HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Hope of Craighead
House of Lords
London
SW1A 0AA

17 August 2026

Dear Lord Hope,

Financial Services and Markets Bill: Anti-Money Laundering/Counter-terrorism financing supervision reform

Thank you for your contributions during the committee debate on the Financial Services and Markets Bill (the Bill) in the House of Lords on Wednesday 24 June and for taking the time to meet with Lord Stockwood on 8 July to further discuss anti-money laundering and counter-terrorism financing (AML/CTF) supervision reform, particularly concerns raised by the legal sector.

During that meeting, Lord Stockwood committed to write with further information in relation to the Financial Conduct Authority's (FCA's) ongoing funding model, how the FCA will supervise professional services sectors in practice, and how professional services firms will adapt to this change in supervisory arrangements. I am writing as his successor to provide that information.

As you know, reform of the UK's AML/CTF supervision regime is central to the Government's efforts to tackle economic crime and illicit finance. It will mean that the FCA will take on responsibility for the supervision of legal services providers, accountancy services providers and trust and company service providers, aiming to unify the existing fragmented regime and ensuring improved consistency and coherence.

Turning first to the FCA's ongoing funding model, clause 48 of the Bill ensures that the Government is able to provide the FCA with implementation funding. This means that supervised firms will only be required to meet the costs associated with business-as-usual supervision, and will not be expected to pay additional fees to cover the FCA's initial implementation costs. This funding will be provided through the Economic Crime (Anti-Money Laundering) Levy which is hypothecated for projects that tackle money laundering.

Following the implementation period, the FCA will charge fees to supervised firms to cover the costs associated with AML/CTF supervision.

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) establish a costs-recovery based framework for supervisory fees. Under this framework, the FCA may only apply fees to the functions for which they were charged, which avoids cross-subsidisation of functions. The FCA is operationally independent and is responsible for setting its own fee arrangements. However, the FCA will be consulting on its approach to setting and charging fees before it takes on its expanded AML/CTF supervisory role, ensuring clarity and transparency.

The Government has made clear to the FCA that, as with existing supervisors, the expectation is that they charge fees proportionately. Therefore, we expect that the fees, or any increase in fees, will not be equally distributed between the population and it is likely that smaller firms will pay lower fees. Almost all FCA fees are structured according to the scale of regulated activity, so that cost recovery is proportionate and weighted towards the larger firms.

The FCA is also directly accountable to Parliament, including through its Annual Report which is laid before Parliament, appearances before the Treasury Committee three times per year, and responses to requests for information from MPs and peers through letters, Parliamentary Questions and evidence to All Party Parliamentary Groups. The FCA is subject to audit by the National Audit Office, and publishes annual accounts, ensuring ongoing accountability and transparency.

Turning to the powers that the FCA will require to be an effective supervisor, the Government is continuing to consider how to ensure that powers are used appropriately and with proper safeguards. Proportionate regulation and supervision are key to ensuring that businesses thrive, supporting the Government's Growth Mission. The Government consulted on the duties, powers and accountability arrangements the FCA will require as it takes on its expanded role, with the response to this consultation published on 18 June. This set out the changes HM Treasury expect to make to the MLRs to ensure the effectiveness of the new regime. This includes expanding existing powers and implementing new information-sharing and cooperation arrangements, providing the FCA with powers to issue directions and require a review of a firm's controls by a skilled-person, as well as changes to the arrangements for approving sector-specific guidance.

The Government is clear that the use of all powers under the MLRs should be proportionate and the FCA is aligned with this view. The risk-based approach embedded within the MLRs is intended to ensure that the actions supervisors take are aligned with the level of risk presented by different sectors and individual firms. This approach particularly benefits smaller firms, which are likely to be lower risk and will, therefore, experience supervision that is proportionate to the level of risk that they pose. The Government also regularly reviews the MLRs to confirm that they are effective, proportionate and updated as necessary to respond to emerging risks. The most recent changes came into effect on 30 June and included amendments to improve the proportionality of the regulations, particularly around customer due diligence.

The Government recognises the importance of ensuring that the correct processes and safeguards around the use of the FCA's powers are developed. To achieve this, the Government will consult again later this year on the detailed operationalisation of the FCA's powers, including the specific changes that will need to be made to the MLRs in relation to cooperation, the approvals process for guidance and the functioning of a simplified enforcement regime for low-level breaches. The Government is very keen to hear from all stakeholders to guarantee that the changes we make are targeted and workable. Officials will hold engagement sessions to ensure that all views are accurately captured and can be considered in our policy development process.

As you know, the FCA is an experienced financial services regulator, AML/CTF supervisor and also has experience working with professional services sectors on AML/CTF issues through the Office for Professional Body AML Supervision (OPBAS). Proportionality is a key consideration across its existing responsibilities, and we expect that this will continue to be the case as the FCA begins supervision of professional services sectors. As confirmed in the Government's response to our most recent consultation, the FCA's existing accountability arrangements including reporting to HM Treasury on progress via its Annual Report, which is laid in Parliament, and appearances three times per year before the Treasury Select Committee, will apply to its expanded AML/CTF role, meaning that HM Treasury and Parliament will be able to review its work, including in relation to proportionality.

Turning to concerns in relation to how professional services firms will adapt to the change in supervisor, the FCA is working closely with existing supervisors to gather information and data necessary to ensure a smooth transition. This approach is informing detailed implementation planning, which will include arrangements for ensuring that firms are aware of their requirements at each stage of the process. It is important to note that the reform will not change the substantive requirements placed on firms via the MLRs, meaning that they will not need to change the processes that they currently have in place to ensure compliance with the regulations. Adapting to the new regime will involve familiarisation with the FCA's reporting and registration processes, which we considered as part of our Regulatory Impact Assessment, published alongside the Bill.

The Government recognises concerns, particularly from the Scottish legal sector, around the development of sector and jurisdiction-specific expertise. The Government is carefully considering stakeholder interests and is engaging with stakeholders in relation to these issues. The FCA is clear that this expertise is essential for effective supervision and is committed to ensuring that it is developed throughout the transition period.

Following the implementation of the reform, the FCA will continue to work closely with professional bodies and regulators through cooperation and information sharing arrangements that we intend to introduce through secondary legislation, using the power in clause 14 of the Bill, working together to minimise burdens on firms that could arise as a result of dual-regulation. The Government's response to our most recent consultation confirmed that existing information gathering and sharing powers would be extended to the new populations the FCA will supervise. This will mean that the FCA will be required to make relevant, sector-specific information available to the firms it supervises, supporting them to ensure that they have the appropriate processes in place to prevent money laundering and terrorism financing. Both the Government and the FCA are cognisant of the specificities of the sectors that are in scope of this reform, and this will be reflected in implementation planning and the operation of the new regime.

I hope that this letter has provided reassurance on the points that were raised during your meeting with Lord Stockwood. I will be very happy to reiterate these points at the dispatch box during Report Stage of the Bill in the House of Lords. The Government has been working closely with the FCA to support implementation, and this engagement will continue throughout the implementation period and beyond. This includes providing necessary start-up funding to cover implementation costs, collaboration to monitor delivery timelines and close engagement with existing supervisors, firm representatives and civil society.

The Government looks forward to continuing to work closely with all interested stakeholders to ensure that this reform delivers more consistent and effective AML/CTF supervision of professional services sectors. I am copying this letter to all Peers who spoke in the debate, and a copy of this letter will be placed in the library.

Yours sincerely,

LORD DAVID PITT-WATSON
PARLIAMENTARY SECRETARY