Client money in legal services:

Protecting the client money that solicitors hold

Consultation response

June 2026

Contents

Executive summary 3

- Accountant’s reports 4
- Compliance roles 5
- Looking forward 5

Background 7

Who did we hear from 8

Our final positions 9

Equality Impact Assessment 28

Executive summary

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.

This has informed our understanding of the issues, the potential impacts of reform, and the range of possible policy responses. We concluded that there is a strong case for considering fundamental, transformational reforms to the model of holding client money and how the profession pays for redress.

However, these are complex issues that cannot be quickly resolved. Therefore, we decided that in the near term our immediate focus should be on making changes to better protect and safeguard client money under the current system, aligned to the relevant Legal Services Board Directions post-Axiom Ince. Such changes can make a difference more quickly, ahead of any more fundamental, potentially game changing but much longer-term reform.

Therefore, between December 2025 and February 2026, we carried out a further consultation. This focused on two areas that we identified as having the potential to reduce the risk of client money being stolen or lost; and/or to provide us with information that will make it more likely that we identify where there is higher risk that problems may occur or are occurring within a firm so we are better placed to take preventative action.

These are:

- reforms to the accountants' reports regime – to drive compliance with our requirement for firms holding client money to annually obtain an independent audit of their compliance with the Accounts Rules and systems and controls that they have in place to protect client money. And to improve the completeness, accuracy and timeliness of information provided to us about this process so we can better monitor compliance. As well as better visibility over assessments of firms' compliance with the Accounts Rules
- changes to compliance officer arrangements (compliance officer for legal practice (COLP) and compliance officer for finance and administration (COFA)) – to require that a unilateral decision maker within a higher risk firm is subject to checks and balances from a separate compliance officer in certain

circumstances. This would reduce the risks that may arise from concentration of decision-making and compliance check functions.

We are grateful for the views that we heard through the consultation process and connected engagement activity.

Having considered the feedback received, we have decided to proceed with a package of changes in these areas where the evidence supports regulatory reform.

Accountant's reports

The alterations to our regulatory arrangements for the accountants' reports regime comprise:

- a requirement for all non-exempt firms to submit their accountants' reports to us, whether qualified or unqualified
- an annual declaration requirement for all client money-holding firms confirming their status and key information relevant to the accountants' reports regime
- the extension of fixed financial penalties to cover defined procedural breaches of the accountants' reports requirements, such as late or non-submission.

By requiring the submission of all accountants' reports for non-exempt firms and introducing annual firm declarations, the proposed alterations provide a more complete picture of firms' compliance with reporting requirements.

In practice, this will enable us to identify which firms should be obtaining reports, whether they are doing so, and whether reports are being submitted on time. It will also provide us better assurance that we are receiving the reports where independent accountants have identified concerns.

The extension of fixed financial penalties for defined procedural breaches supports consistent and proportionate enforcement, reinforcing the importance of adherence to professional obligations.

This increased transparency is expected to drive improved compliance with the requirement to obtain and submit reports to us, while also giving us greater confidence in the operation of the regime. It will enhance our ability to detect potential non-compliance and take appropriate action in response. It will also provide us with a better evidence base around the accountants' report regime and how it works in practice.

We considered feedback from accountancy bodies and regulated firms. While we have not introduced a rule requiring the direct submission by reporting accountants in this rule change package, we consider that there are benefits to this proposal. 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. We are therefore likely to return to this issue soon.

Compliance roles

The proposed alterations to our regulatory arrangements on compliance roles comprise:

- new authorisation eligibility criteria, to prevent owners or managers who can unilaterally determine or direct significant management decisions from holding one or both key compliance roles in firms with:
    - an annual turnover over £600,000 in the previous accounting period and/or
    - a client money balance over £2,000,000 at any point in the most recent accounting period.
- a partial exemption for sole owner-managers firms which are in scope by virtue of meeting the client money threshold, preventing individuals from holding the COFA role, only
- an exemption for firms which exceed the client money threshold because of anomalous transactions which are not representative of the firms' usual or expected business activities

We are also developing a package of support for compliance officers and to strengthen our compliance expectations for firms.

Compliance officers are responsible for making sure all people involved with the firm, including owners and managers, comply with their obligations. They must record any potential breaches and promptly report any potential serious breaches to us. However, in some recent firm failures, we have seen how weaknesses in governance, financial controls and the handling of client money have allowed consumer harm to happen unchecked.

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. As such, these changes are designed to provide some baseline structural assurance around compliance mechanisms within specified firms, according to their relative risk.

Looking forward

We will look to implement the changes in relation to accountant's reports and compliance officers in early 2027, with a phased transition.

These changes complement other work examining how the risk profile of firms can change, including our forthcoming consultation on oversight of firms significantly changing profile. This is as well as the multi-disciplinary supervision pilot which will contribute to building a richer picture of firms with characteristics and different options of targeting risks. In June 2026, we will consult on new notification requirements for firms significantly changing their profile including because of acquiring other firms. Together, these strands are intended to strengthen our ability to identify and respond to emerging risks at an earlier stage.

At the same time, more fundamental questions will be looked at as part of the Consumer Protection Review programme going forward. In particular, in relation to the model for holding client money and the framework for consumer redress and whether a clearer senior accountability framework could provide stronger safeguards and more effective protection for consumers. We will progress these issues as we take forward the improvements to the

current regime, drawing on the further evidence we have gathered and stakeholder engagement to date.

These proposals therefore form part of a broader, phased approach. They are intended to deliver immediate improvements in key areas by strengthening the completeness and timeliness of information available to us, and by enhancing governance and oversight within firms. In turn, this should support identification of risks to client money, more effective action, and increased confidence that firms are complying with requirements designed to safeguard client money.

Background

Following a three-part consultation in 2024/25, this consultation launched on 15 December 2025 and ran until 20 February 2026.

The consultation invited views from our stakeholders on:

- improvements to the accountants' reports regime
- strengthening the checks and balances provided by compliance officers.

We also provided an update on our work to improve our oversight of firms where changes in their profiles may increase risk, which we will consult on in summer 2026.

This report summarises the feedback received on each of the subjects above and sets out our final positions, which have been submitted to the Legal Services Board for approval.

Who did we hear from

We received a total of 62 responses to our questions on protecting client money that solicitors hold, including from:

- 17 individual solicitors or other legal professionals
- 22 law firms or other legal services providers

We received responses from the following law societies and representative bodies:

- Birmingham Law Society
- City of London Law Society
- Devon and Somerset Law Society
- Manchester Law Society
- The Law Society
- Legal Services Consumer Panel
- Sole Practitioners Group
- Association on Lifetime Lawyers
- Forum of Insurance Lawyers
- Association of Chartered Certified Accountants
- Institute of Legal Finance and Management

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

- holding consultation events and roundtable discussions
- meeting with members of the profession and consumer representative groups.

Our final positions

In this section, we outline:

- each consultation question
- a summary of the responses we received
- our final policy positions
- our next steps.

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.

Summary of responses

Most respondents agreed with the proposal to require the submission of all accountants' reports, including unqualified reports. Supportive respondents noted that firms are already required to obtain an annual report, so submission would not create significant additional burden. Several emphasised that mandatory submission would close a gap in the current regime by providing greater regulatory visibility over whether firms have complied with the requirement to obtain a report. The Law Society commented:

> 'Submitting annual accounts will better assure compliance with the accountants' report regime and is a key indicator of issues which could impact the security of client money.'

Some respondents commented that the proposal would strengthen assurance and help identify risk across the regulated population. A reporting accountant noted that the requirement 'would be a simple and effective way of evidencing each practice's adherence with the Accounts Rules.' The Legal Services Consumer Panel also supported the change, stating that 'mandatory submission of all accountants' reports… [is] necessary and proportionate.'

A minority of respondents disagreed with the proposal. Their concerns focused on proportionality and the resource implications of receiving and reviewing all reports. The Law Society commented:

> 'If the proposals are put in place, the SRA will receive and will need to consider thousands of accountants' reports. We question whether the SRA has sufficient staff resources in terms of numbers, IT /AI infrastructure, expertise and knowledge to deal with the extra work involved or to investigate the firms whose reports are qualified or more significantly who have not submitted a report and the steps which will need to follow.'

Others were concerned that requiring submission of unqualified reports could generate unnecessary volume and divert attention from higher-risk firms.

A small number of respondents gave neutral or conditional views, seeking clarity on how the SRA would use unqualified reports. A respondent commented that 'there should be clarity on how the SRA will use unqualified reports, eg only for trend analysis rather than triggering

investigations where no risk is evident.' Several emphasised the importance of a straightforward, digital submission process to minimise administrative burden.

Common themes emerged across responses. Many respondents highlighted the balance between proportionality and improved oversight, noting that effective implementation would depend on how data is triaged and used. Birmingham Law Society stressed that 'there must be an analysis of the data in these reports and reference to other data held by the regulator.' Others raised the importance of ensuring that the submission process is efficient and does not duplicate existing controls.

A further theme concerned the quality and consistency of reporting accountants' work, with some respondents suggesting that any changes to submission requirements should be accompanied by clear guidance or expectations for reporting accountants. ACCA noted that although requiring all submissions 'will provide transparency on whether reports are obtained... due consideration needs to be given to the resource implications of implementing this proposal.'

Our position

Our position on this proposal is combined with our position relating to declarations addressed under question 2.

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.

Summary of responses

Most respondents supported the introduction of a mandatory annual declaration confirming key details such as the accounting period, the details of the instructed reporting accountant or whether the firm considers themselves exempt from the requirement to obtain an accountant's report. Supporters generally viewed the proposal as proportionate and straightforward, with several noting that it would provide clearer visibility over exemption claims and reinforce firm and COFA accountability. The ACCA said:

> 'Declarations would focus the attention of the Compliance Officer for Finance and Administration ('COFA') and client money-holding firm on their responsibilities for the protection of client monies.'

Others commented that the administrative burden would be minimal if the declaration was short and aligned with existing reporting cycles. The Law Society said:

> 'Annual declarations are a proportionate way to strengthen monitoring without imposing an undue burden on either the profession or the SRA.'

A minority questioned whether the declaration added meaningful value. Some argued it could duplicate information that would already be captured through mandatory submission of reports. The Devon & Somerset Law Society asked, 'Why would a declaration be needed from a firm submitting its accountant's report?'

A number of respondents also expressed concern that the requirement could become a 'tick-box exercise' unless its purpose and benefits were clearly communicated. One respondent

cautioned that it ‘may duplicate existing controls… and risk increased regulatory exposure based on self-certification.’

Several respondents, expressed conditional support, emphasising that the declaration must remain short, factual, and integrated into a streamlined digital process. For example, the Sole Practitioners Group said, ‘Acceptable in principle but must be via a simple online portal with auto-population from existing PCRE data to minimise burden.’

Some firms highlighted the value of automated reminders, while others sought clarity on who should sign the declaration and how it would be used in practice.

A small number questioned whether annual declarations would deter dishonest firms or improve regulatory outcomes, suggesting that the effectiveness of the measure would depend on wider improvements, for example, clearer expectations of reporting accountants, enhanced verification mechanisms, and more consistent audit quality.

Overall, respondents consistently emphasised the importance of proportionality and clarity, with support strongest where the declaration was framed as a simple confirmation that complements, rather than duplicates, the wider reporting regime.

Our position

We will proceed with the requirement for all accountants’ reports (qualified and unqualified) to be submitted to us,. And for all client money-holding firms to provide an annual declaration confirming key details, including their exemption status. These measures will operate together and should be viewed as part of the reporting cycle designed to strengthen oversight of compliance with the Accounts Rules to protect client money

The changes we are making will provide information about whether firms required to obtain a report have done so, whether reports have been obtained on time, whether qualified reports are being sent to us and whether exemptions are being correctly applied. We do not have this at the moment, meaning that we cannot effectively monitor compliance. Non-compliance creates a risk that significant weaknesses in firms’ systems and controls, or significant breaches of the Accounts Rules, may go undetected and/or are not reported to us.

Our regulatory focus will remain on qualified reports, where reporting accountants identify significant breaches of the Accounts Rules. And/or weaknesses in the firm’s systems and controls that put client money at risk. The submission of unqualified reports serves a different purpose of providing assurance that firms have complied with the requirement to obtain a report for the relevant period. We do not intend to routinely review unqualified reports, but having a complete dataset supports appropriate oversight of compliance with the regime.

Declarations complement this approach by providing confirmation of whether a firm considers itself exempt or, if not, that it has instructed a reporting accountant. They are intended to make sure that key information about a firm’s status in relation to the accountants’ reports regime is actively confirmed on an annual basis. And to provide visibility of both exempt and non-exempt firms within the reporting cycle.

This increased transparency is expected to drive improved compliance with the requirement to obtain and submit reports to us, while also giving us greater confidence in the operation of the regime. It will enhance our ability to detect potential non-compliance and take appropriate action in response. It will provide us with a better evidence base around the accountants’ report regime and how it works in practice. The new requirements will have the added benefit of providing us with comprehensive data about the accounting periods of all firms within scope and the reporting accountants that they are using.

The declaration is not intended to duplicate the submission of reports, but to form part of the overall reporting cycle.

We recognise the importance of clear communication and early notice of the changes. We will provide guidance and communications to support firms ahead of implementation of the changes to the accountants' reports regime and to explain how the submission requirements will be introduced and operate in practice.

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.

Summary of responses

Many respondents agreed, at least in principle, with the proposal for reporting accountants to submit their reports directly to us. Supportive respondents felt that direct submission would reinforce the independence of the reporting accountant and reduce the risk of reports being delayed or withheld by firms. The Legal Services Consumer Panel described direct submission as 'a critical safeguard for independence and integrity.' Others felt it was unlikely to create additional burden for firms with established processes, and that it would provide greater assurance that reports are submitted exactly as completed.

A substantial minority expressed reservations. Many emphasised that, even with direct submission, the legal responsibility for obtaining and submitting a report rests with the firm. For example, Devon & Somerset Law Society said: 'It is the firm's responsibility to comply with its regulatory obligations, and it would seem logical for the firm to submit its own report.' Respondents highlighted concerns that firms could be penalised for delays outside their control, particularly where accountants are slow to act. The Law Society warned that the approach 'may produce an inequitable outcome' if a firm is fined for an accountant's lateness. Birmingham Law Society commented that firms should receive an acknowledgement confirming submission.

Some respondents commented that accountants are not regulated by the SRA, leading to questions about enforceability or how repeated failures by accountants would be addressed. Others raised concerns about increased accountancy fees if submission duties were expanded and about the impact of potential increased liability for accountants.

Some respondents supported the proposal if they include safeguards, such as:

- digital confirmation to firms of submission
- the ability for firms to review reports before they are filed
- improved online functionality for high-volume accountancy firms
- a period to update engagement letters.

One COFA respondent recommended a system where 'both the accountant and the firm receive acknowledgment of receipt' to ensure visibility.

A small number suggested alternative or hybrid models such as requiring accountants to notify the SRA of their appointment or limiting direct submission to qualified reports.

Across responses, the strongest themes related to independence, fairness, and ensuring firms are not held responsible for matters outside their control. Respondents widely emphasised the importance of a streamlined process with confirmation mechanisms.

Our position

We are of the view that there are benefits of reporting accountants submitting their reports directly to the SRA. 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.

Having considered feedback from accountancy bodies and regulated firms, we have decided not to introduce a rule to require the direct submission by reporting accountants in this rule change package. While we are of the view that there are benefits to this proposal, further work is needed to address issues of liability, accountability, and the practical implication of the model. We want to make sure that there is sector readiness for direct submission to operate effectively in practice before introducing such a change.

We are continuing to engage with accountancy bodies and the profession more widely in relation to concerns raised. We have also identified some internal delivery constraints in the near term. This proposal is therefore not included in this set of changes, but we may return to it at a later date.

As a result of our decision not to proceed at this stage, there is no immediate change to current submission practices. As now, accountants' reports may be submitted either by firms or by reporting accountants, in accordance with any existing arrangements between them.

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.

Summary of responses

Most respondents supported the introduction of fixed financial penalties for failures to comply with procedural requirements relating to the submission of accountants' reports or annual declarations. Supportive respondents valued the predictability and clarity of fixed penalties, with some drawing comparisons to late-filing regimes in other regulated environments. The Legal Services Consumer Panel stated that fixed financial penalties 'provide clarity, predictability and proportionality, and reduce the need for resource-intensive investigations.'

A significant minority agreed only in principle and emphasised the need for proportionality, discretion, and fairness. Many respondents highlighted that administrative delays could arise from illness, IT failures or delays by reporting accountants or banks. One respondent commented that 'genuine administrative errors should not be overly punished,' and others called for warnings or grace periods before penalties are applied. Several also stressed the importance of ensuring penalties are reasonable in size, with some suggesting they should be scaled according to firm size or the nature of the breach.

A smaller number opposed the proposal, questioning the value of applying financial penalties to administrative failures, or arguing that visits, support, or targeted follow-up would be more effective. The Law Society cautioned that applying penalties without discretion ‘may militate against justice if account is not taken of the circumstances.’

The Sole Practitioners Group was particularly strong in its opposition to this proposal based on the potential impacts on small firms:

> ‘Fixed penalties, however modest, are existential threats to businesses operating on margins often below 20–30 per cent...Penalties should be replaced with a tiered warning system for first administrative breaches, with penalties reserved for substantive client-money risks or repeated failures.’

Across responses, there was strong emphasis on ensuring that penalties are not imposed where delays are genuinely outside a firm’s control, for example, Manchester Law Society said:

> ‘We are concerned about this if the non-compliance is outside of the law firm's control…It is essential in our view that some discretion is factored in to decision-making in relation to sanctions in circumstances where the failure to submit the report is outside of the law firm's control...Our members would expect the SRA to ensure that its technology to identify late/no submissions works well before being given the power to issue such penalties.’

Respondents also highlighted the importance of reliable digital systems with clear reminders and acknowledgments and the need for transitional arrangements to allow firms and accountants time to adjust. For example, a COFA said: ‘I would encourage a degree of initial leniency during the early stages of implementation, particularly while firms adjust to any new submission or declaration procedures. A phased approach with warnings or reminders issued before penalties are applied would help support firms in meeting their obligations without creating an unduly punitive environment.’

Our position

We will proceed with making fixed financial penalties available for procedural breaches of the accountants’ reports regime, such as late submission or non-submission of reports or annual declarations. The intent is to promote timely and consistent compliance through transparent and proportionate enforcement mechanisms.

The introduction of fixed financial penalties for procedural breaches provides a predictable and efficient mechanism for addressing low-level non-compliance, complementing our wider enforcement framework. It will be objectively clear whether firms have met their regulatory obligations to obtain and submit an accountant’s report and/or declaration. Fixed financial penalties will therefore support consistent treatment of non-compliance.

The fixed financial penalty process will continue to provide firms with an opportunity to make representations and to remedy breaches before a penalty is finalised. We recognise respondents’ concerns, particularly those from smaller firms, about the importance of proportionality and fairness. Penalties will apply only to specified procedural breaches relating to late or non-submission. And we will continue to enable consideration of the individual circumstances of a case where relevant.

We acknowledge the requests for clarity on how fixed financial penalties would interact with the proposal for reporting accountants to submit reports directly to us. We are not proceeding with the proposal for reporting accountants to submit their reports directly to us as part of these changes. However, we do see the benefits of introducing at a future point.

We recognise that some firms already have arrangements under which reporting accountants submit reports directly to us, and we expect those arrangements can continue. As now, firms will remain responsible for making sire of compliance with their regulatory obligations and for managing their engagement with reporting accountants, including addressing instances of delay where these arise. We will engage with the profession and reporting accountant bodies about how the submission process would work in practice before we introduce a direct submission requirement, should we do so.

Fixed financial penalties will be made available as part of the package of reforms to the accountants' reports regime, once the new reporting and declaration requirements are in force. This will ensure firms have the time to adjust to the new requirements and put processes in place to achieve compliance, in support of a fair, consistent, and transparent approach to supervision and enforcement.

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.

Summary of responses

Many respondents had no concerns with the proposal to amend guidance so that reporting accountants are expected to routinely seek bank confirmations to verify the list of client accounts. Supportive respondents noted that this is already standard practice for many firms and accountants. One law firm commented that their reporting accountant 'already does this as part of the annual audit exercise,' while the Legal Services Consumer Panel described bank confirmations as 'a basic and widely accepted audit tool… essential to safeguarding client money.'

A significant minority raised concerns about proportionality, particularly for firms with multiple client accounts or complex structures. Some respondents noted that bank confirmation processes can be slow or inconsistent, creating delays in completing accountants' reports. One firm observed that 'it would not be within our control whether a bank responded within the relevant time period,' highlighting the risk of qualified reports arising from bank non-responsiveness rather than firm non-compliance.

Some respondents favoured a risk-based or judgement-based approach rather than a blanket expectation, the Association of Lifetime Lawyers said:

> 'For many smaller firms, bank confirmations can be slow to obtain and may introduce delays and cost disproportionate to the risk involved. Any expectation in this regard must be clearly framed as risk-based and not mandatory in every case.'

ACCA suggested that expectations should be 'appropriately caveated with 'where possible'', citing practical challenges and the availability of alternative independent evidence. Others asked for clarity on which types of accounts are in scope and what frequency is expected, given the potential cost implications. Some noted that alternative assurance methods such as reconciliations supported by original statements or direct online viewing may be equally robust in low-risk contexts.

Across responses, the key considerations were proportionality, practicality, and the value of a risk-based approach. Respondents emphasised the need for clear guidance to avoid unnecessary qualified reports caused by delays or lack of responsiveness from banks.

Our position

Although this proposal relates to guidance rather than a rule change, we consider it would be helpful for the guidance to more clearly articulate the importance of reporting accountants obtaining sufficient assurance over information provided by firms. This includes being satisfied about the completeness and correct designation of client accounts.

As part of our revision of the guidance, we will make clear that, as now, reporting accountants should take a view of the circumstances as a whole and exercise their professional judgement in determining whether independent evidence is required, and the nature and extent of any verification needed. Bank confirmations are a commonly used means of obtaining such evidence. But they are not intended to be treated as a blanket or automatic requirement, nor as the only way in which assurance may be obtained.

This approach reflects the principles-based nature of the Accounts Rules and accommodates differing firm risk profiles and structures. It also addresses concerns about proportionality, cost, and the potential for delay arising from factors outside a firm's or accountant's control, such as bank responsiveness.

Any updates to the guidance will be supported by clear communication and informed by engagement with the professional bodies representing reporting accountants.

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.

Summary of responses

Respondents expressed a range of views on our proposal to prevent individuals with significant management authority from holding COLP or COFA roles. A number of replies – including firms and consumer groups – welcomed the principle of role separation and the intended benefits to consumer protection. One respondent suggested that 'Concentration of power within firms is a well-established risk factor for governance failures' (Legal Service Consumer Panel).

In further support of our proposals, another response reflected:

> 'In particular, we support the proposal to prevent individuals who can unilaterally determine or direct significant management decisions from holding the COLP and COFA roles in higher-risk firms. We agree that the effectiveness of compliance roles is undermined where the same individual both exercises significant control and is responsible for oversight and reporting, as this weakens security and accountability and increases the risk of harm going undetected.' (Nationwide Building Society, 2026)

In a similar vein, a serving COFA expressed support for overarching aims of our proposals, whilst noting that efforts to strengthen compliance arrangements should not detract from the quality of compliance eg by unnecessarily excluding experienced and capable individuals:

> ‘I agree with the intention behind the proposal to prevent individuals who can unilaterally determine or direct significant management decisions in larger or higher-risk firms from holding the COLP or COFA roles, as this seeks to ensure proper separation between strategic control and compliance oversight. However, it is essential that the rules do not inadvertently exclude experienced and independent compliance professionals who are neither owners nor managers, but who play a critical role in upholding regulatory standards.’

Specifically on enhanced compliance of finances and client money – ie the responsibilities of the COFA role, The Association of Lifetime Lawyers commented:

> ‘Our members support strengthening COFA oversight where risks are high, particularly:
>
> - management of residual client balances
> - ensuring proper handling of interest
> - control of transfers between client and office accounts’

However, many firms and professional bodies highlighted major concerns about feasibility for small and sole practice firms, clarity of the proposal, and potential unintended consequences.

Representing solicitors in sole owner-manager firms, The Sole Practitioners Group, expressed concern that the proposals were ‘unworkable and discriminatory.’ Continuing the theme of the practicality of applying the proposed rules to small and/or sole practice firms, the Law Society reflected:

> ‘The proposal could disproportionately impact small firms, especially those with only one or two partners, as they may lack the resources to appoint separate individuals for COLP and COFA roles. In smaller firms, individuals with unilateral control are often the most experienced and best suited to handle compliance roles effectively.’

On the subject of clarity, The City of London Law Society suggested:

> ‘The consultation has not defined what constitutes a ‘significant management decision’ (proposed Rule 8.4(b)). This creates material uncertainty and the risk of inadvertent disqualification of suitably senior and effective role-holders. Clarity is essential to avoid arbitrary application and to preserve accountability in governance structures.’

A number of responses reflected the view that the proposal, as drafted, may weaken rather than strengthen compliance. That if the corollary is that you replace senior individuals – who bring sufficient seniority and insight into a firms’ dealings – with junior, less influential and informed staff:

> ‘[the consultation positions] Fails to understand organisational relationships; where the level of ‘power’ the proposal seeks to manage is in play with ill intent, does the SRA believe that a ‘subordinate’ in the role of COFA will be in a position to effectively influence behaviour?’ (Devon & Somerset Law Society)

On a similar theme, the Law Society suggested:

> ‘The proposal may not prevent risks like those seen in the Axiom Ince case, as individuals with control could still appoint compliance officers they can influence’ (2026).

A number of respondents suggest we consider alternative approach to identifying risk – and therefore where enhanced measures would be suited, such as:

> 'Adopting a more flexible, risk-based approach that recognises firm size, structure and practice area, rather than applying uniform structural requirements.' (Institute for Legal and Financial Management)

Whilst the Birmingham Law Society set out a number of alternative proposals to enhance compliance, suggesting:

'…the SRA should consider recognising alternative, effective safeguards that an authorised body could adopt such as:

- a deputy COLP/COFA with meaningful authority;
- a risk or compliance board with independent oversight of the actions of compliance officers and senior management;
- structured board-level governance that demonstrably prevents unilateral action.'

Our position

We think structural safeguards are necessary and proportionate in firms that hold significant amounts of client money. Compliance officers are responsible for making sure all people involved in the firm, including owners and managers, comply with their obligations and report any potential serious breaches to the SRA. There is a clear risk that the oversight and protection provided by the compliance officers will be negated if an individual with authority to determine or direct significant management decisions is also accountable for the systemic compliance of their own decision-making.

We understand concerns about the potential for disruption to existing compliance arrangements in firms and costs, especially for sole owner manager firms. Our proposals offer flexibility for firms to choose how they respond to the new rules. We do not propose to set prescriptive criteria around the types of individuals who could not hold compliance roles under the new rules. It is up to firms to determine the impact of the rules in their particular circumstances.

Nor are we prescribing how firms comply with the new rules. Firms can decide the best arrangements to suit their business. They can choose to reassign the compliance roles, or to adjust their governance structure, to change their arrangements for decision making. That approach could mean existing role holders remain eligible under the new rules.

Firms below the £600,000 turnover threshold, holding a high client money balance, could consider moving away from holding client money, for example by using a third-party managed account.

We have also decided to implement a higher client money threshold than previously proposed on a risk basis. This is detailed under Q3 below. Revising the client money threshold mitigates the extent of change required across the profession. This will see the number of sole owner manager firms likely to be within scope reduce from around 730 to around 430. We are also introducing measures to address the concerns of small and sole practice firms, with a flexible approach for firms in scope of the client money threshold because of a small number of transactions outside of their usual business profile. This is also detailed under Q3 below. This is in addition to our proposal to enable sole owner-managers whose firms are in scope because of their client money balance to retain the COLP role. This is detailed under Q4 below.

Overall, we have considered if the proposed approach is justified and represents a proportionate way to achieve the protections that are needed for client money. In our view, it is proportionate to require firms which represent a higher risk to provide structural assurance around checks and balances provided by compliance officers. These are larger firms and those holding over £2m client money.

We are also committed to undertake a more substantive review of the role-holder accountability framework at a future point. We are considering how quickly we can take this forward.

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?

Summary of responses

A number of replies agree that turnover was a valid proxy of risk – particularly in combination with client money balances as hybrid threshold:

> 'The use of turnover and client money thresholds represents a proportionate and pragmatic way of targeting heightened risk, and we agree that firms operating above these thresholds should be subject to stronger safeguards to protect consumers and the public interest.' (Nationwide Building Society)

On a similar note, the Legal Services Consumer Panel supported our approach, albeit on the basis that we commit to periodic review of the threshold and impacts, adding:

> 'The Panel broadly agrees with the use of a turnover threshold as one indicator of organisational complexity and risk. However, turnover alone is not a perfect proxy for consumer risk. The Panel therefore supports the threshold only in combination with the client money threshold.
>
> The Panel encourages the SRA to commit to reviewing the threshold after two years to ensure it remains evidence-based and proportionate.'

However, many respondents felt that the proposed £600k turnover threshold is too low and does not correlate with genuine regulatory risk. Respondents argued that turnover alone is an unreliable indicator of operational complexity, quality of corporate governance, or client-money exposure. On identifying risk, the City of London Law Society said:

> 'We do not agree that a single turnover threshold of above £600,000 is an adequate or proportionate measure for identifying firms that present a heightened risk of harm due to size. Turnover is not necessarily an indicator of risk – it varies by practice mix, business model, and the extent to which client money is held. A blunt threshold risks capturing firms whose inherent risk is low or well managed while missing others whose risk profile is high despite lower turnover. . . A more nuanced, evidence-based assessment would be better.'

A number of respondents felt the threshold would see many small firms captured despite presenting low (relative) inherent risk, raising concerns about disproportionate impact and possible market exit. To this point the Sole Practitioners Group reflected:

> ‘Both thresholds are set too low and will capture hundreds of sole and small firms that present no systemic risk. Larger firms hold 93 per cent of client money; the SRA should focus resources there. We recommend raising the turnover threshold to £1 million.’

Reflect on the proportionality concerns, The City of London Law Society added:

> ‘A blanket threshold may impose costs on firms whose risk profile does not justify the burden, for example by forcing smaller firms with limited suitable candidates for the COLP and COFA roles, to outsource those roles, increasing costs and moving risk management to individuals less familiar with the firm and its clients.’

Our position

We will proceed to introduce a turnover threshold of £600,000 to help determine where firms should be required to put in place new arrangements to strengthen checks and balances. We consider the size of a firm is an appropriate indicator of risk, accounting for the amount of work it carries out and the potential impact of failure.

It is reasonable to focus on risks where the impact is highest, including around market stability, public confidence and claims on the compensation fund. We observe that compensation fund claims resulting from losses by very large, large, and medium firms account for around 84 per cent of the total value of claims paid out. This is compared with 16 per cent for small and sole practice firms.

Firm size measured by turnover is reflected in our authorisations process. Where firms have an annual turnover above £600,000, we determine their applications for approved roles on a case-by-case basis. This is because we consider these firms to present heightened risk levels. Our turnover threshold in relation to compliance roles is aligned with this approach.

We acknowledge that the turnover threshold cannot be precisely reflective of risk in all firms. It is, however, consistent with our established distinction between larger and smaller firms, including as a proxy for risk. Neither our modelling nor any feedback has provided a more reliable indicator of risk based on firm size. We observe that firms at this threshold level account for 94.5 per cent of all client money held.

We also acknowledge that the extent and mix of activities firms are engaged in can be a factor in understanding risk. We have considered whether areas of practice should form part of our risk assessment in application of structural safeguards. However, we consider the more straightforward approach of risk thresholds to be sufficiently proportionate. This is especially true given the complexity of assessing a dynamic factor such as relative risk across all legal practice areas and in different types of firms as a robust basis to require firms to consider their structural arrangements.

We will test and review the operation of the turnover threshold over time to make sure it remains an appropriate indicator of risk.

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?

Summary of responses

A number of replies shared the view that client money should inform our assessment of risk, given its clear link to potential for consumer harm. To this point, the Legal Services Consumer Panel replied:

> 'The quantum of client money held is one of the strongest predictors of potential consumer harm. Firms with large client money balances require more robust governance and independent oversight.
>
> The Panel support the £500,000 threshold as proportionate but recommends periodic review and monitoring of firms just below the threshold.'

Taking a 'on balance' view, The City of London Law Society's said:

> 'We broadly agree that client-money exposure is a material driver of risk, not least due to the increasing cyber security risks, and relates closely to the policy objective of protecting client funds. However, our belief is that [our member] firms have well developed checks and balances in place to manage traditional risks to client money risks as well as sophisticated measures to mitigate cyber security risks.'

However, many respondents felt that the proposed £500k client-money threshold was unrealistically low given typical probate transaction and conveyancing sizes – particularly in areas with higher property values. At this level, they feared that a single spike could, but should not, trigger regulatory consequences. To this point, The Law Society suggested that:

> 'The proposed £500,000 client money threshold is unrealistically low; typical conveyancing transactions (eg, two average England & Wales properties at ~£293,000 each) exceed it easily.
>
> 'House price data (Land Registry and Rightmove) shows that in many regions – especially the Southeast and London – common property values exceed or approach the proposed thresholds, illustrating that the limits are not realistic for routine transactions.'

On similar theme, Birmingham Law Society reflecting on a potential unintended consequence of creating a tiered system whereby firms in the north and south of country could face different treatment, owing to property prices rather than any inherent risk, added:

> 'We are concerned that this proposal may create a North/South divide for small firms that deal with conveyancing matters. Due to the disparity in property prices, almost all firms that provide conveyancing in the south of England will be captured by this arbitrary threshold whilst firms in the north may fall below it.'

To counter the foreseen fluctuations, with a lower client money threshold (at £500k) the Sole Practitioners Group suggested 'We recommend raising the client-money threshold to at least £1 million (or £2 million for sole owner-managers).'

Respondents emphasised that context such as work type, transaction duration, and governance structures must be considered to avoid disproportionate or arbitrary impacts.

The City of London Law Society suggested:

> 'Setting a threshold for all firms held at 'any point in time' risks capturing firms where usual exposure is low and risks are low, for example, where there has been a recent single large completion, and may impose disproportionate requirements and over-regulation on lower risk firms.'

On this point of the complexity of identifying risk, BlueSky Legal Finance and Management Solutions said:

> 'We feel this would be a difficult question to answer without knowing more detailed statistics behind the size of law firms who have posed the greatest risk to client money. We feel there is likely to be more than one metric needed to evaluate such risk.'

Our position

We will proceed to introduce a client money threshold to help determine where firms should be required to put in place new arrangements to strengthen checks and balances.

In the consultation we proposed a client money threshold of £500,000. We modelled the threshold at different risk levels, defined by volumes of client money held and observed the number, size and type of firms potentially brought into scope of the new rules.

Our concern was to account for the risk presented, including by smaller firms that hold significant levels of client money, whilst bearing in mind proportionality. Compensation fund data suggests issues within smaller firms are more likely to see claims on the fund. And that these issues could have significant impacts on consumers where these firms hold significant amounts of client money.

We have reconsidered the level of the client money threshold in light of views expressed in consultation responses. We modelled the client money threshold at a range of values, observing the size and nature of the firms in/out of scope. We found that a threshold of £1m provided relatively little difference in numbers and profile of firms in scope and would not necessarily address stakeholder concerns around proportionality. We observed that a threshold of £2m still covered 99 per cent of all client money held (down from 99.9 per cent at £500,000). Whilst reducing the number of in scope small and sole owner-manager firms with turnover below £600,000 from 1,302 to 576. Accordingly, we raised the client money threshold to £2m.

We believe a threshold of £2m strikes in an appropriate threshold, on a risk basis, and providing enhanced protections for the majority of consumers. It covers 99 per cent of client money held, whilst giving due consideration to concerns about impacts, by reducing the number with a turnover below £600,000 who will be in scope of the new rules. We consider that £2m is a proportionate starting point. We will test and review the operation of the client money threshold over time.

We recognise concerns that some smaller firms could be brought into scope of the new rules because a small number of higher value transactions leads to an increase in their client money holding which is inconsistent with the firm's usual business activities. Increasing the client money threshold to £2m will help to mitigate against this effect, which will be of particular concern for smaller firms.

We are introducing an exemption for firms which exceed the client money threshold because of anomalous transactions which are not representative of the firm's usual or expected business activities. This is to address the risk, highlighted by stakeholders, that it would be disproportionate to require a small firm that ordinarily holds only small amounts of client money to undergo structural change because of anomalous transactions putting them over the client money threshold. There is a balance to be found between developing an approach/mechanism that is not open to being gamed while being mindful of burdens/costs on firms.

We propose a rule that would provide for a firm to be exempt from the requirement to separate compliance roles where they are in scope because of meeting the client money threshold in the previous accounting period where they reasonably conclude that this was as a result of anomalous transactions. We will develop case studies around what we might consider anomalous transactions.

The rule includes a notification requirement. Any firm intending to rely on the exemption would notify us. This is not an approval process. However, the possibility that we would scrutinise the decision and may seek further information/clarification would discourage gaming of the rule. We have built in an additional protection to ensure that use of the exemption cannot become established practice for a firm. If firms have held more than £2m in client money in either of the preceding two accounting periods, they would not be able to rely on the exemption.

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.

Summary of responses

A number of respondents supported the idea that sole-owner managers were best-placed to undertake COLP duties. To this point, Nationwide Building Society suggested:

> ‘We also agree with the proposed approach for sole owner-manager firms, including the exemption that allows such firms operating below the turnover threshold but above the client money threshold to retain the COLP role while ensuring separation of the COFA role. This strikes the right balances between proportionality, consumer protection and the practical realities faced by smaller firms, while appropriately prioritising the safeguarding of client money.’

In further support of our proposed approach, The Legal Services Consumer Panel added:

> ‘The Panel agrees. In sole owner-manager firms, the risk of conflicts of interest is particularly acute. The COFA role requires independent financial oversight, and owner-managers may face inherent conflicts between commercial pressures and compliance obligations.
>
> Allowing the owner-manager to remain COLP is reasonable, as the COLP role is more focused on systems and ethical compliance. This proposal strikes an appropriate balance between governance safeguards and operational practicality.’

However, the majority of respondents opposed restricting sole owner–managers from holding the COFA role, believe the same principles apply to COFA responsibilities as to those of a COLP. The Law Society, for example, felt the proposal would be ineffective, as:

> ‘Excluding sole owner-managers from holding the COFA role is unlikely to prevent risks, as they would still retain effective control over the firm even if the COFA is a third party or employee. . .
>
> . . . Sole practitioners may struggle to afford hiring someone to take on the COFA role, which could force them to stop practicing or limit the scope of their work (eg, avoiding transactional work like residential conveyancing).’

Reflecting on merits and practicability of potential outsourcing of role holders and what this could mean from a liability perspective, The City of London Law Society added:

> ‘We have concerns about the practicality of this proposal. Whilst we support the permitted COLP role holder element, and understand that it is intended to ensure that the highest risk to consumers (i.e. the treatment of client money) is addressed without eliminating the governance benefits of senior visibility and accountability for broader compliance, in our view it raises questions about the responsibility of, and liability on, third parties to whom the COFA role is outsourced.

They argued that this would impose disproportionate cost burdens, especially where outsourcing is the only feasible alternative, and may weaken compliance by separating responsibility from control:

> 'We have concerns around outsourcing the COFA role…Does this amount in practice to an additional external auditor, rather than a genuinely entrenched COFA? Firms who are caught by this should be provided with significant additional support on how to access, and best use, third party compliance services.'

On the cost/burdens for sole owner-manager firms, the Sole Practitioner Group added:

> 'The 480 sole owner-manager firms identified in the 2024/25 PCRE data will face unavoidable costs of £5,000–£12,000+ per annum to engage an external COFA (or recruit part-time).'

Respondents also flagged significant EDI and access to justice concerns. With The Law Society suggesting:

> 'The proposal could significantly reduce the number of sole practitioners, which would harm access to justice and legal services for consumers.'

On the point of market disruption and access to justice considerations, The Association of Lifetime Lawyers suggested:

> 'The SRA must ensure that any required role separation remains practical, affordable, and does not disrupt service continuity, particularly in niche practice areas where expertise is concentrated.'

Our position

We will implement our proposal that in sole owner-manager firms that are below the turnover threshold but above the client money threshold the owner-manager should be excluded from holding the COFA role but can retain the COLP role.

We recognise that for sole practitioners or firms with sole owner-managers, structural separation of roles 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 eg being of sufficient seniority and having sufficient responsibility within the firm

Therefore, in smaller sole owner-manager firms with a turnover of below £600,000 but fall within scope because they exceed the client money threshold are required to separate out the COFA role from the sole owner-manager but not the COLP role.

Holding significant amounts of client money presents significant risks in firms of all sizes. The requirement to separate the COFA role targets risks around a lack of checks and balances relating to client money. And we believe it is appropriate to apply this requirement to all firms above the £2m client money threshold. Increasing the client money threshold to £2m will help to mitigate the impact of this requirement for smaller firms, as will the flexibility around transactions that are not representative of the firm's usual business activities. This is set out in our response, and the flexibility in how firms may meet the requirement as set out in response to Q3 above.

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.

Summary of responses

Respondents consistently stressed that implementation should be grounded in robust evidence. They urged the SRA to make better use of existing datasets, conduct modelling to understand market impacts, and compare approaches across regulatory bodies.

The Legal Services Consumer Panel recommended:

> 'Using the following evidence sources:
>
> - SRA enforcement data on governance-related failures
> - Compensation Fund claims linked to inadequate oversight
> - Comparative evidence from FCA, ICAEW, and Charity Commission
> - Thematic reviews of firms with different governance structures
> - International comparisons
>
> This evidence will help quantify the risk reduction achieved and the cost impact on firms.'

Birmingham Law Society set out a considerations and evidence that should be used in determining how proposals would interact with firm's governance and operations, including costs and burdens, and the sector's preparedness for adjusting to new requirements:

> 'Quantifying the impact of the proposals therefore requires both financial modelling and governance-based evidence drawn from a representative set of authorised bodies. This should include examining how separation would affect operational interdependence between COLPs/COFAs and the functions they oversee, as well as assessing the feasibility of finding individuals with appropriate seniority and influence.
>
> If the proposals are implemented, we recommend that the SRA should monitor how the changes are affecting firms to ensure that they are working as intended and not creating unintended outcomes. We anticipate that this would provide an evidence-based understanding of the ongoing impact on costs, governance, recruitment, and the ability of firms to maintain effective compliance structures.'

Promoting a nuanced, intelligence-led approach, the Law Society suggested:

> '…The SRA develop a risk matrix using existing data, including factors like late filings, client account balances, staffing patterns, ownership changes, and regulatory history. This would provide a more nuanced and accurate picture of risk.
>
> A systematic, intelligence-led supervisory model would help identify emerging risks earlier, reduce burdens on low-risk firms, and improve prioritization of regulatory actions.
>
> The Law Society encourages the SRA to adopt a proportionate, evidence-based approach to supervision and enforcement, leveraging existing data to create a more effective risk assessment framework.'

Many emphasised the need to understand how proposed reforms would impact different types of firms, especially small, sole, and diverse practices.

The Sole Practitioners Group replied:

> ‘The SRA should model the number of sole practitioners likely to exit, merge, or stop holding client money. Historical data from previous regulatory cost increases (eg, post-2019 Accounts Rules changes) shows small-firm attrition rates of 8–12 per cent in the following two years. We predict similar or higher here, with disproportionate loss among BAME and older practitioners.’

Devon and Somerset Law Society suggested we reflected upon the findings of our thematic review (published in parallel with the consultation) *Compliance officers: A thematic review.* Similarly, the City of London Law Society said, ‘Replicate the measurables from the thematic review for follow up – this will demonstrate whether separating the roles directly affects the concerns identified.’

Our position

We are grateful for the many suggestions made by stakeholders in their consultation responses for quantifying the impact of the new rules and to assist our wider understanding of risk in firms and across the sector. As we have set out, we consider that structural separation requirements based for higher risk firms based on the proxies of turnover and amount of client money held are necessary, proportionate protections that are deliverable in the near term.

We are committed to transform the way we regulate, shifting to an intelligence-led, proactive supervisory model to support firms into compliance and reduce instances of significant harm and costs further down the line. Our proposals support the priorities in our draft business plan 2026/27. These include to enhance risk insight through stronger data and analytics and expand an intelligence-led approach to risk will inform implementation of our strengthened rules on checks and balances in firms.

We will continue to develop our approach to assessing risk and reducing harm, including through the more substantive review of the role-holder accountability framework that we plan to undertake.

Equality Impact Assessment

These questions related to the draft initial Equality Impact Assessment published alongside the further consultation on client money in legal services.

Overall, engagement with these questions was limited with many respondents not offering comment. Where respondents did engage more substantively, they either agreed with the assessment as drafted or focused on whether the assessment sufficiently captured the scale and cumulative effect of potential impacts, particularly for smaller firms.

We have combined the summary of responses to the separate 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 Equality Impact Assessment?

Summary of responses

Several respondents agreed with the draft Equality Impact Assessment (EIA) and that it identified the key considerations arising from the proposals. In particular, some supported the emphasis on proportionality and the need for ongoing monitoring once changes are introduced.

One law firm said:

> ‘Based on the information provided, I believe the assessment is balanced and takes into account the key EDI considerations relevant to the sector. The commitment to ongoing monitoring and adjustment is particularly important to ensure that any unintended consequences are identified and addressed.’

Similarly, other respondents considered that the proposals and the accompanying assessment were neutral in intent and applied consistently across firms. They identified impacts flowing primarily from differences in firm size and operating model.

However, a number of respondents questioned whether the draft Equality Impact Assessment went far enough in addressing the practical impact on smaller firms and sole practitioners. As many of which serve vulnerable or diverse client groups.

Several responses highlighted that smaller firms are more likely to be owner-managed, resource-constrained, and less able to absorb additional administrative or compliance burdens. For example, the Legal Services Consumer Panel stated that:

> ‘The Panel agrees with the broad assumptions but considers the assessment incomplete. It does not sufficiently consider the disproportionate impact on small firms, many of which are minority-owned, or the potential for increased administrative burden to affect newer entrants.’

Other respondents linked this directly to the demographics of the profession, noting the over-representation of Black, Asian and minority ethnic solicitors in smaller practices. One respondent commented:

> 'BAME solicitors are statistically more likely to work in or lead smaller high street practices or sole practices, many of which may fall within the risk thresholds proposed. Restricting their ability to continue in compliance roles, or requiring them to restructure, could have unintended exclusionary consequences.'

The Law Society similarly emphasised that regulatory impacts on small firms can translate into broader effects on access to legal services:

> 'The over-representation of minority ethnic solicitors in small firms is based on structural inequalities. Approval of the proposals would compound these inequalities creating a potential risk of inadvertent barriers to market entry for solicitors to begin operating new law firms as well as negatively impacting those communities that they serve.'

Also concerned with the potential impact on sole-owner manager firms and the knock-on effects for access to justice, The Sole Practitioners Group added:

> 'If even 20–30 per cent of the 480+ affected sole owner-manager firms exit or cease holding client money, thousands of clients annually will lose their preferred, and often only affordable, provider.
>
> 'Larger firms frequently decline low-value or complex private client work, refer it out, or charge significantly more. The result will be delayed justice, increased litigants in person, and greater pressure on legal aid (where still available) and pro bono services.
> This outcome directly contradicts the SRA's and LSB's statutory duties to promote access to justice and diversity in the profession.'

A recurring theme across responses was the need to consider and address the cumulative effect of the individual measures. Several respondents noted that while any single change might appear proportionate, the combined effect of the proposed requirements could materially alter the regulatory burden for smaller practices. One respondent commented:

> 'While the draft assessment rightly acknowledges potential impacts on smaller firms and those led by individuals from underrepresented backgrounds, it may underestimate the cumulative effect that multiple changes such as new role eligibility restrictions, submission requirements, and fixed penalty regimes, could have when viewed together.'

Some respondents suggested additional factors to be considered in the Equality Impact Assessment including more granular analysis by firm size, practice area, and region as well as consideration of practices in more rural and remote areas. One respondent suggested that:

> 'Analysing impacts by region and area of law (eg criminal, private client) may uncover specific challenges or disparities.'

The Legal Services Consumer Panel encouraged the SRA to:

> '... conduct a more granular analysis of impacts on different firm types and to commit to post-implementation monitoring of equality impacts.'

Our position

We have carefully considered the feedback received on the draft EIA and have addressed the points raised in our final EIA.

Small and sole-owner firms are more likely to feel the effects, particularly from additional administrative requirements, governance changes, and compliance pressures. This may in turn affect groups overrepresented in those firms.

We have undertaken a full EIA of the alterations proposed in relation to the accountants' reports regime and compliance role-holders framework to make sure that we have had due regard to the public sector equality duty under section 149 of the Equality Act 2010.

An initial EIA was published alongside our consultation, and a final EIA, taking account of consultation feedback and additional analysis, has been completed.

In summary, our assessment is that potential equality impacts of the changes to the accountants' reports regime are likely to be limited. This is because the measures focus on changes to information submission requirements rather than altering firms' underlying obligations or working practices. Firms that are not exempt are already required to obtain an accountant's report annually, and the proposals operate within that existing framework. The changes therefore involve a small amount of additional administrative activity on an annual basis without introducing new substantive requirements.

In relation to compliance officers, firms will be impacted only if they meet two conditions. Firstly, the specified risk thresholds of over £600k turnover or holding in excess of £2m maximum client balance. Secondly, that 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) or a suitable manager who could have a say in decision making, is likely to be least impacted. They would face some additional cost in, for example, 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 a role, nor a manager to have a say in decision making, will face additional costs in having to take on an employee, who may be a consultant.

Our assessment is that the biggest impact is likely to be on sole owner-manager firms that are within scope. This is because they are more likely to incur greater costs to meet the requirements given their structure. Some demographic groups are overrepresented in the cohort of around 430 sole owner-manager firms that we identified would be affected. These groups are men, solicitors over 45, disabled solicitors, solicitors from an Asian background, all of whom are overrepresented in this cohort compared to the solicitors in all law firms.

By raising the client money threshold to focus on higher risk firm, the number of sole owner-manager firms likely to be affected has reduced, from around 730 to around 430. We acknowledge that the potential equality impact will remain, albeit for a smaller number of firms.

We considered how we could mitigate the remaining impact and have been able to do this in a number of ways. This includes the exception for sole owner-managers in relation to the COLP role and providing flexibility about how to meet the new requirements. For example firms can revise their governance and decision-making arrangements or look at alternative client money holding arrangements. We will also be providing guidance and support for

affected firms and a phased implementation window which will afford a longer transitional period to small firms required to make changes.

Overall, we have considered if the proposed approach is justified and represents a proportionate way to achieve the protections that are needed for client money. In our view, it is proportionate to require firms which represent a higher risk to provide structural assurance around checks and balances provided by compliance officers. This is larger firms and those holding over £2m client money.

We have been outcomes focused to provide flexibility about how firms achieve this and have included other mitigations as outlined earlier to help address proportionality and disruption concerns.

Taking the current data as our baseline, we will monitor the impact of our proposal on equalities considerations and consider changes as/when required

As detailed in our assessment, we are committed to monitoring the individual and cumulative impacts of our proposed measures. And if we identify any unintended or undesirable consequences we will consider making appropriate adjustments.