

# **Further consultation on client money in legal services: Protecting the client money that solicitors hold**

## **Initial Equality Impact Assessment**

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December 2025

## Introduction

This is our initial Equality Impact Assessment (EIA) of the proposals we are putting forward in our [Further consultation on client money in legal services: Protecting the client money that solicitors hold](#).

This consultation builds on our previous consultation, [Client money in legal services - safeguarding consumers and providing redress](#), which we launched in November 2024. In that consultation, we sought views on proposals and ideas to strengthen the protection of client money. This included exploring long-term questions about whether the current model of solicitors holding client funds, and the 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 by quick fixes. There is a strong case to explore these longer-term framework questions properly, and we will return to them.

However, in the immediate term, we have chosen to progress three key areas from our November 2024 consultation that focus on improving the current regime:

- Updating accountant's report requirements
- Strengthening compliance officer checks and balances
- Improving oversight of firms with changing risk profiles

We have developed proposals for consultation in two of those areas: a) changes to improve our accountant's reports regime b) changes to strengthen the checks and balances provided by compliance officers.

Our actions on these issues respond directly to [directions from the Legal Services Board \(LSB\)](#) issued in May 2025 and represent necessary interim improvements pending any future overhaul of the regime.

This initial EIA presents our assessment of the potential impacts of the proposals in the current consultation on the firms and solicitors we regulate. We have also set out the sources of evidence we have used to make this assessment, the mitigating and monitoring activities we could undertake during and after implementing the proposals we take forward, and the assumptions we have made.

The third area that we are prioritising is looking at how we might improve our oversight of firms where planned changes in their profiles may increase risk to our regulatory objectives. We will be consulting on proposals around this next year – an initial EIA will accompany the consultation.

## Evidence that informs our assessment

We collect diversity data from the firms we regulate every two years. This data gives us a picture of the diversity profile across the sector and enables us to analyse data by size of firm and the type of work undertaken.

In terms of protected groups, our [diversity data](#) shows:

- The proportion of women in law firms is 53%

- men are overrepresented in law firms with 1 partner, but not in law firms with 2-5 partners
- Black and Asian solicitors are overrepresented in law firms with 1 partner and Asian solicitors are also overrepresented in law firms with 2-5 partners
- solicitors aged 45 and upwards are overrepresented in law firms with 1-5 partners
- solicitors from lower or intermediate socio-economic backgrounds are overrepresented in law firms with 1-5 partners.
- disabled solicitors are slightly underrepresented in law firms with 1 partner but not in firms with 2-5 partners
- Gay and Lesbian solicitors are slightly underrepresented in law firms with 1-5 partners
- Hindu, Jewish, Muslim, and Sikh solicitors are overrepresented in law firms with 1 partner and for law firms with 2-5 partners, Hindu and Muslims solicitors are overrepresented
- solicitors from lower or intermediate socio-economic backgrounds are overrepresented, and more likely to be working, in small law firms.

Our firm diversity data also shows that firms working in less-profitable areas of practice, such as criminal work and private client work, have a higher proportion of Black, Asian and minority ethnic solicitors compared to firms operating in other areas.

We have drawn on other sources of evidence, including from: our investigations and intervention work; our spot-check exercise into firms' compliance with the SRA Accounts Rules; and our thematic reviews around [probate and estate administration](#) services and [how compliance officers approach their roles and responsibilities](#).

We have also drawn on a significant programme of engagement with consumer bodies, different parts of the profession and their representatives including the Sole Practitioners Group and compliance officers, accumulator firms, other regulators, insurers and accountancy bodies.

Through our consultation, we want to get a better understanding of potential equality impacts to help us make decisions about which proposals to take forward, and to ensure we minimise any potential negative impacts by considering and taking appropriate mitigating actions. We invite you to give us your views on this initial assessment and let us know of any additional impacts, positive as well as negative, that you think we should consider.

## **Strengthening the accountants' reports regime**

### *Our proposals*

Our Accounts Rules set out what law firms must and must not do to safeguard client money. Compliance with these rules is a fundamental protection. We want to make sure our arrangements effectively drive compliance.

A key element to this is the accountant's reports regime. It provides for independent scrutiny of whether firms are complying with the Accounts Rules. Its purpose is to identify firms that place client money at risk through significant breaches of the Accounts Rules, and report this

to us so that we can take appropriate action. The accountant's report regime is not designed to assess a firm's financial statements nor their financial resilience.

We want to strengthen the regime to improve assurance that firms are complying with our accountant's report requirements and to ensure that we have the information we need to identify when this is not happening. Our proposals to strengthen the accountant's reports regime [are set out in detail in our consultation](#). We would look to review how any new arrangements are working in practice. We will adapt them if what we learn suggests this is appropriate to meet our aims in the most proportionate way possible.

Our proposals and this initial impact assessment have been informed by a range of evidence including the responses to our 2024 consultation, recent thematic reviews, findings from a spot check exercise into firms' compliance with the Accounts Rules, internal data, and engagement with stakeholders including accountancy bodies.

### **Submission of accountants' reports**

We are proposing to require the submission of all accountant's reports (unqualified and qualified) to us. Currently, we require only qualified reports to be submitted. 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 change would allow us to verify that accountant's 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 do not consider that this change would place a significant additional burden on firms. Non-exempt firms should already be obtaining an accountant's report for each accounting period, so this proposal represents an amendment to the submission requirements rather than a change to the underlying obligation.

This approach would also remove any potential uncertainty for firms around whether their report should be submitted.

### **Declarations to support assurance and accountability**

#### *Declarations by firms*

We are proposing to introduce a new mandatory annual declaration process for all client money-holding firms. They would have to submit a declaration 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 to instruct an accountant.

We believe that requiring client money-holding firms to submit a declaration to their regulator will incentivise compliance. It will also 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 believe the introduction of a firm declaration will have minimal impact on client money-holding firms as it would be a simple process of declaring their exemption status or confirming that they have acted in line with their obligations around obtaining a report.

### *Declarations by reporting accountants*

Each report submitted would include a declaration from the reporting accountant confirming that the work was completed in accordance with requirements and stating the report's outcome.

The reporting accountant 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.

We believe this proposal would have minimal impact on reporting accountants as this is not a new obligation in substance. Reporting accountants already provide these confirmations in the current prescribed format. However, our proposal that all reports must be submitted to us would see us receiving these declarations with every report, rather than the current position of receiving only qualified reports.

### Report submission process

We propose introducing a new rule to require reporting accountants to submit reports to us as well as passing it on to the firm.

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 the accounting period.

We know that many reporting accountants already submit qualified reports directly to us on behalf of law firms, but we recognise this is a new requirement and some 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. This would likely be covered in the contractual agreement between the firm and the reporting accountant, and we do not anticipate the impact on the firm will be significant.

There will be an impact on reporting accountants from this new requirement although we anticipate that it will be a simple and not overly burdensome process. We do not have information to assess the diversity profile of the accountants that will be impacted.

We welcome views from reporting accountants, as well as firms, on any impacts they think this change may have on them. We would monitor how this change operates in practice and keep it under review to see whether it creates any unintended burdens for firms or reporting accountants.

### **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 an accountant's report and make submissions within the specified timeframe. We propose to extend our fixed financial penalties scheme as an additional way of tackling non-compliance of firms with the requirements to submit a declaration or report in the set timeframe.

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.

Fixed financial penalties are designed to provide a clear, efficient and streamlined approach for addressing non-compliance with certain types of lower level administrative and procedural failures. They are currently used effectively in other areas for addressing comparable administrative failures such as for certain breaches of our transparency rules and failure to submit diversity data as required.

We think that the use of fixed financial penalties would provide a proportionate step for addressing specified procedural and administrative failures in relation to the accountant's reports regime such as missed submission deadlines or incomplete declarations, and are justified given:

- the penalties would apply at firm level, not to individuals
- they would be applied to failures to undertake specific and clear activities that are administrative in nature

We consider that they provide benefits including:

- they provide for straightforward issues to be dealt with in a timely and streamlined manner
- they provide for predictability for firms about how cases are dealt with and the outcome that they will see, supporting consistency and fairness
- they will likely incentivise compliance with obligations designed to enable us to identify firms who may pose a risk to client money so we can take appropriate action

We recognise that small and one partner firms and solicitors from Black, Asian and minority ethnic backgrounds, men and older solicitors are overrepresented in our investigation and enforcement work. These groups may also be overrepresented in any accountant's report fixed financial penalty process. While we cannot draw reliable conclusions from the data given the small sample size and because we are still reviewing some of the cases but our accountant's report spot check exercise indicated that proportionally small firms were the most likely to fall within the cohort of firms that were identified as potentially having not obtained a report as required, followed by sole practitioners.

We also recognise that the small firms in less profitable areas of law will more keenly feel the outlay of a fixed penalty.

If we extend fixed financial penalties to the accountant's reports regime, we will monitor the outcomes, including any equality impacts, and keep the approach under review.

### **Potential impacts of our proposals**

We anticipate that our proposals relating to completing annual declarations and the submission of accountant's reports will not have significant impacts on any firms or reporting accountants. Therefore, we do not think the proposals will adversely impact individuals from protected groups to a significant degree.

The reason for this assessment is that the proposals build upon existing processes. All firms that are not exempt are currently required to obtain an accountant's report and this approach

is not changing. Similarly, reporting accountants currently have to make a series of declarations in our prescribed forms, which we will continue to require.

We are proposing a new firm declaration process as set out above. We believe that this provides important additional assurance around compliance with the accountant's report requirements and additional monitoring information, and that the administrative process should not be burdensome.

We are proposing changes to our submission requirements, with all reports needing to be submitted, rather than only qualified reports, and the reporting accountant being required to submit the reports. We have identified that there will likely be some additional work needed by some firms to make sure that reports are submitted and for reporting accountants to submit the reports but that this will be minimal. We would look to monitor impacts, including equality impacts, following implementation.

We welcome views from firms and reporting accountants about the accuracy of these assumptions, which will inform our post-consultation decisions and final impact assessment.

We are proposing extending our fixed financial penalties scheme to the accountant's reports regime. As noted above, we have identified that in line with the position in our wider enforcement process it is possible that smaller firms, and solicitors from particular groups (male, minority ethnic and older solicitors) may be over-represented in any accountant's report fixed financial penalty regime. It is also possible that smaller firms, particularly those working in less profitable areas, will feel the impact of a penalty more keenly and these firms have a higher proportion of Black, Asian and minority ethnic solicitors compared to firms operating in other areas. We will monitor the impacts, including equality impacts, of any extension to the fixed financial penalties scheme.

### **Initial conclusions**

We anticipate that our proposed submission and declaration changes will have a minimal impact on firms and reporting accountants. We believe that they are necessary measures to help manage risks to client money. We are mindful of any additional burdens on small firms and the proposals represent a proportionate approach.

We will provide clear guidance and communications for firms and reporting accountants around any changes to the accountants' reports regime, to support them in meeting new requirements and expectations.

In terms of new or additional requirements to submit declarations and to submit an accountant's reports, we will seek to ensure that the process for submission is user-friendly and accessible. To assist us in this, we will engage with stakeholders during development and through the transition period.

In relation to the proposals for fixed financial penalties, we have identified that potentially groups with protected characteristics may be disproportionately impacted. Our commitment to provide clear guidance and communications around the administrative requirements which the failure to meet may result in a fixed penalty will help support compliance. Further, the process for fixed financial penalties provides opportunity for firms to bring themselves into compliance by rectifying the breach before the monetary penalty is issued.

We have set out in the previous section that we consider that the fixed financial penalties is a proportionate way to target specified administrative failures in relation to the accountants' report regime. And we think that the fixed financial penalties regime can also benefit firms as

it is a streamlined process to address non-compliance that provides certainty, predictability and consistency.

Therefore, having considered the potential impacts on those with protected characteristics, our overall assessment is that our proposal to extend our fixed financial penalties scheme to include late or incomplete submission of declarations and accountants' reports is proportionate to target the risk of non-compliance with our accountant's report requirements – a key tool for protecting client money.

We will monitor and evaluate the impact any of rule changes we make following consultation, assessing the effect of our proposals on levels of compliance, where measurable, to determine effectiveness of the changes and identify any unintended consequences.

## **Strengthening checks and balances within law firms**

### *Our proposals*

We want to make sure that our regulatory arrangements provide for effective checks and balances on individuals who have authority to determine or direct significant management decisions relating to the structure or running of a law firm. These checks and balances must be risk based and proportionate.

Our proposals in this consultation are aimed to address the specific risk of the concentration of management, ownership and compliance roles in one individual, potentially negating the checks and balances element of the compliance roles.

To be proportionate and risk-based means that our proposed requirements impact different firms differently, with some firms not being impacted at all.

Our core proposal is that within firms that meet specific risk thresholds any individual that can unilaterally determine or direct significant management decision in a firm cannot be either its COLP or its COFA. The proposed risk thresholds would mean that this separation requirement would apply to firms that have an annual turnover of more than £600,000 and/or have held a client account balance of £500,000 or higher at any point during the most recent reporting period. On proportionality grounds we are proposing an exemption for sole owner-manager firms, where the firm is captured solely because of the amount of client money held, the unilateral decision maker could be the COLP but not the COFA. For firms below both thresholds, the requirement to separate roles does not apply.

The size of a firm can be an indicator of risk, accounting for the amount of work it carries out on behalf of consumers and the potential impact of failure. We are basing the proposed turnover threshold on the existing threshold used as indicator of risk within our authorisation processes, where firms below the threshold may be eligible for a lighter touch approval process for compliance officers. We have identified particular risks around holding client money that also warrant the separation proposals applying to smaller firms that hold significant amounts of client money.

In developing our proposals, we explored whether risk thresholds could, or should, be positioned at higher levels. Doing so could reduce the number of small firms and sole practitioners that become subject to any new compliance officer requirements, and in so doing, reduce the overall impact for those firms and individual solicitors who are from the protected characteristic groups that are more likely to be operating, and working within, those firms. However, we balanced these considerations against the need for robust



consumer protection in any situation where firms hold large amounts of client money, and where the amount of work they carry out means that significant harm could be caused if they act in a way that prioritises their own interests and that is inconsistent with their regulatory duties.

Given the feedback from our previous consultation about the variety in governance arrangements within firms, our proposed 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 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.

As now, firms do have the option of contracting with a suitable individual to carry out the compliance roles, if they meet the requirements in our regulatory arrangements including that COLPs and COFAs are of sufficient seniority and sufficient responsibility to carry out the role effectively, and have suitable access to the firm. This approach may be of assistance especially to smaller firms.

We would look to review how any new arrangements are working in practice.

### **Potential impacts of our proposals**

Firms will be impacted only if they meet the specified risk thresholds and they are currently organised so an individual that is able to unilaterally determine or direct significant management decisions in a firm holds a compliance role(s) that they would be restricted from holding under the new requirements.

While there would be an impact for any firm in this position – the magnitude of the impact would depend on the specific characteristics of the firm. A firm that already has another suitable individual that is willing and able to take on the affected compliance role(s) is likely to be least impacted. They would face some additional cost in e.g. adjusting processes to reflect the change and providing any necessary training for the new role holder. Firms that do not have another suitable person that is willing and able to take on the role will face additional costs in having to take on an employee, who may be a consultant, who is able to take on the affected role.

Feedback from our consultation highlighted that it is more likely that smaller firms will have to reorganise to meet our requirements and less likely that they will have suitable alternative compliance officers currently in house. This is particularly so for sole owner-manager firms that by their nature are likely to have a concentration of roles and the need to bring in or contract with another senior person to carry out the compliance role. We recognise this assessment and also that smaller firms plus sole practices in less profitable areas of law will more keenly feel additional costs in meeting new requirements, though allowing that firms below both risk thresholds will not have to reorganise under these proposals.

Our proposed risk thresholds are designed to target risks in a proportionate way. The turnover threshold of £600,000 targets larger firms on a risk/impact basis. Many small firms and sole practices would not be captured by our separation proposals as we have set a turnover threshold of above £600,000 on a risk/impact basis. However, our data indicates a number of small firms and sole practices hold significant sums of client money and could therefore become subject to new requirements for their COFA role holders.

As we confirmed earlier, our firm diversity data indicates solicitors with certain protected characteristics are over-represented in smaller and sole practitioner firms, compared to the wider law firm population. This is particularly so in less profitable areas of law. Therefore, our proposals would potentially see a disproportionate impact on groups with certain protected characteristics.

As set out above, we are proposing an exemption for some sole owner-manager firms on proportionality grounds. A sole owner manager is likely to be in the unique position of being in a leadership role and having in-depth understanding of the business. They would face particular challenges and costs in meeting separation requirements. 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.

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 that they separate the COLP and COFA roles from an individual who can unilaterally determine or direct significant management decisions 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. This would potentially be less onerous than also restricting a unilateral decision maker from being the COLP, recognising the particular characteristics of these firms.

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. This additional safeguard would specifically target the significant and salient risk to client money but not wider risks, given the exemption from the requirement to also separate the COLP role.

While this exemption is potentially less onerous for the relevant firms and people, there is still an impact and a cost in having a separate COFA role.

### **Initial conclusions**

We consider that there is a clear risk that needs addressing – we have seen examples of significant harm to consumers, wider regulatory objectives and trust/confidence in the profession when an individual controlling the firm has also held the compliance roles, has managed the firm in a way that is contrary to their regulatory obligations, and this has gone undetected and unreported. The LSB's independent review of our regulatory actions around Axion Ince stated that the concentration of ownership, management and compliance roles in a single individual presented a significant risk. The LSB directions require us to appropriately address this risk.

We recognise that our separation proposals will have an impact on, and cost for, a number of firms. This will be felt most keenly by smaller firms and sole practices within the scope of the proposals, particularly if they are working in less profitable areas of law. And the profile of

these firms means that groups with protected characteristics may be disproportionately impacted.

We have carefully considered potential impacts of different formulations of requiring the separation of compliance roles from individuals with power within and control over a firm, taking into account the feedback from our previous consultation.

We have developed our proposals to be risk-based and proportionate. We have set risk thresholds and an exemption for sole owner-manager firms in certain circumstances. This means that small firms and sole practices will only be subject to new requirements where we have judged this necessary and proportionate given the level of risk they present.

We have provided flexibility for structures as suggested in response to our previous consultation. 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. And we have made clear that there are different ways that affected firms can adapt to the requirement to separate compliance officers - as now they are able to contract with suitable individuals.

Therefore, we believe that with the mitigations that are provided by our risk-based approach to setting scope and the flexibility in how new requirements may be met, our proposals are justified and proportionate to the risks presented by the concentration of roles within firms negating checks and balances. This is accepting that some groups with protected characteristics may be disproportionately impacted where small firms and sole practices fall with the scope of new requirements. We envisage that we will have transitional arrangements to help firms manage implementation.

We welcome views on our assumptions and assessment of impacts and these will inform our final decisions and final impact assessment. We are also committed to monitoring the impact of any changes that we introduce, updating arrangements as we learn.

### **Next steps**

We will consider feedback to our consultation proposals and our initial impact assessment as we move into the post-consultation stages. We will continue to consider impacts and any necessary mitigations. We will develop a final impact assessment as we make decisions about which of our current proposals to implement. The final impact assessment will be published in 2026 alongside our final positions on the proposals we are putting forward in this consultation.

### Questions

**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?