Solicitors Regulation Authority

Client money in legal services – safeguarding consumers and providing redress:

The model of solicitors holding client money

Responses and feedback to our consultation

December 2025

Contents

Background

Our consultation, 'Client money in legal services – safeguarding consumers and providing redress: The model of solicitors holding client money' launched on 14 November 2024 and ran until 21 February 2025.

The consultation invited views from stakeholders on:

- residual balances
- interest on client account
- moving money from client account to office account
- advance fees
- alternatives to holding client money
- equalities, diversity and inclusion considerations

This report summarises the feedback received on each of the subjects above.

We have heard a lot of views, with some appetite for change to address the root causes of risks to client money. However, we have always said these are complex issues, that cannot be solved with quick fixes.

We consider there is a strong case to properly explore the long-term transformation of the model of holding client money. However, our immediate focus is on making changes to better protect and safeguard client money under the current system. We will return to considering the wider reforms when we have acted on improving our current arrangements.

We have continued to develop our position for three issues from this consultation:

- Timeframes for returning client funds at the end of a case
- Requesting of advanced fees by law firms
- Moving money from client account to office account

Our latest policy positions on these areas are set out in the December 2025 consultation.

Who did we hear from

We received a total of 277 responses to our questions on the model of solicitors holding client money, from:

- 86 individual solicitors or other legal professionals
- 143 law firms or other legal services providers
- 31 Representatives, charities, or other groups
- The Law Society
- Birmingham Law Society (member of Joint V law societies)
- Bristol Law Society (member of Joint V law societies)
- Cardiff and District Law Society
- Chester and North Wales Law Society (member of the County Societies Group)
- City of London Law Society
- County Societies Group
- Devon and Somerset Law Society (member of the County Societies Group)
- Hampshire Law Society
- Leeds Law Society (member of Joint V law societies)
- Leicestershire Law Society (member of the County Societies Group)
- Liverpool Law Society (member of Joint V law societies)
- Manchester Law Society (member of Joint V law societies)
- Surrey Law Society (member of the County Societies Group)
- The Dorset Law Society
- One unknown respondent

We also engaged directly and heard from stakeholders through other engagement activities. This included:

- meeting with members of the profession and consumer representative groups • holding consultation events
- polling members of the public and legal services professionals through our social media channels
- broadcasting an on-demand, interactive webinar.

We thank everyone who took part in our consultation process, using any of the available channels. We have published all responses received from stakeholders that confirmed we could do so, whether by name or anonymously

Comments and feedback for questions one to four – residual balances

Existing requirements

On some occasions, law firms may hold excess funds belonging to a client or a third party in their account at the conclusion of the client's matter. The SRA Accounts Rules require money belonging to clients and third parties to be returned 'promptly' as soon as there is no longer a proper reason to retain it in a client account. Firms are obliged to take all reasonable steps to locate the owner of residual balances to return the money to them. Where the owner cannot then be located, they must donate the residual balance to charity.

Risks and concerns

In the consultation paper we confirmed that we have heard many law firms are not proactive in reconciling their client accounts and then returning outstanding client money at the end of client matters, or in taking appropriate steps to trace the owners of those monies. We described associated risks, including that clients and third parties are sometimes losing out on their own money, potential incentives for firms to hold on to client funds and not prioritise efforts to return them, and firms failing to do enough to maintain ongoing records of client

We explained in the consultation paper that residual balances should be rare, and that firms should see the prompt return of client money balances as a priority. We confirmed that we want to make sure residual client account balances are returned to the person to whom they belong as quickly as possible, and that situations where law firms encounter difficulties in identifying and / or tracing the owners of excess funds are minimised.

Proposals

We sought views on whether replacing the term 'promptly', and prescribing a specific timetable for the return of residual balances, would better protect client money. We proposed a 12 week period, given that it would provide firms with at least two accounts reconciliation cycles to identify excess residual funds and return them. In situations where clients had become uncontactable, we asked for views on prescribing a further period of time for firms to make all reasonable attempts to trace them. We also asked for feedback on other potential requirements to make certain firms proactively keep client contact details up to date.

Comments and feedback for question one

Our first question was:

'We want to ensure we fully understand the issues firms encounter in returning excess funds to clients or third parties – please outline:

- **the circumstances in which residual balances may arise on a particular matter**
- **the steps that firms can take to make sure their client contact details remain up-to-date and any challenges with doing this**
- **mechanisms that firms use to trace clients/third parties and any challenges with this'**

We heard a range of views about each of these areas, as follows.

The circumstances in which residual balances may arise on a particular matter

Some stakeholders described circumstances that they felt can cause residual balances to be held by law firms, and in almost any legal service area.

The most common set of circumstances described by law firm respondents were situations where the exact value of disbursements that are likely to be required during a legal service is unknown at the point in time when a client is asked to transfer funds over to a law firm. We heard examples of how this sometimes leads to firms holding residual amounts at the end of a legal service transaction, including within conveyancing services, during probate work, or where a legal service involves litigation activity.

The next most common circumstances referenced by law firm respondents were situations where information held by a firm about a client changes during the legal service journey, such as contact details or banking information. Some law firms confirmed that, despite their best efforts to return money to clients, cheques sometimes remain uncashed. The Law Society pointed to the range of client situations that can drive this, stating that "…*when a retainer ends for the client, they may want to draw a line under a particularly stressful time in their lives, for example, following a divorce or a bereavement and may not respond to communications. There may be other reasons, such as where a client leaves prison but does not update the firm following release*."

The Law Society and other respondents also illustrated several other circumstances, including:

- clients paying incorrect amounts to law firms during the course of a legal service
- lengthy timescales associated with services such as probate work, where money may continue coming into estates for long periods of time and during which time beneficiary contact details can change
- errors made by firms during client billing
- interest that arises on client money
- historical residual balances that are taken-on by firms when they merge with others.

The steps that firms can take to make sure their client contact details remain up-to-date and any challenges with doing this

A common step mentioned by several law firms was asking their clients at the outset of their matter to update the firm if their contact details change. Some firms referenced further steps, such as processes for contacting each client within a set timeframe following the conclusion of their matter, and issuing digital reminders to clients asking them to periodically check and update their contact details.

The most common challenge highlighted by respondents was a drop-off in communication that can be experienced with some clients, and which can lead to contact details becoming out-of-date. Some law firm respondents attributed this drop-off to a reduction in interest by the client in their matter after they feel it has been concluded. Some firms also felt that some clients were simply disinterested in receiving small amounts, and regard small amounts as trivial. These challenges were highlighted within the consultation responses but also articulated during roundtable engagement with law firms.

Mechanisms that firms use to trace clients/third parties and any challenges with this

Some law firms told us that, if email or phone contact details held by a firm prove to be inactive, they then do make other attempts to contact. This includes writing to the last known address for the client, or searching social media to try to locate clients, beneficiaries, and

other third parties. Some firms told us they sometimes placed newspaper adverts, but acknowledged that those adverts were now rarely read, meaning that the effectiveness of that approach had reduced. Others confirmed that they might attempt to seek client contact information from other agencies, such as the Department of Work and Pensions and from electoral rolls. We set out a process of reasonable steps in guidance.

Many law firm respondents highlighted third-party tracing services. However some acknowledged the costs involved in commissioning those services to locate clients can be disproportionate to the residual balance. In its response Bristol Law Society indicated the cost can be around £100 per trace.

The main challenge mentioned was the time and resource commitments of attempting to locate clients. Some stakeholders felt that, while advancements in digital communications had helped to reduce that time and effort in re-establishing contact with some clients, it was not always the case. Some respondents confirmed that additional challenges can be created when clients move location, and potentially move overseas, during the course of a matter, but fail to update their law firm. To illustrate the timeframes that can sometimes be involved, Manchester Law Society described a situation where it had taken 20 years to track down a client to return a residual balance. It concluded that… "*International clients generally can create difficulties in returning funds.*"

Comments and feedback for question two

Our second question was:

'Do you agree that we should replace the term 'promptly' in rule 2.5 of the Accounts Rules and introduce more prescriptive requirements around returning funds to clients and third parties?'

We heard a range of different perspectives about this proposal, ranging from strong support through to strong disagreement.

Supporters pointed to benefits that they felt it could bring on a number of fronts, including:

- improved clarity for firms and their clients
- the elimination of subjective interpretations of rule 2.5 and instead an improved consistency of approach between different law firms
- strengthened regulatory compliance rates.

Benefits for consumers were highlighted by some stakeholders, alongside suggestions for additional prescription. This included the Legal Services Consumer Panel which suggested in its response that "…*the SRA should set additional requirements on firms to ensure that they keep contact details up to date, maximising the chances of tracing clients' beneficiaries after a matter has concluded."*

However, nearly twice as many consultation respondents opposed the proposal. Reasons provided for this included the wide variety of legal matters and client situations that are handled by law firms, with one law firm commenting that "*the nature of transactions are very different in each sphere of work. Some have a definite 'end point' to the transaction. Others have retentions. Others may have an element of 'waiting to see what happens'*." Other stakeholders questioned whether more prescription could be seen as consistent with outcomes-focused regulation in the SRA Accounts Rules, and one respondent felt that prescriptive requirements for residual balance returns were likely to be blunt instruments in practice.

The Law Society felt that the current 'promptly' requirement for residual balances remains adequate, stating that it is "…*not aware of any evidence that indicates law firms are deliberately retaining residual balances for inappropriate reasons*." The current 'promptly' requirement was also discussed by other respondents, and we heard views that promptness depends on circumstances that are material to each individual case – including from Leicester Law Society which felt that a one-size-fits-all approach is not suitable for that reason.

We heard calls for the current use of 'promptly' to remain, including from Leeds Law Society which suggested it provides flexibility for firms and regulators to respond to different circumstances where residual client money balances arise. Other respondents suggested that additional guidance could be used to illustrate 'promptly' in a range of different situations.

In roundtable events, we heard support for prescription from some compliance officers as they though it might help them get fee earners to prioritise reconciling client balances at the end of a case, which can be difficult when fee earning has finished on the case.

Comments and feedback for question three

Our third question was:

'Would a 12-week timeframe, from the conclusion of a case, provide sufficient time in which to identify an excess balance on a client account and return the funds to the client or third party where the firm holds their up-to date contact details?

If not, please give your reasons and include any specific examples of relevant issues.'

Some stakeholders expressed support for a timeframe requirement. We heard views that it could create greater certainty for law firms and their clients alike, while also helping to drive compliance. The Legal Services Consumer Panel confirmed its view that, while it could not definitively determine that a timeframe approach would be more effective than the current approach, the fact that the current arrangements were not working means *"…it is therefore the responsibility of the regulator to intervene, and we support such intervention."*

However many other stakeholders opposed the proposal. That included some law firm operators who argued that an arbitrary timeframe would likely be unworkable in practice, given the diverse range of client situations and circumstances that they manage – including circumstances that may be out of their control. Some stakeholders felt that exemptions would need to be available where a 12-week timeframe might legitimately not be enforced – such as situations where a client is contactable but does not provide updated bank details or a postal address within the 12-week window.

The Joint V Law Societies warned of unintended consequences, commenting that *"An arbitrary deadline could have the opposite to the desired effect:- (i) pushing clearing funds back on some transactions; (ii) generating rule breaches on cases where there is a good reason for delay; and (iii) not serving to accelerate transfers by any truly delinquent firms (who must already have been ignoring the 'prompt' obligation)."*

The Law Society questioned how a timeframe approach could work in practice, providing examples of complicating factors that are often present during conveyancing services and litigation services. The Law Society and several other respondents also questioned how client cases would be defined as being concluded, as the trigger point for a 12-week timeframe. Once respondent asked "*Is it the completion of a transaction, the end of costs proceedings, the registration of a property transfer? The conclusion of a case is probably the*

point at which there is no longer a proper reason to hold funds; the rule already provides that that is the point at which they should be returned."

Comments and feedback for question four

Our fourth question was:

'Should it not be possible to return excess funds to the client or third party within 12 weeks of the conclusion of a matter, is a further 12 weeks a reasonable timeframe to make all reasonable attempts to trace the relevant client/third party and where this is unsuccessful, donate the residual balance to charity or apply to us for approval to do so?'

Many respondents either clearly supported this proposal, or were strongly opposed to it.

Some stakeholders who expressed support felt that the proposal was reasonable, and welcomed the further clarity they envisaged it could create for law firms. However, some supporters also called for a clear process for managing genuinely exceptional circumstances, where a residual balance might legitimately have to be retained beyond any required timeframes. One respondent provided an example of this type of case, commenting that "…*a client became ill with cancer and was incapacitated for an extended period of time. We were unable to get instructions from her for roughly six months. Had we held a residual balance potentially we would have been unable to return that balance and/or get hold of her. However, it would not have been appropriate for the firm to donate the residual balance to charity."*

Opponents of the proposal argued that it would further complicate already-problematic situations, making them even harder to resolve. Some law firm respondents felt that in this second 12-week period, circumstances could be fully out of their control – if, for example, a tracing agent had been appointed – and they felt it was therefore inappropriate for the period to be fixed. Some opposition centred on the 12-week timeframe itself, and we heard suggestions that instead it should be set for a longer period. Other respondents warned of potential unintended consequences, with one stating: "*I would be concerned about this creating an environment whereby getting rid of excess client funds becomes more important than returning them to the client!"*

At a workshop with law firms, we heard feedback that the reasonable steps that should be undertaken to try and trace a client were disproportionate for very small residual balances and that we should introduce a de minimus.

We also heard some feedback under this question about charity receipt of residual balances, including respondents who confirmed they would welcome broader consideration of options for deploying residual balances differently. This included the Access to Justice Foundation, and the Legal Services Consumer Panel which suggested examples of *"…pooling residual balances to create a fund for access-to-justice initiatives or using technology to streamline the return of small balances."*

Comments and feedback for questions five to eight – interest on client account

Existing requirements

The SRA Accounts Rules requires firms to pay their clients a 'fair' sum of any interest earned on client money, although they do not quantify or define what 'fair' means in practice. The Accounts Rules also permit law firms to enter into different arrangements regarding the payment of interest to clients. However a common approach taken by firms is to pool money received from clients into a single client account or several client accounts operated by the firm, which then attracts a higher rate of interest than would otherwise be achievable if the money of each individual client was held separately.

Risks and concerns

We explained in the consultation paper that the current arrangements allowing firms to retain some of the interest gained from money belonging to their clients - assuming a ‘fair’ sum is also paid to those clients - are difficult to justify, and may incentivise behaviour that runs contrary to the best interests of clients. For example, we highlighted incentives that may currently exist for law firms to hold greater amounts of client money, or to hold it for longer, than is actually necessary in order to maximise the interest that is generated.

We described feedback we had heard that some small firms are operationally reliant on interest generated from client funds. We also confirmed our view that consumers may not always be aware of their rights, including their law firm’s obligation to account for a fair sum of interest, nor the implications of potentially entering into alternative arrangements.

Proposals

We asked for views about potential amendments to our rules to prevent law firms from retaining any interest generated by client money they are holding, subject to an appropriate de minimis to apply in situations where interest due to a client is so small that it would be unreasonably burdensome to pay it on to the client. We asked stakeholders to describe the approaches they take to client interest under the current requirements, and to tell us about any unintended consequences that they might envisage if we were to change the requirements.

Comments and feedback for question five

Our fifth question was:

‘We would like to understand current practices around interest on the client account. Please tell us about your experience of the arrangements for interest on clients' money, including:

- **The extent to which client accounts generate interest, and – if so – how interest is apportioned between the firm and the client?**
- **Any arrangements firms have to receive less or no interest on client accounts and what, if anything, the firm receives in return?**
- **Whether and how firms make their clients aware (either directly or via terms and conditions) that their money could earn interest?**

- **Whether clients are aware that firms may retain some of the interest earned on their money?'**

Interest generation and apportionment between firms and clients

Most law firms confirmed that their client account generates interest, and some went on to provide specific details of their apportionment approach and how they assure its fairness for their clients.

The most common method of apportionment referenced by law firm respondents was the 'de-minimis'. Some firms confirmed that interest was not paid until a set date after the start of a client's retainer, and then was paid to the client in full after that time.

However other approaches were also highlighted. They included where the total amount being held in a client account attracts a higher rate of interest than a client would otherwise receive if their money was held in a separate designated account held by the firm, or was held in a High Street bank account. Clients are typically then paid the amount they would have received in a separate designated account held by the firm, or the standard rate of a High Street bank, with the firm retaining any excess amounts.

A small number of respondents described approaches where they pay rates of interest on client account that are based on individual contractual arrangements with individual clients. In one case, a respondent confirmed that no interest was paid to clients unless the amount of interest earned exceeded the firm's fees.

Through our engagement programme that accompanied our consultation process we met with banking providers, and we heard that client accounts are highly sought-after products and that sometimes law firms are offered incentives to bank with them because of this. This feedback seemed to contrast with views that were expressed by some regional law societies and other stakeholders that law firm operators are not incentivised to retain client funds to generate interest.

The Law Society also commented on incentives, stating that interest was not a 'windfall' but is put to good use in some firms such as offsetting costs of administering the accounts and the handling of clients' money and overheads, and subsidising legal services that are being provided.

Client awareness of interest and law firm transparency approaches

As part of our consultation process we held a roundtable event with consumer representative groups and during that meeting we heard clear support for adequate and ongoing transparency of client account interest approaches, to make sure that consumers fully understand and are happy with the arrangements that they are agree to. During our deliberative research work with members of the public we also heard that none of those who had previously used a solicitor recalled having discussed interest.

Most law firm respondents confirmed that they do take steps to make their clients aware of their approach towards client account interest. Examples that were provided included describing the firm's approach within the firm's terms and conditions package, explaining the firm's approach within a client care letter provided to clients at the outset of their matter, and describing their approach on their website. The Law Society underlined the importance of law firm approaches in ensuring that client interest decisions remained the client's choice, confirming that "*There are already safeguards in place within the existing rules, which require that if there is to be an arrangement other than the general rule of paying a fair sum, it must be agreed between the client and solicitor in writing."*

Comments and feedback for question six

Our sixth question was:

'What are your views on the suggestion that we amend our rules to prevent firms retaining any of the interest earned on client money (subject to a de minimis)?'

The majority of legal sector respondents, including law firms and regional law societies disagreed with this proposal, and we heard a wide range of comments and feedback.

Some perspectives centred around the potential operational impacts for law firms. We heard views that currently the retention of client money interest can contribute in some way towards the financial stability and ongoing viability of some law firms, including offsetting the costs associated with offering and managing client accounts.

Other areas of feedback correlated the retention of interest earned on client accounts to the capacity of some law firms to improve and invest in the services and experiences they offer to consumers. We also heard views about the potential operational practicalities of the proposal, with one law firm commenting that: "*This would be difficult because it would involve significant workload in calculating interest to make payments, often worth pennies, to clients, or firms all moving to 0% interest accounts*."

The Law Society questioned the public-interest rationale for this proposal, stating that "…*the SRA consumer research accompanying this consultation indicates that a very significant proportion of consumers (79%) are comfortable with legal services providers managing their money*." Some stakeholders flagged up the timings for this proposal being made, including the Joint V Law Societies which stated "… *The costs and administrative burdens of maintaining client accounts were not questioned during periods of low interest rates*."

Comments and feedback for question seven

Our seventh question was:

'Are there circumstances where firms retaining some of the interest earned would be of benefit to the client?'

Members of the public participating in our deliberative research were largely unconvinced of benefits, and did not believe it entirely fair that solicitors should be entitled to retain any interest. However they acknowledged they could accept this, providing they do not lose out on what they see as rightfully being their own money, and they also understood that there are challenges in defining what should constitute a fair amount of interest.

Most law firms responding to this question felt that there were legitimate circumstances under which retaining some client money interest benefits their clients. Most commonly the circumstances described were the use of that retained interest to invest in business and service improvements – to then create onward benefit for new and existing clients of those firms.

However some law firm operators felt that retained interest also allows them to provide a broader range of services to larger pools of clients. One commented that "*Interest earned on client account is a means of cross subsidising the costs of undertaking transactions for a range of clients. Typically, larger balances are held for business entities and the interest earned on those balances is offset against the costs of undertaking transactions for individuals*." The Law Society suggested that interest can support small firms to retain their employees, and that the associated client benefit is that it "…*allows firms to offer services more cheaply, which in turn improves access to legal services*." Devon and Somerset Law

Society also connected the financial stability point to firms operating under legal aid contracts, commenting that fees can "…*take many months or years to be paid and client account interest is used to enable firms to retain liquidity so they can carry on such work."*

Comments and feedback for question eight

Our eighth question was:

'What do you think would be the impacts of removing the ability for firms to earn interest on money held in client accounts? How could any short-term and/or long-term challenges be overcome?'

Consultation respondents highlighted a number of potential negative impacts associated with this proposal. They included:

- **possible financial impacts for consumers**

We heard suggestions that firms might seek instead to recoup by increasing the costs of their services, or that they might increasingly move client money into non-interest bearing accounts. One law firm commented that *"The price of legal services will increase to compensate the law firm for the cost and risk of operating a client account…..price changes may inadvertently and disproportionately impact negatively on more disadvantaged groups of consumers. Most consumers are not VAT registered so increases in fees to compensate for the loss of the interest subsidy from client interest income would be even more expensive for those consumers."*

- **increased risks of law firm failure**

Some stakeholders felt that firms would through necessity adapt their business models away from some areas of legal work, and become less financially stable. One stakeholder commented: "We regularly see over 150 law firm's financial results on an annual basis. In our experience we estimate between 5% and 10% of UK law firms would suffer either financial failure or serious financial consequences if they were unable to receive the subsidy from client interest receipts. Naturally this would have an impact on the accessibility of legal services in the UK." Others highlighted specific risks for the ongoing viability small law firms and for specific areas of the market, such as firms with legal aid contracts and conveyancing firms. In those areas, some stakeholders felt that this proposal could essentially force law firms into closure.

The Sole Practitioners Group also envisaged increased risks for firms here, commenting that *"This cross-subsidisation is particularly important for work with very low profit margins, such as Legal Aid work, where the interest earned from other areas within a diverse practice is used to support these low-margin activities."*

The Solicitors Charity urged caution around client account interest, commenting that "*Any reduction in financial health will have an impact on the ability of firms to continue to support charities whether they provide help for solicitors, support solicitors in charitable and pro bono activities, or work for the good of communities across the country. We believe that this would be a significant backward step in the relationship between the profession and the wider public."*

- **reduced choice for consumers**

Some law firm respondents felt that this proposal would ultimately result in them reducing the range of legal services they offer to the public.

Some respondents however felt that impacts would likely be lower, with one law firm respondent stating: "*Provided there is an appropriate de minimis to cover the administration costs, I do not foresee any impacts."*

Comments and feedback for questions nine to twelve – moving money from client account to office account

Existing requirements

The SRA Accounts Rules do not prevent law firms from sending bills to their clients in advance of work being done, or for future disbursements that will likely be required but that have not yet incurred, and then transferring client money from their client account for their anticipated fees. We publish guidance that outlines our expectations of firms, and which acknowledges that seeking payment of fees in advance of work being done can help firms experiencing cashflow challenges.

In the consultation paper we explained that we had previously consulted in 2022 on changes to the SRA Accounts Rules to make it clear that, in order to transfer funds from a client account into the firm's business account, it is not sufficient simply to send the client a bill or other written notification of costs - the bill or written notification must be for costs that have already been incurred. Post consultation we had paused any further implementation to allow our wider client money review to progress.

Risks and concerns

We explained our view in the consultation paper that the existing requirements provide law firms with too much flexibility to put their own interests ahead of those of their clients, and can leave client money exposed to additional risks – such as not being in a ringfenced client account if a firm suddenly becomes insolvent.

Some of the feedback we had received on our 2022 consultation had raised concerns about potential impacts for fixed fee legal representation, including that firms might be deterred from offering fixed fees where the legal work is expected to last for a considerable period of time. In this consultation we confirmed our interest in exploring if there are circumstances in which firms may be able to adapt their charging model - for example, by offering fixed fees with clear points agreed, at which firms are able to transfer part of the fixed fee into their office account. We also sought views on another change for the Accounts Rules that had first been explored in the 2022 consultation, to make it clear that where a firm has incurred expenses on behalf of a client (such as paying a Land Registry search fee from their own money) that they do not need to deliver a bill or other written notification of costs, before they reimburse themselves from money held in a client account.

Proposals

In the consultation paper we confirmed that we intended to move forward with the changes to the Accounts Rules that we had first proposed in 2022, although that we had also made drafting changes responding to feedback we had received during that earlier consultation.

We asked stakeholders for views about circumstances where law firms may currently enter into alternative arrangements with their clients, and whether there are any alternatives which would better protect client money.

Comments and feedback for question nine

Our ninth question was:

‘Are there any circumstances in which it is in the client's best interests to transfer client money from the client account to the office account before the work to which it relates has been completed? If so, please describe these circumstances.’

The feedback on this question was generally quite divided. Some respondents argued that there were definitely specific circumstances, with law firm respondents particularly referencing the effective management of cashflow, and associated value that can be created for clients. One law firm summarised this as follows: “*Many clients like budgeting certainty and to be offered fixed fees and/or "all in" fees. These fees are often discounted to reflect the "economy of scale" of having all items fixed in advance. For many firms the quid-pro-quo for such a discount is the cashflow certainty of having the monies. Hence it would be a shame to remove this fee structure as an option for clients as firms would be disincentivised to offer these if monies were to be retained in client a/c.”*

The Law Society commented also on client budgeting, stating that situations can arise where a client requests a firm bills them before work is completed because it suits their own budgeting preferences. The City of London Law Society also endorsed this, stating that “*In principle there is nothing wrong with such approaches which should form part of the freedom of clients to contract in their best interests.”* The Sole Practitioners Group agreed, confirming that “*Clients have consistently requested regular payment intervals to better manage their legal costs rather than be left with a large bill at the end of the case, especially when work is prolonged.”*

Other circumstances suggested by stakeholders included the Law Society’s description of agreed fee packages, where firms may agree in writing with clients where their money is to be held. During our consultation engagement programme we discussed agreed fees / advance fees with a number of different stakeholders, and heard generally positive views about their operation. That included feedback from members of the public taking part in our focus groups, where most participants with experience of these arrangements had been happy to have paid something in advance, and felt that they would do so again.

Some respondents were unable to suggest any circumstances. One law firm commented: “*We invoice on completion or as agreed with the client on probate matters and would only ever transfer monies at that time, never before*.” Other feedback focused on understanding what is meant by ‘completed’ in order to understand where it might be appropriate for firms to, for example, issue interim bills, or to determine that a matter has been substantially completed.

Comments and feedback for question ten

Our tenth question was:

‘Do you agree with our proposal to progress the amendment to rule 2.1(d) of the SRA Accounts Rules? Please explain your answer.’

Some stakeholders expressed their agreement for this proposal. including some law firm operators. One commented that “… *it seems fair to the client and offers a better protection for their money.”* The Law Society suggested an alternative draft for amending rule 2.1(d).

Other stakeholders were in disagreement, and we heard warnings of unintended consequences including increased administrative burden for firms, that potentially then could create delay and increased costs for clients. In some cases stakeholders felt that the current

rule provides valuable and necessary flexibility for law firm operators, and one law firm commented that: "*Maintaining the current rule, with robust oversight and clear client agreements, strikes a better balance between flexibility and protection*."

Comments and feedback for question eleven

Our eleventh question was:

'Do you agree with our proposal to progress the amendments to rules 4.3, 4.3(a) and 4.3(c) of the SRA Accounts Rules, and the addition of rule 4.4? Please explain your answer.

Most stakeholders were fully supportive of this proposal, and we heard calls for it to go ahead. One law firm respondent commented: "…*Currently firms essentially provide an interest free overdraft to clients for disbursements. It remains important for the amounts to be known to the client, perhaps in an initial quote / client care letter, but if these costs can be transferred as and when they occur instead of at the end of a matter, it could offset some of the losses from potential loss of client account interest*."

Others welcomed the proposal from the perspective of improved clarity for law firms, with one law firm commenting that: "*…these amendments provide clarity to the current drafting of the rules and we particularly welcome the addition of rule 4.4 so that the treatment of such reimbursements is clear*." Some of the feedback acknowledged that the proposal represented a way to ensure new clients would be fully aware of their financial obligations from the outset of their matter. The Law Society also suggested drafting changes for the proposal and expressed its support for the proposal based on those changes.

We heard feedback from some stakeholders who disagreed with the proposal, including viewpoints about the potential adverse impacts for clients that might be created. One law firm summarised its concerns by stating that "*The potential for increased administrative costs, coupled with the strain on resources, will likely lead firms to raise their fees or, worse, reduce services or the quality of legal representation provided. Clients would be left with a system that burdens firms with red tape while offering no tangible improvement in service or outcome*."

Some legal sector respondents argued that the proposal would lead to increased confusion and uncertainty for law firm operators, potentially jeopardising the ongoing use of fixed fees within some operational models. In some cases those respondents stated their preference for maintaining the current approach within the SRA Accounts Rules.

Comments and feedback for question twelve

Our twelfth question was:

'What are your views on the option to remove the ability for firms to enter into alternative arrangements about where client money will be held and how it will be used under rule 2.3(c)? Please explain your answer.'

Some stakeholders expressed their clear support for this option, going on in some cases to illustrate the reasons for their view. Their reasons centred mainly on the potential benefits for law firms in having a consistent and sector-wide approach, with one stakeholder commenting that "*It would allow all firms to follow the same rules, reducing the risk of confusion or misuse…. make it easier for firms to comply with the rules, as there would be less room for interpretation or alternative practices."*

Others were strongly opposed to the option including some law firm operators who felt that client freedom of choice might be damaged, particularly commercial clients who might need different terms and specific approaches compared to individual consumers. Some law firm respondents believed that the fixed fee market could be compromised, and that consumers who currently rely on fixed fees could be adversely impacted as a result.

The Law Society also echoed this potential adverse impact, stating that, instead: "*Firms will have to charge hourly rates which may result in a reduction in the value clients receive by using a fixed fee as opposed to an hourly rate, especially if a matter becomes protracted*." It pointed to existing safeguards within the SRA Accounts Rules that it felt help to minimise risks here.

Comments and feedback for questions thirteen and fourteen – advance fees

Existing requirements

SRA rules permit law firms to request and receive money from their clients for fees and disbursements in advance of work beginning. We do not set limits on this, although firms must always be certain they are acting in the best interests of each client. Requesting client money in advance can reduce avoid the need to regularly return to the client to receive real-time payments as costs are incurred, which is potentially convenient for both the client and the firm.

Risks and concerns

We confirmed in our consultation paper that we have heard some firms are taking higher levels of advanced fees more often than they did in previous times. In some cases this may be to avoid potential difficulties in securing funds from the client during or at the end of the legal service provided, but it could also be to help with the firm's cashflow, or to maximise interest that can be generated from holding client money.

One challenge here is to understand how much of a reasonably anticipated cost should be requested in advance of work being done. We stated our view that client money should not be used as a facility to help firms run their business, and that holding client money for costs that may be incurred a long way into the future seems unnecessary.

Proposals

We sought feedback from stakeholders on whether we should be more prescriptive about how much money firms can request in advance of work being done, appropriate amounts, and/or the point(s) at which money can be requested in advance from clients. We asked for information about current practices and different legal services areas where firms need to request money in advance of work being done, and about the implications if instead firms were more restricted in when and how they could collect fees and cost before they became due.

Comments and feedback for question thirteen

Our thirteenth question was:

'What approaches do firms take when calculating the amount of money they request from clients in advance? In your response, please outline:

- **Any areas of practice where you consider that it is important to take advance fees**
- **How a reasonable amount to request in advance can be calculated**
- **Any alternatives to requesting advance fees.'**

Reasons for advance fees

Many of the reasons suggested by respondents related to commercial and operational considerations, and the Legal Services Consumer Panel agreed that advance fees are "…*a*

matter of consumer choice and commercial decision for firms." Some law firm respondents emphasised the importance of being able to take advance fees from clients in all areas of legal service, and in some cases this was linked explicitly to reducing risks associated with potential non-payment. One law firm described different types of clients where the ability to secure an advance fee was important: "*Higher risk clients that are likely to default on their fees….Where there is a history of late or non- payment, clients with known cashflow issues… new clients with no payment history, overseas clients who are more difficult to pursue in the event of non-payment*."

The City of London Law Society felt similarly, commenting that: "*There are particularly categories of clients who present a higher credit risk including those with limited assets or who are abroad. This is an entirely sensible and prudent commercial step*." Other stakeholders agreed with the commercial logic involved, including LawNet which commented that: "*Any business starting work for a customer before receiving payment is entertaining credit risk, and it is entirely reasonable for solicitors firms to behave as other businesses do in taking steps to reduce that risk by seeking up-front monies for ork they will be doing and for disbursements they will be making*."

The Law Society pointed to operational stability, arguing that "*It is important for freelancers and particularly smaller firms to have a steady flow of income; requesting money on account allows them to submit interim bills as the matter progresses and transfer money from the client account to the office account once costs have been incurred."*

Other reasons offered by respondents were having funds available on account of work to be done and/or for covering disbursement needs, and allowing clients to more reasonably spread and to manage their representation costs throughout the course of their matter.

Calculating fees

Some law firms suggested that the approach to calculation of an appropriate up-front fee was not always a universal or fixed process, with one firm commenting that the "…*scope of work undertaken by law firms generally, is extremely wide. Cases vary hugely, and lawyers requesting funds on account judge the work to be undertaken based on experience and likely time taken. Often however it isn't until the matter proceeds that a true estimate can be obtained*."

Alternatives to advance fees

Some respondents offered alternative approaches to advance fees, such as the use of credit checks with prospective clients. While this was suggested as a possible alternative arrangement one law firm raised a number of concerns, including that "*This could be seen as an invasion of privacy, and clients might be discriminated against if they have bad credit. Further, we do not believe that the legal sector should be viewed as an institute that purely picks clients based on their credit-worthiness*."

Comments and feedback for question fourteen

Our fourteenth question was:

'When and how do you think we should, or should not, be more prescriptive about how much client money firms can request in advance of work being completed? In the areas where you think we should be more prescriptive, please outline what you think the implications would be for both clients and firms.'

Most respondents from law firms disagreed that we should be more prescriptive, with some cautioning against negative impacts if we did.

For example, the Sole Practitioners Group foresaw potential problems for clients with this proposal, commenting that " *Prescribing a maximum percentage could be a disadvantage for clients as firms may automatically request the maximum amount in all cases whether or not it was required on a case by case analysis."*

The Law Society felt that further prescription could be beyond the SRA's scope, and might cut across longstanding provisions in the Solicitors Act 1974. Other respondents raised similar objections, including the City of London Law Society which felt that client / law firm dynamics already mitigated risks here, stating "*Many clients are either resistant to paying money on account at all or will wish to limit the amount paid to solicitors to ensure that it only covers the likely costs for a prescribed period. In turn a solicitor would not want to ask for too much money on account as that is likely to deter the instructions or cause a client to instruct a firm whose request for money on account is lower*."

Members of the public were asked about this during a consultation focus group, and the general view was that it would be difficult to determine a limit, as every case is different. The consensus from that group was that it depends on the type of case and, after some discussion, it was felt that setting a limit for advance fees could work for more straightforward matters, such as preparing wills.

Comments and feedback for questions fifteen to eighteen – alternatives to holding client money

Existing requirements

The SRA Accounts Rules permit the use of use third-party managed accounts (TPMA), with providers regulated by the Financial Conduct Authority. Currently only a few firms choose to do so, and the vast majority of law firms that hold money on behalf of their clients do so in designated client accounts operated by the firm.

Risks and concerns

In our consultation paper we set out our view that the practice of law firms holding client money is inherently risky, and that risks are materialising more often and to larger degrees. We summarised drivers for client money to be lost, including poor systems within firms, unethical behaviour, and reliance on software that provides inadequate protection against cybercrime.

Proposals

We confirmed that we need to consider whether we should change our rules to prohibit firms from holding client money themselves. We set out the work that we are taking forwards to explore this, including consideration of alternative approaches and extensive engagement work.

Comments and feedback for question fifteen

Our fifteenth question was:

'What are your views of the long-term option of changing the model of firms holding client money? Please outline what you think the impact would be if firms were to hold no or substantially less client money?'

The majority of respondents from within the legal sector disagreed strongly with this concept. We heard a large number of reasons for their disagreement, including:

- adverse impacts towards the speed of legal service transactions
- additional costs created for law firms which would pass on to consumers
- increased financial risk for all parties, in terms of transaction errors, and possible loss of client funds from third-party managed accounts (TPMA) if they were to be relied on instead
- higher risk from cyber attacks in terms of attractiveness and impact if there are only a small number of providers
- negative impacts on the ability of solicitors to provide undertakings
- job losses in law firms' finance teams
- complicated processes for clients and firms.

Stakeholders including the Law Society set out concerns about specific areas in detail, highlighting the potential risks of a scenario where law firms might hold no or substantially

less money on behalf of their clients. For example, it commented that *"Undertakings are extremely serious commitments. Solicitors are officers of the court and are personally liable for any breach of an undertaking, which can also amount to misconduct leading to disciplinary action by the SRA. Undertakings are enforceable through the court and should only be given by solicitors where they will be able to ensure compliance. If a third party managed account (TPMA) provider is dealing with payments, solicitors could not risk giving undertakings on processes/payments over which they have no control."* It went on to say that "*Reliance on third parties is not a shield to liability for solicitors and firms*."

Some stakeholders argued that scenarios where solicitors and law firms held no or less client money would not successfully reduce risks in terms of the security and sanctity of that money. For example, the Joint V Law Societies commented: "*Removal of client funds to TPMA merely pushes responsibility of failure of a TPMA to the FCA rather than the SRA. It gives no greater protection to consumers which is the SRAs entire purpose*". Some respondents also argued that, if the idea is intended to reduce risk, then it was arguably a disproportionate solution given the number of successful client account transactions that law firms currently undertake.

Other stakeholders went on to reference specific risks that they felt would need careful exploration and robust responses, including the volume and capacity of alternative approaches. LawNet discussed existing TPMA providers and commented that "*It seems most unlikely that any of these possible entrants would have the capacity to handle the volume of transactions being undertaken by solicitors across England and Wales daily*." Other stakeholders questioned the extent to which alternative approaches are actually a better prospect, including Lifetime Lawyers which commented: "…*moving client funds to a third party only sets to benefit private companies who may or may not be regulated and who may or may not be bound by a code of ethics.*" Cheshire and North West Wales Law Society asked in its response "…*It will hugely alter the way services are provided. Who will regulate this Third Party Management provider (FCA?)"*

A smaller number of consultation respondents agreed with the idea of potentially changing the existing model. That included the Legal Services Consumer Panel which confirmed that its "…*response underscores the urgent need for a more robust regulatory framework, particularly in relation to … the considered exploration of Third Party Managed Accounts (TPMA) as a viable solution*." It called for swift action, acknowledging that the legal sector "*..has traditionally operated under established norms*.." and going on to state that "*Embracing TPMA's could modernise the handling of client funds and align legal services with contemporary financial practices*."

Some law firm respondents also expressed support although in some cases this was accompanied by uncertainties or concerns about what alternative approaches might entail, especially with the use of TPMA. Law firms in agreement felt that TPMA usage might lead to firms having lower insurance costs and handling costs, or a generally reduced risk of conflicts of interest with clients.

Comments and feedback for question sixteen

Our sixteenth question was:

'In your experience, are there areas of law or services in which it is essential for a firm to hold client money? What would happen if solicitors were not able to hold client money in these areas?'

Some legal sector stakeholders, including law firms and representative bodies, suggested various legal service areas where they felt it was essential for a law firm to be able to hold client money, with the most common areas being:

- conveyancing
- probate
- litigation
- corporate transactions
- matrimonial / family law

The reasons given grouped around a common theme that ran through responses of potential operational impacts for law firms, and the correlating experiences of their clients – for example, by making legal service transactions slower and potentially driving-up the costs of legal services if TPMA handling charges were incurred.

Another reason provided was the potential impact on undertakings, especially during conveyancing transactions. We received detailed feedback about the potential impacts for conveyancing services, including from the Law Society and other stakeholders such as the Conveyancing Association, which felt that "*Adding a third party (TPMA) into the process adds unnecessary complication and additional expense to the process."* Through our consultation engagement programme we also spoke directly to conveyancers and heard about their concerns about difficulties they felt might lie ahead if their firm was unable itself to hold client money.

With probate work, the Law Society argued that transactions would become even more complicated and expensive, commenting that "…*costs to the client will increase because extra work will be required to engage with whomsoever is holding/collecting the funds and the fees payable to the third party concerned.*"

Comments and feedback for question seventeen

Our seventeenth question was:

'Do you have experience of any alternative method(s) of holding client money (such as a TPMA or other methods)? If you have experience of any alternative method, what has that experience been? What was the impact on clients and the firm?'

A small number of stakeholders that we heard from had some current or previous experience of TPMA or other alternative methods. That included law firms responding to our consultation and some reported positive experiences, with one law firm stating that "*There is no real impacts on clients as the only firms that have taken this forward have felt the TPMA product has helped their business. Clients will do whatever they are asked to do and so long as the firm can help the client to understand their obligations then a TPMA can serve them well*."

During our engagement work with stakeholders, that accompanied our consultation process, we met with a range of different law firms to discuss any prior or current use of alternative methods for holding client money. Although only small numbers of those firms had used alternative approaches, they reported largely positive experiences. One firm that uses TPMA felt that payments were more prompt compared to transactional banking, and instructions were processed very efficiently. We heard views about the reduced risks for holding client money that TPMA can provide, including lowering the risk of theft of client money. One firm also provided examples of law firms overseas that more routinely successfully use TPMA to hold money on behalf of clients.

Other respondents who had current or previous experience of TPMA, paying agents or other alternative methods were less positive. For example one law firm commented "*It increases the work we have to do and so we charge the client more and it takes longer*." Another described complicating factors with legal services involving executors, stating "*We have no access to the funds so the Executors have to deal with all payments in and out and providing statements. More administratively burdensome and time consuming… the cost of which is passed on to the client*."

The Conveyancing Association confirmed in its response that a "…*member advised that they were quoted by a TPMA a monthly cost of £500 plus £12 per transaction and another quoted £120 per transaction. These are costs that would need to be passed on to the client, along with the additional administration of linking in to such a provider*."

Through the consultation process we also heard from some providers of alternative approaches, who illustrated examples of law firm operators who were already successfully using their services. One confirmed that "*We are one of two FCA authorised firms actually operating TPMA services for lawyers today. We handle services for a range of lawyers - SRA, BSB, CLSB, CLC, etc. regulated. Our end-clients (consumers and businesses and other entities) are delighted by our fast, simple, secure and low-cost service*."

A small number of other alternatives were highlighted in the consultation feedback in addition to TPMA approaches. The Law Society in particular referenced consideration by the Bank of England and others to real time gross settlement services, and also suggested escrow agents as another potential alternative for further consideration.

Comments and feedback for question eighteen

Our eighteenth question was:

'If you have knowledge or experience of alternative approaches to holding client money, would you be open to further discussion with us as part of future development in this area? If yes, please confirm that you are happy for us to use the details you have provided to contact you, or please provide alternative contact details.'

A small number of respondents were keen to be involved in further discussions with us.

Comments and feedback for question nineteen - assessment of equality, diversity and inclusion considerations

Our nineteenth question was:

'In the context of this consultation, do you agree with our assessment of equality, diversity and inclusion considerations in our impact assessment? If not, what else do you think we should consider?'

Most consultation respondents either stated that they agreed or did not offer any comments. However some stakeholders commented on the potential impacts for particular protected characteristic communities, and for people who are vulnerable or at an increased risk of disadvantage.

- **Impacts for small firms**

Some of the comments we received called for us to fully consider the potential impacts of our proposals for small firm operators and sole practitioners, particularly those from minority ethnic backgrounds and individuals who may rely more heavily on traditional client accounts. One stakeholder commented that "*The SRA should assess whether the proposed changes could inadvertently disadvantage solicitors from underrepresented groups who operate smaller firms*."

Another respondent commented: "*As a successful, growing firm of 70 staff that was started 20 years ago by an ethnic minority sole practitioner we agree with this assessment and wish to stress how important it is that you do not assume that ethnic minority law practices are inherently more risky or more likely to be in breach of our professional regulations."*

- **Impacts for members of the public from minority groups and / or vulnerable communities**

Some stakeholders felt that there might be disadvantages lying ahead for some communities of people – with one respondent commenting that "*The SRA should consider whether some client groups (e.g., elderly individuals, those with disabilities, or those who do not use online banking) may face greater difficulties in making payments or accessing funds*." Financial capability was also highlighted by another respondent who commented "…*Poorer members of society and less able would be adversely affected if firms could not hold money, as solicitors protect clients from the risks of transacting with others by verifying assets ownership identity etc before handing over money, but giving security to the counterparty that the money is there to buy the asset and they are not wasting their time."*

Digital exclusion was also highlighted as one potential risk with likely equality impacts. During our roundtable engagement work with representatives from the Legal Services Consumer Panel we heard views that digital options would be less excluding of those on the wrong side of a digital gap, as TPMA would essentially be akin to running bank accounts online - something that a lot of people already do, including those of more senior generations.

Some respondents discussed the potential impacts for people who rely on particular legal services at difficult times in their lives, with one commenting "*We would like to see evidence you have considered individuals where the Court of Protection has jurisdiction over the*

property, financial affairs, personal welfare and healthcare of people who lack mental capacity to make decisions for themselves."