

Compli | January update

As we begin 2026, it's a good time to reflect on the past year and anticipate the challenges and opportunities ahead. This update covers major regulatory developments, compliance pressures, disciplinary trends, and future legal directions shaping the profession.

2025 year in review and future legal trends

2025 was no different to previous years for lawyers, with constant juggling between client requirements, keeping up to date with changes in the law, ever increasing regulatory obligations etc. while running and growing a business, and keeping an eye on what is on the horizon so that we don't get left behind by competitors.

There have been a range of significant milestones, from major regulatory reforms to advances in legal technology, the news that the FCA will become responsible for all AML regulation from, it is anticipated, around the end of 2027, and cases that sent shock waves through the profession e.g. Mazur, together with swathes of SRA guidance, Law Society practice notes, updated LSAG guidance alongside new statutory requirements and regulations etc. – there's never a dull moment in the world of regulatory compliance!

Regulatory shifts and compliance pressures

The SRA's updated sectoral risk assessment on AML and terrorist financing led firms to review their Firm-Wide Risk Assessments (FWRAs) and Policies, Controls, and Procedures (PCPs). The annual AML and sanctions data collection led to hundreds of firms receiving SRA letters, with a thematic review of PCPs expected in early 2026. Inspections and investigations remain robust.

The Mazur decision generated significant commentary, especially for firms with high-volume claims and non-admitted staff. Firms must now evidence their processes, anticipating possible future litigation. The Law Society's latest guidance was issued on 18 November 2025, and we now await the CILEX appeal, listed for hearing on 24 February 2026.

The Economic Crime and Corporate Transparency Act (ECCTA) introduced new offences for failing to prevent fraud in large organizations and removed the cap on SRA fines for certain breaches. Mandatory identity verification for company directors and PSCs means non-compliance is now a criminal offence.

These changes require firms to update policies, procedures, and training, reinforcing the need for robust compliance frameworks.

Technology, AI, and Cybersecurity

AI adoption accelerated in 2025, offering efficiencies in document drafting and client service but also introducing risks such as fabricated case citations and AI-generated complaints. Courts have warned against AI misuse, and firms are urged to implement clear policies and verify all advice and submissions for accuracy.

Cybersecurity remains a top concern, with several high-profile breaches impacting firms' finances and reputations. Investment in advanced cybersecurity, staff training, and incident response plans is now essential.

Disciplinary trends and professional ethics

The SRA continued to impose substantial fines and take decisive action against firms and individuals. Notable cases included:

- A law firm fined £58,000 (plus £20,000 costs) for lacking an AML risk assessment and independent audit.
- A director fined £32,500 (plus £50,000 costs) for failing to verify the source of funds for a PEP and misusing the client account.
- Other actions addressed misleading clients, falsifying emails, misuse of client accounts, and over-recording time.

These cases highlight the importance of ethical conduct and the risks of commercial pressures or poor leadership. The LSB's concerns about declining ethical standards have prompted consultations on upholding professional duties and potential regulatory reform.

Looking Ahead: Key Legal Trends for 2026

Evolving Regulatory Landscape

Regulators are expected to adopt more dynamic, risk-based approaches to supervision and enforcement, including real-time data collection and greater use of technology. Firms should ensure their FWRAs, PCPs and independent AML audits are up to date to prepare for the FCA's future role.

AI and Automation

AI will further transform legal practice, from document review to predictive analytics. While these technologies enhance efficiency, firms must remain vigilant about accuracy, ethical use, and compliance.

Data Security and Privacy

With rising cyber threats, robust data protection is critical. Regulatory focus on data breaches and client confidentiality will intensify, requiring firms to invest in cybersecurity and staff training.

Flexible and Hybrid Working

Management, supervision, and training must adapt to support distributed teams, maintaining high professional standards and client service regardless of location.

ESG and Social Responsibility

Environmental, social, and governance (ESG) factors are now central to clients and regulators. Firms must demonstrate commitment to sustainability, diversity, and ethical business practices in both advice and operations.

Access to Justice and Innovation

Technology will expand access to justice, with online dispute resolution, virtual hearings, and digital legal services becoming mainstream. Firms that balance innovation with compliance and ethics will be best positioned for success.

Together, these trends signal a profession that is increasingly defined by adaptability, innovation, and social consciousness. By both reflecting on the achievements of 2025 and proactively preparing for the road ahead, we can continue to deliver value to clients and society while upholding the highest standards of integrity and service.

Consultations and thematic reviews

On 11 December 2025, the SRA published a consultation on client money in legal services, proposing that individuals with significant management authority cannot be COLP or COFA in firms meeting certain risk thresholds. Sole owner-manager firms may need to appoint an external compliance officer. The consultation closes on 20 February 2026, with further consultations expected in May 2026.

A thematic review on compliance officers was also published, following visits to 25 law firms. Additionally, the SRA released a report on growth strategies, focusing on accumulator, acquisition, and consultant models.

On 7 January 2026 the Ministry of Justice (MoJ) launched a consultation on a proposed “Interest on Lawyers’ Client Accounts (‘ILCA’) scheme”, ‘as a way for the legal sector to contribute more to the justice system it relies on’, which would require solicitors to pay up to 75% of the interest earned on client accounts to the MoJ. The deadline for responses is 9 February 2026.

Sanctions

New guidance pages have been launched on GOV.UK, and the UK Sanctions List will be consolidated into a single list from 28 January 2026. Firms should update screening systems and compliance frameworks accordingly.

New practice notes and guidance

SRA guidance

- [SRA | Money laundering and terrorist financing suspicious activity reports | Solicitors Regulation Authority](#)
- [SRA | How we make decisions and the criteria we apply | Solicitors Regulation Authority](#)

Law Society practice notes and guidance

- [Protection for client accounts | The Law Society](#)
- [Conflict of interests | The Law Society](#)
- [Criminal Finances Act 2017 | The Law Society](#)
- [Anti-terrorism | The Law Society](#)

Recent disciplinary and regulatory decisions

- A solicitor was fined £15,000 for failing to spot fraud indicators in loan matters, with the tribunal noting a lack of due diligence but no dishonesty.
- A solicitor was cleared over a discounted sale of an elderly client's home, with the tribunal emphasizing the importance of respecting client instructions when mental capacity is intact
- Another solicitor was struck off for using drug money to pay a mortgage, demonstrating serious dishonesty.

How Compli can help...

The Compli Solicitor Regulatory and Professional Discipline Team offers expertise in risk, compliance, AML, and disciplinary matters. For support, contact compli@weightmans.com.

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