional body supervisor for anti-money laundering (AML) compliance for Scottish solicitors. We support solicitors and drive change to ensure Scotland has a strong, successful and diverse legal profession. We represent our members and wider society when speaking out on human rights and the rule of law. We also seek to influence changes to legislation and the operation of our justice system as part of our work towards a fairer and more just society.

The Financial Services and Markets Bill¹ ("the Bill") was introduced in the House of Lords on 19 May 2026. The Bill makes changes to how the financial services sector is regulated, and seeks to modernise consumer protection and redress arrangements. The Bill also seeks to make some changes which pave the way for the transfer of AML supervision away from professional bodies such as the Law Society of Scotland to the Financial Conduct Authority (FCA). The change in responsibilities is expected to be delivered by secondary legislation that follows this Bill.

We therefore welcome the opportunity to provide comments ahead of the Second Reading in the House of Lords, scheduled for Monday 8 June 2026. We have the following comments to put forward for consideration.

Our position on anti-money laundering (AML) supervision reform

We strongly oppose the UK Government's decision to transfer AML supervision for Scottish solicitors away from the Law Society of Scotland to the FCA.

- **The Law Society of Scotland's expertise and track record**

The Law Society of Scotland has a strong and proud track record of upholding standards in the Scottish solicitor profession, and in protecting the interests of consumers and the wider public interest.

Our role as an AML supervisory body is a key component of our function as regulator of Scottish solicitors and law firms. We employ dedicated specialists with detailed, up-to-date knowledge of economic crime trends and the risks associated with legal services.

Our AML regulation is supervised by the Office for Professional Body Anti-Money Laundering Supervisors (OPBAS) and deploys a robust, risk-based supervisory

¹ <https://bills.parliament.uk/bills/4129>



framework. We provide highly effective, highly tailored guidance, education, and training to support compliance across the profession.

Our deep understanding of sector-specific risks, combined with our expertise in Scots law and strong links to the Scottish criminal justice system, places us in a unique position to deliver effective AML oversight.

Replacing this with a highly centralised, one size fits all approach through the FCA will simply dilute the targeted and sector specific approach which has worked so effectively.

As such, we believe the UK Government's wish to transfer all AML supervision to the FCA risks undermining, rather than strengthening, efforts to combat money laundering.

- **The risk of increased costs and regulatory burden**

We are concerned that the changes are inconsistent with the UK Government's stated objective of avoiding additional burdens on regulated firms.

The legal sector in Scotland supports tens of thousands of highly skilled jobs and contributes over £1 billion annually to the Scottish economy. Beyond this, it plays a critical enabling role - supporting the housing market and facilitating domestic and international business transactions.

The changes would require firms to engage with multiple regulators, increasing both complexity and compliance costs. This is particularly problematic given that the Law Society of Scotland would continue to regulate key financial aspects of legal practice, including the handling of client money and taking regulatory action against solicitors who do not comply with our standards.

Many Scottish law firms are small businesses, including sole practitioners and firms serving rural and remote communities. These firms are least able to absorb additional costs, and any increase in regulatory burden risks reducing access to legal services at a local level.

Ultimately, a dual-regulator model risks inefficiency and increased costs, which will inevitably be passed on to consumers. It is consumers of legal services who will pay the price for this proposed inefficient regulation.

- **The inconsistency of giving powers and taking powers away**

Fundamental questions around the regulation of legal services have been a subject of great debate in Scotland over recent years. This culminated in the Regulation of Legal Services (Scotland) Act which was passed by the Scottish Parliament in May 2025.

This new legislation was hard won and came on the back of a decade of campaigning work by the Law Society of Scotland. Importantly, the final Act represented a major vote of confidence in us as an organisation, not just



maintaining our role as regulator but giving us a host of new and enhanced powers.

Given these decisions by the Scottish Government and the Scottish Parliament, which strengthens our position and improves our powers, we are concerned that the UK Government's reform would weaken the position by taking away a key part of our regulatory role.

Background information on the role of the Bill in AML supervision reform

The Law Society of Scotland is currently designed as the supervisory authority for Scottish solicitors by Regulation 7 and Schedule 1 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017² ("the 2017 Regulations"). The Society is one of 22 professional body supervisors (PBS).

In summer 2023, the UK Government consulted on four models of structural reform for the AML supervisory regime.³ In October 2025, the UK Government's response to this consultation⁴ was published, confirming that the Government intended to pursue model 3: the creation of a Single Professional Services Supervisor (SPSS). Under this model, the Law Society of Scotland and other PBSs would no-longer have any AML functions under the 2017 Regulations, but would retain their wider regulatory functions. The Government also confirmed that the FCA would carry out the new AML supervisory functions relative to solicitors and other professionals as part of its remit, and would be provided with the powers necessary to fulfil this role. The Government highlighted that the implementation of this policy decision was subject to the passage of enabling legislation, confirmation of funding arrangements, and development of a detailed transition and delivery plan.

In November 2025, the UK Government consulted on *Anti-Money Laundering/Counter- Terrorist Financing (AML/CTF) Supervision Reform: Duties, Powers, and Accountability*.⁵ This consultation sought feedback on the details of proposals to reform AML compliance among professional services businesses. It

² SI 2017/692

³ <https://www.gov.uk/government/consultations/reforming-anti-money-laundering-and-counter-terrorism-financing-supervision>; Law Society of Scotland response: <https://www.lawscot.org.uk/media/cktnjpe4/aml-supervisory-reform-consultation-response-september-2023.pdf>

⁴ https://assets.publishing.service.gov.uk/media/68f609dc2f0fc56403a3d0c7/AML_Supervision_Reform_Response_Document_FINAL.pdf

⁵ <https://www.gov.uk/government/consultations/anti-money-laundering-and-counter-terrorist-financing-supervision-reform-duties-powers-and-accountability-consultation/anti-money-laundering-counter-terrorist-financing-amlctf-supervision-reform-duties-powers-and-accountability-consultation>; Law Society of Scotland response: <https://www.lawscot.org.uk/media/5iab22lr/law-society-of-scotland-response-hmt-consultation-anti-money-laundering-counter-terrorist-financing-aml-ctf-supervision-reform-duties-powers-and-accountability.pdf>

identified a number of areas in which the 2017 Regulations would need to be amended to give effect to the proposed reforms.

The Bill as introduced would not make any changes to the 2017 Regulations. The Explanatory Notes accompanying the Bill indicate that the UK Government intends to rely on existing powers under the Sanctions and Anti-Money Laundering Act 2018 (“the 2018 Act”) to make regulations to implement the majority of changes that this reform requires.⁶

The Bill does, however, contain two important changes which will pave the way for the FCA to assume new supervisory responsibilities conferred on it by subsequent regulations under the 2018 Act:

- **Clause 14** would amend the 2018 Act to enable the Secretary of State or HM Treasury to make provision about cooperation and information-sharing in secondary legislation. What is not clear is whether the cooperation and information sharing arrangements will provide for reciprocal cooperation and information sharing between the FCA and the professional bodies. In our view, this reciprocity is essential to support effective risk-based regulation across our wider regulatory functions. While we are in favour of- and an active partner in- multiple information sharing agreements, the concept of information sharing is complex within the legal sector given client confidentiality and legal privilege obligations. Provisions on information sharing relating to the legal sector must explicitly protect these critical obligations.
- **Clause 48** provides HM Treasury with authority to make payments to the FCA to cover costs incurred as a result of the preparatory work for the expansion of the FCA’s AML and CTF supervisory responsibilities. The Explanatory Notes accompanying the Bill note that following the completion of the transition phase of the reform, this funding will end and all of the FCA’s AML/CTF supervisory activities will be fully funded by fees paid by its AML/CTF supervised population.⁷ In our view, it is imperative that the additional costs arising from the transfer of powers- should it proceed- are not borne by the supervised population and, ultimately, the consumer.

Whilst the Bill does not directly remove the Law Society of Scotland’s AML supervisory role for Scottish solicitors, it is a concrete legislative step towards the UK Government’s stated policy aim of doing so- an aim which we consider misplaced, misguided and counterproductive, and which risks weakening the fight against economic crime.

⁶ <https://bills.parliament.uk/publications/66381/documents/8280> at para 146

⁷ <https://bills.parliament.uk/publications/66381/documents/8280> at para 144



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