Solicitors Regulation Authority

Further consultation on client money in legal services:

Protecting the client money that solicitors hold

December 2025

Contents

About this consultation

This consultation follows on from our November 2024 consultation ‘Client money in legal services – safeguarding consumers and providing redress’. It seeks views on two key areas:

- Improvements to the accountants’ reports regime
- Strengthening the checks and balances provided by compliance officers

We also provide an update on our work to improve our oversight of firms where changes in their profiles may increase risk, which we will consult on next year.

These are the issues on which we want to make quick progress, by updating our current regime.

In this document we have also set out our decisions on three further issues on which we consulted in November 2024:

- 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 November 2024 consultation also explored wider reforms to the model of holding client money and the model for the compensation fund. These are important but longer-term potential reforms. We will return to them once we have acted on improving our current arrangements.

The consultation period ends at 12.00pm on Friday, 20 February 2026.

How to respond.

Online questionnaire

The consultation period will end at 12.00pm on Friday, 20 February 2026.

Our online consultation questionnaire is a convenient, flexible way to respond. You can save a partial response online and complete it later. You can download a copy of your response before you submit it.

Start your online response now.

Reasonable adjustment requests and questions

We offer reasonable adjustments. Read our policy to find out more.

Contact us if you need to respond to this consultation using a different format or if you have any questions about the consultation.

Publishing responses

We will publish and attribute your response unless you request otherwise.

Our aims and approach

We know most solicitors and law firms manage client funds responsibly. But, when things go wrong and client money is stolen, lost or misused the consequences for consumers can be serious and long-lasting. These cases can also undermine trust and confidence in legal services. And they can result in an increase in the costs of delivering services, through increases in insurance premiums, the cost of providing redress through the compensation fund, or wider regulatory costs.

We have seen significant changes in the legal landscape. There have been high-profile firm failures with significant sums of client money being stolen or lost. The overall number and size of firms where we had to intervene to protect clients rose sharply in 2022/23.

Building on extensive engagement with members of the public, the profession and consumer representatives, and drawing on our own targeted research, in November 2024 we consulted on ideas and proposals aimed at safeguarding client money. We explored fundamental long-term questions about whether the current model of solicitors holding client money, and our approach to funding the compensation scheme, remain fit for purpose. We also explored potential improvements to the current system that could more appropriately protect client money in the near term.

We heard a range of views on the potential to overhaul the model of solicitors holding client money and ideas around the future funding of the compensation fund. These are complex issues that will not be solved with quick fixes.

There is a strong case to explore properly these longer-term framework questions. We will continue to develop our thinking in light of the feedback we have received on these issues. But in the immediate term, we have chosen to progress three key areas from our November 2024 consultation that focus on improvements to our current regime. We are consulting now on proposed changes in two of these areas:

- updating arrangements for accountants' reports
- strengthening the checks and balances provided by compliance officers

We also provide an update on our work to improve our oversight of firms where changes in their profiles may increase risk, which we will consult on next year.

Action on these issues responds directly to the directions that our oversight regulator, the Legal Services Board (LSB), imposed on us in May 2025. We believe improvements are necessary pending any overhaul of the regime in the future.

Our aim is to appropriately manage risks in a proportionate and targeted way. We have gleaned useful insights from our engagement, research and analysis to date. However, this has not provided us with conclusive evidence of which of the possible safeguards would most effectively address the different issues that we are concerned about in a proportionate way. Therefore, we are proposing what we think is the most logical approach in the different areas, based on the information that we hold.

We will further assess whether we have got the balance right between the requirements that we are proposing and the risks that we are aiming to manage, informed by evidence submitted in response to this consultation. Therefore, we would welcome responses that are as specific as possible on the impact of our proposals. Similarly, if you think we should adjust any of our proposals because we could meet our aims in a better way, please be as specific as possible about why this is the case and how the adjustments would affect the impact.

We will keep the effectiveness and the impact of the safeguards we first introduce under review. We will gather more data and information which will enhance our understanding of the risks and issues about which we are concerned, and how any new arrangements are working in practice. This will enable us to refine and target our requirements over time, as well as informing our wider policy development and risk management arrangements.

Strengthening the accountants' reports regime

What we want to achieve

Our Accounts Rules set out what law firms must do and must not do to safeguard client money. Compliance with the Account Rules is a fundamental protection. So, we want to make sure our arrangements effectively drive compliance.

The accountants' reports regime is a key part of this. It provides for independent scrutiny of firms' compliance with the Accounts Rules. The aim is to identify firms that are placing client money at risk through significant breaches of the Accounts Rules, and for this to be reported to us so that we can take appropriate action. The accountants' report regime is not designed to assess a firm's financial statements nor their financial resilience.

We want to strengthen the regime to gain better assurance that firms are complying with our accountant's report requirements and that we have the information we need to identify when this is not happening. We want to achieve this in the most proportionate way possible and we would review how any new arrangements are working with this aim in mind.

Concerns

The accountants' reports regime plays an important role in safeguarding client money. It provides independent, professional scrutiny of firms' compliance with our Accounts Rules, with a particular focus on the systems and controls put in place around client money. However, our data shows that not all obligated firms are complying with the requirement to obtain an accountant's report for every accounting period.

Our current requirements are:

- Firms holding client money must obtain an accountant's report annually unless they are exempt. Firms funded completely by the Legal Aid Agency, or which have had an average client balance of no more than £10,000 over an accounting period and a client balance that has not exceeded £250,000 at any point during that period, are exempt from the requirement to obtain an accountant's report.

- Firms which do not meet the exemption criteria must instruct an independent reporting accountant to complete an accountant's report within six months of the end of the accounting period.

- Reporting accountants must complete their reports using our prescribed form. They must check the relevant box to confirm whether or not they are qualifying the report because they have identified significant breaches of the Accounts Rules and/or weaknesses in the system and controls that could put client money at risk. If the accountant does identify such breaches and qualifies the report, the form requires them to provide details of what they have found.

- The form includes a series of declarations from the reporting accountant confirming that they are qualified to prepare the report, that they have properly checked compliance with the Accounts Rules, that they have provided a copy of the report to the firm's Compliance Officer for Finance and Administration (COFA), and whether they have qualified the report because they have found significant breaches of the Accounts Rules and/or significant weaknesses in the firm's systems and controls which put client money at risk.

- Qualified reports must be submitted to us within six months of the end of the relevant accounting period. The report may be submitted by the law firm or the reporting accountant.

- Where the reporting accountant has not identified significant breaches or weaknesses, the report is concluded as being unqualified. For unqualified reports, the prescribed form does not prompt the accountant to provide further detail beyond confirming that position. There is no requirement for firms to confirm to us if they have received an unqualified report or if they consider themselves exempt from the requirement to obtain an accountant's report.

For clarity, the accountants' reports regime is not designed to assess a firm's financial statements, business accounts or financial resilience – it is focused on compliance with the Accounts Rules and safeguarding client money.

We are concerned that we do not have access to key information to enable us to monitor compliance with our requirements effectively. We are also concerned that not all firms are obtaining an accountant's report as required, and that not all qualified reports are being submitted to us.

Our previous consultation on client money shared data from a thematic review into the probate sector and from our forensic investigations which identified instances of non-compliance with our accountants' reports requirements.

Since that consultation, we have carried out a spot check exercise looking at whether a sample of firms were meeting the Accounts Rules requirements in relation to accountants' reports. Findings of the exercise show that of the 596 firms surveyed, 25 firms that were not exempt had not obtained an accountant's report for their last accounting period. Further, 31 firms were "late" in obtaining a report, i.e. the report was obtained after the deadline of six months from the end of the accounting period.

These figures show a concerning level of non-compliance with, and potentially a lack of understanding of, our requirements to obtain an accountant's report and submit it to us as necessary.

What we consulted on previously

We set out our concerns about levels of compliance with the accountants' reports regime in our consultation on client money in legal services. We consulted on several options on how our rules and processes could be amended to give us greater insight and improve our ability to monitor compliance:

- Requiring all non-exempt firms to submit their accountants' reports to us, whether qualified or not.
- Introducing an annual declaration for reporting accountants confirming they have provided a report and the outcome of their assessment.
- Introducing an annual declaration for firms confirming (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.

We also sought views on safeguarding the independence of accountants through periodically rotating reporting accountants.

And we sought views on our current approach to the exemptions from the requirement to obtain an accountant's report for the relevant accounting period, including whether to:

- Remove exemptions for firms holding small amounts of client money.
- Amend thresholds to simplify calculations and clarify reconciliation periods.
- Retain current exemptions, particularly for legal aid firms already subject to oversight by the Legal Aid Agency.

What we heard

Overall, stakeholders expressed support for strengthening our approach to the accountants' reports regime and improving our oversight of compliance with our regime. While responses were mixed to our question on how we could improve our oversight of compliance with the regime, many respondents favoured requiring all reports (qualified and unqualified) to be submitted to us. They saw this as the most transparent and effective way to ensure risks to client money do not go undetected and to give better assurance that reports are being obtained as required.

Others preferred the idea of annual declarations, either from reporting accountants or firms. Declarations from accountants were seen by some as a balanced option, offering independent assurance without the burden of full report submission. However, concerns were raised about enforceability and cost, especially since accountants are not regulated by the SRA. Declarations from firms were viewed as simpler, but many respondents questioned their reliability and effectiveness in identifying non-compliance as they would not provide independent assurance.

Of those who responded to our question on the exemption for firms holding low amounts of client money, around half supported retaining it, citing proportionality and the need to avoid unnecessary burden on smaller firms. Some did call for its removal

or amendment, arguing that all firms holding client money should be subject to scrutiny. Some provided suggestions for amendments including tightening the criteria and requiring exempt firms to file a declaration confirming they meet the conditions.

Most respondents opposed the proposal to require periodic rotation of reporting accountants, citing lack of evidence of a systemic problem, increased costs, and limited availability of suitable accountants, particularly for smaller or more remote firms. While some supported the idea in principle, they felt that a requirement for rotation should be tailored to firm size and risk. Others suggested alternative ways to safeguard independence, such as training or applying audit standards.

Further detail about the responses we received to our questions through the consultation process and other engagement events can be found in the Summary of Responses published alongside this consultation.

What we are proposing

We have carefully considered the feedback we received to our previous consultation and are now making several proposals for amending our regulations to achieve our aims, and on the rules that would give effect to these changes.

We are proposing new requirements which combine the three options we consulted on previously as each offers distinct benefits. Our proposals are to:

- Require all accountants' reports for non-exempt firms to be submitted to us, rather than only qualified reports as is currently the case. This will give us a complete view on whether reports are being obtained as required and ensure we have all information about why reports have been qualified.

    - Introduce a declaration from client money-holding firms confirming whether they consider themselves exempt or, if not exempt, that they have instructed an accountant to prepare a report in line with the Accounts Rules.

- Require reporting accountants to submit their reports directly to us using the prescribed form. The prescribed form will contain a standardised declaration by the reporting accountant confirming that they are qualified to prepare the report, that they have properly checked compliance with the Accounts Rules, that they have provided a copy of the report to the firm's Compliance Officer for Finance and Administration (COFA), and whether they have qualified the report because they have found significant breaches of the Accounts Rules and/or weaknesses in the system and controls that could put client money at risk.

- Extend the use of fixed financial penalties to cover some administrative failures to meet the requirements of the accountants' reports regime.

We are not proposing any changes to the existing exemption criteria, which will remain in place, with the new declaration requirement confirming firms' exemption status.

Together, these measures aim to strengthen transparency and provide greater assurance that reports are being obtained as required, and that we are notified in a timely manner of significant breaches that risk client money, as identified by the reporting accountants.

We will keep these requirements under review and may adjust them over time, following appropriate consultation, to ensure they remain effective in driving compliance and helping us monitor risks to client money. For example, the information that we propose requiring from firms about how they engage with our accountants' reports regime may change as we assess whether the requirements are efficient in driving compliance and helping us to monitor non-compliance. This may result in us asking for less, more or different information in the future, based on what we learn from implementing the proposed changes.

We set out more detail on each of these proposals below.

Submission of accountants' reports

Currently, only qualified accountants' reports must be submitted to us. We propose to change our approach by requiring all reports, qualified and unqualified, to be submitted to us. We propose that all reports should be submitted within six months of the end of the accounting period, maintaining the current timeframe for submitting qualified reports.

This would allow us to verify that accountants' reports are being obtained where required. It would also give us greater assurance that we are being notified when a firm's report has been qualified, including information on why it was qualified along with detail of any significant breaches of our Accounts Rules and/or weaknesses in the firm's systems and controls that put client money at risk.

We believe that this change is appropriate, given the non-compliance we have identified. We do not consider that this would place a significant additional burden on firms. Non-exempt firms should already be obtaining accountants' reports for each accounting period, so this proposal represents an amendment to the submission requirements rather than a change to the underlying obligation.

The draft rule changes to bring this into effect are set out in our Annex.

Beyond checking that accountants' reports have been obtained in line with requirements, we will target our attention on the content of reports where it is most needed. As now, we will only routinely review accountants' reports which reporting accountants qualify on the basis of having identified significant breaches of the Accounts Rules that may pose a risk to client money. We will then consider what action is needed to mitigate or manage those risks.

While unqualified reports should not include detailed findings by design, and instead serve to confirm the outcome of the accountant's review, collecting all reports would give us the flexibility to explore whether any additional information is being provided and consider if sampling could help us understand how the regime is operating in practice.

Strengthening our submission requirements in this way supports our data-driven approach to regulation and reflects feedback from stakeholders who want to see

stronger oversight in this area. It will also help us target our regulatory attention on the most serious breaches of the Accounts Rules which pose risks to client money.

Q1: Do you agree with our proposal to better assure compliance with the accountants' reports regime by requiring the submission of all accountants' reports (qualified and unqualified)? Please set out your reasons and any evidence relating to your answer, including of the impacts the proposal would have.

Exemptions

We asked for views in the previous consultation on whether we should amend, remove or retain the current exemption from the requirement to get an accountant's report for firms that meet the criteria set out in our Accounts Rules, which are:

- firms only holding client money from the Legal Aid Agency during the accounting period.
- firms with an average client balance of no more than £10,000 over the accounting period, and where the balance has not exceeded £250,000 at any point during that period.

A majority of respondents supported retaining the current exemptions as part of a proportionate and targeted approach, given the lower risk of significant impact or harm to consumers from firms which meet the exemption criteria. However, we did receive feedback from a few stakeholders that the exemptions may be used by some firms as a way to avoid scrutiny, and that if the exemptions were retained then a declaration should be used.

We intend to retain the exemptions in their current form as we have not seen evidence to indicate that the current exemptions pose an unacceptable risk to client money.

Declarations to support assurance and accountability

Declarations by firms

We propose introducing a new mandatory annual declaration process for firms. We would require all client money-holding firms to submit a declaration to us confirming that either:

- they consider themselves exempt from the requirement to obtain an accountant's report and the reason why; or
- they have fulfilled their obligations under the Accounts Rules to instruct an accountant

All client money-holding firms would have to make such a declaration, including those that are exempt from the requirement to get an accountant's report.

We are concerned that we do not currently receive information about which firms ought to be obtaining a report, which are exempt and why. We do not receive information that enables us to see which firms consider themselves exempt and

under which criteria. We need better assurance of firms' compliance with our accountants' reports requirements.

We believe that requiring firms to submit a declaration to their regulator will incentivise compliance. And it will provide us with better information to identify potential non-compliance. Over time, the data we collect will help us better understand how the exemption arrangements work in practice and whether any amendments are needed to ensure that they remain appropriate and effective.

We would expect the declaration to be made by the firm's Compliance Officer for Finance and Administration (COFA), reflecting their role in ensuring the firm meets its obligations under the Accounts Rules.

Declarations by reporting accountants

Each report submitted would include a declaration from the reporting accountant confirming that they have carried out the work as required and the outcome of their report.

This is not a new requirement in substance – reporting accountants already make these declarations in the current prescribed form, a position that we intend to maintain. However, we currently only receive these declarations when a report is qualified and submitted to us. Our proposal that all reports must be submitted to us would see us receiving these declarations with every report.

These declarations provide assurance that the firm has been properly assessed by an independent reporting accountant as required by the Accounts Rules. The reporting accountant's declaration should confirm that the firm has been objectively assessed and that the accountant's report has been completed in line with the requirements.

The draft rules for the proposed declarations are set out in our Annex.

Q2: Do you agree with our proposal for introducing mandatory annual declarations from client money-holding firms? Please set out your reasons and any evidence relating to your answer, including about the impact this proposal would have.

Report submission process

We propose that reporting accountants should submit their report directly to us as well as the COFA at the relevant firm.

Currently, our rules do not specify whether the firm or the reporting accountant should submit the report to us (currently only qualified reports must be submitted to us), leaving it to the parties to agree arrangements. However, feedback to our previous consultation exercise suggests there would be benefits in reporting accountants being responsible for submitting the report.

Requiring direct submission from the reporting accountant reflects the importance of the accountant's independence in assessing the firm's compliance with the Accounts Rules. Receiving reports directly from accountants would reinforce the independence of the accountant and would mitigate any risk that the firm delays or otherwise interferes with the report or the reporting process, for example, to hide identified issues from us.

This change would not alter the firm's overarching responsibility. Firms will remain accountable for making sure a report is obtained and submitted on time, in line with the Accounts Rules. This means in addition to instructing a reporting accountant to prepare a report, firms would be required to make sure the accountant submits their completed report with the accompanying declaration to us within six months from the end of accounting period.

We know that many reporting accountants already submit reports directly to us on behalf of law firms, when they are qualified, but we recognise that requiring accountants to submit reports is a new requirement and a number of firms and accountants will have to adapt their current arrangements as a result. The new requirement will result in the need for additional activity by some firms to make sure that the accountant has submitted the report. We will monitor how this change operates in practice and the impact that it is having on firms.

As well as views from firms on the impact this proposal might have, we would welcome views from reporting accountants about the potential impacts the requirement will have on them or any consequences that we should consider when deciding our post-consultation position. We also recognise that these proposals may require amendments to the current prescribed form to support the new submission process. We would update the form template, with input from professional bodies including accountancy bodies, to make sure it remains fit for purpose.

Q3: Do you agree with our proposal that reporting accountants should submit their reports directly to us? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Enforcement and compliance

We received feedback to the previous consultation that our enforcement approach should be strengthened, particularly in relation to the requirements to obtain accountants' reports and make submissions within the specified timeframe.

How we deal with substantive breaches of our rules including our Accounts Rules is set out in our Enforcement Strategy. We assess each matter on a case-by-case basis, considering the seriousness of the issue and the risks or harms involved, as well as any mitigating or aggravating circumstances. Serious breaches of our rules that put client money at risk are likely to result in regulatory action. This includes deliberate or on-going breaches of requirements to obtain or ensure the submission of an accountant's report.

Timely and accurate submission of declarations and reports will play an important role in enabling us to identify firms who may pose a risk to client money. Therefore, we consider that we should have the option of using all tools to help ensure compliance. This is especially so given the levels of non-compliance we are seeing under current arrangements.

We propose to amend our arrangements to allow fixed financial penalties for clearly defined procedural and administrative failures such as late submissions or incomplete declarations. Although the accountant will carry out the act of submission, the regulatory responsibility remains with the SRA regulated firm that is responsible for the instruction and oversight of their reporting accountant. Therefore, any fixed penalty would apply to the firm.

Fixed financial penalties are already used effectively in other areas, such as for certain breaches of our transparency rules and failure to submit diversity data as required. We propose to follow the existing process for fixed financial penalties which includes giving firms a period in which to make representations and bring themselves

into compliance by rectifying the breach before the monetary penalty is issued. This approach allows us to respond proportionately to lower-level breaches of our rules. Continued or persistent non-compliance with our rules would result in more serious action.

Q4: Do you agree with our proposal to use fixed financial penalties for failures to comply with the procedural and administrative requirements relating to the submission of reports and/or declarations? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Updates to guidance for reporting accountants

Our guidance on Planning for and completing an accountant's report is designed to support reporting accountants in reviewing a firm's compliance with our Accounts Rules. It provides guidance on what reporting accountants should have regard to when carrying out their assessments, when a report may need to be qualified and what issues should be flagged to us, helping ensure consistency and clarity in how reports are completed. We will look to update the guidance based on the feedback we have received so far and will continue to engage with accountancy bodies to make sure that it is as helpful and effective as possible.

In this consultation we are seeking views on a specific proposal that has been suggested - to amend the guidance to set an expectation for reporting accountants to routinely obtain bank confirmations regarding firms' client accounts**.** Bank confirmations are often used by accountants in audit and assurance engagements to independently verify information about accounts and balances. In relation to the accountants' reports regime, these external confirmations would help verify the list of client accounts held by the firm, providing the accountant with assurance that accounts are properly designated as client accounts.

We recognise that obtaining bank confirmations is not currently a standard expectation, and we are keen to hear from stakeholders about whether setting this expectation would be proportionate and useful.

Q5. What are your views on our proposal to amend our guidance to set an expectation for reporting accountants to routinely seek bank confirmations to verify the list of client accounts? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Requiring periodical rotation of reporting accountants

Following feedback on our previous consultation, we have carefully considered the suggestion of requiring firms to periodically change their reporting accountant to safeguard their independence. While a small number of respondents supported the idea, most opposed rotation of reporting accountants. Common concerns included: insufficient evidence that the independence of accountants is currently compromised; the view that existing professional standards already provide sufficient safeguards; that there is likely to be additional cost in changing accountant; and the potential difficulty in finding suitably experienced accountants, particularly for smaller firms or those in remote areas.

We are not taking forward this proposal at this time. Professional and ethical standards already apply to reporting accountants 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 update our guidance to make clear that reporting accountants are bound by these standards when preparing and completing accountants' reports.

What is already in place recognises the importance of the independence of reporting accountants and places obligations on the accountants to act accordingly. And we do not have data about whether a significant number of firms are using the same accountant for long periods nor strong evidence that there is a systemic issue with reporting accountants failing to act impartially. Therefore, we do not think that it is appropriate to introduce an additional obligation to periodically rotate accountants at this time. If we receive all accountant's reports - as we proposed earlier in this consultation - we will have better information that may allow us to review over time whether firms of different types do rotate their accountants. This information will help should we wish to return to this issue in the future.

Strengthening the accountants' reports regime – full question set

Q1: Do you agree with our proposal to better assure compliance with the accountants' reports regime by requiring the submission of all accountants' reports (qualified and unqualified)? Please set out your reasons and any evidence relating to your answer, including of the impacts the proposal would have.

Q2: Do you agree with our proposal for introducing mandatory annual declarations from client money-holding firms? Please set out your reasons and any evidence relating to your answer, including about the impact this proposal would have.

Q3: Do you agree with our proposal that reporting accountants should submit their reports directly to us? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q4: Do you agree with our proposal to use fixed financial penalties for failures to comply with the procedural and administrative requirements relating to the submission of reports and/or declarations? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q5. What are your views on our proposal to amend our guidance to set an expectation for reporting accountants to routinely seek bank confirmations to verify the list of client accounts? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Strengthening checks and balances within law firms

What we want to achieve

We want to make sure that our regulatory arrangements provide for effective checks and balances on individuals who have significant power within, and control over, a law firm. These checks and balances must be risk based and proportionate.

Our focus in this consultation is addressing the specific risk of the concentration of management, ownership and compliance roles in one individual. This is a priority action to help prevent harms that we have seen materialise when one person has held all these roles, negating the checks and balances element of the compliance roles. Addressing the risks presented by such concentration is also a required action for us within the LSB directions.

Alongside this consultation, we are publishing a thematic review that investigated how firms and compliance officers approach their roles and responsibilities. The report raises some fundamental issues, including: the roles not being valued by the incumbents or the firms that they are working in; a lack of competition for roles; compliance officers and their firms not understanding the regulatory obligations of the role holders; an over-reliance on compliance officers to manage all compliance matters within a firm; and a lack of sufficient support, time and resources for those in the COLP and COFA roles.

We consider that the range of proposals within this consultation along with the enhanced compliance officer support package that we will develop are important near-term steps towards ensuring more effective risk-based checks and balances in law firms. However, the package of proposals here will not address all of the issues identified in our thematic review. There is a strong case for undertaking a more fundamental review of the compliance regime at a future point.

This will include looking holistically at the range of different role holders within firms and whether these arrangements provide effective safeguards with accountability sitting at the right levels of seniority. We will learn from the implementation of any changes we make following this consultation. These learnings will inform the longer-term review.

Compliance officers and concerns about the concentration of roles

The role of compliance officers

Compliance officers play an important role within our regulatory framework. Every firm is required to have both a COLP and a COFA. The COLP is responsible for overseeing the firm's compliance with all legal and regulatory obligations, excluding matters specified within the SRA Accounts Rules. They must take all reasonable steps to ensure that the firm, its owners, managers and all people involved with it comply with the regulatory arrangements and the terms and conditions of authorisation. They must record any potential breaches and promptly report any potential serious breaches to the SRA. The COFA has similar responsibilities, specifically relating to the SRA Accounts Rules. More information about the responsibilities of COLPs and COFAs is available on our website.

When appointing a COLP and COFA, law firm operators must obtain SRA approval for the individuals they nominate. Rule 8 of our Authorisation of Firms Rules sets out the eligibility criteria for both roles, and rule 2.3 of our Assessment of Character and Suitability Rules confirms the criteria for assessing role holders. These include requirements that prospective role holders have sufficient seniority and responsibility within their firms to carry out the COLP or COFA role effectively. The proposals set out in this consultation on separation of these roles add to, rather than replace, existing criteria or current requirements as to the suitability and duties of compliance officers.

Risks in the concentration of roles

There is a clear risk if a firm is run by, and/or significant management decisions are made under the control of, a single individual without adequate checks and balances. COLPs and COFAs have explicit responsibilities for making sure that there is systemic compliance with our regulatory arrangements within a firm, and for reporting serious breaches to us. This should provide a level of scrutiny over the way key decisions are made within, and the actions taken by, the firm.

However, if an individual who has power within a firm, controlling its decision-making and actions, is also the COLP or COFA, this may negate that key safeguard. This may in turn increase the risk of serious breaches of our regulatory arrangements and these breaches going undetected and unreported, causing significant harm to consumers and the public.

We have seen examples where the absence of sufficient checks and balances within firms has potentially made it easier for client money to be stolen, used inappropriately, or be inadequately protected. The LSB's directions flow from its independent review of the regulatory events leading up to our intervention into Axiom Ince. The review stated that, in the context of that case the sole owner being the managing director and also holding all of the compliance roles presented 'significant risk'.

Risks and harms are not limited to client money – we have also seen examples of clients being taken advantage of in other ways to benefit the firm and its owner(s). This has resulted in cases of poor and incompetent services being delivered, and with cases being progressed in ways that result in client detriment, in breach of the firm's regulatory obligations.

What we consulted on previously

We previously consulted on whether individuals with significant power within, and control over, a firm should be permitted to also hold compliance roles, such as the COLP or COFA. In the previous consultation we proposed that managers who can unilaterally make management decisions affecting client money should not also hold these compliance roles, to introduce greater scrutiny and accountability.

The previous consultation also asked whether this proposal should apply equally to all law firms or whether certain firms – such as sole practitioners – should be exempt if certain conditions are met. And if so, what should these conditions be.

We also proposed to build and launch a package of support for compliance officers and to strengthen our expectations for firms to support compliance officers.

What we heard

Around 40% of respondents agreed with our proposal that any manager that can make unliteral decisions about client money should not be able to hold a COLP or COFA role. This included consumer and insurance representatives who felt it could strengthen checks and balances within firms and reduce the potential for conflicts of interest and poor risk management.

Around a third of respondents opposed the proposal, including several law societies. Some argued that most compliance roles are held by managers who are best placed to discharge the role requirements effectively and pointed to our 'Approval of role holders' guidance which requires role holders to have 'sufficient seniority and responsibility'. They also raised concerns about the ability of firms to implement the proposals, and the cost of doing so – for example, the cost of hiring additional senior people to take on compliance roles if there were not appropriate people within the firm already.

Some respondents felt that the proposal would not strengthen compliance in firms where there is an over-riding culture of influential owners and managers that circumvent compliance checks. We also heard concerns that we may unintentionally undermine high quality compliance arrangements by effectively preventing more experienced staff, with appropriate proximity to/influence over decisions, from holding compliance roles.

Most respondents felt that exemptions would be justified for small firms and sole practitioners due to the challenges of implementing the proposal. We heard views that sole practitioners are, by definition, the best people to ensure compliance in their firm.

Some respondents also provided ideas about potential alternative approaches that might be taken to strengthen compliance checks and balances, which included:

- decisions relating to client money being reviewed and approved by another senior individual in the firm
- enhanced independent audit/oversight of the handling of client money, including requiring annual accounts reports (or more frequent reports)
- periodic SRA visits or monitoring
- requiring evidence of systems and controls regarding client money as part of the practising certificate and registration renewal (PCRE) process.

The majority of respondents supported us developing an enhanced support package for compliance officers.

What we are proposing

We have considered the responses to the consultation and the connected feedback from stakeholders, as well as our own intelligence and the LSB directions.

We have concluded that there is a strong case to introduce some initial measures to better ensure that, on a risk basis, there are appropriate checks and balances on an

individual who has power within, and control over, a firm. These near-term measures will help inform the more substantive review of the effectiveness of our existing role-holder accountability framework for firms that we plan to undertake at a future point.

To be proportionate in how the arrangements target risk, our proposed changes would apply differently to different categories of firms. As now, firms would have the option of contracting with a suitable individual to carry out compliance duties if the arrangements meet our regulatory requirements including around the compliance officers being of sufficient seniority and having sufficient responsibility, as well as having sufficient access to the firm to carry out the role.

Our proposals are:

- **Separation of roles**: within firms that meet specified risk thresholds any individual that can unilaterally determine or direct significant management decisions in a firm cannot be the COLP or the COFA within that firm. Unlike the similar proposal in our previous consultation, the requirement would not be limited to decisions that impact the handling of client money. A specific exemption would apply to sole owner-manager firms in some circumstances, as described below.
    - **Risk thresholds:** the proposed separation requirements would apply to firms that meet an annual firm turnover threshold of £600,000 and/or held a client account balance of £500,000 or higher at any point in the most recent reporting period.
    - **Exemption for sole owner-manager firms:** there would be an exemption for sole owner-manager firms, where the firm is captured solely because the amount of client money that they hold is £500,000 or higher at any point in the most recent reporting period. In this case the unilateral decision maker could still hold the COLP role but not the COFA role.
    - **Support package:** we will improve the package of support that we provide for COLPs and COFAs, including improvements to our guidance.

We are likely to take a phased approach to implementation of these proposals. The draft rule changes to bring these proposals into effect are set out in our Annex.

We have also considered an option to target specific risks by requiring a defined set of key decisions to be reviewed and authorised by another appropriate individual within a firm, acting as a counter signatory. This would likely be a senior individual with sufficient access to, and understanding of, the firm's operations, rather than someone holding a formal authorised role.

This function would be intended to complement, not replace, the broader compliance oversight provided by the existing COLP and COFA roles. A counter signatory provision could strengthen assurance and scrutiny at the level of individual transactions / decisions, whereas COLPs and COFAs are intended to ensure systematic compliance and the reporting of serious breaches of our regulatory requirements.

We would need to specify the decisions/actions that would need to be reviewed and authorised by at least two appropriate individuals. The counter signatory option could be formulated in a variety of ways. It could apply:

- to all firms, alongside the separation changes that we are proposing when firms meet the risk thresholds
- to sole owner-manager firms required to separate their COFA role but not their COLP role from individuals with power and control
- to firms falling beneath the risk thresholds, who are not required to separate their compliance officers from individuals with influence and control
- as a standalone requirement, if we do not proceed with our recommended proposals around requiring separation

We are not proposing to pursue this option at this time. Although we see some benefits to this option, we consider that the proposals we have made to improve the checks and balances provided through existing compliance role arrangements provide the appropriate level of assurance in a proportionate and targeted way. We do not consider that requiring a counter signatory as a sole requirement would provide sufficient assurance.

The other possible applications of a counter signatory would present additional burdens beyond those associated with our proposals. We believe that the proposed package, with risk thresholds determining to which firms the requirements would apply, appropriately targets risk around concentration of roles without the need for further obligations.

We set out the detail of our proposals in more detail in the sections below.

Separation of roles

Our core proposal is that in firms that meet specified risk thresholds, any individual that can unilaterally determine or direct significant management decisions in a firm cannot be the COLP or the COFA within that firm. Unlike the similar proposal in our previous consultation, the requirement would not be limited to decisions that impact the handling of client money.

We believe that this approach is a logical initial step to target the harms we have seen materialise in some firms where an individual with significant power within, and control over, a firm also holds the key compliance roles, negating the checks and balances element of the compliance roles. We have seen examples where the concentration of roles may have made it easier for the individual to act in a way that harms consumers and / or the wider regulatory objectives, with these actions going undetected and unreported for some time.

Having considered feedback from our previous consultation, we have developed our current proposals to include thresholds designed to target new requirements at firms with characteristics that may be an indicator of a heightened risk of harm, and to propose some exemptions for sole owner-manager firms on proportionality grounds. We welcome views on the impact of our refined proposals and any practical challenges with making them work in practice in different types of firms. As previously stated, learnings from the implementation of any new arrangements will inform our

future review of our role-holder accountability framework as well the effectiveness of these arrangements.

Unilateral decision makers

We want our regulatory arrangements to provide for effective checks and balances on individuals who have significant power within, and control over, law firms. In our previous consultation we characterised such individuals as managers who can unilaterally make management decisions.

SRA-regulated firms are diverse in structure and size and have a range of operating models. Stakeholder feedback from our previous consultation indicated that different factors determine which individuals are positioned to make management decisions unilaterally in their firms. Respondents suggested factors include governance arrangements, fee-earning structures and organisational culture – and felt that those factors vary firm-by-firm.

Given the feedback about the variety of governance arrangements, our proposed starting approach is that firms would need to demonstrate that their compliance officers do not hold the power within, nor control over, a firm to the extent that they are able to unilaterally determine or direct significant management decisions relating to the structure or running of that firm. We do not propose to set further criteria at this stage around the types of individuals who would be considered able to unilaterally determine or direct significant management decisions as the characteristics and profiles of those individuals varies across different firms.

This approach will provide flexibility for the requirement to be effectively and appropriately applied to firms of different types and with different governance structures. It is analogous to our current outcome-focused requirement that compliance officers must be of sufficient seniority and in a position of sufficient responsibility to effectively fulfil the responsibilities of the role. It is for the firm to assess that these criteria are met. Different firms will have different arrangements appropriate to their operation.

Our proposed separation requirement does not mean that any manager/member of a management board or equivalent would be unable to hold a compliance role. The restriction would only apply if the individual was able to unilaterally determine or direct significant management decisions within a firm.

Focus on COLP and COFA

We have maintained the focus from our previous consultation on separating the COLP and COFA roles from unilateral decision makers. That is, from individuals with power to determine or direct significant management decisions. As set out earlier in this consultation, these are key compliance roles in our regulatory arrangements for providing checks and balances and good governance.

We are not proposing to include any separation requirements in relation to the Money Laundering Reporting Officer and Money Laundering Compliance Officer roles. These roles do not apply to all firms and are focused on preventing money laundering and connected activity rather than the broader risks within a firm,

including protecting client money. They are subject to separate legislative arrangements and safeguards.

Our core position would restrict a unilateral decision maker from holding **either** of the compliance officer roles because of the distinct responsibilities that they have. The COFA is responsible only for compliance with our Accounts Rules and the COLP is responsible for compliance with all regulatory arrangements other than the Accounts Rules. Therefore, excluding a unilateral decision maker from holding the COLP role would not mitigate the risks associated with them holding the COFA role, and vice versa. To ensure our proposals are proportionate, we are proposing an exemption for sole –owner-manager firms so that in certain circumstances a unilateral decision maker could still hold the COLP role – further details are set out later in this document.

Consideration of separating only the COFA role

We did consider an alternative option of requiring the separation of only the COFA role so that an individual who can unilaterally determine or direct significant management decisions could still hold the COLP role. However, we have discounted this other than for sole owner-manager firms in certain circumstances.

Separation of the COFA role would target the significant and salient risk around client money. However, it would not help with wider risks. We have seen examples of clients being disadvantaged in a number of ways, for example where cases are progressed in a way that puts the interests of the firm ahead of those of the client in a way that seriously breaches our regulatory obligations over sustained periods without being appropriately challenged or reported.

Separation of only the COFA role would potentially be less onerous for firms, but would not help address these wider risks, as there could still be no effective checks and balances on a unilateral decision maker in relation to the majority of regulatory arrangements.

We explain later in this document that we are proposing an exemption whereby sole owner-manager firms that are captured by our proposals only because of the amount of client money they hold are only required to separate the COFA role from an individual who can determine or direct significant management decisions. This recognises the particular characteristics of these firms.

Defining firms in scope – risk thresholds

To target risks in a proportionate way, we are proposing a risk/impact approach to determining which firms should be within the scope of any rule change.

Our proposal would establish the following threshold for firms that are in scope of our enhanced compliance measures:

- Firms with an annual turnover of more than £600,000; and/or,
- Firms holding more than a maximum balance of £500,000 client money at any point in the most recent accounting period

Annual firm turnover

The size of a firm can be an indicator of risk to consumers and the public, accounting for the amount of work it carries out on behalf of consumers, and the potential impact of failure. Turnover is one way to measure size.

The consideration of firm size is already reflected in the SRA's authorisations process. We take a risk-based approach to approving COLPs and COFAs. We take a lighter touch approach for firms with turnover under £600,000. The option of deeming an individual to be approved as a compliance officer if they meet certain criteria in rule 13.5 of the Authorisation of Firms Rules rather than going through the full approval process is reserved for firms with turnover less than £600,000.

Where firms have an annual turnover above £600,000, we determine their applications for SRA-approved roles on a case-by-case basis. This is based on our assessment that risks may be heightened in those firms – they are more likely to be large, to have higher volumes of clients and cases, and to be handling larger sums of client money. We have looked at the average amount of client money being held by all SRA-regulated firms. During the 2024-2025 practising certificate renewal reporting timeframe, 3,525 firms (39%) operated with an annual turnover of more than £600k. These 3,525 firms represented high client money balances, holding 93% of average reported client money. Larger firms also accounted for the highest value claims to the SRA compensation fund.

We therefore propose that firms with a turnover over £600,000 should be required to restrict unilateral decision makers from holding the COLP and COFA roles.

Client money balance

A number of firms below this £600,000 annual turnover threshold reported holding significant sums of client money, including small firms and sole practices. For example, at the extreme, over 130 of these firms reported a peak client money balance of over £5 million during the 2024-25 PCRE reporting timeframe.

High client money balances represent particular risks to consumers and the public interest, and we think that holding high levels of client money is a risk factor that we should reflect, regardless of a firm's turnover. For this reason, we propose introducing an additional threshold to ensure firms that hold significant sums of client money are brought into the scope of new requirements.

We reviewed whether there is an appropriate client money threshold within our existing regulatory framework. There is currently an exemption in the SRA Accounts Rules which allows firms holding a low amount of client money to not obtain an accountant's report.

This is defined as an average balance of £10,000 or under, and a maximum balance held at any one time less than £250,000. However, as this threshold aims to identify firms with a low client money balance it does not appear to present a proportionate way of targeting firms where there is heightened risk to consumers and the public.

There is no other relevant reference point within our arrangements that would be appropriate for these purposes. Therefore, balancing adequate protection for consumers where firms hold high levels of client money alongside proportionality considerations, we propose a maximum client money balance threshold of £500,000 held at any point in the previous reporting period. We acknowledge that this would capture almost all firms working in some areas of law, such as conveyancing. We would particularly value feedback on the suitability of this figure.

Q1: Do you agree with our proposal to prevent individuals who can unilaterally determine or direct significant management decisions in firms that are not sole owner-manager firms, and that operate above the annual turnover threshold and/or the maximum client money balance threshold, should be prevented from holding the firm's COLP and COFA roles? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q2: Do you agree with our proposed risk threshold of a firm having a turnover of above £600,000 to identify firms that present heightened risk of harm because of their size and would therefore be within the scope of new requirements for their compliance role holders? If not, what alternative threshold would you suggest and what impact would the adjustment have?

Q3: Do you agree with our proposed risk threshold of a firm having held a client money balance of £500,000 or above at any point in the previous reporting period to identify firms that present heightened risk of harm because of the amount of client money that they held and would therefore be within the scope of new requirements for their compliance role holders?

Exemption for sole owner-manager firms

For sole practitioners or firms that have a sole owner-manager (who we collectively refer to as 'sole owner-manager firms' in this consultation), separating out roles to avoid the risks of concentration presents particular challenges. In these firms, the sole owner-manager may be the only person in a leadership position and with a complete understanding of the business.

This would make it difficult to identify suitable alternative compliance officers currently within the firm who would meet our compliance officer criteria e.g. being of sufficient seniority and having sufficient responsibility within the firm.

Therefore, it is more likely that these firms would have to take on an appropriate employee / contractor to carry out the compliance roles. Respondents to our previous consultation largely took the view that sole owner-manager firms should be exempt from any proposed new requirements for separating owners from the compliance roles for this reason.

It is important to address the risks posed to consumers and the public in a proportionate and targeted way. That is why we have built risk thresholds into our proposed new separation requirements so they would not apply to firms where the risk/ impact of harms is lower. We consider that it is appropriate to consider firm

structure, as well as size, when considering the best balance between the requirements that we are proposing and the risks that we are aiming to manage.

During the 2024/25 practising certificate renewal reporting period, 120 sole owner-manager firms reported an annual turnover exceeding £600,000. We consider that the risks posed by a sole owner-manager firm of this size are such that it is necessary and proportionate to require them to separate the COLF and COFA roles from an individual who can unilaterally determine or direct significant management decisions, in the same way as we are proposing for other firms above this threshold.

We do however consider that it may be appropriate, on a proportionality basis, to apply an exemption for sole owner-manager firms that exceed only the client money threshold – that is, they have a maximum balance over £500,000 in the previous reporting period. The exemption would be that such firms would be required to separate the COFA role, but not the COLP role.

There are approximately 480 sole owner-manager firms with a turnover below £600,000 that hold a maximum client money balance exceeding £500,000 during the same reporting period. Given these significant client money balances, consumer protection is a key concern. Calls on the SRA compensation fund are often driven by breaches of the SRA Accounts Rules, indicating that the handling of client money continues to present significant risks for consumers in firms of all sizes and structures.

The proposal to require a separate COFA but not a separate COLP will specifically target the significant and salient risk around client money but not wider risks. We think that this is a proportionate balance of additional safeguards and the risks we are trying to manage considering the particular characteristics of sole owner-manager firms and the impact of requiring separation of both roles given the greater practical challenges of doing so effectively.

Q4: Do you agree with our proposal that in sole owner-manager firms that operate above the client money balance threshold, but not above the annual turnover threshold, the owner-manager should be excluded from holding the COFA role but could retain the position of COLP? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q5: We are interested in your views on quantifying the impact of our proposals on the separation of roles. What evidence sources do you think would help with this? Please set out your reasons and any evidence relating to your answer.

A new support package

Our proposal to develop a new support package for compliance officers was well-supported by stakeholders during our previous consultation, and we heard helpful suggestions for content and communication.

We intend to move ahead with this work. This work includes reviewing and strengthening existing relevant guidance - including our ‘Responsibilities of COLPs and COFAs’ guidance - publishing additional new guidance and providing other new products for compliance officers such as checklists and templates. Our aims here will be to:

- strengthen a sector-wide focus on compliance roles and responsibilities
- reinforce good practice compliance approaches and culture within all law firms
- encourage firms to ensure there is sufficient scrutiny in their governance processes regardless of their size or structure.

The support package will be relevant to all SRA-regulated firms, including firms that are not made subject to any new requirements for their COLP or COFA role holders. We are proposing to build two specific guidance themes into our support package:

- regulatory expectations of the day-to-day operation of different role holders within firms – including compliance officers and managers – to support firms to more clearly understand where boundaries lie between role-holder duties and how the roles work together to assure regulatory compliance within firms, and
- how firms can effectively use third-party compliance services, including important considerations when seeking to engage these services for the first time and how to ensure third-party advice provides an effective check and balance for firms.

Strengthening checks and balances within law firms – full question set

Q1: Do you agree with our proposal to prevent individuals who can unilaterally determine or direct significant management decisions in firms that are not sole owner-manager firms, and that operate above the annual turnover threshold and/or the maximum client money balance threshold, should be prevented from holding the firm's COLP and COFA roles? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q2: Do you agree with our proposed risk threshold of a firm having a turnover of above £600,000 to identify firms that present heightened risk of harm because of their size and would therefore be within the scope of new requirements for their compliance role holders? If not, what alternative threshold would you suggest and what impact would the adjustment have?

Q3: Do you agree with our proposed risk threshold of a firm having held a client money balance of £500,000 or above at any point in the previous reporting period to identify firms that present heightened risk of harm because of the amount of client money that they held and would therefore be within the scope of new requirements for their compliance role holders?

Q4: Do you agree with our proposal that in sole owner-manager firms that operate above the client money balance threshold, but not above the annual turnover threshold, the owner-manager should be excluded from holding the COFA role but could retain the position of COLP? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q5: We are interested in your views on quantifying the impact of our proposals on the separation of roles. What evidence sources do you think would help with this? Please set out your reasons and any evidence relating to your answer.

Improving our Oversight of Firms

What we want to achieve

We want to improve our oversight of firms that are significantly changing their profile, including through sales, mergers and acquisitions. As part of this, we want to develop a more systemic approach to collecting, analysing and acting on information relevant to potential risks to our regulatory objectives from significant profile changes.

Our aim is to be better able to spot risks and issues that may crystalise into significant harms, and to make sure that we have processes in place for appropriately scrutinising proposed changes to reduce the chance of this happening. These arrangements should be proportionate so as to not discourage firms from growing, evolving or changing to meet their legitimate business strategy.

Our starting arrangements would likely change over time as we gain a clearer picture of what characteristics make it more likely that harms will crystalise in practice when a firm significantly changes its structure or profile. The level of oversight that is needed in different scenarios to effectively protect against such harms crystalising in the most proportionate way would also be subject to review. We will consult on our proposed starting arrangements next year – they do not form part of this consultation.

Concerns

We currently collect and review information from law firms through various channels and at different points during a firm's regulatory lifecycle. This includes at initial authorisation and when firms submit their annual returns through the Practising Certificate Renewal Exercise (PCRE). Firms are also required to notify the SRA at different points when certain things change, including when a firm is closing or being acquired, following ownership changes, and when a firm is in serious financial difficulty, amongst others.

In relation to sales, mergers and acquisitions the focus of the information we gather is largely to ensure that client money and files are appropriately dealt with, and to recalculate a firm's turnover based annual practising certificate fee. Our main focus when collecting information has not been to assess changes in the risk profile of the firm or how to manage newly identified risks. Typically, it is through the annual PCRE that firms inform us of changes in their profile over the preceding year.

Recently we have seen an increase in large firm failures and have identified examples of harms arising from firms growing beyond their competence, capacity or capability. We have seen problems arising in some cases from the failure to properly integrate people, systems and processes. At the extreme, we have seen allegations of a bad faith actor acquiring firms to defraud their client accounts.

The changing legal services market and the changing risks to consumers that go with this has reinforced the need for us to strengthen our risk-based, proactive regulatory approach in relation to firms significantly changing their profile.

We are concerned that currently firms can significantly change their profile, including their structure, governance arrangements and the areas they work in, without informing us until the annual PCRE return. Our rules do set out obligations to inform us of changes (for example, to managers, owners and approved role holders promptly and outside the PCRE cycle.

This limits our ability to proactively identify and mitigate potential risks. For example, a law firm that currently holds relatively low amounts of client money could move into a new area of law and begin to hold significantly higher amounts of client money within a relatively short period of time. We might need to engage with that firm around its approach to handling, retaining and distributing large amounts of client money. At present, we might not find out about this change until the annual PCRE return.

What we consulted on previously

In our consultation on client money in legal services we invited views from stakeholders on how we might improve our oversight of firms significantly changing their profile. We asked three questions:

- Do you think that we should be more prescriptive around the information that we must be notified of outside of our annual practising certificate renewal exercise? If so, what information should we require and what risks should we target?
- 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?
- 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, e.g. insurers.

What we heard

Overall, stakeholders expressed support for additional oversight of firms significantly changing their profile. Responses to our question of whether we should be more prescriptive of the information we require outside of our annual PCRE were mixed. While the majority of stakeholders supported a more prescriptive approach, several cited concerns around the potential increased regulatory burden on firms from more reporting requirements. Most agreed, however, that capturing additional, more timely, information around acquisitions in particular was important to target risks.

Those who responded to the part of the question focusing on the risks we should be targeting emphasised risks centred around client money, including detecting and preventing fraudulent activity and the misappropriation of client funds. They also identified risks that might impact a firm's ability to manage client money effectively,including risks around systems and process integration for firms following an acquisition.

Stakeholders identified various risk indicators which, if present in a transaction, could be cause for concern. These included: firms acquiring firms with a much higher

turnover; firms acquiring firms which practise a significantly different area of law; and/or the rapid acquisition by a firm of a number of other firms in quick succession.

Of those who responded to our question on whether certain changes should require pre-approval and/or after-the-event monitoring, most were in favour of increased oversight of acquisitions specifically. Stakeholders presented a variety of views on the right balance between pre-approval checks and subsequent monitoring. Some suggested that pre-transaction checks would ensure comprehensive oversight by allowing the SRA to investigate risky transactions more quickly prior to completion.

Others preferred after-the-event monitoring to avoid potentially stifling business growth. A number of stakeholders noted that pre-approval, in particular, could become a bureaucratic barrier which could inhibit firms' ability to grow effectively. Others argued that pre-approval could be necessary in certain circumstances such as for firms with prior regulatory issues or for those already under investigation.

Stakeholders presented a variety of views on the potential impact of firms notifying the SRA of certain profile changes in advance. Some foresaw a delay to business transactions and a regulatory burden being placed on firms. Several suggested requiring notification within a set time period post-event to avoid unnecessary delays to transactions. But most recognised that it was important for the SRA to be informed of major changes in advance and that firms already notified third parties, such as insurers, of major profile changes so any additional reporting burden would not be significant.

Further detail on what we heard from our consultation and related engagement can be found in the Summary of Responses published alongside this consultation.

Direction of travel

Following feedback from our previous consultation we consider that we will need to make changes to our regulatory arrangements to improve our oversight of firms significantly changing their profile. This is to help us to identify characteristics that may indicate a heightened risk of the change leading to significant consumer or other harms and to take appropriate action to reduce the chances of those harms materialising.

Our approach must be proportionate and targeted at risks, mindful of the impact of additional requirements on firms and on the legal services market. We intend to consult on proposed changes next year.

To enable us to better spot and target risks, we think we will need to collect additional, more timely information from some firms when they are changing their profile. We are producing an initial set of risk indicators which if present in a transaction or other profile change might trigger additional regulatory scrutiny.

We are also developing initial proposals for notification requirements, setting out the information we think we would require, when and in what circumstances to help us spot relevant risks and issues. We are also developing options for the action we might take or assurances we might appropriately seek when key risk indicators are present.

We are developing proposals and options informed by the insights that we have gained through consultation and related engagement as well as learnings from our proactive work, including a thematic review into growth strategies. Our proposals will need to reflect that risks and our understanding of them will not remain static and will iterate as we learn from operating any new oversight approach, wider risk programme, and as the market evolves.

We will aim to have developed our package of proposals and accompanying draft rules for consultation by the end of May 2026. This is a variation from one of the milestones that we set out in the LSB directions implementation plan, which indicated that we would consult on a rule setting the environment for us capturing the additional and different information we will need from firms in this consultation. Having listened to feedback from representatives of the profession, we have concluded that it will be better to consult on this rule alongside the detailed policy options next year.

Updates on some further areas

We have settled on policy positions on three areas that we consulted on in November:

Advanced fees

We are not pursuing the idea that we might be more prescriptive about how much money firms can request in advance of work being done and the circumstances in which they can request it. We have not seen evidence of a systemic issue that needs to be addressed at this time.

In the previous consultation we highlighted that requesting fees is a common practice allowing a firm to run a case without having to regularly return to the client for more money – potentially benefitting both parties. However, we had heard anecdotally that some firms may be requesting more than is necessary, for the benefit of the firm and not the client – for example to help cashflow or generate interest. Stakeholders did not recognise these practices.

They highlighted that taking advance fees was accepted practice for smoothly running a case and mitigating risk of non-payment. Respondents noted that advanced fee calculations are often tailored to the case/client, based on experience and professional judgement of what is needed to run the case and the risk of non-payment. They argued that this would make a standardised cap impractical. The Legal Services Consumer Panel advised against prescription, saying advanced fees are a matter of consumer choice and commercial judgement.

So, we do not consider that a case for regulatory intervention in this area has been made at this time. We are therefore proposing to maintain our current approach, which allows firms to exercise their professional judgement as to when and how they request advanced fees, taking into account the broader professional obligations in our Principles and Codes.

Moving money from client account to office account

We will make a number of changes to the Accounts Rules that we consulted on in November. These are changes to 2.1(d) to provide that firms can only transfer client money to the office account once a bill or written notification has been produced for costs incurred. And changes to 4.3, 4.3(a) and 4.3(c) and the addition of rule 4.4 as originally consulted on in December 2022 and then again in the November 2024 client money consultation. These changes will make clear that firms do not need to deliver a bill or written notification before reimbursing themselves where it relates to expenses incurred on behalf of the client.

We will not progress the proposal to remove rule 2.3(c) of the Accounts Rules which allows clients to agree different arrangements about when client money can be transferred to office account with informed consent. We explain what this means in practice below.

The SRA Accounts Rule 2.1(d) permits firms to issue bills in advanced of work being carried out for anticipated disbursements, and to then transfer money from their client

account to their office account for their fees. Once transferred, the client's money loses additional protections it would otherwise have had if held in a client account.

In 2022, we consulted on an amendment that would only permit the transfer of funds once a bill or written notification had been produced for costs incurred. This proposal was generally supported. However, some concerns were raised that the amendment would deter firms from offering fixed fees in cases where legal work may take a considerable time to complete as they would be incurring costs for long periods without being paid.

At the time, we said that the amendment would not impact on rule 2.3(c) which enables firms to agree alternative arrangements with their clients about when and how their money will be held with informed consent. This would allow for different arrangements suitable for these sorts of fixed fees and consistent in a way that was clear and transparent to the client.

We also consulted on amendments to Rules 4.3, 4,3(a) and 4.3(c) and the addition of Rule 4.4 to make it clear that a firm did not need to deliver a bill or other written notification of costs before reimbursing themselves from the client account where it related to expenses incurred on behalf of the client (such as a Land Registry search fee). There was strong support for this amendment.

We paused the implementation of these amendments so that we could consider them holistically with the new and broader work programme looking at client money safeguards. We again invited views on these proposals in the November 2024 consultation.

We also consulted on the potential removal of rule 2.3(c). This was on that the basis that some firms and reporting accountants had raised concerns there would be less protection available once client money was transferred into an office account, for example if a firm goes out of business. And some might not understand this when agreeing to alternative arrangements.

Responses were mixed. Supporters highlighted the benefits of a consistent sector-wide approach while opponents raised concerns about limiting client choice, particularly for commercial clients, and the potential negative impact to the fixed fee market which can benefit consumers.

We will not remove rule 2.3 (c) given the potential negative impact that might have on certain clients and consumers. The view that this may negatively impact the attractiveness of fixed fees is a particular worry. We will update our guidance in this area to make sure expectations and obligations are clear around appropriate communication with, and agreement from, clients when entering into alternative arrangements.

Residual balances

We do not intend at this stage to move forward with any rule changes that would prescribe exact timeframes in which firms must return client money at the end of a case. We will look to bolster our guidance around the existing requirement to return money 'promptly', with case studies of good practice and of unacceptable practice.

We are concerned that many firms are not proactive enough in reconciling client accounts or returning outstanding funds at the end of a case. There is also some

evidence that some firms may not be taking sufficient steps to trace the rightful owner, particularly when contact details have changed. And there are concerns that there are incentives to not prioritise returning funds since this work is non-fee-paying.

Rule 2.5 of the Accounts Rules requires that firms return money belonging to clients and third parties ‘promptly’ once there is no reason to retain it. We do not define promptly. Firms are expected to use their professional judgment, in line with the specific circumstances and best interests of their clients. Firms must make all reasonable attempts to return funds to the rightful owner, and where this is not possible, they must donate the residual funds to charity.

We previously consulted on a proposal to replace the term “promptly” with a prescribed timeframe. The proposal was to require firms to return excess funds within 12 weeks of the conclusion of a matter where they have the details of the rightful owner and how to contact them. We proposed the prescription of a further 12-week period for firms to make reasonable attempts to trace the owner where necessary and to donate the money to charity where the attempts were not successful.

Stakeholders were divided on the proposal for an initial 12-week timeframe to identify and return excess client funds after a case concludes. Supporters of the change felt that clearer rules had the potential to improve consistency across firms, enhance regulatory compliance, and provide greater clarity for both firms and clients. However, nearly twice as many respondents opposed the proposal.

Many felt that the diversity of legal matters and client circumstances made a one-size-fits-all approach impractical and the level of exceptions that would be required would make the requirement ineffective. The Law Society and others argued that ‘promptly’ is an appropriate outcome-focused requirement that can be practically applied in different circumstances, and sufficient to allow regulatory action where a firm has not acted promptly.

Some respondents highlighted challenges with operating within a fixed timescale for tracing uncontactable clients and returning residual balances – most notably because certain aspects of the required process rely on engagement with third partes who can take a long time to action requests from law firms.

The case for progressing with an initial prescribed timeframe where the owner is known and the firm has contact details is finely balanced. We are clear that there are too many firms who are not as proactive and timely as they should be in returning client money at the end of the case, leading to high levels of residual balances. However, it is unclear whether our proposed rule would be effective in addressing this, given the feedback we have received.

We consider it a priority to make sure that firms are taking all necessary steps to return client funds in a timely manner and that they have in place internal procedures to facilitate and record this. And that we take action where they are not. Therefore, at this point we will strengthen our guidance to firms and will consider whether we can obtain data moving forward that might help us understand the shape and size of the issues better to inform any future policy positions.

Equality impact assessment

We have produced a draft initial equality impact assessment.

Q1. Do you agree with the assumptions about and assessment of potential equality, diversity and inclusion considerations in our initial impact assessment?

Q2 . Are there any other factors or impacts on particular groups that we should consider? Are there any other evidence sources that we should be considering?

Q3: Do you have any other comments on our draft equalities impact assessment?

Our consultation questions in full

Strengthening the accountants' reports regime

Q1: Do you agree with our proposal to better assure compliance with the accountants' reports regime by requiring the submission of all accountants' reports (qualified and unqualified)? Please set out your reasons and any evidence relating to your answer, including of the impacts the proposal would have.

Q2: Do you agree with our proposal for introducing mandatory annual declarations from client money-holding firms? Please set out your reasons and any evidence relating to your answer, including about the impact this proposal would have.

Q3: Do you agree with our proposal that reporting accountants should submit their reports directly to us? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q4: Do you agree with our proposal to use fixed financial penalties for failures to comply with the procedural and administrative requirements relating to the submission of reports and/or declarations? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q5. What are your views on our proposal to amend our guidance to set an expectation for reporting accountants to routinely seek bank confirmations to verify the list of client accounts? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Strengthening checks and balances within law firms

Q1: Do you agree with our proposal to prevent individuals who can unilaterally determine or direct significant management decisions in firms that are not sole owner-manager firms, and that operate above the annual turnover threshold and/or the maximum client money balance threshold, should be prevented from holding the firm's COLP and COFA roles? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q2: Do you agree with our proposed risk threshold of a firm having a turnover of above £600,000 to identify firms that present heightened risk of harm because of their size and would therefore be within the scope of new requirements for their compliance role holders? If not, what alternative threshold would you suggest and what impact would the adjustment have?

Q3: Do you agree with our proposed risk threshold of a firm having held a client money balance of £500,000 or above at any point in the previous reporting period to identify firms that present heightened risk of harm because of the amount of client money that they held and would therefore be within the scope of new requirements for their compliance role holders?

Q4: Do you agree with our proposal that in sole owner-manager firms that operate above the client money balance threshold, but not above the annual turnover threshold, the owner-manager should be excluded from holding the COFA role but could retain the position of COLP? Please set out your reasons and any evidence relating to your answer, including about the impact the proposal would have.

Q5: We are interested in your views on quantifying the impact of our proposals on the separation of roles. What evidence sources do you think would help with this? Please set out your reasons and any evidence relating to your answer.

Equality Impact Assessment

Q1: Do you agree with the assumptions about and assessment of potential equality, diversity and inclusion considerations in our initial impact assessment?

Q2: Are there any other factors or impacts on particular groups that we should consider? Are there any other evidence sources that we should be considering?

Q3: Do you have any other comments on our draft equalities impact assessment?