Solicitors Regulation Authority

Client money in legal services – safeguarding consumers and providing redress: Protecting the client money that solicitors hold

Responses and feedback to our consultation

December 2025

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Background

Our consultation 'Client money in legal services - safeguarding consumers and providing redress: Protecting the client money that solicitors hold' launched on 14 November 2024 and ran until 21 February 2025.

The consultation invited views from our stakeholders on:

- improving our oversight of firms
- mitigating the risks associated with dormant law firms
- accountants' report
- strengthening checks and balance within law firms
- the effectiveness of compliance officers
- equalities, diversity and inclusions considerations

This report summarises the feedback received on each of the subjects above. Our response and proposed next steps for most of these themes is set out in our further consultation on client money in legal services.

Where we are not consulting further on these themes, we respond to what we have heard in this report. We take this approach for:

- Questions 4 and 5, which related to our approach for addressing firms which appear dormant.
- Question 7, which asked for views on a proposal for firms to periodically rotate their reporting accountant in order to safeguard independence.

Who did we hear from

We received a total of 102 responses to our questions on protecting client money that solicitors hold, from:

- 19 individual solicitors or other legal professionals
- 51 law firms or other legal services providers
- The Law Society
- Birmingham Law Society (member of Joint V law societies)
- Bristol Law Society (member of Joint V law societies)
- Chester & North Wales Law Society
- City of London Law Society
- Devon & Somerset Law Society
- Leeds Law Society (member of Joint V law societies)
- Liverpool Law Society (member of Joint V law societies)
- Manchester Law Society (member of Joint V law societies)
- Joint V Law Societies (in addition to individual member responses listed)
- Association of Lifetime Lawyers
- The Association of Personal Injury Lawyers
- Forum of Insurance Lawyers
- Institute of Legal Finance and Management
- LawNet
- The Legal Services Consumer Panel

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 – including polling
- broadcasting an on-demand, interactive webinar.

Comments and feedback for question one

Our first question was:

'Do you think that we should be more prescriptive around the information that we must be notified of outside of our annual practicing certificate renewal exercise? If so, what information should we require and what risks should we target?

We highlighted that we could improve the information we use to help us to identify risks and enable us to better carry out proactive regulatory activity. We explained that while firms are obligated to notify us of material changes to information previously provided to us under the SRA Code of Conduct for Firms Rule 3.8(a), we are often not notified of changes we may consider material. For example, we may not be notified if firms significantly change the structure and governance arrangements which formed part of their authorisation application.

We set out the importance of information to help us to identify and mitigate risk factors within firms, such as a firm currently holding relatively low amounts of client money moving into new areas of law and beginning to hold significantly higher amounts of client money in a short space of time. We flagged that at the moment, we might not find out about this change until the annual Practising Certificate Renewal Exercise (PCRE) return.

We proposed requiring information about some changes to a firm's profile or operating model prior to the change or within a specific period following the change – for example, when one authorised firm buys another. We suggested examples such as contacting compliance officers to explicitly ask whether they had concerns about proposed changes or requiring "out of cycle" accountants' reports to understand any heightened risk to client money.

We explained that we may want to set criteria around when firms are required to provide information to us, and may decide to specify areas of law where notification is required.

Responses to this question were mixed, whilst the majority were supportive of a more prescriptive approach, several responses rejected the position, and a further number provided a more neutral response.

There was support for capturing additional information around mergers and acquisitions, with ideas around profiling on risk, for example around rapidly growing firms or the integration of purchased firms. Through our roundtable events, views heard included:

- The sentiment was not against a pre-approval process as such for mergers and acquisitions, but rather towards an ongoing dialogue pre-acquisition so potentially risky transactions are identified in advance.
- Respondents suggested merger and acquisition risk factors to focus on: buying a firm at least as large as your own; buying a firm very different to your own; buying a firm that's in trouble, buying a firm that's inherently hard and complicated to manage; having no experience in acquisitions.
- Respondents were keen to emphasise the benefits of acquisitions, including from governance, and of customers having access to specialist expertise.

At a consultation event with suppliers of authorisation services, we heard suggestions that firms should notify us when they have a significant increase in turnover or client money held. We also heard concerns about firms seeking authorisation to carry out work in certain areas of practice that later move into an area of practice that would have required more scrutiny

from us to authorise. Some attendees felt that it was important that when firms are moving into higher risk areas, such as holding client money for the first time then it would be important to ensure the firm and its compliance officers are suitable to carry out this work.

Of the written responses in favour of a more prescriptive approach, several respondents felt we should have more requirements, most notably the re-introduction of mandatory submission of accountants' reports, which was the subject of separate, specific questions. Indeed, one solicitor responding on behalf of a law firm, questioned the wisdom of the earlier decision to remove the requirement: '*… not sure why you removed need to file accountant's report. How do you know what's going on? We should go back to requiring accountants' reports to be filed annual[ly], even if it is unqualified.'*

In terms of what additional information should be requested, responses suggested we request information pertaining to financial stability/cash flow: '*as this appears to be a factor in instances of misuse of client account and similar issues*.' To support consumers, the Legal Services Consumer Panel, suggested a more maximalist approach, noting:

> '[the *SRA] requires the following information post-acquisition or significant changes:*
>
> - *Areas of law in which firms practice or intend to practice.*
> - *Current and proposed governance structures, including any changes post-acquisition.*
> - *Financing details of acquisitions.*
> - *Compliance reports or interviews with compliance officers post-acquisition.*
> - *Accountant reports on the financial stability of firms before or after acquisition.'*

The Bristol Law Society suggested when a firm renews their practising certificate they should 'submit an AR1 at this point, and this should happen every year without fail' giving the SRA a regular touchpoint on the firm's viability.

Several responses were more neutral and/or nuanced in tone, generally acknowledging the need for robust regulation to: *'… support the SRA… taking a more proactive approach',* whilst also suggesting that as part of any such review, the SRA should look at its own process and guidance, commenting:

> *'…The SRA's notification requirements are found in various places, such as in its rules, guidance notes and warning notices. This makes it difficult for solicitors to find and access the applicable information. We suggest that the SRA consider reviewing and updating its digital estate.' (The Law Society)*

Of those opposing the suggestion of further prescription, most cited a concern for increased burdens. One solicitor, responding on behalf of a firm, commented: '*… we cannot see that there is much justification for increasing the regulatory burden on firms going about their general activities.'*

Several respondents felt that better oversight could be achieved by making better use of existing information, with Devon & Somerset Law Society suggesting: '*… The SRA already obtains a considerable amount of data about solicitors and firms of solicitors … the first step therefore is for the SRA to look at its own internal data sharing systems.'*

One law firm commented that *'The SRA should be using the existing tools and information at their disposal coupled with post acquisition checks in cases where it is obvious that the acquiring firm is smaller than the firm being purchased.'*

Moreover, there was some agreement amongst these respondents on the lack of clarity within the authorisation rules, which are: *'complex and easy to misunderstand. The rules*

should be re-written in a way that makes it easier for a business to understand the regulatory obligations in respect of obtaining and maintaining authorisation.' (Devon & Somerset Law Society)

Comments and feedback for question two

Our second question was:

'Do you think certain changes should require pre-approval by us and/or after-the-event monitoring and supervision? If so, which changes should this apply to and what risks should we target?'

We explained that we need to consider what we do with the information we require and what action follows. For example, we asked whether certain changes should require pre-approval (such as an acquisition), or whether risks would be better targeted through 'after the event' monitoring and supervision activities.

We set out that any additional due diligence by us would focus on identifying features that may indicate regulatory risk, for example, capacity and capability to take on new areas of work, to integrate systems and processes and to have adequate controls in place given the new firm profile.

Respondents were largely supportive of us introducing some form of pre-approval, pre-event notification and/or post-event monitoring and supervision.

Within our roundtable events, views on pre-approvals and after-the-event monitoring and supervision included:

- The current SRA focus was on authorising people involved in the transaction rather than any inherent risks of the transaction itself.
- The sentiment was not against a pre-approval process as such for e.g. some mergers and acquisitions but with a preference towards having an ongoing dialogue pre-acquisition so potentially risky transactions are identified.
- The preferred approach was for ongoing discussion and relationship management with firms to understand their reasons and strategy behind a transaction. For subsequent acquisitions, the approach could be very light touch if the previous transaction went well and KPIs were met.

From written responses, the Association of Personal Injury Lawyers suggested that:

> *'… a pre-approval process, additional monitoring and closer supervision should be applied to those practices that are new or changing. Authorising new entities, mergers and acquisitions would allow for more forensic examination of their financial background'.*

A number of respondents made the point that whilst the SRA should be notified of changes for pre-approval and/or monitoring and supervision, there was a need to strike "an appropriate balance . . . so as not to affect the normal operation of the market" (The Law Society). In a similar vein, one society suggested:

> *'…there should be pre-approval and/or after the event monitoring and supervision in certain circumstances. We do not necessarily think all acquisitions require pre-approval provided there is notification, and the SRA develops 'prescribed circumstances' of when pre-approval would be required.'* (Manchester Law Society)

Respondents presented a variety of views on the balance between pre-approval checks and subsequent monitoring / supervision, with some feeling that pre-approval checks were the best approach, whilst other preferred: '*after the event only, otherwise it is likely to stifle business growth and development'* (solicitor responding on behalf of a firm).

Respondents were largely in favour of a risk-based approach, indeed Devon & Somerset Law Society proposed that:

> *'Each of the 9,000 or so firms authorised by the SRA should be assigned a risk rating. Frequent changes to the firm should be treated as an elevated risk so that such firms are subject to increased monitoring until such time as the firm has demonstrated its financial stability and business viability*'.

Several respondents identified specific scenarios where pre-approval by the SRA would be appropriate. Mergers and acquisitions were the most frequently cited, particularly where they involve significant changes to client money holdings, governance structures, or firm ownership.

Several respondents proposed requiring firms to submit business plans, projected cash flows, and risk assessments as part of the approval process for acquiring another firms. Some suggested involving independent accountants or panels of experts to assess financial viability.

The Bristol Law Society suggested that, '*When a firm seeks to merge or acquire another firm(s). The SRA could and should seek full business plans and strategy documentation before approving any kind of M&A activity, so as to be able to satisfy itself that the 'new' firm will be run properly and for the benefit of the consumer.* '

There was concern about acquisitions involving firms with prior regulatory issues or those under investigation. In such cases, respondents felt that both pre-approval and after-the-event monitoring should apply. One firm noted that:

Pre-approval and after-the-event monitoring: where the acquiring firm and/or the firm being acquired have a regulatory record with the SRA, qualified accountant's reports and/or are currently under investigation.'

Offering a nuanced position, the Legal Services Consumer Panel commented:

> *'…The SRA has asked if it should require pre-approval of certain changes (such as acquisition) or whether risks associated with changes would be better targeted through 'after the event' monitoring and supervision activities. This is not an easy question to answer … There are likely to be instances where pre-approval would be prudent, if not for all acquisitions, for those pre-identified as high risk. And there are occasions where 'after the event' monitoring and supervision will suffice.'*

A small number of responses were less supportive of the proposed changes, citing concerns that: '*increased bureaucracy will inhibit business operations'* leading to delays. One individual stated: '*significant changes such as appointment of managers or certain roles are already subject to verification. There should be trust in the profession to make other changes, provided notification is given'.*

There were also practical concerns about the SRA's capacity to manage increased oversight. Suggestions included emergency approval mechanisms for time-sensitive transactions and outsourcing due diligence to third parties, funded by the firms seeking approval. One firm responding that '*If the SRA does not have the knowledge or capacity to be able to undertake such checks, it may be appropriate for the firms seeking approval to finance this to be outsourced.'*

Some responses advocated for broader staff oversight, recommending that all individuals within a firm, not just fee earners, be registered with the SRA. This would reflect that the Code of Conduct applies to all staff and improve transparency.

Comments and feedback for question three

Our third question was:

‘What impacts might arise from notifying us of changes in advance? Please provide specific examples of where firms provide information about changes to other third parties, eg insurers.’

We flagged that we had heard concerns about additional requirements or checks having unnecessary and negative consequences, such as putting off investors, or delaying time critical acquisitions so that the acquisition does not happen. However, we also set out that other stakeholders had raised doubts that our involvement would be disproportionately onerous or necessarily delay a transaction.

For this question we provided illustrations on areas of firms’ operations where we could foresee additional notification requirements impacting on business timescales, as well as the potential repercussions for areas of work which often involve third parties.

Respondents gave a variety of views on the potential impact of changes, though the main foreseen effect was delays to business transactions. On this, there was widespread recognition of the need to ensure a regulator is informed and cognisant of changes in advance, however, several respondents also commented on the need for any additional checks to be administered and – where required – acted upon with haste to avoid hindering the completion of transactions.

LawNet members suggested that:

> *‘the rules of engagement are understood, and the SRA is equipped to respond quickly - with use of NDAs as appropriate – so that such changes could be handled effectively, so long as the SRA has the resources and the skill set to do it’.*

Similarly, the Legal Services Consumer Panel stated:

> ‘*Notifying the SRA of changes in advance may impose a regulatory burden on firms, but this is not unprecedented. For instance, firms often provide detailed information to insurers as a prerequisite for obtaining coverage. If such requirements are already in place, the additional burden of notifying the SRA may be minimal. The key is to ensure that the information requested is targeted and necessary for risk mitigation’.*

Birmingham Law Society, focusing on firm closure notification, reflected that:

> *‘It is interesting that the SRA will not allow notification of a firm closure to be given until 7 days before actual closure. This is a process which takes considerable time and effort. If closing firms had to give notification of their intention to close, say, 3 months before closure. They could then, at the very least, be prompted and directed to guidance on the subject and be sent the relevant form. This might ensure, in some instances, a more orderly closure’.*

On timings, Devon & Somerset Law Society commented:

> *‘…the difficulty is …these changes that are subject to contractual arrangements where nothing is agreed until the very last minute. In a pre-pack administration where the failing firm is sold, the circumstances often change quickly …the requirement of a 14-day period …may mean that firms that could have been transferred as part of a pre-pack administration will end up failing as creditors may demand payment sooner than the SRA's window allows’*.

A more sceptical individual commented: '*…further delays and additional red tape will not help - this won't stop the bad solicitors and will hamper the decent ones'.*

Many respondents noted that requiring advance notification could delay transactions, particularly where contractual arrangements are finalised late. Several suggested that a more practical approach would be to require notification within a set period post-event, such as 30 days. One firm proposed:

> *'We can see some practical issues with the requirement to notify in advance… A more workable solution could be to require firms to notify the regulator within a set period (e.g., 30 days) after the change.'*

Concerns about confidentiality were also raised. Firms worried that early disclosure to the SRA could risk leaking sensitive commercial information, especially in competitive or time-sensitive deals.

To moderate this, LawNet and others proposed the use of NDAs and fast-track mechanisms. Another firm added:

> *'You must be able to deal with matters sensitively according to required time frames so that plans for firms are not jeopardised. This could be achieved via the use of an urgent/fast track system.'*

There was broad recognition that firms already notify other third parties, particularly insurers, of significant changes. Manchester Law Society stated:

> *'Most firms should and do consult with PI insurers about acquisitions… Insurers would want to know information on (i) expected turnover of the combined business, (ii) work areas, (iii) staff numbers, (iv) claims and complaints history of the acquired firm, (v) the new governance structure.'*

There were also calls for the SRA to improve internal processes and data sharing, with concerns that siloed working and slow response times could undermine the benefits of early notification. One firm shared:

> *'Our experience of updating our Firm's COLP took over 5 months and COFA took over 7 months.'*

Another added:

> *'The SRA must adopt a more flexible approach that is reflective of the realities of practice.'*

Several stakeholders emphasised that the SRA must be adequately resourced to respond swiftly and proportionately to notifications. Without this, the process risks becoming an obstacle to legitimate transactions and could inadvertently harm firms and their clients. As one respondent put it:

> *'Assuming the notification process is straightforward then there are no obvious obstacles… but if the SRA isn't sufficiently resourced to deal with those pre-approvals swiftly, delays could occur.'*

Comments and feedback for question four

Our fourth question was:

'To what extent to you agree or disagree with our proposed approach to addressing dormant firms - taking action where a firm has not provided legal services and/or recorded zero turnover for 12 months, unless legitimate circumstances apply?'

We set out concerns about firms continuing to retain their authorisation even when they are no longer providing legal services.

For this question, we provide a definition of a dormant firm, gave examples where we have identified misuse of dormant firms and then considered the rules around authorisation and how, in effect, this would determine whether a firms' authorisation should be revoked or retained following a period of dormancy.

Broadly speaking, both in person representatives and written respondents were supportive of this proposal and deemed it sensible. Indeed, one respondent representing a firm felt: '*… dormant firms are a huge problem. Something needs to change'.* The Legal Services Consumer Panel, similarly reflected: '*… dormant accounts introduce unnecessary complexity and risk, particularly post-acquisition'.*

Many respondents acknowledged limited, yet legitimate circumstances where a firm might be flagged as dormant, owing to a zero turnover and not providing legal services. In response to the question, The Law Society commented: '*… for example a sole practitioner having to take some time off, albeit temporarily, due to ill health. It would be unfair to end the authorisation of a firm.'*

In terms of approach, respondents were broadly supportive of an assumption of revocation of licence unless a representation is made to the SRA. One society suggested that the authorisation rules should be amended to reflect this approach, so that they explicitly:

> '*. . . recognised that law firms employ staff through a service company, with firms obtaining authorisation for the service company as well as the LLP. . . The Authorisation Rules should be split into separate rules for licensed bodies and recognised bodies . . . Once the new Authorisation Rules are published and firms have had the opportunity to ensure that their businesses are appropriately authorised the SRA should implement the proposed approach.'* (Devon & Somerset Law Society).

Several responses noted the importance of proportionality and flexibility. Some firms may be dormant due to temporary restructuring, winding down, or awaiting regulatory approvals. Others may be maintaining authorisation for legitimate operational reasons, such as trust corporations or service entities within group structures. One respondent noted that dormant entities are sometimes retained to support future acquisitions or provide trustee services, and that these should not be automatically treated as inactive or non-compliant.

The City of London Law Society responded that:

> *'Dormant firms (in a similar way to residual balances) can arise for a variety of reasons particularly in a group structure, and a necessity for firms registered with overseas bars and regulators and the approach adopted by the SRA should be proportionate to the risk.'*

Of the limited views opposing the proposal, one individual suggested that:

'… there could be very good reasons why a firm isn't trading and has no turnover for 12 months. But there should be a mechanism for alerting the SRA and the SRA to be monitoring this. There may also be no turnover because the firm is not trading but the firm is closing at some stage in the future, and still dealing with client file archiving and suitable storage etc. This would be a (very) good reason.'

Our response

We welcomed respondents' views on how we should approach dormant firms, noting that responses mainly supported our consultant position - that we should consider revoking firms' authorisation status following a period of dormancy.

Taking account of the views of respondents alongside our own case work, we continue to believe that dormant firms represent a loophole in our authorisation regime, which can be used contrary to the public interest and may also prevent our accessing of information which could help us identify risks.

We do, however, find merit in several respondents' examples of the circumstances when it would be legitimate for firms to have a period of 'dormancy' where a firm does not provide legal services and/or reports a turnover of £0. We further consider these circumstances below, in response to the Question Five.

We propose a final policy position of a presumption towards authorisation revocation where we identify dormant firms, unless we receive prior notification. Or, through investigation, we identify legitimate reasons for not providing legal services that do not present risks to consumers or the public interest.

In support of this, in the future we will undertake periodic data exercises to identify those firms which appear dormant. We will then engage with these firms through our case work to discuss their firms lack of activity and to consider whether or not it would be appropriate to revoke authorisation

We do not propose any changes to our rules as we already look at dormant firms and can revoke authorisation where the position is not in the public's interest. We will, however, strengthen our guidance to be clearer on our expectations for firms to self-report any foreseen extended periods of dormancy, and our assumption that we will take steps towards authorisation revocation in dormant firms where we have not received a report of expected dormancy.

Comments and feedback for question five

Our fifth question was:

‘Are there other circumstances not presented here where you think a law firm can legitimately record zero turnover for an extended period?

For this question, based on the authorisation rules we provided examples of circumstances in which it would be legitimate for a dormant firm to retain its authorisation.

We received a relatively small number of replies to this question, perhaps reflecting its limited scope. Most respondents provided no view or simply agreed with the examples presented in our consultation.

Those who responded provided examples of legitimate circumstance of why a firm would record zero turnover, such as LawNet whose members cited examples such as:

> *‘charity firms, long term research projects, ad entities created as part of a merger transaction… which reinforces the need for the SRA to exercise discretion to continue authorisation where appropriate.’*

Another respondent, replying on behalf of a firm, stated that:

> *‘… firms often employ staff through a service company. Usually, such entities are not trading entities and are used to distinguish employees from partners in an LLP or non-incorporated partnership.’*

Several responses highlighted that zero turnover may also arise from temporary personal circumstances. Sole practitioners or small firms may pause trading due to maternity or paternity leave, illness, or career breaks, while intending to resume operations. These situations were seen as legitimate and not indicative of risk or non-compliance.

Some responses also noted that firms may retain authorisation during a start-up phase, particularly while awaiting regulatory approval or insurance arrangements. Others described scenarios where firms operate intermittently, such as consultancy-based practices or those engaged in long-term litigation, where income is only realised upon case resolution.

Several responses also referenced dormant entities within group structures, such as trust corporations or service companies. These may be authorised but not actively trading, and are often retained for governance, legacy, or compliance purposes. Respondents noted that such entities may have minimal turnover but still serve a valid regulatory or operational role.

Our response to these views and our proposed next steps for this question is included under question 4.

Comments and feedback for question six

Our sixth question was:

'Which of these three options for improving compliance with our requirements for accountants' reports and our ability to monitor this do you prefer and why?

- **Re-introduce the requirement for non-exempt firms to submit their accountants' reports to us. Submission or a report would enable us to confirm that reports have been produced, while also enabling us to make a risk-based decision to only review qualified reports in detail.**
- **Introduce an annual declaration for reporting accountants, who must confirm they have provided a report and declare whether it was qualified.**
- **Introduce an annual declaration for firms, who must confirm (a) whether they are required to obtain an accountant's report, (b) whether they have obtained an accountant's report, and (c) whether the report was qualified or not.**'

For this question, we set out the current approach to accountants' reports and our understanding of the pros and cons of the alternative reporting options.

Responses were broadly in favour of a proactive approach e.g. increasing the existing requirements in terms of reporting and/or declaring accountants' reports and outcomes. However, the consultation elicited a mixture of views on the preferred reporting regime, with supportive responses splitting almost equally between the three proposed approaches, and some respondents supporting a combination of two or more options.

A number of roundtable attendees and written respondents favoured re-introducing the requirement for non-exempt firms to submit accountants' reports and to consider 'spot checks' of submitted reports. One written response from an individual representing a firm suggested:

> *'Re-introduce the requirement for non-exempt firms to submit their accountants' reports to [the SRA] or introduce an annual declaration for firms. There is no control over external accountants and who is doing the reports.'*

Some added that, given this was broadly a reversion to the previous rule, the submission of accountants' reports would represent the least onerous option: *'Our preference [is] . . . .to re-introduce the requirement for non-exempt firms to submit accountants' reports . . . [as] an established methodology it is less likely that this would lead to unintended consequences.' (City of London Law Society)*

This view was supported by the Legal Services Consumer Panel:

> *'This approach provides the greatest certainty of compliance with the Accounts Rules and equips the SRA with a robust bank of intelligence for periodic analysis.'*

The Law Society also supported this option, recommending that:

> *'The SRA should consider requiring all firms to submit accountants' reports whether qualified or not.'*

Several respondents, including Manchester Law Society, stressed the importance of reviewing both qualified and unqualified reports:

‘Only reviewing qualified reports potentially risks missing key information held by the SRA which might make the submission of a clean accountant’s report suspicious.’

Some respondents proposed enhancements to the AR1 form, including requiring a signature and date, and improving the submission process. One firm noted:

‘The current template accountants’ report is poorly drafted and does not require a signature or date… it needs attention and improvement.’

Other respondents preferred an annual declaration for firms:

‘The annual declaration for firms sounds least onerous, whilst we are trying to operate in a tight market we need the minimum bureaucracy possible whilst maintaining a proper legal service for clients’

‘The option to introduce an annual declaration for firms is the preferred option. The SRA can then compare the list of those who have completed the declaration against the total number of SRA authorised firms. Enforcement action should be taken against firms that fail to submit the appropriate declaration.’ (Devon & Somerset Law Society)

One respondent, replying on behalf of a firm stated -

‘We agree with the first two but do not perceive that the third would add anything. We note that other client money regulators (eg FCA) have a portal for reporting accountants to upload the report… We also note that other regulators (eg ATOL) have a specific certification process for reporting accountants. This allows for those accountants to be specifically trained in the areas that the regulator is specifically worried about and allows the regulator to change those areas of focus over time.’

Some respondents felt a declaration would act as a deterrent, with one respondent on behalf of a firm stating:

‘Signing a declaration might make people think twice before committing what would essentially be fraud.’

One firm commented:

“Option 2 is likely to add costs but would give the SRA independent assurance … Accountants may not be willing to engage with the process and any delays by the accountant would be outside the control of the firm.’

A further response cautioned:

‘There are no major issues with the present system but of the three an annual declaration for firms [is preferred]. Most firms are legitimate and cause no issues… all the above raises administration and cost.’

Other responses, from individuals on behalf of firms, favoured any of the measures with some suggesting that reverting to previous requirement would restore confidence:

‘Any of them, but if you revert to before (as not sure it was broken and have never understood the change) you will know what accountants are being used and accountants do not complete the reports lightly or you may see a trend that accords with visits/ thematic reviews.’

‘Any of the above. We have no issues with making the submission of accountants' reports mandatory.’

Several of the attendees at our roundtable events, as well as written respondents, suggested accountants' reports should be submitted by the reporting accountants themselves rather than by the firm, to reduce the likelihood of subsequent editing..

The Law Society supported this view, commenting:

> *'We consider that it should be the reporting accountant's responsibility to submit the form because they are making the assertion as to whether the report should be qualified or not.'*

Some respondents suggested requiring the submission of reports by reporting accountants in addition to the options provided as a proposed hybrid model. Manchester Law Society commented:

> *'A further option might be to require the reporting accountant to submit the report to the SRA instead of (or in conjunction with) a self-declaration by the firm.'*

One organisation suggested:

*'All [non-exempt] firms would need [to] file their reports with the SRA (regardless of whether they are qualified or not) and it would be the firm's responsibility for this process to be completed (and on time) … the reports should be submitted by the Reporting Accountant (not the law firm).'*Whilst most responses were broadly supportive of increased measures, we did receive a small number of responses which opposed increasing oversight, with one respondent stating: '*We don't need or require more oversight. We comply with getting accountant reports as a matter of course. Why over-regulate, save to justify SRA's own existence?'*

Comments and feedback for question seven

Our seventh question was:

‘What are your views on whether we should consider requiring firms to periodically change their reporting accountant to safeguard independence, and if so, how often we should require this?’

For this question, we briefly set out our intention to investigate whether, to safeguard accountant’s professional independence, we should require firms to change their reporting accountant periodically.

The question of changing accountants drew a range of views, but in the main respondents were opposed to the proposal to mandate periodic changing of accountants.

A number of roundtable event attendees disagreed with the idea of periodically changing reporting accountants for reasons including time, cost and availability of firms with the right skills.

A number of written responses questioned the first-principles of the concern as to whether accountants are acting freely and objectively, asking: *‘…is there any evidence that accountants are not behaving independently?’*

Some respondents were of the view that the existing professional standards and regulatory expectations already provided sufficient safeguards. Several respondents noted that accountants are bound by their own codes of conduct, and that independence should be assessed through quality assurance rather than enforced rotation.

Another commonly raised concern was the additional burdens such changes may bring on firms, particularly smaller ones. The Association of Lifetime Lawyers commented:

> *‘Members do not feel it is necessary for firms to periodically change their reporting accountant to safeguard independence. This places a huge burden, particularly on smaller firms and in areas where there are few accountants providing this service. Building a good working relationship with an accountant should not preclude that accountant providing a professional and independent service.’*

Similarly, Manchester Law Society stated:

> *‘Requiring periodic changes to a firm’s reporting accountant could become too burdensome and increase costs for firms. Firms and the accountants invest a great deal of time in understanding the business and its processes.’*

The Law Society expressed concern, noting that mandatory rotation could increase costs without clear evidence of benefit.

‘*We have concerns about requiring firms to periodically change their reporting accountant. ... In certain areas of the country, firms may find it difficult to find alternative accountants and even if this were possible it will unnecessarily add to costs as new accountants would have to become familiar with the entity, its policies and procedures.’*

Other respondents also noted that mandating change could be particularly disruptive in areas with limited access to specialist accountants, or where firms already struggle to find professionals with sufficient understanding of the SRA Accounts Rules. City of London Law Society commented:

‘An SRA requirement to change Reporting Accountants would add an unnecessary complication and burden. This is particularly so in respect of CLLS members where the accountancy firms that can undertake such work is limited... In any event, there are already provisions in place by regulators of the accountancy profession to address this risk.’

Some respondents did agree with the proposal, recognising the need to protect independence of accountants, with Devon & Somerset Law Society suggesting that:

‘This is a sensible measure to safeguard independence. The period that a firm should change accountants will depend on the level of risk. Suggestion is: High Risk – Every 3 years; Medium Risk – Every 5 years; and Low Risk – Every 7 years.’

One event attendee suggested that the SRA should consider compiling a pool of approved accountants. The Institute of Legal Finance & Management made a similar observation and suggested periods for rotation:

‘…Other suggestions … [were] a potential 3 to 5-year cycle of changing reporting accountants to help keep costs down, or for the SRA to have a list of firms authorised to undertake AR1 work.’

Providing a more nuanced reply beyond the initial proposition, one respondent reflected upon existing requirements / expectations of accountants in relation to SRA rules, stating:

‘We are not opposed to this suggestion, but we believe that these consultation questions are missing a fundamental point… there is no requirement for that auditor to be familiar with the SRA accounts rules and principles. It is our collective experience that many accountancy firms offering SRA audits have only a superficial understanding of the rules rather than being specialists in the subject.’

In a similar vein, the Birmingham Law Society reflected:

‘Our more general observations are that the reporting accountant should hold appropriate professional qualifications, be experienced in dealing with solicitors’ accounts and not have an own interest conflict i.e. no financial or personal interest in the firm.’

Our response

We have carefully considered the feedback on our proposal to require the periodic rotation of a firm’s reporting accountant. While some respondents supported the idea as a way to safeguard independence, many raised concerns about the practical impact, particularly for smaller firms or those in areas with limited access to accountants with the relevant expertise. Concerns were also raised about the cost and disruption involved in changing accountants.

We remain committed to ensuring that reporting accountants act independently when preparing reports and recognise that accountants are already subject to strong professional and ethical standards through their membership of chartered accountancy bodies. These standards include clear expectations around independence and conduct, which are enforced by the bodies themselves.

We will make clear in our guidance that reporting accountants remain bound by the codes and standards of the accountancy body of which they are a member when preparing an accountant’s report. This approach aligns with what is already in place for accountants and

responds to stakeholders’ concerns about proportionality, cost, and availability, while still reinforcing the importance of safeguarding the independence of reporting accountants.

Comments and feedback for question eight

Our eighth question was:

'Should we retain the existing exemption from obtaining an accountant's report, amend it, or remove it?'

For this question we set out the options to remove, amend or retain the existing exemption from the requirement for firms to obtain an accountant's report. We set out our understanding of the implications of these options, for example in terms of regulatory burdens and how / where a threshold for an exemption might apply. We also stated our intention to review our guidance for reporting accountants to provide greater clarity / specificity on reporting requirements and expectations.

We received a range views in response to the question of the existing exemption from obtaining an accountant's report. Many respondents supported retaining the exemption, though some preferred removing it, and a small number proposed amending the exemption.

Of those favouring retention of the existing exemption, responses included: '*Yes [retain it], unless there is evidence that firms that benefit from the exemption are a greater risk.'* Expanding on this further, Manchester Law Society (MLS) commented:

> *'MLS agrees that the exemption for those who do not hold client money or those holding only legal aid funds should remain.*
>
> *We do question whether the de minimis exemption i.e. an average client balance of no more than £10,000 over an accounting period and their client balance has not exceeded £250,000 at any point during that period provides adequate protection and we suggest the SRA might wish to review this after further consultation with the Sole Practitioners group and small firms generally.'*

Some respondents noted that the exemption is already narrow in scope and applies to a relatively small number of firms. Others felt that it plays an important role in maintaining a proportionate and risk-based approach, particularly for smaller firms with minimal client money at risk. With one law firm commenting*: 'We agree that the SRA should retain the existing exemption from obtaining an accountant's report. It allows for a more proportionate and risk-based approach to regulation, which is particularly important for smaller firms that pose less risk.'*

Other respondents favoured removing the exemption, believing that any and all holding of client money should require accountant audit and submission of the report: '*…all client money can be at risk, even smaller amounts'* and that the existing exemption: *'…provides an excuse for non-compliant firms to avoid scrutiny.'*

Providing a nuanced position, The Law Society commented:

> *'We appreciate that filing an accountant's report may be an onerous undertaking for smaller firms, but it is a key indicator of issues which could impact client money.*
>
> *The accountant's reports form [AR1] is short and can be submitted electronically . . . should the SRA consider retaining the current exemption, it should only do so if those firms which are exempt file a declaration that the conditions of the exemption have been met.'*

Other respondents commented on the approach of firms self-certifying as exempt from the requirement to obtain an accountant's report:

‘The exemption is an effective mechanism of removing firms from the obligation and cost of an Accountants Report where the risk to client money (in the context of the legal sector) is minimal due to the volumes held. The self-certification of the exemption however is not appropriate’.

One firm suggested verification from an accountant to confirm the firm’s exemption status:

‘The exemption currently serves a useful role for firms with minimal client money at risk. However, self-certification is not appropriate. Instead, we propose that firms needing exemption submit verification from an accountant to confirm their exemption status.’

Some respondents supported either retaining or amending the exemption, but not removing it:

‘*The existing exemption is sound, but if it is poorly understood then the changes suggested may be appropriate. The exemption should either be retained or amended, but not removed as this will place a burden on small firms that is not necessary’*. (Devon & Somerset Law Society)

Birmingham Law Society supported amendment by way of removing the exemption:

‘The existing exemption should be amended to provide that all firms holding client money should be required to obtain an accountant’s report. This was always the requirement under the 1998 Accounts Rules and there was no reason to change it.’

Other suggestions included lowering the maximum balance threshold (e.g. from £250,000 to £100,000), clarifying how the average balance is calculated, or requiring exempt firms to submit a simplified report or health-check signed by an accountant.

Comments and feedback for question nine

Our ninth question was:

'To what extent do you agree or disagree that any manager that can unilaterally make decisions that impact client money handling should not also be able to hold a COLP or COFA role? Please explain your answer and include any suggestions for ensuring appropriate internal checks and balances.'

For this section we set out the rules and requirements which currently apply to key roles within firm, including owners, managers and compliance officers. We then outlined our concerns with examples of issues which have arisen within the current arrangements. We then set out our proposal to stipulate a separation of compliance roles from other key positions within firms.

Respondent were split in response to this question - a small majority of respondents agreed with the proposition, though a number opposed and a further number of respondents who neither agreed or disagreed.

Supportive respondents felt the proposed regulatory position should: '*reduce the potential for conflicts of interest and poor risk management within a firm'.*

A number of responses indicated that whilst they felt *'… in principle, this rule should apply equally to all law firms'* they recognised the issues with a universal rule, in terms of separating out roles in small firms and/or sole practitioners. Suggestions to address this included:

> *'…in cases where a combined role is necessary, an enhanced independent audit of relevant decisions/activity is warranted if client money is also handled'* (Forum of Insurance Lawyers)

And:

> *'introduction/requirement for deputy COLPs/COFAs. That would still be dependent upon a firm being of a size and constitution that has someone able and willing to take on the roles'.* (Manchester Law Society)

Of respondents who disagreed with this proposal, many acknowledge the attraction of having a neat separation of roles between client money decision makers and compliance officer roles, however, in the main, correspondents felt the proposal falls down on viability / affordability grounds. To this end, Birmingham Law Society offered:

> *'If the SRA decides that non-sole practitioner firms with one manager cannot have that one manager hold the role of COLP and/or COFA, this will likely cause the law firm to need to hire senior people in to their practices to take on these roles. This is highly unlikely to be affordable to most firms and will necessitate firms to consider whether it is financially viable to continue to operate.'*

Other respondents reflected on the tension between compliance officers and senior managers / partners suggestion that not only would this proposal be '*unworkable'*, but that it will remain: '*…easy for this control to be circumvented in any case by senior managers with strong personalities.'*

In its response, the Institute of Legal Finance & Management stated that:

> *‘From members’ own experiences in their firms, most of the firms’ owners who take on these roles are very diligent and ensure the rules are complied with, and that more regular training is paramount.*
>
> *Members also commented that no manager or any other individual should be able to unilaterally make decisions that impact client money handling’.*

Some respondents cautioned against over-regulation suggesting that the SRA should avoid prescribing governance models:

> *‘We consider that there are dangers in the SRA being too prescriptive as to how the COLP and COFA role operates in a firm. The important consideration is that firms have integrated the roles into their governance and are able to justify the steps they have taken if asked by the SRA. The overriding consideration should be outcome based and the SRA should not prescribe how firms should manage themselves..’* (City of London Law Society)

Respondents also warned that the proposal could reduce flexibility, increase costs, and limit the pool of suitable candidates, especially where compliance roles must be held by lawyers.

Comments and feedback for question ten

Our tenth question was:

‘Do you think this proposal should apply equally to all law firms, or should certain law firms – such as sole practitioners – be exempt if certain conditions are met? If so, what should these conditions be? Please explain the reasons for your answer.’

Following from the previous proposal, we acknowledge the issues we foresee in terms of applying the first proposal with regards to sole practitioners and very small firms and asked what alternative arrangements could look like.

Respondents gave a variety of views. The majority were supportive of applying exemptions, with a range of views on how exemptions should be positioned

Answers in support of exemptions, were again largely informed by considerations for small firms and sole practitioners, where the viability of split roles is challenging. Respondents highlighted that in such firms, the same individual often holds multiple regulatory roles out of necessity, and that requiring separation would be impractical and potentially damaging to the sustainability of these practices.

One respondent proposed exclusions for firms that either do not hold client money, or hold small amount of client money below a defined threshold. A further suggestion was to exempt firms undertaking Legal Aid work, given their work is already scrutinised by the Legal Aid Agency.

Several suggestions gave thought to the size of firms and/or their geographical concentration, for example, exempting: firms with 4 or fewer managers; firms employing fewer than a certain number of solicitors (example gave 50 solicitors); or, firms operating across several sites, given the additional oversight challenges.

Another suggested that firms’ work should be appraised according to the risk to consumers, with firms undertaking ‘low risk’ work exempt from compliance role stipulations. Building on this another response reflected that there was a tension with the ‘principle of fairness’ across the board for all firms as a potential conflict of interest and risks to client money are not unique to firms based on their size.

Leeds Law Society commented:

> *‘Addressing the need for COLP and COFA to be separate roles to mitigate the risk created by one manager making unilateral decisions that impact the handling of client money. It is acknowledged that there may need to be exemptions for sole practitioners, as suggested by the SRA’.*

Other respondents in arguing for exemptions offered:

> *‘For small firms (eg. less than 50 staff), practically, there are likely to be only 2-5 senior personnel in the firm. Hence, any exception is not just about sole practitioners but any small firm where some compliance roles are, in practice, shared amongst a very small number of people, and so much separation is not even possible (much less desired) until we get to medium-sized firms.’* (Solicitor responding on behalf of a firm)

With the Legal Service Consumer Panel stating:

> *‘While the Panel understands the rationale for exempting sole practitioners in specific circumstances, we emphasise the need for clarity on what those conditions would entail.*

> *Any exemption must be balanced with adequate oversight to mitigate risks associated with limited internal controls.'*

Several respondents proposed alternative safeguards for firms where separation of roles is not feasible. These included: Enhanced frequency of accountant's reports (e.g. quarterly instead of annually), Documented internal controls and decision logs, Mandatory CPD or training for those claiming exemptions, Spot checks or periodic SRA monitoring and requiring two-person authorisation for client account transactions, where feasible.

On the linked suggestion, using external / third party compliance services, several respondents were deeply sceptical, including the Law Society, which commented:

> *'We do not think that the suggestion of alternative arrangements, such as external commissioning of compliance roles or enhanced independent audits, is appropriate or provides sufficient safeguards for smaller firms. There would be concerns about the use of external COLPs and COFAs and the control they would have over firms in giving advice and whether they would have the power to ensure things are run properly within a firm.*
>
> *How can firms be sure that they can trust an external person as opposed to someone who works for them? It is an important requirement of the current rules that COLP/COFA roles are held by persons of a certain status or seniority within the firm and understand how.'*

Of those who advocated for a blanket approach, most talked of promoting fairness and a level regulatory playing field. One respondent, replying on behalf of a firm offered: '*…[apply the rule] to all law firms. The size of the firm does not impact the risk of the same person having designated roles who can unilaterally impact client funds'.*

Among those supporting a universal rule, there was recognition that implementation must be proportionate, and that conditions for exemption should be carefully defined and subject to consultation with affected groups. Some suggested that exemptions could be tied to firm size, client money thresholds, or risk profile, with additional oversight mechanisms in place to mitigate potential risks.

Comments and feedback for question eleven

Our eleventh question was:

'To what extent do you consider our proposals to build and launch a package of support for compliance officers, and to strengthen our expectations for law firms to support their compliance officers, are sufficient? Are there issues we should target to enable compliance officers to meet their responsibilities effectively?'

For this question we outlined our intention to explore developing a package of support materials for compliance officers, including the forums and channels we intend to use i to better understand support requirements. We then set out the intention to use a support package to strengthen and confirm expectations around systems and processes all law firms must have in place to make certain their compliance officers are positioned to operate and carry out their duties effectively.

The majority of respondents favoured increased support for compliance officers, making a variety of content suggestions.

In terms of currently available resources, several respondents commented on the availability and searchability of existing SRA resources, including compliance officer guidance and support, with one respondence stating: '*The search function is one of the worst I have to deal with.'*

Expanding on this point, Birmingham Law Society reflected that:

> *'The SRA provides many resources already but there are improvements that can be made – starting with the SRA website. It needs to improve its search facility as a start. It is often easier to find a document by a Google search than a search on the SRA website … SRA should maintain a well organised library of both current and historic rules and guidance.'*

Other respondents echoed this, suggesting the SRA should create a centralised compliance officer portal with curated resources, FAQs, and case studies.

Another respondent expressed a strong desire to a see an email list set up so that solicitors who wish to, can receive direct mail drawing attention to reports, thematic reviews and notices relevant to their area of work. Another respondent, replying on behalf of a firm added: *'… guidance should be appropriately formatted and signposted on the website when changes are made. The FCA can do it with its Handbook. The SRA should do the same. It is really entry level for a regulator that its community can find out what is expected'.*

Suggestions also included publishing regular updates or newsletters summarising key regulatory developments and ensuring accessibility of materials through plain English summaries and downloadable formats.

In terms of the support and guidance offer, several respondents felt some entry level support: '…[such as] *a basic minimum requirement for training on key compliance issues would be a good baseline.'* Others felt that training on the softer / informal skill requirements of compliance roles in terms of challenging and holding to account senior managers / partners, and wider training for non-compliance staff to understand the responsibilities / duties required of their compliance colleagues.

Respondents also suggested role-specific guidance tailored to COLPs and COFAs separately, and scenario-based training or decision-making tools to help navigate complex situations.

In addition, a number of respondents felt the offer should reflect the evolving role and its increased responsibilities, with Devon & Somerset Law Society reflecting that:

> *'The SRA needs to recognise that the role of a compliance officer has changed significantly since the introduction of the Legal Services Act 2007. In addition to compliance with the SRA rules, compliance officers deal with data protection compliance, anti-money laundering and financial crime compliance, and more recently issues around bullying and harassment.'*

Respondents also questioned whether it might be prudent to consider guidance on emerging themes such as use and role of technology and AI in legal practice.

From its member survey, LawNet observed a general distribution of views, however comments included a nuanced view on a regulator's role on training and support matters, and whether: '[this is]*…more properly the role of the representative body, and membership organisations such as ours'.*

Some respondents also suggested that sector-specific support may be helpful, recognising that compliance challenges vary across firm types and practice areas.

Whilst the majority of respondents were in favour of additional support and guidance for compliance roles, one respondent, replying on behalf of a firm, felt content with the status quo: 'o*verall, we think the compliance officer system works well and doesn't need much if any change'.* Others questioned whether the SRA's efforts would be better spent, focusing on preventing system failures.

Comments and feedback for question twelve

Our twelfth 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?'

In support of this consideration across all three parts of the Client money in legal services: safeguarding consumers and providing redress consultation, we published our draft initial equality impact assessment Consumer Protection Review consultation (PDF 15 pages, 242KB).

Most respondents stated that they did not have anything to add to our assessment. There were only a small number of comments, focused on impacts on smaller firms and potentially more vulnerable clients.

There were a number of representations that commented on the prospects for smaller firms, who could struggle – owing to lower staffing level and economies of scale – to adjust to regulatory standards: '*[the changes] . . . will be disadvantageous for lower associated economic groups and vulnerable customers will pick up additional cost and delay in their legal matters.'*

Respondents who were more supportive acknowledged: '…*that protecting the money of all clients, particularly the more diverse clients of such smaller firms, as well as protecting the reputation of the whole profession and the trust in legal services provide reasonable justifications for a regulator taking reasonable steps to enhance those protections*'. (Individual replying on behalf of a law firm)

The Law Society provided the most fulsome response, noting the potential impact of changes in relation to minorities and other protected characteristics demographics. Within its response, it strongly urges the SRA to undertake timely and thorough equalities impact assessment:

> *'We believe that a more comprehensive and detailed equality impact assessment must be carried out before any of these proposals can be properly considered, especially in light of the problems that the initial assessment has identified. It would be unacceptable to the Law Society, and against the express expectations of the LSB, for such important work to take place once policy reforms are already in train.'*

The Law Society also highlighted that Black and minority ethnic lawyers are disproportionately represented in small firms, which are more likely to be affected by the proposals. It cited SRA data showing that 36% of partners in sole-partner firms and 23% in firms with two-to-five partners are from Black, Asian and minority ethnic backgrounds. These figures are significantly higher than in larger firms, and the Society warned that the proposals could compound existing structural inequalities and create barriers to market entry

Respondents also made calls for the SRA to consider the mental health and wellbeing of compliance officers and managers.

For the policy areas which we are taking forward, we have set out a further equality impact assessment on the potential impacts of the on the firms and solicitors that we regulate. This assessment accompanies our latest consultation on client money in legal services.