LSB Statutory Guidance – New Regulatory Objective on Economic Crime

July 2025

Purpose of this document

1. The Legal Services Board ("LSB") is the independent body that oversees the regulation of legal services in England and Wales. The LSB was created by the Legal Services Act 2007 ("the Act") to hold to account regulators for the different branches of the legal services profession. The Act provides that in discharging its functions the LSB and approved regulators must, so far as reasonably practicable, act in a way that is compatible with nine regulatory objectives, and which are considered most appropriate for the purpose of meeting those objectives[1].

2. One of the nine regulatory objectives: *promoting the prevention and detection of economic crime,* was added to the Act by way of an amendment under the Economic Crime and Corporate Transparency Act 2023.

3. This Guidance is given by the LSB under section 162 of the Act to provide regulators with information and advice as to how they may comply with their duty to promote the new regulatory objective, alongside the other regulatory objectives in the Act. Regulators should have regard to this Guidance in performing their regulatory activities.

4. In developing this Guidance, the LSB has had regard to the principles in section s3(3) of the Act, under which regulatory activities should be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed.

5. As specified under section 162(5)3 of the Act, when carrying out its functions the LSB may have regard to the extent to which regulators have complied with this Guidance as part of its oversight activities. This includes assessment of regulators under the Regulatory Performance Assessment Framework, and consideration of regulators' applications for changes to regulatory arrangements.

6. All terms used in this Guidance are, unless otherwise stated, as defined in the Act.

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[1] Legal Services Act, sections 3(2) and 28(2)

LSB Guidance on the New Economic Crime Regulatory Objective

7. The new regulatory objective was introduced by Parliament in recognition that legal services regulation has an important role to play in responding to economic crime. It places a responsibility to promote the prevention and detection of economic crime on the LSB and regulators.

8. The new regulatory objective is intended to give regulators, and the LSB in its oversight role, confidence to respond to and pursue the prevention and detection of, economic crime within the legal services regulatory framework. [2]

9. While the new regulatory objective does not place any direct obligation on regulated persons to proactively prevent and detect economic crime, this Guidance recognises that regulated persons should be supported by their regulators to not knowingly or unknowingly facilitate economic crime.

10. This Guidance is intended to help make legal regulation a key piece of a strong response to economic crime across the UK. It sets expectations for how regulators should approach promoting the new regulatory objective. It does not seek to identify all specific actions that regulators should take in pursuing the new regulatory objective.

11. Regulators should pursue the outcomes in paragraphs 17 and take account of the considerations and expectations in paragraphs 18 to 24. These outcomes are in alignment with the expectation contained within the LSB's Well-Led standard at characteristic 9[3] of the Regulatory Performance Assessment Framework, although the new regulatory objective, as for all regulatory objectives in the Act, is relevant under each of the Standards and characteristics of the Regulatory Performance Assessment Framework.

12. The LSB is mindful that the Act gives regulators discretion to act in a way which each considers most appropriate for the purpose of meeting the regulatory objectives. If regulators choose alternative methods of pursuing the new regulatory objective, they should be able to demonstrate, and evidence this.

13. For legal regulation to be effective in combatting economic crime, regulatory action needs to be pursued in the context of and in alignment with existing statutes and regulatory frameworks for preventing economic crime, some of

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[2] https://hansard.parliament.uk/Lords/2023-06-27/debates/EF8264AF-6478-470E-8B37-018C4B278F6E/EconomicCrimeAndCorporateTransparencyBill?highlight=legal%20services%20board#

[3] Characteristic 9 states: 'Has a comprehensive understanding of the market it regulates, including the consumers of services, and proactively identifies risks to the regulatory objectives; has a clear programme of activity to address those risks'.

which already apply to professionals and firms regulated under the Act (e.g., the Money Laundering Regulations 2007)[4].

14. Regulators should also consider the existing evidence on risks and responses to economic crime (e.g., from the National Crime Agency), in their own approach to implementing the new regulatory objective, to effectively prevent and detect economic crime.

Outcomes

15. The LSB recognises that regulators regulate different professional groups, reserved legal activities and authorised persons (including both individuals and entities) and as a consequence they may adopt different approaches to pursue the stated outcomes, that are appropriate for their regulated communities.

16. In pursuing the outcomes, each regulator should have regard to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and adhere to any other principle appearing to it to represent the best regulatory practice[5].

17. Regulators should pursue the following outcomes:

(a) **Understand the risks and issues** that may lead to the regulated sector facilitating economic crime **and take appropriate actions** to prevent and detect their occurrence.

(b) **Support authorised persons to understand their duties** and the risks related to economic crime in the provision of legal services act in a manner that upholds the rule of law and adheres to the professional principles and other regulatory obligations.

(c) **Monitor authorised persons' compliance** with any standards developed and/or used by regulators in pursuit of the new regulatory objective on economic crime and address instances where authorised persons fail to comply.

(d) **Regularly evaluate** any implemented standards and procedures to ensure they continue to be fit for purpose in addressing economic crime risks over the long term.

[4] The Money Laundering Regulations 2007 (legislation.gov.uk)
[5] Legal Services Act 2007, section 28(3)

Expectations and considerations

18. The LSB expects regulators to demonstrate that they have met the expectations set out within this section and the outcomes identified in the previous section. Regulators must be able to demonstrate that evidence-based decisions have been taken to determine what measures are appropriate to implement for their regulated communities and authorised persons.

19. This section sets out the expectations that regulators should take into account when pursuing the outcomes identified within the Guidance.

Outcome 1: Risk Assessment

In pursuing Outcome 1 regulators should engage in comprehensive risk assessment activities, to gain an understanding of and develop responses to, risks that their regulated communities knowingly or unknowingly facilitate economic crime.

20. In doing so, regulators should determine:

    a. Effective procedures to identify risks and issues concerning economic crime that may affect their regulated communities. Areas of concern may include, but are not limited to, the targeting and/or involvement (whether knowingly or unknowingly) of legal professionals' in areas of economic crime such as money laundering, breaching of financial sanctions, fraud, bribery and corruption.

    b. How often economic crime risk analysis should be carried out, given the severity and likelihood of risks for the whole, or parts, of their regulated communities.

    c. Evidence-based approaches to address any identified risks.

21. In pursuing this outcome, regulators should work collaboratively both with other legal and non-legal regulators as well as those who are experts in risks relating to economic crime, such as the Serious Fraud Office, to obtain a holistic understanding of where the risk of facilitating economic crime may materialise for regulated communities, and how legal services providers may stay alert to those risks, so they do not knowingly or unknowingly facilitate economic crime. As appropriate, regulators should also aim to publicly share the findings of their risk assessments to support information sharing on risks and transparent decision making.

Outcome 2: Developing and/or Using Standards and Tools for Regulated Community

In pursuing Outcome 2 regulators should have in place standards that help guide authorised persons to manage risks of knowingly or unknowingly facilitating economic crime.

22. The standards may be new or established, and their fitness for purpose should be informed by:

    (a) The findings of the risk analysis conducted with respect to economic crime, and whether the developed resources/ tools effectively manage those risks.

    (b) Feedback from the regulated community and other relevant stakeholders on what would be most appropriate to help authorised persons manage the risk of facilitating economic crime.

    (c) How proactive or reactive the established standards should be, given the likelihood and severity of the risk materialising.

    (d) The types of support that would help authorised persons understand and maintain compliance with any standards, (e.g. continued professional development activities and access to an array of information resources).

23. In pursuing this outcome, regulators should work collaboratively where possible in order to align with the approaches and outcomes being pursued by other legal sector regulators so that there is an appropriate level of standardisation in the approach to addressing instances or risks of economic crime across the sector. This has, for example, the benefit of embedding collaboration so that regulators can share their expertise. Where regulators deviate from identified best practice or mutually agreed approaches that could appropriately have been adopted, regulators should be able to demonstrate why they have developed a distinct approach for the identified type of issue.

Outcome 3: Monitoring Compliance

In pursuing Outcome 3, regulators should have an appropriate process for monitoring compliance with any standards developed to manage the risks of facilitating economic crime and take action, including enforcement action, in response to instances of non-compliance.

24. In doing so, regulators should identify:

    (a) A graduated system of monitoring and enforcement measures that accounts for varying degrees of concern and severity of non-compliance with the standards (e.g., ranging from further education to providing warnings to deploying disciplinary measures).

(b) How often regulators will be engaging in compliance monitoring given the likelihood and severity of the issue and/or risk materialising that may be identified through work carried out under Outcome 1 (e.g., whether authorised persons must proactively share information regarding their compliance, or if it is sought out by regulators on a routine basis, or once an issue has been identified).

(c) How the compliance approach will encourage authorised persons to adhere to the established standards.

(d) The steps regulators will take to mitigate repeat occurrences in instances where regulated persons fail to comply.

Outcome 4: Evaluation of Implemented Standards

In pursuing Outcome 4 regulators should ensure that any regulatory approach to promoting the detection and prevention of economic crime is adaptable to new or changed risks. Regulators should have a plan for (a) evaluating the efficacy of their implemented approach(es) towards promoting the prevention and detection of economic crime and (b) updating their approach(es), as appropriate, based on the findings of their evaluation or in response to wider events.

25. In doing so, regulators should identify:

(a) How frequently evaluations should take place, with consideration provided for the length of time it takes for the actions taken to have impact.

(b) The most appropriate method and indicators available to understand the impact of any actions taken by regulators in order to assess whether the methods are working and to ascertain the corrective action required.

(c) How regulators will consider the public and consumer impact of their implemented approaches, as part of their evaluation of its efficacy.

(d) Where they may collaborate with other regulators, law enforcement and other relevant organisations to support the identification of changing economic risks and the implementation of effective approaches to those risks.

Regulatory Dependencies:

26. This Guidance will be subject to periodic review to ensure that it remains fit for purpose as a tool for assisting regulators to consider the new regulatory objective to promote the prevention and detection of economic crime alongside all other regulatory objectives, and in line with their duties under section 28 of the Act.

27. Legal services may be used in a myriad of ways to facilitate economic crime and as a result require a comprehensive suite of responses. This Guidance may overlap with other regulatory requirements, systems or laws, that aim to respond to behaviour that amounts to or facilitates economic crime.

28. While regulators should pursue the outcomes identified within this Guidance, The LSB will aim to align with and take into consideration regulatory requirements and standards that have been established for regulators (e.g. related to financial sanctions, anti-money laundering) so as to not set duplicative expectations for regulators.

29. For the avoidance of doubt, regulators should be able to demonstrate that their approach to the implementation of the new objective is evidence based, in alignment with the findings of their risk analysis.