

Reform of the Anti-Money
Laundering and Counter-
Terrorism Financing
Supervision Regime

Consultation Response

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Chapter 1: Ministerial Foreword

Economic crime is harmful to society and a drag on the economy, whilst strong and proportionate defences against illicit finance are key to achieving sustainable growth. Tolerance of money laundering weakens legitimate corporations and damages the credibility of a country's financial and professional services sectors. The UK's defences against money laundering ultimately protect British citizens and businesses.

Businesses which are at risk of being exploited by criminals have an important part to play in this. I know that the vast majority of companies are keen to ensure their clients' funds are clean and I am grateful for their efforts – they are gatekeepers, protecting the integrity of the UK economy. Anti-money laundering/counter-terrorist financing (AML/CTF) supervisors need to support regulated businesses, co-ordinate closely with law enforcement, and take appropriate enforcement action against firms who do not play their part. In an economy where money laundering and terrorist financing risks are constantly changing, supervisors have a difficult and important job. I would like to thank the current supervisors for their work.

However, despite the efforts of the existing supervisors, the current regime is complex and disjointed. The fact that there are 23 different supervisors for professional services firms inevitably leads to inconsistencies in supervision and enforcement and complicates essential collaboration with law enforcement agencies.

The Government is determined to address these deficiencies and to ensure that the UK's regulatory system is cohesive and easily navigable for professional services firms. In March, we committed to simplify and improve the UK's regulatory landscape. In this spirit, reform of the UK's AML/CTF supervision regime will both strengthen the UK's defences against illicit finance and simplify a complex regulatory system.

A key element of simplification is consolidation of similar supervisory responsibilities where these are currently spread across multiple bodies. Therefore, the Government has taken the decision that AML/CTF supervisory responsibilities for some professional services sectors will, going forward, be undertaken by the Financial Conduct Authority (FCA). This change will align the supervision of professional services firms with other similar parts of the economy which already have a public sector supervisor. The FCA itself currently supervises the compliance of financial institutions with the Money Laundering Regulations. This existing expertise will aid the transition for firms and ensure that the UK's future regime is effective. The Office for Professional Body Anti-Money Laundering Supervision (OPBAS) is also

based within the FCA, providing professional services experience that will further aid the transition.

AML/CTF supervision is crucial work in the fight against crime and corruption which, ultimately, is the job of the state. The FCA will have the powers and resources it needs to help firms comply with the regulations, work closely with law enforcement, and take robust action where a minority of firms continue to help bad actors prosper.

Preventing economic crime requires the ongoing support of regulated firms and professional bodies and I look forward to working with you as we make this change.

LUCY RIGBY KC MP

ECONOMIC SECRETARY TO THE TREASURY

Chapter 2: Executive summary and policy statement

Background

2.1 Currently, the anti-money laundering and counter-terrorism financing (AML/CTF) supervisory system is made up of three public sector supervisors - the Financial Conduct Authority (FCA), the Gambling Commission and His Majesty's Revenue and Customs (HMRC) - and 22 private sector professional body supervisors (PBSs) who supervise the legal and accountancy sectors. These supervisors ensure firms¹ comply with the Money Laundering Regulations (MLRs). They help firms understand their obligations and take enforcement action if the MLRs are breached.

2.2 HM Treasury's 2022 Review of the UK's AML/CTF regulatory and supervisory regime² concluded that while there had been iterative improvement to the regime, continued weaknesses in supervision may need to be addressed through structural reform. Following this, in summer 2023 HM Treasury ran a consultation on reform of the UK's AML/CTF supervision regime. This consultation's commitment to reform was reiterated in the Industrial Strategy. The consultation asked respondents to assess four models for reform against consultation objectives. The four models consulted on were:

- **OPBAS+**: this model would give increased powers to the Office for Professional Body Anti-Money Laundering Supervision (OPBAS). OPBAS was created in 2018 and aims to improve the consistency and effectiveness of professional body supervision, including the sharing of information between the PBSs and with law enforcement agencies.
- **PBS Consolidation**: under this model the number of PBSs with responsibility for AML/CTF supervision would be reduced from 22 to a small number.

¹ Throughout this document we use the term 'firm' to refer to businesses and individuals who carry out regulated activity and are supervised for this activity by one of the AML/CTF supervisors. We sometimes also use the term 'member' to refer to businesses and individual supervised by a PBS. We are aware that not all regulated entities are firms, some are individual practitioners (e.g. barristers), and that not all PBSs have 'members' – some are not representative bodies, in particular in the legal sector. We use the terms 'firm' and 'member' for brevity only, and where relevant are referring to individuals and regulated entities who are not a member of a PBS.

² [Review of the UK's AML/CFT regulatory and supervisory regime - GOV.UK](#)

- **Single Professional Services Supervisor (SPSS):** under this model a single public body would be granted responsibility for all AML/CTF supervision for the legal and accountancy sectors, trust and company service providers, and potentially other sectors, such as estate agency and letting agency businesses, who are regulated under the Money Laundering Regulations.
- **Single AML Supervisor (SAS):** this model would see one public body hold responsibility for all AML/CTF supervision. The FCA, Gambling Commission, and the PBSs would continue to supervise relevant firms only for non-AML/CTF purposes.

Summary of Responses

2.3 We received 95 responses, including responses from 15 trade bodies on behalf of their members. Responses were submitted by:

- The accountancy sector including accountancy PBSs. This sector sent in around 25% of responses.
- The legal sector including legal PBSs and representative bodies, which sent in around 20% of responses.
- Financial firms and trade bodies, which sent in around 15% of responses.
- Other regulated sectors, including Trust & Company Service Providers (TCSPs), art market participants, estate and letting agents, and casinos.
- Civil society organisations, such as think tanks and academics.
- Public sector organisations, including law enforcement and public sector supervisors.

2.4 Respondents' preferred choice of the models outlined in the consultation were largely dictated by the sector that the respondent was in.

2.5 Responses from the legal and accountancy sectors were overall more supportive of OPBAS+. Reasons given included the continuity that this option could bring, the ability to build upon the improvements that OPBAS and the PBSs had made over the previous five years, and concerns about the feasibility of implementing other options.

2.6 Respondents from the financial sector, the public sector, and civil society were generally in favour of more structural change and mostly preferred the SPSS model, arguing that the current system is still not effective and the OPBAS+ option would not go far enough in addressing this. In addition, respondents from these sectors noted that there would be an increase in system co-ordination, for instance with greater potential for information sharing with law enforcement agencies.

2.7 There was limited support from all types of respondents for the PBS Consolidation and SAS models. Respondents generally argued that

both these options face feasibility challenges that could outweigh any ultimate supervisory effectiveness and system coordination benefits.

2.8 These overall views are summarised by two charts in the annex.

Policy Decision

2.9 The Government is grateful to respondents for the detailed evidence they provided, which is summarised in this document. Following our analysis of this evidence, **the Government has decided to pursue model 3: the creation of a Single Professional Services Supervisor (SPSS).**

2.10 The FCA will carry out the new supervisory functions as part of its remit and will be tasked with working with the professional services sector, other regulators, and law enforcement agencies to improve the UK's defences against money laundering. The FCA will carry out these functions independently of HM Treasury and will be provided with the powers necessary to succeed in carrying out this role.

2.11 The FCA will now supervise firms that carry out activities within scope of the Money Laundering Regulations as Legal Service Providers (LSPs), Accountancy Service Providers (ASPs), and Trust and Company Service Providers (TCSPs). In practice, this means that all firms currently supervised for AML/CTF matters by a PBS, and all ASPs and TCSPs supervised by HMRC will be supervised by the FCA.

2.12 The implementation of this policy is subject to the passage of enabling legislation, confirmation of funding arrangements, and development of a detailed transition and delivery plan. As such, the date at which the FCA will commence supervision of the professional services sector will be heavily dependent on the availability of parliamentary time. To prepare for this, we will publish a separate consultation on the powers that the supervisor should have in early November.

2.13 We would like to thank the PBSs and OPBAS for the work they have done to improve the UK's defences against illicit finance, and their ongoing support as the AML/CTF system transitions to its future state. We expect PBSs will continue in their important wider regulatory and representative roles (for instance, overseeing professional standards) and HM Treasury looks forward to working with them to ensure the implementation of this reform is successful and the transition is as smooth as possible for the firms involved. Once the PBSs no longer have a formal AML/CTF role under the MLRs, OPBAS' existing function will no longer be needed.

Rationale

2.14 The government believes that a public organisation overseeing professional services firms is the most effective approach to AML/CTF supervision of the sector. Integrating professional services into the FCA's AML/CTF supervisory framework will bring professional services in line with all other sectors in scope of the MLRs, which are already

overseen by public bodies, and it will simplify a highly complex regulatory regime.

2.15 This supervisor will have a large remit, supervising all professional services firms. This will enable it to take a risk-based approach across a population of approximately 60,000 regulated firms. This means it can target resources towards the UK's highest risk accountancy, legal, trust and company service providers, and ensure that lower risk firms receive supervisory attention appropriate to their risk-profile. This is aligned with the government's wider work to ensure regulators act proportionately.

2.16 A public supervisor with staff dedicated to AML/CTF supervision will be well placed to work with firms, both through information and guidance, and directly during supervisory inspections, to ensure firms understand their obligations under the MLRs. Some respondents argued that a public body would need to have specific expertise in the relevant sub-sectors it is supervising to help firms. HM Treasury's intention is that the FCA will build specific expertise in the particularities of each sector it supervises. This includes issues such as legal privilege, the importance of which we recognise, as well as the distinct legal systems of England and Wales, Scotland, and Northern Ireland.

2.17 Finally, where firms breach the MLRs, public body AML/CTF supervisors have a strong record of taking dissuasive enforcement action. The FCA will be equipped to take strong enforcement action where it is necessary, ensuring there is a clear incentive to comply and that robust action is taken against the minority of wilfully negligent or complicit firms. The powers of the FCA in taking on these extended responsibilities, for enforcement and other functions, will be set out in legislation.

2.18 From a system coordination perspective, a public sector supervisor will be able to build strong relationships with law enforcement agencies to facilitate information and intelligence sharing. Ultimately, close coordination between public sector authorities is more likely to lead to success when taking on the most complex money laundering and terrorist financing investigations.

2.19 This policy will also support other economic crime-related reforms. For instance, a single public supervisor for trust and company service providers will support ongoing reform of Companies House. This reform also supports wider actions in Economic Crime Plan 2023-26, the forthcoming Anti-Corruption Strategy and the recently published Cross System Professional Enablers Strategy.

Feasibility and costs

2.20 Many respondents to the consultation expressed concerns about the feasibility of establishing a new body. We agree that a smooth implementation is crucial, and after careful consideration and analysis, we have ultimately decided that the FCA is the best organisation to carry out this role.

2.21 The FCA's extensive experience supervising financial services firms and its data-driven approach to supervision can assist in operating this now extended remit effectively from the outset. OPBAS, currently housed in the FCA, has worked closely with PBSs since its creation and the supervisor can directly rely on this expertise during the transition period.

2.22 The FCA will be provided with funding to take on this role. This will enable it to hire and train expert staff, make investments in new technology, and prepare to undertake its new functions. HM Treasury and OPBAS will work with the PBSs and HMRC to mitigate risks to the AML/CTF supervision regime in the interim.

2.23 This is a simplifying reform. It will mean all professional services firms have the same AML/CTF supervisor, whereas supervision of accountants, lawyers and trust & company service providers is currently split across 23 different supervisors. This does not change firms' obligations under the MLRs. Firms that are already compliant should not need to make changes to their AML/CTF controls.

2.24 The current system of fees is complicated, with all 23 professional services AML/CTF supervisors charging a different fee level and structure. The FCA will seek to simplify this and ensure that fee structures are fair and proportionate. There will be some familiarisation costs to businesses where, for instance, the FCA has a new IT system with which firms interact.

2.25 This reform will also mean some firms, for instance, legal service providers, are regulated for AML/CTF purposes by the FCA, and for professional conduct and other matters by their existing PBS (for instance, the SRA). Where this happens HM Treasury and the FCA will work with PBSs to minimise duplication in registration processes, fee payments, and other administrative matters.

2.26 We will publish an impact assessment, including estimated costs and benefits, in due course. In line with the Government's Growth Mission, HM Treasury is committed to ensuring this reform does not impose disproportionate costs on businesses.

Sanctions

2.27 Through this consultation, we also sought to understand if supervisors had changed their approach to overseeing sanctions systems and controls amongst their regulated populations since Russia's invasion of Ukraine. We requested views on whether new powers should be given to supervisors to support them to undertake this supervisory activity more effectively for all UK sanctions, and if there are other barriers which prevent this.

2.28 The consultation responses generally highlighted that supervisors have been taking a more proactive approach to sanctions supervision following the invasion of Ukraine.

2.29 While a slight majority of respondents believed that additional powers for supervisors were not necessary, there were clear areas

highlighted that the government must reflect on when considering this kind of reform. These included: ensuring that any legislative reforms are proportionate to all firms impacted and that divisions in responsibilities between supervisors and government authorities are clearly outlined if supervisors were to receive additional powers.

2.30 There were a wide variety of perspectives shared through the consultation. We will continue to review these and build our own internal understanding of the efficacy of these reforms as we consider our future approach.

Next Steps

2.31 Before the new Single Professional Services Supervisor can be implemented, there are several things we need to do in the short-term to ensure a smooth transition period and ensure high standards are maintained in the UK's AML/CTF supervision regime.

- **Delivery plan:** The FCA is developing a detailed plan for carrying out this role, and will be engaging with HM Treasury, the PBSs, and firms to agree what collaboration will be needed to ensure a smooth transition. We are particularly eager to work with the PBSs to remove any unnecessary complexity or administrative burdens.

2.31.1 **Legislation:** Implementation of this project requires primary legislation. This will be dependent on parliamentary time. The final timeline for implementation will be largely dependent upon this constraint. HM Treasury will consult separately on the powers the FCA will require in order to ensure that the new regime is effective.

- **Transition:** To minimise risk during the transition period, we will work with the current supervisors and OPBAS to identify an approach to phasing in firms and sectors into the FCA. This will help to maintain a sufficient level of supervision in the interim period.

Chapter 3: Background

3.1 Illicit finance in the UK fuels serious organised crime and poses a material threat to our national security and economic prosperity. The fight against money laundering and terrorist-financing is also the fight to protect the safety and prosperity of our citizens and communities, and the integrity of the financial system.

3.2 The UK's robust AML/CTF regulatory regime, the MLRs, is our first line of defence against illicit finance. However, our second line – the supervisory bodies who work to ensure that regulated firms have effective controls in place to tackle money-laundering and terrorist financing – is just as important.

3.3 There are constant changes in the patterns of risk associated with different regulated sectors and so too the tools that are most effective to mitigate them. Supervisors are crucial in keeping on top of these changes and driving an agile, proportionate approach to compliance. The Government is committed to ensuring that regulations keep pace with an ever-changing economic crime landscape, whilst remaining proportionate to the risk. To this end, HM Treasury announced in July 2025 that it will bring forward a package of changes to the MLRs aimed at clarifying requirements and ensuring customer due diligence is targeted at high-risk activities, and streamlining regulatory obligations on firms. The Government is also committed to ensuring that businesses and their regulatory supervisors are as effective as possible at delivering the outcomes intended by regulation.

3.4 The Economic Crime Plan 2 (2023-2026)³ is a comprehensive strategy to direct public and private resources in a system-wide response to the threat of economic crime. Reforming AML/CTF supervision is a specific action within the plan that HM Treasury has committed to deliver, and the 2023 consultation was an important step forward. Improved supervision will better support businesses across the AML/CTF regulated sector to understand and effectively implement their obligations under the MLRs. It will ensure that appropriate action is taken against firms that fail to meet these obligations and reinforce other important reforms elsewhere in the system, such as the transformation of Companies House and wider measures introduced through the Economic Crime and Corporate Transparency (ECCT) Act⁴. The Government's Industrial Strategy also committed to progressing this reform.

3.5 In the most recent peer assessment of the UK by the Financial Action Task Force (FATF), the international standard setting body for tackling money laundering, terrorist and proliferation financing, FATF

³ [Economic Crime Plan 2 2023-26](#)

⁴ [Economic Crime and Corporate Transparency Act 2023](#)

identified some inconsistencies and weaknesses in the UK's supervisory system - in particular in the professional services sector - that represent a significant vulnerability.

3.6 The consultation carried out over summer 2023 set out proposed objectives for reform: to strengthen the effectiveness of the supervisory system, to improve co-ordination across the UK's AML/CTF system, and to ensure the chosen policy is feasible. There were four potential models set out in the consultation, ranging from new powers which would bolster the existing regime, to making a public body responsible for some or all UK AML/CTF supervision. We would like to extend our thanks to everyone who took the time to respond to the consultation or take part in related engagement.

Chapter 4: Objectives and OPBAS+

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

Objectives

1. Do you agree that increased supervisory effectiveness, improved system coordination, and feasibility are the correct objectives for this project? Do you agree with their relative priority? Should we amend or add to them?

4.2 Respondents overwhelmingly agreed with the three objectives set out in the consultation with a heavy focus on supervisory effectiveness and system co-ordination being the main objectives. There were some respondents who emphasised the need for any model that is chosen to carry low transition risk.

4.3 We have used these as our objectives in determining the policy decision.

OPBAS+

4.4 Under this model OPBAS would be given a range of enhanced powers to increase the effectiveness of supervision by the PBSs. The consultation document made clear that if this option were chosen, it would need to capitalise on the improvement in standards brought about by OPBAS' activity since its establishment. Any additional powers granted to OPBAS ought to be coupled with additional accountability mechanisms. This model would require no structural changes.

2. What would the impact be of OPBAS having the FCA's rulemaking power? What rules might OPBAS create with a new rulemaking power that would support its aim to improve PBS supervision?

4.5 Most respondents believed that providing OPBAS with the FCA's rule-making power would have a positive or neutral impact on supervisory effectiveness. Only a few believed it would have a negative impact.

4.6 Respondents who believed that there would be a positive impact of OPBAS having a rule-making power similar to the FCA's made the point that it would provide OPBAS with more tools with which to hold PBSs to account and allow for more transparency in relation to their performance.

4.7 Those who thought that granting OPBAS the FCA's rule-making power would not have a positive impact often argued that it would not be enough to address the current inconsistencies within the complex system, due to the large number of PBSs. Additional comments

highlighted that more powers could result in extra costs for PBSs to comply with OPBAS's rules.

3. Which, if any, of these powers should OPBAS be granted under this model? Are there any other powers that OPBAS could be granted under this model to aid OPBAS in increasing the effectiveness and consistency of PBS supervision?

4.8 Most respondents were in agreement with the potential powers proposed for OPBAS under this model. Some offered further suggestions for other changes that would be beneficial.

4.9 Amongst the additional powers outlined by respondents that might improve PBS performance and consistency were changes to make it more practical for OPBAS to recommend removal of AML/CTF supervision from a low performing PBS. Some argued that if OPBAS published and disclosed its specific findings and named PBSs, this would be an incentive for PBSs to improve their performance to avoid the reputational impact of poor performance.

4.10 Another key change respondents requested was greater transparency in OPBAS' decision-making processes. Some respondents also suggested that OPBAS needed to improve its understanding of the sectors that PBSs supervise or indicated that any new powers would need to come with greater accountability and transparency in how those powers are used.

4.11 Respondents who didn't agree with the powers outlined for OPBAS sometimes questioned the effectiveness of the power to issue fines. It was argued that, ultimately, these fines would likely be passed down to the supervised firms. Some respondents were unconvinced that it would be feasible to find another supervisor to take on a new population to rapidly and effectively replace a supervisor losing their role.

4. What new accountability mechanisms would be appropriate in order to ensure proportionate and effective use by OPBAS of any new powers?

4.12 Respondents offered a range of possible accountability mechanisms in response to this question. One common mechanism mentioned was the suggestion of providing OPBAS with the powers to be more transparent about its findings on individual PBSs, to incentivise good performance from PBSs as well as offering PBSs more information on expectations, best practice, and behaviours to avoid. Another common mechanism recommended was the need to give OPBAS the right to allow PBSs to appeal decisions rather than just to reply to decisions. They argued this would ensure fairness and consistency in OPBAS' decision-making. Other mechanisms were also proposed, such as ensuring an independent committee has direct oversight over OPBAS or, in contrast to the more common view, reducing transparency, so that OPBAS' review of a PBS' performance is only shared with the individual PBS and not published even in an anonymised form.

5. Do you have evidence of any specific types of regulated activity which are at high risk of being illegally carried out without supervision?

4.13 We did not receive any compelling evidence that there are regulated sectors which are systematically unsupervised, noting the complexity in the legal sector described below. However, some respondents suggested that in certain parts of the system “policing the perimeter” (the supervisory activity of identifying firms which ought to be registered for supervision but are not) may be weaker relative to others and created the risk that individual firms may evade supervision. For instance, some respondents argued that the large number of different supervisors in the accountancy sector makes it harder for any individual supervisor (i.e. HMRC) to police the perimeter. A second example would be trust and company services, which are sometimes offered by a firm as a secondary line of business without their supervisor being aware.

4.14 Within the accountancy sector, it was mentioned that the term ‘accountant’ is not a protected term in the UK. This means many firms offer accountancy services without professional body membership. However, this is not an AML/CTF supervision risk – regardless of whether an accountant is registered with a professional body, it must be registered for AML/CTF supervision if it carries out activity which falls within scope of the MLRs. HMRC is effectively the “default” supervisor for those businesses providing accountancy or trust and company services without being associated with a professional body.

6. Do you think a “default” legal sector supervisor is necessary? If so, do you think a PBS could be designated as default legal sector supervisor under the OPBAS+ option?

4.15 In response to this question, many respondents felt that a ‘default’ supervisor was necessary in the legal sector. Some disagreed.

4.16 Of those who believed that the legal sector would benefit from a ‘default’ legal supervisor, one key argument presented was that this would remove the continuity risk if OPBAS recommended that a legal PBS be relieved of its supervisory duties. Whilst there may be individual instances of firms operating without supervision, we did not see any specific examples of distinct types of activity or legal professional which are within the MLRs but do not have an AML/CTF supervisor. Additionally, some respondents argued that there is currently a theoretical weakness in ‘policing the perimeter’ of the legal sector where some unsupervised legal professionals may be carrying out regulated activity illegally, caused by the lack of any one authority with responsibility for alleviating the issue.

4.17 Respondents who did not feel there should be a default legal sector supervisor argued that a default supervisor was not necessary, but often also said that providing PBSs with additional powers and responsibilities to supervise anyone offering a wide range of legal services would be useful.

4.18 HM Treasury has been informed that there could be instances of legal activities that are in scope of the MLRs but are not within scope of any existing legal PBS' remit. This may potentially result in firms operating without supervision while still carrying out AML/CTF-regulated activities. One example could be patent attorneys who participate in the buying and selling of assets on behalf of their clients, and several associations for intellectual property lawyers have jointly issued non-HM Treasury approved guidance on this issue [here](#). HM Treasury does not have direct knowledge of whether there are firms currently in this position or, if so, how many.

4.19 Where firms are already in scope of the MLRs but are not currently assigned a supervisor, HM Treasury proposes that they be required to register with the FCA. HM Treasury and the FCA will work with relevant professional associations to ensure a smooth implementation.

7. Overall, what impact do you think the OPBAS+ model would have on supervisory effectiveness? Please explain your reasoning.

4.20 Responses to this question were largely sector driven, with respondents from the legal and accountancy sectors reacting more positively to this question and other respondents answering more negatively.

4.21 Those who responded positively to this question mentioned the fact that OPBAS has made progress since its inception and that providing it with more powers would allow it to increase the effectiveness of the PBSs further. This premise was explored further by respondents who pointed out there would likely be gradual improvement of PBS performance after each OPBAS intervention and this would continue with more powers.

4.22 Respondents who did not believe this model would improve effectiveness argued that OPBAS+ would not address fragmentation of supervisors within the legal and accountancy sectors or the inconsistency this fragmentation creates. Respondents sometimes argued that lower performing PBSs are unlikely to improve their performance significantly whatever OPBAS does, or at least that the specific new powers outlined in the consultation document would not be enough to solve the issues that currently exist.

8. Overall, what impact do you think the OPBAS+ model would have on system coordination? Please explain your reasoning.

4.23 Of the respondents who answered this question, many believed that the impact on system coordination would be positive with the OPBAS+ model. There were, however, some respondents who didn't feel that there would be any improvements.

4.24 Some respondents, almost exclusively in the legal and accountancy sectors, argued that improvements had been made in this area since OPBAS was created, and that a variety of existing fora were already functioning to facilitate effective information sharing.

Respondents argued that OPBAS could continue to drive further improvements in these areas with more powers and more time.

4.25 However, other respondents felt that this model did not address the real or perceived barriers to information-sharing including the number of PBSs, the potential for supervisory gaps, inconsistency of supervisory approach, and limitations in information-sharing between PBSs and law enforcement.

9. Overall, how significant do you think feasibility constraints would be for the OPBAS+ model? Please explain your reasoning.

4.26 Nearly all the respondents who answered this question believed that this model posed feasibility constraints that were surmountable when compared to the other options. Only a few responses believed that the feasibility constraints were significant.

4.27 Respondents to this question who believed that OPBAS+ was the most feasible option cited the fact that it would make use of existing structures, would have the lowest additional cost for regulated firms, and most likely have the shortest transition period, meaning there was little risk of a weakening of the system in the short-term. Some PBSs, however, argued that any increased powers granted to OPBAS would require further engagement and scrutiny, particularly if they increased costs on firms. Other responses suggested that OPBAS' funding structure would require reassessment were burdens on PBSs to be increased under this model. Further to this, it was raised that this model would still need work to determine which exact powers OPBAS would have, what the appropriate accountability mechanisms would be, how long it would take any new powers to have practical effect, and the implications of these changes for fees and funding.

4.28 A small subset of respondents argued that the feasibility of this option would be undermined by the lack of change it would bring about in supervisory effectiveness and system coordination – effectively that while it may be feasible, it would not achieve its objectives.

Chapter 5: PBS Consolidation

5.1 Under this model, a small number of PBSs would retain responsibility for AML/CTF supervision. There would be either a small number of supervisors for the accountancy and legal sectors, all with UK-wide remits, or a small number of supervisors within each jurisdiction: England and Wales, Scotland, and Northern Ireland.

10. Were we to proceed with the PBS consolidation model, what would the relative advantages be of (a) a UK-wide remit, (b) retaining separate PBSs in the Devolved Administrations? Which would best achieve the consultation objectives? Please answer with explicit reference to either the legal sector, the accountancy sector, or both.

5.2 Respondents' view of this issue varied based on sector. In accountancy, most respondents who expressed a specific view favoured a UK-wide approach. In the legal sector, respondents preferred a jurisdictional approach.

5.3 Respondents from the legal sector highlighted the important fact that England and Wales, Scotland and Northern Ireland have different legal systems. Separate PBSs in each of the UK's three legal jurisdictions would have greater understanding of the specific legal systems in which they operate. Respondents also mentioned that the supervised population of PBSs is smaller in Scotland and Northern Ireland than in England and Wales, and argued that this enables supervisors in those areas to take a more measured approach to supervision.

5.4 Within the accountancy sector, respondents who preferred PBS consolidation with a UK-wide remit argued that it would ensure consistency across the country. Further to this, it was also raised that this form of PBS consolidation could reduce the confusion for firms that operate in more than one administration while also decreasing the risk that different PBSs in each devolved administration may take different approaches.

5.5 Respondents across all sectors that preferred the retention of separate PBSs in the devolved administrations explained that they felt there was a good relationship, especially in Scotland and Northern Ireland, between PBSs and law enforcement. In addition to this, it was argued that firms in the devolved administrations would continue to receive the same level of support from their supervisor whereas a UK-wide consolidated body could potentially focus this support more on firms in England and Wales.

11. How could HM Treasury and/or OPBAS ensure effective oversight of consolidated PBSs under this model? Would it be appropriate to provide OPBAS with enhanced powers, such as those described in the OPBAS+ model description?

5.6 Respondents to this question were largely supportive of OPBAS retaining its oversight role under this model and being given enhanced powers to fulfil this remit. A few respondents didn't believe that HM Treasury or OPBAS providing oversight under this model would have any effect on the system, due to the small number of remaining supervisors.

5.7 Respondents to this question highlighted that the role of OPBAS would be particularly crucial during a transition period. However, others raised concerns around whether this would provide value-for-money given that OPBAS would have a very small population of supervisors to oversee. A small number of respondents questioned whether the levers outlined would be sufficient to mitigate the risk of a consolidated PBS failing, since there would be a lack of remaining candidates to which OPBAS could transfer a supervised population.

12. Under the PBS consolidation model, do you think that HMRC should retain supervision of ASPs and TCSPs which are not currently supervised by PBSs? Why/why not?

5.8 Respondents who provided feedback to this question were almost equally divided on whether HMRC should continue to supervise ASPs and TCSPs under this model.

5.9 Those who supported consolidated PBSs supervising TCSPs and ASPs argued that this would increase consistency across the sectors and provide a better oversight of risks and trends. In addition to this, there were questions around whether HMRC prioritised AML/CTF supervision highly enough, and whether it dedicated enough supervisory attention to its ASP and TCSP populations.

5.10 However, respondents who were in favour of HMRC retaining supervision of some ASPs and TCSPs raised concerns over whether the addition of HMRC's population of ASPs to a consolidated PBS could undermine the feasibility of this option. Some also suggested that sole responsibility for detecting and taking action against ASPs and TCSPs who may be operating without supervision would be a significant change of scope for any PBS, and potentially is a role unsuited to any private sector body. Another concern raised by respondents was that if consolidated PBSs had to supervise accountants who were not members of any professional body, it would cause blurred lines between accountants with accreditations and qualifications, and those without, reducing public confidence in the sector and potentially disincentivising professional body membership.

13. What would the impact be of consolidated PBSs having a more formal role in identifying firms carrying out unsupervised activity in scope of the MLRs? What powers would they need to do this?

5.11 From the responses received for this question, many respondents believed there would be a positive impact from the consolidated PBSs identifying unsupervised activity. A number of possible powers needed to facilitate this were suggested by respondents. There were, however, a few respondents who did not think it would be desirable for any consolidated PBS to have a more formal role in this area.

5.12 Respondents who answered this question believed that if PBSs were to have responsibility for detecting firms carrying out unsupervised activity in scope of the MLRs, they would need statutory powers akin to those of the public sector supervisors, likely rooted in the MLRs, to allow them to take action against non-members. The legal sector supervisors highlighted that they already play a role in the policing of the perimeter, ensuring that individuals without qualifications, or who have been disbarred, do not carry out regulated activity while unqualified.

5.13 While many respondents emphasised that it would be important for consolidated PBSs to carry out the role of identifying firms carrying out unsupervised activity if they were the only supervisors of a sector, a number of concerns were raised. A few respondents stated that this would be a significant expansion in scope for any PBS, requiring enhanced intelligence-gathering and enforcement powers, and may have significant costs. Others suggested that this would be an inappropriate function for a private body.

14. Under the PBS consolidation model, what would the advantages and disadvantages be of a consolidated accountancy or legal sector body supervising a range of different specialisms/professions for AML/CTF purposes?

5.14 Respondents provided a range of advantages and disadvantages in answer to this question with many responses highlighting the disadvantages.

5.15 Many respondents who presented a clear view on this option stated that a consolidated accountancy or legal sector body supervising a range of different specialisms would have a negative impact. The main reason cited was a loss of expertise and understanding of sub-sectors, particularly if AML/CTF experts from “deselected” PBSs did not transfer to the consolidated PBSs. Others stated that burdens on low-risk firms could increase, particularly if there were to be a separation of oversight of AML/CTF from professional standards and conduct. These concerns were raised largely by accountancy and legal sector supervisors, firms and industry bodies. Several respondents stated that these concerns would be particularly significant if consolidation was implemented on a UK-wide basis.

5.16 A small number of responses highlighted the potential benefits of consolidation. These respondents often pointed to increased consistency in standards and supervisory attention, while simultaneously retaining a significant degree of sector-specific expertise. They saw potential advantages including economies of scale over the long term, increased ability to invest in technology, and a better understanding of sector-wide risks and trends.

15. What steps, if any, could HM Treasury take under this model to address any inconsistencies in the enforcement powers available to supervisors?

5.17 Respondents who answered this question often supported an increase in the consistency of the powers held by supervisors under this model, arguing for consolidated PBSs being given powers akin to public sector supervisors through legislation.

5.18 A small number of responses identified potential downsides of the rationalisation of the powers of supervisors. For example, some stated that a consolidated PBS having the criminal powers currently held by HMRC would be inappropriate for a private sector, commercial organisation.

16. Which option, to the extent they are different, would be preferable for providing for supervision of non-members under the PBS consolidation model? Are there alternatives we should consider?

5.19 Many accountancy sector PBS' powers are rooted in their by-laws and charters and can be used against members only. Under this model, the consolidated PBSs would need to establish provisions allowing them to take action against firms under their supervision for anti-money laundering and counter-terrorist financing purposes, even if those firms are members of other professional bodies. To address this, the consultation suggested two options which could be considered.

5.20 One option would be to provide the consolidated PBSs with the responsibilities and powers to supervise firms according to type of activity; and the other would be to compel firms to register with the relevant remaining PBS for wider professional oversight as well as AML/CTF supervision. Of those who indicated a preference between the options, nearly all the responses preferred the first option as they believed it to be a simpler and more flexible solution.

17. What powers, if any, might be required to minimise disruption to ongoing enforcement action and to support cooperation between the PBSs retaining their AML/CTF supervisory role and the PBSs which are not?

5.21 Most respondents to this question stated it would be preferable for PBSs who lost their AML/CTF supervisory responsibilities to take on AML/CTF enforcement actions for past events for a time-limited period. Some responses emphasised the importance of effective information-sharing mechanisms to ensure all oversight bodies had access to a wide range of relevant information during the transition period, and beyond.

18. Overall, what impact do you think the PBS consolidation model would have on supervisory effectiveness? Please explain your reasoning.

5.22 Most of the respondents to this question thought this model would have a negative impact, although some respondents believed it would have a positive impact. The accountancy sector, in particular, did not feel there would be a positive impact on supervisory effectiveness.

5.23 Respondents in the accountancy sector who felt there would be a negative impact argued that this negative impact would not solely be related to AML/CTF, but to the broader regulatory structure of the sector, stating that this would undermine a supervisor's understanding of a firm by separating out supervision of AML/CTF from other information streams, and potentially encourage firms to only be supervised for AML/CTF and not for other professional standards.

5.24 Others highlighted the risk of the consolidated PBS ceasing to trade without any possible backup supervisor. Some argued that the diversity of the accountancy and legal sectors mean consolidation could lead to a reduction in consolidated supervisors' understanding of their whole populations.

5.25 Respondents who supported PBS consolidation argued that it would aid consistency of approach within sectors and raise supervisory standards, building on existing expertise.

19. Overall, what impact do you think the PBS consolidation model would have on system coordination? Please explain your reasoning.

5.26 Views on the impact this model would have on system coordination were split. Respondents who believed that it would have a positive impact argued that it would ensure greater consistency of supervision, as well as allow for better communication with law enforcement and other supervisors.

5.27 Those who believed this option would have a negative impact, for instance most of those responding from the accountancy sector, argued that this would create a new barrier through splitting AML/CTF supervision from supervision of non-AML/CTF work. It was also stated that it would be costly for PBSs who lose their AML/CTF supervisory powers to share relevant information with the consolidated PBSs and law enforcement.

20. What additional powers or tools, if any, could enable OPBAS to ensure the transition to a new model is smooth and supervision standards do not fall in the interim?

5.28 Respondents provided several suggestions as to how OPBAS could ensure the transition under the PBS consolidation model is smooth. Most responses felt that OPBAS would play an important role in mitigating transition risk.

5.29 Some responses argued that new powers would be useful as well as noting the importance of working closely with the consolidated PBSs and deselected PBSs, to mitigate unexpected issues and create a

plan for the consolidated PBS to scale up and design its operational model.

5.30 A small number of responses highlighted the fact that transition to this model would create issues that may not be possible to mitigate. Amongst the possible issues stated were staff at the deselected PBSs leaving their roles due to job insecurity and a lack of incentive to continue focusing on AML/CTF for deselected PBSs.

21. How do you believe fees should be collected under the PBS consolidation model?

5.31 Responses to this question provided a number of potential ways that fees should be collected under this model.

5.32 Many respondents, largely from the legal and accountancy sectors, felt that fees should still be collected by deselected PBSs alongside other regulatory fees, and be distributed to a consolidated PBS. Some PBSs said they would prefer the consolidated PBS to collect fees directly, in order to avoid an administrative burden on professional bodies not carrying out AML/CTF supervision under this option.

22. Overall, how significant do you think feasibility constraints would be for the PBS consolidation model? Please explain your reasoning.

5.33 This question brought out different opinions on the magnitude of feasibility constraints. Respondents from the accountancy sector highlighted the most significant feasibility constraints.

5.34 Respondents who suggested substantial feasibility constraints outlined the fact that this model may require legislation. Other respondents highlighted the fact that there would be a weakening of the system in the transition period, and it could take a long time for the consolidated PBS to work successfully, partly because staff would need to be recruited and trained as well as due to the cost of IT set up, etc. A few respondents, though, stated that feasibility constraints would not be as great if consolidation was implemented on a devolved basis.

Chapter 6: SPSS

6.1 This is our chosen model. It sees one public body supervise all TCSPs, legal and accountancy sector firms for AML/CTF. While the existing PBSs will no longer be responsible for AML/CTF supervision, they will continue to supervise firms for other purposes. The policy rationale is set out in chapter 2.

23. Do you agree these would be the key structural design features to consider if creating a new public body (whether it was an SPSS or an SAS)? Should anything be added or amended?

6.2 Respondents mostly agreed that the key structural design questions of this model were those set out in the consultation document. Other considerations that were brought out by respondents included the need for an SPSS to be independent of ministerial control.

6.3 Resourcing was also mentioned as a key feature. An SPSS would need to have the right staff in place to ensure effective supervision. Some respondents questioned the assumption that law enforcement would be more willing to share information with an SPSS than with private sector supervisory organisations. There were also responses stressing the need to factor in the Scottish and Northern Irish legal systems and alignment with their respective legal regulation, as well as the need for an office presence in each legal jurisdiction. Another feature highlighted was the importance of co-ordination with legacy PBSs on issues such as investigations, enforcement action and dual regulation.

6.4 There was limited support for having the SPSS housed within another government body. A few respondents in the finance sector backed housing an SPSS in the FCA though civil society argued that it should be created as a new body.

Policy Decision

6.5 The FCA will take on these supervisory responsibilities. The FCA already has significant AML/CTF expertise, currently overseeing financial services firms under the MLRs and PBSs via OPBAS, and fighting financial crime is an FCA priority. The FCA's data-led approach to supervision, which helps to identify patterns of changing risks and potential non-compliance at an early stage, should also support the supervisor to undertake targeted and proportionate oversight of its population. We expect the FCA to develop the specific expertise in the new regulated sectors it needs to succeed and to work well with regulated firms, including expertise in the Scottish and Northern Irish legal sectors.

6.6 The government recognises the importance of the organisation's operations being independent of control by HM Treasury. Having the new supervisory functions carried out under the FCA preserves the appropriate degree of independence from ministers, as the FCA is a

public corporation and an independent regulator at arm's length from the Government.

6.7 HM Treasury will provide implementation funding directly to the FCA to support the delivery of the new supervisory function.

6.8 Once the FCA begins carrying out its new supervisory functions, it is intended that its activities will be funded via fees levied on its supervised population. This is the approach taken currently by other supervisors. We expect that the FCA's fee structure in relation to professional services firms will be proportionate and balanced across all regulated firms. The FCA intends to consult on how it proposes to do this in due course.

24. If an SPSS were to be created, which sectors do you think it should supervise?

6.9 There were a range of views from respondents as to which sectors should be supervised by an SPSS with no general consensus on which of HMRC's current sectors should be supervised by an SPSS. Responses were split where some respondents felt an SPSS should supervise all non-financial businesses, some believed HMRC should retain responsibility for cash-based businesses, while an SPSS should take on estate and letting agents. Finally, some respondents believed that an SPSS should supervise just ASPs, TCSPs and LSPs.

6.10 Some respondents argued that for system-coordination purposes, it would be better for an SPSS to supervise all TCSPs in addition to the ASPs and LSPs. There was also a line of argument that it should supervise all non-financial businesses due to the fact that an SPSS would be in a better position to provide a single view of risk and consistency if it supervised more firms. Some respondents believed it was necessary for an SPSS to take on the highest risk HMRC sectors but only after a period of time and not immediately.

Policy decision

6.11 Given the practical challenges inherent in implementation, FCA will take on the LSPs, ASPs and TCSPs currently supervised by PBSs and HMRC.

25. Were an SPSS to be created, what powers should it have?

6.12 This question elicited a range of different answers from respondents. The most common answer was that the powers would need to be modelled on the powers the FCA exercises through the Financial Services Markets Act 2000 (FSMA) in its supervision of financial services firms. Powers mentioned under this were the ability to issue directions, a rule making power and a power requiring a skilled person to write a report. Other responses included the power to be able to prosecute, which is a capacity that HMRC and FCA, for instance, already have.

6.13 There were also suggestions for other key areas to consider. They included ensuring an SPSS had the necessary intelligence gathering

and sharing functions, and that it would have a clear mandate to share and receive information with professional bodies, including to prevent information being provided multiple times by the same firm.

6.14 Some respondents said it would be necessary to ensure that whatever powers an SPSS had were subject to appropriate checks and transparency around decision-making to ensure they were being used suitably.

Policy Decision

6.15 Based on responses to this question, HM Treasury will shortly publish a consultation, seeking views on a proposed a set of powers and accountability mechanisms to ensure the FCA succeeds. Our current proposal is for these powers to be broadly similar to those already used by public sector supervisors to undertake AML/CTF supervision.

26. How should enforcement responsibility be transferred should an SPSS be created?

6.16 The main debate on this question concerned whether in-flight investigations should be completed by the PBSs, or if the SPSS should have conduct of all investigations from a specific day. More respondents favoured PBSs completing these investigations with a few responses stating that this would need to be based on OPBAS' confidence that the PBS will carry out the enforcement action appropriately. In addition to this, the transition of enforcement was seen as an opportunity for the SPSS to build relationships with PBSs and build expertise though it was acknowledged that there would be inevitable complications during this process.

6.17 Respondents to this question mentioned that professional bodies would still be required to take enforcement action against members that breach the professional bodies' conduct rules. Similar incidents may breach both these rules and the MLRs, so careful consideration would need to be taken of the possibility of dual enforcement in advance of the creation of an SPSS. Having clear agreements in place between the SPSS and professional bodies was suggested to ensure a smooth process.

27. What powers should HM Treasury have to oversee an SPSS?

6.18 Respondents to the question expressed that it would be necessary to ensure that the accountability of an SPSS should not impede its independence; and that of the legal profession, in particular. Other responses included a desire to ensure that oversight was similar to the current public supervisors and the need for an SPSS to make regular Parliamentary appearances within the first few years of operation. Further to this, one response noted that HM Treasury should consider creating an independent board to hold the SPSS to account and assess to what extent the body has achieved its goals.

Policy Decisions

6.19 The issues addressed through questions 26 and 27 are being considered in more detail through the specific consultation on powers which will be published soon. This includes consideration of measures necessary to avoid extra regulatory burdens on firms, which are of relevance to question 26.

28. Overall, what impact do you think an SPSS model would have on supervisory effectiveness? Please explain your reasoning.

6.20 Our assessment of the arguments made under questions 28, 30, and 31 can be found in the policy statement in chapter 2.

6.21 Those who believe the impact would be positive made many different arguments, however a few major points did recur. An SPSS would supervise many firms and be able to make a risk-assessment over the whole population. Respondents suggested that this meant there would therefore be more focus on the highest risk areas, and greater consistency as firms with the same risk profile would be provided with the same intensity of supervision. Respondents also argued that an SPSS would be likely to take more consistent and dissuasive enforcement action. Generally, respondents who favoured this option focused on the importance of a supervisor focusing on the highest risk firms and activities, and credibly deterring breaches of the MLRs. Others who backed this model pointed to the potential for integration of professional services with estate and letting agents.

6.22 Other respondents argued that the impact on supervisory effectiveness would depend largely on how an SPSS was set up, for instance, how it was resourced and the level of investment in IT systems.

6.23 Respondents who believed that there would be negative impacts on supervisory effectiveness argued that an SPSS would lack understanding of the specific business models, or the threats faced by a sector, such that it may attempt to implement a one-size-fits-all approach which wouldn't account for important sectoral differences. There were also references to a potential loss of quality in supervision during the transition period, during which key people at PBSs could leave. Further responses suggested that an SPSS may suffer the long-term effects of not being able to recruit staff with supervisory experience who previously worked at PBSs. Others pointed out that passing legislation could take a number of years, meaning a longer transition period.

6.24 Some legal sector respondents argued that a public sector supervisor could risk undermining the independence of the profession from government and political interference, if the body allowed direct political interference in firms' affairs. This important point was considered in the choice of the FCA as the new supervisor, due to its existing effective independence arrangements.

29. How significant would the impact be on firms of splitting AML/CTF supervision from wider regulatory supervision in the sectors to be supervised by an SPSS?

6.25 Most responses to this question highlighted the fact that splitting AML/CTF supervision from wider regulatory supervision would have a negative impact while only a few respondents felt that the impact would be neutral.

6.26 Respondents who identified that this would be negative argued that there would be increased regulatory burdens on firms due to more reporting obligations, potentially more rules and more supervisory checks. A few responses went further, arguing that dual-regulation is inherently burdensome and thus wanted to see mitigations put in place to minimise this.

6.27 Respondents who were less concerned about the level of impact mentioned that regulators working closely together could reduce any potential impact and that current regulators are able to be adaptable in this regard. For dual-regulation to work, respondents noted that it is important to have clear definitions of each regulator's supervisory remit.

Policy Decision

6.28 It is essential that the FCA should continue work closely not only with other bodies in the AML/CTF regime, but also with the PBSs as they continue their work on other areas of supervision and professional standards. We are committed to minimising the burden of dual-regulation on firms. In addition to working closely with PBSs to achieve this, we will seek to ensure that the FCA has appropriate information sharing powers where necessary to minimise instances in which firms have to provide the same information more than once. There is further consideration of this in our forthcoming consultation.

30. Overall, what impact do you think an SPSS model would have on supervisory effectiveness? Please explain your reasoning.

6.29 In error, we replicated question 28 in the wording of question 30 in the consultation document. This error was not made in the online survey. In this question, we intended to ask for views of this option's impact on 'system co-ordination'. However, respondents overwhelmingly did provide evidence and opinions on the impact of option 3 on system co-ordination. Many respondents were aware of the typographical error and gave their views on system co-ordination here, whilst others did so under question 28. Regardless of that, respondents generally gave their views on this issue as part of their answer to question 42.

6.30 As with question 28, respondents from the accountancy and legal sectors generally indicated a negative view of the impact of this option on system co-ordination, whilst respondents from other sectors indicated a positive view. Those respondents who responded positively made several arguments. They noted that the existence of an SPSS would make the system more flexible, as there would be a natural supervisor for any sectors brought into scope of the MLRs in future; and

a body able to respond to future priority risks flexibly and across a large swathe of the regulated economy. Along the same lines, it was suggested that pooled expertise in one supervisory authority would allow for better AML/CTF threat analysis to be developed. In addition, respondents argued that law enforcement agencies were more likely to be confident sharing information with an independent, public body; and that it would be easier to establish strong relationships that ensure an SPSS acted on intelligence, and shared information with law enforcement. Law enforcement noted that low levels of PBS referrals remain a problem in the current regime. Furthermore, it was argued that an SPSS would provide more effective policing of the perimeter as well as bringing an end to the potential for regulatory arbitrage.

6.31 Those respondents who believed the impact would be negative disagreed, especially on information sharing. They argued that PBSs have made significant advances in their relationship with law enforcement, and that it is not obvious law enforcement would be more open to sharing information with a new body. In addition, it was argued that creating an SPSS would just shift information sharing difficulties around, as the new SPSS would still need to share and receive intelligence from all 22 professional bodies. It was felt that information sharing would be challenging. PBSs hold their data in different formats, consolidating this into one system could prove challenging. Furthermore, these bodies are unlikely to retain the same level of AML/CTF expertise without any formal supervisory function, so may be less able to help an SPSS. In general, this reform would separate AML/CTF supervision from other supervision carried out by professional bodies (for instance, for conduct), which some argued could not only worsen information sharing but also impede enforcement actions that target multiple kinds of offence or cause increased burdens for firms.

31. Overall, how significant do you think feasibility constraints would be for an SPSS? Please explain your reasoning.

6.32 Most respondents said that this option faced significant feasibility constraints and raised a variety of these issues. Some suggested necessary mitigations.

6.33 Some respondents raised resourcing and the ability of an SPSS to recruit skilled staff given that AML/CTF expertise is a specialist resource that is limited, with the issue being more prominent if an SPSS were unable to attract staff from PBSs, especially if the new body was not able to offer competitive pay. The cost involved in setting up a new body was another key theme considered by respondents, including new IT systems which would need to bring together data from the 23 existing supervisors. Costs also considered by respondents were the location of this new body and the development of a new enforcement structure. If this body was well resourced, however, it was mentioned that it could surpass the supervisory performance of current PBSs. Establishing public sector professional services supervision within the FCA partially resolves some of these difficulties, however implementation will still require careful project planning and adequate

funding. Performance during the years it would take to set up a new public body was another feasibility concern that was raised by respondents, with worries PBSs may not retain staff or invest in improvements during this period. It was argued that OPBAS could help mitigate some of these transition concerns due to their relationship with and knowledge of PBSs.

Chapter 7: SAS

7.1 Under this model, all AML/CTF supervision in the UK would be undertaken by a single public body. The major difference between this and the other potential models would be that the FCA and Gambling Commission would also stop supervising firms for AML/CTF compliance.

32. Do you foresee any major challenges for effective gatekeeping, under either an SPSS or SAS model? If so, please explain what they are, and how you propose we could mitigate them?

7.2 Respondents supplied a range of possible challenges for effective gatekeeping in response to this question. They argued that the lack of specialist knowledge that an SAS would have regarding the legal and accountancy sector, as well as reduced ability to identify emerging risks, would create a challenge for effective gatekeeping.

7.3 The sheer number of firms and sectors that an SAS would have to supervise was also suggested as a possible challenge to effective gatekeeping. It was suggested that it would be easier for the legacy supervisors to continue to undertake all gatekeeping, for instance, and for an SPSS/SAS to accept their approvals. Some respondents believed that some of the issues explored would be more surmountable if an SAS were able to be granted access to other authority's datasets, for example that of the FCA.

33. Overall, what impact do you think an SAS model would have on supervisory effectiveness? Please explain your reasoning.

7.4 Most respondents, in all sectors, assessed this model would have a negative impact on supervisory effectiveness.

7.5 Nevertheless, we did receive some responses suggesting that the SAS model could have a positive impact. These pointed out that it could provide a consistent risk-based approach to supervision for the entire regulated sector while also making it possible to allocate more resource to the sectors and firms with the largest risks. This might enable a genuinely innovative system-wide approach to targeting national priorities. Another potential positive impact highlighted was the chance for improved coordination and sharing of intelligence between an SAS and law enforcement.

7.6 Respondents who believed there would be a negative impact made some similar arguments to question 28. Some mentioned that, with all financial institutions also included, the remit would be too large for the body to succeed. The performance of the current public supervisors and the perceived lack of need to change their remit was also stated as a reason why the SAS model would have a negative impact on supervisory effectiveness – some respondents argued that there is no reason to think a new SAS would supervise more effectively than the FCA, for instance. Arguments also presented included the

major resourcing needs that the SAS would face, difficulties in gathering risk-assessments and data streams from firms previously supervised by PBSs, the risk the SAS may focus too much on the largest firms, and the prospect of increased compliance costs.

34. Does the separation of AML/CTF supervision from general regulatory activity present a major issue for those firms currently supervised by the statutory supervisors? Please explain your reasoning.

7.7 Almost all responses to this question felt that separation of AML/CTF supervision from general regulatory activity would present an issue, although a few respondents believed that this would be surmountable.

7.8 Amongst the issues presented by respondents was the fact that there would be extra costs incurred because of dual, and possibly triple, regulation by different bodies, of which SAS would only be one. Conflicting guidance was also highlighted as a potential issue with the separation of AML/CTF supervision from general regulatory activities.

7.9 Respondents who believed that dual regulation would not present a major issue generally argued that some firms (for instance, PRA and FCA regulated firms, and some large accountancy firms with legal or financial services functions) are already dual regulated, and these respondents felt that it would just be necessary for the roles of all supervisors to be clearly defined.

35. Overall, what impact do you think the SAS model would have on system coordination? Please explain your reasoning.

7.10 Almost all the respondents felt that the SAS model would have a negative impact on system coordination. A small number of responses did, however, believe that this model would have a positive impact.

7.11 Respondents who felt that the SAS model would have a positive impact argued that 'policing the perimeter' under one SAS would be easier and more effective than the current system. Much like the arguments presented for an SPSS model, some responses pointed out that the SAS model would improve coordination with law enforcement as well as enabling data analysis across the entire regulated economy.

7.12 Those who argued that the impact on system coordination would be negative suggested that PBSs have already improved their relationship with law enforcement agencies, and it is not a given that a more positive relationship will exist with a new body. It was also mentioned that under this model, an SAS would still need to share information with the current PBSs – particularly where bodies retain close operational relationships with firms or possess relevant knowledge from non-AML work that may not be easily transferred to a single public supervisor. Further issues also raised included the dual regulation of firms and the extra burden this would potentially create, the possibility of some firms deciding to withdraw membership of PBSs altogether, the potential loss of the holistic picture of a sector that

regulators have, and information sharing barriers between the SAS and professional bodies, the FCA, or the Gambling Commission.

36. Overall, how significant do you think feasibility constraints would be for the SAS? Please explain your reasoning.

7.13 Almost all the responses to this question felt the feasibility constraints for implementing the SAS model would be significant, while a few respondents argued that the constraints were real but surmountable.

7.14 Responses included concern around the cost of setting up the SAS as well as the recruitment of the appropriate number of staff with the right level of subject matter expertise. This tied in with other responses which suggested that it could take years for a SAS to be set up and during this transition period there would be a drop in the performance of the PBSs. There were, however, respondents who suggested that this transition risk could be mitigated by considering a phased approach to moving sectors into a SAS.

Chapter 8: Sanctions

37. Given the change in the sanctions context in the UK since Russia's invasion of Ukraine, have supervisors changed their approach to oversight of sanctions systems and controls amongst regulated populations? If so, what activity has this entailed?

8.1 Most responses stated that supervisors had undertaken proactive engagement to build capacity amongst their supervised populations, such as through issuing new guidance or requiring enhanced reporting. A small number of responses said they had seen a less significant change in approach, for example simply undertaking an exercise to better understand their supervised firms' sanctions knowledge. Additionally, a few responses said that they had not noticed a change in supervisory approach on sanctions following Russia's illegal invasion of Ukraine.

38. Do supervisors need additional powers to monitor sanctions systems and controls effectively, or can this be done under existing powers? What would any new powers need to consist of?

8.2 Most responses stated that new powers were not necessary and that the existing legislative framework permitted supervisors to undertake sufficient supervisory activity. Conversely some responses argued that additional powers were required for supervisors to monitor sanctions systems and controls effectively.

8.3 A small number of responses said that more guidance was required instead of new powers and that any new powers introduced would need to be proportionate, and consider the varying capacities of supervisors and regulated firms. Moreover, a few responses noted that introducing new sanctions requirements in the MLRs could create confusion between the AML/ CTF and sanctions regulatory regimes.

39. Aside from legislative powers, do you foresee any other barriers to supervisors effectively monitoring sanctions systems and controls?

8.4 Some respondents thought that one barrier could be the potential confusion caused by the roles of supervisors, with additional sanctions powers, in comparison to existing sanctions authorities like the Office of Financial Sanctions Implementation. Clear responsibilities between supervisors and UK government bodies would need to be established should new powers be introduced, as well as the need for better information sharing between government agencies and supervisors. Some respondents also believed that more resource would be necessary to enable supervisors and firms to deliver and adhere to any enhanced sanctions requirements.

8.5 A small number of responses argued that additional barriers included: (i) providing the supervisors with more enforcement powers may undermine their independence from the government, (ii) a lack of guidance around the specific proposals being considered, and (iii)

creating new sanctions powers under the MLRs could create a two-tier system between regulated and non-regulated firms. Additionally, some noted that placing the same requirements on smaller and larger firms would not be proportionate and could reduce the effectiveness of any reforms. A small number of responses argued that there were no barriers to supervisors effectively monitoring sanctions systems and controls.

40. Should any new potential supervisory powers relating to sanctions broadly cover all types of UK sanctions?
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8.6 Most responses believed that new supervisory powers should cover all UK sanction types. A small number of responses stated that only financial sanctions should be included given their relevance to the MLRs, while others argued that supervisors should only be expected to have enhanced powers in relation to UK sanctions relevant to their professional responsibilities – for example, financial services firms should not have additional requirements placed on them in relation to UK trade sanctions.

Chapter 9: General questions

41. How would you expect losing AML/CTF supervision to affect PBS' financial models, and the fees charged to supervised populations?

9.1 Respondents presented a range of views in relation to this question, some of which were negative and some neutral. Some responses acknowledged that PBS fees charged to supervised populations would be reduced should PBSs lose AML/CTF supervision.

9.2 Some responses that were negative went further and highlighted that there was the potential for PBSs to go out of business as AML/CTF supervision was a key part of PBS' financial model. However, others claimed that this would not be the case as many PBSs collect their AML/CTF supervision fee as part of their practice/membership fee which would remain without an AML/CTF role, albeit at a reduced level.

42. Based on your experience and the considerations set out in this document, what is your analysis of the relative extent to which each of the four reform options would lead to (a) improved supervisory effectiveness and (b) improved system coordination.

9.3 Arguments were broadly in line with those outlined throughout the document, but we summarise them here with a focus on the overall views of different types of respondents.

9.4 Responses from the legal and accountancy sector were largely in support of the OPBAS+ model as they believe this would be the easiest to implement and that OPBAS and the PBSs would be able to improve on the progress they have made to date.

9.5 Respondents from civil society, finance and law enforcement preferred an SPSS model due to the belief that this model would improve the end-to-end response to priority threats as well as increasing coordination and information sharing.

9.6 The PBS consolidation and SAS model received some support from a small number of respondents.

OPBAS+

9.7 Respondents predominantly in favour of OPBAS+ mentioned that the PBSs had made improvements since OPBAS' inception and that providing more powers would further increase effectiveness.

9.8 Respondents who were not in support of this model argued that this model would not do enough to reform the current system. They generally believed that PBSs would never be as effective as public supervisors, sometimes focusing specifically on enforcement action.

9.9 From a system co-ordination perspective, responses in favour of OPBAS+ believe that the system as it currently stands is broadly

working and providing OPBAS with more powers would increase information sharing further. Respondents who opposed this view generally said that law enforcement were more hesitant to share intelligence with PBSs.

PBS Consolidation

9.10 Arguments for PBS consolidation included that this model would reduce the fragmentation of supervisors within the legal and accountancy sectors which would likely create a more consistent approach to supervision and eliminate the least effective performers. However, some respondents also argued that ultimately firms ought to be supervised by a public supervisor, and consolidating PBSs would be difficult to implement but would not create any fundamental improvements.

9.11 Responses that were in favour of this model indicated that a reduction in the number of PBSs would lead to increased system coordination, particularly when it comes to the supervision of ASPs and TCSPs which have many supervisors currently. Some noted, however, that this model would only work so long as PBSs were willing to take on consolidated roles. Respondents argued that there may be diminished understanding of the exact firms being supervised, due to the fact that existing PBSs have built up considerable knowledge of their supervised population which the consolidated PBSs may not already have.

SPSS

9.12 Respondents who were in favour of this model argued that it would bring more supervisory effectiveness through a more consistent approach to supervision, with overarching risk assessment and allocation of resource across a larger population. Proponents also considered that a public sector supervisor would be more likely to bring dissuasive enforcement action. Those who responded against this model thought that it would not achieve supervisory effectiveness due to an SPSS not being able to understand the complexities and different risks of the different sectors it would supervise.

9.13 Some respondents also believed that creating an SPSS would produce a clearer line of communication with law enforcement, which would benefit system coordination. Conversely, some responses pointed out that PBSs would still be responsible for non-AML/CTF supervision and said that it was unclear how information sharing would be carried out between the SPSS and PBSs.

SAS

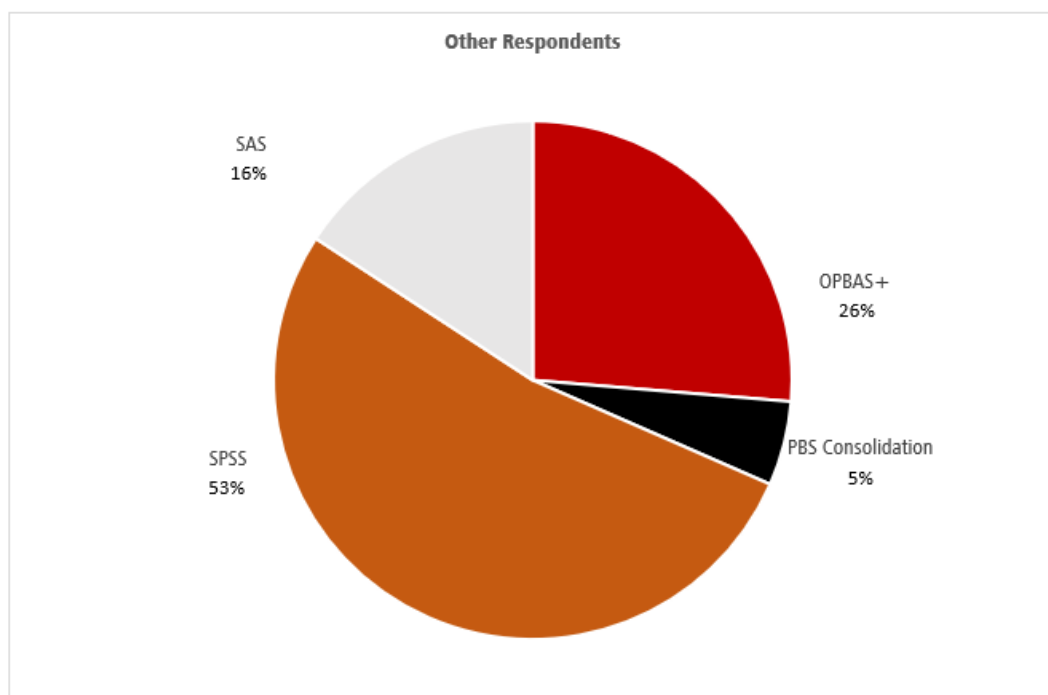
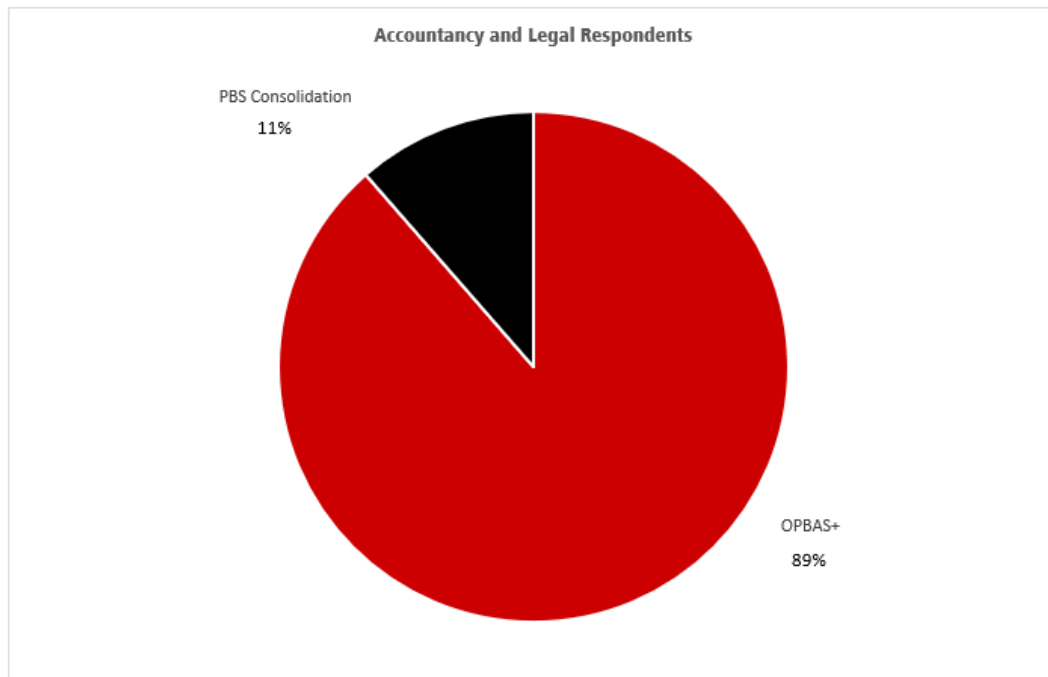
9.14 Proponents of the SAS model often highlighted similar considerations to those highlighted by advocates of an SPSS, as did those opposed, but on a larger scale with more firms involved.

43. Are you able to provide evidence as to how the options set out in this document would help or harm individuals or households with protected characteristics?

9.15 Not enough respondents provided evidence to this question for us to summarise responses publicly. We are grateful for the responses we did receive which we have considered carefully.

Annex: Overall views

The following charts illustrate the responses of different types of stakeholders to question 42, asking for overall views on the options. We have not included respondents who did not answer Q42 or who gave no overall preference in their answer. Note that some responses came from representative bodies writing on behalf of all their members.



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