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16 June 2026

Response to the LSB: SRA Application to Alter Regulatory Arrangements on Accountants' Reports and Compliance Officer Roles

Summary

Context and the Panel's Prior Position

The Panel has been engaged with the issues underlying this application for a number of years. Our track record on client money protection is extensive.

Following the collapse of Axiom Ince, we welcomed the SRA's decision to review its consumer protection arrangements and pressed for reform to go further than incremental adjustment. In our July 2024 response to the SRA's Consumer Protection Review Discussion Paper, we highlighted the risk of concentrating ownership, compliance, and management roles in a single individual, and called for a risk-based threshold approach to address it. We also identified weaknesses in the accountants' reports regime that were allowing non-compliance to go undetected.

In February 2025, we responded to the SRA's broader consultation on client money. We called for the SRA to consider whether the current model of solicitors holding client money was fit for purpose, and to explore greater use of third-party managed accounts. We noted that the Compensation Fund was bearing the cost of systemic failures that better regulation should prevent.

In June 2025, the Panel supported LSB enforcement action against the SRA following the Axiom Ince intervention and urged the LSB to use its powers to drive the structural reforms necessary to prevent recurrence.

In February 2026, we responded to the SRA's further consultation on client money. We strongly supported mandatory submission of all accountants' reports and the introduction of mandatory annual declarations. We called for direct submission of reports by reporting accountants as a critical safeguard for independence. We supported fixed financial penalties for procedural non-compliance and endorsed the proposal to restrict COLP and COFA roles in higher-risk firms. We raised concerns about the evidential basis for the proposed thresholds and about the incomplete equality impact assessment.

This application is the product of that consultation process. The Panel therefore comes to it with a clear and settled view of what effective reform requires.

Accountants' Reports: Assessment of the Proposals

Mandatory submission of all reports

The Panel strongly supports the requirement that all non-exempt client money-holding firms submit their accountants' reports to the SRA for each accounting period, whether qualified or unqualified. The SRA's own spot-check data confirmed widespread non-compliance with existing requirements, and the absence of a complete dataset was preventing the regulator from identifying emerging risks at an early stage.

This reform is standard practice in other regulated sectors, including financial services and charity regulation. It is a basic and proportionate requirement. Concerns about administrative burden should not be treated as a counterweight to consumer protection when firms are already obliged to obtain the reports.

Mandatory annual declarations

The Panel supports the introduction of mandatory annual declarations. The SRA currently has no reliable mechanism to confirm which firms believe themselves exempt, whether exemptions are being correctly applied, or whether firms are meeting their obligations. Annual declarations address this gap directly. They reinforce personal accountability, provide the SRA with essential baseline data, and support early identification of firms whose risk profile is changing.

The decision not to require direct submission by reporting accountants

The Panel notes with concern that the SRA has not taken forward the proposal for reporting accountants to submit reports directly to the SRA. The Panel strongly supported this reform in our February 2026 response. Direct submission is a critical safeguard for the independence and integrity of the reporting process. It removes the risk that firms delay, withhold, or exert pressure to soften qualified reports before submission. It is standard practice in other sectors where independent assurance is central to regulatory oversight.

The SRA has stated that this proposal was opposed by a substantial minority of respondents, including concerns about firms being penalised for late submission caused by slow accountants. We understand the practical concern but consider the solution should address the risk of delay rather than abandon the principle of independent submission. The application does not explain what alternative arrangements will provide equivalent assurance, nor how the SRA will detect situations where firms are applying inappropriate pressure to reporting accountants.

We urge the LSB to seek specific assurance from the SRA on this point. The consumer protection rationale for direct submission has not diminished because respondents from the profession opposed it.

Fixed financial penalties for procedural non-compliance

The Panel supports the extension of fixed financial penalties to cover failures to submit reports and declarations on time. Fixed penalties are a proportionate and well-established mechanism for driving compliance with administrative requirements across regulated sectors. They provide clarity, reduce the resource burden of investigation for each procedural breach, and send an unambiguous signal that administrative obligations are taken seriously.

The Panel notes the SRA's position that regulatory responsibility for submission remains with the firm even where a reporting accountant is responsible for the delay. This is correct in principle. The SRA should consider whether its guidance to firms on managing the submission process is sufficient to reduce the risk of inadvertent non-compliance.

Compliance Officer Arrangements: Assessment of the Proposals

The core proposal

The concentration of ownership, management, and compliance responsibilities in a single individual is a well-evidenced governance failure. Axiom Ince demonstrated that the structural conditions for this failure were not adequately addressed by existing rules. As such, the Panel strongly supports the principle that individuals who can unilaterally determine or direct significant management decisions in a firm should not simultaneously hold the COLP or COFA roles in firms that exceed the defined risk thresholds.

Segregation of these roles is a standard principle of effective risk management across regulated sectors. The compliance officer functions exist to provide an independent check. Where that independence is undermined by the concentration of power, the safeguard becomes notional rather than real.

The revised thresholds

The SRA originally proposed that firms would be in scope for the COLP/COFA restrictions if they had either an annual turnover above £600,000 or a maximum client money balance above £500,000 at any point in the previous accounting period. In our February 2026 response, the Panel accepted the £500,000 client money threshold as a proportionate starting point, while pressing the SRA to be more transparent about how both thresholds had been derived and what alternatives had been considered.

Following significant pushback from the Law Society and the Sole Practitioners Group, the SRA has raised the client money threshold to £2 million. This reduces the number of small firms in scope from approximately 1,302 to 576, while still covering 99% of all client money held. The turnover threshold of £600,000 remains unchanged.

The Panel does not object to the revised client money threshold. Reducing the compliance burden on smaller firms while preserving coverage of the vast majority of client money held is a reasonable outcome. However, the evidential basis for both thresholds remains a concern. The Law Society has noted that the £600,000 turnover figure was arrived at without risk-based analysis or modelling. The Panel considers that a legitimate criticism that the SRA has not adequately addressed.

We encourage the LSB to require the SRA to commit to a post-implementation review of both thresholds within two years of implementation, drawing on enforcement data, Compensation Fund claims, and evidence from firms in and around the threshold boundaries

Sole owner-manager firms and the partial exemption

The Panel agrees with the SRA's position that in sole owner-manager firms meeting only the client money threshold, the owner-manager may retain the COLP role but should not hold the COFA role. The COFA role requires independent financial oversight, and the conflict of interest in that context is direct and material. Allowing retention of the COLP role is a reasonable operational accommodation.

The Law Society has argued that separation of roles in smaller firms may be ineffective because owner-managers will retain effective control regardless. The Panel does not accept that this is a reason not to implement the requirement. The COFA role exists to provide a specific form of independent check on financial compliance. The fact that it is imperfect does not mean it is without value. A requirement that creates a formal separation of responsibility, even where informal influence persists, is preferable to no requirement at all.

Equality, diversity and inclusion considerations

The Panel raised concerns in our February 2026 response about the completeness of the SRA's equality impact assessment. The Law Society has noted that the proposals may disproportionately affect Black, Asian and minority ethnic solicitors, who are overrepresented in the small firm sector, as well as practitioners in legal aid and community-based work.

These concerns do not, in the Panel's view, undermine the case for the proposals. The consumer protection rationale is strong and the risk is real. However, the SRA should commit to monitoring the equality impacts of implementation carefully, provide practical support to affected firms in meeting the new requirements, and ensure that the requirements do not inadvertently reduce access to justice in underserved communities.

The Panel encourages the LSB to include this as a specific area of monitoring in any conditions attached to approval.

Outstanding Issues

The Panel welcomes these proposals as a necessary and proportionate response to identified regulatory failures. But they are not the full picture.

The SRA has indicated that it is taking a broader look at whether firms should continue to hold client money in the way they do today. That question is fundamental. Third-party managed accounts represent a structural alternative that would remove many of the risks the current proposals seek to mitigate. The Panel has called for this analysis to be brought forward, and we reiterate that call here.

The Panel also notes that the issue of interest on client accounts, addressed in the SRA's earlier consultations and now the subject of Ministry of Justice interest, was absent from the February 2026 consultation and is not addressed in this application. The Panel continues to consider this a significant gap. Consumers have a legitimate interest in understanding how interest on their money is generated, retained, and accounted for, and the current regime provides insufficient transparency.

The Panel also records its position that these reforms must be followed by genuine improvement in the SRA's supervisory and enforcement practice. Rules are only as good as the system that enforces them. The Axiom Ince and SSB failures revealed weaknesses not just in regulatory design but in the SRA's capacity and willingness to act on risk signals it had received. The Panel expects to see evidence of improvement in both areas.

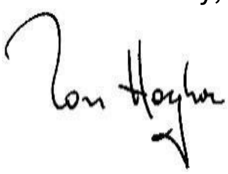
Recommendation to the LSB

- The LSB should seek specific assurance from the SRA on how the decision not to require direct submission by reporting accountants will be compensated for by other safeguards, and what monitoring will be put in place to detect interference with the reporting process.
- The LSB should require the SRA to commit to a post-implementation review of the risk thresholds for compliance officer restrictions within two years, drawing on enforcement data and Compensation Fund evidence.
- The LSB should seek a clear timetable from the SRA for its broader review of the client account model, including any proposals related to third-party managed accounts and interest on client money.
- The LSB should include equality impact monitoring as a specific condition of approval, with the SRA required to report on the impacts of both sets of proposals on smaller firms, minority-owned practices, and access to justice.

Consumers have been let down by the failures that prompted these reforms. The Panel's job is to ensure that the regulatory response is proportionate, evidence-based, and genuinely effective. These proposals move in the right direction.

Should you have any queries about this response, please contact Lola Bello, Head of Consumer Panel (lola.bello@legalservicesconsumerpanel.org.uk).

Yours sincerely,



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